

# Barefoot Innovation Podcast with Penny Lee, President and CEO, Financial Technology Association

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Jo Ann Barefoot: We have a fantastic show today. My guest is Penny Lee, the president and CEO of the Financial Technology Association, the FTA. Penny, welcome.

Penny Lee: Thank you, Jo Ann. Great to be here.

Jo Ann Barefoot: I'm so glad that we're doing this. We've been talking about it for a long time, and I know our listeners are really looking forward to hearing your perspective on the many, many things that are going on with FinTech. So to get started though, tell us a little bit about yourself. Tell us your own background before you tell us about the FTA.

Penny Lee: Sure. Well, Jo Ann, thank you again for having us. And yes, we have been talking about this for quite a bit, so I'm glad that our schedule has finally worked to get this scheduled. So my background, I grew up in Alaska, which oftentimes surprises people, but had an incredible upbringing. I was a child of missionaries that was taken to Alaska at a very, my parents were supposed to stay there for six months and ended up staying 50 plus years. So born and raised in Alaska, definitely had an independent streak, as one must to survive in Alaska. But it was an incredible upbringing and an opportunity to not only understand the challenges that you face in a rural state, but also incredible opportunities that the state afforded us. So I went to school at Baylor University, studied political science and journalism. I first had the love of politics at an early age, when I was 14. A woman that attended my dad's church was running for Lieutenant governor of Alaska, and I volunteered for her campaign when I was 14 and the bug kind of took from there.

So studied at Baylor University down in Texas, political science and journalism. And while I was there, there was a woman running for governor of Texas and I was able to work on her campaign. And then that propelled me into working, moving to Washington, working on various different presidential campaigns, also governor's campaigns, congressional campaigns. So really, as I said, it was a great precursor for kind of building and wanting to build things and start companies. We used to say, you build and sell a campaign or you build and sell a company every 18 months.

Other than the 2000 presidential campaign, I always said there was always a hard date. You knew when the end was going to be, Election Day. 2000 obviously extended that for an extra 30 days in a court case and many other things. But it was an incredible experience to be able to work on the various campaigns, working with the various different candidates that we had. Always kind of something that my father, given his life and his work as both a missionary and minister was always to effectuate change, to think about how we can improve

lives, to think about how we can make the world a little bit better. And so, whether that was through a candidate that tried to elect or public policy that we were working on, that was a through line that kind of carried from the upbringing that I had to what the present day is now.

So today, I run a trade association, again, a disruptive industry, you could say. Some of it is very much established in part of everybody's everyday life, but another part is kind of challenging. How do we improve our financial services? And it's a real pleasure to be able to represent that industry, always thinking about ways in which we can prove the delivery for consumers, for small businesses, for entrepreneurs, for really a whole host of Americans out there as they look to improve their financial lives.

Jo Ann Barefoot: I had forgotten that you're from Alaska. I've had some of the greatest adventures of my life in Alaska. It's such an incredible place. Everything is bigger and more exciting there, it seems to me. So tell us specifically about the FTA. How old is it? What's your mission? What's your membership like? Give us the portrait.

Penny Lee: So in March of '21, FTA was launched by a collective group of about 10 different companies. All kind of seeing that there really wasn't a collective voice for FinTech in particular to think about in Washington, our collective voice in Washington. And so, you had kind of marketplaces, marketplace lenders or student lenders or remittances or other, but not a collective voice. And so, they saw it and they launched in March of '21. And then I was hired in June of '21 to kind of help build out the association.

So we're now at about 30 different members all covering a pretty wide aperture or a wide definition of FinTech. We refer to it as digitally native financial services companies. So they could be in the lending space, in the payment space, in capital market infrastructure, credit underwriting, kind of a whole, trying to really define this digitally native financial services companies and industry in a way that shows the innovation much of it born here in the United States, but also we have global companies, companies that are based in Australia, in Europe, in the UK, kind of a global as they're all entering into the US market.

We work on specifically trying to think through specifically on US policy, both on the federal and state level. So to be a member, you do have to have a US presence.

