

New Report Examines the Benefits and Potential Risks of Fintech Products for Consumers

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National Consumer Law Center Urges Regulators and Policymakers to Maintain Consumer Protections and Proceed with Caution

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Washington – The use of technology in financial products and services (fintech) is resulting in a wide array of new approaches to financial products and services. A new report from the National Consumer Law Center provides a snapshot of some of the developments, potential promise, and potential concerns posed by fintech.

“Fintech products and services have the potential to provide important benefits to consumers, but innovation and fintech approaches are not invariably positive,” **said Lauren Saunders, associate director of the National Consumer Law Center and author of *Fintech and Consumer Protection: A Snapshot***. “It’s important for regulators and policymakers to understand first and proceed with caution. Many fintech products are old wine in new bottles or pose new risks, and the allure of shiny fintech products should not be an excuse to weaken consumer protection rules and oversight, especially for untested new products and services.”

The internet, mobile devices, big data, computer algorithms, and other technologies are impacting the way we borrow, make payments, and manage our money. These technologies are also changing the way that entities from credit reporting agencies to debt collectors affect and interact with us. New products may provide benefits for consumers but also may carry hidden or unintended negative consequences, or risks that are not obvious at first. “The dangerous pick-a-payment and exploding adjustable rate mortgages that fueled the foreclosure crisis leading to the Great Recession of 2008 were innovations. New technology enabled banks to encourage overdraft fees on debit cards that can turn a \$5 cup of coffee into a \$40 one,” **explained Saunders**.

The fintech label also does not necessarily mean that much is different. Products and services are constantly evolving, but sometimes the more things change the more they stay the same. Old problems can arise in a new package, and promised benefits of fintech products may not actually materialize.

Just because a product uses new technology does not mean that older protections do not or should not apply or that regulators do not know how to approach a product. It is crucial to look at fintech products carefully and critically, to understand the risks, and not to accept unproven hype about benefits to consumers, the report cautions.

While the issues raised by fintech products are as myriad as the products themselves, some common themes, issues, and risks span many fintech products.

Common Potential Benefits

- Better, faster, cheaper.
- Fixing old problems as a market opportunity.
- Personalization.
- Access for underserved consumers.

Common Concerns and Potential Problems

- Old wine in new bottles; same old problems in a new form.
- Lack of transparency about the costs and business model.
- Disparate impacts and the perils of big data, privacy, and security.
- Avoidance of consumer protection laws.
- Fast and easy can cause problems.
- No humans, no records, and lack of customer service when things go wrong.
- Forced arbitration weakens accountability for wrongdoers.

“While fintech products pose a myriad of concerns, some do offer real benefits for consumers,” **said Saunders**. “It is essential that policymakers, regulators, and consumers keep their eyes wide open and expend the effort to dig deep to understand fintech products and services. A desire to promote innovation must not lead us into waiving consumer protection rules or oversight of untested products.”