

GAO Highlights

Highlights of [GAO-17-806T](#), a testimony before the Committee on Banking, Housing and Urban Affairs, U.S. Senate

Why GAO Did This Study

Advances in technology and the widespread use of the Internet and mobile communication devices have helped fuel the growth in fintech products and services. In April 2017, GAO issued the first of a series of planned reports on the fintech industry that describes four commonly referenced subsectors of fintech and their regulatory oversight.

This testimony summarizes the findings of that report and describes (1) commonly referenced fintech subsectors, including what it is and how it works; (2) potential benefits and risks of these subsectors, including recent industry trends; (3) and regulatory oversight of these subsectors.

This statement is based on our April 2017 report on the fintech industry ([GAO-17-361](#)). For that report, GAO conducted background research and a literature search of publications from agencies and other knowledgeable parties. GAO also reviewed guidance, final rulemakings, initiatives, and enforcement actions from agencies. GAO interviewed representatives of federal agencies, including the federal prudential regulators, state supervision agencies, trade associations, and other knowledgeable parties.

View [GAO-17-806T](#). For more information, contact Lawrence Evans, Jr. at (202) 512-8678 or evansl@gao.gov

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FINANCIAL TECHNOLOGY

Information on Subsectors and Regulatory Oversight

What GAO Found

The financial technology (fintech) industry is generally described in terms of subsectors that have or are likely to have the greatest impact on financial services, such as credit and payments. Commonly referenced subsectors associated with fintech include marketplace lending, mobile payments, digital wealth management, and distributed ledger technology.

- **Marketplace lenders** connect consumers and small businesses seeking online and timelier access to credit with individuals and institutions seeking profitable lending opportunities. Marketplace lenders use traditional and may use less traditional data and credit algorithms to underwrite consumer loans, small business loans, lines of credit, and other loan products.
- **Mobile payments** allow consumers to use their smartphones or other mobile devices to make purchases and transfer money instead of relying on the physical use of cash, checks, or credit and debit cards. There are different ways to make mobile payments, including the use of a mobile wallet.
- **Digital wealth management platforms** use algorithms based on consumers' data and risk preferences to provide digital services, including investment and financial advice, directly to consumers. Digital wealth management platforms provide services including portfolio selection, asset allocation, account aggregation, and online risk assessments.
- **Distributed ledger technology** was introduced to facilitate the recording and transferring of virtual currencies, specifically using a type of distributed ledger technology, known as blockchain. Distributed ledger technology has the potential to be a secure way of conducting transfers of digital assets in a near real-time basis potentially without the need for an intermediary.

Fintech products and services offer various potential benefits including increased access to financial services, lower costs, increased speed of service, and convenience. Fintech products and services also pose various potential risks including data security and privacy risks, risks posed by the use of alternative data, risk of human error or confusion, and risk posed by incomplete or inaccurate data. Trends have emerged across the fintech landscape such as the creation of partnerships between traditional financial institutions and fintech firms, formation of hybrid services, and establishment of self-regulatory efforts.

Regulation of the commonly referenced subsectors depends on the extent to which the firms provide a regulated service and the format in which the services are provided, with responsibilities fragmented among multiple entities that have overlapping authorities. Federal oversight authorities that apply to regulated activities generally include risk management oversight related to services provided to federally regulated depository institutions, consumer protection oversight, and securities and derivatives markets oversight. Some agencies have taken a number of steps to understand and monitor the fintech industry. State licensing laws and oversight mechanisms, including consumer protection, vary by state. Officials from the Conference of State Bank Supervisors we spoke with noted that the states are working on developing tools that can facilitate compliance with state-by-state licensing mechanisms.