Testimony before the House of Representatives Committee on Energy and Commerce

Sub-Committee on Digital Commerce and Consumer Protection

Hearing on "Disrupter Series: Improving Consumer's Financial Options with Fintech"

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Chairman Latta, Ranking Member Schakowsky and distinguished members of the Committee, thank you very much for the opportunity to participate in today's hearing. My name is Javier Saade and I am a Managing Director at Fenway Summer Ventures.

Fenway Summer Ventures 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 value-added partners to the entrepreneurs that lead them. Since 2013, we have invested in over thirty companies and have co-founded three ourselves: a credit card company, mortgage lender, and a private student lender.

I am honored to speak with you here today and lend a voice to this important dialogue.

Changing Landscape in Financial Services

It's no secret that over the last few years the financial services industry has undergone a significant amount of disruption. Many factors contributed to this but the most important, in our view, are the global financial crisis and the regulatory response it engendered, rapid technological advances, secular shifts in consumer behavior, and evolving capital market dynamics.

Every sector of the financial services industry has been affected by technology. Fintech has the potential to transform the way that financial services are delivered and designed; widen credit and capital access funnels; and reduce friction in the processes of payments, clearing, and settlement.

In the past few years we have witnessed a proliferation of digitally enabled financial products. Just as smartphones revolutionized the way in which we interact with each other socially, fintech is revolutionizing how we interact with each other 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.

Expanding Access to Financial Products

In addressing traditionally excluded and underserved sectors of our population, fintech companies are well positioned to drive innovation that ushers in economic and social change. According to the World Bank Group, an estimated 2 billion adults, or roughly 40 percent of the global adult population, do not participate in the formal financial system. In assessing the inclusiveness of the U.S. banking system, the FDIC's 2015 Survey of Unbanked and Underbanked Households found that nearly 30 million U.S. households either have no access to financial products or obtain products outside of the banking system. Tens of millions more are credit invisible. Therefore, we believe that even modest strides in achieving economic inclusion present the single largest addressable opportunity in fintech.

By reducing loan processing and underwriting costs, online origination platforms can enable a financial services provider to more cost effectively offer smaller-balance loans to households and small businesses than had been previously feasible. In addition, broadening data sources and the analytic constructs employed to make decisions using that data may allow lenders to better assess the creditworthiness of potential borrowers. This, in turn, facilitates credit flow to individuals and firms that otherwise would not have access to such credit.

New technologies can also open up more efficient ways to manage money and control spending. We have seen mobile technology and innovations in distribution enable financial service firms to reach communities that were previously unserved because building a traditional brick-and-mortar presence was not economical. Data mining can lead to better understanding of the financial patterns of the underserved – their cash inflows and outflows and how they find ways to manage the gaps.

Case Studies

While financial innovation holds significant promise, it is crucial that all stakeholders understand and mitigate associated risks. There is a tension between the lightning pace of development of new products and services being brought to market and the duty to ensure that important risks around financial services are addressed. Companies need to appropriately control and mitigate the risks that are unique to fintech as well as the system-wide risks that exist independent of technology.

This is precisely why we, at Fenway Summer Ventures, 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 startups in other sectors, may not be well suited for the financial services industry.

Two examples of companies in our portfolio working to improve the financial health of U.S. consumers include EarnUp, 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 their credit.

EarnUp helps consumers save money and reduce their indebtedness by intelligently allocating income toward loan repayments according to a plan that is optimized for each individual's budget and outstanding loans. EarnUp's technology integrates with thousands of servicers of home loans, student loans, auto loans, personal loans and other asset classes in order to route customer payments automatically, creating substantial consumer savings relative to standard monthly payment plans and very strong customer retention and engagement.

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

Thanks for listening and again, I appreciate the opportunity to give the members of this Committee my thoughts on the topics being discussed here today.