CFI IN FOCUS: Conference Explores How Fintech Is Changing the Financial Landscape

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Innovation in the financial technology (fintech) space has changed the financial services industry. Regulators, academics, and industry executives gathered to discuss the increasing role of fintech in the financial and banking sectors during the Fintech and the New Financial Landscape conference on November 13–14, 2018. The Federal Reserve Bank of Philadelphia hosted and cosponsored the event with the Federal Deposit Insurance Corporation, the Bank Policy Institute, the Brookings Institution, and The Wharton School of the University of Pennsylvania.

The two-day conference opened with remarks from Federal Reserve Governor Lael Brainard. In her speech, Governor Brainard discussed the growing use of artificial intelligence (AI), specifically machine learning (ML), in the financial sector. She pointed to interest in applying AI in areas where it has an advantage over existing processes. The advantages included AI's superior ability for pattern recognition, its potential to improve predictive power, and its ability to efficiently process very large and less-structured data sets.

"The potential breadth and power of these new AI applications inevitably raise questions about potential risks to bank safety and soundness, consumer protection, or the financial system," she said, after discussing the applications. "The question, then, is how should we approach regulation and supervision? It is incumbent on regulators to review the potential consequences of AI, including the possible risks, and take a balanced view about its use by supervised firms." The rest of the conference continued this discussion around fintech's opportunities, challenges, and risks.

Executives from various fintech providers, including Avant Holding Co., Elevate, LendingClub, Marlette Funding LLC, PayPal Inc., and Upstart, explained how their companies use AI and ML to assess consumers' financial health and to enhance the customer experience. This may provide additional borrowers the ability to access credit and enjoy shorter application processes.

The first conference session explored how many of the lending platforms focus on loans to the "invisible prime," a portion of borrowers with thin credit files who are in fact more creditworthy than they appear. Despite this attention to serving consumers with thin credit files, most fintech providers serve consumers with current credit profiles that are similar to the borrowers that are served by banks. At the conference, fintech executives said they believe this overlap in profiles is an opportunity for banks and fintech firms to partner and collaborate.

In another session, the discussion centered on concerns with providing a safe, responsible use for alternative data while ensuring consumer privacy and fair lending. Current initiatives addressing these concerns that were highlighted included the Small Business Borrowers' Bill of Rights and California's Truth in Lending Standards for Small Businesses.

The research portion of the event began with a paper that provided insights around common assumptions about fintech. Another paper examined how fintech improves small-business lending efficiency.

Another highlight from the conference was a fireside chat with Philadelphia Fed President Patrick T. Harker. When moderator Richard J. Herring, director and cofounder of The Wharton Financial Institutions Center, asked about fintech and the future, President Harker said, "The real challenge for the Fed, as we think through the emerging landscape of technology and changes in technology, is how do we provide the basic rails of the financial system so that the money can move efficiently, and do that in a way that everybody can have access to it?" The entire fireside chat is available as a Philadelphia Fed on Wharton Business Radio podcast on the Philadelphia Fed's [website](#).

Videos from the conference are available on [YouTube](#).

Research presented at the November conference included:

John Wirth, "[Fact versus Fiction: FinTech Lenders](#)"

Usman Ahmed, "[Fintech Small Business Lending](#)"

Gerald Fahner, "[Developing Transparent Credit Risk Scorecards More Effectively: An Explainable Artificial Intelligence Approach](#)"

Nick Rose and Jeff Richardson, "[Trended Credit Data Attributes in VantageScore 4.0](#)"

Marco Di Maggio and Vincent W. Yao, "[Fintech Borrowers: Lax-Screening or Cream-Skimming](#)?"

Piotr Danisewicz and Ilaf Elard, "[The Real Effects of Financial Technology: Marketplace Lending and Personal Bankruptcy](#)"

Joseph P. Hughes, Julapa Jagtiani, and Choon-Geol Moon, "[Consumer Lending Efficiency: Commercial Banks versus a Fintech Lender](#)"

Tetyana Balyuk and Sergei Davydenko, "[Reintermediation in FinTech: Evidence from Online Lending](#)"