

# GAO Highlights

Highlights of [GAO-18-254](#), a report to congressional requesters

## Why GAO Did This Study

Advances in technology and the widespread use of the Internet and mobile communication devices have helped fuel the rise of traditional financial services provided by non-traditional technology-enabled providers, often referred to as fintech.

GAO was asked to provide information on various aspects of fintech activities. This report addresses fintech payment, lending, wealth management, and other products. GAO assesses 1) fintech benefits, risks, and protections for users; 2) regulatory oversight of fintech firms; 3) regulatory challenges for fintech firms; and 4) the steps taken by domestic and other countries' regulators to encourage financial innovation within their countries. GAO reviewed available data, literature, and agency documents; analyzed relevant laws and regulations; and conducted interviews with over 120 federal and state regulators, market participants, and observers, and regulators in 4 countries with active fintech sectors and varying regulatory approaches.

## What GAO Recommends

GAO is making numerous recommendations related to improving interagency coordination on fintech, addressing competing concerns on financial account aggregation, and evaluating whether it would be feasible and beneficial to adopt regulatory approaches similar to those undertaken by regulators in jurisdictions outside of the United States. In written comments on a draft of this report, the agencies stated that they concurred with GAO's recommendations and would take responsive steps.

View [GAO-18-254](#). For more information, contact Lawrence L. Evans, Jr. at (202) 512-8678 or [Evansl@gao.gov](mailto:Evansl@gao.gov).

March 2018

## FINANCIAL TECHNOLOGY

### Additional Steps by Regulators Could Better Protect Consumers and Aid Regulatory Oversight

#### What GAO Found

Fintech products—including payments, lending, wealth management, and others—generally provide benefits to consumers, such as convenience and lower costs. For example, fintech robo-advisers offer low cost investment advice provided solely by algorithms instead of humans. Fintech products pose similar risks as traditional products, but their risks may not always be sufficiently addressed by existing laws and regulations. Also, regulators and others noted that fintech activities create data security and privacy concerns and could potentially impact overall financial stability as fintech grows.

The extent to which fintech firms are subject to federal oversight of their compliance with applicable laws varies. Securities regulators can oversee fintech investment advisers in the same ways as traditional investment advisers. Federal regulators may review some activities of fintech lenders or payment firms as part of overseeing risks arising from these firms' partnerships with banks or credit unions. In other cases, state regulators primarily oversee fintech firms, but federal regulators could take enforcement actions. Regulators have published consumer complaints against fintech firms, but indications of widespread consumer harm appear limited.

The U.S. regulatory structure poses challenges to fintech firms. With numerous regulators, fintech firms noted that identifying the applicable laws and how their activities will be regulated can be difficult. Although regulators have issued some guidance, fintech payment and lending firms say complying with fragmented state requirements is costly and time-consuming. Regulators are collaborating in various ways, including engaging in discussions on financial protections for customers that may experience harm when their accounts are aggregated by a fintech firm and unauthorized transactions occur. Market participants disagree over reimbursement for such consumers, and key regulators are reluctant to act prematurely. Given their mandated consumer protection missions, regulators could act collaboratively to better ensure that consumers avoid financial harm and continue to benefit from these services. GAO has identified leading practices for interagency collaboration, including defining agency roles and responsibilities and defining outcomes. Implementing these practices could increase the effectiveness of regulators' efforts to help resolve this conflict.

Regulators abroad have taken various approaches to encourage fintech innovation. These include establishing innovation offices to help fintech firms understand applicable regulations and foster regulatory interactions. Some use "regulatory sandboxes" that allow fintech firms to offer products on a limited scale and provide valuable knowledge about products and risks to both firms and regulators. Regulators abroad also established various mechanisms to coordinate with other agencies on financial innovation. While some U.S. regulators have taken similar steps, others have not due to concerns of favoring certain competitors or perceived lack of authority. While these constraints may limit regulators' ability to take such steps, considering these approaches could result in better interactions between U.S. regulators and fintech firms and help regulators increase their understanding of fintech products. This would be consistent with GAO's framework calling for regulatory systems to be flexible and forward looking to help regulators adapt to market innovations.