Testimony before the House of Representatives Committee on Energy and Commerce

Sub-Committee on Digital Commerce and Consumer Protection

Hearing on Disrupter Series: Improving Consumers' Financial Options with FinTech

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Chairman Latta, Ranking Member Schakowsky, and Committee members: Thank you for inviting me today to share some thoughts and insights on the potential for financial technologies to improve Americans' financial health. The Center for Financial Services Innovation (CFSI) is a national authority on consumer financial health, leading a network of financial services innovators – banks and credit unions, the fintech community, processors, servicers, nonprofits, consumer advocates and community-based organizations – all committed to building higher quality products and services. CFSI informs, advises, and connects our network to seed innovation that will transform the financial services landscape. Our vision is to see a strong, robust, and competitive financial services marketplace, where the diversity of consumer transaction, savings, and credit needs are met by a range of providers offering clear, transparent, and high-quality products and services at reasonable prices.

We recognize the important role that access to high-quality financial products plays in helping consumers improve and maintain their financial health. We see the pain points and the opportunities from both industry and consumer perspectives. Through our research and consulting work, our

Financial Capability Innovation Funds, and our Financial Solutions Lab, we have fostered innovative products and technologies that improve the financial health of consumers. We believe that finance can be a force for good in people's lives and that meeting consumers' needs responsibly is ultimately good for both the consumer and the provider.

How FinTech Can Help

For one of our research projects, CFSI partnered with of New York University's Wagner School's Financial Access Initiative (FAI) to work on the U.S. Financial Diaries (USFD). USFD tracked 235 low- and moderate-income households over the course of a year to collect highly detailed data on how families manage their finances on a day-to-day basis. This research reveals hard-to-see aspects of the financial lives of working Americans, providing new insight for the design of financial services policies, programs and products for a broad range of Americans. Leadership support for USFD is provided by the Ford Foundation and the Citi Foundation, with additional support and guidance from the Omidyar Network.

Katherine Lopez, daughter of an immigrant family, makes up one of those households. [1] Katherine grew up in California's central valley, worked hard in high school, and paid her way through college with a combination of jobs and student loans. She works as the coordinator of a children's literacy program, working with children of immigrants, helping them aspire to college, as she did.

Growing up, money was always managed in cash and was always tight. Most of what Katherine knows about finances, she taught herself. She opened some credit card accounts in college, but always paid the full balance each month. While in college, her landlord told Katherine that she was impressed with her credit score, especially given her young age. These scores, which assess borrowers' credit

[1] Katherine's story is an excerpt from *The Financial Diaries: How American Families Cope in a World of Uncertainty*, based on the U.S. Financial Diaries (USFD). Names and details have been changed to protect the participants.

worthiness, often based on a 300 to 850 range, are used by employers, insurers, landlords, and lenders to make decisions.

Katherine began tracking her credit score “obsessively.” She read blogs about how scores are calculated, and how to protect and raise them. Her solid credit score, like her college degree, became a matter of personal pride.

What first got her in trouble wasn’t the student loans or credit cards *per se*, but the rocky road of her insecure financial life. After college, she lived with a boyfriend who had health problems. He was unable to contribute equally to their finances, and his medical expenses became a financial drain on Katherine. Soon she was overextended and started cycling bills—one month she would pay one bill, the next month another. Her good credit rating melted away.

Eventually she moved into her own apartment. Over time, she earned more, and she dedicated herself to fixing her finances. Over the next several years, Katherine worked her way back up to a credit score over 700. She had even saved a $2,000 emergency fund. But then her financial situation turned again.

It happened in steps. First, she needed to replace her increasingly unreliable, ten-year-old car. She was able to purchase a fuel efficient car that was only a few years old. Katherine had owned her old car free and clear, so the new loan payments put new pressure on her monthly budget. But Katherine decided she was “doing pretty ok” and could afford the car payments.

Not long after, she moved in with a new boyfriend. Excited about their future together, she bought some furniture and items for their apartment using her credit cards. Then one morning as she hurried to work, she was in an accident, totaling her car. Luckily, she was uninjured, and her insurance covered the outstanding principal on her car loan. Still, she was out the money she had put down on that vehicle—and now she needed a new car for the second time in a year. Her boyfriend took the $2,000 she'd saved for an emergency to a friend who worked at an auto dealership and returned with a leased Acura. Katherine was glad to have the matter resolved quickly but upset that her savings were gone.

