

**Acting Comptroller of the Currency Michael Hsu**

**Remarks Before the Exchequer Club**

**“Size, Complexity, and Polarization in Banking”**

**July 17, 2024**

It is an honor and pleasure to return to the Exchequer Club.

Today, I would like to talk about three key long-term trends that are reshaping banking. The first trend is the growing number and size of large banks, the second is the complexity of bank-nonbank relationships, and the third is polarization.

My sense is that these trends are underappreciated by the public because they are evolving incrementally. The issues they pose thus *seem* manageable. Left untended, however, they may lead to a painful reckoning in the future, similar to how shadow banking seemed to emerge from nowhere in 2008, even though it had been building for years. Surprises like that pose deep threats to trust in banking and warrant our collective attention.

Fortunately, the OCC has been tracking these trends closely. Our history, our mission, and our position in the regulatory world uniquely position us to help address these trends.

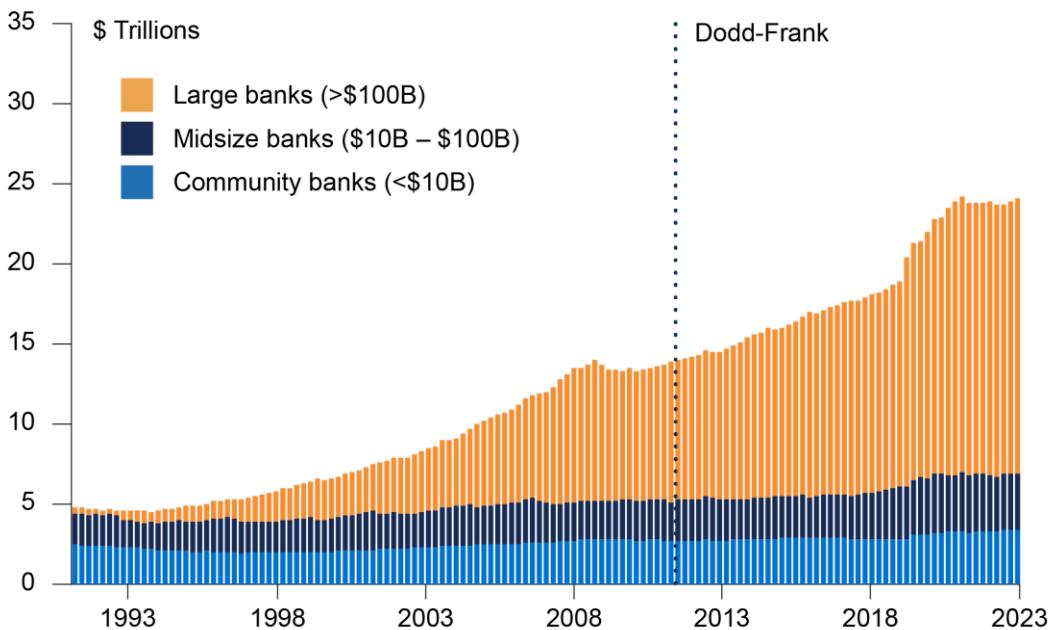
### **Large Banks and Economic Growth**

Let me start with large banks and provide a sense of scale.

Thirty years ago, there were five banks with assets of at least \$100 billion (“large banks”).<sup>1</sup> Together, they had combined assets of \$800 billion.<sup>2</sup>

Fifteen years later, in 2008, there were 18 large banks with combined assets of \$8.8 trillion. Today, there are 32 large banks with aggregate assets exceeding \$17 trillion. Figure 1 shows bank growth since 1990. Community and midsize banks in aggregate have been relatively stable compared to large banks.