Jo Ann Barefoot: So depending on how you count, I love that you're focusing on digitally native, because many older or more traditional companies are now using a lot of the methods that FinTechs have invented, but it has always seemed to me that they were able to invent them because they were starting from scratch in a digital approach and architecture. And I'd like for you to talk about what you think fintechs are trying to do, collectively, to make life better for consumers. Obviously it's a wide range. They're very, very different. But it is also true that

most of the founders, at least the ones I know, looked at something in the traditional financial marketplace and said, "We could do that better." And very often with the lens that the consumer would prefer a new alternative, not just that there was a way to improve margins or something like that. How would you talk about what it is that your members are trying to accomplish?

Penny Lee:

Yeah, one of my favorite things to do is to listen to the origin story of our founders, to listen to how or why they created the companies. And there's always, as you were saying, there's always an interesting story. Usually, a service that wasn't provided to them or onerous cost or a lack of access or just the sheer capability. FinTech goes all the way back to just simply being able, from the early days of being able to pay online for a product. It was the financial technology that allows you to make an e-commerce, or for you as a small business owner to be able to swipe a credit card. So some of the foundational things that we take for granted right now really were because of the innovation in the financial technology sector. So thinking through one from accessibility, how do we broaden the accessibility as people move more towards cards or online or digital payments or through wallets?

What does that experience look like and what are the products that we need to build for that? How do we go about sharing money in between P two P is a functionality of financial technology. So you can split your bill at a restaurant, you can split your Uber payment. All of those are the innovations in which our companies work on think on, but large part of them were motivated again by their own experience, whether it be a savings account that only had a very minimum yield, and so can they offer a product which gives you a 5% yield and a better savings front? Can we access platforms for you to be able to invest, to think about how you can manage your 401k or manage your retirement, have greater access to the stock market or other methods for you to be able to start building wealth in a very safe and sound way.

So democratizing a lot of this access for small businesses for entrepreneurs, oftentimes, as you well know, it's hard to access capital when you go to a traditional bank. Back in the day when you would go and visit your bank and you would say, what is your collateral or what is your business? And when it was just an idea, it was very difficult to get capital to be able to start that company. And so providing that access, providing that availability, you have financial technology companies that are allowing those entrepreneurs, allowing those small businesses to be able to have access to capitals that they otherwise wouldn't. So there's a whole variety of different stories, founder stories that are out there.

But again, to your point, it is about how do we increase access, do it in a way that's safe, do it in a way that has more affordability, less fees. I would argue that many of our companies that were really on the forefront of offering savings accounts, checking accounts without overdraft fees, really led to what the big banks are doing now, which is getting rid of those onerous overdraft fees and

reconfiguring. And FinTech showed them that you can have a successful business model without having to charge these very onerous fees.

Jo Ann Barefoot:

Yeah, actually I want to pick up on that point, because if we think this show is about 10 years old, we've done more than 200 episodes, and if we think back to the early days of FinTech or when we first got the word, I think the first wave was very much focusing on disruption of the traditional market and certainly a certain amount of thinking that banks were going to be dinosaurs and so on. And then today, and we're going to talk more about this, there's a great deal of, first of all, the banks have learned from the fintechs and are offering many of the same kinds of services that have been pioneered by the FinTechs. And then there's also a rising amount of partnering between the two sectors who in many cases complement each other really well. I'd like you to talk about what you think are the main issues today as we look at the sort of structure of the market between banks and FinTechs. And then I also am going to ask you to make some predictions. But first, what are the big issues today?

Penny Lee:

Well, there are several on the regulatory. Innovation will always be ahead of regulation. And so, how do we ensure that there's the right balance, that we have regulations that are kept up to speed, but that also are modernized to be able to meet the risks and the actual activities in which these companies FinTech companies are engaged with. Oftentimes, it's really easy, especially as new products are coming into the marketplace, oh, you look a little bit like this and you look a little bit like that. So we'll put you into an old 1933 rule when in fact it doesn't apply. So we constantly work with regulators to ensure they have the education they need, and I would say there continues to need to be a level set of education because we want to make sure that they understand what the risks these companies are taking and what they're not taking, whether or not they're licensed in the states, how their bank partnership is part of their supervision, how they are being regulated from that aspect as well.