Katherine estimated that a quarter of her income was going to her monthly car payment. She prioritized paying her student loans next, then rent, and then the minimum payment on her credit cards. After living expenses, she said there was nothing left—no room to make progress on paying down her debts or refilling her emergency fund, yet alone saving for graduate school – a dream of hers. Despite Katherine's self-assessment of her own debt level – she felt "doomed" – she was not even close to maxing out the credit available to her. She was still a "good" credit risk because she was making minimum payments on time and she had only borrowed about 30 percent of her credit card limits. She was still receiving offers for even more credit.

Katherine tracked her credit score closely. But at best, her credit score offered an incomplete view of her financial status; at worst, it was distracting and discouraging. The guidance she received from consumer finance sites about managing her credit score could have done more than simply help her to keep her credit score within a certain range; it could have helped her better manage her financial goals for "now," "soon," and "later."

Katherine is banked, but doesn't feel like her accounts give her the level of control or help that she really wants. She watches her credit score closely, and adjusts her financial behaviors to keep it high -- but her credit card debt is still growing. Credit scores mostly respond to paying the minimum on time, and not utilizing your full balance. She does those things. But, what she really needs is something that would help her know how much is safe to spend, and something that would make it easier to pay down debt and save. What people want and need is more automation of good choices, but not full automation

-- they want control and transparency. They want advice that is in their own best interest. Unfortunately, most existing tools don't provide the control and transparency consumers need -- and fin tech, with better data and analytics and advice, can ultimately provide that.

Seeding Innovation for Good

Nearly three out of five of Americans struggle with their financial health.[2] They lack a savings cushion as well as longer-term savings, face high levels of debt and poor credit, or have irregular income—or all of the above. These households are banked – they have checking and savings accounts, credit cards, car loans, and mortgages – but they are not well served. To improve their financial health, people need relevant, engaging information and advice delivered via products designed to meet their needs.

CFSI is committed to working industry-wide with a range of incumbents and start-ups to encourage and seed innovation. Indeed, innovation and fintech are not limited to the start-up community. In our consulting work and network engagement, we have seen many incumbents, from large money-center banks to smaller credit unions to community-based non-profits who have embraced innovation as a way to better serve their customers and clients. Through our Financial Capability Innovation Funds and Test & Learn projects, we've engaged with "traditional" financial service providers to design innovative products and services for financial health.

In 2014, CFSI partnered with JPMorgan Chase to launch the Financial Solutions Lab, which supports the development of technology-based products that improve the financial health of American consumers. The lab identifies challenges facing consumers and holds an annual competition to encourage companies to develop financial products that address these challenges. This accelerator program provides participants with capital and customized technical assistance from CFSI, JPMorgan

[2] See CFSI's Understanding and Improving Consumer Financial Health in America

Chase, a network of industry partners, and a diverse community of experts, including an array of design and consulting services. We work with companies in the lab to help them track impact and monitor the financial health of their customers as well as that of their own bottom line.

The first challenge for the Lab was to solve for income volatility, something we saw with our US Financial Diaries families. In 2015-16 we worked with 9 companies, each providing a different approach to helping families deal with uneven incomes. Our second challenge was to help families weather financial shocks and again we worked with another 9 companies. We are currently three years into this five-year program, and next week (June 15) we will be announcing our third cohort of fintech companies who are trying to help improve consumers' financial health, with particular emphasis on products for aging Americans, individuals with disabilities, people of color, and women.

From its inception, we sought to balance the need for experimentation and flexibility against the demand to measure performance. We identified three categories of impact—consumer, innovator, and market—and created a process for measuring and tracking our impact in each category. Here is what we've learned thus far.

- *Consumer impact* focuses on the effectiveness of lab winners' solutions. The 18 organizations supported by the lab so far have cumulatively grown to help more than 1,300,000 Americans—10 times the consumer base they served before joining the lab.
- *Innovator impact* measures our performance and efficacy in developing a model and set of tools to help winners accelerate their growth and impact. Collectively, lab companies have raised more than $110,000,000 in capital since joining the program. On average, the companies have doubled the size of their teams, and one company has been acquired.
- *Market impact* measures how we have positively shifted the market for financial services. The lab seeks to de-risk early-stage innovation and create a path toward scale. The lab has elevated

the profiles of winners and the need for inclusive financial technology solutions. We have also engaged regulators and policymakers to drive awareness of the power of these solutions and barriers to market implementation. Nonprofits serving low- and moderate-income consumers are starting to pilot these technology products with their clients as program enhancements.

