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Project Catalyst report: Promoting consumer-friendly innovation

Innovation Insights

Consumer Financial Protection Bureau

Message from Richard Cordray

Director of the CFPB

Over time, innovation in the financial marketplace has made products and services more accessible and convenient for many consumers. Powerful examples of such consumer-friendly innovations are readily available, from the inception and spread of ATMs in the late 1960s and 1970s to the rapid expansion of internet-based and mobile banking during the beginning of the 21st century. Such advances can make it easier for consumers to efficiently and effectively manage their financial lives, from day-to-day spending habits to key moments such as buying a home, paying for college, or saving for retirement.

As a 21st century data-driven agency, the Consumer Financial Protection Bureau (the "Bureau") also seeks to adopt an innovative approach to carrying out its mission of ensuring that markets for consumer financial products and services are fair, transparent, and competitive. We thus have an affinity for those seeking to harness new technologies to better serve consumers, as we also have been developing and leveraging technology to enhance our own reach, impact, and effectiveness.

Indeed, we strive to be recognized as a model within government in our approach to technology. For example, we have handled over a million consumer complaints to date and we have taken the unprecedented step of making complaint information available to the public and accessible through an Application Programming Interface (API). Users have the ability to search, sort, and filter data based on specific criteria or tags, and can download data in their desired formats. We mine that data ourselves using natural language processing and analytical methods. We have also built an eRegulations tool to make the vast body of federal consumer finance regulation more accessible and searchable by consumers and industry alike. Additionally, we have built many new web-based tools to assist consumers in making financial decisions.

In our policy-related work, we have also been very sensitive to new technologies. For example, we are playing an active role in the push for faster payments systems, having issued a set of influential principles reflecting our vision for how consumers can be protected and supported within such systems. And as part of our market monitoring and consumer engagement efforts, we routinely seek to identify innovative trends in the marketplace to inform our work.

The Bureau's Project Catalyst initiative, which we launched in 2012, is another example of our commitment to innovation. This office was a novelty at the time for a financial regulator, being solely dedicated to promoting consumer-friendly innovation in the marketplace. From the start, we viewed an emphasis on consumer-friendly innovation as a key component of the Bureau's mission of making financial markets work for consumers. Project Catalyst works toward this goal through outreach to and collaboration with a variety of institutions, including financial companies (both large and small and both banks and non-banks), startups, and non-profits. We believe that innovative developments hold great promise for making markets work better both for consumers and for providers of financial services.

Through Project Catalyst, we engage with innovators in a number of ways. Project Catalyst's Office Hours program brings us face-to-face with innovators to exchange information about how they are developing new products and services. Project Catalyst also has established policies and programs to collaborate with innovators to help advance consumer-friendly innovation. For example, through the research pilot program the Bureau is working with companies to gain insights into consumer decision-making. In addition, the Bureau's Trial Disclosure Waiver Policy allows us to enable innovators to conduct controlled disclosure testing to explore new and more useful ways to inform consumers of the costs and risks associated with financial products. Our No-Action Letter Policy provides another way in which the Bureau can reduce regulatory uncertainty for consumer-friendly innovations, and we welcome submissions for consideration.

As these efforts reflect, the Bureau believes innovation has enormous potential to improve the financial lives of consumers. At the same time, however, the Bureau recognizes that innovation cannot skirt the need for sufficient oversight and consumer protection. We are focused on ensuring that innovation is pursued in a manner that is aligned with our mission of helping consumer financial markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. With this report, we celebrate the progress that Project Catalyst has made in fostering the

Bureau's broader engagement on issues of innovation. Project Catalyst has been instrumental in building mutually beneficial relationships between the Bureau and innovators. We look forward to developing these relationships further and forming new ones in the coming years with the goal of continuously improving consumers' opportunities and experiences in the financial marketplace.

Sincerely,

Richard Cordray

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1. Introduction

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the Consumer Financial Protection Bureau (the "Bureau") has a number of statutory purposes. One purpose is to implement and consistently enforce federal consumer financial laws in order to ensure that everyone has access to consumer financial markets that are fair, transparent, and competitive. As part of this directive, the Bureau also has an explicit statutory objective to ensure that the markets for consumer financial products and services operate efficiently and transparently to facilitate access and innovation.[1]

To help implement this objective, the Bureau launched Project Catalyst in November 2012. From the outset, Project Catalyst has been focused on encouraging marketplace innovation so that new and emerging products can be developed that are safe and beneficial for consumers. Specifically, Project Catalyst works with colleagues to further this mission by establishing communication channels with a diverse group of stakeholders, pursuing research collaborations, and developing Bureau policies designed to support consumer-friendly innovation.

