

April 14, 2017

Chairman Mike Crapo
Ranking Member Sherrod Brown
Senate Committee on Banking, Housing, & Urban Affairs
534 Dirksen Senate Office Building.
Washington DC 20510

RE: Request for Proposals to Foster Economic Growth

Dear Chairman Crapo and Ranking Member Brown,

The Center for Financial Services Innovation (CFSI) is submitting this letter in response to your request for Proposals to Foster Economic Growth issued on March 20, 2017. Like you, we recognize that a healthy, robust financial services industry is necessary to drive the growth needed to energize the economy and the important role that access to high-quality financial products plays in helping consumers improve and maintain their financial health. 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.

We believe that improving consumers' financial health can promote economic growth and competitiveness in the U.S. Financially healthy families are less stressed, creating a more productive workforce that is able to build human capital and take advantage of job opportunities. We also believe that stimulating financial innovation and financial technologies (fintech) is part and parcel of helping consumers build and maintain their financial health. To that end, we see four key strategies that the Senate Banking, Housing, and Urban Affairs Committee could pursue to improve financial health and foster economic growth:

- Promote financial health outcomes as part of the regulatory framework in the U.S.
- Encourage innovation-for-good in financial services
- Adopt tools to reshape financial services regulation that fit with innovations in the 21st century marketplace
- Engage in a holistic initiative that connects with other elements of economic growth, stability, and security

CFSI is a national authority on consumer financial health. We believe that financial health comes about when a consumer's day-to-day financial systems enable them to build resilience and pursue opportunities. We lead a network of financial services innovators – banks, the fintech community, processors, servicers, non-profits, 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. We hear the pain points and see the opportunities from a variety of different viewpoints from both industry and consumers.

Through our 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 and nurture small businesses. 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.

Promote financial health outcomes as part of the regulatory framework in the U.S.

Financial health comes about when a consumer's day-to-day financial systems enable them to build resilience and pursue opportunities. Financially healthy families are those that have the financial freedom to make choices that enable them to enjoy life and to be on track to meet their financial goals. Furthermore, financially healthy families are the foundation of strong communities and growing economies.

1. Congress and the regulatory community should work with firms and regulators to measure and monitor key financial health performance indicators.

CFSI has produced a set of financial health [measures](#) that financial service providers and others can use to track the progress their customers and clients 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. Financial health metrics should be measures of success for not only financial products and services but also for the regulations that govern these products and services. Further, financially healthy customers are good for the financial health of the company's bottom line.

2. Congress and the regulatory community should facilitate consumer access not only to financial products and services but also to strategies that improve financial health.

We know that financial capability and financial health are most likely to improve when products and services are relevant, timely, and actionable, with ongoing guidance and access to high quality products and services. One example of ongoing guidance that shows substantial promise is the [financial coaching](#) initiatives from a range of community-based organizations. Consumers should have access to proven implementation strategies, via financial service providers and community-based organizations.

Other strategies include smart automation that helps consumers pay bills on time and in the right sequence or helps them save for the near term as well as the long term. Products can be designed with more flexible payment schedules that fit with the income flows that consumers actually face in their lives.

Encourage innovation-for-good in financial services

Innovation can be a force for good in consumers' financial lives. That can mean taking advantage of technology to open an account (e.g. using a phone's camera to provide identity information), accessing and making payments in real-time, and empowering consumers to make choices that are meaningful and healthful to them.

3. Congress and the regulatory community should 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—a principle stated in section 1033 of Dodd-Frank. 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 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. It is important that Congress continue to support Section 1033, and encourage regulators to adopt regulations consistent with these data-sharing principles.

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.

4. Congress and the regulatory community should 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 offer a "safe space" for innovative financial services products or concepts to be incubated and tested within a framework of engagement between the industry and regulator 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

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sandbox permits iterative development of products and services without a regulatory liability that would otherwise suppress innovation.

5. Congress should 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 different institutions and products. These distinctions were developed at a time when lines between different lines 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.

