



FEDERAL RESERVE BANK *of* ST. LOUIS
CENTRAL TO AMERICA'S ECONOMY®

Welcoming Remarks¹

James Bullard
President and CEO, Federal Reserve Bank of St. Louis

**Sixth Annual *Community Banking in the 21st Century* Research and Policy Conference
Federal Reserve System, Conference of State Bank Supervisors (CSBS) and Federal Deposit
Insurance Corp. (FDIC)
St. Louis, Mo.
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I am pleased to welcome everyone to the Federal Reserve Bank of St. Louis for the sixth annual community banking research and policy conference.

I am also pleased to welcome the FDIC as an official conference sponsor, starting this year. The Federal Reserve and the FDIC work closely with the state banking regulatory authorities to supervise our nation's state-chartered banks—the vast majority of which are community banks. Due to this shared supervisory role, the Fed, CSBS and FDIC have mutual interests in understanding the opportunities and challenges facing community banks and in promoting quality academic research that helps inform policy decisions that affect the industry.

Today, we are looking at a somewhat different set of opportunities and challenges than when this conference was first launched in 2013. Regulatory burden and the potential impacts of the Dodd-Frank Act dominated the discussion during the first few years of the conference. Although concerns over regulatory burden are still on the minds of community bankers, attention is shifting to the opportunities and challenges posed by technology.

On some level, these concerns aren't new: Banks have always had to keep current on the latest technological innovations impacting their industry. But the pace of change and growing cyber threat environment have accelerated the impact as the number of new financial technology firms seems to be increasing rapidly.

¹ Any opinions expressed here are my own and do not necessarily reflect those of the Federal Open Market Committee.

As new financial technology offerings entered the marketplace, we heard regular assertions that fintechs would “disrupt” the financial services industry—or perhaps even replace it. Bold statements were frequent: Fintech firms are going to “upend relationship lending,” they will “provide unprecedented credit access to the underserved,” fintech will “make branch banking obsolete.”

To date, those assertions have not been fulfilled. Indeed, we have seen significant cooperation between fintech firms and financial institutions because of their mutual interests, and importantly, because fintech firms have largely relied on banks to clear and settle their transactions. We are aware of many successful and responsible partnerships. For the most part, these partnerships work well, allowing banks to offer products and services that may have been out of reach previously, or engage new customers and new markets that had previously been closed to them. I understand we will close this year’s conference with a panel that specifically explores the future of community banking through the lens of those who have engaged in these types of partnerships.

These partnerships, of course, are not without risk. Increasingly, we are hearing stories of fintech companies interested in their own financial services charters—special purpose charters, industrial loan company charters or traditional bank charters. While traditional bank charters provide a level playing field in terms of the regulatory and supervisory process, the options and opportunities with other forms of charters are yet unknown.

For those banks partnering with fintech firms or using their services, there is also some degree of uncertainty. I mentioned cyber risk earlier. We are very cognizant of the potential for growing interconnectivity in our financial system. I anticipate that operational risk will someday equal or exceed credit risk for many community banks.

We also recognize the uncertainty of the impact of the use of artificial intelligence on the underwriting of credit and its impact on financial markets during economic cycles. Providers of these services must be vigilant about providing fair and equal access to credit. There must be mechanisms to ensure credit availability even during stressed economic cycles. One of the lessons learned from the financial crisis was that the volume of small business loans fell substantially in larger banking organizations. This was often not due to liquidity or capital issues. Indeed, it is possible that automated underwriting mechanisms were an important contributing factor.

The changing landscape of financial services is an important reason for this conference. The impacts of automation on the financial services industry have been substantial in recent years,

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and the pace of change will likely only increase. Across the country, cities are making investments in technology incubators to improve the efficiency of common business processes. In the St. Louis Fed's District, we have examples of these technology and innovation hubs including the Cortex and T-REX innovation communities in St. Louis and the Little Rock technology park in Little Rock, Ark., which are enabling innovation in several industry sectors. Perhaps their innovations will be the topic of a future conference.

In closing, I want to thank you all, our in-person and webcast audience for your participation in this year's event. It is your ideas, your questioning, your debating and your engagement that make this conference what it is and enable it to have the impact it has had.

I look forward to another successful conference.

And now I would like to introduce our keynote speaker to begin today's conference.

Loretta Mester is the president and chief executive officer of the Federal Reserve Bank of Cleveland, a position she has held since June 2014.

Prior to her current position, she served as executive vice president and director of research at the Federal Reserve Bank of Philadelphia.

Loretta is originally from Baltimore, Md. She graduated from Barnard College of Columbia University with a Bachelor of Arts degree in mathematics and economics. She earned M.A. and Ph.D. degrees in economics from Princeton University, where she was a National Science Foundation Fellow.

Although this is her first time attending the conference, she had a paper that she co-authored presented here during the 2016 conference. That paper, titled "Is Bigger Necessarily Better in Community Banking?," examined economies of scale among publicly traded community banks. Her research on banking gives her a unique perspective on the Federal Open Market Committee (FOMC) and brings great perspective to this year's conference.

Please join me in welcoming Loretta to this year's conference.