This report summarizes Project Catalyst's work to date and describes various market developments that have the potential to produce tangible benefits for consumers.

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[1] *See* Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, § 1021, 124 Stat. 1376, 1979-80 (2010).

2. An evolving financial marketplace

Historically, technology has allowed companies to drive change across the consumer financial marketplace with the advent of new products and services. Throughout the 1950s, bank-issued credit cards for general use were introduced and they have changed the way consumers spend and borrow. Automated Teller Machines, or ATMs, appeared in the 1960s, and they allowed consumers for the first time to conduct basic banking transactions outside of what were limited business hours. The Automated Clearing House (ACH) network was established in the 1970s and is now one of the largest payment networks in the world, moving "more than $40 trillion and nearly 23 billion electronic financial transactions" each year.[2] In the 1990s, online banking brought even greater consumer control and convenience. A decade later, smart phones and other digital channels ushered in a new mobile era for financial services, providing valuable access to financial account information and tools that allow many consumers to better manage their money.[3]

Today, the Bureau continues to see dynamism and rapid change in the financial marketplace. By

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[2] National Automated Clearing House Association, *What Is ACH?: Quick Facts About the Automated Clearing House (ACH) Network* (Oct. 1, 2015), *available at* https://www.nacha.org/news/what-ach-quick-facts-about-automated-clearing-house-ach-network.

[3] The Bureau's report , CFPB, *Mobile Financial Services* (Nov. 2015), *available at* http://files.consumerfinance.gov/f/201511_cfpb_mobile-financial-services.pdf , speaks to the potential for mobile financial services, particularly those related to money management, to be of use to the underserved, as well as to barriers to adoption by this group of consumers.

one estimate, more than $50 billion has been invested globally in almost 2,500 FinTech companies since 2010, almost half of which ($22.3 billion) was invested in 2015.[4] An ecosystem has emerged around these FinTech companies comprised of venture capital, the banking sector, and other organizations, including "incubators" and "accelerators" that provide not only debt and equity investment but also other means of support.

Although many of the developments have dramatically changed and improved the way consumers manage money and conduct their financial lives, they have not been without risk to consumers. Regulators have historically been charged with overseeing financial markets through many fast-paced changes, weighing predicted risks to markets and consumers against expected benefits (described further in the next section). A regulatory approach that is able to protect consumers and at the same time support consumer-friendly developments is critical.

While it can be challenging for market participants and regulators to fully anticipate risks in times of rapid change, maintaining the status quo is itself risky. The risks of ignoring or resisting innovation loom especially large if such changes can help create opportunities for underserved consumers – including those who are low-income, unbanked, underbanked, or economically vulnerable – by improving their access to products and services that can help them achieve their financial goals.

How FinTech may revolutionize the financial services landscape remains to be seen. What is clear is that FinTech companies can provide many of the same products and services as incumbent institutions. This makes it especially important for banks and non-banks to be held accountable to the same compliance standards and oversight, which is known as the level playing field that the Bureau is working to achieve.

[4] Accenture, *Fintech and the Evolving Landscape: Landing Points for the Industry* (2016), *available at* http://www.fintechinnovationlablondon.co.uk/pdf/Fintech_Evolving_Landscape_2016.pdf.

2.1 Understanding benefits and risks posed to consumers

The Bureau recognizes that financial innovations hold the promise of significant consumer benefits but at the same time may also introduce new risks. Understanding and balancing these benefits and risks in a way that protects consumers and fosters a fair, transparent, and competitive marketplace is critical to the Bureau's mission.

Consumer-friendly innovation can be viewed as either the improvement of existing financial products, services, and processes or the creation of new ones that lead to enhanced consumer financial well-being. This can come about in many distinct forms. Developments may occur as a result of game-changing new technologies or in response to more incremental adjustments in business processes that allow for better or more efficient delivery of products and services. The following are examples of ways that new or improved financial products and services can better serve consumers:

- **Expand Access**: Facilitating financial inclusion and making products and services available to consumers who are underserved, locked out of the banking system, or have unique or special needs.
- **Improve Consumer Control**: Empowering consumers to make day-to-day decisions or adopt spending and savings habits that are more consistent with their long-term aspirations.
- **Reduce Prices**: Driving down costs for consumers through increased competition or adoption of technologies that reduce operating expenses.
- **Increase Features and Functionality**: Adding or improving functionality so that consumers can benefit from new financial services or financial services that work better, are easier or quicker to use, or are more widely available.
- **Enhance Safety and Security**: Enhancing the safety and security of products and services, including better defenses against data breaches, mechanisms to avoid or reduce errors, and more efficient correction of mistakes that do occur.
- **Promote Transparency**: Improving transparency and consumer understanding, especially to help consumers choose the best products and services for themselves and

use them successfully without unnecessary cost or complication.

