

The FDIC's Focus on Regulatory Technology: Rapid Phase Prototyping Competition and Tech Sprint Programs

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Financial technology is transforming the retail banking industry, leading to new and improved financial solutions, such as digital banking. As banking evolves, regulators are also using and promoting technology as a means to solve regulatory, supervisory, and other challenges. The Federal Deposit Insurance Corporation (FDIC) in particular is taking an innovative approach in using technology to help community banks thrive in today's competitive financial services landscape.

In 2020, the FDIC launched its Rapid Phase Prototyping Competition, aiming for a new approach to regulatory financial reporting for community banks. As we discussed in an earlier [client alert](#), the FDIC invited more than 30 technology companies to participate in the competition with the twin goals of using cutting-edge technology to make regulatory financial reporting less burdensome for banks and to provide the FDIC with better data on industry health. During phase 1 of the competition, the firms submitted a 10-page concept paper that was evaluated by a panel of experts. Based on the evaluations, awardees were selected to move on to phase 2. In phase 2, the awardees began prototyping the concepts that they discussed in their papers. In phase 3, awardees continued to prototype their concepts, but introduced higher levels of functionality and employed more sophisticated techniques. Late this summer, the FDIC moved the prototyping process to phase 4.^[1]

In phase 4 of the competition, out of the 20 U.S.-based technology firms that participated in the competition, the FDIC selected four firms to submit proposals to transition into a pilot phase, which will be led by a new FDIC office: FDITech. FDITech seeks to evaluate and promote the adoption of innovative technologies in the banking industry and to improve the efficiency, effectiveness, and stability of U.S. banking operations. Using data and technology as its primary tools, the FDIC has tasked FDITech with engaging bankers, fintechs, technologists, and other regulators on innovations that will play important roles in banking's future.

In phase 4, FDITech will work with the selected companies to move their prototypes forward, focusing on those prototypes that have demonstrated significant potential, and collaboratively designing a pilot for use of that prototype on a small scale. Tools developed in the competition will aim to set the stage for more efficient and timely regulatory data reporting for community banks and, with luck, provide a platform for further development of regulatory technology solutions. The four firms that were selected for phase 4 are: Novantas, Inc.; Palantir Technologies Inc.; PeerIQ; and S&P Global Market Intelligence, LLC.^[2]

In addition to the implementation of phase 4 of the competition, FDITech has launched two "sprint programs" designed to bring together banks, nonprofit organizations, academic institutions, private companies, and members

of the public to focus on critical issues faced by banking regulators. FDITech has emphasized a bootcamp-type environment over a relatively short time period to foster a sense of drive that it hopes will transform abstract ideas into tangible solutions. The sprint programs begin with a problem statement provided by FDITech that channels the focus and energy of participants toward tackling a specific problem. The culmination of a tech sprint is a “demonstration day,” where each team shares its end product and findings with a panel of experts.

The first sprint program is titled “Breaking Down Barriers: Reaching the Last Mile of the Unbanked,” and was held August 6 to September 10, 2021. FDITech asked the tech sprint participants: “Which data, tools, and other resources could help community banks meet the needs of the unbanked in a cost-effective manner, and how might the impact of this work be measured?” FDITech indicated that its goal for this sprint program was to solicit ideas and solutions to address the more than 7 million unbanked households in America who lack basic financial proficiency, including lacking a basic checking account.^[3]

After several weeks of brainstorming and deliberations with FDIC subject matter experts, the participants developed solutions to address the problem statement. The participants were judged in the following categories:

- Creativity/Innovation: How new or different was the team’s approach, and to what degree did the approach introduce a potential paradigm shift in how financial institutions serve the unbanked?
- Effectiveness/Impact: To what degree did the approach have the potential to make a practical and concrete reduction in the number of unbanked, or to the existing relationship between the unbanked and their financial institution? In addition, how did the approach add value for a variety of stakeholders, such as the unbanked, consumers, and banks?
- Market Readiness: How long would it take to bring the approach to market and have users adopt the solution?

