

Banking innovators, arise!

It's rare when banking regulators express a desire to position their agencies on the leading edge of technology in financial services. The trend so far has been to depend on the industry to push the limits afforded by new and developing capabilities that offer the possibility of doing things better, faster, and more efficiently, while serving customers and providing returns on investment.

Only then-usually-do the regulators step in, evaluate what's going on, and write rules that attempt to curb potential behaviors and effects perceived to be detrimental in some way. Which is why it is so curious that the Consumer Financial Protection Bureau is taking the opposite tack. In November it launched what it calls Project Catalyst, designed, it says, "to encourage consumer-friendly innovation and entrepreneurship in markets for consumer financial products and services." The CFPB kicked off this initiative by sponsoring a public event in Mountain View, Calif., in the heart of Silicon Valley. CFPB Director Richard Cordray, in his written remarks, congratulated the attendees for "bringing a great variety of experiences-in entrepreneurship, investing, nonprofits, and government-to inform and enliven this conversation." Cordray's November 14 speech is remarkable in several respects. For one thing, he invokes such literary figures as Ernest Hemingway and Thomas Gray to illustrate the sheer need for visionaries in order for progress to be made. He quotes a lament in an elegy written by Gray: "Full many a gem of purest ray serene/The dark unfathom'd caves of ocean bear;/Full many a flower is born to blush unseen,/And waste its sweetness on the desert air." With Hemingway, he draws on his famous quote that bullfighters are the only people who live their lives "all the way up." Cordray says a few other things in this speech that are notable. One is that he wants the CFPB to consider itself as a "start-up"; one in which "we want to establish attitudes and processes that embody our aspiration to be an innovative and forward-looking agency." Another is that he recognizes that "regulators often can impede innovation, by not recognizing its importance for consumers and by freezing people who want to try new things but cannot get any straight answers about how to deal with the risks of regulatory uncertainty or novel issues of how existing laws will be applied to unforeseen products and approaches." Yet another is this bold statement: "We want to help as much as we can to stimulate innovation in financial products and services." All this sounds really, really good. But. It is clear that Cordray does not have a very high opinion of banks as innovators (or of their traditional regulators). Says he: "In the run-up to the crisis of 2007-2008, innovation in consumer finance too often meant the creation and promotion of products that obscured costs and risks from consumers. "Irresponsible lending that was often predatory in nature; patchwork regulation that was often ineffectual in practice; complexity and confusion that too often marred what financial products were achieving in people's individual lives and across the economy as a whole-all of these problems led to a calamity in which trillions of dollars in household wealth vaporized across this country, and economic opportunity, including access to credit, receded dramatically for millions of Americans." One of the stated goals of CFPB's Project Catalyst is to collaborate with innovators. In fact, the agency announced it had reached agreement with three private entities which will share "anonymized" data about consumer behaviors and trends. The bureau intends to use such data "to better inform policy decisions." The thing is, none of these entities are financial institutions. They are: BillGuard-A company that alerts consumers to questionable charges on their debit and credit cards and helps them resolve billing disputes quickly. This company markets its products to banks and helps them in dispute management. CFPB will use the billing dispute data to observe trends in consumer complaints and complaint resolution. Plastyc-This company professes to be an alternative to traditional banking. Plastyc's data sharing will focus on the value consumers place on easily depositing and obtaining immediate access to their funds, mainly through prepaid cards. Simple-This company also is designed to be an alternative to traditional banking. The collaboration with CFPB will explore how consumers can gain insight into their spending habits and point the way to what tools can encourage saving. According to the company's website, it seeks to replace bank debit cards with its own-which are issued by a partner bank. "We want to collaborate with innovators seeking to advance consumer-friendly innovation," says Cordray in the Project Catalyst announcement. All of which must cause some head-scratching from the thousands of bankers whose very livelihood depends on innovation and customer satisfaction. Not to take anything away from the companies mentioned, but surely the agency might consider seeking out innovators within the banking industry itself. After all, bank product and technological advances are chronicled week after week in these posts, and month after month in the ABA Banking Journal magazine pages. For example, just since September, we've made sense out of: Finding ways to mix mobile banking with secure service; accelerating the use of analytics to provide individualized service to customers; improving mobile banking to meet the expectations of increasingly demanding users; fine-tuning the provision of personal financial management for a wide array of potential customers; adapting the use of increasingly sophisticated personal devices in the workplace; and more.

For another example, just read the story elsewhere in Tech Topics about BBVA Compass's core conversion which implements real-time processing, which in turn makes customer transaction postings almost instantaneous. This innovative \$362 million project does nothing but benefit customers. It's not like the banking industry doesn't want to work with CFPB. In October, the agency proposed regulations to make it easier for spouses or partners who do not work outside of the home to qualify for credit cards. ABA immediately issued a statement applauding the action. To be fair, Cordray, in his speech, says another goal for Project Catalyst is that of outreach, in which he says he wants to "make affirmative efforts to open lines of communication with innovators." "We have already conducted early outreach to the innovator community. We have met with entrepreneurs, academics, investors, nonprofits, and industry executives," Cordray says. CFPB does maintain a Community Bank Advisory Council, made up of 13 bankers. Also, it has established a site on its web page <http://www.consumerfinance.gov/ProjectCatalyst/> where anybody can make suggestions how to make innovation easier or to test new market ideas. Now it's up to innovators within the industry itself to show the CFPB what's new and possible for tomorrow's banking system. ## Sources used in this article include: Prepared remarks by Richard Cordray on Project Catalyst: Stimulating innovation in financial products and

services Consumer Financial Protection Bureau launches Project Catalyst to spur consumer-friendly innovation
<http://www.consumerfinance.gov/ProjectCatalyst/> <http://www.consumerfinance.gov/advisory-groups/>
<http://www.aba.com/Press/Pages/101712ABAAbilitytoRepayStatement.aspx>

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