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DISRUPTER SERIES: IMPROVING CONSUMERS=

FINANCIAL OPTIONS WITH FINTECH

THURSDAY, JUNE 8, 2017

House of Representatives

Subcommittee on Digital Commerce and Consumer Protection

Committee on Energy and Commerce

Washington, D.C.

The subcommittee met, pursuant to call, at 10:00 a.m., in Room 2123 Rayburn House Office Building, Hon. Robert Latta [chairman of the subcommittee] presiding.

Members present: Representatives Latta, Harper, Upton, Lance, Guthrie, McKinley, Kinzinger, Bilirakis, Bucshon, Mullin, Costello, Walden (ex officio), Schakowsky, Clarke, Cardenas, Kennedy, Green, and Pallone (ex officio).

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Staff present: Blair Ellis, Digital Coordinator/Press Secretary; Melissa Froelich, Counsel, Digital Commerce and Consumer Protection; Adam Fromm, Director of Outreach and Coalitions; Jay Gulshen, Legislative Clerk, Health; Bijan Koohmaraie, Counsel, Digital Commerce and Consumer Protection; Paul Nagle, Chief Counsel, Digital Commerce and Consumer Protection; Hamlin Wade, Special Advisor, External Affairs; Michelle Ash, Minority Chief Counsel, Digital Commerce and Consumer Protection; Jeff Carroll, Minority Staff Director; Lisa Goldman, Minority Counsel; Caroline Paris-Behr, Minority Policy Analyst; and Matt Schumacher, Minority Press Assistant.

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Mr. Latta. Well, good morning. I=d like to call the Subcommittee on Digital Commerce and Consumer Protection to order, and the chair now recognizes himself for five minutes for an opening statement.

Again, good morning, and welcome to our witnesses today. We are very glad to have you with us today.

Today, we continue the Disrupter Series examining FinTech and all the ways that entrepreneurs and established businesses are looking to give consumers more tools and control over their finances.

Families across the country strive to achieve financial independence and stability. Many no longer feel certain that their children will be better off than they were at their age, a change from just a few years ago.

Understanding how new technology can assist families in managing their finances, especially while we=re -- while on the go is a conversation we need to have.

Improving consumers= financial options is a clear example of the new technology pushing and disrupting established industries.

While we must focus on protecting the consumers, it is also important that we keep an eye on what matters to the consumer -- what are their goals, what motivates them to use one service over another.

How can we encourage innovation while keeping the consumer protection bar high? In this conversation about improving access to commerce it is important to remember that there are generally three relationships people have with traditional institutions.

People have -- people have access to all the traditional financial services; second, the under banked who have a checking account and maybe a savings account but also use alternative financial services like rent-to-own services or auto title loans; and third, the 7 percent of Americans who are unbanked, who do not have a checking or savings account and how use alternative services.

There are a number of statistics demonstrating how large the opportunity is to reach more Americans with relevant services. Twenty percent of the U.S. population -- over 60 percent of Americans -- are under banked or unbanked.

Sixty-four percent of Americans earning less than $30,000 per year own a smart phone, and finally, over $12 billion were invested in FinTech companies in 2016.

Increasingly, Americans are turning to online and mobile banking, according to a 2015 study from the Federal Deposit Insurance Corporation. Over 31 percent of Americans used mobile banking and that number has likely risen in the last two years.

There are tremendous opportunities for companies to reach consumers with new products to help them create a rainy day fund for the first time, securely pay their mortgage, rebuild their credit budget, manage multiple income streams and invest their earnings.

One of the first questions that come to mind in any conversation about money is security. Cybersecurity is an ongoing challenge and one the Energy and Commerce Committee is tackling head on.

At this time, one of our other subcommittees in the Energy and Commerce is getting ready to start a hearing focused on healthcare cybersecurity.

In this subcommittee we have discussed how cybersecurity plays in development and life cycle of a number of connected devices through the Disrupter Series.

While there is no silver bullet, we do need to keep cybersecurity at the top of our minds because if consumers do not trust the products and services they use are secure then they will not use them.

I would like to thank our witnesses for joining us today and I look forward to your perspectives on how we can ensure that innovation in the FinTech space continues in the United States, how innovation can improve consumer protection and how the regulatory environment has impacted innovation.

Again, I want to thank all of our witnesses for rejoining us today for this very important discussion that we will have. And at this time, I=d like to recognize the gentlelady from Illinois, the ranking member of the subcommittee for five minutes for an opening statement. Good morning.

Ms. Schakowsky. Good morning. Thank you, Mr. Chairman.

Today, in the subcommittee, we are going to be looking into the potential to provide consumers better options through financial technology, or FinTech.

On the floor this afternoon, the House will be debating legislation to gut existing consumer protections for financial products. These discussions can=t happen in isolation.

Consumers can only realize the full benefit of FinTech if we have reasonable safeguards in place to prevent abusive practices, secure personal information and protect consumers from fraud.

The Financial CHOICE Act, what my Democratic colleagues and I call the Wrong Choice Act, puts those safeguards in severe jeopardy.

One of the landmark achievements of the Dodd-Frank Wall Street Reform Consumer Protection Act was the creation of the

Consumer Product Protection -- Consumer Financial Protection Bureau.

The CFPB is an effective consumer watchdog and it has returned $12 billion to 29 million harmed consumers. The Wrong Choice Act would gut this critical consumer watchdog. It would make it harder for the CFPB to take action to protect consumers.

It would threaten the CPB=s funding. It would specifically block the CFPB from pursuing consumer protections in areas like payday lending and it would block the CFPB=s proposed rule limiting arbitration to ensure that consumers can defend their rights in court.

Who benefits? Not consumers. Not responsible businesses. The winners are big banks like Wells Fargo that open up fraudulent accounts for their customers, pay lenders that trap consumers in unaffordable debt, credit card companies that engage in deceptive practices, for-profit colleges that prey on veterans and reverse mortgage companies that put seniors= homes at risk.

The CFPB has proven time and time again that it is a research and data-driven agency. It has been actively engaged in exploring how FinTech can be part of consumer-friendly innovation.

In October, the CFPB released its Project Catalyst Report on Innovation in Financial Services. The report highlighted the tremendous potential for FinTech to improve the lives of Americans. It also emphasized the importance of building consumer protections into new innovations from the outset.

Effective protections need to be flexible enough to apply to new financial products. That=s precisely what the CFPB did in its rule for prepaid products.

It requires protections against fraud and unauthorized charges as well as basic transparency regarding fees and balances.

The rules apply to both physical prepaid cards and mobile wallets because consumers deserve strong protections whether or not they are -- whether they are swiping or -- swiping cards or using smart phones.

I believe the CFPB=s valuable work should continue. I choose consumers over unethical companies that engage in unfair, deceptive and abusive practices.

I will be voting against the Wrong Choice Act this afternoon. If my colleagues really care about providing quality financial options for American consumers, they will do the same.

With proper protections baked in, I believe FinTech will have great benefit for consumers. It provides new opportunities to reach the unbanked and under banked households. FinTech companies have already made it easier than ever to make person-to-person payments.

We will be hearing much more from our witnesses about some of the specific innovations that FinTech companies are working on.

And as with other topics in our Disrupter Series, the policy challenge for this subcommittee to consider is how we adapt today=s -- how we adapt today=s rules to tomorrow=s technology.

I look forward to hearing the insight from our panelists as we continue efforts to make sure consumers can truly benefit from the promise of new innovation.

And I yield back.

Mr. Latta. Thank you. The gentlelady yields back.

At this time, the chair now recognizes the gentleman from Oregon, the chairman of the full committee, for his opening statement. Good morning.

Mr. Walden. Good morning. Thank you, Mr. Chairman, and welcome to our panelists and to our guests today.

Today=s Disrupter Series takes an important look at how we can ensure that innovation=s improving options and outcomes for consumers and their financial health by way of financial technology, more commonly known as FinTech.

Smart phone adoption has skyrocketed in recent years which provides a new platform to reach consumers with basic services such as online banking or more complex transactions like mortgage applications.

In Oregon where I come from, the percentage of people unbanked or under banked is slightly higher than the national average.

So if there is an opportunity to help folks engage in commerce, start a savings account, become more financially secure, we should be giving it serious consideration and FinTech could provide that opportunity.

Disruption or change can be uncomfortable. But if we remain focused on the consumer and what is in the best interests of the consumer we can move forward productively.

Startups, incumbents and partnerships are all critical components of this conversation. Now, ultimately we know that if consumers do not find something useful, they won=t use it, given the choice.

The reality is that consumers are demanding better, faster, more secure services in every industry. The growth of new peer-to-peer payment services like PayPal and Venmo also show that the younger generations are quickly adopting these services and they will soon expect the same level of service and convenience for other traditional financial services as well.

Block chain is another important component within this industry as it has the potential to disrupt how we transfer assets digitally with increased transparency and security.

All of this is to say it=s clear that the FinTech world is all-encompassing and is quickly growing. The United States should continue to be a hub for this innovation and for this opportunity and FinTech=s rise in popularity demonstrates its fulfillment of both.

So I look forward to the testimony and your comments today and continuing to work to increase consumers= financial options with FinTech.

That is the charge this subcommittee has, among many others in the Disrupter environment -- innovation environment and it=s ably led by our chairman and ranking member.

So we thank you for being here. I will give you a heads up that I also have to go up to the Oversight Investigations Subcommittee that=s meeting concurrent with this one.

So I=ve got your testimony and I appreciate your counsel and your input and look forward to working with you in the future.

With that, Mr. Chairman, I yield back the balance of my time.

Mr. Latta. Thank you very much. The gentleman yields back.

The chair now recognizes for five minutes the gentleman from New Jersey, the ranking member of the full committee, for five minutes.

Mr. Pallone. Thank you, Mr. Chairman. This hearing is an update to last Congress= hearings on mobile payments and digital currencies.

Technological advances are making financial transactions more convenient and efficient with nine in 10 Americans regularly connected to the internet and over 75 percent of us having smart phones. Online access to banking has never been better.

