

Innovation Enhances the Delivery of Consumer Financial Services

FinTech and RegTech Trends to Watch BY CATHERINE M. BRENNAN

Much has been written about FinTech and RegTech in the last few years and, for many lenders, such terms aren't wholly relevant to the day-to-day operations of their businesses – or are they? Financial technology and regulatory technology are simply ways for lenders to deliver financial products to consumers and to ensure that the delivery of such products conforms with the myriad of laws that apply to consumer financial services.

The purpose of FinTech and RegTech isn't to get you the latest gadgets in technology – FinTech and RegTech intend to make life easier for you and your customers, either in the delivery of products, the types of products you can offer, or how you manage your regulatory compliance burdens. In fact, it is likely that you already rely on such technologies even if you do not consider yourself a FinTech company in need of RegTech. In 2019 and beyond, there are cutting-edge technologies that can innovate the way in which you deliver consumer financial services products to consumers, as well as help you manage your increasingly complex compliance burden.

FINTECH PRODUCT INNOVATION

- **Digital-Only Lending.** The strong trend toward mobile banking has resulted in a growing number of digital-only banks with no physical branches. Such online banks are particularly popular among Millennials, who often use smartphones for financial transactions. As larger swaths of the population become more comfortable with mobile technology and online banks, visits to bank branches are expected to drop in the near future. For licensed lenders, this move toward the virtual world means creating online-only interactions for different points of customer contact, with application through servicing happening in the virtual world. One roadblock for licensed lenders is state laws that impose brick-and-mortar requirements on its licensees.
- **Blockchain Technology.** The financial services industry became one of the first to explore the blockchain. Blockchain is simply a system of recordkeeping, where multiple parties verify each piece of information inputted into the chain. Some blockchains are public, like Bitcoin. There are more and more FinTech startups that use blockchain technology because of its transparency and, presumably, accuracy; block-

chain prevents subsequent tampering of records. One more advantage of the blockchain is smart contracts that can automate financial operations. Depository institutions are expected to keep focusing on this technology – and there is no reason why licensed lenders cannot use blockchain and reap the benefits of it.

- **Artificial Intelligence.** Most experts agree that artificial intelligence (AI) will have a great impact on FinTech in the near future. There are a number of reasons the FinTech industry is using AI. AI automates tasks like data analysis, thus helping to save a significant amount of time and reducing human error. The technology is also used to create chatbots and robo-advisors. Perhaps most important, AI can help to detect fraud by monitoring patterns of customer behavior.
- **Biometric Technology.** The taking of a fingerprint (or fingerprints) in connection with the origination of a loan or check cashing transaction is not new. Use of such technology may improve repayment rates and deter fraud identity theft – and it's not limited to old-fashioned biometrics like fingerprints. Biometric data includes DNA, eye retinas and irises, voice patterns, facial patterns and hand measurements. Such information is most certainly personal information under privacy law requirements, and businesses that use such data ought to understand how to protect such data should they obtain it. Also, states are adopting biometric-specific statutes, which may impose requirements related to the collection and marketing of biometric information about individuals. It will be important for lenders and check cashers to understand the implications of capturing this data, how to store it, how to protect and how to purge it.

REGTECH PRODUCT INNOVATION

- **Standardization.** Coding can be used to help companies standardize policies and procedures around consumer regulatory compliance through a combination of software and services.
- **Customer Onboarding.** Paper files are becoming a thing of the past. More and more lenders are using electronic document storage and retrieval, and others are also engaging the customer electronically from origination through

servicing. The Electronic Signatures in Global and National Commerce Act (ESIGN), first enacted June 2000, paved the way for electronic records and electronic signatures by ensuring such records and signatures are deemed legally effective once certain conditions are met. Blockchain is one of the technologies that can help manage this process.

- **General Legal Compliance.** Keeping up with the myriad of laws and regulations that apply to consumer credit, particularly in the subprime space, can be daunting. Technology solutions exist to help companies keep abreast of these developments without necessarily having to hire counsel. Companies like CounselorLibrary.com LLC have provided databases of state laws since 1997, and similar services have cropped up over the last few years.
- **Data Management.** Lenders obtain a lot of personal information about their customers, and a myriad of state and federal laws apply to the use, storage and destruction of such data. RegTech can help companies establish automatic rules around data collection and destruction to ensure that you keep on top of these requirements – and can also serve a gatekeeping function to ensure that you only collect the data you actually need. ■

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