

# Remarks by Assistant Secretary for Financial Institutions Graham Steele at the Electronic Transaction Association Fintech Policy Forum

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Thank you for inviting me to be here. My name is Graham Steele, and I am the Assistant Secretary for Financial Institutions at the Treasury Department. It is a privilege to speak with you today.

As the Assistant Secretary for Financial Institutions, I oversee a broad policy portfolio, including developing the Department's policy views on banks, credit unions, and the insurance sector, as well as cybersecurity and critical infrastructure, community development, and consumer protection. As the title would suggest, financial institutions are at the heart of my portfolio, and payments is a key area of focus.

Payments have long been one of the core financial services provided by financial institutions, along with the provision of credit and deposit-taking. At the same time, payments is a dynamic and fast-evolving space. The landscape is shifting at an unprecedented rate, with new systems and technology, intermediaries—and even new forms of money—emerging all the time. These developments carry novel and significant implications for the financial system and for consumers and are confronting policymakers with renewed questions about the roles and objectives of the public and private sectors.

At a high level, the role of the public sector is to promote both competition that benefits consumers and the marketplace and responsible behavior and practices that protect consumers and the financial system, including through regulation. This balancing role remains a constant for government, though a dynamic, competitive market presents new questions and issues to consider on how best to strike that balance. One question that has come into focus in this Administration is whether competition in payments and certain areas of financial markets is driving advances that benefit consumers, after holistically considering the new risks they present.

## **COMPETITION IN PAYMENTS**

For consumers, a competitive marketplace means more choices, better service, and lower prices. By contrast, lack of competition can result in sustained market power, and diminished innovation, product quality, and access. In our report on *Assessing the Impact of New Entrant Non-bank Firms on Competition in Consumer Finance Markets* released last year, we explored trends across consumer financial services markets and identified evidence both of increased competitive pressures from new entrants as well as increased complexity, presenting both opportunities for increased consumer benefit as well as risks.

New entrant non-bank firms are offering digital applications to make payments online and through mobile devices that have expanded accessibility for consumers. These payments firms generally provide a front-end digital user interface for consumers to make payments to other parties on the same platform. At the same time, due to their near-exclusive access to the Federal Reserve's payment services and the ability to settle obligations in central bank funds, incumbent depository institutions play a critical role in retail payments and most payments in the U.S. rely on interbank payment services as part of their settlement processes. As highlighted in Treasury's report on *The Future of Money and Payments*, broadening the range of institutions that are eligible to participate in instant payment systems—subject to appropriate conditions and guardrails—could help to enhance speed and efficiency, competition, and inclusion in payments, including for cross-border payments.

Open Banking is another innovation with the potential to promote greater competition in payments. In Europe, regulatory frameworks such as Revised Directive on Payment Services (PSD2) have been at the forefront of policy development, setting standards to enable secure, consumer-permissioned data sharing, which can expand access and promote competition. The U.S. has been slower, due in part to policy uncertainties and competitive tensions among stakeholders in the consumer finance ecosystem. Promoting Open Banking could help new entrants into the payment space to offer new products and services that compete with the legacy products and services offered by incumbent firms.

By contrast, the entrance by Big Tech into financial services could also have different, but nonetheless profound, effects on the payments landscape. As we noted in our competition report, these firms' potential to scale rapidly, due to network effects and strategic complementarities, could result in increased market concentration. The historical separation in the United States of banking and commerce was motivated by a desire to prevent conflicts of interest, avoid excessive concentration of economic power, and limit contagion between affiliates—where the failure of a commercial platform leads to impairment of the safety and

soundness of the affiliated bank. Big Tech's involvement in financial services presents many of these historical issues, in addition to novel banking and commerce concerns. Big Tech firms may have incentives to leverage their existing commercial relationships, consumer data, and other resources to enter new markets, expand their networks and offerings, and scale rapidly to achieve capabilities that other firms do not have and cannot replicate. They may be able to use data advantages, network effects, acquisitions, predatory pricing, and other tactics to gain or entrench their market power to the detriment of competition and, ultimately, consumers.

