GAME CHANGERS
Economic Policies for a Working America

POLICY BRIEF

Protecting Consumers and Our Financial System from Silicon Valley Fintechs

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Consumers today are increasingly relying on uninsured fintechs for core banking services

Silicon Valley fintechs are increasingly providing consumers with an alternative to bank deposit accounts. Most consumers don't appreciate that these fintech accounts aren't protected by deposit insurance, which leaves consumers vulnerable to losing their funds. These accounts also threaten the stability of our financial system by increasing the risk of bank-style runs beyond the reach of banking regulations.

Policymakers have authorized and encouraged fintech alternatives in the name of "competition" and "innovation"

Banking is heavily regulated, and this regulation helps restrain the harms that banking activities can inflict. Banking regulation also serves as a kind of quid pro quo for the deposit insurance and other government support that the banking industry receives. In the 1970s, policymakers first allowed consumers access to less regulated, uninsured bank deposit alternatives (in the form of money market mutual funds), and this trend has accelerated post-2008 with the rise of stablecoins and other fintech business models. Authorizing and encouraging these alternatives has been a bipartisan mistake that has left more customer funds uninsured and necessitated bailouts of money market mutual funds and stablecoins – with more bailouts sure to come.

Many policymakers have embraced these fintech alternatives in the hope that consumers will benefit from increased competition and innovation. Unfortunately, the innovation offered by Silicon Valley is often more "dodging regulations" than "technological improvement." Silicon Valley platforms are also more prone to monopoly than banks, so competition may suffer as banking services are increasingly provided by Silicon Valley. In particular, several U.S. tech platforms have expressed their ambitions to emulate Chinese "everything apps" like Alipay and WeChat. This bundling of banking services

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with non-financial businesses (and their associated data) poses threats to competition, consumers, and the stability of our financial system

Game Changer: Protecting consumers and our financial system from Silicon Valley fintechs

Some American households – often referred to as "unbanked" – lack access to a bank account, which limits their ability to participate in the economy. This is a real problem, and to ensure that all Americans have access to insured bank accounts, Congress should either enact a public banking option, or require regulated banks to provide accounts for low-income customers (as has already been done in Canada, the UK, and the EU). These accounts would be insured, and any bank providing such an account would be regulated.

These should be the only types of deposit accounts available to consumers. Then consumers won't mistakenly give up their deposit insurance by choosing a fintech alternative, and government authorities will face less pressure to bail out fintechs and other non-bank financial firms.

This is not a new idea. In fact, the law has long provided that only banks can legally offer deposits (although the GENIUS Act recently legalized stablecoins as an alternative). This game changer requires regulators to enforce laws that ensure banks – rather than fintech competitors – perform deposit-taking services. This could be achieved through legislation (for example, by enacting a law that underlines the functional prohibition on any firm that is not a bank providing deposit equivalents), but – should the political will exist – it could also be achieved largely by enforcing the laws on the books.

With that said, policymakers' embrace of fintech alternatives has happened incrementally and technocratically, and so many incremental technocratic steps will need to be undone to fully revert to the traditional banking model. The GENIUS Act that Congress enacted to legitimize stablecoins should be repealed, and banks should be kept separate from the crypto industry (or crypto could be banned entirely). Holders of national trust bank charters should be restricted to engaging in fiduciary activities, and industrial loan companies should no longer be exempt from the restrictions of the Bank Holding Company Act. The Federal Reserve should abandon plans to make central bank accounts available to crypto firms; such accounts should only be made available to regulated banks." The FDIC should characterize fintech partners of banks as "deposit brokers," and the availability of "pass-through insurance" should be limited to help address consumer confusion about whether or not their funds are insured – regulators should aggressively enforce existing laws that prohibit financial institutions from misleading customers about the nature of their funds' protections. Finally, implementation of "open banking" should focus on giving consumers access to their own financial data, rather than making it easier for banks to share customer data with fintechs.

A return to bank accounts works for a working America

The reflexive objection to this Game Changer will be that without fintech competitors, banks will be less innovative and less responsive to the needs of working Americans. This objection misunderstands the political economy of the problem: faced with fintech competitors, banks are at least as likely to lobby for the looser regulatory constraints enjoyed by fintechs as they are to step up

and provide better services to their customers. A regulatory race to the bottom would ultimately harm working Americans.

It is also important to consider what "competitive" or "innovative" fintechs are supposed to fix. Many of the problems faced by working Americans flow from their economic precarity, not from limited access to financial services. Fintechs have incentives to exploit economic precarity with predatory financial products and services, and less regulation to stop them from doing so. Economic precarity will not be solved by providing working Americans with more access to investment or credit products; the real solution lies in increased wages and a better social safety net.

*For more information on this topic, including the **Background Paper**, please visit our policy page.*

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