And so, to ensure that what rules we put into place and we want to ensure that their safe and sound is that consumers are protected, small businesses are protected as well, but that they match what the risk-based activities in which our companies are engaged with. So there's a whole host, I would say the US needs to think through what is our data privacy sharing. We have a potential for the open banking rule that will be completed maybe by the end of this year. That has been 13 years in its process. That's been a long time. And so, it could be a really exciting time for consumers to be able to transfer their own personal data how they see fit, to be able to allow them to engage more with third-party apps to be able to get more personalized service and more ability to be able to find the applications in which that will meet their own personal need.

There is some concerns that we have with the open banking rule. We are working with the CFPB. We've been engaged with the CFPB on some of the secondary use of that data because we believe it should be able to be used for fraud prevention and being able to constantly update. So we've engaged on that

issue. So those are some of the things that we have done, but there's just a level set that the regulatory and the legislative and statutory bodies need to think about as these technologies come onto line, how do we work with prudential regulators? How is it that we are supervised? How is it that we're regulated? How do we make sure these are fit for purpose and protect the consumer for the things that they're concerned about?

If it's in disclosures, making sure that the disclosures actually mean something and not just 33 pages and you just click consent. We really want to make sure that consumers have a full understanding when they engage with a financial service exactly what is asked of them, required of them, and where their flow of information will go.

Jo Ann Barefoot: How about on the evolving relationships as banks and fintechs work together? There's been a lot of discussion recently about that and how the risks should be managed and so on. Do you have thoughts on that?

Penny Lee: The bank-FinTech partnership has been around for decades, and although it's gotten a lot more scrutiny, and I would say that goes to the point and the scrutiny we would say is one is because there needs to be an increase in amount of education, we should be updating our handbook. We should be able to update our examiners and hope that we can continue to have that education process. Because right now, unfortunately, there's a little bit of just one size fits all. Oh, you're a bank partnering with a FinTech. We need extra levels of scrutiny. We need extra levels of consent orders are coming down, and just an uptick in that when in fact many of these partnerships have been around for decades. They facilitate your everyday life, whether it be in swiping to pay at a merchant or to be able to pay online for something, and so want to make sure that it's level set.

Right now, the bank-fintech partnerships are about 2% of the market share, but we're seeing 14% of the consent orders come down. So there's a disproportionate, I would say, from examiners, from regulators about these types of partnerships when in fact we do want to make sure that there is the correct oversight, but we need to balance it, balance it with the risks in which these companies are engaged with, balance it with the safety and soundness in which they are engaged with, and to make sure that the examiners, supervisors, others evaluate them properly. And it's not just this one size, we've all, I had someone say a little bit of the analogy.

It's like currently the atmosphere is if you're at a bank and you have a bank account and you don't have any overdraft fees, you balance your account every month, you would be considered a good steward or a good customer of the bank. Then you have somebody else who's a customer at the bank who might continually have overdraft continuing fall behind or just have other issues now that everyone's being treated the same, being treated equally, when in fact they're very, very different risk profiles. And so, we really want to make sure that

the guidance that was given, especially on the third party, that there's additional clarity given that we want to make sure that the responsible bank FinTech partnerships are encouraged, not chilled. And that's what you have right now is you have a little bit of a chilling because people are saying, "Oh, it's a new product, something we don't understand, we're just going to chill the atmosphere. And so, merchants aren't being onboarded, new products aren't being able to be launched because of this kind of regulatory chill that's happening.

Jo Ann Barefoot:

Yeah, I always say, and our listeners, know I'm a former regulator. Regulators have a hard job getting it right because things are changing so quickly, and I know there's a lot of evolving thinking and scrutiny on it. I know you don't claim to have a crystal ball, but I would be fascinated to know where you think we're headed in terms of what the financial landscape is going to look like, say a decade or two out. Do you think we'll have a marketplace that looks a lot like what we have today, thousands of banks and credit unions and rising numbers of fintechs, and are we going to have some giant fintechs? Are we going to have new business models completely evolving? Answer that, actually. And then, I have a follow up question, but first, what do you think about that?

