Implications of Open Banking Regulations on Fintechs – English Transcript

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00:15

Hey everyone, good afternoon! Thanks for joining us today for the panel on the hot topic of open banking regulations and how they affect fintech. Open banking in the US is at a crucial point right now, especially with the upcoming CFPB rules under Section 1033 that everyone's been waiting for. These regulations are all about giving consumers more control over their financial data and boosting innovation by increasing competition in the financial services space. As we look forward to these rules being implemented, two exciting things really stand out: the potential and...

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We're looking to boost financial inclusion by offering more personalized services and creating opportunities for fintech banks and stakeholders to team up and bring innovative products to the market. We'll dive into this and more over the next 45 minutes. I'm Arti Srivastava Investor from Citi Impact Fund, and today we have four respected experts with us who will discuss the opportunities and challenges ahead. Feel free to drop your questions in the chat during the panel, and we'll get to them in the last 15 minutes of the session.

01:35

The first panelist today is Michele Scarbrough, the managing director and head of consumer regulatory policy and strategy at Citi. Michele leads the policy advocacy and supervisory strategy at Citi with the CFPB. She has a lot of experience with the CFPB and the U.S. House of Representatives, where she worked on collaborative policy changes for consumers and financial institutions. She has a unique perspective on how big financial institutions, like Citi, are adopting open banking. Next, we have John Pitts, the head of Policy at Plaid.

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Plaid is a real pioneer in the US open banking scene, helping millions of people connect their financial accounts to everyday apps. John is key in making sure users can control and share their financial data. Before joining Plaid, he was a deputy assistant director, working on getting states to cooperate and coordinate on enforcing the Dodd-Frank Act. Also with us is Erin Allard, the president of...

02:48

Prism Data is a company that helps lenders figure out how creditworthy someone is by using tons of data. Erin has a lot of experience working at the crossroads of banking and tech, focusing on partnerships with banks, managing risks, and following regulations. Before joining Prism Data, she held high-level positions at companies like Green Dot and Bloom Credit, so she really knows how to use data to boost financial health.

03:21

"And inclusion, and she'll share her thoughts on how open banking can help with that. Last but definitely not least, we have Vikas Raj, co-founder and managing partner at Resilience VC, an early-stage fintech venture capital firm based in D.C. They focus on financial inclusion and embedded finance. Before this, Vikas was the managing director at Axion Venture Lab, where he led global investment efforts and served on the boards of notable companies like Self, Conio, and Tienda Pago. He's invested in over 100 startups throughout his career."

03:55

"I'm really excited to dive into the world of fintech, especially how it can help underserved consumers and small businesses. We'll be hearing from Vikas about the cool new opportunities for startups and what the investment scene looks like with the new regulations coming in. Plus, we'll explore what the Emerging Markets can take away from all this. Thanks for joining us today, and sorry about the tech hiccups earlier – we've worked through some of those. So, let's jump right in! My first question is for Michele."

04:27

Scarboro, Michele, we've been hearing a lot about the open banking rules from the CFPB, specifically 1033 of the Dodd-Frank Act. This was all announced last year, and the next round of regulations is expected to drop in the next couple of weeks. To give our audience some context, what exactly are open banking regulations, where did they come from, and why is this happening now? I should mention that 1033 is the part of Dodd-Frank that covers all of this.

05:00

This kind of starts off, and I'd say it's a bit oversimplified at first. Basically, 1033 has two main goals. The first one is that data providers need to make covered data available to consumers and allow third parties access. It might not sound exciting, but the main idea is to improve communication between consumers, third parties, and their financial institutions to make sure everything works smoothly.

05:35

It's basically about making sure data flows smoothly, and then there's this other part that focuses on what third parties can and can't do when they access that data for consumers. So, it means there are rules about how they can collect, use, keep, or sell certain info. The goal is to give consumers control over their own data and prevent any misuse by those third parties. Now, if we expand on that a bit…

06:09

Two main goals of the rule are, I'd say, trying to capture the essence of the regulation. Basically, it's all about balancing the power between consumers and financial institutions. What I mean is that financial institutions have all the data and can easily sell more products to consumers. But with this banking rule, consumers get more control, allowing them to take their own data and shop around for offers from different companies. So that's kind of the idea.

06:41

I think my first point is about the overall spirit of the regulation. Secondly, I'd say a key part of it is boosting competition. It's not just about the big players, like the GBS of the world, but also about letting new entrants come into the market. We need more options and choices for consumers. That said, when we consider 1033 and the big question of what open banking really is, there's still a lot that's unclear.

