



June 6, 2017

TO: Members, Subcommittee on Digital Commerce and Consumer Protection

FROM: Committee Majority Staff

RE: Hearing entitled “Disrupter Series: Improving Consumer’s Financial Options With FinTech”

I. INTRODUCTION

The Subcommittee on Digital Commerce and Consumer Protection will hold a hearing on Thursday, June 8, 2017, at 10:00 a.m. in 2123 Rayburn House Office Building. The hearing is entitled “Disrupter Series: Improving Consumer’s Financial Options With FinTech.”

II. WITNESSES

- Jeanne Hogarth, Vice President, Center for Financial Services Innovation;
- Javier Saade, Managing Director, Fenway Summer Ventures;
- Christina Tetreault, Staff Attorney, Consumer Union; and,
- Peter Van Valkenburgh, Research Director, Coin Center.

III. BACKGROUND

The convergence of smartphone adoption, online commerce, and emerging FinTech services presents a real opportunity to improve access and opportunity for all Americans to understand their financial circumstances. Three-fourths of Americans own a smartphone today, and 64 percent of Americans earning less than \$30,000 per year own a smartphone.¹ While smartphones are universal with younger adults, the growth of smartphone adoption jumped 16 percent for 50-64 year olds and 12 percent for those 65 years and older.²

Twenty percent of the U.S. population, over 60 million people, are underbanked or unbanked.³ That percentage did not change significantly between 2013 and 2015.⁴ However, the

¹ Aaron Smith, “Record shares of Americans now own smartphones, have home broadband” Pew Research Center, Jan. 12, 2017, <http://www.pewresearch.org/fact-tank/2017/01/12/evolution-of-technology/>.

² *Id.*

³ “2015 FDIC National Survey of Unbanked and Underbanked Households: Executive Summary” Federal Deposit Insurance Corporation, p.1, 4, https://www.economicinclusion.gov/surveys/2015household/documents/2015_FDIC_Unbanked_Underbanked_HH_Survey_ExecSumm.pdf (survey conducted every two years).

⁴ *Id.*

shift appears to be from unbanked to underbanked as there was a 0.7 percent decrease in unbanked households in the U.S. in 2015.⁵ Underbanked individuals have an account at an insured financial institution and have used alternative financial services (e.g. money orders, check cashing, payday loans, rent-to-own services, auto title loans). Unbanked individuals do not have a checking or savings account and less than twenty percent are “very or somewhat likely to open an account in the next 12 months.”⁶ The Federal Deposit Insurance Corporation’s (FDIC) biannual national survey of unbanked and underbanked households found that developing products to help households manage income volatility and the growth of mobile access to banking services present real opportunities to increase financial inclusion.⁷ Improved access to financial services is a major avenue for individuals and families to transition out of poverty and cope with financial hardships.⁸

In 2015, over 60 percent of banked individuals⁹ used online banking and over 31 percent used mobile banking services.¹⁰ There was a 5.3 percent increase in the use of online banking and an 8.7 percent increase in mobile banking use from 2013 to 2015.¹¹ Less than half of all banked households use a physical bank branch location or ATM as their primary access point for their bank account.¹²

The most common type of account for banked households is a checking account, while a quarter of banked households do not have a savings account.¹³ According to the FDIC survey, households with lower income and lower education, black and Hispanic households, and working-age disabled households were substantially less likely to have a savings account or save for an unexpected emergency.¹⁴ Twelve percent of Americans also report being dependent on their smartphone for internet access because they do not have broadband access in their home.¹⁵

Over twelve billion dollars was invested in U.S. FinTech companies in 2016.¹⁶ While total FinTech investment fell from 2015, the 2016 investment total was a four-fold increase from 2012.¹⁷ The broad scope of FinTech companies incorporates services to help people save money, make payments, rebuild their credit, improve the affordability of international remittances, budget, and invest. There are also services for small and medium size enterprises (SMEs), particularly in the credit market, that are looking to utilize data to expand the product offerings from Small

⁵ <https://content.govdelivery.com/accounts/USFDIC/bulletins/16cb009>

⁶ 2015 FDIC National Survey, p. 1, 4.

