



## The FDIC Podcast – Reimagining America’s Banking System

**BRIAN SULLIVAN:** Welcome back to the FDIC Podcast where we talk about the world of banking and how it all fits into our lives. I’m Brian Sullivan at the Federal Deposit Insurance Corporation and today we return to the issue of technology and how technology connects our banks to...us.

In a recent podcast, the FDIC’s Chief of Staff Brandon Milhorn was very candid that banks...and especially smaller community banks...are at a crossroads today—either embrace and adopt innovative new technologies or else.

**BRANDON MILHORN:** If you can use technology to cut your cost of operations, if you can use technology to reach new customers with new products and services, you can continue to compete in the marketplace. It’s not as easy as walking down to a branch anymore if I’m a customer. Right? It used to be you’d walk down to the branch, you’d go in, you’d get your product, your checking account, your loan...you’d do that in the bank and you’d go home. Now the competition is incredible and it’s not just from banks. There are non-banks in this mix too.

**BRIAN SULLIVAN:** So...today we’re going ‘back to the future’ to talk about innovative technologies that are transforming our banking ecosystem, the way banks operate, and indeed the way we bank. Joining us is the first-ever, newly minted Chief Innovation Officer at the FDIC, Sultan Meghji. Sultan...welcome!

**SULTAN MEGHJI:** Hi Brian. Great to be here

**BRIAN SULLIVAN:** Sultan, you have a mile-long track record of working *with* government from the private sector and now, here you are on the inside! Tell us about you.

**SULTAN MEGHJI:** Yeah, I’m from a cornfield in the middle of Illinois and have been in tech now for 25, dangerously close to 30 years actually. And I go all the back to working on artificial intelligence in the early 90s, I worked on the first web browser a little bit, I built a lot of the plumbing that we use for the internet. I then went corporate, spent some time in the New York Stock Exchange, did a lot of work there, before, during, and after 9/11. And for the last decade had been splitting my time between policy work here in D.C., a professor at Washington University, and then running an artificial intelligence company, focused on the banking sector, which is how I first got connected to the FDIC and started working with the team here.

**BRIAN SULLIVAN:** And so now you've been given the keys to the car to drive the FDIC's tech lab, *FDiTech*. For those who don't know, what is *FDiTech* and what's your new role as you see it as Chief Innovation Officer?

**SULTAN MEGHJI:** Well, you know, across the banking sector for the last few years, we've seen such tremendous disruption. We've seen new players, we've seen new financial products, we've seen all these things happen and one of the things we need to do as a community of people in the banking sector, is bring that innovation across the entire ecosystem. And so, for me, *FDiTech* and this role is very much about bringing that innovation into FDIC and then using that to help the entire ecosystem. Everything from the consumers and the average Americans, to small business to the regulatory agencies, and especially inside of the FDIC. We've got so much amazing technology out there that can be brought to bear, that can do everything from streamlining processes, to doing new and interesting things, to looking at what's coming in the future and getting ahead of that. And so at a vision level this is what *FDiTech* is about...it's about wrapping all of that together into a series of strategic programs that we can use to move the needle on these

**BRIAN SULLIVAN:** I'd like your take on a new study that the FDIC came out with, called *How America Banks*. This study found that more than a third of U.S. households use their mobile devices as the primary way they bank. Folks use their phones more than bank tellers, ATMs or even their home computers. And that percentage appears to be growing every day. What does this tell you?

**SULTAN MEGHJI:** Well, you know, it's a great study, and it just speaks to the amazing work that FDIC does, I really like that study, even before I took this job. And you know, in a rather not great way, we've seen that transformation accelerate over the last almost year now as we've been dealing with COVID. But what it has shown is there is a *massive* change that's hit other markets over the last decade that is now being compressed into a much shorter amount of time in the banking sector.

So, if you think about when people first installed Amazon on their smartphone, that was probably before they installed their local bank's app on their smartphone. And so, in the last year in particular, but over the last two or three years, especially, we've seen a tremendous acceleration to using digital technologies on the consumer side, but also across the ecosystem. And so, you know, it's very apparent as you look at things like PPP where a tremendous amount of technology was applied to that, but a lot of organizations were still just having people do the work...and sometimes working three shifts to do it. And so, we can't avoid the fact that there's a lot of this change happening and it's taking really a decade or more of technical transformation and compressing it into a much smaller amount of time. So, that's kind of my first comment on that.

The second is that in the very near future, if not already, every single financial service's product available must be available through a mobile app for a consumer, and then you go to business banking...same thing has to be true. You look at commercial banking, same thing has to be true.

And so, for us as agencies that are focused on this core mandate of FDIC of keeping this safe and sound, we have to change how we think about these technologies. And not just make sure they are

being implemented correctly and securely and in a resilient manner, but also make sure they are non-discriminatory and we're really making sure that every single American has access to all these technologies.

It's going to end up being a tremendous opportunity for us to really fix some problems in the systems, but also be very innovative about things we can do in the future. The notion that people are going to go back to the traditional way of banking that existed, 10, 20, 30 years ago, I think the likelihood of that happening is incredibly low. There will still be branches, but they are going to take on a different character. It's not going to be going and handing off a check and have a 10-minute conversation with your friends at the bank. It will be go in and get coffee, or go in and sit with an advisor and have a very focused conversation about specific needs that you as a consumer or you as a business owner might have. You know, we are seeing everything from ITMs to other activities happening inside of branches, but I still think overall we are going to see a pretty serious move to digital banking for every core function.

**BRIAN SULLIVAN:** Well, you had earlier mentioned PPP, the Small Business Administration's *Paycheck Protection Program*. Is our global pandemic driving innovation in the banking sector?