The Bureau recognizes both the positive potential of innovation, as well as the potential for innovation to create new risk or consumer harm. Some of the most creative products in the history of consumer finance were exotic mortgage products that led to the financial crisis and economic collapse of 2007-2008 that devastated the lives of millions of Americans. Similarly, the very same technology that can empower consumers in their decision-making can equally be adapted to steer consumers toward products that may not be in their best interests.

By closely monitoring the financial services marketplace, the Bureau seeks to help realize the benefits of new products and services while mitigating their potential risks to consumers. Underlying the Bureau's activities to encourage consumer-friendly developments is a clear view that all participants in the consumer financial marketplace have to play by the same rules. Companies of all sizes should meet high standards of regulatory diligence and put the interests of consumers first when developing financial products and services.

The Bureau will take action as necessary to protect consumers from innovations that may be unfair, deceptive, abusive, or discriminatory. The Bureau uses all of the tools at its disposal — from enforcement actions, to supervisory oversight, to rule writing in order to monitor and mitigate the risks posed by new and existing consumer financial products and services.

3. About Project Catalyst

The Bureau believes that markets work best when they are open to competition from new ideas that reflect the insights and innovations that come from looking at problems and solutions from new angles. In November 2012, the Bureau launched Project Catalyst, and it views this initiative as an important means of fulfilling its statutory objective to give all consumers access to fair, transparent, and competitive markets that facilitate innovation. At the time it was launched, an initiative like Project Catalyst was a novel concept for a banking regulator. From its start, Project Catalyst has made it a priority to engage closely with innovators, fellow regulators, and other stakeholders to understand and monitor the evolving technologies that are driving change in today's consumer financial marketplace. The initiative is focused on facilitating marketplace innovation so that new and emerging products that are safe and beneficial for consumers can be developed. It also urges integrating consideration of consumer protection issues early on in the conception and development of new products and services.

Project Catalyst acts in the following ways to further its mission:

- Establishing communication channels with a diverse group of stakeholders
- Developing programs and policies that support consumer-friendly innovation
- Engaging in pilot projects and research collaborations

3.1 Stakeholder engagement

Establishing strong communication channels with a variety of stakeholders on the front lines of innovation is a critical part of the work done by Project Catalyst. Every regulator needs to keep abreast of the latest developments in the marketplace to operate effectively, and this imperative is even more acute in a time of fast-paced change. For Project Catalyst, this outreach begins with but is not limited to FinTech startups— it works to reach a broader audience that includes startups, traditional financial institutions, technology companies, consumer advocacy organizations, academics, think tanks, and other regulatory agencies. Through its stakeholder outreach, Project Catalyst supports the Bureau by staying current with progress and trends in the evolving consumer financial markets and working to identify potential risks to consumers and, in collaboration with the various arms of the Bureau, to identify, understand, appreciate, and effectively respond to emerging issues. Another important aspect of this outreach is to allow better understanding of the challenges that innovators face. Any organization that wishes to meet with Project Catalyst is encouraged to reach out directly to ProjectCatalyst@consumerfinance.gov.

Historically, government regulators have not been viewed by entrepreneurs and innovators as inherently supportive of innovations. That may be because it is more comfortable for regulators to work from existing processes and views about the way things have operated in the past. From the outset, the Bureau made it a priority for Project Catalyst to engage more closely with companies and entrepreneurs who are at the front lines of innovation. Perhaps because the Bureau itself is still fairly new, what is novel and different in the marketplace has not engendered any particular sense of resistance. Establishing effective communication channels that provide insight and understanding among government and innovators about each party's objectives and motivations can foster an attitudinal shift and lay the groundwork for embracing and supporting positive market developments that benefit consumers. Establishing these channels and gaining greater understanding about the new and unfamiliar has been an important focus of Project Catalyst's work.

3.1.1 Coordinating with government agencies

The emergence of new financial products and technologies merits the interest and attention of federal, state, and international regulators. For this reason, an important part of Project Catalyst's work involves coordinating with various regulatory agencies and exchanging ideas and best practices.