07:21

"Okay, so when things go wrong, who's accountable? Like, if there's some shady use of data, who's responsible for that? And who's going to set the standards? Maybe we should take a moment to dive deeper into what that all means. Also, how are we going to get everyone—consumers, advocates, and the industry—to agree on those upcoming standards? What's that going to look like?"

07:58

It seems like there's still a lot we don't know about how open banking will play out in the U.S. We're trying to figure out a framework for it, but there are definitely more questions to be answered. Thanks, Michele, that was a really concise answer. I was expecting a bit more detail, but I appreciate you hitting the key points and summarizing it so well.

08:30

"You brought up a really important point about the balance of power—competition is definitely a big part of this whole situation. And then there's the crucial issue of fraud and security; we're sharing a ton of data, but how do we make sure we do it safely and in line with regulations? We've got some knowledgeable people here who will chime in, but just to set the stage a bit more, I'd like to ask John the next question."

08:56

"Continuing along the same lines, we've noticed that the US is kind of playing catch-up to bigger markets like the EU and the UK, where there are more established frameworks. Going back to what Michele mentioned about standardization, a lot of open banking in the US has developed pretty organically, so to speak. So, John, the next question is for you. Plaid is clearly a pioneer in this space—can you share a bit about your origin story? What was the opportunity that got you started?"

09:26

Back in the day, Plaid saw some things happen that were possible because there weren't any regulations in place, which we'll dive into. It's great, and I really want to expand on what Michele said because she's spot on. So, let me take you back about 11 years to when Plaid was founded. Our founders, Zach and William, actually began by creating a personal finance management app. While they were working on this app, they had two key insights that led to an important third one.

10:03

We needed a way to pull data from all over for the PFM app to work, but the data is a total mess and varies a lot. Getting it from different financial institutions is tough because each one has its own method. Also, we figured out that their app, which advised people to cut back on spending, just wasn't popular at all since nobody wants to be told to spend less.

10:38

So, the app totally flopped, right? This brings me to the third thing I realized: the real breakthrough wasn't the app itself, but the fact that they figured out how to get financial data into the hands of a third party. That's where Michele's idea about competition comes in. By letting users share their financial data with someone else, it makes it super easy for them to open an account and get financial services from different providers.

11:15

"Otherwise, you reduce shopping and switching costs, which leads to way more competition and innovation. A couple of clear examples come to mind. One is the move away from overdraft fees. Sure, some of that is because Congress has been calling out banks for those fees, but I think it's even more about the fact that there are now a ton of institutions that don't charge them, and they're doing really well."

11:49

Signing up customers, one of them is Chime, which I think is now the fifth largest account holder in the country. They're not a bank, and in terms of dollar amount, they're nowhere near someone like Citibank, but when it comes to the number of accounts, they're really massive. It's super easy for consumers to open an account with them, and that's been a huge attraction. This brings me to where we've seen success in the US market. I get that you mentioned the US is a bit behind, but it's just a little behind in terms of regulation.

12:25

I really think one of the main reasons for success has been that the US market was mostly shaped by companies figuring out what consumers actually wanted and working towards that, instead of regulators trying to force a market to happen with a bunch of rules, which is basically how the EU and UK approached it. They wanted more competition and more fintech, so they thought if they just created regulations, the market would come along. But going back to what Michele said, that's what got us through the last 11 years.

13:00

The tricky part was all the uncertainty during that figuring-it-out phase, like what data consumers should be able to access and which use cases were okay. I remember back when I started at Plaid six years ago, banks would say they were cool with letting their customers share data, but since they owned a personal finance app, they didn't want customers sharing it with any competitors. It felt like they didn't really get what consumer financial data was all about.

13:35

So, sharing basically means that what's really exciting about the new rule is that we've actually created the biggest open banking market in the US. But we've still got some unanswered questions, like who's responsible if something goes wrong, what data's involved, and what kind of protections consumers should have. The upcoming rule is going to clarify a lot of these issues, though not everything, and we'll touch on the things it doesn't cover later. But overall, it's going to help solidify things in the industry.

14:10

The market-driven approach has brought more protections and clarity, so thanks, John. And that actually leads perfectly into what I wanted to say next. We've got a solid understanding of its history and the reasons it's developed this way. We've also seen some really natural and organic innovations in the market. Now, with regulation starting to come in, we need to consider a few things.