Penny Lee:

It is hard to always predict, especially what is going to be new in the marketplace. I know when I took over or when I joined FTA, I was vaguely familiar but not really familiar with the term BNPL. Now three years later, it's in everybody's lexicon. And so, it was hard to predict. It was a product that was just coming into the United States, although it had been in Australia and Europe and other places around the world. It was something that was new for me. So I don't know what the next BNPL, the next earned wage access, EWA. I don't know what marketplace gap is out there that will likely be filled. But what we do see, and that growing trend is that financial services will only become more digital, less analog. Covid really kind of saw that spike where people weren't having to physically go to a bank.

They weren't physically going in to have access to either capital or funds or credit or whatever the case might be. So as people get used to living in a more digital world in all aspects of their lives, only to be expected that financial services will only become more digital as well. And so, you see some jurisdictions, I know I spent a little time in London last year, and the tap to pay was everywhere in the two weeks I was there, never pulled out cash, didn't write a check. Credit cards and digital wallets were almost ubiquitous to make any type of payments, unlike the days when you traveled with travelers checks or tried to hoard as much cash as you possibly could. So that is changing and that's a change that will be with us. And it's only going to be increasing more as people get more comfortable being online, that they live a digital life.

And so I think you will start to see some fintechs offering a lot more one-stop shopping type thing. Whereas right now, some of them have had a niche market that they're going after, but now then they're expanding the services. So

whether it be that they were originally just offering a credit card for a small business, or for an entrepreneur, for a startup, they now have treasury management, they now have invoicing, they now have bill pay. So it's kind of these complete circles of what does a small business need to live their best financial life or have it as most convenient for them to be able to do all the functionality and services. So I do think you'll start to see that happening in the marketplace and whether or not that's in building their own product or through acquisitions of other small niche fintechs to be able to expand their market, you'll start to see that as well. So those are the kind of trends that you will see. I think you'll still see traditional banks and others starting to offer more digital products.

I know JP Morgan Chase was one that announced billions of dollars going to be invested into technology. And you'll start to see that again, those increased partnerships as people have relationships with community banks, with independent banks and smaller banks, they want those digital financial services. And so, partnering with fintechs to be able to offer more expansive services I think will be something that you continue to see as well.

Jo Ann Barefoot: Yeah, I do too. It's not realistic to think that small banks are going to be able to invent products that can compete with some of the amazing things that are coming from the digitally native companies, as you say, they need [inaudible 00:24:08].

Penny Lee: And I would say our members want to partner with them, they want to engage with them. They want to help expand their suite of services so that more consumers, more small businesses, more entrepreneurs can be serviced. So we look forward to those relationships with the community banks, CDIs, MDFIs as well, to be able to expand their suite of services.

Jo Ann Barefoot: Yeah, I think your point on BNPL is really well taken. And I think, for me, it's one of the harder things to predict is how much are we going to move to embedded finance where the end customer really isn't necessarily going to a financial provider? And we already have lots of this. As you're saying, these are not new phenomena, but it does seem like we might be on the cusp of having more of the financial component built into what you're doing on something else rather than coming to you directly from your financial provider.

Penny Lee: Yeah, I think people want convenience. They want less friction. They want to be able to, whatever app they might be in, whether that allows them to make a purchase, get a balance, have an understanding of all these different aspects. And so, you start to see somebody joked that all companies will be FinTech companies, whether that be through embedded finance. So you start to see those one-off services, the ability to walk out of an Uber. Is Uber a FinTech company? You're making a payment. Starbucks with a store value card. Is that a FinTech company? So I think you will just start to see more and more companies embed the capability of what the consumer wants, whether that be on instant

pay, whether that be split a payment, whether that be an integration with their wallet, all of those aspects I think will become even more ubiquitous.

Jo Ann Barefoot: So I think we have managed to talk for almost a half an hour without either of us saying the word AI. And I'd love to get your thoughts on that. What do you think are the biggest changes looming on AI, and do you think that some of them will be disruptive even to the young tech-forward types of firms that are among your members?

Penny Lee: AI has been used in financial services for many times from the beginning of many of these companies, largely in machine learning, largely in taking large data sets and being able to think through in an algorithmic base, efficiencies within their own companies, whether that be in backend, whether that be in fraud prevention, whether that be in identification. A lot of aspects of what makes financial technology companies a little bit different is that they have been able to use the most modern technologies to be able to deliver an end product. So oftentimes, that had been in the AI machine learning aspects, and I think that will only grow. We're starting to now think through on the generative AI side, one, how do we use it responsibly, but also how do we mitigate against deep fakes or people mimicking different accounts thinking through that aspect of it. And so you kind have, there's pros and cons of the generative ai.

