



Episode 7 – The Fairness of Fintech

SULTAN MEGHJI: Welcome to a special series of the FDIC Podcast, we call Banking on Innovation. My name is Sultan Meghji, the Chief Innovation Officer at FDIC. In previous episodes we've tackled some pretty big issues: the need to engineer innovation into our banking system, the need to be resilient so our banks can stand up to everything from hurricanes to ransomware. We've even looked at the future of quantum computing as it applies to banking.

But with all of this talk of financial technology, AI, how can we make certain that through all of this innovation, our banking system is inclusive and accessible to everyone, most especially the unbanked.

Joining us to explore the fairness of Fintech and the fairness of banking is Chris Brummer, director of Georgetown University's Institute of International Economic Law. Chris is also founder of Washington DC's Fintech week, and he's no stranger to podcasts himself as he hosts the *Fintech Beat*, which is awesome. And if you're not listening to it, you should. Hey Chris, thank you for being here.

CHRIS BRUMMER: Sultan it is such a pleasure. Thanks so much for having me on.

SULTAN MEGHJI: So Chris and I were chatting before we got started about all of the great things we could be talking about, and we realized that we would probably be here for about two hours and that just isn't going to work. And so we've tried to limit it to a couple of very direct questions that can turn into a great discussion. So, Chris, I'm going to start off... with all of the advancements going on in technology, with Fintechs, with everything...are you worried that we're going to be leaving people behind?

CHRIS BRUMMER: You know, that is such a remarkably challenging question, which in and of itself could be, you know, a two-hour long conversation. But I do think that when you think about innovation and, and whether or not, you know, for all the innovations that's been created in this country in particular, whether or not all of that innovation has hit every pocket and every nook and cranny of the economy.

You had mentioned *DC Fintech Week*, but I had the very interesting conversation a year ago, one of our sort of annual shindigs with a couple of folks from overseas, and in particular in Southeast Asia. And they made this really interesting observation saying, for all of this great innovation that the United States creates, a lot of it is being deployed and utilized in other parts of the world...often in order to advance financial inclusion and the like...but the United States hasn't

necessarily been able to operationalize and to leverage all of its own innovation. So I guess when I hear that question...I'll just put it to you this way....I'm certainly aware that the track record hasn't always been such that some of the really great inventions and the genius of the country has been readily sort of deployed in ways that every day Americans have always been able to access.

SULTAN MEGHJI: Well it's interesting, you talk about examples in other countries because, and I don't know this about me. But six years ago, I spent 18 months doing aid work in east Africa, specifically focused on financial inclusion, especially for women in rural communities. And we built a bunch of different technologies that were exciting, and we got hundreds of thousands of women to have bank accounts for the first time ever in fairly short amounts of time. And the genesis of me and the banking system in this iteration was actually coming back to the U.S. from that saying look at all this great innovation, look at all this great technology. A lot of it produced here in the United States that were not actually using and look at the gap that we have because of that.

CHRIS BRUMMER: I think that we have a ways to go here in the United States. I do think that, in no small part to people like you and to other people in government, there's an awareness that there's more to be done and I think there's a very robust conversation going on in the innovation space and also in the regulatory space about how to do better.

SULTAN MEGHJI: Well, selfishly, I fully agree that it's exciting to see more people, especially brown people in the regulatory system, having these discussions. I get very struck sometimes at how lucky we all are that there's an opportunity for us to kind of step into this discussion at this moment in time and see if not only can we in essence, fix some of the, the discrepancies we see in the system today, but then also prepare for the future, right? I'm curious from a diversity and inclusion perspective. Do you see opportunities for new technologies, especially digital assets, to actually meaningfully move the needle in a positive way?

