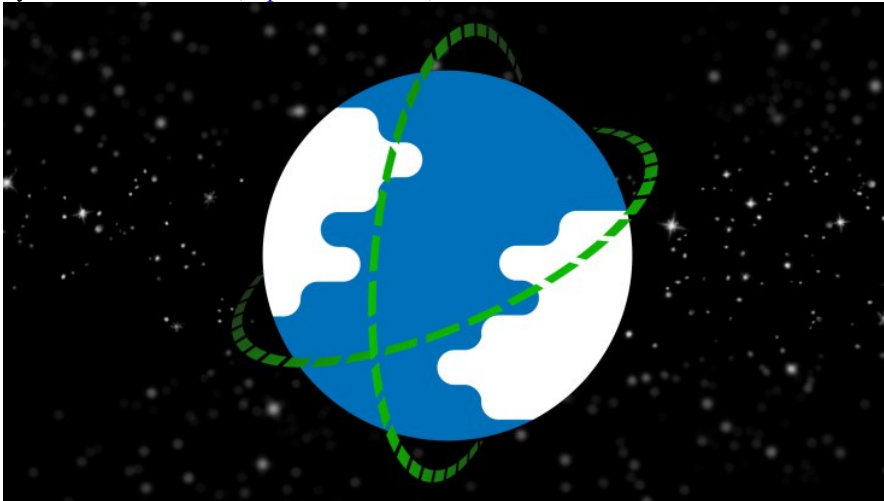


Crunch Network

The delayed revolution in digital financial services

by [Paul M. Schwartz](#) (@paulmschwartz)



Paul M. Schwartz Crunch Network Contributor

[Paul Schwartz](#) is Jefferson E. Peyser Professor of Law at U.C. Berkeley School of Law and a special advisor at [Paul Hastings](#).

Technology has transformed how we work, communicate and travel. In contrast, modern digital technology has not yet transformed financial services. Open data is the key to change in this sector of the economy.

The time has come for the financial services industry to join the open data revolution. Open data means interoperability of digital information to increase its usability and accessibility. The Obama administration has done much to make [open data a cornerstone of its digital government strategy](#). When open data is brought to the private sector, moreover, one of the benefits will be information portability for consumers. “Informational portability” means that consumers will be able to share and use their personal data in different individual services and products.

Consumers and businesses have, of course, long shared their key financial information with trusted third parties, such as accountants, lawyers and financial advisors. Today, advances in technology have made it easier for customers of banks and insurance companies, among other

financial institutions, to share their information with others. Rather than storing key documents in shoe boxes and file folders, consumers and small businesses can pass along digital online and mobile banking credentials.

The promise of fintech is to bring consumer finance into the 21st Century. Fintech companies have already created products that enable consumers to budget, pay their bills, limit spending and identify fraudulent transactions on credit and debit card statements. These enterprises also offer sophisticated tools for facilitating individual investment, financial planning and portfolio management. Leading fintech names include [Acorns](#), [Betterment](#), [Digit](#), [Mint](#), and [Wealthfront](#).

This happy story of progress, however, is far from complete because of concerns around privacy and security, and the intermittent choke-points on data sharing. Financial institutions, such as banks and insurance companies, warn against the risks that would follow from allowing their customers to authorize access by third parties to their digital account information.

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Financial entities have also periodically taken steps to prevent their users from delegating such access to third parties. These steps are based on understandable concerns about privacy and security.

In the [Dodd-Frank Act](#), Congress took a major step toward ensuring open data. In its Section 1033, this law authorizes the [Consumer Financial Protection Bureau](#) (CFPB) to make rules requiring financial institutions to give consumers information upon request about their use of financial products and services.

Congress also authorized the CFPB to develop standardized formats for information. In light of the current absence of cross-industry cooperation, the CFPB should act to enable consumers to get the digital financial services they desire and deserve.

Three policy principles for CFPB rulemaking stand out.

First, the law should enable mechanisms that safeguard and promote consumer consent. Consumers should be in charge of the conditions under which third parties can access their financial information, be provided with clear information about the terms under which such functionality is permitted and be able to turn access on or off.

Second, the concerns regarding privacy and security have merit and banks deserve praise for their concern about them. At the same time, these issues are eminently solvable. Encryption enables firms to share information without making it visible to third parties. Identity management tools allow firms to build systems that provide access to some but not all information, much in the way that a valet key to a car allows someone to drive it but not open the glove box.

Featured Image: Bryce Durbin

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