New financial products may help people pay and receive goods faster and consumers may have better and more secure access to their funds and these products also may help people have greater control over their financial lives by giving them more and better financial information.

These potential benefits are important but these new financial products should have consumer protections attached to them just like protections attached to old and more traditional financial products.

Consumer protections are essential and I look forward to hearing how we can help ensure there are appropriate safeguards while at the same time encouraging this new marketplace to thrive.

One area that is ripe for improvement in the financial sector is faster payments. In this day of technological advancements, some Americans still have to wait days for their checks to clear.

Oftentimes, these consumers are then forced into turning to high cost credit to access their own money.

In 2015, the Federal Reserve created a task force to review the issue of faster payments and I am hoping today for an update on the work of that task force.

People should be able to get real-time access to their money. I realize that some actors in this space such as check-cashing companies, payday lenders or wire transfer services may lose out on fees if real-time access is achieved.

However, with all of the technological advances that have been made delays are really not acceptable anymore and they have adverse effects on merchants and others waiting to be paid.

A number of federal agencies play a critical role in the success of financial technology including both the Federal Trade Commission and the Consumer Financial Protection Bureau.

These two agencies conduct research and analysis of consumer financial interests, educate consumers and take enforcement actions against the perpetrators of financial exploitation.

As some of the witnesses will discuss today, the CFPB is working to ensure consumer protections are in place for prepaid debit user cards and advising companies wanting to enter the FinTech arena.

This is important work. Yet, today on the House floor the Republican majority is trying to gut the CFPB with the CHOICE Act, or what many of us are calling the Wrong Choice Act.

The timing of this hearing is interesting. While some may think FinTech is just another disruptive technology that may or may not help people, members should be mindful of the bigger picture.

Taking the teeth out of the CFPB is not the answer. The CFPB was created to protect consumers from fraud and financial products and it has proven itself truly able to help people.

We should be working together to ensure the CFPB continues its robust mission and I hope all the witnesses and those interested in today=s financial technology hearing join me in supporting the CFPB.

I would like to yield the remaining two minutes to the gentleman from California, Mr. Cardenas.

Mr. Cardenas. Thank you very much, Chairman Latta, and thank you very much, Congressman Pallone, for having this hearing. Good morning, and thank you all so much for being here.

As some of you might know, my colleague, Congressman Kinzinger, and I led a resolution that passed last Congress highlighting some of the goals and responsibilities of the financial technology industry and how the government can support innovation in this space.

It was the first legislation related to financial technology, or FinTech, that has passed either chamber. I am not

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on the Financial Services Committee and I don=t come from a strictly financial services background.

But let me tell you what brings me to be an advocate for smart FinTech innovation. I represent Los Angeles, which has five of the top 100 most unbanked Census tracks in the country.

That means that nearly three out of 10 Los Angeles County residents -- and L.A. County is 10 million people -- are under banked and may rely on short-term lending to pay their bills and stay afloat.

FinTech innovation has the potential to help fix this. The reason I came to Congress is effect change that directly helps our communities, and working on FinTech at the federal level is a great example of very real potential for change at local -- at the local level.

FinTech could potentially give small businesses and consumers an alternative way to bank that doesn=t force them to rely on high-interest short-term loans or other risky money management strategies.

FinTech also has the potential to create hundreds of thousands of U.S. jobs. United States is the world leader in software development and technology, and it is in our best interests to develop a national policy on FinTech.

This national policy must drive innovation, boost economic growth and ensure the protection of every American=s personal information.

Above all, we must make sure this policy helps the people that need it the most, like the people in my district.

Thank you, and I look forward to hearing your testimony and answers to our questions today, and I yield back.

Mr. Latta. Thank you very much. The gentleman yields back and that concludes today=s opening member statements.

The chair would like to remind all members that pursuant to committee rules, all members= opening statements will be made part of the record.

And, again, I want to thank our witnesses today for being with us today to talk about this very important topic and today=s witnesses will each have five minutes for their opening statements.

Our witnesses today are Jeanne Hogarth, who=s the vice president at the Center for Financial Services Innovation; Javier Saade, managing director at Fenway Summer Ventures; Ms. Christina Tetreault, the staff director at Consumers Union; and Peter Van Valkenburgh at the -- research director at Coin Center.

Again, we appreciate you all for being with us today and look forward to your testimony, and Ms. Hogarth, we will start with you for your opening statement.

Thank you very much. If you want to just press that button, please, and pull the mic kind of close to you there. Thank you.

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STATEMENTS OF JEANNE M. HOGARTH, VICE PRESIDENT, CENTER FOR FINANCIAL SERVICES INNOVATION; JAVIER SAADE, MANAGING DIRECTOR, FENWAY SUMMER VENTURES; CHRISTINA TETREAULT, STAFF ATTORNEY, CONSUMERS UNION; PETER VAN VALKENBURGH, DIRECTOR OF RESEARCH, COIN CENTER

STATEMENT OF MS. HOGARTH

Ms. Hogarth. Thank you. Chairman Latta, Ranking Member Schakowsky and committee members, thank you for inviting us here today to share some insights on the potential for financial technology to improve Americans= financial health.

The Center for Financial Services Innovation is a national authority on consumer financial health and we lead a network of financial services innovators committed to building higher quality products and services.

We believe that finance can be a force for good in people=s lives and that meeting consumers= needs responsibly is good for both the consumer and the provider.

Nearly three out of five American households struggle with their financial health. These households are banked but they are not well served.

What people want and need is more automation of good choices combined with control and transparency. Unfortunately, most tools today don=t provide this control and transparency, and FinTech, with better data, better analytics and better advice can ultimately provide that. CFSI is committed to working industry wide with a range of both incumbents and start-ups to encourage and seed innovation.

In 2014, CFSI partnered with JPMorgan Chase to launch our Financial Solutions Lab, which supports the development of technology-based products that improve the financial health of Americans.

The lab identifies challenges facing consumers and hosts an annual competition. As an accelerator program, we provide participants with capital and technical assistance from CFSI, JPMorgan Chase and a diverse community of industry partners and experts.

We work with the lab companies to help them monitor the financial health of their customers as well as that of their own bottom lines.

The first challenge for the lab was to solve for income volatility. Our second challenge was to help families weather financial shocks.

Next week we=ll be announcing our third cohort of financial tech companies who are trying to improve the financial health of consumers with particular emphasis on products on aging

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Americans, individuals with disabilities, people of color and women.

Let me share three examples from our first FinLab cohort. Digit helps consumers automate savings by predicting their cash flow and identifying savings opportunities.

Since launching in 2015, Digit has helped users save over $500 million. The average Digit user saves between $80 and $170 a month, and while it=s difficult to know if Digit users have enough liquid savings to cover an emergency, the use of automatic transfers is on the right path toward building a savings reserve to cope with an unexpected expense.

SupportPay believes that technology should be used to make family life easier. Through an automated child support payment platform, SupportPay is helping parents amicably settle child support and alimony directly with each other.

Today, more than 41,000 people, whether separated, divorced or grandparent custodians are using SupportPay and, as a result, are 90 percent more likely to exchange child support.

SupportPay=s data show that late payment rates have dropped from 33 to 25 percent. Even helps consumers stabilize volatile income by guaranteeing a consistent amount of pay each pay period.

The team recently launched the 3.0 version of the app which pairs cash flow smoothing with an ongoing financial plan, improving consumer engagement and positive financial change.

Even its focus on rolling out its product to thousands of employees of a large employer, which will be announced in the coming months.

Beyond standalone products, it=s important for FinTech providers to partner with banks, credit unions and other financial providers to offer products to a broader set of consumers.

We believe that responsible partnerships provide wins for the credit unions and the banks, the FinTech providers and the consumers, especially for consumers of smaller and rural banks who can expand the array of products they offer.

Consumer protection is still very much needed but policy makers need to identify the right tools to reshape the regulation of financial services to fit innovations in the 21st century. It=s not a question of whether. It=s a question of how.

Importantly, we believe that FinTech can help consumers but it alone is not sufficient enough to ensure financial health for all Americans.

It takes better job structures, living wages, benefits including sick leave and retirement plans and much more.

Again, we appreciate this opportunity to share these insights with the committee and I=m happy to answer any questions.

[The prepared statement of Ms. Hogarth follows:]

**********INSERT 1**********

Mr. Latta. Thank you very much.

Mr. Saade, you are recognized for five minutes.

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STATEMENT OF MR. SAADE

Mr. Saade. Thank you. Good morning.

Chairman Latta, Ranking Member Schakowsky and distinguished members of the committee, thank you very much for the opportunity to participate here today.

My name is Javier Saade and I=m a managing director at Fenway Summer Ventures. Fenway Summer is a venture capital firm that backs young companies innovating at the intersection of finance and technology.

We capitalize fast-growing ventures and serve as a value-added partner to the entrepreneurs that lead them. Since 2013, we have backed over 30 companies and have co-founded three ourselves -- a credit card company, a tech-enabled mortgage lender and a private student lender.

I am honored to be here today and lend a voice to this important dialogueBchanging landscape in financial services. It=s no secret, as all of you have said, that over the last few years the financial services industry has undergone a significant amount of disruption.

Many factors have contributed to this but the most important, in our view, are the global financial crisis and the regulatory response engendered; rapid technological advances; secular shifts in consumer behavior and evolving capital markets= dynamics.

Every sector of the financial services industry had been affected by these changes. FinTech has the potential to transfer the way that financial services are delivered and designed, widen credit and capital access funnels and reduce friction in the process of payments.

In the past few years we have seen a proliferation of digitally enabled financial products. Just as smart phones revolutionized the way in which we interact socially, FinTech is revolutionizing how we interact financially.

In our perpetually connected world, consumers, businesses and financial institutions are finding ways to engage in financial transactions that are more convenient, cost effective, timely and secure.

In addressing the traditionally excluded and underserved sectors of the population, FinTech companies are well positioned to drive innovation. It is estimated that around the world more than 2 billion adults are underserved and unbanked.