14:42

There are things that are specific to the US system, like how you don’t need a prescription and there's no standardization of APIs. Maybe it's because of federal versus state oversight. What are some of the unique ways this could affect the US financial system? Michele, John, feel free to jump in, and Erin and Vikas as well. John, if you want to kick things off, that’s cool, but I’m also fine with Erin or someone else taking the lead since I just talked for like seven minutes. We’ve got plenty of questions for everyone, so, you know, I mean, I would...

15:16

I'd jump in and say that one thing that really stands out about the US market is the sheer number of financial institutions we've got here. If you look at each individual European country, it's like they have about 1% of what we have. Plus, they're dealing with way more centralized regulatory bodies, while here you've got both state and federal levels. It makes you wonder how they’re going to coordinate all that, especially with the standards they need to set.

15:48

"Organizations and standards, and how we're going to tackle those topics with this complex set of regulations. Honestly, the sheer number of financial institutions and the potential for new players makes this area really different. Building on that, since Michele covered the financial institution side, let’s talk about the data recipients. For instance, Plaid alone has 8,500 different data recipients, and I think a lot of people have a common perception about that."

16:26

So, when people think of open banking and fintech, they often think of apps like Venmo or companies like Rocket Mortgage. For example, John Deere is a customer of Plaid, and they use it for cash flow underwriting on big-ticket leases for tractors and combines—like million-dollar machines that require data input. One of our fastest-growing areas is landlords who want to move their tenants from paying by check to making direct account transfers so they can go digital.

17:04

The cost of debit or credit is a big deal, and the range of players in open banking is super wide. My favorite part about the 1033 rule is that it applies to any bank or credit union with a website. The CFPB actually did some digging and discovered that around 1,500 credit unions don't even have a website, so they're not covered by this rule. But it's clear we're talking about the biggest banks in the world being affected by it.

17:45

Some of the tiniest credit unions, with just a couple million bucks in deposits, and even a fintech startup run by a couple of 19-year-olds and their dog in a garage, are going to be included in this rule. Meanwhile, Rocket Mortgage, the biggest mortgage lender in the country, is also part of it. It's a really complicated setup, and we haven't even talked about the other regulators that might have a say in all this.

18:18

Entities include the OCC, the Federal Reserve, the FDIC, the NCUA, the CFPB, and state bank regulators, along with state money transmitters. That's a lot of complexity to handle under one regulatory framework, right? It makes things complicated, but that's also where we're likely to see a lot of innovation. Thanks for sharing those insights on financial inclusion, the big bang perspective, and the CFPB's regulatory viewpoint.

18:55

"Let's switch gears a bit and talk about the consumer side of things. Since we're discussing financial inclusion during this fintech week, I'm curious about how open banking can help unbanked communities. Erin, I'd love to hear from you first, and if you could also share some of the awesome work you're doing at Prism to address this issue directly."

19:23

"Going back to something John mentioned earlier—though it might've been Michele—it's interesting how this developed in the US compared to other places. In the US, it really grew organically, with companies trying to offer services that help consumers. That's what really pushed it forward, because it genuinely makes things easier. If you consider what Prism focuses on, it's all about that."

19:52

Cash flow underwriting is all about making it easier for people to get fairly priced products and services by helping lenders make smarter decisions about risk when it comes to consumers. What's great about the open banking data approach is that it's way broader. There are a lot more consumers it can reach compared to traditional data sources like oldschool credit scores. It's super recent too, so if you pull data from an API, you can see what's happening in a bank account almost in real-time.

20:25

Instead of relying on signals from a credit report that might be a month or two outdated, which is often less accurate, we find that this approach is fairer. To John's point, there are tons of use cases for this—everything from small fintech startups looking for more efficient ways to operate and needing data, to major financial institutions or service providers in the country that also have similar needs.

20:53

Check out this data to improve the current risk scoring system or the way we assess consumers and small businesses. It's interesting to see this happening across the board. Just to give you some numbers, there are about 70 million Americans who might not have a credit score because they don't have enough credit history. That's a huge issue—it means a lot of adults are being left out.

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A lot of people can't access the products and services they really deserve because of their data. We've put in a ton of work with our lending partners to analyze this deposit account transaction data and open banking data. We've been really careful about categorizing and structuring it, keeping privacy and fairness in mind. What we've found is that over 40% of consumers who are kind of credit invisible are affected.

21:55

Basically, people who are creditworthy can perform just as well as those with a Prime credit score. When open banking really gets rolling, and putting aside the 1,500 financial institutions that don't have a website, everyone will be sharing data openly. Plus, it's all controlled by the consumer and happens quickly. There are actually rules about how fast a financial institution needs to respond and share information.

