



FINTECH ONE-ON-ONE PODCAST NO. 407-PENNY LEE

Welcome to the Fintech One-on-One Podcast, this is Peter Renton, Chairman and Co-Founder of Fintech Nexus.

I've been doing these shows since 2013 which makes this the longest-running one-on-one interview show in all of fintech, thank you for joining me on this journey. If you like this podcast, you should check out our sister shows, PitchIt, the Fintech Startups Podcast with Todd Anderson and Fintech Coffee Break with Isabelle Castro or you can listen to everything we produce by subscribing to the Fintech Nexus podcast channel.

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Before we get started, I want to talk about our flagship event, Fintech Nexus USA, happening in New York City on May 10th and 11th. The world of finance continues to change at a rapid pace, but we will be separating the wheat from the chaff covering only the most important topics for you over two action-packed days. More than 10,000 one-on-one meetings will take place and the biggest names in fintech will be on our keynote stage. You know, you need to be there so go ahead and register at fintechnexus.com and use the discount code "podcast" for 15% off.

Peter Renton: Today on the show, I'm delighted to welcome Penny Lee, she is the CEO of the Financial Technology Association, the FTA. Now, I wanted to get Penny on the show because there's lots of things happening in Washington today that impact fintech dramatically and the FTA is taking a leadership role in engaging with both lawmakers and regulators, we talk about that in some depth, how they're engaging, what are some of the initiatives that they're focused on, what Penny thinks has a chance of getting passed in the current divided Congress. We talk about how they interact with the other organizations that are present today in Washington also engaging on behalf of fintech companies, we also talk about what she's most excited about for 2023. It was a fascinating discussion, hope you enjoy the show.

Welcome to the podcast, Penny!

Penny Lee: Thank you, Peter, great to be here today.

Peter: Great to have you. So, I'd like to get started by giving the listeners a little bit of a background about yourself. In looking at your LinkedIn profile, you have been around politics and Washington for a good number of years, but why don't you give us some of the highlights of what you've done in your career to date.

Penny: Yeah. Politics has been my life. I would say for the first half of my career it was more in what we would call in the States "electoral politics" so did a lot campaigning. So, worked on governors' races, presidential races, worked for the national party, the Democratic National Party, and really had an incredible opportunity to see campaigns from the ground up. I was in what they would call the Finance Division so I raised the money, as I used to say, the first hired, last hired was usually the better job security when it comes to campaigns, but really had a phenomenal run and really got to work with incredible candidates throughout the trajectory. I also had the privilege of running what they call the



Democratic Governors Association so in the election cycle of 2005/2006, I did 38 governors' races in about 18 months.

Peter: Wow!

Penny: Was proud to say that we prevailed in 29 of them so it was quite the feat and quite the run and then had the opportunity. On occasions if the candidate won, or other occasions to go into government and so I was in-house to Governor Ed Rendell of Pennsylvania. My last role in government, I was Senior Advisor to the former Majority Leader, Harry Reid, the Senate Majority Leader. And so, I was with him through the financial crisis, through the Obama election. It was quite, as you can imagine, during that financial crisis quite heady days when you had Secretary Paulson and the Chairman Bernanke in your offices almost every hour of the day trying to get the country back on track and really was quite an interesting time and really was honored to have worked for the leader at that time.

And then stepped out in 2009, went into public practice and went with a firm and a public affairs firm, was president of that firm, did, you know, things, lobbying, public affairs campaigns, communications, strategic counsel and all of those things. Also, during that time, I had a side hustle and I started/co-founded an angel investment group and it was with others that had been in government or in other regulatory areas. And so, we decided to put together a group to see if we could invest in those companies that were in regulated spaces, that if we could use not only our capital to be able to help them start their companies, but also use our knowledge of how to navigate a regulatory system to be able to able to put them on a greater pathway to success and so was doing both tracks for a while.

One of the startups was asked to come in-house to one of those startups, ended up having to right ship a little bit, it got a little sideways as they were looking for global domination. We did a merger, we did an acquisition during that, and then accidentally went back to consulting again running a public affairs firm called Invariant in DC, same kind of thing, both on the lobbying side, strategic communications and from there, that was where I was recruited out to run the FTA.

Peter: Maybe before we get into the FTA, I'd love to get a sense of what really attracted you to it? When did you sort of become enamored with fintech?