In assessing the inclusiveness of the U.S. banking system, the FDIC 2015 survey of unbanked and under banked households found that 30 million households either have no access to financial products or obtain products outside of the banking system.

By reducing loan processing and underwriting costs, all nine origination platforms can enable financial services providers to more cost effectively offer small balance loans to household and small businesses that have been previously feasible. This in turn facilitates credit flow to individuals and firms that otherwise would not have access to credit. New technologies are also opening up efficient ways to manage money and control spending.

We have seen mobile technology and innovations in distribution that enable financial service firms to reach communities that were previously unserved because building a traditional brick and mortar outlet was not economical.

While financial innovation holds significant promise, it is crucial that all stakeholders understand and mitigate associated risks.

There is a tension between aligning pace of development and new products and services being brought to market and the duty to ensure that these risks are addressed.

This is precisely why we at Fenway Summer are focused on finding entrepreneurs who display what our firm=s founder refers to as paradoxical conservatism.

We look for entrepreneurs who have grand ambitions to effect positive change in the financial services industry but who understand that the fail fast and often approach typical of tech-driven start-ups in other sectors may not be well suited to the financial services industry.

Two examples of our companies -- one, EarnUp. It=s a company that offers automated repayment of consumer loans, and FS Card, whose sole product is a credit card targeted towards customers seeking to establish, strengthen or rebuild our credit. EarnUp helps consumers save money and reduce debt by intelligently allocating income towards loan repayments.

Budget in outstanding loans -- EarnUp=s technology integrates with thousands of services of home loans, student loans and auto loans and other asset classes in order to route consumer payments automatically.

FS Card provides access to mainstream and reasonably priced credit to consumers in the 550 to 600 credit score range through their product called the Build Card, which is an unsecured credit card with a typical line of $500. In the absence of a product like this, consumers would likely need to resort to much more expensive alternatives like payday loans.

Thanks for listening and, again, I appreciate the opportunity to be here with you and share my thoughts on this topic and I=m happy to answer any questions you may have.

[The prepared statement of Mr. Saade follows:]

**********INSERT 2**********

Mr. Latta. Well, thank you for your testimony.

Ms. Tetreault, you are recognized for five minutes. Thank you very much.

STATEMENT OF MS. TETREAULT

Ms. Tetreault. Chairman Latta, Ranking Member Schakowsky, committee members, thank you for the opportunity to testify today.

Consumers Union is the policy and mobilization arm of the independent nonprofit organization Consumer Reports. We research and report on financial services issues and engage in advocacy to encourage fair finance.

We appreciate your leadership in investigating FinTech as we believe that it holds promise to increase inclusion and choice without sacrificing safety and security.

FinTech holds this promise to increase financial inclusion by solving some of the problems that consumers report have kept them from using traditional financial services.

Innovative products may provide consumers greater control over their financial lives and be offered at a lower cost and be more convenient than traditional or alternative financial services, leading to greater integration of the unbanked, under banked and unhappily banked.

We encourage service providers to bake in consumer protections as technology often moves at a faster pace than regulation. We also believe that there=s role for lawmakers to ensure that appropriate safeguards are enacted while still being flexible enough to allow for new products to thrive in the marketplace when they provide meaningful value to consumers.

Contrary to complaints by industry that regulation kills innovation, appropriately tailored regulation ultimately benefits businesses.

While financial services regulation is essential for protecting consumers from harm, regulation and supervision of consumer financial services benefits industry by promoting consumer confidence and thereby driving adoption.

Strong and consistent regulation also ensures that businesses that take consumer protections and regulatory compliance seriously are not at a competitive disadvantage to those that do not.

Lawmakers and regulators should not hesitate to hold these new financial services businesses to the highest standards.

Some of the most exciting developments in financial technology are occurring in payments. Cashless payments, faster payments and virtual currencies and the technology behind them may pose additional risks to consumers unless there are clear rules of the road.

Cashless payments are improved by the Consumer Financial Protection Bureau=s final prepaid rule. Our organization documented the unfair discrepancy between the protections afforded bank debit card users and prepaid card users for many years and we are pleased that the final rule no longer relegates prepaid cards to second tier bank account status.

In addition to prepaid cards, the final rule extends protections to mobile wallets that store consumer funds. While this is a positive development, concerns around mobile payments remain.

For example, consumers making peer-to-peer payments may find the complex liability change make it -- complex liability chains make it hard to know who to contact if something goes wrong.

We=ve also found that some providers do not offer a telephone point of contact to resolve issues. We urge stakeholders to address these concerns.

Faster payments are another area where financial technology promises great improvement. A number of providers have announced plans to bring faster, potentially real-time payments to the United States.

Speed may help bring underserved consumers back into formal relationships with financial institutions by reducing or eliminating the unpredictable aspects of traditional banking that drive consumers away such as fees, surprise fees and overdrafts.

There are potentially unresolved questions about the applicable consumer protections and the faster payments environment such as when funds received must be made available to consumers and we urge stakeholders to work together to resolve outstanding issues so that the benefits of faster payments may be realized.

Virtual currencies and the technology behind them hold tremendous potential but also may pose consumer risks. Many states are grappling with the question of whether these businesses should be licensed as money transmitters.

The issue is complicated as this technology has uses beyond financial services. For example, ledgers transactions are recorded on may one day be used to protect intellectual or real property rights.

Regulating those businesses as financial services is inappropriate. Many proponents of virtual currencies have potential to increase financial inclusion. It is precisely because disadvantaged consumers may be the first to experience harm that strong protections must be in place.

At present the most pressing consumer protection concern around virtual currency is not technology specific. It exists because there are businesses built on virtual currency protocols that act as financial intermediaries.

Whenever businesses come between consumers and their value, they must be held accountable. We urge a thoughtful approach to these technologies that ensures consumer value is protected.

We believe that new financial products and services should be subject to appropriate public review and oversight by federal and state financial regulators to ensure that financial services are safe and transparent and we urge providers to do their part by baking in consumer protections at the outset.

Thank you very much for the opportunity to testify here today and I=m available to take questions.

[The prepared statement of Ms. Tetreault follows:]

**********INSERT 3**********

Mr. Latta. Thank you very much for your testimony today.

And Mr. Van Valkenburgh, you are recognized for five minutes. Thank you.

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STATEMENT OF MR. VAN VALKENBURGH

Mr. Van Valkenburgh. Thank you, Mr. Chairman, members of the committee. I=m Peter Van Valkenburgh, the director of research at Coin Center, an independent nonprofit focused on the public policy questions raised by digital currencies and open block chain networks.

I=m going to explain open block chain networks and then suggest why we need a unified federal approach to regulating some businesses in this space while also offering a safe harbor to other businesses.

Open block chain networks allow connected computers to reach a trustworthy agreement over shared data. The connected computers can be owned by anyone in the world.

The shared data could be a ledger of digital currency ownership or any other data for which widespread agreement and auditability are essential.

Notable open block chain networks include the original Bitcoin network for electronic cash as well as follow-on innovations such as Ethereum for smart contracts and Zcash for privacy.

Open block chain networks are permission lists. There=s no patent or copyright to license, no university or corporation from which to seek a job, no exclusive membership fee to pay.

Anyone with a computer or a smart phone and an internet connection can use these technologies and even can help build them. Just as the PC democratized computing and the web democratized news and entertainment, open block chain networks are democratizing financial services.

This innovation is inevitable. What remains undetermined is whether America will remain a home for permissionless innovation, as a venture capitalist might ask, and whether there will be responsible innovation, as a regulator might ask.

Those aspirations are not irreconcilable but they are also not guaranteed. America pioneered home computing and the internet in part because of our deep cultural and constitutional reverence for free speech but also because of two laws passed by Congress in the last 1990s -- the Communications Decency Act and the Digital Millennium Copyright Act.

Both laws created safe harbors for infrastructure-building businesses. They protected companies that were building the new information superhighways from third party liability stemming from the actions of users on those highways. These safe harbors made the U.S. a friendly home for the leaders of the internet revolution. But today we are following, not leading.

A young innovator dreaming of building the future of financial infrastructure would be best advised to leave the U.S. not because she can do it on the cheap in a foreign jurisdiction that will look the other way but simply because instead determining what the U.S. regulatory landscape demands of her is a Herculean undertaking.

Indeed, between 53 states and territories and several independent federal regulators, it=s a task that would be much simpler if she was in the United Kingdom and could ask one regulator, the Financial Conduct Authority, for an opinion.

In order to reestablish the U.S. as a leader we need to rationalize the chaos of financial services regulation starting with state by state money transmission licensing. Custodial businesses should be regulated but they should not need to repeat a licensing process 53 times over.

These businesses are by virtue of the internet interstate in their scope of operations and they should have similarly scoped regulators to avoid costly compliance redundancies and guarantee uniform consumer protection.

Congress should encourage the Office of the Comptroller of the Currency to offer federal FinTech charters to custodial digital currency firms and Congress should also consider the creation of a new federal money transmission license as an alternative to state by state licensing.

We also need a safe harbor. In several states the definition of money transmission is broad and can be interpreted to require that noncustodial developers of the technology be licensed.

It is not reasonable to mandate licensure from a technologist who helps build the networks but is not holding consumer valuables. That=s like trying to stop speeding by requiring costly licensing for highway construction personnel. It doesn=t make sense and it=ll only mean that fewer highways get built.

But amending over broad laws in every state is not a scalable approach. The commerce clause empowers Congress to fix this problem. Much as it did in the 1990s for internet infrastructure, Congress should craft a federal block chain safe harbor for noncustodial developers.

Open block chain networks are the pipes for our future economy. We want this infrastructure built here without unnecessary impediment and with reasonable protections for consumers.

Innovation can be both permissionless and responsible but it will only happen in the U.S. if we take a unified national approach to regulating custodians and create a safe harbor for noncustodial developers.

Thank you.

[The prepared statement of Mr. Van Valkenburgh follows:]

This is a preliminary, unedited transcript. The statements within may be inaccurate, incomplete, or misattributed to the speaker. A link to the final, official transcript will be posted on the Committee's website as soon as it is available.