The winners of the first sprint program were: Goalsetter (Creativity); National Asian American Coalition-Talino Venture Labs (Market Readiness); and Onramp (Effectiveness/Impact). The winners’ and other participants’ innovative solutions are being shared by FDITech online and supported for further development.^[4]

The second tech sprint program is titled “From Hurricanes to Ransomware: Measuring Resilience in the Banking World,” and was held from October 4 to 22, 2021. FDITech asked participants, in light of the evolving threats confronting banks: “What would be the most helpful set of measures, data, tools, or other capabilities for financial institutions, particularly community banks, to use to determine and to test their operational resilience against a disruption?” This past decade, the banking industry has faced a growing number of threats to its information technology systems, operations, people, and facilities — from natural causes, as well as malign actors. Regardless of whether the threats to financial institutions and their third-party service providers are foreign or domestic, intended or unintended, or natural or man-made, the FDIC and FDITech view preparedness and improved response posture as critical to improving overall sector-wide operational resilience, and maintaining public confidence in, and the stability of, our financial system. For that reason, FDITech indicated that this tech sprint will be the first of several sprints focused on fostering stronger operational resiliency in banking.

The focus of the initial resilience sprint was to identify existing and proposed measures, data, tools, or other

capabilities upon which a greater understanding of a bank's true resilience to any hazard may be understood. The participants were judged in the following categories:

- Creativity/Innovation: How new or different is the team's approach from those currently considered in the marketplace? To what degree does the approach introduce a potential paradigm shift in how financial institutions currently measure and test operational resilience? Does the approach present an innovative way of encouraging small to midsize financial institutions to play a more active role in their operational resilience?
- Effectiveness/Impact: To what degree does the approach have the potential to lead to a universal set of measures with a testing mechanism that may be applied to and used by all banks? To what degree does the approach add value for a variety of stakeholders, particularly for small to midsize financial institutions? To what degree does the approach protect proprietary data, including consumer data, as well as critical systems and operations?
- Market Readiness: How long would it take to bring the approach to market? How long would it take for users, particularly community banks, to adopt the approach? What are the costs of implementing the approach, including but not limited to initial adoption and ongoing maintenance and testing?

The winners of the second sprint program were: Data Society (Creativity); GRF Operational Resilience Assessment (Effectiveness/Impact); and Tandem (Market Readiness). As with the first tech sprint, FDITech plans to share the participants' solutions and ideas on its website and encourage further development.^[5]

The Rapid Phase Prototyping Competition and the tech sprint programs highlight that the FDIC and FDITech are determined to employ and encourage the use of technology to advance regulatory effectiveness in the banking industry. The FDIC is taking concrete steps to promote innovation to achieve its regulatory goals, advance community banking, reduce compliance burdens, and modernize supervision.

[1] See FDITech, Rapid Phased Prototyping – *Phase 4*, available at: <https://www.fdic.gov/news/financial-institution-letters/2021/fil21019.html>.

[2] A description of these participants and their approach to FDITech's phase 4 challenge is available at the "Current RPP Participants" section of the FDITech's website. *Id.*

[3] The FDIC recently published *How America Banks*, the agency's latest report of household use of banking and financial services. See FDIC, Household Survey – *How America Banks: Household Use of Banking and Financial Services*, available at: <https://www.fdic.gov/analysis/household-survey/index.html>. This study found that while nearly 95 percent of U.S. households were banked (i.e., had a bank or credit union account), more than 7 million households were unbanked, lacking even the most basic checking account. Black, Hispanic, American Indian or Alaska Native households remain significantly more likely to be unbanked.

[4] See FDITech, Sprint Program – *Breaking Down Barriers: Reaching the Last Mile of the Unbanked*, available at: <https://www.fdic.gov/news/press-releases/2021/pr21085.html>.

[5] See FDITech, Sprint Program – *From Hurricanes to Ransomware: Measuring Resilience in the Banking World*, available at: <https://www.fdic.gov/news/press-releases/2021/pr21091.html>.

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