WISE, BRIGIT CARROLL, ET. AL.

Proposal and Comment Information

Title: Request for Information on Bank-Fintech Arrangements Involving Banking Products and Services Distributed to Consumers and Businesses , OP-1836

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Submitter Information

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Organization Type: Company

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October 30, 2024

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Filed via Electronic Submission: www.regulations.gov

Re: Request for Information on Bank-Fintech Arrangements Involving Banking Products and Services Distributed to Consumers and Businesses (Docket ID OCC-2024-0014; Docket No. OP-1836; RIN 3064-ZA43)
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Introduction
Wise appreciates the opportunity to submit comments in response to the Office of the Comptroller of the Currency (OCC); Board of Governors of the Federal Reserve System (Federal Reserve); and Federal Deposit Insurance Corporation (FDIC) request for information on Bank-Fintech Arrangements Involving Banking Products and Services Distributed to Consumers and Businesses. As a cross-border payments company and licensed money transmitter partnering with banks in order to provide customers with faster, low cost money transfer services, Wise is reliant on bank-fintech arrangements in the United States to provide our core cross-border payments product, and welcomes the opportunity to provide feedback on our experiences.

Wise is a global technology company, building the best way to move and manage the world's money. Co-founded by Kristo Käärmann and Taavet Hinrikus, Wise launched in 2011 under its original name TransferWise. It is one of the world's fastest growing, profitable tech companies and is listed on the London Stock Exchange under the ticker, WISE. In fiscal year 2024, Wise supported around 12.8 million people and businesses, processing over $150 billion in cross-border transactions, and saving customers over $2 billion. Since our founding, Wise has worked to make cross-border payments better for people with international lives, from immigrants, to small businesses trying to compete on a global scale, to students studying abroad, to service members sending money home to their families, to vacationers and countless others.

How Wise is regulated in the United States
Wise US, Inc. (Wise US), our U.S. entity, is a licensed money transmitter in 48 states and otherwise authorized to provide such services to customers in the remaining states and territories. Wise is supervised by the Consumer Financial Protection Bureau (CFPB) as an International Money Transmitter and registered with the Financial Crimes Enforcement Network (FinCEN). Wise has over 700 employees in the United States in Austin, Texas, New York City, and Tampa, Florida.

The Wise Group currently operates globally with licenses across 44 countries to provide online money transfers, currency exchange and multi-currency accounts. Wise US' non-U.S. affiliates have similar registrations and licenses as required in their respective jurisdictions. Wise US is a subsidiary and wholly owned by UK-based entity Wise Payments Ltd (WPL), as are all regional Wise affiliates. WPL is wholly owned by Wise Payments Limited (Wise PLC).

Wise satisfies its compliance requirements with large in-house financial crime, identity verification, due diligence, and customer support teams. Wise takes safeguarding of customer information very seriously, remaining compliant with data privacy laws and maintaining security certifications, including SOC 2 and PCI-DSS. Additionally, Wise's comprehensive global privacy program includes the implementation of global privacy training and a unified, customer-facing privacy policy that is shared across the group. Wise also maintains policies and procedures to ensure compliance with Unfair, Deceptive, or Abusive Acts or Practices rules ('UDAAP'). All teams have a responsibility to ensure that any communications to customers around Wise's products and services are clear, consistent, and in compliance with the UDAAP principles.

About the Wise business model

Wise offers financial services products targeted at solving the problems of cross-border payments. Wise provides remittances, currency conversion, a multi-currency account, which is a prepaid access account, and a prepaid card, among other services. For purposes of this response, Wise will focus on our primary product, a "Send Money" product, which functions as a remittance and cross-border payments tool and allows individuals and businesses to leverage fast, transparent, and affordable payments to both send and receive money internationally. For these payments, Wise has developed a proprietary money movement network of local payments accounts around the world. For example, a customer seeking to send money from the United States in USD to a European recipient in Euros will pay-in USD to Wise's U.S. domiciled bank account. Wise then will pay out Euros to the intended recipient from Wise's Euro bank account domiciled in Europe. Customers will know exactly how much money will be received and the total cost of the transaction because Wise controls both the pay-in and pay-out of most transfers and independently manages foreign exchange risk globally.

Bank-Fintech Arrangements in Payments Today

In the United States, Wise is wholly dependent upon bank partners to access the Federal Reserve payment systems to help customers move money, as Wise's current status as a licensed money transmitter does not permit direct payments systems access. Given the varying product offerings of each bank, Wise has developed a complex U.S. bank partner infrastructure requiring multiple redundancies due to bank partner product capabilities and de-risking activities, which leads to slower and less reliable payments and higher pricing for Wise's U.S customers.