**Figure 1: Total Bank Assets by Asset Category**



Source: FDIC Research Information System (RIS) Data

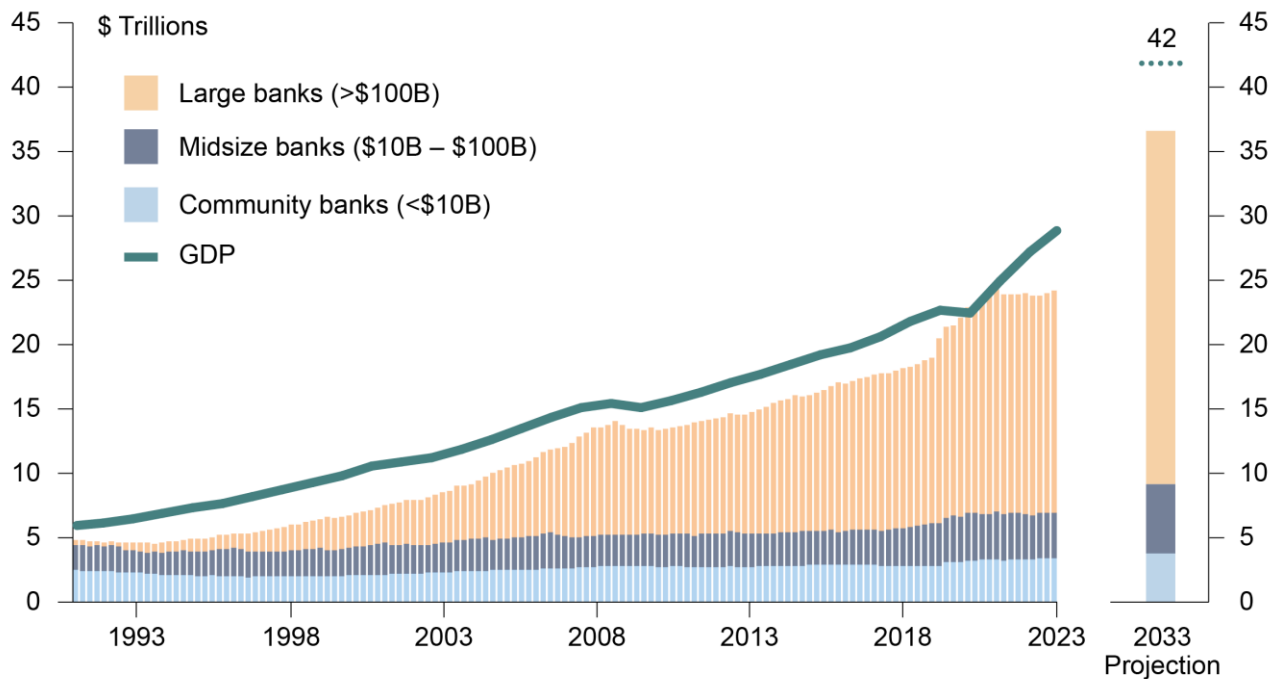
<sup>1</sup> Integrated Banking Information System (IBIS) data. Counts are based on highest holders, not individual charters. Assets are rolled up by highest holder.

<sup>2</sup> FDIC Research Information System (RIS) Data, as of December 31, 1993.

Of course, banks don't exist in a vacuum. In 1993, when the U.S. banking system had \$4.8 trillion in total assets, U.S. gross domestic product (GDP) was around \$6.9 trillion.<sup>3</sup> By 2008, GDP would more than double to over \$14.8 trillion, and the banking system would have around \$14 trillion in assets. Last year, U.S. GDP was \$27.4 trillion and total banking assets exceeded \$23 trillion.

The Blue Chip consensus forecast for U.S. GDP in 2033 is to exceed \$40 trillion. A conservative estimate would put total banking assets by then of \$36 trillion.<sup>4</sup>

**Figure 2: Bank Assets and Nominal GDP**



Source: BEA, Blue Chip Consensus Forecast (June 2024), FDIC Research Information System (RIS) Data, 2033 Projections based on footnote 5.

<sup>3</sup> Bank data from FDIC Research Information System (RIS), GDP data from U.S. Bureau of Economic Analysis.

<sup>4</sup> To estimate 2033 total banking assets, the Blue Chip consensus forecast growth rates was applied to First Quarter 2024 total banking assets. Exact growth rate used was the following (2024 GDP forecast discounted since a quarter of 2024 has already gone by):  $(1.05)^{(3/4)} * 1.041 * 1.043 * 1.042^2 * 1.041 * 1.04 * 1.041^3$ .

As long as the U.S. economy continues to grow, the U.S. banking system is going to grow with it. Even if there were to be an unprecedented, massive increase in the number and size of community and midsize banks, substantial growth in large banks would still be needed to support the projected growth of the overall economy.