**********INSERT 4**********

Mr. Latta. Thank you very much for your testimony and that concludes our testimony from our witnesses today, and I will begin the questioning of our witnesses and I will recognize myself for five minutes.

Ms. Hogarth, in your testimony you mentioned some of the less mature aspects of FinTech innovation like insurance products and block chain that have the potential to drastically improve consumers= lives.

What are -- what are some of the emerging technologies that are most exciting to you?

Ms. Hogarth. Thank you, Mr. Chairman.

We see a lot of opportunity for disruption in the insurance arena and in insurance it=s more than just what you think of as, you know, your house insurance, car insurance, health insurance.

As we think about older Americans getting -- and I will count myself in that -- getting ready to approach retirement, thinking about dissaving and helping Americans begin to decapitalize and unsave the 401K and IRA money that they have in their portfolios, finding new ways to create pensions that are going to be lasting outside of perhaps what is traditionally an annuity system.

So the insurance market is certainly ripe for disruption for the consumer products.

Mr. Latta. Thank you.

Mr. Van Valkenburgh, your group has focused on the block chain technologies or the distributed ledger technologies. Will you give us -- give the subcommittee some of the insights into what you think are on the horizon for the industry in the future?

Mr. Van Valkenburgh. Thank you, Mr. Chairman.

These are young technologies and as I said in my opening statement they are fundamental infrastructure. They are pipes.

So many of the consumer-facing apps are still in their infancy and this is why I think we still see fairly little actual consumer adoption from normal Americans.

However, what excites us most about the industry is that this infrastructure is open for others to build applications on top of.

So, for example, a company could build an app that facilitates international remittances. The company designs the user interface so that it=s friendly, it=s useful, it=s compliant with KYC requirements and has consumer protections baked in, as my colleague suggested.

But rather than moving the money between the users via correspondent banking systems, the app uses digital currency to move value between the sender and the recipient.

Now, the value moves faster in that system -- an hour instead of three or more days -- and the fees are potentially lower because there are not multiple correspondent banks in between.

There is two things that are important to point out in that hypothetical. One is that the technology made the application more friendly for the user -- lower fees, a smart phone application that makes sense to them -- but second, that the technology, the open block chain network, made it easier for the business to get started.

It lowered the barriers to entry for competition. Because previously they would have had to establish a banking relationship or multiple banking relationships with correspondent banks and several branch locations.

But now they can simply build their consumer-facing app on top of existing open block chain infrastructure and smart phones.

Mr. Latta. Thank you very much.

Mr. Saade, in your testimony you focused, of course, on the FinTech innovation and in the last year what patterns or trends have you seen for new entrants that are out there?

Mr. Saade. Thanks for the question.

The exciting part about what=s happening in financial services is that it=s all -- it=s a confluence of events that have led to all of this happening almost at the same time.

If you think about -- if you think about what the -- what the iPhone or the smart phone did to basically everything, there was a lot of capabilities to do that because there was no significant institutions that were divergent from a particular technology.

In the case of financial services I agree with my colleague here that there=s a lot of things we are starting to see in insurance technology.

We are starting to see a lot of things in what=s termed legal tech or reg tech, which is at the end of the day regulations are ones and zeroes just like any other bit of information, and there=s ways to comply and better ensure that consumers and small businesses are safe.

So there=s a -- there=s a continuing amount of innovation across the spectrum.

Mr. Latta. Thank you very much.

And my time has expired and I now recognize for five minutes the gentlelady from Illinois, the ranking member of the subcommittee.

Ms. Schakowsky. Thank you so much.

Mr. Chairman, when I first saw the title of today=s hearing I was really glad to see that we agree that there=s room to improve the financial options currently available to consumers and it=s our job then to ensure that the American people have access to financial products that are fairly priced, innovative and not abusive.

But I=m sorry that I=m really distracted or not -- maybe not distracted -- I want to bring into this room the fact that I think that we cannot do those things without the -- an empowered Consumer Financial Protection Bureau and today on the -- on the floor we are going to do a lot to undermine Dodd-Frank.

I wanted to ask -- let me say your name right so I can look at it here -- Mr. Van Valkenburgh, you know, you seem to suggest a kind of new federal regulatory scheme.

You talked about the OCC getting involved. But it seems to me that the CFPB can play a role, too, in entering this arena and future arenas and having that institution in place is really important. What do you think?

Mr. Van Valkenburgh. One role that the CFPB has already played is enforcing unfair and deceptive and potentially abusive acts and practices.

This is a logical way, potentially, to regulate some of the entities in this space because it=s an -- it=s an ex-post regulatory scheme rather than ex-anti.

Our chief bugaboo, if you will, is the fact that companies need to get licensed in several states before operating, not necessarily that there aren=t adequate watchdogs who can -- who can police their behavior once they=re running.

As far as creating a federal hub for regulation, we are agnostic as to which agency takes on that authority. What we primarily want to see is coordination between the agencies because as I -- as I remarked, things are much simpler in more unified governments like in the United Kingdom where there=s one point agency, the Financial Conduct Authority, that does all regulation.

Ms. Schakowsky. Having all different rules across many different states, I get it.

I wanted to ask Ms. Tetreault -- how do I say it?

Ms. Tetreault. Tetreault.

Ms. Schakowsky. Tetreault. Okay. Got it.

I wanted to ask about the CFPB. I know Consumers Union has been an advocate and helped in our deliberations over that by altering the CFPB structure and funding.

How does the Republican bill on the floor today undermine the agency=s ability to do its job of protecting consumers in the space that we are talking about?

Ms. Tetreault. So the CFPB has done amazing work for consumers, returning $12 billion to nearly 29 million Americans who have been wronged.

It also provides an essential channel for getting consumer complaints resolved. They=ve helped hundreds of thousands of consumers who have complained to the CFPB get resolution with the companies who in many instances have ignored their complaints leading up to that time.

There=s an amazing 97 percent resolution rate on the complaints that come through the CFPB.

So it would be a tremendous loss to consumers to have its capacities diminished and particularly as my colleague here to the left said about its UDAAP authority.

So the proposed -- the Financial CHOICE Act would significantly reduce if not entirely eliminate in some instances the ability of the bureau to go after scammers and ripoff artists and that would be a huge loss for consumers.

Ms. Schakowsky. Right, and I wanted to follow up on that. Bad financial actors that take a lot of money preying on seniors, on military members, on low-income population, why would they be disproportionately harmed then by the undermining of the CFPB?

Ms. Tetreault. The Consumer Financial Protection Bureau has speciality agencies within it. There are speciality units within it that focus on particular problem areas where consumers have suffered incredible harm and that includes service members as well as older Americans.

So these communities would really be devastated if the protections and the oversight that the Consumer Financial Protection Bureau offers are reduced, eliminated or otherwise redirected.

Ms. Schakowsky. The CFPB rule also applies to digital wallets such as PayPal, right. So under the rule what requirements would be in place to protect users of digital wallets?

Ms. Tetreault. Sure. So it=s really some pretty basic safeguards -- ensuring transparency and right to recredit and redress if errors or fraud are detected. So it=s really the same safeguards that apply when you swipe a plastic card for debit purchase at point of sale.

Ms. Schakowsky. Let me just say that I see this subcommittee as a place where we should be protecting the CFPB because we are designated to do consumer protection.

Thank you. I yield back.

Mr. Latta. The gentlelady yields back and the chair now recognizes for five minutes the -- you=re on -- the gentleman from Kentucky.

Mr. Guthrie. Thank you very much. I appreciate that very much.

First, Ms. Hogarth, the Financial Solutions Lab has some very interesting stories based on the start-ups you highlighted in your testimony, and I have a couple questions.

One -- and I will ask them both -- how are you working with those companies to create any easier path to commercialization and how many of the companies that you -- that won funding through your application processes are offering products to customers?

Ms. Hogarth. So thank you very much.

We work both with industry incumbents as well as start-ups and we have a network that provides introductions so that there are opportunities not only for partnering where, you know, the entities stay as individual entities but they=re partners -- third party vendors to an incumbent -- but we also provide access through additional venture capital and our network discussions to help them grow and build their business independently.

And one of our companies in our first cohort, Prism, has been acquired by a company called PayNearMe. So there=s a lot of different ways, you know, that you can think about partnering with a financial institution. You know, you can acquire it. You can partner with it. You can also just compete with it.

But I think the reality is is that we really do want to see these ideas grow to scale and eventually the idea of partnerships is really, really important for the companies in our lab.

Mr. Guthrie. Thanks.

Mr. Saade, in your testimony you mentioned that not only does your firm invest in FinTech companies but you also have co-founded three companies. In your experience, what were the biggest hurdles launching your own start-ups and what was your experience working with regulators across the country?

Mr. Saade. Starting a company is a leap of faith no matter what, regardless of having the ability to raise the capital, having an understanding of what the regulatory landscape is.

Entrepreneurs overall, no matter in what industry in this country or around the world, really -- it=s a global ecosystem of entrepreneurs -- need to be supported.

So I think really the biggest hurdle to start the companies we started or for any entrepreneur to start companies is actually having an environment which supports that and there=s no better place I can think of.

There are pockets of -- there are pockets of innovation in which, for example, it was brought up that the FCA is a much easier place and situation to deal with.

But the overall entrepreneurial ecosystem in the United States bar none is the best one -- that there=s a tug of war which policymakers always need to ensure that they=re dealing with and that is that if you=re too easy on the capital formation side the consumers get hurt and if you pull too much on the other side you end up hampering innovation.

So at the end of the day -- that=s a very long answer to say that taking a leap of faith is really what innovation and entrepreneurship is about with a backdrop that supports it.

Mr. Guthrie. Thank you.

And Mr. Van Valkenburgh, Coin Center testified before this committee last Congress when we took a look at digital currency and block chain technology.

What can you tell us about how the landscape has changed for that technology in the last year and we heard a lot about potential applications. Can you tell us about where you see the most promise in the short term?

Mr. Van Valkenburgh. Thank you, Congressman.

