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Federal Reserve Board of Governors
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James P. Sheesley
Assistant Executive Secretary
Attn: RFI on Bank-Fintech Arrangements —RIN 3064-ZA43
Federal Deposit Insurance Corporation
550 17th Street NW
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RE: Request for Information on Bank-Fintech Arrangements Involving Banking Products and Services Distributed to Consumers and Businesses (Docket ID OCC-2024-0014; Docket No. OP-1836; RIN 3064-ZA43)

Revolut appreciates the opportunity to respond to the federal banking agencies' request for information on bank-fintech arrangements (RFI). Revolut's experience allows us to bring a unique perspective to this discussion because it is both a licensed bank in certain jurisdictions and has also successfully navigated the complexities of bank-fintech partnerships in multiple markets, including the United States.We commend the agencies for their commitment to fostering a robust and secure financial ecosystem that promotes innovation while maintaining strong consumer protection and regulatory compliance.

Introduction and Overview of Risk Management in Bank-Fintech Arrangements

The RFI rightly focuses on a wide range of risk and risk management issues within bank-fintech arrangements. Effective risk management, however, is highly dependent on several factors, including the type of fintech, its maturity, complexity, size, and the specific nature of the partnership, products, and customer types. There is no one-size-fits-all solution to managing these risks; instead, frameworks should be tailored to address the unique characteristics of each fintech arrangement.

These tailored frameworks must prioritize consumer protection and identify safety and soundness risks, such as those related to credit, liquidity, concentration, compliance, and operational risk. Currently, the banking agencies have limited direct insight into the operations of fintech companies, particularly because these fintechs are not directly regulated and regulatory communication is funneled through partner banks. This lack of direct communication can lead to significant blind spots in understanding how these programs operate and where potential risks may arise.

While the RFI raises a broad range of important questions, we believe that a more effective approach would be to prioritize direct communication and collaboration between regulators, banks, and fintechs. By establishing structured frameworks for ongoing dialogue, regulators can gain deeper insights into the unique characteristics and risks of each partnership, while fintechs can benefit from clearer and more consistent guidance to ensure compliance. This direct engagement would enable the development of more tailored and effective regulatory guidance, reducing the need for extensive RFIs and ensuring that regulations are closely aligned with real-world practices and challenges.

Proposed Enhancements to the Regulatory Framework

Tri-Party Meetings

One of the key proposals we recommend to enhance oversight and communication is the introduction of tri-party meetings involving regulators, partner banks, and fintech firms. These meetings would facilitate direct discussions on regulatory matters, compliance challenges, and industry developments. By convening all stakeholders, these meetings promote transparency, understanding, and proactive problem-solving.

We suggest the following structure for these meetings:

- **Right to Regular Interval Meetings**: Regulators should have the ability to request meetings between regulated financial institutions and their fintech partners at regular intervals. The frequency of these meetings should be based on the risk profile of the partner institutions and the scale of their operations. For example, more frequent meetings may be warranted for fintech partnerships that manage a significant number of customers or those involving complex or innovative products.

- **Right to Ad Hoc Meetings**: Beyond scheduled meetings, there should be a provision for any party—whether regulator, bank, or fintech—to request an ad hoc tri-party meeting when concerns arise. This flexibility would allow for timely resolution of concerns or issues as they emerge and before they become a larger problem or risk.

These meetings would offer several benefits:

- **Enhanced Communication**: They would facilitate open and transparent communication between regulators, banks, and fintech firms, enabling all parties to exchange insights, perspectives, and concerns directly.
- **Enhanced Regulatory Oversight**: These meetings would provide direct insight into fintech operations, allowing regulators to better understand the unique risks of each partnership. This enables tailored oversight and intervention based on the specific risk profile of the fintech, ensuring that regulatory actions are both effective and appropriate.
- **Streamlined Issue Resolution**: By bringing all stakeholders together, these meetings would expedite the resolution of regulatory inquiries, compliance challenges, and consumer concerns.
- **Proactive Identification of Industry Risks**: The insights gained from these meetings would help regulators identify broader industry risks that might otherwise be overlooked. This proactive approach allows for the early identification of trends and emerging challenges, enabling timely interventions to mitigate systemic risks.
- **Facilitated Innovation**: Tri-party meetings would foster an environment conducive to innovation by providing fintech firms with regulatory guidance, feedback, and support, thereby promoting responsible innovation and sustainable growth in the fintech sector.

Sharing of Confidential Non-Public Regulatory Information

Another critical component of our proposal is the establishment of a framework for the regulated sharing of confidential non-public regulatory information between regulators, partner banks, and fintech firms. This framework would enhance regulatory oversight, facilitate timely issue resolution, and ensure that fintech firms are better equipped to address compliance enhancements and consumer protection concerns. We propose the following structure:

- **Right of Notification**: Regulated institutions should be required to promptly notify their fintech partners of any regulatory notices and findings that involve or could have a material impact on the fintech's operations. We suggest establishing a set timeframe for this notification (e.g., within 72 hours), ensuring that fintechs are made aware of critical regulatory issues in a timely manner.
- **Right of Reply**: Alongside the right of notification, fintech partners should have the right to communicate their regulatory concerns directly to the appropriate regulatory agencies. Regulators should provide a response within a specified period, fostering an open and responsive dialogue between all parties.

