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REGULATION INNOVATION:

USING DIGITAL TECHNOLOGY TO PROTECT AND BENEFIT FINANCIAL CONSUMERS

A Series of Papers by Jo Ann Barefoot

Introducing the Regulation Innovation Series

This series of six papers argues that new technology can enable most consumers to lead far healthier financial lives by both protecting them from harm and widening their access to affordable services. It further argues that in many respects, technology-based innovation can be superior to regulation in advancing these goals, and that in fact a half-century of traditional U.S. regulation aimed at promoting consumer financial fairness and inclusion has largely failed.

The series recommends revising public policy in two ways. First, it urges modernizing financial regulation to optimize oversight of innovative “fintech” – financial technology that is transforming financial products, channels, cost structures, business models, and consumer empowerment. Second it encourages policymakers to embrace use of “regtech,” including digitally-native innovative design that restructures regulatory and compliance processes and can yield major gains in both effectiveness and efficiency. The series suggests practical steps for introducing policy change over time, to enable empirical testing of outcomes and to permit gradual and often voluntary adoption by industry.

These opportunities reflect the fact that both finance and financial regulation are being “digitized,” a trend driven by the exploding availability of data combined with powerful new kinds of data analytics like artificial intelligence. Both finance and regulation can begin to capture the gains that digitization brings to everything else -- making things work better, faster, and cheaper, all at once, and moving them into an environment that enables continuous improvement through further innovation, in much the same way that apps can be added and enhanced for an iPhone in the regulatory arena,

achieving better outcomes and lower costs simultaneously could depolarize many contentious issues and spark a deep rethinking of public policy possibilities.

The papers in the series will be published at intervals, as follows:

Paper 1: Paper 1 has two parts -- an Introduction to the Series, followed by Analog Regulation in the Digital Age -- Today's Public Policy Model for Consumer Financial Protection and Inclusion

Paper 2: Failures and Costs of Traditional Consumer Financial Protection Regulation

Paper 3: Digitizing Finance -- Fintech as a Solution for Consumer Financial Protection and Inclusion

Paper 4: Digitizing Financial Regulation -- Regtech as a Solution for Regulatory Inefficiency and Ineffectiveness

Paper 5: Technology Risks -- Dangers Arising from Fintech and Regtech in Consumer Finance

Paper 6: Recommendations -- Using Digitized Fintech and Regtech to Enhance Consumer Financial Inclusion and Health

Note that the series concentrates on the United States but incorporates global trends, especially in the developing world where some innovation is outpacing progress in the advanced economies. The papers emphasize consumer finance, especially banking and lending, but also securities and insurance issues. Most of the analysis also applies to small businesses.¹ While regulatory digitization strategies could benefit many fields, this series covers only finance, and mainly consumer finance.

¹ For in-depth discussion of related small business issues see paper by Harvard Business School Senior Fellow Karen Mills and Brayden McCarthy, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2877201