CHRIS BRUMMER: Yeah. That's also a great question. I just did also want to respond to that observation that you were saying about just sort of seeing how many more people are around, how more brown people, but also just frankly how many *more* people, right? I've been around Washington, D.C. teaching over at Georgetown since, you know, the Jobs Act and before Fintech was called Fintech, and before crypto became something of the center of national attention that it's become. And you know, there, there weren't necessarily too many people thinking about that, but it is really remarkable when you walk around town nowadays. You're like, there are so many people who are thinking about these issues and there's a lot of diversity in that and I think that's going to be necessary especially when we talk about the unbanked because you know, a lot of out-of-the-box thinking is going to be required because you're gonna have to take...on the one hand, let's call it, existing technology solutions and to think about how can you better deploy them? And then you have these new, these new let's call them 'frontier technologies' like cryptocurrencies and digital assets that you just mentioned, and you have to think about how to leverage those instruments in ways that can be productive for everyone.

And that's interesting because like I've said before, it involves both thinking about the purpose, how do you make those instruments purposeful? You know, if they're already, or if they're new

and if they're sort of existing already and out there in the ether, excuse the pun, you know, how do you repurpose them in ways so that they can achieve you know, their full potential?

And I think digital assets that has that potential, right? But I don't want to sort of echo what you normally hear about digital assets. It's one of those things where A, it really will take a little bit of time because everything's evolving very, very quickly and you have to sort of think through specifically, what does the infrastructure look like? And there are so many different varieties of that infrastructure that are constantly under development and then sort of thinking, okay, well, how will that infrastructure be deployed? So remittances, that's like an easy kind of example, when you want to dig a little bit deeper beyond the surface, you, you, you want to think about, well, what are the other kinds of use cases? And that's requires a degree of intentionality that I think is just now starting to appear.

SULTAN MEGHJI: And we, and I think it's an amazing opportunity for us at this moment in time to say diversity has to be an intention. So it doesn't matter if we're talking about crypto or whatever...AI, whatever...it has to be built into the discussion.

CHRIS BRUMMER: You are so right! People, we all have very different kinds of lives and different kinds of experiences. And we all, you know, I'm a kid from Arkansas who lives in Washington, D.C. I'm still trying to understand everyone around here, right? And we all have these very different experiences and if you don't have people with those experiences, it's hard on the front end to sort of think about what kinds of, of use cases to kind of aim for. And obviously from the regulatory perspective, it's just really important to have people with different perspectives, to similarly, have big imaginations and to help guide that process along in order to achieve the regulatory mandates that are either explicit or implicit in all of our major financial regulatory agencies.

SULTAN MEGHJI: Well, it's, it's fascinating to hear you talk about this because I spend a tremendous amount of time splitting my energies between what I call external functions...talking to people like you and other amazing experts and really trying to learn more and make sure that, that you hear from us and building more transparency and more dialogue. But then we also spend a decent amount of time focused on internal things for the agency itself. I think a lot of people don't realize that a huge amount of the statutory authority of our financial system goes back to the 1930s. And those are laws that were written and are still the law today and we have lawyers running around all day at FDIC making sure that we don't violate them, right? And then you have an entire generation of what I call kind of first-generation technology thinking. That's a lot of like, how do you think about mainframes? I have my data, I have my database over here and stuff like that. And there's a huge evolving nature of technology, but in parallel to that, we have to evolve our *people*. And, and so many of the people doing this innovative work, you know, at the agencies and kind of in that kind of near circle around them. It is very different than the people who built enterprise technologies 15 years ago or 20 years ago or 30 years ago. And it's just, it's a really cool moment. And I highlight that I've gotten a chance to meet many of the other Chief Innovation Officers at other agencies and many of them, just like me, are the first in the job in the last year and. It is not a bunch of old white men, frankly. Right? It's a very different crowd, right?

CHRIS BRUMMER: It's a very different crowd. You know, it's a generationally sort of different crowd, it's a professionally different crowd, lots of different racial backgrounds kind of get involved and honestly kind of pushing the envelope a little bit in terms of making sure that agencies are accountable and lots of different ways. Even as a law professor, I tell my students like really two of the three classes I teach didn't exist when I was in law school and I'm not that old! And so all of our institutions are being pushed to evolve.

