April 13, 2017

The Honorable Mike Crapo
Chairman
Committee on Banking, Housing, and Urban Affairs
United States Senate
534 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate
534 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Crapo and Ranking Member Brown:

Thank you for the opportunity to submit proposals to increase growth and participation in the economy. Financial Innovation Now ("FIN") is an alliance of leading innovators promoting policies that empower technology to make financial services more accessible, safe and affordable for everyone.[1]

FIN member companies are at the forefront of America's economic growth. Our technologies enable the creation of whole new businesses and industries, and we empower individual consumers with tools to live more productive, healthy lives. Today, these economic opportunities have enormous potential in the financial services sector, and given what's possible, your Committee's bipartisan effort is welcome.

Contributing to the U.S. Economy

FIN member companies directly employ hundreds of thousands of U.S. employees and support many millions more. Apple, for example is responsible for creating and supporting 1.9 million jobs, with nearly three quarters of those jobs – 1.4 million – attributable to the iOS ecosystem.[2] The mobile internet and apps alone have recently been estimated to account for 3.11 percent of U.S. GDP in 2015, while the larger internet sector and information-communications-technology sector accounted for an additional 6 percent and 5.9 percent respectively of U.S. GDP in 2014.[3]

According to the Bureau of Labor Statistics, the median annual wage for computer and information technology occupations was $81,430 in May 2015, and employment in these occupations is "projected to grow 12 percent from 2014 to 2024, faster than the average for all occupations…in part due to a greater emphasis on cloud computing, the collection and storage

[1] Financial Innovation Now member companies include Amazon, Apple, Google, Intuit and PayPal. For more information regarding FIN's policy priorities and principles, please visit https://financialinnovationnow.org
[2] See Apple, CREATING JOBS THROUGH INNOVATION, (Ed. 2015), http://www.apple.com/about/job-creation/
[3] See Christopher Hooton, *Refreshing Our Understanding of the Internet Economy,* THE INTERNET ASSOCIATION (January 12, 2017), https://internetassociation.org/reports/refreshing-understanding-internet-economy-ia-report/

of big data, more everyday items becoming connected to the internet…and the continued demand for mobile computing."[4]

More importantly, the economy and jobs attributable to technology is growing more broadly across the country, with new firms increasingly founded outside of traditional tech centers, and this trend is accelerating.[5] The technology sector itself is growing the U.S. economy and providing a leading source of new companies, new jobs, and higher incomes. While accessible and scalable technologies are sparking this economic dynamism, part of the country's economic opportunity will come from technology driving gains in other sectors, particularly financial services.

Transforming Financial Services

Technology and the internet are changing the way consumers and small businesses manage money, access capital, and grow commerce. As innovators, FIN members are driving new financial products and services that help small businesses create jobs across the country and empower individuals reach their financial goals. From real-time peer-to-peer payments to new lending platforms, our products and those of others are poised to dramatically speed commerce and make financial services more efficient and effective.

Recent innovation in financial technology has made financial services more efficient and more accessible for a wide range of market participants, with significant economic gains as a result.[6] While some of that innovation has come from traditional financial service entities such as banks, innovation has also come from non-traditional participants like technology companies, who strive to meet consumer demand for new services and solve for consumers' challenges. The combined result has been an increase in access to financial services across a broad spectrum of society, lower costs to consumers and small businesses, and an increase in healthy competition among firms.