This means that by 2030, large banks as a group are likely to have \$20 to \$23 trillion in assets, which is roughly the size of the entire U.S. banking system today. This is not a normative view. No matter how one feels about large banks, simple, dispassionate math provides a sense of scale regarding where we're headed.

This perspective highlights that the stakes for large banks are high and increasing. This is why the OCC, together with our interagency peers, has been so focused on pursuing large bank regulatory reforms over the past few years. Last year's large bank failures in particular highlight the need for regulation reforms in areas like liquidity and long-term debt.

Bank regulations are like building codes. Strong building codes can assure the public that the structures built are safe, are reliable, and can withstand a range of stresses. The larger and more complex the buildings, the more stringent the building codes need to be. If codes are too lax or out of date or builders ignore them, structures will collapse unexpectedly, hurting innocent people.

As a result of Dodd-Frank, most regulations applicable to large banks were completed by 2014.<sup>5</sup> At that time, large banks in aggregate had total assets of roughly \$10 trillion, compared to \$17 trillion today and potentially \$26 trillion by 2033.

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<sup>5</sup> For example, rules implementing the Collins Amendment, the "living will" requirements, and the submission of capital plans for review were finalized in 2011. Final rules for market risk capital and stress

Thus, the stakes of regulating and supervising large banks prudently are critical. To avoid repeating the mistakes of the past, large banks need strong foundations—i.e., large banks need to be resilient, resolvable, and manageable.

To be resilient, four pillars are critical to maintaining trust: capital to absorb losses, liquidity to mitigate and withstand runs, operational resilience to maintain critical operations, and recovery planning to ensure options in stress. The OCC and other federal banking agencies (FBAs) are working to update our expectations with respect to all of these.

For the first pillar of resilience, the Basel III framework aims to modernize and facilitate consistency in the adequacy of large bank capital to absorb unexpected losses.<sup>6</sup> The FBAs are considering a set of targeted enhancements to the liquidity rules for large banks to address the increased speed and severity of bank runs.<sup>7</sup> As I noted earlier this year, we are actively exploring operational resilience requirements for large banks' critical operations.<sup>8</sup> The OCC recently issued

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testing requirements were implemented in 2012. Rules implementing the Basel III capital reforms and the Volcker Rule were finalized in 2013. The capital enhanced supplementary leverage ratio rule and the rule implementing enhanced prudential standards were finalized in 2014. See Board of Governors of the Federal Reserve System, [Implementing the Dodd-Frank Act](#).

<sup>6</sup> The federal banking agencies issued a proposal revising the capital requirements applicable to large banking organizations and to banking organizations with significant trading activity. See 88 Fed. Reg. 64028 (September 18, 2013).

<sup>7</sup> Acting Comptroller of the Currency Michael J. Hsu, "[Building Better Brakes for a Faster Financial World](#)," Remarks at Columbia Law School (January 24, 2024); Vice Chair for Supervision Michael S. Barr, "[The Importance of Effective Liquidity Risk Management](#)," Remarks at the ECB Forum on Banking Supervision, Frankfurt, Germany (December 1, 2023).

<sup>8</sup> Acting Comptroller of the Currency Michael J. Hsu, "[Thoughts on Operational Resilience](#)," Remarks at the Institute of International Bankers Annual Washington Conference" (March 12, 2024).

for comment a proposal to expand our recovery planning guidance to all large banks with assets greater than \$100 billion.<sup>9</sup>

Large banks also need to be resolvable. We need to end too-big-to-fail (TBTF) by ensuring that large banks, if necessary, can fail in an orderly manner with limited need for extraordinary measures. This means all large banks need to have sufficient long-term debt (LTD) to absorb outsized losses and to have strong resolution capabilities (known as “living wills”).<sup>10</sup> The LTD and resolution reforms being pursued by the FBAs seek to address these.<sup>11</sup>

Finally, large banks should never be too-big-to-manage (TBTM). The public needs credible assurance that large banks can manage their risks and comply with laws and regulations. If large banks can’t do so, regulators need to take appropriate action in a timely manner, including taking enforcement actions, imposing civil money penalties, restricting business activities, limiting capital actions, or even compelling divestitures, as necessary.<sup>12</sup> Proportionality, consistency, and due process are key. That’s why at the OCC we revised our policy on enforcement actions related to banks with persistent weaknesses.<sup>13</sup>

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<sup>9</sup> See 89 Fed. Reg. 55114, (July 3, 2024). See OCC News Release 2024-69, “[OCC Requests Comments on Proposed Revisions to Its Recovery Planning Guidelines](#).”