Project Catalyst and other Bureau stakeholders have had numerous conversations on the subject of FinTech with federal and state regulatory agencies, including the Office of the Comptroller of Currency, Federal Reserve Board, Conference of State Bank Supervisors, New York Department of Financial Services, and California Department of Business Oversight. This dialogue has touched on topics including FinTech trends, emerging regulatory issues, and the Bureau's policies on innovation. In addition, the Bureau will consult with relevant federal and state regulatory agencies when it considers applications under its Trial Disclosure Waiver Policy and No-Action Letter Policy from organizations that fall under another agency's jurisdiction. The Bureau also considers the issues that may be pending with other regulators when it gives consideration to entering into a research pilot with that applicant. As other regulatory agencies begin to formalize their initiatives around technological and product innovation, the Bureau has offered to work closely with those agencies to achieve mutual goals and share best practices. For example, another federal regulatory agency recently participated in a series of meetings through the Office Hours program and had an opportunity to hear directly from the participating FinTech companies. The Office Hours program is described in more detail below.

In addition, Project Catalyst has regular conversations with various international regulators, including the United Kingdom's Financial Conduct Authority, Australian Securities and Investments Commission, and the European Securities and Markets Authority. On those calls, the agencies update one another on the developments in their respective markets, discuss each other's FinTech work, and share lessons learned. Other regulators that Project Catalyst has had discussions with include the People's Bank of China, the Financial Consumer Agency of Canada, and Dutch Authority for Financial Markets. Finally, Project Catalyst is actively involved in the Bureau's work in the G-20's Global Partnership for Financial Inclusion and Responsible Finance Forum. Project Catalyst expects to continue to expand such relationships in the coming years.

3.1.2 Office Hours program

In November 2012, the Bureau held an event to announce the launch of Project Catalyst at the Computer History Museum in Mountain View, California, a historic hub of entrepreneurial innovation. For many companies, this event was their first experience engaging with a federal agency on their "home turf." Positive feedback about the event and the Bureau's accessibility to innovators and the FinTech community led the Bureau to make such visits a regular part of Project Catalyst's work through the creation of its popular "Office Hours" program.

Office Hours is part of Project Catalyst's ongoing effort to engage with and hear from a wide range of innovators and other stakeholders. Office Hours engagement is also an effective way for participants to learn about the Bureau's work and its priorities. Project Catalyst typically holds one-day Office Hours periodically throughout the year in San Francisco and New York at which companies or other interested parties can engage directly with subject-matter experts from the Bureau. The program is open to any interested organization. Participants can schedule meeting sessions and set key agenda topics. Through this program, the Bureau is able to keep up to date with rapid developments in the FinTech space while the companies or other parties benefit from the Bureau's knowledge of the regulatory environment and other considerations. For example, many companies choose to share information about emerging business models, recent market developments, opportunities to improve products or services for consumers, and challenges they face in certain policy or business areas.

Since its launch, the Office Hours program has become Project Catalyst's primary vehicle for outreach to FinTech startups and others in the financial services industry. Project Catalyst has engaged with hundreds of companies at Office Hours events and other meetings. Participants have ranged from small startups to large established financial institutions, and have also included a broad range of government, academic, and consumer stakeholders.

3.2 Policies to foster consumer-friendly innovation

A key focus for Project Catalyst has been on the development of foundational policies designed to foster innovations that can help improve consumers' financial lives. The first of these is the Policy to Encourage Trial Disclosure Programs (Trial Disclosure Waiver Policy). This policy is designed to support pilot programs that test new innovative disclosure approaches that could promote greater transparency, improve consumer understanding, or lower the cost of providing disclosures. The second is the Policy on No-Action Letters, which aims to facilitate the development of consumer-friendly products and services in areas where regulatory uncertainty may be an impediment if not addressed. These policies are described in turn below.

3.2.1 Trial Disclosure Waiver Policy

Throughout the financial marketplace, disclosures are often provided when a consumer shops for or purchases a product, as well as periodically during the life of the consumer's use of the product through communications such as monthly statements. Effective disclosures can benefit both the public and the marketplace by fostering competition that is based squarely on informed consumer choice. However, in today's world of ever-changing delivery channels and communication methods, busy consumers faced with complex products may not be fully and effectively served by some existing consumer financial disclosures. Further, some consumer advocacy groups have expressed concerns with the effectiveness of disclosures in effectively aiding consumer choice.

The Bureau sees promising opportunities for innovation when it comes to empowering consumers to make better-informed decisions. Consumers need to understand the costs and risks of a financial product and how this outlook might change over the course of their use of a product before deciding whether or when to use it.