**SULTAN MEGHJI:** It is *one* of the drivers. You know, I think that's one and that's a big one, but there are others. We've seen tremendous technology changes, amazing new technologies from artificial intelligence to deeper analytics to alternative data, these are all things that are entering the system that are moving very quickly, the banking sector really has to keep up with those, it's not an optional discussion.

And then finally, we have a cyber security resilience discussion we have to have. You know banking systems have to be available 365, 24/7, they have to be resilient, they have to be able to respond to cyber-attacks quickly and efficiently, and this is another pressure on the system. I'm sure some of the listeners have heard about the solar winds hack, and some of that. You know these kinds of things are becoming more and more focused. Fraud in the banking system through malicious actors is not going down certainly and so you see all of these pressures and it's almost a perfect storm where all of them are happening at the same time, so we have to figure out how to safely navigate these pressures as an ecosystem.

**BRIAN SULLIVAN:** What are the biggest challenges you see in the banking world from a technology point of view? Is it the safety and security issues you just mentioned?

**SULTAN MEGHJI:** I don't know if I would say there is a biggest challenge. I think there are big challenges and that's certainly one of them. We cannot take too seriously the threats of malicious cyber actors, that is that is absolutely a huge threat to the overall system. Second from that, is you know, there are some institutions that have incredibly modern technologies that are highly resilient, very efficient, innovative, they evolve quickly, and they do all the things they need to do in almost a hands-off kind of way. And then there are other institutions who, you know, don't have those and that gap that is becoming a bigger challenge from technology perspective. The things we do in technology in 2021 and the things we did with technology 3, 5, 10, years ago are totally different.

The other biggest thing is that we really need to pay attention to is the inequity in the system in some cases and consumer access to financial services, we can do a lot better job with that and that's an opportunity for technology as well.

**BRIAN SULLIVAN:** Our banking and financial eco-system, as we've been talking about in this country seems to be evolving at an accelerating pace. And these shifting sands have some very real implications for lower income unbanked families living in underserved communities.

You're a self-described 'AI guy.' How can we tap into artificial intelligence, quantum computing... all these things I barely understand... how can all these technologies address these big issues we're struggling with... issues related to equity and access... and fairness?

**SULTAN MEGHJI:** Well, that's a huge question Brian, and we can probably talk about that for a few hours. I'll highlight a few topics. The first is that we need to make sure artificial intelligence is being used for good and that the preconceived notions or the bad behaviors that might exist currently, aren't being built into artificial intelligence. And so, one of the big things that you'll hear me talk a lot about moving forward is transparency and explain-ability in artificial intelligence, or any algorithm.

If you have a computer system make a decision about credit worthiness or something like that, the system has to be able to tell you why it made that decision. Different communities use banking in different ways and so, I really worry if we try to use technology to create one-size-fits-all solutions, that's not I think an effective way to do things and I think we've seen it in the fintech community, I think we've seen it in other countries, where different kinds of banking products make more sense for different communities, right? And allowing artificial intelligence to help us really understand the people in the system better and what they need from the system.

One of the reasons that Fintech ecosystem has taken off so much and why the tech companies, non-banking banking products, have taken off so much is because the consumers are looking for different things. And the checking account from 1987 is not what someone necessarily like, not what every family needs today. And so, we're seeing that that market demand push for new and interesting things. And AI is a great way for us to get a better handle on what that is and do that.

And then finally, the evolution of risk in the system is evolving very rapidly. Everything from bad cyber security actors to fraud, to money laundering. You know, there are a lot of great places where artificial intelligence can be implemented to catch bad behavior faster. And so, we can get in front of things instead of just responding to them after the fact. And so, getting predictive and getting future looking about bad behavior is going to be a great opportunity for artificial intelligence.

And then just because you said 'quantum computing,' and I love talking about quantum computing, I will say that the biggest thing that I worry about are bad guys using quantum computers to hack into our computer systems. And so, anything we can do to protect against that, I'm going to be interested in hearing about.

**BRIAN SULLIVAN:** The FDIC has never had a Chief Innovation Officer before. You're blazing a new trail. As we wind this conversation up, what will be your general approach to this new job of yours?

**SULTAN MEGHJI:** There are a couple of things that you're going to hear me talk about and do initially from day one and the first is listening. There are an amazing group of people inside of FDIC. I've been incredibly impressed with the people I've been able to interact with thus far and in my career in interfacing with the FDIC. And I really want to listen to them, listen to the experience, listen to what they see on a daily basis, understand, you know, the things that make life great and the things that make their life maybe not so quite great.

The second thing is really understand the overall ecosystem, understand what our partners, what the banks we work with need, what the community needs, so that as we build these big strategic plans to move the needle on some of these problems, we're doing things that help the entire ecosystem. We're not going to do things that just help one subset of the community. We have to make this a win for everyone.

And then the third thing is, I am a, as you guys know, I come from startups, I come from fairly, fairly fast-paced environments. I'm going to be moving quickly and I'm going to be looking for partners in the ecosystem who also want to move quickly to really do some things. So you're going to see the cadence of discussions and dialogues with me in my office, not annually...maybe not even monthly, not quarterly, not monthly, you know, I'm probably going to get annoying for some people in the organization (laugh).

**BRIAN SULLIVAN:** Well Sultan, we've just scratched the surface. Congratulations on your new role at the FDIC. I'm hoping we can have you back early and often to continue to look at some of the issues we just touched upon today. Is that a deal?

**SULTAN MEGHJI:** Absolutely, as long as you and I don't get into various sports teams.

**BRIAN SULLIVAN:** Alright, that's a deal, Sultan Meghji, the FDIC's newly minted Chief Innovation Officer. Thank you so much for joining us today.

**SULTAN MEGHJI:** Thank you Brian.