Penny: You know, it was kind of an evolution. As we were starting up the angel group, we were looking at a variety of different types of companies, again, all that were in the regulated space, whether it be in energy, transportation, finance, fintech and what not and so started to pique my interest in there. And then when I was in with the firm we represented a company, a couple of fintech companies, One, Kabbage, Carta and others so was starting to get introduced to them in a little more in-depth and really started to see the value and the need for kind of reshaping the financial future and kind of some of the ones that were born out of the crisis from away and what we had seen and kind of where we saw people, where consumers were asking and kind of this notion of democratizing finance to create greater access, more affordable capital products in the marketplace.

So, that was kind of where my interest started to peak and then obviously working directly with some of these fintech companies to navigate Washington, to navigate to think through proactively of where we need to position them, how we need to position them, what are some of the regulatory challenges they were facing or proactively think through. You know, oftentimes Washington puts things in square



boxes or round pegs and, you know, fintechs oftentimes are triangles or they fit a different piece, they are innovating and iterating faster than where regulation currently is and so how do we shape it appropriately so that the consumer protections are there, at the same time innovation is flourishing.

So, it was in that role as consultant to some these fintech companies that I was approached from a group of companies that said, we are starting a new fintech trade association, would you have any interest in coming in and possibly leading it? And so, had several conversations with the folks and was really piqued anew that we were at the kind of the start of where we were going to be needing to take this industry. And there needed to be a collective voice for the industry because everybody was kind of, you know, there was a lending piece, there was a P2P piece, you know, everybody kind of had their own niche industry but no one was speaking collectively about fintech itself and so before we got defined, wanted to define the industry itself in a proactive way.

Peter: Got you, got you, okay. So, why don't you explain, firstly, FTA stands for obviously the Financial Technology Association, why don't you explain your reason for being, your mission.

Penny: Kind of the aperture is a little wide in how we define fintech. So, it is a technology center financial services company, what we say is digitally native or digitally leading companies so somewhat distinct to what I would say we would lean on the "fin" more heavily than the "tech." So, those that started in the financial services, digital financial services, is kind of who we define as our members. We watch and we are aware of crypto, digital assets, blockchain, but we are not active on those issues. We have member companies with crypto products or others, but, again, we kind of separate ourselves, there's a lot of other trade associations and other groups that are very active on crypto, blockchain, Stablecoins and other issues.

We said, you take those issues, we will take, you know, the really exciting things such as chartering and licensing and all the other, kind of some of the more foundational things to fintech. And so, what we were seeing was that A) there was a lack of education about what these products are and what they don't. There is sometimes an assumption that if you are online serving an underserved or unbanked community, that you must be predatory, you know, there was just a lot of healthy skepticism.

So, we said, you know, collectively what we want to do is to be able to work with the legislators, work with the regulators and others to figure out kind of what the regulatory structures need to be, how to work with them in a proactive way, how to shape their own companies internally about what kind of consumer protection pieces they need to be built in and then think through proactively, what's the future of finance look like? And what are some things proactively that members of Congress or legislation can work to address so that's kind of collectively what we work on.

We have payment companies, we have lending companies, we have infrastructure, data aggregators, we have BNPL companies, we have EWA companies so, like I said, the aperture's a bit wide on how we define fintech, but it all is anchored in technology-centered financial services companies.

Peter: Right, right. Looking at your Board, you've got some of the biggest names in fintech on your Board there, can you run through some of the names for the listeners?



Penny: On the Board and even in membership companies like Block, Stripe, Intuit, Brex, Klarna, Zip, I'd say it's a lot of one syllable, but all have vowels (laughs) so Brex, Marqeta, PayPal, you know, just a really wide swath, Wise, others. I don't want to exclude anybody, but Betterment, Carta, like I said, there's quite a few, some of them obviously are the market leaders within Intuit, and PayPal and Stripe and Block, you know, that really taking lead wise and others. And so, putting together collectively a voice for this industry or for various different segments and they can really speak to it from authority not only from a market share standpoint, but also from the years that they've been in here and iterating and driving that competitive innovation in this work force or in this workplace.

Peter: Right, right. So then, obviously you've got deep experience and probably deep connections in Washington, but how are you specifically engaging with both lawmakers and regulators in Washington?

Penny: Yeah. Sometimes it depends on the subject (laughs) so I would say and also, you know, we're in a change here obviously in America. I'm still watching to see if we get a settled House Speaker (both laugh).

Peter: Yes. We are recording this on January 4th, hopefully, by the time this is published there will be a Speaker, I certainly think there will be.