Expanding the Base of Consumers In Safer Financial Services

For example, the rise of non-traditional financial services has led to greater financial inclusion. The Federal Deposit Insurance Corporation (FDIC) found that in 2013 nearly 30 percent of Americans households were "unbanked" or "underbanked," with the highest rates among non-Asian minorities, low income households, and unemployed households.[7] These "underbanked" individuals and businesses were often cut off from traditional financial services by language barriers, distance to banking facilities, and financial illiteracy—and generally were excluded as "high-risk" by many traditional institutions. But the FDIC also found that underbanked populations tended to have more access to smartphones than the general population, and were more likely to manage and move their money using a mobile device.[8] That rise of connectivity

[4] Bureau of Labor Statistics, OCCUPATIONAL OUTLOOK HANDBOOK (December 17, 2015), https://www.bls.gov/ooh/computer-and-information-technology/home.htm
[5] Progressive Policy Institute, HOW THE STARTUP ECONOMY IS SPREADING ACROSS THE COUNTRY (MARCH 30, 2017), http://technet.org/blog/how-the-startup-economy-is-spreading-across-the-country; *See also,* ACT-The App Association, STATE OF THE APP ECONOMY 2 (4th Ed. 2016); *See also,* ACT-The App Association, SIX-FIGURE TECH SALARIES: CREATING THE NEXT DEVELOPER WORKFORCE (June 21, 2016)
[6] Alan McQuinn, Weining Guo, and Daniel Castro, *Policy Principles for Fintech*, INFORMATION TECHNOLOGY & INNOVATION FOUNDATION, (October 2016), http://www2.itif.org/2016-policy-principles-fintech.pdf
[7] Federal Deposit Insurance Corporation, 2013 FDIC NATIONAL SURVEY OF UNBANKED AND UNDERBANKED HOUSEHOLDS: EXECUTIVE SUMMARY (2014), https://www.fdic.gov/householdsurvey/2013execsumm.pdf
[8] *Id*.

has set the stage for increased financial inclusion for these previously underserved (and often ignored) populations.

Furthermore, companies like PayPal have made good on this opportunity by enabling users to add cash to their PayPal accounts using PayPal's mobile app, making that money available for funding PayPal transactions.[9] In a follow-on report released last year, the FDIC in fact found that consumers agree that mobile banking services "help[] to address weaknesses in traditional banking," particularly by helping consumers "reduce fees, better track their finances, and improve on-the-spot decision making."[10] Traditional banks, too, have moved toward using internet technology to better serve these populations. There is much more work to be done, but the opportunity that innovation provides for these groups is great.

Fueling Small Business Growth

Financial innovation has also begun to solve similar problems for small businesses. The costs of payment systems, reputation building, and loans have often excluded small businesses from full participation in the financing market. But now, mobile payments technology like card readers allow small businesses (and micro-businesses) to take instant payments from customers without having to wait for checks to clear or having to handle large amounts of cash. Small businesses have similarly taken advantage of innovations in mobile payroll technology, inventory management, and rewards programs, all of which make basic elements of running a business faster and less expensive. Moreover, applications like Amazon's Login and Pay and PayPal's core service help small businesses earn credibility, better manage payment security risks, and gain access to millions of existing customers who are already signed up for those services.

As for small business lending, traditional lending practices require intensive manual review of business records for even very small loans, which means that it is often costly to undertake that review, even for creditworthy small business borrowers. But now, small business lending programs offered by or through companies like PayPal use automated systems to evaluate and authenticate a broad range of digitized information about a business's financial health. That dramatically reduces loan underwriting costs, so that creditworthy businesses that need access to small amounts of capital—say, only $10,000—can now access the funds they need, when they need it. Additionally, products like QuickBooks Financing, offered by Intuit, enable small businesses to share financial information from their QuickBooks accounting software with QuickBooks Financing partners so small businesses can easily and quickly apply for the financing they need to grow their businesses, while providing the financing partners with a better snapshot of the small business.