SULTAN MEGHJI: The House Committee on Financial Services Task Force on AI in October held a hearing to examine the use of AI and what potential risks it could have. There's some great papers that have sort of said...hey, AI has the opportunity to be very risky and potentially very discriminatory and there's a little bit of data out there supporting that. Then you have an almost a hundred percent mirror of that showing the exact opposite, saying it's a way of *removing* bias from the system, it's real way of removing these kinds of things. The White House has talked about developing an AI Bill of Rights. Here's my fun question for you at the end. If you were sitting at the table as a founding father of AI for our nation, what would be the top two or three things on your list?

CHRIS BRUMMER: Because I'm not a software engineer, I, I can truly only, you know, answer that question from a very high level and maybe by way of example. So I sit on the board of Fannie Mae and we recently made a decision, or Fannie Mae recently made a decision, to include rental data, sort of its own alternative data and not just sort of pure FICO scores for purposes of lending and that is...that was as a dramatically important step to opening the credit box, right? And, and there was a certain level of common sense. Even in AI, even when we automate things, common sense should not be underestimated.

You know, where you think to yourself, well maybe the ability to pay your rent is roughly analogous to your ability to, or your desire to, pay your mortgage because no one really wants to be out on the street and maybe there's value in that data for trying to assess some sense of likelihoods of repayment.

And I think that, you can expand from just rental payments to other kinds of areas where even in a world of conflicting datasets and, I don't know, conflicting linear regressions...at some point, a decision should also be guided by thinking hard about incentives that people have and how do you build on what's already been done in a safe and sound way that really does open up opportunities for people who actually deserve them. It's not a question of giving something to people that they haven't earned. It's to say, hey, you know what?...when I'm looking at what you've done in terms of your rental payments, and you've always been on time, you kind of deserve credit for that! You know, I think that that's, you know, thinking through other you know, whether or not it's, you know, your phone bill or your car payments or whatever, that it's important to really take that step. And to at times, you use a bit of common sense.

SULTAN MEGHJI: I'm so happy to hear you say 'common sense' and 'AI' in the same sentence, because you know, you don't always hear that. And it's, it's nice to hear, but I do think you, you are highlighting a nuanced point that I don't know if everybody quite gets, which is our spending behaviors as consumers, as actors in the economy, has evolved quite a bit. And instead of having 20 or 30 banking transactions per month, people have 150 and it's a fascinating moment

for us, but the nuance that I heard you say was...listen because of that, it is entirely appropriate for us as we go and look at all these new things happening and the systems as they exist today...we should be a little more thoughtful about bringing some common sense and realizing that the patterns of behavior are changing and how you rate someone is a 'good risk' or a 'bad risk' might have to change.

CHRIS BRUMMER: I'm an old fashioned guy, common sense can actually be very helpful and also regulation, oversight, supervision, it's reiterative. It's not supposed to be like a one-shot. So when you have those standards to go back into assess based off of the data that you're receiving, you know, whether or not, uh, you know, common sense has ruled the day or whether or not you need to maybe upgrade your thinking based on the available data.

SULTAN MEGHJI: Well, I think the TLDR for me talking to you today, Chris is fairness and inclusion is common sense.

CHRIS BRUMMER: Oh, very nice...

SULTAN MEGHJI: ...I'm learning from the best.

CHRIS BRUMMER: I have to go tweet that! I have to go tweet that!

SULTAN MEGHJI: That's fantastic. Well, Chris, thank you so much for joining us today. I hope, uh, I hope that you and I get the next time we do this, we get to do it in person in the same room and at least a fist bump. But, uh, but thank you so much for joining us today on the FDIC Podcast Banking on Innovation.

CHRIS BRUMMER: Thank you.