I think the biggest change has been the emergence of several new networks based off of the original Bitcoin open block chain technology.

For example, I mentioned in my opening remarks Ethereum, which is a decentralized network for creating smart contracts.

Smart contracts are a fancy word, basically, for more programmatic flows of funds through these networks. With Bitcoin, a transaction normally looks like I paid Mr. Chairman some Bitcoin.

With a smart contract, we could give each of you a device, have that device provision you with a key of sorts, like a password, and quite literally have you vote on the flow of funds through the network.

And unless somebody can penetrate each one of your devices and make you vote against your will, the movement of funds will have fidelity with your opinions when you make that vote.

That is a fantastic innovation. It exists to some extent in Bitcoin under the name multi-sig transactions -- multiple signatures from multiple people who are voting on the movement of funds.

Ethereum makes programming those smart contracts even easier so you can imagine even more complicated decentralized applications being built by supremely bright people on top of those networks.

Additionally, Bitcoin is a very transparent network. It=s not very private because all of the transactions are fully auditable on the block chain.

Another innovation that=s recently emerged is a technology called Zcash built on scientific research that allows for more private but still fully verifiable block chains. That=s also very exciting.

Mr. Guthrie. Thank you. My time has expired. I yield back.

Mr. Latta. Thank you. The gentleman=s time has expired and the chair now recognizes the gentlelady from New York for five minutes.

Ms. Clarke. Thank you, Chairman Latta, and to our ranking member, Jan Schakowsky, to our expert witnesses. Thank you for your testimony here this morning.

As the FinTech industry has grown, a number of our new companies, not just banks, have begun offering financial products such as e-lending and electronic payments.

The Financial Protection -- excuse me, the Consumer Financial Protection Bureau and the Office of the Comptroller of Currency have been active in trying to help these companies understand their regulatory responsibilities.

In December of 2016, OCC proposed creating a special national bank charter for FinTech companies. State regulators and consumer groups including Consumers Union, however, have asked OCC to withdraw the proposal.

Ms. Tetreault, the comments submitted to OCC consumer groups including yours expressed their concern that the proposed charter could preempt critical state consumer protections like caps on interest rates for loans.

Can you expand on those concerns and if OCC does go forward with the new national charter, what are the baseline consumer protections that it needs to contain?

Ms. Tetreault. Thank you.

The OCC=s FinTech charter or special purpose charter unfortunately would abrogate many of the state laws that are really there to protect consumers against predatory loans and so that is the primary concern that the advent of such a charter would create a race to the bottom as businesses south to find the lightest approach to oversight to them.

And so we=ve really expressed strong concern about this proposal, really thinking that state regulators are in a much better position to supervise and examine these banks and also that the protections that states have put in place should be honored to protect their citizens.

So it=s really, you know, a concern about overriding these in many case very strong protections, although the protections vary greatly from state to state.

So to your second question, if there were to be such a special purpose charter extended, it would be the same strong oversight that the states provide. It would include no preemption of these state protections.

It would be extensive examination and then, of course, the safety and soundness of requirements that are so essential to ensuring consumer protection.

Ms. Clarke. Drill down a little bit deeper on that and say how the OCC=s proposed charter differs from existing bank charters and how they would be similar.

Ms. Tetreault. So right now I would actually draw a greater contrast between the way that states supervise financial services, license financial services entities and why that=s the preferable model.

To say that you have some states like California and New York that really have extensive methods for examining the entities that they supervise.

They can really go in there. They can see in a level of detail that perhaps might elude a federal regulator. So we=ve seen instances in the housing crisis -- lead-up to the housing crisis where federally-regulated entities were made aware of problems and they were not -- action wasn=t taken and we know how that resulted in, you know, many millions of foreclosures and a financial crisis that nearly took down the entire economy.

So there are some pretty grave concerns about having the federal oversight that perhaps might not had the attention to detail and then -- and that is I think the biggest contrast between what is done now and what might happen under this.

Ms. Clarke. And do most FinTech companies currently offer their services independently or do they partner with banks or other traditional financial service providers?

Ms. Tetreault. So it=s really a mixed back in that regard. So you have guidance to help banks and financial service companies that are nonbanks partner together and there are pretty extensive rules of the road for ensuring consumer protection in that regard.

You also may see start-ups who seek licensure within the states and you have some pretty successful examples and I will just cite one, which would be PayPal where they=re able to do the work that they do and by pursuing these state licensees.

So it can really be -- you know, there also may be a start-up that happens within a state and that=s the first state that they seek out licensure, and so it=s a mixed bag.

Ms. Clarke. Mr. Chairman, I yield back.

Mr. Latta. Thank you very much. The gentlelady yields back.

And the chair now recognizes the gentleman from West Virginia for five minutes.

Mr. McKinley. Thank you, Mr. Chairman.

One way that consumers access FinTech is through their smart phone and for many individuals in rural areas it=s not a very reliable service.

In West Virginia, the mountainous terrain is -- limits that ability for people to have access. So I=m curious as to how FinTech companies are addressing the needs of rural community -- rural areas as compared to those in more urban settings.

Is there something that you=re focussing on that you would recommend we look towards for addressing rural areas as compared to the urban centers?

Don=t all speak at once.

Ms. Hogarth. So I will take a stab at that.

Mr. McKinley. Thank you.

Ms. Hogarth. I mean, I said that, you know, FinTech is necessary but not sufficient and there are a set of infrastructure issues that clearly need to be addressed, not just in the mountainous regions but in any rural area.

And we should also add even in urban areas, you know, wifi is not necessarily ubiquitous or cost-free. And so for many low-income households accessing data plans is a really tough pull on their budgets.

So in addition to sort of thinking through some of the issues that you heard today this is really a whole cloth because you=re exactly right.

There needs to be some sort of infrastructure program in place to be able to provide access to reliable high-quality broadband services whether that is a wired line, a fiber optic line or a wifi.

Mr. McKinley. Thank you.

Because I think far too often in this country we focus on our urban centers and our rural communities across this country are shortchanged on access and other opportunities whether it=s health care, growth, water, sewer.

I could go on with it. So I=m hoping that through these services how helpful these can be with our smart phone. We are still limiting a certain number of people.

Mr. Saade, in your testimony you mentioned that -- how many Americans are underserved by existing products and services to help them with their finances. But there=s also been a discussion about the attention between bringing new innovations to market quickly and making sure consumers are protected because this is their financial health.

So how has your firm attempted to address this tension and make sure that the consumers are getting safe, secure and innovative products?

Mr. Saade. So one comment on your previous question. I sense that the digital divide actually knows no -- the issues you=re facing in West Virginia are not dissimilar to what you see in the South Bronx.

Even though it=s heavily populated -- heavily populated areas, the digital divide actually affects underserved communities in different ways.

So there=s some threads across what you=re seeing in the mountains of West Virginia with what you see in the canyons across the East River.

When we look at businesses to invest in, we don=t believe that regulatory arbitrage is a business model and in fact a couple of the principals, myself included, actually served in the federal government in the executive branch as actual regulators.

So we are very cognizant of the fact that innovation has to be done responsibly and a lot of innovation that we see there=s a -- there=s almost like a natural self-selection of people that approach us or we approach because they=re doing -- they=re doing innovative things in a way that doesn=t harm consumers.

So we are -- I don=t think there=s a -- it=s a binary choice. I think you can actually accomplish -- you can accomplish all of it. It=s just a tug of war. It depends on where -- where in the spectrum you want to fall. But innovation can be done very responsibly.

Mr. McKinley. Thank you. I yield back.

Mr. Latta. Thank you. The gentleman yields back the balance of his time.

The chair now recognizes the gentleman from Texas for five minutes.

Mr. Green. Thank you, Mr. Chairman and Ranking Member, for having the hearing today and as well for our witnesses to take the time to testify.

FinTech has the potential to help not only entrepreneurs and investors but those who need financial help in their daily lives the most. Often the people with the least time and with the most things to juggle on day to day basis are those who come from less financially literate backgrounds.

The help that FinTech can provide to the working class is especially important. Apps with the potential to help people pay their bills, improve their credit, provide guidance on how to distribute limited resources across many needs represent a welcome development, for one, from which Congress must work to provide the necessary regulatory framework.

However, the testimonies of the distinguished witnesses also highlight the importance of consumer protections. Despite the potential benefits as consumers= financial data becomes available to an increasing number of service providers, consumers become more vulnerable to the theft and abuse of that data. They must have somewhere to turn in case that happens.

I look forward to discussing on how the balance to the risks and rewards that FinTech can offer with witnesses.

Ms. Tetreault, in your testimony you underline the importance of consumer protections when it comes to FinTechs and you lay out consumer safety guidelines which several types of FinTech service providers should adhere.

With the CHOICE Act on the floor this week, what impact if any do you see this having on the ability of the Consumer Finance Bureau to implement and enforce these guidelines?

Ms. Tetreault. Sure. So I think if the CHOICE Act passes it would be -- Financial CHOICE Act passes it would be devastating for consumers for a variety of reasons, specifically related to consumer harms.

It gets rid of the monitoring function of the bureau and the market monitoring allows the CFPB staff to get a good insight into what=s happening within various segments within financial services and meet with those industry leaders and service providers and also to monitor consumer complaints and concerns long before they become system issues or widespread problems for consumers.

So that would disappear. You=d have the loss of the public-facing database, consumer conflate database that allows not only researchers but everyday people to go ahead and look and see where the issues are with particular service providers around particular products.

It=s searchable in many dimensions. There would be a loss, presumably, of the specialty offices within the bureau or at least those are made optional so you potentially lose Project Catalyst, which is an initiative from the bureau to take a look at innovation.

With that you lose the convening that the bureau does for financial technology companies and providers. You lose the opportunity for a no-action letter which is --

Mr. Green. I=m almost -- I only get five minutes. Let me -- we=ve heard today about FinTech=s potential for offering financial service for the unbanked and under banked populations, which tend to be lower income.