<sup>10</sup> Acting Comptroller of the Currency Michael J. Hsu, “[Financial Stability and Large Bank Resolvability](#),” Remarks Before the Wharton Financial Regulation Conference 2022 (April 1, 2022).

<sup>11</sup> The federal banking agencies issued a proposal requiring certain large banking organizations to issue and maintain outstanding a minimum amount of long-term debt. See 88 Fed. Reg. 64524 (September 19, 2023). The FDIC issued a [proposal](#) that would revise Section 360.10 of the FDIC’s regulations and require the submission of resolution plans or informational filings by covered insured depository institutions (CIDs).

<sup>12</sup> Acting Comptroller of the Currency Michael J. Hsu, “[Detecting, Preventing, and Addressing Too Big To Manage](#),” Remarks at Brookings (January 17, 2023).

<sup>13</sup> OCC News Release 2023-49, “[OCC Revises Bank Enforcement Manual to Address Actions Against Banks with Persistent Weaknesses](#).”

The large bank math highlighted earlier should make clear that *not* pursuing these reforms is risky and bold. Inaction would mean putting faith in the foundations set by the initial Dodd-Frank-related rulemakings a decade ago and hoping they are sufficient as large banks continue to grow in number and in size.

### **Banking Supply Chains and the Blurring of Banking and Commerce**

The second long-term trend relates to the increasing complexity of bank-nonbank relationships. This trend is creating greater interdependencies between banks and nonbanks, including fintechs. Further, it is blurring the line between banking and commerce.<sup>14</sup>

To put this in context, one does not have to search too far in the past to recall a world where banking consisted primarily of direct relationships. Customers dealt directly with merchants and each of them dealt directly with their bank. To place a deposit, get a loan, or make a payment, customers worked with banks.

Then, in the 1990s, banks' lending and deposit-taking functions began to be disintermediated by the capital markets and by money market funds. They provided an alternative to banks, particularly for those with excess funds seeking a return (i.e., investors) and for those in need of funds (e.g., companies seeking to borrow). The ascendancy of financial engineering, derivatives, and structured finance turbocharged this shift. The resulting rapid expansion of shadow banking played an important role, both directly and indirectly, in the 2008 financial crisis.

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<sup>14</sup> Acting Comptroller of the Currency Michael J. Hsu, "[Leveling Up Banking and Finance](#)" Remarks before the American Fintech Council Fintech Policy Summit (November 3, 2021); Acting Comptroller of the Currency Michael J. Hsu, "[Preventing the Next Great Blurring](#)," Vanderbilt University (February 21, 2024).

Today, a similar transformation is occurring in payments. Advancements in technology, combined with the inexorable rise of online and mobile commerce, have been driving the digitalization of banking, with most of the innovation being led by nonbank financial technology firms (fintechs).

For instance, customers and merchants are increasingly using fintechs for payments, lending, and deposit services. These fintechs, in turn, partner with banks—sometimes indirectly through intermediaries or other “middleware” firms—to execute on the services offered. Banks, in turn, rely on a host of nonbank service providers such as core processors to support a range of operations and functions. To top it off, banks and nonbanks, like corporations and governments, are increasingly reliant on a handful of large cloud service providers to support their digitalization initiatives.