You'll have it enhanced ability on your chat bot, enhanced ability in your communications, enhanced abilities in kind of how you talk to how you interact and the language in which you're using with your customers as well. So it's a growing field as far as the use, and it will only continue. As there's efficiencies brought into the system because of it, you will start to see an increased use. And so, we've seen some real positive aspects. Especially and I know friends of this podcast with the folks at Zest AI and others trying to think through how do we do credit underwriting differently? How do we take a more complete look using the data that we have and using machine learning and AI and to be able to think through, is a FICO score the only determinant of what a credit worthy person is? No. And they have shown through their own data sets, through their own algorithms, through responsible use of AI that you can actually expand the definition of what it means to be credit worthy.

And so, you will start to see those as other companies, especially in the embedded finance and when they're screening somebody, whether or not to extend credit, you'll start to see continuing uptick in that use of these algorithms to determine, is this person someone that we should extend credit to? Is this someone that's ... What kind of BNPL loan should they get? What kind of other aspects of their lives should we be afforded, can we engage with them on? So it's an exciting time. It's one though that the US does need to have a really hard look, think through what the regulations needs to be, what are the surrounding safeguards that we need to put into place to ensure that we don't have a rampant fraudulent AI market out there, but one that is responsible, one that is addressing the needs, one that is being used to really improve lives as well. So I



think it is a really exciting time and look forward to working with the regulators, legislators, and policymakers to be able to get our AI policy right.

Jo Ann Barefoot: Yeah, couldn't agree more. I think for me, some of the more mind-boggling possibilities are the growth of the AI agent capabilities where we're going to start empowering, if not decision-making at least recommendations including for the consumer. I'm really interested in the idea of the consumer being able to use an AI agent to help manage their own financial life and make good choices and get the bills paid and get the budgeting done and living within the budget and all these things.

Penny Lee: Right. And there's some automations that I've used, and whether or not AI-aided, and so it's been interesting to see some of the efficiencies that's already, I know in my own life and some of the recommendations. I use one of our member companies, Betterment, for savings.

Jo Ann Barefoot: Yeah. Had Stephen on the show years ago.

Penny Lee: Amazing company. I said to them, I said, "I wish this had been earlier in my career, so I probably would've saved a whole heck of a lot more and been a lot better, had a lot more savings on my hand just because they make it so easy and they make it so accessible. And the amount of information that you get is exactly where your funds are, where they're being invested. It's an amazing product. And so, those kind of things are really exciting on the forefront and really helping improve consumers' lives.

Jo Ann Barefoot: I know that your members are very focused on providing financial products and services. Do you have some members who are in the RegTech space and/or are using RegTech successfully to manage compliance better?

Penny Lee: Yeah. I think they all, depending on their varying degrees, I don't know specifically which ones are using and partnering with specific RegTech companies, but as they work through their AML, their KYC, their compliance, all of those aspects are using a form of RegTech. And so, as they continue to have these large swaths of information, large swaths of data, being able to help disseminate that, think through what are the recommendations, how they need to internalize it, what the processes they need to put into it, those are all things I know that they have benefited from RegTech companies. So I do know some that are using it. I don't know the full breadth, but it is as these are highly regulated companies, and this is a highly regulated industry that need for the RegTech type companies out there to be able to guide, to help, to synthesize, to make recommendations is really incredibly valuable.

Jo Ann Barefoot: Yeah. You might know that the Fed has created an AI sandbox under the leadership of their chief innovation officer, Sunayna Tuteja, who's been on the show also, and they're looking particularly at payments issues and supervision, and have noted that those are areas that generate tremendous amounts of data

that you can use to understand patterns and trends and so on. And I think for the regulators themselves as well as the industry, they're on the cusp of a completely new and I think better set of methods for dealing with risks and compliance,

Penny Lee: And was recently with Fed Governor Bowman at a conference recently, and was really encouraged by her words. She was saying that there's shared responsibility between regulators and innovators. That the regulators must work to understand the functionality of these new innovations. At the same time, the innovators and the companies need to work to make sure that regulators understand, have a wide understanding of what it is, the activities in which they're engaged with. And so she was very encouraging of sandboxes of innovation offices, of working together to make sure that we have both a shared responsibility, shared balance, and a shared outcome is that we want to put innovation into the marketplace, but do it in a responsible manner.