Easing Friction, Accelerating Commerce

More broadly, many financial innovators have also offered other new mobile payment technologies that appeal to the underbanked and the traditionally banked alike. Companies like Apple, Google, Intuit (through Mint Billpay), and PayPal have each brought their own mobile payments technology to market in just the past few years. That technology—which generally involves using a smartphone to make payments rather than cash or credit cards—is not only

[9] *See* David Huen, *PayPal's New Prepaid Card Upsells to the Underbanked*, AMERICAN BANKER (Feb. 12, 2014), http://www.americanbanker.com/issues/177_31/paypal-prepaid-unbanked-underbanked-1046670-1.html.
[10] Federal Deposit Insurance Corporation: OPPORTUNITIES FOR MOBILE FINANCIAL SERVICES TO ENGAGE UNDERSERVED CONSUMERS (2016), https://www.fdic.gov/consumers/community/mobile/MFS_Qualitative_Research_Report.pdf at 3.

convenient, but third parties have consistently found that it is also more secure than traditional credit card use.[11] Of greater consequence is the growth of these payment technologies online via a wide variety of devices and wearables, with or without screens. According to data from the National Retail Federation, online commerce is expected to continue growing at a tremendous pace in 2017, at 8-12 percent, compared with 2.8 percent for traditional brick and mortar retail.[12] A recent analysis of data from the Bureau of Labor Statistics shows that the ecommerce sector is adding jobs much faster than the general retail sector is losing them, and incomes for ecommerce workers are 27 percent higher and rising eighteen times more quickly then general retail.[13]

Unlocking Economic Potential in Financial Accounts

Similarly, consumers benefit from financial management applications, like Intuit's Mint application, which gives consumers direct access to all of their financial information in one place, for free. These kinds of services have helped millions of consumers and businesses create personal budgets, set savings goals, and otherwise participate in the kind of simplified financial management that was previously available only to those who could afford a personal accountant. The economic benefits of wide access to data to facilitate informed market choices are axiomatic. More information enables better choices. One study estimates the potential value of wide access to data (or "open data") to the U.S. economy across seven sectors, including consumer finance, to be approximately $1.1 trillion.[14]

This benefit ultimately accrues to consumers, but businesses also benefit as consumers make better-informed decisions and obtain lower costs for products and services. More efficient production leads to more jobs and higher wages, all of which collectively lead to higher standards of living. Today, the benefits of open data are manifesting themselves in many different aspects of consumers' lives, including with respect to consumer transactions, social networking, professional development, health care and education. Transparency enabled by open data has, for example, allowed consumers to easily compare pricing for travel, health care, and other consumer products and services. Open data has also changed the way consumers travel, for example by enabling improved navigation on mobile devices and public transportation reliability.

This same opportunity is growing in financial services, with a wide variety of tools and applications available for consumers and businesses to empower themselves using their own financial data. Importantly, many of these applications are designed to increase savings[15] which is widely recognized as a key ingredient of economic growth. Part of the success of these savings tools is the use of technology and scale to better address consumer needs, increase

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[11] *See, e.g*, Joanna Stern, *Chip Card Nightmares? Help Is on the Way*, THE WALL STREET JOURNAL (Aug. 2, 2016), https://www.wsj.com/articles/chip-card-nightmares-help-is-on-the-way-1470163865

[12] *See* BI Intelligence, NATIONAL RETAIL FEDERATION ESTIMATES 8-12% US E-COMMERCE GROWTH IN 2017 (Feb. 10, 2017) http://www.businessinsider.com/national-retail-federation-estimates-8-12-us-e-commerce-growth-in-2017-2017-2

[13] *See* Michael Mandel, *The Creation of a New Middle Class?: A Historical and Analytic Perspective on Job and Wage Growth in the Digital Sector, Part 1,* PROGRESSIVE POLICY INSTITUTE *(March 2017),* http://www.progressivepolicy.org/wp-content/uploads/2017/03/Tech-middle-class-3-9-17b.pdf

[14] *See* McKinsey & Company, OPEN DATA: UNLOCKING INNOVATION AND PERFORMANCE WITH LIQUID INFORMATION 6 (2013), http://www.mckinsey.com/business-functions/digital-mckinsey/our-insights/open-data-unlocking-innovation-and-performance-with-liquid-information.