Finally, the public sector has a unique additional role in payments, through the Federal Reserve System's role as a provider of core market infrastructure. The launch of the real-time gross settlement rail, FedNow, creates new possibilities for innovation and competition in the provision of instant payment services. The introduction of FedNow adds a second set of instant payment rails alongside the existing private sector Real-Time Payments network operated by The Clearing House.

There is room for incumbent and new entrant firms to innovate expand access and choice in products and services that meet consumers' needs—particularly those that are persistently underserved or unserved. Increased competition and innovation can bring positive change to the provision of financial services, but risks must be monitored and addressed to ensure that consumers are protected and that payment solutions promote their financial well-being.

## **REGULATION OF PAYMENTS**

To best promote healthy, responsible competition, policymakers must be clear minded about the objectives of regulation and be cognizant of opportunities and risks related to market innovations. Regulation is an important tool for ensuring that innovation is done responsibly. While Treasury has generally recommended establishing a federal framework for payments regulation, in order to protect users and the financial system and support responsible innovations in payments, there are some specific areas that warrant immediate attention.

One such area is consumer data. Data is at the heart of the digital financial services ecosystem. The rise of fintech firms and their reliance on consumer data has raised valid concerns over privacy and security risks. New technologies and permissioned data sharing can beneficially expand access to financial services, but it is critical that consumer privacy and control be protected. The CFPB's ongoing work on a rulemaking implementing Section 1033 is of paramount importance for personal data rights and helping to resolve core issues that

have inhibited consumers' control over their data. This effort is important to provide additional clarity and security in the data sharing landscape and contribute to further progress in Open Banking.

Additionally, Treasury supports the CFPB's recently announced efforts to consider regulatory proposals relating to data brokers and data boundaries, thereby enhancing transparency and holding covered entities accountable for their data practices. Treasury has previously recommended that the CFPB consider whether and how it may directly supervise data aggregators, who store vast and ever-growing amounts of consumer financial data, generally without the kind of supervision of their data practices applicable to regulated depository institutions. The banking agencies have also issued guidance regarding the oversight of bank partnerships with third parties, including fintech firms. These regulatory and supervisory actions can help promote healthy competition that ultimately benefits consumers.

Another area that has been in focus is consumer fees. Despite other innovations, credit cards and debit cards remain the most prevalent instruments for consumer payments. Across the Administration, agencies have sought to target hidden fees and charges, as appropriate, to shore up competition by promoting fair and transparent pricing across the U.S. economy. In the payments space, the CFPB is working to finalize a rule aimed at reining in excessive credit card late fees. Here again, regulation has a role to play to protect consumers and promote healthy, competitive markets that are free of hidden or excessive fees.

It is also imperative to address the issue of fraud, especially in the era of digital transactions. With the increased speed and accessibility of digital transactions has come increased complexity in fraud and scams, particularly those targeting vulnerable populations. Addressing risks requires consideration of technological and policy solutions. This could include consideration of tools like advanced cryptographic methods, multi-factor authentication, programmatic anomaly detection, as well as prudent operating and governance procedures with safeguards like transactional limits. Ultimately, the public and private sector must work collaboratively to combat fraud.

In these and similar cases, measures to address the risks relating to new services may be effective. But we must also be mindful that those measures may also come with associated costs that have negative implications for the usability and uptake of the service or product. It is important that industry participants and policymakers remain aware of the full range of tradeoffs involved when we design products and policies, respectively.

## **EMERGING ISSUES IN PAYMENT INSTRUMENTS**

In addition to payment rails and services, we are also experiencing a nascent disruption in payment instruments. As we have seen, the provision of payment services can position providers well to provide transaction accounts that function in ways that may resemble demand deposit accounts, as well as credit products. At times, this may come without the full protections of the traditional banking system that consumers have come to rely on and expect from their service providers.