This arrangement is not unique to our business model - in the United States today, direct access to the Federal Reserve payments services (e.g. payments rails) is only available to traditional banks and depository institutions. This limitation presents significant issues for payments and cross-border payments in particular, including the incorporation of bank-fintech arrangements that drive up the cost and delay of payments, and concentration risks in the system. As Under Secretary Liang commented in a recent speech on modernizing the U.S. payments system,[1] granting payments companies risk-based direct access to Federal Reserve payments systems can promote innovation and competition. This also would provide an alternative for these companies that currently must rely on banks for payments system access.

[1] Remarks by Under Secretary for Domestic Finance Nellie Liang, "Modernizing the Regulatory Framework for Domestic Payments" at the Chicago Payments Symposium, hosted by the Federal Reserve Bank of Chicago (October 2024).

The Federal Reserve has made significant efforts to open up payments access, most recently by updating its participation requirements for the use of Federal Reserve services in 2022[2] on Proposed Guidelines for Evaluating Account and Services Requests [OP-1747]. As Wise wrote in the response to the Proposal,[3] while the updated guidelines created a "Tier 3" of Master Account that nonbanks can apply for, access remained dependent on whether the institution is "legally eligible" to obtain an account and therefore remained solely available to depository institutions that are either insured by the FDIC or eligible to make an application to become insured by the FDIC. Wise responded that the Federal Reserve should consider facilitating direct access to Federal Reserve services, with or without direct access to master accounts or correspondent services, by decoupling direct access to master accounts from direct access to Federal Reserve services to the extent possible.

The status quo has meant that while payments companies who restructure to become depository institutions can apply for a Master Account, approvals for these applications have been extremely limited, and still only allow for an all or nothing Master Account, versus a payments focused account. As a result, payments companies in the United States remain reliant on bank partnerships for access to the Federal Reserve payments systems.

Current Risks Associated with Bank-Fintech Arrangements in Payments

Today, large, mature payments companies relying on banks for access to payments services presents risks to the system. Partnering with banks for access to the Federal Reserve payments system is necessary for payments companies, even when, in Wise's case, the payment services provider is a licensed institution with strong controls operating with a safe and secure framework. While much of the focus of these discussions has been on the risks fintechs present to banks, bank-fintech partnerships also present mature, secure payments companies with risks. Wise, for example, has advanced technology built in-house that is generally more sophisticated than smaller banks. Many banks do not have the ability to invest in such technology and, thus, use third party vendors such as core banking systems. Each additional party to the payment flow creates incremental operational risk and friction for Wise and its customers. In addition, Wise utilizes a combination of machine learning models that include fraud and money laundering signals to identify red flags to create a customer risk score that is calculated at every action. This information is then incorporated into our monitoring controls to identify and investigate high risk activity. This allows Wise to independently manage fincrime risks reducing the need for extensive bank partnerships to meet these compliance standards.

Risk of blanket de-banking/de-risking in current environment

Payments companies who rely on banks for access to basic infrastructure risk offboarding with short notice and little rationale due to blanket de-risking practices by banks. Globally, money transmitters/remittance providers are the first to suffer from blanket de-risking by banks,[4] which leads to the closing of remittance routes, increases the price of services, and reduces competition.

While de-risking/de-banking is not a new phenomenon, increased regulatory scrutiny on U.S. banks will have a knock on effect on money transmitters who rely on those banks for basic operations. Decisions regarding the provision of banking services to money transmitters are often made on a blanket, top-down level, rather than on an individual case-by-case basis. If a bank decides to de-risk and remove account service provision from payment service providers

[2] Federal Reserve, Proposed Guidelines for Evaluating Account and Services Requests (May 2021).
[3] Wise, Docket No. OP-1747: Proposed Guidelines for Evaluating Account and Services Requests (July 2021).
[4] Treasury Department Announces 2023 De-Risking Strategy (April 2023).

like Wise, the payments provider may lose access to all of its banking products, with short notice. This can have a significant impact on consumers' access to remittance products, and in the worst case scenario translates into closing down the product in a specific jurisdiction and/or market, directly impacting consumers using those currency routes.

Allowing direct access to the payments system and removing the need for bank-fintech partnerships for access to payment services would significantly reduce the impact of the de-banking/de-risking phenomenon (and the risks associated with it such as disruption to remittances routes), which according to the U.S. Treasury has the most severe greatest impact on underserved populations.[5]

Increased concentration risk and single point of failure

Today Americans use a wide variety of financial service providers, including payment companies, with 89% of Americans using digital payments today.[6] However, despite a high number of depository institutions found across the country, most payments originating in the U.S. still go through two top banks.[7] In the current regulatory environment, we observe several payments companies increasingly clustering around the few banks who have the risk appetite to serve them. With payments companies like Wise growing quickly in size, this risk becomes larger, with more money concentrated in fewer banks. A black swan event within one of the banks in question would have widespread implications for U.S. consumers and would represent a major vulnerability in the system given high concentration on one to two banks. Removing the need for bank-fintech partnerships for the purposes of originating and settling payments by allowing select payment companies meeting stringent criteria (including IT, liquidity, credit and operational risk requirements) would reduce this risk and diversify the system.

