

SUPPORT INNOVATION AS A PATH TOWARD FINANCIAL INCLUSION

The U.S. is experiencing a growing number of “banking deserts,” or communities where consumers do not have access to financial institutions. Congress should support legislation that enables innovative financial products to reach these populations.

BACKGROUND

According to the Federal Reserve, most counties in the United States lost bank branches in recent years. Rural communities with poorer residents have been hit the hardest.¹ Of America’s 1,980 rural counties, 625 have no locally owned community bank—double the number in 1994.² At least 35 counties have no bank, while about 115 are now served by just one branch.³

Fortunately, technology is enabling banks to reach consumers wherever they are. Digital banking has led to financial technology, often referred to as “fintech,” companies offering new ways for consumers and small businesses to bank. The emergence of blockchain technology and digital assets means that in the future more Americans can have access to our financial system. The wave of technology in financial services, in other words, leads to greater financial inclusion.

However, America’s financial regulatory framework has not kept up with the demands of technology. A core legal doctrine that supports the bank-fintech partnership is in jeopardy based on an outlier court decision from the United States Court of Appeals for the Second Circuit.⁴ The ability for regulators to encourage innovation and test new products remains challenging within the current administrative law framework. Other countries like the United Kingdom have adopted so-called “regulatory sandboxes” to allow more innovative financial products to go to market, leaving the United States behind.⁵

CONSTITUTIONAL AUTHORITY AND REPUBLICAN PRINCIPLES

The Constitution authorizes Congress to regulate financial products as a matter of interstate commerce⁶ because financial products are used across state lines.

Quick Take

The U.S. is experiencing a growing number of “banking deserts,” or communities where consumers do not have access to financial institutions.

Congress should support legislation that enables innovative financial reforms.

POLICY SOLUTIONS

Congress should support efforts to provide legal certainty to the bank-fintech partnerships by the regulators. If legal foundation remains unclear, Congress should reintroduce and pass the Protecting Consumers' Access to Credit Act. Additionally, Congress should authorize pilot programs that allow for more financial innovations to go to market domestically by passing H.R. 4767, the Financial Services Innovation Act.

Please contact Cameron Smith or Kelsey Wall with the Republican Policy Committee at (202) 225-4921 with any questions.

¹ Yuka Hayashi, Wall Street Journal, *Bank Branch Closings Weigh on Rural Communities, Fed Finds*, Nov. 25, 2019, <https://www.wsj.com/articles/bank-branch-closings-weigh-on-rural-communities-fed-finds-11574722948>.

² Ruth Simon and Coulter Jones, Wall Street Journal, *Goodbye, George Bailey: Decline of Rural Lending Crimps Small-Town Business*, Dec. 25, 2017, <https://www.wsj.com/articles/goodbye-george-bailey-decline-of-rural-lending-crimps-small-town-business-1514219515>.

³ *Id.*

⁴ See *Madden v. Midland funding, LLC*, 786 f.3d 246 (2nd Cir. 2015).

⁵ Mekebeb Tesfaye, Business Insider, *The FCA's fintech sandbox is already delivering value*, Oct. 11, 2018, <https://www.businessinsider.com/fca-fintech-sandbox-delivers-value-2018-10>

⁶ U.S. Const. art. I, § 8, cl. 3.