⁷ *Id.* p. 9.

⁸ <http://www.gatesfoundation.org/What-We-Do/Global-Development/Financial-Services-for-the-Poor>

⁹ Those who have a bank account at an insured financial institution and have not purchased alternative financial services.

¹⁰ *Id.* p. 4.

¹¹ *Id.*

¹² *Id.*

¹³ *Id.*

¹⁴ *Id.* at 4, 6.

¹⁵ Aaron Smith, “Record shares of Americans now own smartphones, have home broadband” Pew Research Center, Jan. 12, 2017, <http://www.pewresearch.org/fact-tank/2017/01/12/evolution-of-technology/>.

¹⁶ “The Pulse of Fintech Q4 2016: Global analysis of investment in fintech” KMPG, p. 44 Feb. 21, 2017, <https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2017/02/pulse-of-fintech-q4-2016.pdf>.

¹⁷ *Id.* at 47.

Business Administration loans, peer-to-peer loans, lines of credit, and other loans including QuickBooks Financing and PayPal Working Capital.¹⁸

In the emerging FinTech space, distributed ledger technologies, or blockchain, continue to lead the conversation about how to create real-time and secure peer-to-peer asset transfers online within and outside the financial sector.¹⁹ Bitcoin remains the most well publicized cryptocurrency application to date. Another way to think about distributed ledger technologies, or blockchains, is as an analogy to the Internet's TCP/IP protocol.²⁰ Applications can be built on top of the distributed ledger protocol the way that email operates online.²¹ Additional distributed ledger applications continue to receive attention and funding in international financial transaction clearing and settlement, health care records management, manufacturing supply chain management, real estate records, and government functions.²²

In a recent report examining blockchain technology's capacity to improve financial inclusion, financial institutions reported a 6.4 to 4.4 percent decrease in the cost of transmitting money internationally while complying with all "know your customer" and anti-money laundering requirements.²³

Select Regulatory Activities

The emerging nature of the products and services in the FinTech industry implicates a large number of regulatory and enforcement agencies at the federal level, including the Department of the Treasury, the Office of the Comptroller of the Currency, the Consumer Financial Protection Bureau (CFPB), the FDIC, the Board of Governors of the Federal Reserve System, the Securities and Exchange Commission, the Commodity Futures Trading Commission, the National Credit Union Administration, and the Federal Trade Commission (FTC).²⁴

¹⁸ See <https://smallbiztrends.com/2017/05/quickbooks-financing.html>; Ahmed, Usman and Beck, Thorsten and McDaniel, Christine A. and Schropp, Simon, Filling the Gap: How Technology Enables Access to Finance for Small- and Medium-Sized Enterprises (Feb 01, 2016). U. Ahmed, T. Beck, C. McDaniel, and S. Schropp (2016), "Filling the Gap: How technology enables access to finance for small and medium sized enterprises," Innovations: Technology, Governance, Globalization, MIT Press Journal, volume 10, number 3/4. . Available at SSRN: <https://ssrn.com/abstract=2768894>

¹⁹ "Blockchain: Enigma. Paradox. Opportunity" Deloitte LLP, <http://www2.deloitte.com/uk/en/pages/innovation/articles/blockchain.html>.

²⁰ Jerry Brito and Andrea Castillo, "Bitcoin, A Primer for Policymakers," the Mercatus Center at George Mason University, December 19, 2013, <https://coincenter.org/2013/08/bitcoin-primer-policymakers>.

²¹ *Id.*

²² See Robert McMillan, "IBM Bets on Bitcoin Ledger" Wall Street Journal, February 16, 2016, <http://www.wsj.com/articles/ibm-bets-on-bitcoin-ledger-1455598864?cb=logged0.3160805300197209>; Sir Mark Walport, U.K. Government Chief Scientific Adviser "Distributed Ledger Technology: beyond block chain" <https://www.gov.uk/government/news/distributed-ledger-technology-beyond-block-chain>.