22:22

The data that consumers have and want is going to help create even more products and services. If we think of it like a sports game, we're just in the first inning right now, and there's still a ton to do. That's why we're super excited about the numbers we've seen so far and what we could potentially achieve in the coming years. Thanks, Ain! I know you're doing amazing work here in the US and have big plans ahead.

22:49

"Let's talk about going overseas for a bit. Cash is pretty flexible and can be used anywhere as long as we have access to the right data. Since you've invested globally and have experience as a managing director in a global lab focused on Emerging Markets and financial inclusion, now being in the US gives you a unique perspective. You can really see how both markets are changing. So, how have you noticed open banking helping with financial inclusion in those Emerging Markets?"

23:21

In places where we don't really have good access to data and a lot of transactions still happen offline, cash is still the go-to. But things are shifting—just look at India with UPI; tons of payments are moving online. We're seeing some digitization, but we're not all the way there yet. With these new regulations, how do you think it's going to affect emerging markets? Well, John mentioned something about it, or maybe it was Michele who brought it up.

23:52

In Europe, things are more about regulations, while in the US, it's more about innovation. If you look at other markets like India and Brazil, there's this mix of regulatory agency efforts. You brought up UPI, which stands for Unified Payments Interface that's used in India. UPI is actually part of something bigger called India Stack. I'm sure a lot of you already know about this, but just to clarify...

24:31

It's basically the best example of government-driven financial infrastructure aimed at boosting financial inclusion. The first step was Aadhaar, which is also known as UID. It's this digital biometric ID system that had over a billion users by 2016, so pretty much every Indian has a unique ID. Then came UPI, which made payments super easy and free between bank accounts in India.

25:12

A recent development in India is the account aggregator framework that came about in 2021. It's sort of like an open finance system. Similar to what we're discussing here, it includes banking info—like open banking—but also covers investments, retirement funds, and more. So it expands from just banking to a broader financial scope. In the U.S., it's kind of like a parallel concept, allowing people to securely transfer their financial data between different places, all with the user's clear consent.

25:48

"Consent has sparked a huge increase in the number of use cases in India. As of the end of June, there are over two billion financial accounts that can share data through this account aggregator, with around 80 to 90 million people using it regularly. It's really exciting to see how this financial tech infrastructure is evolving in India and driving real progress. Given my background in investing in emerging markets and the US, I find it fascinating."

26:23

When you compare the financial inclusion situation in the US to a place like India, I don't see it as much of a challenge in the US. In India, though, they're moving beyond just getting included in the financial system to actually building resilience. I think there's a similar opportunity in the US. Take the account aggregator framework in India, for example – it's helping people there get access to more affordable loans.

26:52

You know, 4% of credit losses in India are due to fake financial documents. Just by addressing that with the account aggregator framework, we're seeing a big improvement. It's really cutting down on loan application costs and helping a lot with income verification, like Aon mentioned, plus it's good for wealth management. So, when you asked how what's happening here could impact there, I actually think it’s going to be the other way around. I see the India stack having an influence.

27:22

"Some places are definitely ahead when it comes to government and fintech infrastructure, and we can definitely learn from them. We'll get into the 1033 open banking opportunities soon, and I really believe the next step is open finance. Thanks, that was a thorough overview. I agree that some markets have really jumped ahead in terms of technology, while others are still catching up."

27:53

Innovation is here, and I'd love to hear what the rest of the panel thinks. Do you agree with Vas's point? Is the US going to have an impact on emerging markets, or are we going to see it go the other way? Or are we just going to pick the best from both sides? Personally, I think this will end up being a mix of both. As much as I'd like to see financial services working smoothly across countries by 2024, we're not there yet.

28:28

It's really far from that reality, right? One big reason why open banking and open finance in India are so successful is that the government pretty much required everything to be linked to a single digital identity, along with a whole range of solutions. I just don’t see that happening in the U.S. on a large scale. Plus, the U.S. open banking payment model still takes about three days to clear, which is where most payments get stuck. I doubt Brazil will adopt that, especially since they’ve already moved 80% of their transactions to a more efficient system.

29:06

We're moving consumers to an instant payment system, and I think in five years we'll have a bunch of countries and markets talking to each other, trying to take the best ideas from each other's innovations. We don't want one market to overpower the others and force them to change. I agree, that makes sense. Oh, sorry, Michele, I just saw the latest question in the chat about the timing of open banking in the US and data protection.