Jo Ann Barefoot: I think I might know the conference you're talking about. I read her speech that she gave recently to a conference. It was really terrific. So we've sort of come back full circle to the regulators. We talked about some regulatory issues near the start as well, but is there anything we haven't covered? On this show, we always talk about advice to the regulators or things that guests think that they should be bearing in mind. Is there anything we haven't already covered that you want to mention in the regulatory realm or the policymaking legislative realm?

Penny Lee: Yeah, I would just say we continue to encourage the various different agencies to open up. We would love to have more sandboxes, not less. Love to be able to have that open dialogue to be able to demonstrate what the products that we're thinking about in the marketplace to say, "Here's what we're thinking." And have that open dialogue for them to give feedback to us. Here's some of our concerns that we have. And there's many of agencies that do have that open door and really appreciate their willingness to just hear without being punitive, without saying, "Oh, this is something that we will shut down and we're going to examine and regulate against." But really have the ability for innovators to come into a conversation responsibly, get feedback to have that working environment. Because like I said, and I think Governor Bowman said it again in this same speech, he said, when you don't have that openness, when you don't have those conversations, a lot of times innovators will go outside the regulatory perimeter, and that's not healthy for anybody.

We want to ensure that these companies are delivering services that are responsible, that are adherent to what consumer's needs are, that are balanced in a way that we have appropriate safeguards within the regulations, but not in such a way that stifles innovation. So there's a shared responsibility and we look forward to having and encouraged by what some of the regulators have been saying more recently. And that is there are responsible players. We want to foster an environment innovation, and we want to do it in a way that adheres to

moving the US forward as far as on the future of finance. So we're encouraged by that and we'd just encourage more of that open dialogue.

Jo Ann Barefoot: Yeah. Is there anything we haven't talked about that you want to speak to?

Penny Lee: The one thing that we haven't spoken to, and that is as non-bank financial technology companies, the one thing that we are encouraged about is the development of FedNow. And we're excited to see kind of where faster payments in the US might go. There's still a long way to go. There's adoption, there's tech upgrades that need to occur. But we're encouraged by the fact that this has been launched and the US is committed to this.

We think that a faster payment system, having non-banks access into Fed services, to have a faster clearing and settling will only benefit consumers with lower cost, greater efficiencies, access to their paycheck, to their wages, to their invoicing, to their receiving funds in a lot faster way. So encouraged at these first steps. We know there's a long way to go, but looking forward to working with the Fed and the folks at FedNow to be able to create this faster payment system within the US, and bring us up to par really with the rest of the world. You see this happening in India, in Brazil, in Europe and UK. Just this ability to be able to offer services faster with less expense and looking forward to leading the US on that effort going forward.

Jo Ann Barefoot: I'm glad you mentioned that. We are hoping to have the Fed folks on the show in the near future to talk about what they're doing. You're right. There's a lot of exciting change there. Where can people get more information about the FTA?

Penny Lee: They can go to our website, Financial Technology Association. And there's a host of a lot of information not only about our membership, but all the policy positions, some of the advocacy work, the press releases, and all of the communications. Because one of the things, not only are we working to think through what is the right regulatory structure, what is the right laws, what are the right statutory structures that we need to put into place, but we also want to promote the industry. And one of the great things that we love doing is not only telling the founder story, but telling just the impact that these companies are having on everyday lives.

And so, that's a real exciting part of what we get to do. So it's not only on the advocacy, but it's also on the promotion. There's an incredible amount of good that is being done by FinTech. I like to say telling the FinTech for good story and looking forward to where that future goes. And it's all on our website. If you want to learn and be inspired by some of the companies and what they're doing, please check it out. But that's the great part of my job is both getting to do both sides.

Jo Ann Barefoot: Wonderful. Penny Lee, thank you so much for joining me today.

Penny Lee:

Thanks, Jo Ann. So great to see you.