

Penta Policy Insiders

Fintech is Revolutionizing (and Complicating) Banking

Introduction

Financial technology, better known as fintech, is revolutionizing the way we bank. It's making it easier to access financial services on the go, such as viewing your bank balance, transferring money, or depositing a check. In fact, nearly nine out of ten Americans use it to manage their finances in some capacity.¹ Given the continuous rise of this technology, and its potential regulatory and societal implications, we wanted to know what policymakers are thinking about this shift in the financial services industry.

Both the Democratic and Republican policymakers we interviewed express enthusiasm and apprehension about the growing popularity of fintech-based services, particularly regarding data privacy. Some Democratic policy staff are concerned that insufficient regulation could expose consumers to privacy risks and predatory lending. Some Republican staff, on the other hand, worry regulatory complexity could harm innovation.

What policymakers are saying

Despite the enthusiasm of some policymakers about the rise of fintech, Democratic and Republican leaders raise data privacy concerns about how fintech could make it more difficult to safeguard private consumer information, a worry that has been at the forefront of policymakers' minds as the technology has become more widely adopted in recent years.⁵ This concern is particularly emphasized by Democratic policymakers, who say the growth of fintech makes it easier for lenders to engage in predatory lending practices in underbanked communities, which are predominantly communities of color. On the other hand, Republican policy staff note that increased regulations could limit growth and technology adoption.



There's a data concern [with digital banking]. We've had issues with people's information getting leaked... that's happened to companies whether they have brick and mortars or not.

Staff Member, U.S. House of Representatives, R

What is fintech?

Fintech is a catch-all term used to describe emerging technology that seeks to advance and automate financial services – it not only encompasses digital banking but also elements like crypto, digital wallets, and more.² While the phrase “fintech company” can refer to a digital-only business, the term broadly refers to any company or bank that uses technology to improve financial services.³ This piece specifically focuses on both fintech-based companies and traditional financial institutions using fintech.⁴





I don't think the fintech rules and regulations have caught up... I'm sure they're working on it now on the banking committee. But that's where I see the offering kind of dropping off because the regulatory burden both on the expense side and just the complications of doing all that servicing and all of that credit risk stuff that the bank has to do would hinder someone like my young staff assistant who has to navigate all that.

Legislative Assistant, U.S. House of Representatives, R



I think they have the potential to be very helpful. I use some of these products, but I also worry that they are trying to be subject to certain forms of regulation that are less stringent. And in some ways, if these products are going to be even more accessible, we need stronger government assistance to make sure they're not defrauding folks or doing anything predatory. So I think the potential is very high, but I worry the direction on some of them on regulation is going.

Policy Advisor, U.S. Department of State, D



I think fintechs throughout the pandemic have been a generally good development and, I think, did help a lot of people see access to credit. But I also think they've evaded a lot of regulation and probably starting to see a bit of a crackdown there. I think they also, at times, probably are a little predatory in communities where you might not have the financial education and have been underbanked for years.

Legislative Assistant, U.S. House of Representatives, D



They say fintech is a way we can promote more access to financial products because we can distribute them in a less costly way. I would say that just often seems like what's the way we can avoid regulations.

Former Policy Advisor, U.S. Senate, D

Conclusion

Policymakers we spoke to acknowledge the excitement around the rapid pace at which fintech is growing, both within and outside the traditional banking framework. However, members on both sides of the aisle express a variety of concerns, ranging from data privacy to the potential increase in predatory lending. With the widespread digitization of the financial services industry, policy leaders are actively thinking about the safety and regulatory implications, which for most of history has been dominated by organizations without a considerable online footprint.

About Penta Policy Insiders

Penta Policy Insiders provides direct feedback from policymakers to government relations professionals, improving advocates' ability to understand, validate, and improve the efficiency and effectiveness of their engagement.

Credits

Senior Content Associate

Kinda Ahmed

Associate Director, Government Insights & Research Products

Natalie Bahmanyar

Director, Research

Sehare Hemani

Associate Director, Quantitative Research

Mackai Tapleshay

Chief Research Officer

Michael Griffin

President

Michael Gottlieb

Citations

1. <https://fortune.com/2021/10/12/plaid-fintech-use-adoption-us-consumers-baby-boomers/>
2. <https://mitsloan.mit.edu/ideas-made-to-matter/fintech-explained>
3. <https://bootcamp.cvn.columbia.edu/blog/what-is-fintech/#:~:text=The%20term%20%E2%80%9Cfintech%20company%E2%80%9D%20describes.services%20for%20businesses%20or%20consumers>
4. <https://www.imf.org/en/Blogs/Articles/2022/04/13/blog041322-sm2022-gfsr-ch3>
5. <https://www.imf.org/external/pubs/ft/fandd/2021/05/big-tech-fintech-and-financial-regulation-crisanto-ehrentraud.htm>
6. <https://www.forbes.com/sites/columbiabusinessschool/2023/02/01/investing-in-the-underbanked-an-opportunity-at-the-intersection-of-fintech-and-proptech/?sh=15c05ce4e87d>

A Note on Use of These Materials

This document has been prepared by, and comprises valuable proprietary information belonging to Penta. It is intended for educational purposes only.

Except as permitted under the United States Copyright Act of 1976, no part of this publication may be reproduced or distributed in any form or by any means, or stored in a database retrieval system without the prior written permission of Penta. The use of copyrighted materials and/or images belonging to unrelated parties and reproduced herein is permitted pursuant to license and/or 17 USC § 107.

Legal Caveat

Penta has worked to ensure the accuracy of the information it provides in this report. This report relies upon data obtained from many sources, however, and Penta is not able to guarantee the accuracy of the information or analysis contained in these materials. Furthermore, Penta is not engaged in rendering legal, accounting, or any other professional services. Penta specifically disclaims liability for any damages, claims or losses that may arise from a) any errors or omissions in these materials, whether caused by Penta or its sources, or b) reliance upon any recommendation made by Penta.

Confidentiality: All participation in our research is confidential and not for attribution.