29:45

Do we need solid data protection laws, or is there already something in place? The first thing that popped into my head is the upcoming proposal from the bureau that should be coming out this month—let's see if that actually happens. I think there are some clear connections between what's going on with 1033 and how the Fair Credit Reporting Act will impact data protection. It really feels like it's one of the oldest data protection laws out there.

30:20

I feel like I've read somewhere that privacy rules and regulations are a big deal in this country. It's an old topic, but the bureau is trying to update things to include newer stuff like open banking. I really think they need to collaborate to create a successful, consumer-friendly approach to consumer protection. It all seems to connect with what we're trying to achieve here.

30:59

"Let’s talk about what’s happening in other countries and how we can influence each other. Staying on the topic of influence and collaboration between countries, let’s bring it back home and discuss the collaboration between banks and fintechs. I know this is a topic close to many people’s hearts. We’re talking about open banking and all the amazing benefits it can offer. There’s a lot of excitement and plenty of opportunities for collaboration and healthy competition. So, let’s dive in!"

31:33

"Hey Michele, you're with a big bank, right? How do you see large banks like Citi teaming up with fintechs in this open banking age? What are some easy opportunities for us to collaborate? I think everyone's mentioned this a bit, but to be clear, a lot of this is already happening; we just need to integrate the open banking part into it."

32:06

Sharing data is part of the equation, but I believe that both big and small banks have different partnerships with fintech companies today. It's really about what Erin mentioned earlier—creating better customer experiences, improving outcomes, and adopting better business practices. Plus, there's the whole financial inclusion side of things, which means reaching out to underserved groups, like the underbanked, unbanked, and those with limited credit histories.

32:43

A million customers would totally want in on that, right? I mean, I bet those consumers are looking to be part of a system where they can do what they need to do in life—buy a car, get an apartment, buy a house, you name it. So, getting back to your question, I really think a lot of this is already happening; it's just about figuring out how to use it better now that open banking is actually a thing. And you know, Erin, um…

33:14

"Do you think you could expand on that? You've been working with both big and small financial institutions. What do you think has helped you succeed in that? And if you had a wish list for things you'd like to see from the CFPB to help strengthen those relationships, what would you want? It's funny because I spent most of my career on the banking side, you know?"

33:41

"I spent 15 years at Bank Corb and didn't really get into fintech. Now, I've been in it for a shorter time, but I feel like I'm more focused on action, especially on the building side of things in fintech. What's really interesting is that if you're a fintech looking to partner with a financial institution, you've got to grasp where all the risks are, how you contribute to them, and how the financial institution contributes to them too."

34:09

At the end of the day, it's tough, honestly. Unless you're in a bank, sitting in a room with your regulatory person, trying to explain how the relationship with the fintech works—how the data flows, how the money moves, what due diligence you're doing, and why that's the right approach instead of some other document or policy—it’s really hard to grasp. But I think if there’s clearer communication about what you’re building, why it matters, and where the real risks are, it would help a lot.

34:38

How do you navigate the climb from fintech to financial institutions to regulators? That's where it really needs to be handled well. I really feel for the financial institutions that spend so much time trying to explain their innovative or new ideas to the regulators. The better the financial institutions do at this, the better the regulators will understand what they need to keep an eye on.

35:06

"I'm not sure where the issues might come up, but I probably have a long wish list for this. I think it’s all about making sure everyone understands how this works and how it doesn’t. Like, a consumer shouldn’t let someone log into their bank account, right? We need to be super clear from the start about what this is, what it isn’t, and how it actually works. It’s basically just common sense risk management."

35:37

"Hey John, do you have any last thoughts before we dive into a really important question about consumer security and fraud? I saw that Erin brought up something important, and I want to touch on it too. We're moving from a basic open banking setup where it was mainly about accessing data to something more."

36:09

1033 big O big b open banking market is all about compliant data access, which means we need to build partnerships throughout the entire data access process. Plaid has been focused on this ever since we saw the proposed rule. We've invested a lot of resources over the last year to ensure that consumers know how their authorization is captured and shared with banks, how they’re informed about their rights, how they can revoke data sharing, and how they reauthorize every year.

36:41

"Now we have compliance obligations, and it's not just on the third parties; we also have to work with banks like Citi as data partners to make everything run smoothly. Plus, Citi has its own risk management requirements. Honestly, Michele, you don't have to agree with me, but I think it's pretty ridiculous to expect a bank to do a full third-party risk assessment for all 25,000 potential data recipients, many of whom are other banks themselves."

