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# CFPB Issues Report Offering Preliminary Insights on Consumer Finance Marketplace Innovations

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On October 24, 2016, the Consumer Financial Protection Bureau (CFPB) issued a report[1] highlighting various marketplace developments in payments, transactions, lending, underwriting, budgeting, money management, and other areas. These developments are emerging from FinTech startups and traditional financial institutions, and include new products, services, and trends as well as areas where potential barriers to innovation exist.

The report provides a glimpse into the significant level of stakeholder engagement that the CFPB has been involved with to stay current with progress and trends in the evolving consumer financial markets. The CFPB's Project Catalyst initiative[2] is designed to encourage consumer-friendly innovation. Project Catalyst provides an important means of fulfilling the Bureau's directive under the Dodd-Frank Act to give all consumers access to fair, transparent, effective, and innovative markets.[3] One of Project Catalyst's top priorities is to engage closely with companies, entrepreneurs, and other stakeholders who are at the front lines of innovation. This engagement allows the CFPB to better understand emerging market innovations, what does and does not work for consumers, and potential challenges facing innovators.[4] Through outreach and market monitoring activities, Project Catalyst has learned about a range of marketplace developments in innovation. The report cites a 2016 estimate from Accenture that since 2010, over $50 billion has been invested globally in almost 2,500 FinTech companies, and a little less than half of this amount ($22.3 billion) was invested in 2015 alone. According to the CFPB, examples of ways that new or improved financial products and services can better serve consumers are as follows:

- Expanding access to products and services to consumers who are underserved, underbanked, unbanked, or have unique or special needs;
- Improving consumer control for day-to-day decisions or adopting certain spending and savings habits;
- Reducing costs for consumers through increased competition or adoption of technologies that reduce operating expenses;

[1] Consumer Financial Protection Bureau, *Project Catalyst report: Promoting consumer-friendly innovation* (Oct. 24, 2016), available at http://www.consumerfinance.gov/data-research/research-reports/project-catalyst-report-promoting-consumer-friendly-innovation/.

[2] More information about Project Catalyst is available at: http://www.consumerfinance.gov/projectcatalyst.

[3] *See* 12 U.S.C. 5511(b)(5).

[4] Highlights of Project Catalyst's work to support marketplace innovation include: (i) Project Catalyst's "office hours" program that has met with hundreds of companies and diverse stakeholders across the FinTech and innovation community; (ii) Project Catalyst's oversight of the Bureau's "trial disclosure waiver" policy, which is designed to support pilot testing of new innovative disclosure approaches that could promote transparency and improve consumer understanding; (iii) Project Catalyst's administration of the Bureau's "no-action" letter policy, which is designed to reduce potential regulatory uncertainty for innovative products that promise significant consumer benefits; and (iv) Project Catalyst's administration of several research pilot programs with companies of various sizes to help inform the Bureau's understanding of emerging issues such as encouraging consumer savings and improving the effectiveness of early-intervention credit counseling.

- Adding or improving functionality;
- Enhancing the safety and security of products and services; and
- Improving transparency and consumer understanding.

The CFPB states that it “continues to see dynamism and rapid change in the financial marketplace,” but notes that many of these developments have not been without risk to consumers. Some of these marketplace highlights include:

- **Better cash-flow management**: Project Catalyst has heard from some FinTech companies that are developing tools to help address challenges posed by a time lag in cash flow for expenses and income. These challenges can cause consumers to incur overdraft or late payment fees, borrow high-cost short-term loans, forgo needed expenses, or make other difficult adjustments. Some services enable employees to access accrued wages earlier than the regular payday, while others allow certain consumers with earnings that fluctuate to put aside earnings from above-average pay periods to supplement earnings for below-average pay periods. Other companies allow consumers to deduct a portion of their wages and apply it to their recurring payments.

- **Improving credit assessment**: The CFPB estimates that roughly 45 million Americans have either no credit history, or credit history that is too scarce or too stale to generate a credit score. Project Catalyst has met with a number of innovators that are seeking to expand access to responsible credit or offer credit at lower interest rates to borrowers who may be excluded or mispriced by existing credit models. Some companies are exploring opportunities to expand access by looking to alternative forms of data and newer methods of analyzing this data to assess an applicant’s creditworthiness.

- **Improving consumer financial data acces**s: Project Catalyst has learned of innovative tools for personal financial management that can help families better manage their finances and weather financial shocks. The CFPB is interested in further exploring consumer and third-party account access, and supports the ability of consumers to access and share personal information about their own financial lives with others where they believe it is in their best interest to do so. However, the CFPB states that it is concerned by reports that some financial institutions are looking for ways to limit or even shut off access to financial records, rather than exploring ways to make sure that such access, once granted, is safe and secure.