Who Are These FinTech Start-Ups?

Before sharing some insights from our 18 lab companies, we'd like to step back and discuss the applicants we've seen for the lab. For the past two years, we've had nearly 360 companies in the applicant pool each year (356 in 2016-17 and 358 for 2017-18). For the 2016-17 cohort, the typical applicant had raised $450,000 and employed 6 or 7 people, nearly mirroring attributes of FinLab's applicant pool in 2015. In 2016-17, we noted three key trends in the pool: 1) the entrepreneurs were working on products subject to complex regulatory oversight, more involved partnership arrangements, and significant capital requirements; 2) many strong companies are focused on narrow customer segments that are often ignored by tech innovation; and 3) many innovators are seeking to access large groups of consumers through employers, selling their product directly to companies as a potential employee benefit, or reaching companies by integrating with human resources tools – like payroll systems and benefits portals.

Over the years of the Lab, we have seen that consumer fintech is maturing. Because the sheer number of fintech innovators is increasing, we are entering a phase in which entrepreneurs will have to work harder to differentiate their products and services. We are also seeing competition in previously neglected areas such as savings and financial health for employees. Some themes from our applicant pool have the potential to drastically improve consumers' lives, but have yet to completely develop: insurance product innovation, communication platforms and greater blockchain utility are examples.

Examples from the Financial Solutions Lab

Financial health, like physical health, doesn't happen overnight – it's a long game. Below we highlight some results from our first lab cohort, where consumer impacts have had more time to become evident.

Digit helps consumers automate savings by predicting their cash flow and identifying savings opportunities. Since launching in 2015, Digit has helped its users save over $500 million. On average, Digit users save $80 to $170 per month. While it is difficult to assess if Digit users have sufficient liquid savings to cover their expenses in the case of an emergency or job loss, the use of automatic transfers to put money away is on the right path towards building a sufficient savings reserve to cope with an unexpected expense.

LendStreet provides debt consolidation services to help people get out of debt and rebuild their credit. Since its launch, LendStreet has settled over $9.8 million in debt for its customers. The average LendStreet borrower has settled an average of $27,000 of debt. On average, customers see credit score improvements of 45 points within 6 months and 65 points within 12 months. LendStreet is also a participant in CFSI's Financial Health Measurement Project.

SupportPay believes that technology can and should be used to make family life easier. Through an automated child support payment platform, SupportPay is helping parents amicably settle and exchange child support/alimony directly with each other. Today, more than 41,000 people – whether separated, divorced or grandparent custodians – are using the SupportPay platform and as a result are 90% more likely to exchange child support. SupportPay is working to collect the necessary data to understand how much increased income this has meant for their customers on the receiving end of the exchange, but early data shows that late payment rates have dropped from 33% to 25%.

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. This combination has demonstrated to be more effective in consumer engagement and driving positive financial change. Even is focusing on rolling out its product to thousands of employees of a large retail employer, which they plan to announce in the coming months.

Prism is making bill pay easier by bringing all of a consumer's bills together in an easy-to-use app. With all of their bills in one place, Prism enables consumers to make bill payments directly via ACH or with a credit/debit/prepaid card (65% of Prism users report having a bank account). As of November 2016, Prism had facilitated the bill payment of more than $50 million. Prism was acquired by PayNearMe in 2016.

Propel helps food stamp recipients more easily enroll and track the usage of their benefits. Its first product, easyfoodstamps.com, is a mobile-friendly site that streamlines the process of applying for food stamps. Propel has since launched the Fresh EBT app that allows users to more quickly and easily check their food stamp benefit balances. Previously, beneficiaries would need to call a number to check their balances, taking about 2 minutes – and now they can check their balances in about 5 seconds on the app, saving both time and as one user stated "embarrassing moments at the cash register." Over 400,000 people use Fresh EBT each month to manage their benefits. In April 2017, Propel announced that it had raised an additional $4 million in follow-on funding from Andreessen Horowitz, Omidyar Network, Max Levchin (who founded PayPal), and Kevin Durant (who lived on food stamps as a child).

Neighborhood Trust, a non-profit, partnered with FlexWage Solutions to develop WageGoal, a mobile product that will give employees access to their earnings ahead of payday. Workers today frequently experience short-term cash shortages, resulting in expensive payday loans, overdraft fees, or even loan requests to their employer. The WageGoal product is currently being tested in a pilot with a Texas-based nonprofit employer

Hurdles for FinTech Providers

Fintech entrepreneurs face many challenges and hurdles. Beyond the obvious ones – access to start-up capital, setting up a business, customer acquisition strategies – there are several that are perhaps unique to the fintech space. We believe that policy makers may want to consider some of the following as they look forward to the future of financial services 3, 5, or 10 years down the road.