Penny: I would say, as a Democrat who worked in the Senate it is quite fascinating to watch what is happening in the House with the Republicans, but it depends on kind of the issue and kind of also in the timing. Just last year, we saw a lot of interest, concern, inquiry, intrigue about BNPL. For example, in the buy now, pay later space you have an incredible amount of...you have more companies coming into the American marketplace, the US marketplace, a lot more US consumers using these products. You know, the CFPB opening up a market monitoring just to understand what these companies are doing, what they don't, what their impact is, what are the various different models in which they might be employing and any concerns that they might see and I know I testified in the House and in the Senate.

Some of that was just education to understand kind of what these products do, you know, how are people incurring late fees, are they transparent, do the consumers understand what they're doing, some of it is just..... it's always interesting when we went into Brief. The hearing then also went to brief the staff, the staff mostly uses the product and so they're well familiar with what they do and the transparency and the amount of push messages they get about when to pay and how to pay and all of those kinds of things. So, you do have sometimes have a disconnect between the actual users which are oftentimes staff and then the members of Congress who are approaching it more from a theoretical standpoint.

So, you know, we spend a lot of time on this product, in particular, you know, educating members of Congress and also regulators spending a lot of time answering their questions and giving them a complete sense of kind of, I can only speak for our member companies, what our products look like, you know, what are some of the challenges with the credit rating bureaus, what are some of the challenges that they have or how they are doing returns, what is the terms and conditions in which they explained and so, you know, depending on the issue depends on kind of where we will go.



I would say, you know, with the Republicans taking over the House, the Chairman of the House Financial Services is going to be a very different chairman than Maxine Waters, a Democrat from California, with McHenry, a Republican from North Carolina, very different view. One is very, very pro-fintech, McHenry wants as much competition into the marketplace, wants to encourage as much innovation. Whereas with Chairwoman Maxine Waters, she comes from a very different lens, one that was really focused on consumer protection and making sure that all of the disclosures are there, do people have a real understanding, are they not being preyed upon and those kinds of things.

So, you know, that's a lot of what we do, is just trying to get in front of some of these issues and then also have, you know, work with regulators to have them understand and explain, for example. At the OCC, you know, some of our member companies would like to have a Special Purpose Charter. What does that mean, what does it mean to be a regulated entity, what does it mean to, you know, go through the chartering process and be adherent to the OCC and kind of why that's important and how they should think through it depending on the issue, depends on how we engage.

Peter: Right. And given your background with the Governors' Association, I presume, you know, obviously there's big states like New York and California, obviously very important for fintech, how are you engaging on the state level. I mean, obviously, you're not a large organization, right, so you can't kind of spread yourself too thin, but I'm just curious about a lot of the legislation that's come up is impacting fintech so what are you doing there?

Penny: Yeah. Right now, just because we're only going into our second year and so we have established ourselves to really take a look at from a federal perspective. We now are having those discussions about when and how to engage at the state level just because we're seeing an incredible amount of more activity not only from California and New York but other states. Last year, we had a, you know, there is activity around earned wage access in New Jersey and some other states, there's money transmission licenses, you know, throughout all 50 states, you know, we adhere to privacy. We just saw California tweaks into their privacy language, Virginia just issued some regulations on what their privacy regulations which will affect all of our companies' need to be, Connecticut and others, you know, are all popping up.

So, we are seeing an incredible amount of more activity in the state level so we're in active conversations about how to engage, how not to spread ourselves too thin, how to be purposeful in it and, you know, just kind of trying to almost how we did it from the federal level. What are some benchmarks that we know adhere across all platforms, one being, you know, on a federal level open banking, what they call the 1033 rule making out of the CFPB in a place so that consumers can share their data. So, you know, that affects all fintechs across the ecosystem so that was, you know, somewhat...is there similar ones at the state level that affect all of our member companies and those are the ones we'll likely engage or if there is one specific threat to, you know, a full sector, we probably would engage more heavily in that area as well.

Peter: Right, right, okay. I want to switch back to Washington and we will assume, for the time being, that there will be a Speaker by the time this is published, but we have a divided government and there's lots of initiatives I know that are very dear to the fintech community, would love to kind of get a sense of when it comes to legislation, what are sort of the initiatives you think have a shot at becoming law over the next two years?