But research shows that the majority of the people that are actually using FinTech products are wealthier customers. What needs to be done so that the unbanked and under banked populations can also have full access to FinTech potential benefits and are there obstacles preventing these populations from using these traditional financial services because of the lack of access to these new financial products?

Ms. Tetreault. So access to broadband is definitely an issue and one that=s been discussed here because so many of these innovative products and services are reliant on a secure, sound, continuous internet connection. That, I would say, is a very strong hurdle.

I think the other is one of the things that we=ve seen a lot is consumer concerns. So, you know, the stories that we hear back when we ask people, for example, why aren=t you using mobile payments is they say, I=m worried about safety and security.

And while the evidence may indicate that these services are quite safe, the consumer perception potentially was there because of these gaps that existed, for example, before the CFPB=s final prepaid rule.

So, you know, there is I think any number of things that stand in the way of consumers engaging with these services and concerns that can be addressed by appropriate safeguards.

Mr. Green. I am almost out of my time. Last month, Energy and Commerce Democrats introduced the Lift America Act, a 21st century infrastructure package that includes $40 billion to expand access to broadband internet not only in rural areas but also in the urban areas like I represent.

Thank you for your time, Mr. Chairman.

Mr. Latta. Thank you. The gentleman yields back.

And the chair now recognizes the gentleman from Indiana for five minutes.

Mr. Bucshon. Thank you, Mr. Chairman.

A question for anybody really. I mean, technology is great. My older kids use Venmo. They don=t have any cash, right. But so we know that people are under banked and unbanked now. What makes us optimistic that adding technology to that will substantially change that situation?

Just a hypothetical because a lot of people -- there=s reasons why people don=t have a bank or they=re -- or they=re under banked now and it could be access to a local -- you know, to a bank standing on the corner. But there=s other more complicated reasons why. And so when you add actually the -- I=m just playing a little devil=s advocate here -- you add the technology on board what makes us think that that will help? Be curious to -- anyone.

Ms. Tetreault. I will just -- thank you -- I will address that very briefly around faster payments. I will use faster payments as an example as that=s an area where the technology needs to move into -- it will need to move forward to bring us to real-time payment, and there are proposals out there.

And how I can see that bringing in underserved consumers is that it allows for real-time information for better money management and then there are potential aspects of the -- of the technology that would ensure that there wouldn=t be an opportunity for things like surprise fees or overdrafts for the way that the payments actually work.

So I see that. We know for a fact from consumers, due to extensive research, that it is surprise fees and overdrafts that often drive consumers out of the mainstream banking system and forces them to use, you know, more expensive products or rely on cash.

So I see this -- I see that particular area as a tremendous opportunity.

Mr. Bucshon. Okay. Yes.

Ms. Hogarth. And I would add in addition to the faster payments piece that the ability of financial technology to give consumers a 360-degree picture of their finances is really, really important because a lot of times you=re operating in one-off decisions when you don=t really understand the interaction of the decision X with decision Y and financial technology and many of the apps now are really trying to help consumers get that fuller picture of their financial lives.

Mr. Bucshon. Okay.

Mr. Saade. I was going to say that just one example that happens to be a relevant one here is that the biggest generation of Americans -- 76 million or something of them -- typically would rather not step foot in any one of the 100,000 or so, give or take, bank branches in the United States.

So even though there=s sort of a dark side of technology kind of making you anonymous, as we have seen in other industries --

Mr. Bucshon. Oh, yes.

Mr. Saade. -- in the media recently, that sort of faceless ability enables you to access things with a lot less friction and the lack of friction leads to lower cost. So I think the question is not what but how.

It=s a very good question you ask but the -- and if you look at it from a business perspective, 2 billion people are not getting banked around the world. That is a huge business opportunity.

So there=s a lot of people thinking about this exact issue, not just venture capitalists or the people here but people across the spectrum.

Mr. Bucshon. Okay.

Mr. Van Valkenburgh. The only thing I would add is that the user interface matters a great deal with technology. Google was actually the fifteenth search engine thereabouts.

There were several that tried to make the web accessible to people and help them find the information they wanted but simply didn=t make it intuitive. It just didn=t make sense to people when they tried to use it. Rapidly prototyping and the ability of new people to come in with a fresh idea of how to get people excited about their financial futures is very important and to the extent that open block chain networks create infrastructure that they can build on top of minimizing the costs of trying something new I think will see much more rapid consumer adoption of these new tools because they=ll suddenly make sense when they=re finally built by the right people had the right vision.

Mr. Bucshon. Yes. My concern is that what do you -- what do you think will happen to more traditional ways that people access the banking system?

Because as you know already technology is such where -- say, from example, my parents, you know, who have gone to a bank for years and years. What happens when there=s no longer a bank on the corner? So I think we need to think about that question also and I know -- and I=m all for technology.

I think it=s great. But we need to be -- to your point, we need to make sure that the services that are available are intuitive, are easily accessible not only to my sons who are in their 20s but to my in-laws and my parents who are in their 80s if we are going to backtrack a little bit on more traditional type service availability.

Thank you. I yield back.

Mr. Latta. Thank you. The gentleman yields back.

And the gentleman from California is recognized for five minutes.

Mr. Cardenas. Thank you, Mr. Chairman.

Once again, I appreciate the opportunity for us to have this hearing. This question goes out to any of the individuals who want to chime in and answer.

Could you give some examples of how often is a bank account needed to participate in these technologies and count as a traditional bank account?

Mr. Van Valkenburgh. Especially in the digital currency and open block chain space, despite the fact that the technology I described in some ways supplants the correspondent banking system, there will still be a need to onramp people into these new digital currency networks.

So it will be very common for the company to have banking relationships that they process payments for and it will be necessary for the user to have a bank account that they can connect in order to exchange their dollars for digital currency.

Unfortunately, many of the companies that are working in this very exciting space have had trouble getting and maintaining banking relationships because they=re seen as a money-laundering risk.

That is despite the fact that all of the companies operating in the U.S.=s exchanges are fully registered and compliant with anti-money laundering requirements from FinCEN.

I think there is a bit of a cultural problem here where perhaps the examiners look at this as a fringe technology that should simply be ignored and banks take a derisking approach.

I think that approach may be misguided because we want these companies in the regulatory system because if these technologies exist outside of the regulatory system we=ll simply have less information about what people are doing with them and will not allow them to flourish as hubs for innovation in these services.

Mr. Cardenas. Okay. Well, Mr. Van Valkenburgh, how do you open block chain networks? How does open block chain networks encourage financial inclusion and diversity in the financial marketplace?

Mr. Van Valkenburgh. So the primary mechanism, I think, is allowing for the rapid prototyping of new tools that can be intuitive for users and meet their goals.

So transactions can be faster when their back end is running through an open block chain network. It can be cheaper for the customer and it can also be cheaper for the business to try new approaches.

So I think in that competition you find more likely there will be an emergence of apps and services that speak to underserved communities, make them want to use those technologies and make it easier for them to use those technologies safely.

Mr. Cardenas. Okay. Thank you.

Ms. Tetreault, are there occurrences of deceptive practices in the financial industry that consumers should be aware of and if there are what can -- what role can Congress play in helping to alleviate that issue?

Ms. Tetreault. There are many abusive practices. Fortunately, we=ve seen a tremendous enforcement of consumer financial protection laws by the Consumer Financial Protection Bureau. So that=s where you have these 29 million Americans getting back $12 billion in relief.

In terms of existing problems, they -- having a strong cop on the beat is really essential to ensuring the consumers are protected and we are very eager to see the strength and integrity of the Consumer Financial Protection Bureau ensured by keeping a strong leadership structure, no attacks on funding and maintaining its singular focus on consumer financial protection as opposed to dissipating and across a number of federal regulators.

Mr. Cardenas. So having a cop on the beat is a good thing?

Ms. Tetreault. Absolutely, and I think, you know, you can see every day it seems that there=s another example of a financial institution or financial service provider behaving badly and to see them held to account not only holds that business to account but it sets an example so that other services providers know that they need to mind their p=s and q=s.

So it=s incredibly important to consumers to have this cop on the beat, or as we like to refer to it, consumer watchdog so that folks, you know, are protected and make sure that there are protections in -- not only protections in place because of the rulemaking authority but also people watching out to ensure that there is -- there are safe financial service products available.

Mr. Cardenas. I mentioned earlier in my opening statement about the opportunity or idea that perhaps this technology -- this opportunity could give unbanked individuals and households an opportunity to get involved in access to capital and financial stability.

What does this technology bring to bear when it comes to underwriting and giving someone an opportunity to get access to capital versus the old brick and mortar, you know, old-fashioned underwriting methods?

Ms. Tetreault. So the one thing I would say that we do see a lot of attempts to -- from service providers to quantify the creditworthiness of consumers. I would just raise two quick concerns.

In many instances there=s a lack of transparency and then there=s the concerns around the way that data is collected and used and would urge service providers to be considerably more transparent in the way that they quantify consumers.

Mr. Cardenas. Thank you. Yield back.

Mr. Latta. Thank you. The -- I=m sorry -- the gentleman=s time has expired and the chair now recognizes for five minutes the gentleman from Illinois.

Mr. Kinzinger. Thank you, Mr. Chairman. Thank you all for being here today. This is a very important hearing. This committee having jurisdiction over consumer affairs, I=m very pleased that we are continuing to shed light on the importance of financial technology and the benefits it can provide.

FinTech is improving the speed, convenience, efficiency and accessibility of financial information for consumers. At last Congress I introduced a resolution with Congressman Cardenas highlighting the potential positive impact technology can have on a consumer=s financial health and expressing the sense of Congress that there should be a single national strategy to ensure the development of FinTech.

In many cases we see out here technology always leads Congress and government and we basically kind of wake up and see what=s happening and then have to figure out a strategy to deal with it.

So some of you have already answered to an extent this question but I just want to ask it of all of you and I will start with Mr. Van Valkenburgh because he has the coolest last name on the committee or on the -- on the panel. No offense to the rest of you.

But what are the issues and trends that we in Congress need to watch for to ensure that consumers benefit from innovation in a responsible and a secure way?

