



## Voices from the FinTech Advisory Committee



### ***Steven Antonakes, Executive Vice President, Enterprise Risk Management, Eastern Bank***

*Steven L. Antonakes is the executive vice president for Enterprise Risk Management at [Eastern Bank](#). Headquartered in Boston, Massachusetts, Eastern Bank is the largest and oldest mutual bank in the United States. Mr. Antonakes previously served as the deputy director and the associate director for supervision, enforcement, and fair lending at the Consumer Financial Protection Bureau. Prior to joining the Bureau, Mr. Antonakes was appointed by successive governors to serve as the Massachusetts commissioner of banks from December 2003 to November 2010. Preceding his appointment as Commissioner, Mr. Antonakes served in a variety of managerial positions at the Division of Banks having joined the agency as an entry-level bank examiner in 1990.*

- 1. Since joining Eastern Bank as chief compliance officer in 2015, on to becoming executive vice president for enterprise risk management in 2018, could you describe some of the changes you've seen in your interactions with FinTech firms over the past two years? Are there still disconnects between the expectations of FinTech firms and what the bank is able or willing to do? How has Eastern Bank sought to address these issues to foster a more collaborative environment?**

First and foremost, we are seeing a more collaborative partnership model continue to emerge resulting from a greater understanding of the complementary strengths and opportunities for banks and FinTechs. Technology firms are inclined to push the

envelope in terms of working with the latest and greatest technology without fully appreciating the regulatory strictures within which banks must operate; however, in the last two years we have seen FinTech firms become more attuned to the requirements necessary to work with banks, such as data privacy and information security considerations. We have also taken steps to improve collaboration internally among our various business lines and technology groups. For example, our Labs team engages with our risk management teams (Compliance, Legal, BSA, Operational Risk, Information Security, etc.) early and often as it consults with our business lines on emerging concepts. This group meets monthly to discuss FinTech projects and learn about emerging technologies. We regularly invite potential FinTech partners in to discuss their products, ask questions, and avoid potential stumbling blocks. Benefits of this approach have included our risk management teams gaining better, earlier insights into new technologies, while also allowing for better coordination with our digital innovation and technology teams as they scope out FinTech partners and solutions.

**2. You were a commissioner of banks in Massachusetts, then took on multiple roles at the Consumer Financial Protection Bureau, including the role of deputy director, and then went on to your current position at Eastern Bank. When you look back on this experience, what advice would you give to both startups and incumbents about the importance of interacting with regulators? What mistakes do you see firms in this space making?**

Understand that innovation, in many respects, is the regulator's dilemma. Regulators by their nature are generally risk-averse, navigate outdated statutes, and potentially bear the consequences of innovation gone awry under their watch. Nevertheless, innovation is as old as banking, and an open mindset is essential to ensure regulated entities remain competitive. Unfortunately, there is a long history of companies (both banks and nonbanks) that leveraged less rigorous oversight into market advantages that disadvantaged consumers.

With this backdrop, ideally, the innovation strategies of both banks and FinTechs should primarily focus on the goals of improving operational efficiency, potentially increasing access to credit and banking services, and/or improving the customer experience, responsibly and sustainably. Embracing innovation should factor in basic risk management principles and appropriate common-sense protections. I believe such a construct will generally receive a positive response from regulators.

**3. In the OCC's recent Semiannual Risk Perspective,<sup>1</sup> the agency finds that operational risk and strategic risk among its supervised entities remains "elevated." As**

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<sup>1</sup> "Semiannual Risk Perspective for Spring 2019," Office of the Comptroller of the Currency, (May 20, 2019), Available at: <https://www.occ.gov/news-issuances/news-releases/2019/nr-occ-2019-49.html>.

**mentioned in the report, key drivers of operational risk include innovation in financial products and services, and the increased use of third-parties to provide and support certain operations. For strategic risk, the OCC finds that banks “that do not assess business relevancy and impacts from technological advancement or innovation, or are slow adopters to industry changes, may be exposed to increasing strategic risk.” This is almost a “damned if you do, damned if you don’t” moment for OCC supervised entities. How does Eastern Bank effectively navigate these risks in a balanced way?**

The most valuable lesson I learned as a regulator for 25 years is that choosing to do nothing is, in fact, a choice, and seldom the right one. Banks are facing an inflection point. I believe the OCC guidance is spot on. It highlights the operational and compliance risks that innovation presents. But more significantly, it brings focus to the significant strategic risk that comes from inaction. As a risk manager, I believe complacency presents far greater risk to banks than innovation. This might mean you have to adjust your risk appetite and/or appropriately strengthen controls. Regardless, relevancy is at stake.