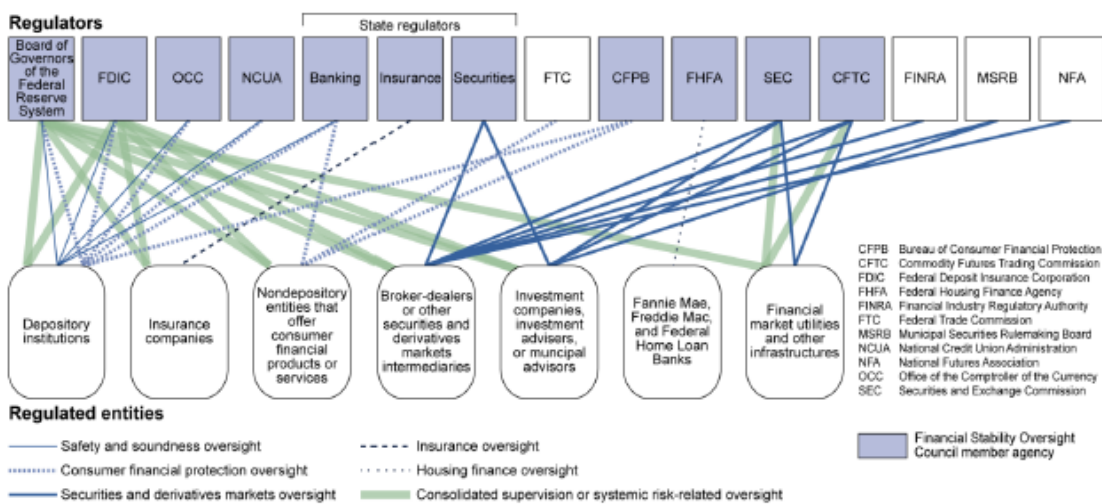
Congress should create an interagency innovation team for financial services that can serve as the point of entry into the federal agency structures. Such a team may help make duplications and gaps more obvious, and propose solutions to addressing these. In our work through our [Financial Solutions Lab](#) – an accelerator program for financial innovators – 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 Congress to consider providing access to this new interagency innovation team in the tech hubs across the country – most certainly in Palo Alto and New York City.

Adopt tools to reshape financial services regulation to fit with innovations in the 21st century marketplace

The GAO’s 2016 [report](#) on *Financial Regulation: Complex and Fragmented Structure Could be Streamlined to Improve Effectiveness* revealed just how complicated the U.S. financial services regulatory structure has become through organic growth across the decades. We believe a lack of cooperation and coordination among the regulatory community stifles not only innovation but also economic growth. While we recognize it is unlikely the U.S. can create a clean slate to design a 21st century structure, we encourage Congress to do what is possible to address current and future marketplace needs. We believe the proposed interagency innovation team for financial services suggested in Item #5 above could be one such tool.

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U.S. Financial Regulatory Structure, 2016



Note: This figure depicts the primary regulators in the U.S. financial regulatory structure, as well as their primary oversight responsibilities. "Regulators" generally refers to entities that have rulemaking, supervisory, and enforcement authorities over financial institutions or entities. There are additional agencies involved in regulating the financial markets and there may be other possible regulatory connections than those depicted in this figure.

Source: GAO 16-175 Financial Regulation, page 3.

6. Congress and the regulatory community should move to a principles-based regulatory structure.

The rate of change in both technology and the financial services and products these technologies enable make "bright line" legislating and rulemaking an anachronism. Congress and the regulators need to identify the right tools to reshape the regulation of financial services to fit the innovations in the 21st century. 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.

At CFSA, we have developed a core set of principles that guide our work in financial services. We believe that financial products and services should 1) embrace inclusion, 2) build trust, 3) promote success, and 4) create opportunity. The Financial Conduct Authority in the United Kingdom has also created a set of principles that guide their work with industry providers. It is worth exploring these principles, among others as guidelines for a modern US system of financial services regulation.

7. Congress and the regulatory community should facilitate interstate 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. However, 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.

Engage in a holistic initiative that connects with other elements of economic growth, stability, and security

8. Congress should collaborate and coordinate their efforts for a holistic approach that enables U.S. households to thrive and grow in the 21st century.

Through our work on financial health, our work with a wide range of financial service providers (from the large money-center banks to fintech start-ups), and our leading edge research through our [U.S. Financial Diaries](#) project (conducted jointly with New York University’s Financial Access Initiative) we know that it takes more than just access to financial services to achieve financial health. 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, an employment structure that supports livable wages, a sick-leave/family leave structure that allows workers to respond to physical health demands, 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 appreciate Chairman Crapo’s and Ranking Member Brown’s initiative in engaging with key stakeholders. We hope you will find a variety of ways to engage members of the innovation and fintech communities in creating opportunities for consumer financial health, and the economic growth that financial health facilitates. 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. 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.

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We believe that 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. We recognize that regulators play an important role in keeping the market fair for both providers and consumers.

Innovation is not going away – if anything, the pace of change will only increase. Both regulators and the market need to grapple with how they will respond. We look forward to working with you as this effort moves ahead.

Sincerely,



Jennifer Tescher
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