37:19

It's pretty unclear how to handle risk management in an open banking setup, but I think aggregators are going to play a big role in that. Before we move on to the next topic, I just want to mention one more thing about how banks and fintechs can work together. Nobody's brought it up yet, but this is something that makes the US stand out and it's pretty exciting. So, fintechs actually have data provider obligations under this rule, which means a lot of the popular digital wallets have to follow data provider requirements too.

37:57

A bank can encourage its customers to start sharing info from their Apple Wallet or Cash App. Also, to answer a question someone asked earlier, prepaid cards fall under Regulation E. Many unbanked people use something like a Green Dot prepaid card as their main banking solution. Just think about how cool it would be if you could link that account to a third-party app or share your transaction history with Prism so you could get approved for a loan based on that.

38:31

Using a prepaid card like that is a really cool way to use technology to help more people access financial services, even those who are usually hard to reach. If I can jump in, I think you're spot on about the opportunity we see with open banking. It's still early days, and as you all mentioned, it feels like a regulatory framework is being layered over something that's already in motion, and honestly, we're still figuring it all out.

39:02

We're all trying to piece together the framework and its elements, doing a bit of guesswork here. But just think about the opportunities for the customers we aim to serve—mainly low-to-moderate income Americans who are financially vulnerable. If we could get a complete picture of all the different ways money flows in and out of their lives, it would be eye-opening. We're really excited about this. Aon already mentioned cash flow, and we're seeing so many startups popping up around this.

39:39

Choose your product, like enhancing FICO scores with various cash flow underwriting methods that could be way more thorough and precise. This could really encourage banks to offer HELOCs, mortgages, or personal loans if they had the complete picture. From what I understand of the regulations—though you guys know this way better than I do—it seems like users will need to toggle certain features on and off, and there's a chance that not everything will work perfectly.

40:08

"Whether it's turned on or off, if all the necessary info is available, that's a huge opportunity. We put a lot of money into what we call 'found money startups.' These are startups figuring out how people can take advantage of payment assistance, tax benefits, or government help that can really boost savings or income. It's just too unclear right now. If they had a complete picture, they could easily understand exactly what's needed."

40:42

"Getting the right application or deferment can actually create new money for low-to-moderate income Americans. We see amazing opportunities here. The main challenge our companies face today is making the unit economics work when offering financial products to people who everyone else thinks are too risky and too small. True open banking should really help with that. That was super interesting, and I appreciate the discussion."

41:15

You're bringing up this Phil view that Erin mentioned, and Michele and John talked about it too—really getting a complete picture of the consumer. That obviously means we need access to all the data, but we also have to make sure we do that safely and in line with regulations. So the big question is compliance: how do we balance this idea of open banking and the push for data sharing with the need for security and user consent? How do we make sure we're managing that?

41:47

"Controlling their data is the next big thing we need to talk about. Before I keep an eye on the time, I really want to hear everyone's thoughts on this. Erin, why don't we start with you? You deal with this every day. How do you balance giving consumers access to their financial data while also addressing the rising worries about privacy and data security? I think a lot of it comes down to being super careful about not accepting personal identifiable information."

42:18

We want to keep sensitive data to a minimum, right? So when we get data, we use something like an anonymous identifier. Think about your checking account statement—if you remove your name and address, what you have left is just the date, the dollar amount, and maybe some notes, which can be useful sometimes but can also be a bit unclear. We've been really careful not to collect more data than we need.

42:48

We definitely need to ensure that our lending partners know how to build their application processes. Sometimes they ask us for advice on how to get consumers to link their accounts. The key is to be super clear about what you're doing with that information, how long you'll keep it, what you won't do with it, and why you need it or how it benefits the consumer. It's important for everyone involved to make sure consumers really understand all this.

43:16

Make sure you totally get what's going on and that you're still in control, because at the end of the day, it's your data, right? As these standards get laid out in more detail than they are now, we need a clear framework for those of us who have a big responsibility. When you access this data, it’s a serious responsibility, and it's important for people to take that seriously and know where the boundaries are and how to stay within them, even for us.

43:46

When it comes to privacy, it's a bit more complicated. If you're using this data while deciding whether to give someone credit, there are a whole bunch of other rules to follow. So, when you're checking out someone's transactions to figure out what kind of signals a lender should pay attention to, it's super important to be clear about what counts as a grocery store versus a restaurant, or any other type of transaction. Getting that right is crucial because it all builds on that first step.