Over the past few years, many financial service providers have migrated to online or mobile delivery channels, particularly those offering deposit accounts and installment and liquidity loans. Consumers have increasingly received information about financial products and services electronically and shopped for them through online, and particularly mobile platforms. Established approaches to disclosure that are paper-based and reliant on static information were not envisioned for and may not be best suited to today's digital channels. Further, disclosures that utilize digital channels can be made interactive in ways that can help consumers better understand prices and other key terms of the financial products they are shopping for or actively using. However, many industry stakeholders have reported that it is difficult to test new disclosures that may be better suited for reaching consumers through digital channels while still meeting the dictates of existing laws and rules.

Subsection 1032(e) of the Dodd-Frank Act gives the Bureau the authority, under certain circumstances, to waive both statutory and regulatory disclosure requirements for companies that want to test innovative versions of federal disclosures. Under that authority, the Bureau has developed the Trial Disclosure Waiver Policy, which allows companies to test, on a trial basis, potential disclosure improvements that stand to benefit consumers.[5] If the Bureau approves a specific trial, then it will deem a company's test disclosure to be in compliance with, or held exempt from, any applicable federal disclosure requirements for an agreed-upon testing period.

Under the Trial Disclosure Waiver Policy, companies can conduct in-market testing during

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[5] *See* Policy To Encourage Trial Disclosure Programs, 78 Fed. Reg. 64,389 (Oct. 29, 2013); CFPB, *Trial Disclosure Program*, http://www.consumerfinance.gov/about-us/project-catalyst/trial-disclosure-program/.

approved time-limited trials. In-market testing, in which consumers interact with products in real world situations, may offer valuable information about consumer comprehension and decision-making. This information can be used to improve disclosures and model forms. Of course, before approving any such testing through the Trial Disclosure Waiver Policy, the Bureau carefully considers the extent to which the program anticipates, controls for, and mitigates risks to consumers. Data from a trial can help the Bureau determine if a proposed disclosure innovation delivers the anticipated benefits, such as improved consumer understanding or company cost savings, and to further identify any unanticipated risks or side effects. Such trials can ultimately help inform the Bureau's broader work to improve consumer disclosures across all consumer financial markets.

3.2.2 No-Action Letter Policy

Innovation, by its very nature, is likely to pose novel legal questions with respect to how preexisting rules apply to products, services, delivery channels, or other processes that did not exist when the rules were adopted. Innovators may have difficulty evaluating how existing laws and regulations will be applied in such circumstances.

Recognizing this, the Bureau developed its Policy on No-Action Letters, which is designed to allow innovations that promise consumer benefits to be developed and used in the real world as well as to facilitate compliance with consumer protection laws, but where substantial regulatory uncertainty exists.[6]

Under the Policy, a No-Action Letter will indicate that Bureau staff have reviewed the company's application and have no present intention to recommend enforcement or supervisory action with respect to particular aspects of the company's product and under the provisions and applications of statutes or regulations that are the subject of the letter. The period in which no such action will be recommended is understood to extend at least through the period in which a No-Action Letter remains in effect. Additionally, a No-Action Letter could be conditioned on a company's employing specified safeguards, including taking steps to mitigate the potential for

[6] *See* Policy on No-Action Letters, 81 Fed. Reg. 8686 (Feb. 22, 2016).

consumer harm.

As stated above, the Policy on No-Action Letters aims to facilitate the development of consumer-friendly innovation in circumstances where substantial regulatory uncertainty may hinder such progress, while also providing guardrails to protect consumers' interests. The policy is also designed to allow the Bureau to gain substantive knowledge about new products and services during the application process and after a No-Action Letter is in effect. Under this policy, the Bureau may gain insight that can ultimately help inform the Bureau's work more generally, from market monitoring to rulemaking.

3.3 Research collaborations

The Bureau understands that many organizations frequently run pilots to test new or innovative product or service ideas. It also recognizes that testing is inherent in any innovation and may yield greater benefits to consumers than maintaining a status quo, in which many consumers are underserved or not served at all in the financial marketplace. The Bureau welcomes more testing of innovations that have potential to better serve consumers' financial needs. The Bureau would expect that any pilot, done with or without collaboration from the Bureau, would incorporate appropriate consumer protection guardrails to assure protection of consumers.

To encourage the testing of consumer-friendly product features, the Bureau has launched several projects under the research pilot program. By collaborating with companies that are testing financial products or services, the Bureau is able to gain insight into how consumers make financial decisions and use these products. Such insight strengthens the Bureau's understanding of how innovations implicate certain policy issues. As with other programs under Project Catalyst, any organization may apply to participate in a research pilot or can partner with other organizations to participate in the program.

The following are examples of collaborations the Bureau has formed with organizations to better understand what works for consumers in the marketplace and to inform our policymaking work.