Penny: As I said, Chair McHenry is proactive, he's looking at some of the things, you know, he initially stated that will be in his priorities is in Stablecoins. That's not an area that we're necessarily going to be weighing-in on directly, but we will be watching especially as it relates to access to fed services, access to faster payment clearing as well. And so, that's one in which we will take a look at it from a more narrow stance. He's also looking at some reforms in capital markets, whether or not that's a change of the definition of accredited investor, whether or not that's an opening up of some of the different aspects on secondary markets and other things so robo advising and other areas so we'll take a look at that one as well.

One of the things I think that have a chance, you know, he has issued a draft on his privacy legislation last Congress, now that he has the gavel, a chance, we saw one version come out of a federal privacy bill, he's taken to a discussion draft. We were hoping, you know, over the next two years we would love to see a national federal privacy standard preemptive of the states just because, right now, it's 50 different... whenever the states get to it, but it's multiple different path works, all companies having to adhere, depending on when they cross jurisdictions as to all the different standards which is incredibly, incredibly confusing, confusing to the companies, but confusing to consumers as to what permissions they have to give and what they don't and so hoping to see something on that. Also we're hoping..... actually, we're hoping through rule making that the open banking does take place and that we're able to have that rule promulgated so that consumers are able to share their data more freely, they're able to share it with fintech companies and others so they get more customized servicing versus having to go a legislative track.

I know this is something that Chair McHenry really wants to see and has been pushing the director to get this rule. It's only taken 13 years (laughs), was part of the original Dodd-Frank so he has been pushing very hard every time, every time he testifies he's always asking about when will this due heed. The Director has now started this process and so we are hoping that actually through rule making that we can get this done and put America on the pathway to more open banking, open finance, be more competitive with the UK and Europe and Australia and other places because we are lagging behind in the area of being able to have consumer permissionable data being able to be shared and people, you know, not having to wait three days for clearing of a paycheck wondering where it could be, but instantaneously being able to see where their information is, what their budget is, what their account totals are and all those kind of things to hopefully stop overdraft and other issues.

Peter: Right. Let's dig into that for a minute, if we can, because consumer permission data is so important. How does it actually work, when working with the CFPB, what are you actually doing with the CFPB to kind of move your members kind of what they want to see happen move that forward.

Penny: There's a process in place so there's only so much we can do, you know, we can influence it atmospherically, we can influence it through comment letters. There are opportunities throughout the rule making process, there's a rhythm that has to occur, they advance the notification of rulemaking then they make the formal rulemaking so there is a process, that just has to take place and, unfortunately, that just takes a little bit of time. So, the first thing that we will do is there's a comment period available to weigh-in on and that we will be issuing a comment letter saying, you know, here's what we would like, here's what we hope comes out of the rulemaking, here are some ideas that we



have or here's how we think it would best serve or how it would best function so we will be submitting that comment.

And then they have what they call a Small Business Panel Review where they'll be soliciting feedback from small business owners because those will be directly affected from this rulemaking so they will have to go through that process. At the same time, we will try to educate, you know, we'll do a series of webinars or blog posts or other things to educate the people and the consumers on what does it mean to have this potentially new open banking system and so just, you know, through every step. We've had numerous conversations with the Department of Treasury, with the National Economic Treaty, just being available to answer questions as they think through rulemaking, being available to address concerns that they might have or how does it work from a very technical level as far as what data is permitted, how is it permitted, how is it safeguarded, how is it protected, what are the fraud protections.

So, being available to also answer from the actual practitioners and the people, you know, especially from us, from the data aggregators, what does it look like from behind-the-scenes and what are some things that they need to address, what are concerns that we can answer. So, really being the resource throughout the entire process through it, but also letting regulators to do the work that they do.

Peter: Right, right, got it, okay. So, I want to touch on FedNow, it's supposed to be launching this year, is that something that you guys are interested in, are you focusing on the rollout of that, what are you doing?

Penny: Yeah. We have one member company that is actually part of the pilot program and so, but we also just have a lot of interest from members about that ability to be able to, like I said, clear payments a little bit quicker. And so, we want FedNow to succeed, to be able to, because we think it's a true benefit for consumers so it doesn't take four days for a wire to go through and it doesn't take any lag in the system, you know, oftentimes that you'll see. You know, someone gets a paycheck on a Friday, it doesn't get cleared until Monday, they have expenses that are due that sometimes get taken which they thought was already cleared and then they end up with an overdraft or not sufficient fees.

And so, hopefully, net this system, you know, with FedNow that we can start to see a little bit faster of a clearing and that consumers can really see that benefit. But the one thing that we would, you know, it's largely limited to those that are depository-taking institutions and so we would obviously love to see the expansion for those that are in the payment field, fintech companies that are in payments and others to be able to have access to the Fed services, whether it be through FedNow or through, you know, directly into Fed accounts.