²³ "Blockchain and Financial Inclusion: The role blockchain technology can play in accelerating financial inclusion" The Center for Financial Markets and Policy, Chamber of Digital Commerce, Digital Currency Group, p. 11, March 2017, <http://finpolicy.georgetown.edu/newsroom/news/center-releases-white-paper-blockchain-and-financial-inclusion>.

²⁴ Aaron Cutler and Loyal Horsley, "Fintech in the US: the state of the union is questionable" Banking Tech, April 5, 2017, <http://www.bankingtech.com/752332/fintech-in-the-us-the-state-of-the-union-is-questionable/>.

On December 2, 2016, the Office of the Comptroller of the Currency (OCC) published a request for comments on “Exploring Special Purpose National Bank Charters for Fintech Companies.”²⁵ Earlier this year, the Conference of State Bank Supervisors filed a lawsuit challenging the effort arguing that creating a special-purpose charter for nondepository institutions is outside the OCC’s jurisdiction.²⁶

In 2014, the FTC and CFPB issued separate consumer advisories about virtual currencies and both agencies accept consumer complaints relating to the virtual currency product or service.²⁷ In October 2016, the CFPB released a report, Project Catalyst, with the stated goal of supporting innovation in FinTech to support strong consumer protections.²⁸ On March 9, 2017, the FTC held its third FinTech Forum focused on Artificial Intelligence and Blockchain Technology.²⁹ Previous forum’s examined marketplace lending, crowdfunding, and peer-to-peer payments.³⁰

State activity around FinTech business models has generally remained in the scope of traditional financial services regulations including money transmission regulations for virtual currency businesses.³¹ While New York remains the only state to enact a rule, BitLicense,³² creating a separate regulatory environment, there remain ongoing education efforts to understand how emerging FinTech products fall within existing statutory and regulatory requirements.

IV. ISSUES

The following issues will be examined at the hearing:

- How have new technologies impacted financial services offerings available to consumers and businesses?
- What potential benefits are there for consumers with the expansion of FinTech offerings?
- What regulatory challenges exist at the federal, state, or local level to deploying new FinTech products and services?

²⁵ <https://www.occ.gov/topics/responsible-innovation/comments/special-purpose-national-bank-charters-for-fintech.pdf>

²⁶ Lalita Clozel, “State regulators sue OCC over fintech charter” American Banker, April 26, 2017.

²⁷ <https://www.consumer.ftc.gov/blog/staying-current-bitcoin-and-other-cryptocurrencies>;
<http://www.consumerfinance.gov/blog/consumer-advisory-virtual-currencies-and-what-you-should-know-about-them/>

²⁸ <https://www.consumerfinance.gov/about-us/newsroom/cfpb-releases-first-ever-project-catalyst-innovation-highlights-report/>

²⁹ <https://www.ftc.gov/news-events/press-releases/2017/03/ftc-host-fintech-forum-march-9-artificial-intelligence-blockchain>

³⁰ See <https://www.ftc.gov/news-events/media-resources/consumer-finance/financial-technology>.

³¹ Peter Van Valkenburgh & Jerry Brito, “State Digital Currency Principles and Framework Version 2.0” Coin Center, March 2017, p. 3, <https://coincenter.org/entry/state-digital-currency-principles-and-framework>.

³² See http://dfs.ny.gov/legal/regulations/rev_bitlicense_reg_framework.htm.

- Have regulatory barriers or uncertainty impacted the amount of investment in FinTech startups or product lines?
- How have incumbent stakeholders leveraged new technology and partnered with new entrants to improve consumers financial knowledge and access to commerce?

V. STAFF CONTACTS

If you have any questions regarding this hearing, please contact Melissa Froelich of the Committee Staff at (202) 225-2927.