[15] *See* Jason Zweig, *Inching Your Way Toward Wealth with Your Phone*, THE WALL STREET JOURNAL (Feb. 3, 2017), https://blogs.wsj.com/moneybeat/2017/02/03/inching-your-way-toward-wealth-with-your-phone/; *See also,* Geoffrey A. Fowler, *These Apps Can Finally Get You To Save Money*, THE WALL STREET JOURNAL (June 16, 2015), https://www.wsj.com/articles/these-apps-can-finally-get-you-to-save-money-1434477296

access, and promote financial health, including through the support of application marketplaces such as Google Play and the Apple App Store.[16]

FIN Policy Recommendations

The above technologies and economic opportunities exist today and are serving to make financial services better, faster, and cheaper for consumers and small businesses. The economy will grow, and participation in the economy will expand if Congress works to expand the base of consumers in financial services, ease friction in commerce, increases capital and tools for small business growth, and unlocks greater savings through data access.

Unfortunately, these benefits are hampered by an antiquated financial regulatory structure that has not kept pace with modern technology and fails to meet the needs of today's consumers and commerce. That structure is fragmented and inconsistent among federal regulators, and varies widely across state jurisdictions.[17]

FIN welcomes your thoughtful, bipartisan approach to exploring proposals that will "promote economic growth and/or enable consumers, market participants and financial companies to better participate in the economy."

In response to your request, we urge your committee to explore comprehensive legislation that would adopt a "Financial Innovation National Strategy" to 1) ensure we grow financial technology jobs in the U.S., and 2) foster competition and innovation in financial services to better serve consumers and the economy. FIN submits the following six proposals as part of that Strategy:

Streamline Money Transmission Licensing: Payment innovators currently must obtain and continually update money transmission licenses in nearly every state. Consumer protection is a critical part of payments regulation, but it makes no sense for different states to regulate digital money differently from one state to another, especially if that process significantly delays entry to market and prevents consumers and businesses in many states from having equal and consistently safe access to cutting edge payments technologies.

> *FIN Recommendation: Establish an optional federal money transmission license, managed by the Treasury Department, that: 1) oversees application and licensing, safety and soundness, BSA/AML compliance; 2) incorporates a number of existing state money transmitter laws and Uniform Money Services Act requirements; 3) preserves the current state structure for those wishing state licenses; and 4) offers uniform federal law only for an applicant choosing a federal license.*

Assess Consumer Choice and Innovation in Card Payments and Security: Technology innovators are developing numerous online payment options for consumers and merchants, along with a variety of methods to ensure security and authenticate payments conveniently. This

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[16] See Mary Wisniewski, *Financial Apps Get Boost from Google,* FINANCIAL PLANNING (March 29, 2017), https://www.financial-planning.com/news/financial-apps-get-a-boost-from-google

[17] *See* Financial Innovation Now, WHITE PAPER: EXAMINING THE EXTENSIVE REGULATION OF FINANCIAL TECHNOLOGIES (July 2016), https://22127-presscdn-pagely.netdna-ssl.com/wp-content/uploads/2016/07/Examining_the_Extensive_Regulation_of_Financial_Technologies.pdf; *See also,* Brian R. Knight, *Federalism and Federalization on the Fintech Frontier*, MERCATUS WORKING PAPER, MERCATUS CENTER AT GEORGE MASON UNIVERSITY (March 2017), https://www.mercatus.org/system/files/mercatus-knight-federalism-fintech-v1.pdf

constant evolution is necessary to drive down fraud and stay ahead of hackers. In contrast, incumbent financial services companies are building closed and proprietary networks, which lock out innovation, decrease consumer choice, and diminish the greatest potential security and fraud reduction methods.

FIN Recommendation: Update reporting provisions of the Card Act to include regular assessment of 1) the impact of card network requirements on consumer choice and access to payment methods; 2) the process used to determine network requirements and standards, and its impact on market access and interoperability; 3) the alignment of network fees with actual security risk and fraud cost; 4) merchant barriers to consumer use of online and mobile payment options; and 5) the potential for risk-based network fees to incentivize better security, decrease fraud, and lower costs for consumers and businesses.