Limits to competition and the risks of indirect supervision

With the current set-up, large payments companies may be forced to rely on direct competitors for access to infrastructure. In a sense, banks become quasi-regulators to the payment companies they partner with - and compete with. The need for bank-fintech partnerships in this case hinders competition, but also complicates the effectiveness of supervising payments.

Today, sophisticated payments companies with strong controls may be better equipped to process their own payments, and many are willing to be subject to enhanced regulatory oversight in order to reduce risk. Direct access for qualifying payment institutions would establish direct prudential supervision over payments firms with access to the central bank payments system. Payments companies who fulfill stringent risk-based criteria could access the system directly, reducing the need for bank-fintech arrangements and intermediaries.

Allowing qualified payments companies to participate in the payments systems directly would also allow those companies to be directly overseen by the Federal Reserve. In times of crisis, this direct supervision becomes more important than ever. Central Banks' ability to interact directly with payments firms - not only banks - will bolster financial stability and, equally, limit the burden currently placed on banks to act as quasi-regulators of the payments companies they partner with. Expanded access to the payments system would address regulatory concerns with payments focused bank-fintech partnerships by providing an alternative for these companies that currently must rely on banks for payments system access.

[5] U.S. Department of the Treasury, Treasury Department Announces 2023 De-Risking Strategy (April 2023).
[6] McKinsey and Company, Consumer trends in digital payments (October 2022).
[7] NACHA, 2023 Top Originators by Volume (March 2024).

The future of bank-fintech partnerships in payment services

Outside of the U.S., we observe a reduced reliance on bank-fintech partnerships for the purposes of originating and settling payments. This is thanks to the expansion of direct access to Central Bank payment services to non-bank payment firms, which removes the need for bank intermediaries. Wise has directly integrated with local central bank payment rails in the UK, Europe, Singapore and Japan to originate, clear and settle payments on those rails. Customers in those jurisdictions benefit from more affordable, more secure, and faster payments, in large part due to the lack of a need for an intermediary bank partner. The Bank of England, in their decision to expand access to payments companies, noted that:

> *"the innovation which stems from this expanded access should promote financial stability by:*
> - *creating more diverse payment arrangements with fewer single points of failure;*
> - *identifying and developing new risk-reducing technologies"*

Wise became the first non-bank payment company to integrate directly with the Faster Payments System in 2018, removing reliance on bank-fintech partnerships to connect to payments systems. The policy change alone allowed Wise to immediately drop prices by 20 percent for those customers and increase the average speed of payments from 15 minutes to less than 20 seconds. Beyond consumer benefits, the UK in removing payments companies' reliance on intermediaries also increased the number of participants in their real-time payments system significantly, more than doubling the number of participants (largely financial technology companies).[8] This has boosted competition in the payments space and reduced concentration risk by diversifying the number and types of institutions originating and settling payments today. Anecdotally, Wise has also noted the important direct communication with the Bank of England for example during the Brexit transition, which underlined how it was beneficial for both the Central Bank and the financial technology companies to have a direct line during times of crisis (even if the primary payments regulator is the Financial Conduct Authority).

The Financial Stability Board's G20 Roadmap for Enhancing Cross-border Payments includes a recommendation to expand payments access.[9] In line with these recommendations, globally, many countries are already moving towards expanded access to payments systems, including all G7 economies, with the exception of the United States.

Recommendation: Wise acknowledges the significant challenges that regulators face while adapting to the bank-fintech model. **Wise urges federal regulators to consider broadening access to payments systems in order to reduce reliance on bank-fintech partnerships in payments.** The U.S. can address payments-specific concerns with the current bank-fintech structure by updating its payments regulatory framework to permit non-bank entities direct access to the central bank's system, subject to meeting proportionate and objective risk-based criteria (e.g. assessment of operational, credit and liquidity, IT risk and financial arrangements). A modernized regulatory framework which allows broader participation in the payments system benefits consumers, notably underserved and underbanked communities, through lower costs, enhanced services, and equally would mitigate risk and bolster financial stability in the U.S. financial system in the long-term.

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[8] Pay.UK, Faster Payment System

[9] The Financial Stability Board (FSB), G20 Roadmap for Enhancing Cross-border Payments (October 2023).

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Thank you for your efforts to modernize the U.S. financial system, and for considering our comments as a financial technology company offering cheaper, faster, and more transparent cross-border payments to U.S. consumers and businesses. Please do not hesitate to contact us if you have any questions regarding these comments or if we can be of any assistance.

Sincerely,

Brigit Carroll, Policy Lead, Americas, Wise; and
Rina Wulfing, Policy Lead, North America, Wise.