Create a "front door" for fintech to the federal government.

Innovators need a clear front door to the federal government for innovation. At CFSI, we recognize the numerous federal regulatory agencies have different missions covering diverse institutions and products. These distinctions were developed at a time when lines between different types of business were clearer. But now there is substantial blurring of product and service lines, along with a new set of account access devices (for example, we have moved from cash to checks to cards to "wallets" on smart phones). Founders and innovators are unfamiliar with federal regulatory structures and generally cannot figure out how to get information directly from the appropriate set of regulators. A clear front door would help.

It would be helpful to the fintech community for there to be an interagency innovation team for financial services that can serve as this point of entry into the federal agency structures. Such a team may help make duplications and gaps more obvious, and propose solutions to address these. In our work, we have found that the CFPB's Project Catalyst often functions as this front door, serving as an access point to multiple regulators. We would encourage such a team to be located in the tech hubs across the country – most certainly in Palo Alto and New York City – and not just in DC.

Facilitate interstate and regulatory comity that enables consumers to access and use fintech products and services that promote financial health.

Many, if not most, fintech products and services are delivered over the internet, which by its nature is national in scope. Currently, there are a number of hurdles that fintech firms must overcome to be able to broadly provide products and services to consumers. These hurdles could be reduced by providing ways to harmonize state license applications, to arrange for reciprocal recognition of licenses, and to arrange for multi-state or national licensing agreements.

In addition, it is important that regulators facilitate the ability of fintech providers to partner with banks and credit unions, or other "mainstream" financial providers, to offer their products to a broader set of consumers. Many mainstream financial service providers are concerned about their regulators' risk-aversion to these third-party agreements and these partnerships often fail to materialize. In turn, consumers lack access to products and services that could help them build and maintain their financial health. CFSI believes that responsible partnerships between banks and third-party fintech can be a win-win-win situation. Win #1: banks can continue to serve a broad and deep segment of their consumer market that they might lose. Win #2: fintech providers have an opportunity to offer products and services to consumers they might not otherwise reach. And win #3: consumers get access to high quality products they otherwise would not. Responsible partnerships especially allow smaller and more rural banks to broaden the set of products and services they can offer to consumers and small businesses in their communities.

Support consumers' access to their own data.

Consumers' ability to understand, manage and improve their financial health requires their having a full picture of their financial lives. Today, as a result of technological advances and market developments, many of the products and services that provide consumers with this 360-degree view of their finances rely on data drawn from numerous sources. There is a critical need for industry collaboration to ensure that consumers have secure and reliable access to their financial data and to support continued innovation in the financial services marketplace.

In October 2016, CFSI released our Consumer Data Sharing Principles. These consumer-focused principles provide a framework to guide the industry as it works to establish a data-sharing ecosystem that is secure, inclusive and innovative. This effort builds upon CFSI's previous work to establish principles and best practices guides for specific products, leveraging CFSI's Compass Principles framework for quality in financial services. Specifically, we believe that an inclusive and secure financial data ecosystem is one in which financial institutions, data aggregators and third-party application providers coordinate to provide data to consumers that are available, reliable, user-permissioned, secure, and limited to the application functionality.

This may include broadening the acceptance of digital forms of identification as well as structuring and securing open APIs (application program interface). However, we know that innovations continue to take place. We would caution against creating statutory and regulatory frameworks that cannot grow and change with the times. We believe the best way to assure this flexibility is to establish key principles that allow innovation to flourish while still providing consumer protections.

Create opportunities for pilot testing of both financial products and services and financial services regulations.

More than a dozen countries currently provide a way for firms and regulators to test out products and regulations. These regulatory pilot programs, often called sandboxes, are designed to offer a "safe space" for innovative financial services, products, or concepts to be incubated and tested within a framework of engagement between the industry – both incumbants and start ups – and regulators while still providing consumers with standard levels of consumer protection. For regulators, a sandbox offers transparency into the product or service during its development and an opportunity to assess whether new or adapted regulations are working as planned or whether adjustments are required to provide consumer protection while still promoting growth and innovation. For innovators, a sandbox permits iterative development of products and services without a regulatory liability that would otherwise suppress innovation.