Examining effectiveness of efforts to promote consumer saving among prepaid users

Project Catalyst, working with the CFPB Office of Research and Office of Financial

Empowerment, collaborated on a research pilot with American Express to support the Bureau's efforts to better understand how to promote savings among consumers, especially those who may be low-income and economically vulnerable.[7] Building savings may be particularly challenging for consumers who are living paycheck to paycheck, or who have irregular income flows that may not be timed with expenses.

American Express launched a program that encouraged certain prepaid account users to set money aside in a non-interest bearing savings wallet that was separate from funds used for transactions. The company tested several strategies to encourage savings, including marketing via email or direct mail, with messages touting the benefits of saving, and a $10 financial incentive for meeting a savings goal of $150 within three months.

Key findings of the pilot included:

- Uptake of the savings wallet more than doubled with the financial incentive: Simple methods of encouraging consumers to set aside funds with a prepaid card drove consumers to take action. When the company offered consumers the $10 incentive, uptake increased by over 100 percent.

- Savings continued even after the pilot ended: The pilot ran for a period of three months and the usage of the savings wallet was tracked for nine additional months. The study found that the typical maximum balance in the savings wallet among those who chose to set aside funds peaked at $150 but even after nine months was still $100.

- Payday loan use reduced by 20 to 40 percent for those offered an incentive: Participants who were offered the financial incentive reported significantly less payday loan or paycheck advance product use than those who were not offered the incentive. Payday loans typically charge annualized interest rates of 300 to 500 percent, and CFPB research has found that such products can trap many consumers in a cycle of debt.

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[7] *See* CFPB, *Tools for Saving: Using Prepaid Accounts to Set Aside Funds* (Sept. 2016), *available at* http:///files.consumerfinance.gov/f/documents/092016_cfpb_ToolsForSavingPrepaidAccounts.pdf.

Examining ways to encourage consumers to use tax refunds to build savings

Project Catalyst, working with the Bureau's Office of Research and Office of Financial Empowerment, is also collaborating with H&R Block to examine the impact of tax-time saving opportunities offered to low-income consumers.[8] In many cases, a tax refund can be the single largest lump sum payment that consumers receive all year. Despite this opportunity, most people do not save any portion of their tax refund, primarily because they have already mentally committed to use the money for other purposes, often to pay back bills, make major purchases, or cover immediate needs.[9] Saving a portion of one's federal income tax refunds can better prepare people to handle financial emergencies in the short term, or to achieve longer-term goals, such as saving for retirement, college, or a down payment on a house or paying for a car.

H&R Block launched this program to study the effectiveness of practices such as providing consumers with informational materials and incentives to encourage saving a portion of their tax refund. The company is also examining the effectiveness of informing customers about saving options when they make their tax preparation appointment. Specifically, as part of the pilot, tax preparers broach the idea of saving to their customers at the moment that they learn they will receive a refund. The Bureau is now beginning to analyze deidentified data shared by the company.

Examining effectiveness of credit card counseling for at-risk consumers

Barclaycard and Clarifi jointly collaborated with Project Catalyst and the Bureau's Office of Financial Empowerment to examine the effectiveness of early intervention credit counseling for consumers who are at risk of default on their credit card debt. They have agreed to share

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[8] *See* CFPB, *Announcement of Pilot Regarding Tax Time Savings* (Oct. 2, 2014), *available at* http://files.consumerfinance.gov/f/201409_cfpb_summary_hr-block.pdf.

[9] A. Lusardi, D. Schneider, and P. Tufano, "Financially Fragile Households: Evidence and Implications," Technical Report, National Bureau of Economic Research, Cambridge, MA, 2011.

information about this collaboration with the Bureau.[10] This pilot can help the Bureau and industry determine how best to assist consumers who are struggling to manage credit card debt.

Early Pilots

In 2012, the first series of Project Catalyst pilot collaborations designed to inform the Bureau's work involved three projects with startups.[11] The pilot with Simple aimed to explore how consumers can use tools to better understand their spending habits.[12] The pilot with BillGuard focused on trends in consumer complaints and complaint resolution.[13] The pilot with Plastyc examined the value consumers place on easily depositing and obtaining immediate access to their funds.[14]

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10 *See* CFPB, *Announcement of Pilot Regarding Early Intervention Credit Counseling* (Sept. 25, 2014), *available at* http://files.consumerfinance.gov/f/201409_summary_project-catalyst.pdf