As a result, direct banking relationships are being replaced with long-intermediated chains of discrete services. Banking, in short, is beginning to resemble global manufacturing supply chains.<sup>15</sup>

**Figure 3. Direct relationships**

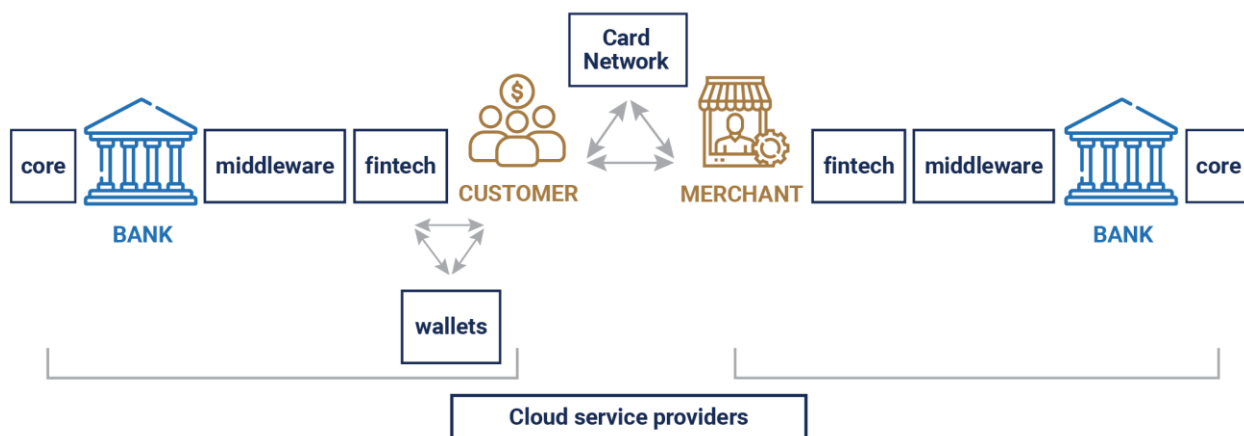


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<sup>15</sup> Acting Comptroller of the Currency Michael J. Hsu, “[Safeguarding Trust in Banking: An Update](#),” Remarks at the TCH + BPI Annual Conference (September 7, 2022).



Figure 4: Banking Supply Chain



While this may enable certain benefits and efficiencies, it can create and distribute risk in unclear ways—with the public unwittingly expecting banks and bank regulators to cover problems no matter where they occur in the chain. As the recent bankruptcy of Synapse has shown, the line between where a bank ends and where a nonbank begins is increasingly hard for consumers, regulators, and market participants to discern.<sup>16</sup> This makes it challenging to know who is responsible for what—a challenge that is playing out tragically for the millions of consumers and end users caught up in the Synapse bankruptcy.

Federal banking agencies like the OCC have relied on the Bank Services Company Act (BSCA) for authority to examine third-party service providers and on third-party risk management guidance to inform banks’ engagements with nonbanks.<sup>17</sup>

<sup>16</sup> See “[Abrupt bankruptcy of financial middleman Synapse freezes bank accounts of tens of thousands of U.S. businesses and consumers](#),” Fortune.com (May 23, 2024), and “[Synapse Trustee McWilliams Details New Challenges in Latest Status Report](#),” PYMTS.com (June 24, 2024).

<sup>17</sup> See 12 USC 1861 et seq. and OCC Bulletin 2023-17, “[Third-Party Relationships: Interagency Guidance on Risk Management](#).”

The continued evolution and proliferation of bank-nonbank arrangements, however, has highlighted the need for more granular approaches and greater engagement between the FBAs and nonbank fintechs. For instance, the risks from deposit arrangements and necessary controls may differ from those needed for payments arrangements, and further differences exist for lending arrangements between banks and nonbanks. Exploring each of those in more detail is a priority.

Finally, the gap between state money transmitter licensing and prudential federal bank agency oversight is likely to become starker over time. Customer-facing nonbank fintechs generally are regulated as state-licensed money services businesses (MSBs). None are supervised prudentially at the federal level. Proponents of the state MSB regime claim that this has enabled innovation. Perhaps. More clearly, however, it has enabled customer confusion. For instance, fintechs have been able to play fast and loose with how they market their services and their relationship to FDIC insurance, which does not cover *their* failures. Addressing this and other infirmities of the money transmitter regulatory regime through state-by-state action is highly unlikely. As one academic noted recently, “[S]tates are not well-positioned to address these critical challenges.”<sup>18</sup> Rather, tailored federal payments regulation and supervision is needed.<sup>19</sup>

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<sup>18</sup> Dan Awrey, [Money and Federalism](#) (May 30, 2024).