FinTech Is Necessary, But Not Sufficient

We believe that financial health metrics should be the measure of success for not only financial products and services but also for the regulations that govern these products and services. CFSI has produced a set of financial health measures that financial service providers and others can use to track the progress their customers are making toward financial health. While these metrics are still being tested and refined in the field, there is evidence that companies can provide products and services that cost less and are better for their customers when they focus on consumer outcomes. Further, financially healthy customers are good for the financial health of the company's bottom line, their communities, and the economy more broadly.

The rate of change in both technology and the services and products these technologies enable make "bright line" legislating and rulemaking an anachronism. 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 the innovations in the 21st century – it is not a question of *whether*, but *how*. Moving away from prescriptive rules to principles-based rules will enable both regulators and industry participants to remain nimble and relevant as products and services grow and evolve over time.

Importantly, while we strongly believe that fintech can help consumers, it alone is not sufficient to ensure financial health for all Americans. It also takes better job structures with living wages and benefits including sick-leave and retirement plans – those elements that help families manage day-today, be resilient, and plan for their futures. It takes workforce development, a system that provides for financial and physical security in retirement, and much more. Financially healthy consumers need structures that also enable financially healthy communities, safe and secure housing, engaging schools, accessible health care services, robust food security systems, and supportive transportation structures.

Conclusion

We believe that consumers will be better able to achieve financial health if they have access to high-quality financial services that are innovative – evolving and growing as the consumers themselves evolve and grow in their financial journey. We also believe there continues to be a need to balance innovation with consumer protection. Financial technologies and innovations can help consumers spend, save, borrow, and plan safely and effectively, enabling them to manage their day-to-day finances, weather financial shocks, and providing them with longer-run financial opportunities. The marketplace and the economy will benefit from a range of banks and fintech companies, start-ups and incumbents, direct-service providers and partners all playing important roles in developing and delivering innovations that are consumer-centric.

Fintech and innovation are not going away – if anything, the pace of change will only increase. Both policy makers and the market need to grapple with how they will respond. CFSI looks forward to working with the House Subcommittee on Digital Technology and Consumer Protection as your work moves ahead.

Key Points from The Center for Financial Services Innovation (CFSI).

Nearly three out of five of Americans struggle with their financial health.[3] They lack a savings cushion and longer-term savings, face high levels of debt, or have irregular income—or all of the above. Access to high-quality financial products can help consumers improve and maintain their financial health. We see the pain points and the opportunities from both industry and consumer perspectives. We believe that finance can be a force for good in people's lives and that meeting consumers' needs responsibly is ultimately good for both the consumer and the provider. But financial health, like physical health, doesn't happen overnight – it's a long game.

Most consumers are "banked," but they don't feel like their accounts give them the level of control or help that they really want. What people want and need is more automation of good choices, but not full automation -- they want control and transparency. They want advice that is in their own best interest. Unfortunately, existing tools don't provide the control and transparency consumers need -- and fin tech, with better data and analytics and advice, can ultimately provide that.

In 2014, CFSI partnered with JPMorgan Chase to launch the Financial Solutions Lab. The Lab identifies financial health challenges facing consumers and holds an annual competition to encourage companies to develop financial products that address these challenges. Our success metrics include consumer financial health impacts, engagements and partnerships with important stakeholders in the financial service ecosystem, and high-level financial metrics such as capital raised and equity value. The 18 organizations supported by the lab so far have cumulatively grown to help more than 1,000,000 Americans—10 times the consumer base they served before joining the lab.

Fintech entrepreneurs face many challenges and hurdles. Beyond the obvious ones, there are several that are perhaps unique to the fintech space, such as:

- *Create a "front door" for fintech to the federal government*
- *Facilitate interstate and regulatory comity that enables consumers to access and use fintech products and services that promote financial health.*
- *Support consumers' access to their own data*
- *Create opportunities for pilot testing of both financial products and services and financial services regulations.*

Fintech can help consumers, but it alone is not sufficient to ensure financial health for all Americans. It also takes better job structures with living wages and benefits including sick-leave and retirement plans – those elements that help families manage day-to-day, be resilient, and plan for their futures. It takes workforce development, a system that provides for financial and physical security in retirement, and much more. Financially healthy consumers need structures that also enable financially healthy communities, safe and secure housing, engaging schools, accessible health care services, robust food security systems, and supportive transportation structures. Finally, we believe there will continue to be a need to balance innovation with consumer protection – the issue isn't whether, but how.

[3] See CFSI's Understanding and Improving Consumer Financial Health in America