- **Increasing options for student loan refinancing**: Project Catalyst is aware of FinTech companies that have entered the student loan refinancing market, offering borrowers with high-rate student loan debt an opportunity to refinance to take advantage of the current low interest rate lending environment. The CFPB understands that certain practices by incumbent student loan servicers can create obstacles that may increase costs for new entrants in the student loan refinancing market and may pose risks to consumers.

- **Modernizing mortgage servicing platforms**: Project Catalyst has learned of companies that are considering how to adopt or build more modern technology platforms to improve mortgage loan servicing and provide more flexibility, scalability, and systems integration capacity, as compared with legacy platforms. Some companies are building platforms that aim to reduce the need for workarounds and provide more user-friendly interfaces. Others are looking at machine learning to detect early on when borrowers are likely to suffer financial distress, in order to take steps to reduce defaults.

- **Improving credit reporting accuracy and transparency**: Project Catalyst has identified FinTech firms that are developing tools to improve consumer access and understanding of their credit score and history. For example, one company is streamlining the process for consumers to dispute errors on their credit reports. Increasingly, companies are also offering consumers more information about their credit scores and credit reports on a regular basis. Others model hypothetical scenarios and actions consumers might take to improve their credit standing.

- **Improving peer-to-peer money transfers**: Project Catalyst has learned of a number of companies that are working to make money transfers more consumer-friendly. For example, some companies are developing peer-to-peer services for consumers to quickly and inexpensively transfer funds over digital channels (which allow money to be sent and received by consumers who do not have bank accounts and without having to rely on cash). Others are working on ways to make it easier for consumers to use the digital funds they receive in their home countries. Some companies are working to provide real-time price comparison services, so that people sending money overseas can easily find the cheapest and most convenient ways to do so.

- **Supporting consumer savings**: Project Catalyst has heard from companies that are offering services designed to help consumers build emergency savings. These services can help consumers determine how much they can afford to save based on their income and expenses and automate savings. Other companies have developed applications with features that allow consumers to transfer money automatically to savings accounts.

**Key Takeaways**

- **Additional outreach, discussions, and evaluations going forward**. The CFPB states that it is "committed to learning more about these areas and leveraging its policies and programs as appropriate to help facilitate innovation." The CFPB will continue to build Project Catalyst's stakeholder outreach and explore the launch of more pilot projects in the coming year. We expect this process will create additional opportunities for the CFPB to explore other emerging business models and recent marketplace developments.

- **The CFPB's enforcement stance**. The report outlines the importance of ensuring consumer protections are built into emerging products and services from the outset. According to Director Cordray, the CFPB continues to believe that "innovative developments hold great promise for making markets work better both for consumers and for providers of financial services," but that innovation "cannot skirt the need for sufficient oversight and consumer protection."[5] The CFPB has taken several enforcement actions now against FinTech providers. In his prepared remarks at the Money 20/20 Conference in Las Vegas, Nevada, this week,[6] CFPB Director Richard Cordray attempted to place these enforcement actions in an appropriate context. According to Cordray, these actions "should not be misread or overread. Everyone who provides consumers with financial products and services must adhere to the same standards and will be held to the same expectations. But we are not looking to punish anyone merely for raising novel issues that present unsettled points of law or questions that fall into unforeseen cracks in the regulatory framework." Instead, Cordray highlighted that the CFPB's enforcement actions to date have addressed "basic meat-and-potatoes issues such as companies that promise one thing to their customers and then do something quite different." We expect additional regulation and enforcement activity in the FinTech space, even though the CFPB seems generally supportive of financial innovation.

- **Hints of an evolving regulatory approach**. The report highlights the CFPB's interest in a regulatory approach "that is able to protect consumers and at the same time support consumer-friendly developments is critical." This stance is somewhat different from the traditional regulatory approach of overseeing financial markets through many fast-paced changes, weighing predicted risks to markets and consumers against expected benefits (described further in the next section). Whichever path the CFPB decides to take with respect to FinTech, it seems clear that they are interested in moving away from the status quo. This desire is in part based on its belief that financial innovation can help create opportunities for underserved consumers – including those who are low-income, unbanked, underbanked, or economically vulnerable – by improving their access to consumer financial products and services.


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[5] The report states that "[c]ompanies of all sizes should meet high standards of regulatory diligence and put the interests of consumers first when developing financial products and services." The Bureau cautions that it will take action as necessary "to protect consumers from innovations that may be unfair, deceptive, abusive, or discriminatory," and that it will continue to use all of the tools at its disposal, including enforcement actions, supervisory oversight, and rule writing, to monitor and mitigate the risks posed by new and existing consumer financial products and services.

[6] Prepared Remarks of Richard Cordray, Director of the Consumer Financial Protection Bureau, *Money 20/20*, Las Vegas, Nevada, Oct. 23, 2016, *available at* http://www.consumerfinance.gov/about-us/newsroom/prepared-remarks-cfpb-director-richard-cordray-money-2020/.