11 *See* Press Release, CFPB, CFPB Launches Project Catalyst to Spur Consumer-Friendly Innovation (Nov. 14, 2012), *available at* http://www.consumerfinance.gov/about-us/newsroom/consumer-financial-protection-bureau-launches-project-catalyst-to-spur-consumer-friendly-innovation/

12 Simple was acquired by BBVA in 2014. Press Release, Simple, Simple Joins BBVA to Transform Banking Industry (Feb. 20, 2014), *available at* http://www.prnewswire.com/news-releases/simple-joins-bbva-to-transform-banking-industry-246350361.html

13 BillGuard was acquired by Prosper in 2015. Yaron Samid, *Live Long, BillGuard and Prosper!*, FOLLOW THE MONEY (Sept. 24, 2015), http://blog.billguard.com/2015/09/billguard-and-prosper/

14 Plastyc has changed its name to Banking Up. *See About Us*, BANKING UP, http://www.bankingup.com/aboutus.html

4. Innovation highlights

As described above, Project Catalyst engages extensively with a variety of Fintech and other market participants. Through these efforts, Project Catalyst has learned about a range of marketplace developments that may hold the potential for consumer benefits. For certain of these developments, potential market barriers or other factors may exist, and it remains to be seen if consumer benefits will be realized. For these reasons, Project Catalyst is committed to learning more about these areas and leveraging its policies and programs as appropriate to help facilitate innovation.

4.1 Cash flow management

Many consumers are faced with challenges posed by uneven or unexpected changes in their income and expenses. Mismatches in the timing of cash flow can cause consumers to incur overdraft or late payment fees or to borrow high-cost short-term loans. These scenarios may cause significant financial distress. Project Catalyst has heard from FinTech companies that are in the process of developing various tools to help address this mismatch or time lag between expenses and income. Some services facilitate employee access to accrued wages earlier than the regular payday. Additionally, other servicers allow certain consumers with earnings that fluctuate to “smooth” their income by putting aside earnings from above-average pay periods to supplement earnings for below-average pay periods. Other companies are deducting a portion of consumers’ wages and applying it to their recurring payments in order to help them manage the mismatch of timing and frequency between when income is earned and when bills are due. Project Catalyst is committed to using its tools to facilitate the development of products and services that can help consumers better manage the ways and means of their financial lives.

4.2 Improved credit assessment

The Bureau estimates that 26 million Americans are "credit invisible," meaning they have no credit history, and another 19 million have credit history that is either insufficient or too stale to generate a credit score.[15] This problem disproportionately impacts Black consumers, Hispanic consumers, and those living in low-income neighborhoods.[16] Without a sufficient credit file, consumers face barriers to accessing credit, or are forced to pay higher costs for credit, which may prevent them from attaining meaningful opportunities.

Project Catalyst has met with a number of innovators seeking to expand access to credit or offer credit at lower interest rates to borrowers who may be excluded or mispriced by existing credit models. They see opportunities to expand access by incorporating non-traditional data sources and employing machine learning techniques in their underwriting methods. Other innovators report uncertainty about how to do this in a way that complies with the requirements of consumer protection laws. Project Catalyst recognizes that the use of non-traditional data and underwriting techniques may pose risks for consumers but remains interested in developments that would support expanded access to responsible credit while mitigating these risks.

4.3 Consumer financial data access

In recent years, the sharing by consumers of financial account data has begun to power a wave of new financial products and services. For example, consumer-permissioned data access has formed the basis for personal financial management tools and mechanisms to reduce the time to verify consumers' accounts. Improvements in the reliability, privacy, and security of that access can be important for the development of such financial products and services. On the other hand, the loss of appropriate access to consumers' account data could cripple or even entirely

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[15] CFPB, Office of Research, *Data Point: Credit Invisibles* (May 2015), *available at* http://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf.

[16] *Id*.

curtail the further development of such products and services. Project Catalyst is interested in learning more about consumer and third-party account access and the Bureau is interested in supporting the ability of consumers to access and share personal information about their own financial lives with others where they believe it is in their interest to do so.

4.4 Student lending and refinancing

Younger student loan borrowers who have graduated, secured employment, and successfully made payments toward their debts generally will see their credit profile strengthen as a result.[17] Private student lenders set interest rates based on the creditworthiness of a borrower (and co-signer) at the time of origination, generally prior to any economic gains realized from higher education financed by this debt. In 2013, the Bureau noted that disruptions in the capital markets effectively halted new student loan refinancing, locking consumers into higher-rate student loans.[18] Since that time, Project Catalyst has heard from FinTech companies that have entered this market, offering borrowers with high-rate student loan debt an opportunity to refinance this debt and take advantage of the current low interest rate lending environment.