<sup>19</sup> *Ibid.* Awrey provides two options for a federal payments regime: maximum federal supremacy and tailored supremacy. Both options share several attributes: (1) clear rights, responsibilities, and boundary lines for chartered entities, e.g., preemption, Federal Reserve master account access, limits on financial intermediation and interaffiliate transactions; (2) supervision calibrated between MSB licensing and bank oversight; and (3) a special resolution regime.

## Polarization

The third long-term trend relates to polarization. Some historical background may provide helpful context.

The OCC was established in 1863 during the Civil War.<sup>20</sup> Up until then, the U.S. banking system was highly fragmented. U.S. currency existed in many physical forms. Each bank issued its own notes, redeemable for gold or silver. Each note looked different, even though they purportedly reflected the same value. Each bank's notes traded at a discount, reflecting the perceived risk of a noteholder not being able to redeem it for specie from the issuing bank.<sup>21</sup> Keeping track was highly challenging and created demand for newsletters, which provided a state-by-state, bank-by-bank listing of note discounts, counterfeiting anecdotes, and other news:

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<sup>20</sup> See National Bank Act of 1863. For a history of the OCC from its founding through present day, see the "[History](#)" page on the OCC's website.

<sup>21</sup> Joshua R. Greenberg, *Bank Notes and Shinplasters: The Rage for Paper Money in the Early Republic* (University of Pennsylvania Press, 2020).

Kress Room

March 9 1931

MAINE—NEW-HAMPSHIRE—VERMONT.

# THOMPSON'S BANK NOTE REPORTER.

## RULES TO BE OBSERVED IN USING THIS REPORTER.

The States are arranged in geographical order, commencing with Maine. Immediately following them will be found Canada, Nova Scotia, and New Brunswick.

In some cases the letter (n.) is placed before the rate of discount. In this manner we shall mark such banks as are, in our opinion doubtful. If a bank is not found in its proper place it is either broken or worthless.

Every new failure of a bank will be noticed on the first page, with such remarks as may be thought advantageous to the bill holders.

The descriptions of counterfeits, altered notes, &c., follow immediately after the name of each bank.

On the two last pages will be found full tables of all Frauds, Broken and Worthless Banks, Prices of Gold and Silver Coins, a List of Country Banks par in New-York, Stocks, Foreign and Domestic Exchanges, Prices Current, &c., &c.

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Beware of drafts of the LUMBER ASSOCIATION on this bank, dated in New-York City.	
Brunswick Bank, Brunswick, .....	do
3's, pay to T. Todd, May 2, 1911. This counterfeit has a blurred appearance. Others Feb. 1, 1838, pay to D. P. Storer.	
Calais Bank, Calais, .....	12
Canal Bank, Portland, .....	3
Casco Bank, Portland, .....	do
Central State Bank, Bangor, .....	1

5's, lett. L. pay to Thos. Dawson, dated Jan. 17, 1830, Gen. Thomas, Cash, Jo. Simpson, Prest. filled up with blue ink. .....	do
5's, lett. L. pay to L. Hunter, dated Nov. 3, 1836, Wm. Williams, Cash, Jas. King, Prest. Engraving coarse, paper dark yellow. .....	do
Manufacturers' Bank, Saco, .....	3
Manufacturers' Bank, Portland, .....	do
Mariners' Bank, Wiscasset, .....	do
Madonne Bank, Waldoborough, .....	do
Megunticook Bank, Camden, .....	do
Mercantile Bank, Bangor, .....	6
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1's, lett. A. pay J. Pratt, June 6, 1830, H. Ellis, Cash, B. Bram, Pres. Filling up and signatures in same hand writing. Engravers, Terry, Pelton & Co, Boston and Providence. .....	do
Negemkeng Bank, Vassalborough, .....	do
Northern Bank, Hallowell, .....	do
Old Town, Bank of, Orono, .....	—
Oxford Bank, Fryeburg, .....	—
People's Bank, Bangor, .....	3
Portland, Bank of, Portland, .....	do
3's, lett. D. signed Gen. Thomas, Cash, Jo. Simpson, Pres., pay to the order of Thomas W. Dawson, dated Jan. 12, 1834. Appearance of the bill good, liable to deceive any but good judges. .....	do
Sagadahock Bank, Bath, .....	do
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The genuine notes are all signed James S. Pike, Cash. The mode of counterfeiting is to take a bill of a broken bank, having the general plate, and paste on the words "St. Croix Bank, Calais," &c., first destroying the name of the bank originally issuing it. .....	do
Skowhegan Bank, Bloomfield, .....	3
South Berwick Bank, South Berwick, .....	do
Thomaston Bank, Thomaston, .....	do
Ticonic Bank, Waterville, .....	do
Union Bank, Bangor, .....	do