- **Mediated Sharing Through Partner Banks**: Confidential information sharing agreements should be established between regulators and partner banks, allowing for the regulated sharing of non-public information with fintech firms on a need-to-know basis. This process would be mediated by the partner banks to ensure that sensitive information is handled securely and appropriately, while still allowing fintechs access to critical regulatory insights.
- **Strict Confidentiality Protocols**: To protect the integrity of the shared information, strict confidentiality protocols must be implemented. These protocols should govern how information is accessed, stored, and used within fintech firms, limiting access to authorized personnel only and ensuring that the information is used solely for addressing specific regulatory issues.

Benefits of Sharing Confidential Non-Public Regulatory Information:

- **Enhanced Regulatory Awareness**: Fintech firms will be better informed about regulatory expectations and issues that may affect their operations, enabling them to take proactive steps to ensure compliance.
- **Timely Issue Resolution**: With direct access to critical regulatory information, fintechs can address potential issues more quickly, reducing the likelihood of consumer harm and mitigating risks to the financial system.
- **Empowered Compliance**: Access to detailed regulatory findings will allow fintech firms to strengthen their internal controls and compliance practices, ultimately contributing to a more stable and trustworthy financial services environment.

Additional Benefits of Bank-Fintech Arrangements

While our proposals focus on improving risk management and regulatory oversight, it is also important to recognize the significant benefits that bank-fintech arrangements bring to the financial ecosystem. These partnerships offer several advantages that contribute to innovation, financial inclusion, and overall economic growth:

- **Fostering Innovation**: Bank-fintech arrangements are key drivers of innovation within the financial sector. By collaborating with fintech firms, banks can rapidly develop and deploy new products and services that meet the evolving needs of consumers. This collaboration enables the financial industry to stay ahead of technological trends and consumer expectations, ensuring that the sector remains dynamic and competitive globally.
- **Enhanced Financial Inclusion**: Bank-fintech partnerships have the potential to extend financial services to underserved and unbanked populations. Fintech companies, with their innovative approaches and user-friendly platforms, can reach segments of the population that have traditionally been excluded from the financial system. By partnering with fintechs, banks can expand their reach and offer tailored financial products that meet the unique needs of these groups, promoting greater financial inclusion.

- **Increased Competition and Consumer Choice**: These arrangements foster a more competitive financial landscape by introducing new players and innovative business models. This increased competition can lead to better pricing, improved services, and more choices for consumers, driving overall industry growth and efficiency.
- **Operational Efficiency and Cost Savings**: Fintech companies often develop and introduce advanced technologies that streamline banking operations, reduce costs, and increase efficiency. These efficiencies not only benefit banks but also result in more competitively-priced products and services for consumers. The integration of fintech solutions into banking operations can lead to faster processing times, reduced overhead, and enhanced customer satisfaction.

How Regulators Can Support Responsible Innovation and a Competitive Financial Landscape

Several factors determine whether bank-fintech arrangements support responsible innovation and contribute to a competitive, compliant financial landscape. Understanding and addressing these factors is crucial for maximizing the benefits of these partnerships while minimizing potential risks:

- **Regulatory Clarity and Consistency**: Clear and consistent regulatory guidance is essential for fostering an environment where innovation can thrive responsibly. When banks and fintechs understand the regulatory landscape, they can innovate with confidence, knowing the boundaries within which they must operate. Conversely, regulatory ambiguity can stifle innovation and reduce competitiveness, as firms may become risk-averse in the face of uncertainty.
- **Effective Risk Management and Oversight**: Robust risk management practices and oversight mechanisms are critical to ensuring that innovation does not come at the expense of financial stability or consumer protection. Tailored risk management frameworks that address the specific characteristics of each fintech arrangement are key to mitigating risks such as credit, liquidity, and operational vulnerabilities.
- **Access to Data and Technology**: The ability of banks and fintechs to securely share and access data is a major driver of innovation. When data flows smoothly between parties, it enables the development of personalized financial services, improved risk assessment, and faster decision-making processes. However, restrictions on data sharing or a lack of access to advanced technology can hinder innovation and reduce market competitiveness.
- **Consumer Protection and Trust**: Protecting consumers is at the heart of responsible innovation. Strong consumer protection measures, such as clear disclosures, data privacy safeguards, and dispute resolution mechanisms, build trust in new financial products and services. Neglecting consumer protection can erode this trust, hinder adoption, and ultimately stifle innovation.
- **Collaboration and Communication**: Open communication and collaboration between banks, fintechs, and regulators are vital for ensuring alignment on regulatory expectations and industry standards. Structured frameworks for collaboration, such as the proposed tri-party meetings, help address potential issues early and promote a unified approach to managing risks and fostering innovation.

- **Market Access and Competition**: Bank-fintech arrangements can enhance market access and competition by lowering barriers for new entrants. When these partnerships are structured to encourage diverse participation, they drive innovation and expand consumer choice. However, if these arrangements create an uneven playing field, they can stifle competition and reduce the dynamism of the financial sector.

Conclusion

In conclusion, Revolut is committed to supporting a regulatory environment that fosters innovation while ensuring customer protection and the safety and soundness of the financial system. We believe that the proposals outlined above — such as tri-party meetings and enhanced information-sharing protocols — will provide the necessary tools for regulators, banks, and fintechs to work together effectively. These measures not only address the current challenges but also lay the foundation for a financial ecosystem that is both dynamic and secure. We look forward to continuing our collaboration with the agencies to help shape a financial ecosystem that benefits all stakeholders.

Thank you for considering our comments.