FinTech companies offering new student loan refinancing also report that certain practices by incumbent student loan servicers create obstacles that may increase costs for new entrants in the student loan refinancing market and may also present risks to consumers. For example, some FinTech companies noted problems obtaining an accurate payoff balance from the originator. These companies also identified problems stemming from inconsistent and/or poorly communicated procedures for directing or allocating a payoff payment to individual loans owed by a consumer, when a servicer handles multiple loans for that consumer.

[17] For further discussion, see Consumer Financial Protection Bureau, Student Loan Affordability (2013), available at http://files.consumerfinance.gov/f/201305_cfpb_rfi-report_student-loans.pdf.

[18] *Id.*

4.5 Mortgage servicing platforms

The Bureau has noted that many mortgage servicers rely on legacy technology platforms to perform their back-end accounting.[19] As these servicers have faced increased operational, regulatory, and investor requirements, they have layered new components onto legacy systems. These workarounds can be costly and are sometimes plagued by programming errors, failures in system integration, or instances of data corruption. These failures cause consumer harm and increase the risk of data inaccuracies during loan transfers.

Project Catalyst has heard from companies that are considering how to adopt or build more modern technology platforms to improve loan servicing and provide more flexibility, scalability, and systems integration capacity. For example, one company is building platforms that aim to automate reconciliations, reduce the need for workarounds, and provide user-friendly interfaces. Another company is considering using machine learning to detect at an earlier stage when borrowers are likely to suffer financial distress, in order to take steps to reduce defaults.

4.6 Credit reporting accuracy and transparency

Consumers are often unaware of or confused about negative information in their credit files, such as items in collection. Project Catalyst has learned that a number of FinTech firms are developing tools and new approaches to improve consumer access and understanding of their credit score and history. For example, one approach being taken is to streamline the process for consumers to dispute errors on their credit reports directly. Increasingly, companies from large credit card companies to FinTech startups are also offering consumers more information about their credit scores and credit reports on a regular basis. Along with access to free scores, some companies also offer resources such as tools that model hypothetical scenarios and actions

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[19] *See* CFPB, *Supervisory Highlights Mortgage Servicing Special Edition* (June 2016), *available at* http://files.consumerfinance.gov/f/documents/Mortgage_Servicing_Supervisory_Highlights_11_Final_web_.pdf

consumers might take to improve their credit standing. These insights may help consumers understand the impact of their behavior on their credit scores and prompt beneficial changes in their financial behavior.

4.7 Peer-to-peer payments

Consumers frequently send money to friends or family, either domestically or abroad. Project Catalyst has heard from a number of companies that are working to make these transactions more consumer-friendly. Some companies are developing peer-to-peer services that would enable consumers to transfer money swiftly at a lower cost by relying on digital channels that may bypass existing products’ reliance on bank accounts or agent networks that are usually associated with cash transactions. Other companies, large and small, are working on ways to make it easier for consumers to use the digital funds they receive in their home countries, for example to pay utility bills or purchase goods and services. Project Catalyst has also met with companies that are working to provide real-time price comparison services, so that people sending money overseas can easily find the cheapest and most convenient ways to do so.

4.8 Savings

Savings can help consumers be more prepared for an unplanned event, emergency, or expense. Savings can also help consumers achieve long-term financial goals. Project Catalyst has heard from companies that are offering services designed to facilitate consumers in building a financial “cushion.” These services may aid consumers in determining how much they can afford to save based on their income and expenses and automate their choice to save money. Other companies have developed applications that provide consumers with features to transfer money automatically to their savings account.

5. Conclusion

As a 21st century agency, innovation is deeply rooted in the Bureau's mission and culture. Over the past four years, Project Catalyst has laid a foundation for promoting consumer-friendly innovation in the consumer financial markets the Bureau regulates. In the coming year, Project Catalyst in collaboration with other Bureau offices will continue to build its stakeholder outreach, explore the launch of more pilot projects, and promote its Trial Disclosure Waiver and No-Action Letter policies as resources for innovators to assess the impacts and potential benefits and risks of innovation in the issue areas outlined above.

At the same time, the Bureau recognizes that its work to support consumer-friendly developments in the marketplace involves a continued commitment to engagement and learning. In this sense it is consistent with the spirit with which entrepreneurs approach their mission and with some highly practical advice offered by then presidential candidate Franklin D. Roosevelt in 1932: “It is common sense to take a method and try it. If it fails, admit it frankly and try another. But above all, try something.” As it progresses, Project Catalyst will continue to be animated by that same mindset through its ongoing efforts to improve consumers' financial lives.