THE BUCKEYE INSTITUTE

Invite Innovation to Ohio with a 'Fintech' Regulatory Sandbox

Interested Party Testimony
Ohio House Financial Institutions Committee
Senate Bill 249

Logan Kolas, Economic Policy Analyst
The Buckeye Institute

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Chair Jordan, Vice Chair Ferguson, Ranking Member Crossman, and members of the Committee, thank you for the opportunity to testify today regarding Senate Bill 249 and Ohio's need to innovate its financial technology regulation.

My name is Logan Kolas. I am the economic policy analyst at **The Buckeye Institute**, an independent research and educational institution—a think tank—whose mission is to advance free-market public policy in the states.

Senate Bill 249 creates a consumer-centric environment in which approved financial technology—or fintech—firms may experiment and test new products and services under the watchful eye of expert regulators. By constructing a "regulatory sandbox," the bill removes outdated and complicated regulatory obstacles currently impeding fintech companies looking to innovate safely and cost-effectively.

Innovative and emerging financial technology **offers** businesses and consumers more secure transactions, remote financial access, easier **loan repayments**, **cloud-based banking**, and **financial opportunities** for the unbanked. But as they try to bring these products and services to market, fintech firms face expensive, complex regulatory hurdles. Many startup companies spend **more than $83,000** to comply with regulations in their first year alone—a hefty price for fledgling firms with **thin profit margins**. Pursuing national expansion can **cost** millions of dollars in additional regulatory fees and compliance expenses.

Regulatory sandboxes ease these burdens, **decrease risk and uncertainty**, make it easier to attain **investment capital**, and give lawmakers and regulators time to accommodate rapidly changing regulatory needs. As a financial services leader and with its network of universities and trade schools, Ohio should have been at the fore of innovative regulatory reform in the fintech sector, but unfortunately has fallen behind instead. Arizona, Utah, Nevada, Wyoming, West Virginia, North Carolina, and Florida have already **created** regulatory sandboxes for their fintech sectors. Arizona's sandbox, for example, gave financial companies the regulatory flexibility to offer **low-cost banking services** to unbanked residents. And some of these states have expanded their sandboxes to other industries, including legal services, insurance technology, and drones. Sandboxes were so successful in Utah that its legislature **unanimously** voted to extend the sandbox to all industries—a move that Ohio should eventually emulate.

Senate Bill 249 makes a laudable effort to catch-up and wisely sidesteps pitfalls suffered by other states. First, the bill avoids Nevada's mistake of **capping** the number of consumers available to sandbox participants—an error that has cost Nevada all sandbox participation. Second, as recommended in The Buckeye Institute's ***Policy Solutions for More Innovation: Build a Regulatory Sandbox for Financial Technology Innovators*** (attached to this testimony), Senate Bill 249 coordinates Ohio's regulatory sandbox with other states' sandboxes to harmonize rules, streamline compliance, reduce costs, and avoid divergent regulatory schemes that could stifle sandbox participation. Finally, Senate Bill 249 acknowledges the importance of virtual and online businesses by allowing fintech firms that maintain a physical presence in the United States or conduct virtual operations to participate in Ohio's regulatory sandbox.

These are all solid steps forward and The Buckeye Institute commends these policies to the Committee.

Thank you for the opportunity to testify on this important proposal. I would be happy to answer any questions that the Committee may have.

About The Buckeye Institute

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