

# A Financial System That Creates Economic Opportunities Nonbank Financials, Fintech, and Innovation



**The United States is the global leader in financial services and innovation, and the Administration's policies are designed to maintain and enhance America's competitive edge and open business environment.**

Treasury's recommendations in this report are designed to:

- Embrace the efficient and responsible use of consumer financial data and competitive technologies
  - Efficiency: better enable digital communications, data sharing, and the use of cloud computing and machine learning
  - Responsibility: set a national data security and breach notification standard, permit consumers to withdraw prior data authorizations, and develop more secure data sharing methods
- Streamline the regulatory environment to foster innovation across business models
  - Encourage regulators across the country to harmonize rules in order to create a clear and consistent environment for innovators and existing financial institutions
- Modernize activity-specific regulations
  - Update rules to accommodate technological advances such as facilitating service partnerships between banks and nonbank firms and further digitizing the mortgage experience
  - Encourage efforts to develop a faster retail payments system
- Facilitate experimentation
  - Work with federal and state regulators to establish a system similar to a "regulatory sandbox" to invite innovations from new and existing market participants
  - Reform procurement rules and encourage regulator engagement to allow financial regulators to keep up with the technological developments of the industries they regulate

## Embrace the Efficient and Responsible use of Consumer Financial Data and Competitive Technologies

Developments in digitization, data, and scalable technology such as cloud computing and machine learning have increased the magnitude and use of personal financial data available to consumers and businesses, raising important questions regarding data access, security, and liability. The report recommends:

- Modernizing rules for digital communications, such as the Telephone Consumer Protection Act and the Fair Debt Collection Practices Act.
- Improving consumers' access to their financial data by removing legal and regulatory uncertainties currently holding back the implementation of more secure and efficient methods of data access, providing disclosures written in plain

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language that enable consumers to give informed and affirmative consent regarding access to their financial account and transaction data, and giving consumers effective means to readily revoke prior authorizations.

- Strengthening the protection of consumer financial data through enacting a federal data security and breach notification law that is technology-neutral that is scalable to the type of activity and entity, and that recognizes existing federal data security requirements for financial institutions.
- Encouraging work on digital identity by enhancing public-private partnerships that facilitate the adoption of trustworthy digital legal identity products and services, and supporting efforts to fully implement the U.S. government federated digital identity system.
- Modernizing regulatory requirements and guidance for technologies like cloud computing, artificial intelligence, and machine learning in the financial services sector.

## Streamline the Regulatory Environment to Foster Innovation across Business Models

The U.S. financial regulatory framework, both at the state and federal level, must evolve to enable innovation and ensure a globally competitive marketplace for financial services. The existing regulatory framework presents challenges that require action to modernize and maintain America's competitive edge. The report recommends:

- Advancing the harmonization of state licensing and supervision to increase efficiency, particularly for lending and payments companies.
- Moving forward with the Office of the Comptroller of the Currency's special purpose national bank charter to provide a federal approach to reducing regulatory fragmentation and supporting beneficial business models.
- Harmonizing of guidance related to bank partnerships with third-parties to improve efficiency and further enable technological innovation in a prudent manner.
- Improving the ability of banks to make innovation-related investments and flexibly adapt to new technologies by considering changes to applicable banking regulations.

## Modernize Activity-Specific Regulations

The U.S. regulatory framework for key financial services requires meaningful modifications to improve the delivery of both digital and non-digital financial services to consumers and

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businesses. Such changes are aimed at improving the U.S. regulatory approach in areas such as lending, payments, and financial planning. The report recommends:

## *Lending and Servicing*

- **Marketplace Lending:** Codifying by Congress of the “valid when made” doctrine and the role of the bank as the “true lender” of loans it makes to better support productive partnerships between banks and newer technology based firms. Federal banking regulators should also use their available authorities to address these challenges.
- **Mortgage Lending and Servicing:** Promoting changes to accommodate an end-to-end digital mortgage, including acceptance of digital promissory notes, recognition of modern digital notary standards, and automated property appraisals.
- **Student Lending and Servicing:** Establishing minimum effective guidance for how servicers handle decisions with significant financial implications. Treasury also recommends legislative action to implement a risk-sharing program for institutions participating in the federal student loan program.
- **Short-Term, Small-Dollar Installment Lending:** Recognizing and supporting the authority of states to establish comprehensive requirements for these products and recommending that the Bureau of Consumer Financial Protection rescind its Payday Rule. Treasury also recommends that regulators take steps to encourage sustainable and responsible short term, small dollar installment lending by banks.
- **Debt Collection:** Establishing minimum federal standards governing the collection of debt by third-party debt collectors.
- **IRS Income Verification:** Updating the IRS income verification system to develop a modern, technology-driven interface that protects taxpayer information and enables automated and secure data sharing with lenders or designated third parties.
- **New Credit Models and Data:** Further enabling the testing of newer credit models and data sources by both banks and nonbank financial companies to expand access to credit and improve risk assessments.
- **Credit Bureaus:** Coordinating regulatory actions by the relevant agencies to best protect consumer data held by credit reporting agencies.

## *Payments*

- Encouraging state authorities to further harmonize licensing requirements and supervisory examinations, particularly for money transmission activities.
- Modernizing payment services by having the Federal Reserve continue to work to facilitate a faster retail payments system. In particular, smaller financial institutions,

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like community banks and credit unions, should also have the ability to access the most-innovative technologies and payment services.

## *Wealth Management and Digital Financial Planning*

- Harmonizing the current patchwork of regulatory authority over wealth management and financial planning, which makes these services more costly and potentially presents unnecessary barriers to the development of digital financial planning services.

## **Facilitating Experimentation**

The United States must preserve its leading position in financial innovation and must engage in agile and effective regulation for a 21st century economy. As the rest of the world takes measures to enable innovative financial products and services, the United States risks losing out by failing to provide regulatory clarity and remove unnecessary barriers to innovation. The report recommends:

- Working with federal and state regulators to design a system functioning like a "regulatory sandbox" that would establish a unified regulatory approach and facilitate coordination and meaningful experimentation with innovative financial services.
- Reforming procurement rules to allow financial regulators to use other transaction authority for research and development and proof of concept technology projects.
- Strengthening regulator engagement efforts with industry and the establishment of clear points of contact for industry and consumer outreach.
- Promoting the alignment of actions of international organizations with U.S. national interests and the domestic priorities of U.S. regulatory authorities.