H. Kendrick, Cash, A. Smith, Pres. Vignette, farmer seated with sickle in hand. End pieces, steamboat and rail road cars. Engraved by Boston Bank Note Co. Also, 5's, 10's and 50's. .....	3
Manufacturers' Bank, New-Ipswich, .....	do
Mechanics' Bank, Concord, .....	do
Merrimack County Bank, Concord, .....	do
Nashua Bank, Nashua, .....	do
N. Hampshire Union B., Portsmouth, .....	do
5's, lett. J. old plate, coarsely engraved. The signatures of the President and Cashier, are in the same handwriting. .....	do
Penigwasset Bank, Plymouth, .....	do
Piscataqua Bank, Portsmouth, .....	do
Portsmouth Bank, Portsmouth, .....	do
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Selkwa Falls Bank, Rockingham, .....	3
5's General appearance dark, paper thin, vignette coarse. .....	do
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Brattleboro', Bk. of, Brattleboro', .....	3
5's, lett. A. pay J. Frost, dated June 7th, 1832. The counterfeit is spelled BRATTLEBOROUGH—the genuine BRATTLEBORO'. .....	do
Burlington, Bank of, Burlington, .....	do
5's, signed R. C. Cole, Cash, E. T. Inglesby, Pres., dated March 1, 1833. Coarsely engraved. The dies, in which are the figure 5's, on the top of the bill are circular, instead of elliptic, as in the .....	do

Source: [Harvard University – Baker Library, Harvard Business School/009488607\\_HUL-METS](https://www.bakerlibrary.harvard.edu/hul-mets). Newsletters like this attempted to provide information on each bank's note, including the discounts at which they traded.

The result was a highly fragmented and unstable banking system. The physical mediums of exchange varied in form and in value. Banks—and the states that chartered them—had varying risk appetites, in some cases allowing fraudsters to receive charters for so-called wildcat banks to fleece customers. Bank runs were common.

This was the monetary system that existed in the U.S. when the Civil War broke out. After Abraham Lincoln was elected president, he appointed Salmon Chase to be Treasury Secretary. Chase very quickly had a problem: how to fund the Union's war effort.<sup>22</sup>

The fragmented banking system couldn't do it. So the government created "greenbacks"—uniform national currency notes—and established a system of national banks to issue them and invest in Treasury securities. The OCC was established to charter and regulate those banks.

Thus, the OCC's origin story—our roots—can be traced back to a core purpose: to oversee a system of national banks, issuing a national currency, to help *unify* the country's monetary and banking system and promote the *nation's* prosperity.

President Lincoln and Secretary Chase understood the limits of state level "free banking" and how a national banking system could help the country grow and expand (especially westward), creating opportunities for those individuals and companies willing to work hard.

This history has salience today.

At the OCC, we have been carefully monitoring banking law developments at the state and local level. A worrisome trend of fragmentation is emerging.

This trend seems to reflect the rise of polarization writ large. To varying degrees the culture wars, identity politics, and weaponization of finance are pushing toward greater and

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<sup>22</sup> Roger Lowenstein, *Ways and Means: Lincoln and His Cabinet and the Financing of the Civil War* (Penguin Press 2022).

greater fragmentation of the U.S. financial system. Increasingly banks are being asked by states to pick a side in service of performative politics rather than deliberative policy.

The OCC is a bulwark against this. Just as the advent of national banking was able to help unify a fragmented banking system in the late 1800s, it can help ensure that parochial overreach today does not splinter our banking system.