Because it sounds like developing the regulatory framework can obviously be a huge challenge. But this access to the financial account is very serious and should be treated as such. So I=d appreciate all your thoughts. I will start with you, sir.

Mr. Van Valkenburgh. So I think the key -- the key distinction to be made is between technologists who are building these technologies and holding other people=s value, playing that custodial role, and technologists who are simply building the future infrastructure, really -- the pipes for the future economy.

Making that distinction is key because I think you=re absolutely right that we need a unified approach to regulating those custodians to make sure consumers are protected and we very much appreciate your and Congressman Cardenas= resolution emphasizing that point.

But it=s also very important that people who are building the fundamental infrastructure are not swept up in a burdensome regulatory regime that isn=t aimed at the risks they create because they don=t take custody, because they don=t actually hold other people=s valuables.

Mr. Kinzinger. That=s interesting. Okay.

Ms. Tetreault. I would say first the importance of strong rules of the road as exhibited with the Consumer Financial Protection Bureau=s final prepaid rules.

So having that extend to digital wallets that hold funds I think is a great example of how regulations can be in place at the federal level.

And then to the question about any sort of streamlined oversight is so long as the state consumer financial protection rules are not preempted, you know, there=s opportunity there.

Mr. Saade. Yes, we=ve been, obviously, very focused on lending and kind of the debt side of the balance sheet. But just to highlight that, there=s a whole other side of the balance sheet which is equity and the SEC, for example -- I=m just going to answer it this way -- tried a lot of really interesting things to allow for common citizens to participate in let=s call them high-value potential investments and for otherwise companies raising capital or projects raising capital or people raising capital -- not loans but actual capital -- is Title 3 of the Jobs Act and they worked pretty diligently to get it -- to get it done but what it -- what it highlighted was that as they were going through that all of the states= regulatory entities for securities were doing their own fixes and they were doing them only with the hope that the SEC would then work with the preemption.

So I think that the jobs all of you have is very difficult. But if you put things into the perspective -- into the perspective of what benefits -- what benefits consumers respond to you end up in a place that actually is solutions that could work.

Mr. Kinzinger. Thank you.

Ms. Hogarth, I=m going to actually -- I have another question for you and since time is limited I will just ask that.

You discussed seeing competition in the FinTech space around savings products and financial health for employees where there=s been little innovation in the past.

Can you talk a little further about what changed in that environment that spurred innovation and competition?

Ms. Hogarth. Thank you.

Breaking into the employer channel is very, very difficult and one of the things that we have found that is very, very helpful is to just do proof of concepts and pilots.

And by having somebody be bold, to go first and to try out something gives other people confidence that they too can do it.

This actually gets to my answer to your original question, which is thinking about how bright lines used to work when we had a nice segmented marketplace, but there is significant blurring of lines right now.

And thinking about in terms of trends, how we regulate in the 21st century not so much with specific rules but perhaps with principles and guidelines. For example, thinking about consumer outcomes as the metric of success, not whether or not your disclosure is in 18 point font.

Mr. Kinzinger. Very good. Very interesting.

Well, I thank all of you for your participation. Well, I thank all of you for your participation. I will yield back my negative 37 seconds, Mr. Chairman.

Mr. Latta. The gentleman yields back.

And the chair now recognizes the gentleman from New Jersey for five minutes.

Mr. Lance. Thank you very much, Mr. Chairman.

My district in New Jersey has a lot of constituents who work in the financial services industry either in New Jersey or in New York itself.

Are the innovations in FinTech being driven predominantly by start-ups or by the more traditional banking institutions and are there partnerships between the two -- between start-ups and more traditional banking institutions and I defer to all members of the panel.

Mr. Van Valkenburgh. Some very fruitful partnerships have emerged even in the open block chain space. I think in the early days many people believed Bitcoin was just a strange internet phenomenon. But that has radically changed as block chains become a popular almost buzzword in Wall Street and elsewhere.

One particularly exciting partnership to highlight is the partnership between Ethereum, Zcash and innovators at JPMorgan to build a block chain that will be flexible for smart contracts like Ethereum=s open block chain network that will have some privacy elements taken from the Zcash network and that will serve potentially heavyweight enterprise type clients.

Mr. Lance. Thank you. Others on the panel, would you like to comment? Yes.

Ms. Hogarth. So, obviously, JPMorgan Chase is clearly involved in trying to stimulate innovation not only outside of the bank but certainly within it as well and there are a number of other incumbent banks who have their own innovators hubs.

And I think there are a number of other entities like CFSI who are trying to stimulate in the start-up community. So I think it is a both end, Congressman.

Mr. Lance. And are these more traditional forms of banking the coordination -- are they the American banks or is this also true of banks in other parts of the world?

Ms. Hogarth. Well, certainly, we=ve seen a lot of innovation across the globe. I think we need to look to our colleagues in Australia, Singapore, Hong Kong, beyond the U.K.

The U.K. is always getting lifted up as the -- as the prototype here. But there are a lot of really great innovations coming out.

But I would agree with Mr. Saade that the U.S. is, you know, bar none the leader in this arena.

Mr. Lance. I, obviously, have a bias toward New York as opposed to London or Shanghai or Singapore. Is there something that we should be doing here in Congress to make sure that we are preeminent in FinTech?

Mr. Van Valkenburgh. I would say, quickly, that for noncustodial developers of these technologies -- these open block chain networks -- the state by state money transmission framework is a bit of a maze to navigate.

They are really not money transmitters. They build pipes. They don=t push the water through the pipes. But they=ll have to get an opinion from 53 different states and territories from the regulator in that jurisdiction that says that they=re safe and they won=t be on the hook for unlicensed money transmission, which carries a $5,000 -- well, no, five years in jail and potentially multi-thousand-dollar fines.

So those are very real liabilities and I think they frighten people away to some extent from building their infrastructure here in the U.S.

Mr. Lance. This is always a challenge regarding our dual sovereignty. What would you recommend that we do? Because we do have dual sovereignty in this country.

Mr. Van Valkenburgh. Yes, and I think the states have a valuable role to play as far as licensing custodian -- custodians of other people=s digital currency.

However, I think we do need a federal safe harbor that would basically clarify the legal landscape across all the states saying that noncustodial businesses should not need to be licensed.

Mr. Lance. Are there others on the panel who have an opinion on that? Yes.

Mr. Saade. I=m going to take a little bit of a different angle and that is something that the federal government has done for decades is invest in extremely basic seed money and basic R&D science and development, which at the end of the day, after Defense uses the technology or whatever the technology is being used for, the private sector comes in and innovates on top of that.

So one thing I think that, irrespective of are you developing clean energy technology or a cybersecurity thing that could be applied here or anywhere else to protect our borders, that=s something the federal government can do and is the only entity that can do it -- spend significant money looking into the future.

Mr. Lance. Thank you. This is a very interesting and important topic and I hope that the Commerce Committee takes the lead on this issue as we have taken the lead in so many areas and it=s a very distinguished panel.

Thank you, Mr. Chairman.

Mr. Latta. Thank you very much. The gentleman yields back the balance of his time.

And at this time, the chair recognizes the gentleman from Mississippi, the vice chairman of the subcommittee.

Mr. Harper. Thank you, Mr. Chairman, and thanks to each of you for being here.

Ms. Hogarth, I will start with you, please. The number of companies applying to be a part of the Financial Solutions Lab is remarkable -- 358 for this upcoming group of companies.

In your testimony you mentioned three key trends from that applicant pool, one of them being companies focused on products subject to complex regulatory oversight. Understanding that the finalists have not been announced yet, can you give us some examples of what sorts of services might fall in this category?

Ms. Hogarth. Sure. You know, just as consumers= lives are not sort of unidimensional, the products that our lab companies develop are cut across traditional financial services products.

They=re not just a transaction card. They=re not just a credit card. They=re not just a savings product. They feature some of those multiple features.

We -- in our last cohort we had a company that worked with freelance workers. We had a company that was in a loan servicing arena and we had a very interesting company called Remedy that looks at medical bills and errors on medical bills and how do you structure the -- how do you help consumers understand what=s in their bill and protest any duplicative charges, things like that.

That company actually saved their customers about a thousand dollars a year in mis-billing on medical products. That=s not a bank account. That=s not a stock or a bond or a mutual fund.

It=s not an insurance product. And so there are these kinds of really complex kinds of financial issues that consumers face where it doesn=t fit neatly into a regulatory box.

Mr. Harper. Okay. Thank you.

Mr. Valkenburgh, you know, we understand that innovations in the financial industry have incredible potential to offer great benefits to consumers and we are also mindful of consumer protections and, of course, privacy concerns.

Can you speak to the role the FTC can play to ensure the latter?

Mr. Van Valkenburgh. I=m sorry, Congressman. That was the FTC?

Mr. Harper. Yes.

Mr. Van Valkenburgh. The FTC plays a valuable role enforcing unfair and deceptive acts and practices somewhat mirrored by the CFPB=s authority there.

However, I think they play a valuable with respect to these open block chain networks in that many of the applications that people build on these networks will not be custodial and, as I suggested, should not therefore be regulated as money transmitters.

You might then ask okay, well, who=s going to check their code as a regulator, make sure that the app does what it says even if the money is not being held by the app designers.

Unfair and deceptive acts and practices have a long track record in making sure that people build their tech right on the internet for nonfinancial website and I think the FTC can continue to play that role with respect to these new open block chain networks.

Mr. Harper. You know, in your testimony you also talked about digital assets outside of digital currencies, of course. Can you help us understand exactly what those digital assets could be and help -- you know, help me visualize what the future looks like if this technology can develop.

Mr. Van Valkenburgh. Absolutely. So you can think of these things as bearer instruments and the bearer instrument we are most familiar with is, of course, cash. It=s a way of doing peer to peer money transfer.

But there are other bearer instruments in our real world. There=s tokens for a fairground. There=s tickets for a concert. There=s vouchers for certain goods and services that won=t be used for other goods and services.

One particularly exciting network that=s being developed is called the Interplanetary File System, which I=m really glad I get to say here in the subcommittee.