**4. The OCC recently proposed an Innovation Pilot Program (IPP)<sup>2</sup> for OCC-supervised institutions to take part in. Do you feel the IPP is needed, and does it effectively address some of the operational and strategic risk challenges highlighted in the recent Semiannual Risk Perspective?**

In whatever form it takes, I believe the opportunity to engage regulators early to discuss business strategies and understand their potential concerns is worthwhile.

**5. You are an initial member of Massachusetts Secretary of State William Galvin's so-called “FinTech Working Group.”<sup>3</sup> What is the mission of this group and why now, after all these years of talking about FinTech, do we see certain states creating such working groups or forging ahead on FinTech initiatives?**

The stated purpose of the group is to bring together practitioners and others to advise Massachusetts securities regulators on the rapid changes that innovation is causing in the financial services marketplace. I believe Secretary Galvin is earnest in his effort to support innovation while also ensuring appropriate consumer protections are maintained. I am excited to be a part of this effort.

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<sup>2</sup> “OCC Solicits Public Comment on Proposed Innovation Pilot Program,” Office of the Comptroller of the Currency, (April 30, 2019), Available at: <https://www.occ.treas.gov/news-issuances/news-releases/2019/nr-occ-2019-42.html>.

<sup>3</sup> JD Alois, “State of Massachusetts Creates FinTech Working Group, Crowdfund Insider,” (March 5, 2019), Available at: <https://www.crowdfundinsider.com/2019/03/145083-state-of-massachusetts-creates-fintech-working-group/>.

- 6. One thing we often hear is that core technology providers are unable to keep pace with the speed of technological change in this industry and that this disproportionately hurts small financial institutions. For the country's largest banks, this is not as much of an issue. Eastern Bank sits somewhere in the middle. What do you think the right strategy is for Eastern Bank and other mid-sized banks to keep up with the pace of change today?**

We are a 200+-year-old \$11.4 billion bank. We obviously don't have the resources to compete with the nation's largest banks, and we are about as far as you can get from start-up. It is paramount for smaller banks to avoid the temptation to boil the ocean. We have attempted to primarily focus on what we do well and carefully consider the foundational steps we need to take to be a more agile and innovative institution.

We believe the right strategy is having flexibility. We have a core technology provider that we work well with, and we also built a technology layer that allows us to easily plug-in FinTech providers. This approach provides the optionality and flexibility we need to stay ahead of the curve and to provide customers with access to new digitally-enabled products and services.

Ultimately, all banks need to overcome the mindset of simply improving existing products and start to consider how they can meet consumers' problems.

- 7. Dahiana Duarte, assistant vice president and strategy analyst for Eastern Labs at Eastern Bank, recently wrote that Eastern Bank's innovation approach focuses on "FinTech for Good."<sup>4</sup> What does this mean? And how do Eastern Labs and Eastern Bank's participation in MassChallenge FinTech help prepare the bank to address future challenges and opportunities?**

"FinTech for Good," is a play on "Join Us for Good," an expression of Eastern's brand purpose and our commitment to doing good things to help people prosper. It's about embedding our mission in everything we do, including innovation and how we think about applying next-generation technologies and digital tools that benefit our customers, communities, and colleagues.

The ability to access and work with new innovative startups through our partnership with MassChallenge FinTech helps to position us for a future with evolving customer expectations and rapid technology change. As a participant in the program, we have been able to test out new ideas with partners quickly, enhance our digital skills, engage

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<sup>4</sup> Dahiana Duarte, How Eastern Bank Fosters a Culture of Innovation and Partnership to Drive "FinTech for Good". MassChallenge FinTech. May 2, 2019. Available at: <https://masschallenge.org/article/how-eastern-bank-fosters-innovation-fintech-for-good>.

with employees on innovation, and leverage new technologies all within Eastern's risk management framework. These capabilities will be essential to success going forward.