Peter: Right. Are there other issues that the FTA is focused on right now that we haven't talked about?

Penny: A couple of other issues that, you know, we are, again, more from a macro standpoint in discussion is we talked about just before we got on the air is on the bank/fintech partnerships, what they look like, where they might be headed or what is the arrangement of it. You know, we saw in the Treasury's Report, there's a lot of questions about kind of what these arrangements are like, you know, the vast services that are there, you know, we want to make sure that that is healthy, we believe, and the fintech/bank partnership is a great relationship and can help credit unions, community banks and



others expand their digital product services so they can be more competitive and into the marketplace. So, you know, continuing to support and strengthen and find opportunities that don't decrease that ability, but only strengthen that so those are some things that we are watching from that aspect of it, also a lot of questions and interest around AI and machine learning, how it's being used.

We have a couple of member companies that use AI machine learning particular to change how they do credit underwriting to allow different algorithms that are out there to be able to expand and allow working with credit unions and community banks and others to allow for more people to be considered credit worthy. You know, again using advanced technologies to be able to not just limit them to what was your mortgage and what was your credit card, you know, to determine balance, to determine what your credit rating is, but a full composite, you know, monthly rent payments, utilities and, you know on time payments for a lot of other things to be able to determine are you credit worthy for a loan or otherwise that you might have otherwise been denied.

And so, there's a lot of different interests about AI machine learning to ensure that it doesn't.....is it prejudicial or is it, you know, biased in any way, so we often bring our member companies in to kind of explain how they are using AI machine learning to be able to expand access to credit and financial services for a lot of different demographics.

Peter: Right. So, I want to ask about how you interact with other organizations, there's going to be a lot of crossovers like this. There's fintech organizations like the American Fintech Council, there's Electronic Transactions Association, in the lending space, the Innovative Lending Platform Association and, of course, you have the banking associations which have a lot of overlap there, how are you interacting with these organizations?

Penny: You know, it's a small community in Washington, all of us belonging to the same alphabet soup kind of collaboration (both laugh) and so it depends a little bit on the issue. We try to be as collaborative as possible, and a lot of our member companies are involved in multiple trade associations.

Peter: Right.

Penny: And so, especially on an ETA, especially with our payment companies, there are some likeminded issues and so it's not uncommon. For during the course of last year, I could say there was a couple of times when there was a call for a joint trade letter where everybody could get behind a letter on a specific issue and so would you sign on to something like that. And so, we will try to be collaborative, obviously, there's going to be some differences, I would say we probably have more of the differences from the pure banking trades, they like to take on the fintechs a lot more, are fairly aggressive with fintechs and so not as much collaboration with them.

But where there are, for example, on the innovative lending, the Small Business Administration, SBA, is looking to expand the capability of lending products and allow for fintechs to be able to offer these products. And so, that's something that, you know, they have member companies that are interested in it, we have member companies that are interested in that. And so, working together to work on something such as that. 1033, open banking, that's something that ETA, Electronic Transfer Association and us very much support and so we will be in collaboration with them along with



American Fintech Council and others. So, we're collaborative, each have our own separate mission, but where we have likeminded it only helps to have, you know, greater voices.

Peter: Okay. So, last question, as we're recording this in the first week of the year, would love to kind of get a sense of what are you most excited about for 2023?

Penny: Hopefully, we have a Speaker (both laugh). You know, I would say that I'm excited about with Representative Patrick McHenry taking over the gavel in the House Financial Services, he is someone that is pro-innovation, pro-competition in the marketplace, pro-fintech and so we're excited to work with him to think proactively on some things and ways in which we can improve various different structures, whether it be in the capital markets structure, whether it be in capital formation, whether it be in, like I said, expansion of BNPL, earned wage access and other things so that consumers have the ability to use these products. So, looking forward to working with him and his team, and being available resources for them so that we can provide them kind of how consumers are using it to the best and ways in which we can continue to improve.

Peter: Okay. We'll have to leave it there, Penny, thank you so much, appreciate the work you're doing and I think it benefits the whole industry so thanks for coming on the show today.

Penny: Thank you, Peter, appreciate it. Happy New Year!

Peter: If you like the show, please go ahead and give it a review on the podcast platform of your choice and be sure to tell your friends and colleagues about it.

Anyway, on that note, I will sign off. I very much appreciate your listening and I'll catch you next time. Bye.

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