Centralize Technology Leadership and Promotion: As innovators, we believe strongly in a balanced regulatory environment that promotes market-based solutions. We are pleased that some federal financial regulators have recently recognized the tremendous benefit of new financial technologies, particularly its ability to grow commerce and help the underserved. These agencies have developed a number of initiatives and programs to enable innovation in financial services. For example, the Consumer Financial Protection Bureau, through Project Catalyst, encourages consumer-friendly innovation and actively engages with the innovator community. It has pioneered a nascent no-action letter program that may offer a valuable “testbed” for new technologies navigating regulatory obligations. Likewise, the Office of the Comptroller of the Currency’s “Innovation Initiative“ is seeking to improve the agency’s understanding of technology trends and better facilitate responsible innovation for its chartered institutions and their partners. The Treasury Department has also examined trends in technology-enabled lending that are making access to capital far more achievable for America’s small businesses. While it is helpful that these agencies have embraced the benefit of technology-enabled competition in financial services and are exploring ways to foster this growing part of our economy, these efforts are disparate and need greater coordination. Technological change is now a fundamental, inseparable part of modern financial services.

FIN Recommendation:

1. *Establish a Treasury Undersecretary of Technology, responsible for coordinating efforts across all federal financial regulators to foster technological innovation in financial services, government use of modern technology, and greater regulatory consistency.*
2. *Carefully evaluate the willingness of any newly nominated prudential regulator to embrace technology and enable innovation in financial services, including flexible approaches to licensing and chartering that can facilitate new entrants and greater competition.*
3. *Require IRS to provide a digital portal for consumers and 3rd parties on their behalf to quickly and securely verify tax return data. FIN supports the IRS Data Verification Modernization Act of 2016.*
4. *FIN supports the goals of the Financial Services Innovation Act of 2016 and greater efforts by regulators to facilitate introduction and testing of new technologies and services.*

Ensure Consumer Access to Financial Accounts and Data: Consumers are using new applications and technology to better manage their financial lives and leverage financial data to qualify for better rates and services. Consumers should have access to this data in whatever format they wish.

FIN Recommendation: Preserve ability of consumers to permission access to consumer financial account data securely and easily, using whatever secure application or technology they wish, without charges or restrictions that unreasonably favor any one application or technology over another.

Streamline Access to Capital via the Internet: America's consumers should have easy access to safe forms of credit. Antiquated state lending rules did not contemplate internet-based services, and the complexity and inconsistency of the state laws (without the added benefit of uniform consumer protection) may actually hold back the availability of capital in places where it is most needed, especially for small businesses. Further exacerbating these problems, recent court decisions have created uncertainty regarding some lenders ability to operate across certain state lines, running contrary to internet-based lending and the National Bank Act.

FIN Recommendations:

1. *Fix the "valid when made" doctrine. FIN supports the Protecting Consumers' Access to Credit Act of 2016.*

2. *Monitor and regularly assess agency efforts to facilitate entry of new lending business models that offer better access and affordability for consumers and small businesses, and explore alternative federal approaches if such entry does not occur.*

Help Consumers and Businesses Manage Money with Real-time Payments: In the US, payments and check deposits can take days to clear through the legacy bank systems, whereas other countries already have real-time payments. American consumers cannot afford delays in accessing their own money. Unfortunately, these delays cause many Americans to instead turn to high-cost check cashing alternatives or pay-day loans to cover real expenses.

FIN Recommendation: Require the Federal Reserve to ensure the availability of real-time payment networks for all Americans by 2020 and ensure such networks are affordable and secure.

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Technology is driving fundamental change in financial services and we believe this change gives policymakers an excellent opportunity to try new approaches that enhance economic opportunity and improve consumer access. We welcome debate on FIN's proposals and will provide specific legislative language as these discussions develop. Thank you for considering our views and we look forward to working with the Committee constructively towards a better financial services system.

Respectfully Submitted,

Brian Peters
Executive Director
Financial Innovation Now