44:16

Categorization is where we develop our features and enhancements, and ultimately, the risk scores come into play, which is where decisions are made. We spend a lot of time ensuring our signals go through a solid layer of compliance-focused products. So yes, if we used every possible signal from deposit account transaction data, our accuracy would likely improve, but there could be fairness concerns. It's all about finding that balance.

44:47

We aim to make our models as fair, understandable, and accurate as we can. We use different strategies for different products. For instance, we have a bunch of attributes that customized models can use to tap into specific signals. But when it comes to risk scores, it's crucial that they're super easy to explain. That's why we only incorporate about 35 to 40 risk signals in our score, making it straightforward to see why you received that score.

45:14

"Compared to this, there are also those reason codes that come into play. So, I think there’s a basic level of privacy and security, and then depending on how you’re using the data and what service you’re offering to customers, there are a bunch of other regulatory factors to consider. Thanks, Erin. John and Michele, I’d love for you to jump in on what Erin mentioned, and also tackle that great question in the chat about data breaches and fraud."

45:45

Big players versus the big players—where does compliance fit in? Whose responsibility is it at the end of the day? I'd love to hear your thoughts on this, Michele. Do you want to go first, or should I jump in? Honestly, I wish we had a clearer answer. I'm hopeful that once there's a standard-setting organization established, we can come together and find some common ground, which is what I was trying to say earlier.

46:20

It's kind of a nice full circle moment, but we all want to make sure we're doing right by the consumer. We want to keep their data safe and used only for what they agreed to with third parties. That said, there are a lot of tricky steps we need to go through to make sure everything stays secure. As for how long that might take, that's a really good question.

46:51

Um, yeah, I get it. We don’t really have a solid answer for that right now. But if anyone wants to jump in, go ahead. So, let me add my two cents. First off, this is serious, but I also think there might be more answers out there than people think. Let me start with that second point because it always confuses me why there’s so much focus on not knowing who’s going to be responsible for a data breach.

47:28

Open banking is a big deal because I can tell you who has all my banking info—and probably everyone else's too—the HR department at every job I've had where I set up direct deposit. They got a voided check from me that has my name, address, account number, and routing number on it. Those are exactly the kind of details that are part of open banking. So, if someone were to hack into the HR department at a place like Gim's Electronics and grab those records, people wouldn’t really think the bank would be involved in any way.

48:01

They could be responsible for that data breach since the customer shared their info with Jim's HR. Unfortunately, we recently had a couple of big data breaches. For example, a major hotel chain got its credit card info compromised, but the banks that issued those cards weren't held responsible. Plus, the biggest credit reporting agency in the country had a massive breach, facing billions in potential liabilities. Big banks willingly share a ton of information, not even at the…

48:37

Consumers have no say in this. Banks are sending all their data to credit bureaus every day, and there's no doubt about whether the bank is responsible for a breach at a credit bureau. It's not because there's a solid system in place; it's just that whoever gets hacked is on the hook for it. So, to start with, I really think this issue might be more about our uncertainty. And Michele, I see your reaction, so I'll add more.

49:09

It seems like our Prudential Regulators are unsure about how this is all going to play out, and it's less about any real liability issues. That being said, I really think the whole industry needs to come together to clear this up. If there's any doubt about where liability lies once the final rule is released, it's not enough for a third party to just say, "The CFPB is making you give us this data," and for the regulators to respond with, "If you share this data, you…"

49:49

You're responsible forever for whatever happens to that data. There should be clear rules about liability following the data. If regulations aren't provided, it's up to the industry to collaborate and create norms and standards. They also need to come up with tools like critical data minimization—basically, not sharing data when you don't need to. For instance, instead of sending the raw account number, you could tokenize it.

50:18

As long as the routing number works the same way and lowers the risk without making consumers responsible for understanding everything, it's on the companies to handle that. I believe there's definitely some work to do after we implement this, but we already have a good grasp of how things work in the real world. There's nothing that really changes in the open banking space. Yeah, I totally agree with that.

50:53

I totally get that, John. All this uncertainty really hits hard for me since I'm investing in early-stage companies that are still trying to nail down their business models. When it comes to open banking and how to handle it, I know this is a bit of a stretch, but it feels like we're trying to install airbags while we're still figuring out how to build the car. We know the risks are out there, and we have a pretty good idea of what’s coming.

51:24

We really need to get a grip on what the potential threats to the car might be. We don’t have a clear picture of what the car will actually look like yet, so it’s important to start thinking about the issues you mentioned, like who’s actually in control of the data. We often consider the CFIS consumer protection standards—not trying to give them free advertising here—but we think a lot about privacy, security, the integrity of client data, and being transparent. We put the responsibility on our companies and keep a close eye on it.