That is a decentralized cloud storage network that would allow people to just use the internet to store files without contracting with one or another company like Amazon or Dropbox.

The way that the files would be stored would be encrypted for privacy and then they=d be verifiably stored at different places by people running computers who are rewarded for providing that storage with a voucher, Filecoin, that can only be spent on buying storage.

Mr. Harper. I mean, it=s incredible to comprehend and I=m so glad you got to use that phrase, too. That=s very good.

I see my time is almost up so with that I will yield back.

Mr. Van Valkenburgh. Thank you, Congressman.

Mr. Latta. Thank you. The gentleman yields back the balance of his time and the chair now recognizes the gentleman from Florida for five minutes.

Mr. Bilirakis. Thank you. Thank you, Mr. Chairman. I appreciate it very much and I want to thank the panel for their testimony today.

I will start with Ms. Hogarth. Maybe I mispronounced that. I apologize. Hogarth.

In your testimony you talk about the Financial Solutions Lab which helps start-ups focused on improving consumers= financial health and outline a few companies.

One of those companies, Digit, uses an algorithm to help people automatically save money without having to move the money themselves. Would you tell us -- again, tell us more about how they made it to your program and what their experiences have been so far.

Ms. Hogarth. So they made it to our program by -- we have -- once you apply to our program there is a series of evaluations that we do. A number of, you know, like, sort of is this really helpful to consumers. CFSI bases a lot of our work on our compass principles, which are to build inclusion, build trust, promote success and create opportunity.

And so we always ask people ourselves how much does this company help with inclusiveness, trust, opportunity and success.

We do financial due diligence so we look at the business model of the company and we also do sort of a -- what I will call a gut check in is this actually going to improve the financial health of U.S. households.

Mr. Saade=s company has helped us in the past in reviewing so we are not just looking at these ourselves. We have a number of outside and expert reviewers including consumer advocacy organizations.

The company Digit has grown substantially over time. Most of the companies in our cohort, our labs, have grown. As a matter of fact, they now reach a total of about 10 million U.S. households, which is 10 times what they were when they joined the program in the beginning.

So it is really, I think, on the whole the companies find it a very positive experience.

Mr. Bilirakis. Okay. Thank you very much.

This question is for the panel. We=ll start with you, Ms. Hogarth, if you wish. Many individuals own and run small businesses. These businesses powerB-they are a major part of the economy -- obviously, jobs, financial well-being. How is FinTech and the innovation you are seeing in this space going to help small businesses find capital, reduce paperwork or filing costs or any other examples you can share? We=ll start of with you, please.

Ms. Hogarth. Sure. Well, I think that one of the things you=ve seen in the market over the last several years is new business models.

The marketplace lenders and other kinds of opportunities for small businesses to get access to capital is really, really important and when we are talking about access to capital you have to remember that financial institutions -- the incumbent financial institutions often don=t want to make that $25,000 loan.

They want to make the $250,000 loan or the $250 million loan. So having an opportunity to serve the market that the really small business guy needs -- the food truck guy, the guy that just needs a pizza oven or a dentist chair -- those become really, really important.

Mr. Bilirakis. That=s good. Anyone else, please?

Mr. Saade. Yes. I would say that 30 million or so U.S. small businesses, half of them, when you=re looking to give them credit, it=s actually a person credit.

So at the end of the day, a lot of these small businesses actually are basically personal guarantees and all this stuff.

So that=s one thing is that helping consumers access credit means that they can start these micropreneurial businesses.

The other thing is the, like she was saying, has to do with the size. Typically, because pools of capital have become so big, especially banks and things of that nature, they don=t get out of bed for anything less than some big number.

So there=s a huge swath of underserved small businesses not for any macabre reason other than it doesn=t make any business sense. So a lot of these innovations actually label you to scale the ability to deliver capital to these tiny pipsqueak companies which, as you said, are the beating heart of our economy. So it=s -- it=s critical to small businesses.

Mr. Bilirakis. Very good. Would you like to add something?

Ms. Tetreault. If I may, I just would want to emphasize that micropreneur is another thing that can be incredibly important is receipt of payment and that faster payments can really enable receipt of those funds so long as banks are held to make those funds available to consumers upon receipt. The gap needs to be closed.

Mr. Bilirakis. Very good. Thank you.

Mr. Van Valkenburgh. I would simply echo the rest of the panel saying that the reduction in costs of provision of these services and potentially the reduction in costs of having a robust in order to discover creditworthiness are things that open block chain networks can deliver on by streamlining the pipes in between, you know, persons, small businesses, big companies and making trust and verifiability easier between those parties.

Mr. Bilirakis. Very good. My time has expired, Mr. Chairman. I yield back. Thank you.

Mr. Costello. Gentleman yields back. I will recognize myself for five minutes.

Mr. Van Valkenburgh, I have a block chain company in my district in Berwyn, Pennsylvania -- AlphaPoint -- who prior to this hearing echoed much of the details that you shared today. In fact, they=re doubling the size of their team and they expect that trend to continue.

Preliminarily, I=m curious. When we talk about block chain technology and job creation and GDP growth, is block chain technology creating new jobs or displacing old jobs?

Mr. Van Valkenburgh. I think that=s an excellent question. I come from a legal background and when the term smart contracts started floating around, everyone started suggesting that well, we=ll be able to get rid of the lawyers -- that=s great.

I think the reality is that=s simply either too optimistic or foolhardy. Really, what you end up seeing is retraining.

A lawyer, for example, in this space should now learn how to code. They should learn how to write a contract that is not only embodied in legal terms in written language but also potentially embodied in computer code that runs on top of a decentralized network.

So I don=t think this leads to substantial job losses. I think it does lead to challenges with retraining and I think education and efforts to make sure that people are aware of how things are changing are important to that end.

Mr. Costello. I discerned a little bit of disagreement on the panel on the issue of FinTech charters and so I first wanted to ask you this question and then open it up to those who agree, disagree or maybe have a slightly different take.

You used an interesting phraseBissue of permissionless innovation versus responsible regulation. I think that=s what you characterized it as, and I get what you=re getting at because I think there=s always that tension when we talk about innovation between making sure that regulatory barriers don=t get in the way.

At the same point in time, you don=t want innovation to sort of take advantage of an outdated set of rules or laws that creates victims and I think that that=s what we are really focussing on when you talk about FinTech charters and this issue writ large.

The question that I have for you on FinTech charters is why do you think that they=re needed versus why could it not just be being a little bit additive to the existing regulatory or legal framework which already exists?

Mr. Van Valkenburgh. So under existing --

Mr. Costello. It=s a little thing and it=s kind of a big step I would -- I would --

Mr. Van Valkenburgh. Yes. Thank you, Congressman.

I think under existing regulatory structures in general if you want a unified federal regulator you=re going to need to be what we traditionally consider a bank.

You=re going to need to take deposits, make loans and maybe do check paying or payments. If you don=t want to do deposit taking and maybe if you don=t even want to do loans -- you just want to do payments -- you have no choice for a unified federal regulator. You will have to go state by state and get money transmission licensing.

Now, that is a severe barrier to innovation from a permissionless innovation standpoint because you=re going to have to have 53 conversations across the states and territories and explain, well, in many cases what Bitcoin is and that is a difficult conversation to have with a state regulator.

Mr. Costello. Right.

Mr. Van Valkenburgh. Now, they may be on board with what you=re proposing long-term but it=s a lot of legwork. Now, the alternative would be can I get one federal regulator and I think the OCC=s FinTech charter presents an opportunity for that because they=ve suggested that they=re willing to charter banks or, you know, federal banks who do not do deposit taking -- who only do payments or only do lending.

I would add that the controversial nature of the charter with respect to some consumer groups I think often focuses on aggregation or preemption of state limits on interest rates. This is not an issue that we take a position on.

At Coin Center, we are primarily concerned with payments companies getting federal charters, not lenders.

Mr. Costello. And I don=t see what -- I mean, you can have preemption but it doesn=t mean everything is preempted.

Mr. Van Valkenburgh. Precisely.

Mr. Costello. So that would -- I tend to see the argument your way there. Others?

Ms. Tetreault. I would emphasize that it is the preemption of those lending caps that raises a particular concern and then there also is a question about whether or not there will be enough oversight in particularly examination and supervision.

And then there are the concerns around, obviously, the safety and soundness requirements. I think also one other piece of it is when it comes to information sharing that there are tools available at the state level that may not exist presently at the federal level. So that would need to be addressed as well.

Mr. Costello. But safety, soundness, oversight -- could you make the argument, though, that given the sophistication of this that that might be done better at the federal level but you wouldn=t preempt issues such as interest rates, et cetera?

Because I understand state banking law, state banking law, but on some of this stuff it just strikes me that preemption might be the way to not have innovation be hampered by state patchwork.

Ms. Tetreault. I understand around the duplicative efforts and the concerns there and, again, that could be something that is more streamlined with a national licensing systems.

I would not rule that out provided that there are those essential safeguards in place and no preemption of those lending caps in particular.

Mr. Costello. Anyone else?

Ms. Hogarth. I would just like to point out that I have a driver=s license from the state of Virginia and it lets me drive anywhere across the United States.

And I recently drove in South Africa on the left. So go figure. But I still have to obey the state speed limits and I think there=s an interesting analogy there.

Mr. Costello. Thank you.

Seeing there are no further members wishing to ask questions for the panel, I would like to thank all of our witnesses again for being here today.

Before we conclude, I would like to include the following documents to be submitted for the record by unanimous consent: a letter from Electronic Transactions Association, a letter from Competitive Enterprise Institute, a letter from Kaspersky Lab, a letter from Intuit.

Pursuant to committee rules, I remind members that they have 10 business days to submit additional questions.

[The information follows:]

**********COMMITTEE INSERT 1**********

Ms. Schakowsky. Without objection.

Mr. Costello. Very good. And I ask that witnesses submit their response within 10 business days upon receipt of the questions. Subcommittee is adjourned.

[Whereupon, at 11:54 a.m., the committee was adjourned.]