Critical to national banking is the concept of preemption. This concept is grounded in the supremacy clause of the Constitution and in *McCulloch v. Maryland*<sup>23</sup> and sits at the heart of the National Bank Act.<sup>24</sup> The OCC has and will continue to vigorously defend preemption, as it is central to the dual banking system and cuts to the core of why we exist and who we are.<sup>25</sup>

While preemption has allowed the dual banking system to thrive, it has also been cited as a potential enabler of consumer harm in certain instances. The Dodd-Frank Act modified the preemption framework for state consumer financial laws, including requiring OCC consultation with the Consumer Financial Protection Bureau (CFPB) when making certain preemption determinations.<sup>26</sup> This procedural requirement was balanced by the formal statutory recognition of the *Barnett* standard for when these state laws are preempted.<sup>27</sup>

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<sup>23</sup> 17 U.S. 316 (1819).

<sup>24</sup> 12 USC 1 et seq.

<sup>25</sup> See Benjamin W. McDonough, “[Uniform federal banking standards](#)” (November 9, 2023).

<sup>26</sup> See 12 USC 25b(b)(3).

<sup>27</sup> *Barnett Bank of Marion County., N.A. v. Nelson*, 517 U.S. 25 (1996).

Recently, the Supreme Court considered whether the National Bank Act preempts state laws requiring interest on funds held in mortgage escrow.<sup>28</sup> In doing so, it reaffirmed the *Barnett* standard and remanded the issue for the circuit courts to properly analyze whether the state laws “prevent or significantly interfere” with federal powers. Notably, in the *Cantero* decision, the Supreme Court rejected both the 2nd Circuit Court’s “categorical test that would preempt virtually all state laws,” as well as the plaintiffs’ argument that would “yank the preemption standard to the opposite extreme.”<sup>29</sup>

Thus, the OCC faces two critical tasks. We must fortify and vigorously defend core preemption, and we must embrace and develop more nuanced analysis when applying *Barnett*.

Fortifying core preemption powers will provide certainty where it matters the most—i.e., with regards to safety and soundness and compliance with federal laws and regulations. Preemption in those areas is legally absolute and non-negotiable, and the OCC will act accordingly to defend that.

At the same time, we are reviewing the agency’s 2020 interpretation of preemption<sup>30</sup> under the Dodd-Frank Act to determine whether updates are needed in light of the recent

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<sup>28</sup> [Cantero v. Bank of America, N.A.](#), No. 22-529, 620 U.S. \_\_\_\_ (2024). There had been a split between circuit courts. In *Flagstar Bank, N.A. v. Kivett*, No. 22-349 (9th Circuit, 2022), the 9th Circuit ruled that the National Bank Act does not preempt a California law that requires financial institutions to pay interest at a specified rate on escrow accounts associated with certain mortgage loans. In *Cantero v. Bank of America, N.A.*, No. 21-400 (2nd Circuit, 2022), the 2nd Circuit ruled that the National Bank Act preempts a New York law requiring a minimum interest rate on escrow accounts associated with certain mortgage loans.

<sup>29</sup> [Cantero](#), No. 22-529, 620 U.S. \_\_\_\_ (2024), at p. 13.

<sup>30</sup> [OCC Interpretive Letter No. 1173](#).

*Cantero* decision. We need to develop a more nuanced and balanced approach to *Barnett*.

Updating that interpretation could be a helpful step toward that.

The combination of vigorously defending core preemption, while being more precise in defining and applying the *Barnett* standard, will sharpen the OCC's preemption powers. Doing so will allow us to meet the challenges of increasing polarization, consistent with our rich history and deep roots.

## **Conclusion**

My remarks today warn of three underappreciated long-term risks to banking.

Failing to update the regulatory foundations for large banks risks repeating the 2008 financial crisis, but with heightened stakes.

Paying insufficient heed to the growing complexity of arrangements between banks and nonbanks risks an increase in consumer harm, runs, and potential threats to monetary stability.

Allowing polarization to grow unchecked risks fragmenting the banking system to the detriment of communities, consumers, and the economy.

The OCC is uniquely positioned to address each of these.

We have long regulated most large banks and have a strong supervision track record. We were the first U.S. regulatory agency to prioritize innovation and develop third-party risk management guidance, setting us up to be a leader on financial technology issues and bank-nonbank relationships. Preemption is in our DNA—an attribute that will be sharpened as we pivot from expanding preemption to fortifying it.

Thank you.