51:53

"We're really digging into this during due diligence to ensure everything is transparent about what they're asking for and how the data's being used. You can keep that in mind and then keep refining things as the rules get clearer. Awesome, there's been a lot of back and forth—thanks for sharing! We've got some great questions coming in, and I’m watching the time; we’ve got seven minutes left. I'm glad we tackled some of the trickier compliance issues."

52:24

I totally agree that it’s going to take the whole village to sort this out, and it might take a few more years to see how everything plays out. So, to wrap things up a bit, we’ve talked about the regulations, gone over the history, and looked at some of the pros and cons and challenges we face. Now, let’s chat about the opportunities. You know, VAs are checking out daily business models and emerging fintechs. What are the bright spots you’re noticing? What’s catching your eye?

52:54

So, there’s a question about AI here. You can’t have a panel nowadays without talking about it. If you could share your thoughts on what you’re seeing in the market—where are the good investment opportunities and where do you think some promising startups are? Also, I have a surprise round-robin question for everyone at the end. So, yeah, I mentioned some of the opportunities we see based on the current data.

53:25

The aggregator model for real open banking is really interesting. I believe AI is going to play a huge role in the potential value of open banking. One thing that we, and a lot of fintech investors, are really focused on is finding this Holy Grail of financial resilience—like an always-on financial co-pilot. It would be a platform that keeps an eye on your finances and makes sure they're always optimized based on what's happening in the world and what you might need in the future.

54:03

Goals are about the future, and AI can help figure out what you need down the line so that every dollar works as hard as possible, whether that's going into an investment account or paying off high-interest debt. Part of that involves giving personalized advice and nudges, which really need a look at a customer's financial data. There was a question about open finance, and honestly, I think it's more than just looking at account and transaction data.

54:36

This is also about understanding the balance sheet for individual households, but it can definitely improve with the passage of 1033. After that, I realize I've skipped over a lot of compliance and KYC/KYB questions, but the next really interesting step is creating a platform that can actually take actions on behalf of the user. It goes beyond just giving nudges to actually making the best decisions for them.

55:11

You don't need a PhD to make good financial decisions at the right time based on your goals. We're seeing a lot of that lately. We haven't fully committed to it yet because there are still some compliance and data issues to sort out, but there's definitely a lot of potential there. As for trying to short here, no thanks. I think we're on the same page at the City Impact Fund; we've been trying to figure out what exactly that means.

55:41

Let's revisit some of the themes we discussed earlier. Now that we have a clearer picture of how users see things, and with all the data we've gathered, it's like we finally pieced together the complete jigsaw puzzle. So, how do we optimize this? How can we turn your income into real opportunities for generating wealth, especially for those with lower to middle incomes? What does that look like? How much should you be putting aside for savings and retirement? Can you reduce your debt, and is there a way to automate some of this for you?

56:07

So, you know about some cool new models out there, and I totally agree with you on that. We're almost out of time, but I've got a surprise for everyone—a quick-fire round! Here's how it's gonna go: I've got a bunch of questions with two options each. Don't overthink it, just go with your gut! We'll start with Michele, then Erin and John. Sound good? Alright, let's do this in 30 seconds. First up: API standardization or market?

56:44

"Alright, Michele, let's talk about flexibility in the market. What are my options? Do I go with standardization or market flexibility? I'm leaning towards standardization. Oh wow, look at that, it's a split decision. Next up, we've got data privacy versus innovation. That's a tough one, I know. I'm going to choose innovation because I feel like I shouldn't have to pick between the two. But privacy is important too, so it's a hard choice. I guess I'll go with privacy. Both answers are technically valid, but alright, what's next?"

57:43

"Are we talking about a fintech collaboration or competition? We're going with collaboration, for sure. Yeah, 100% collaboration. Erin, you think the same? Yep, competition is just collaboration, right? Alright, pumpkin spice or apple cider donuts? Gotta go with apple cider donuts, like a thousand times better. Clear win! We're all on the same page here. Three for three, four for four—this isn't even a real choice; pumpkin is just gross. Last one for this round: BNPL or embedded?"

58:33

"Alright, we wrapped up on embedded finance. That was a win! Huge thanks to everyone for joining us and to the audience for the great questions. We nailed it right on time! Hopefully, we'll see you all again soon. Take care, everyone! Bye!"