With respect to demand deposit-like transaction accounts, consumers may maintain balances that may be uninsured and may function as an implied cost of accessing services. For traditional deposit accounts, the ease with which depositors can initiate transfers of their funds, facilitated by new technologies and service providers, may also have changed the nature and speed of bank runs, presenting new types of financial stability risks that also require attention. Finally, some crypto-asset companies have marketed their products as safe and deposit-like when they are nothing of the sort. On this last point, the Treasury Department, along with the other members of the President's Working Group on Financial Markets, has recommended that Congress enact legislation to ensure that stablecoin issuers are subject to a robust federal prudential regulatory framework.

This evolution in the nature of payment instruments is an area where regulation clearly has a role to play in protecting consumers and facilitating responsible innovation and competition. As such emerging developments progress, managing the opportunities and challenges they present will require cross-sector engagement, and a focus on driving advances that benefit consumers.

## **FINANCIAL INCLUSION STRATEGY AND OUTREACH**

Our objectives to promote healthy competition, consumer benefit, and inclusive payments systems are central to Treasury's work on the national financial inclusion strategy, consistent with congressional direction. This strategy was touched upon in the panel held earlier today, moderated by the Director of Treasury's Office of Consumer Policy, Natalia Li.

The objective of the strategy is to define clear goals for financial inclusion, set measurable benchmarks for tracking progress, and provide recommendations on how public policy, government programs, financial products and services, technology, and other tools can promote financial inclusion.

As discussed before, payments are a foundational activity in consumer finance and are pivotal to financial inclusion. As the audience in this room can attest, the role of payments transcends basic transactions; payment systems connect individuals to the broader economy, enabling everything from purchasing goods to accessing broader financial tools.

At the same time, we must also remain acutely aware of the potential disparities that could be created or reinforced if new products and services are designed or implemented without adequately accounting for the concerns and needs of the most vulnerable and marginalized. For example, some evidence suggests that lower-income consumers are more likely to make payments in cash than consumers with higher income, even during the pandemic. This, in turn, suggests that certain consumers may be less willing, or less able, to participate in newer forms of payments. A few particular aspects of digital payments will help to determine their ability to promote inclusion.

First, privacy concerns and lack of institutional trust are among the most cited reasons that some individuals avoid the banking system. In particular, some communities may be more privacy sensitive and have heightened concerns about private or public entities accessing their personal information. It is important that we explore the policies, technologies, and methods available to appropriately preserve privacy protections in digital payment systems, including Privacy Enhancing Technologies (PETs). Such technologies could play a crucial role in maintaining transactional privacy while also ensuring transparency and traceability, thus reinforcing the trust of users in digital financial transactions.

Another important element to consider is the degree to which payments systems possess offline capabilities, which could enhance financial inclusion by better supporting transactions in areas with limited or no internet connectivity. Over the past 30 years, we went from less than 1% of the world's population using the internet in the 1990s to over 60% of the world being internet users today. Nonetheless, we know that a significant number of individuals in the U.S. still lack access to reliable internet, and individuals who face barriers to mainstream financial services are also more likely to lack access to certain technology services and infrastructure. It is important to consider the needs of these marginalized communities as our payment systems evolve.

As this brief discussion hopefully demonstrates, advancing inclusion in payments will be a big focus of our work within the broader financial inclusion strategy. To shape the strategy, we intend to reach out to a diverse range of stakeholders across the financial ecosystem to gather their insights.

## CONCLUSION

In conclusion, stakeholders across the public and private sector have a shared goal and incentive to foster competitive and innovative markets. Such dynamic markets present new opportunities and challenges, and there is a role for all players in helping to realize potential benefits while mitigating risks.

At the same time, guardrails are vital to ensuring the proper functioning of markets and protecting consumers. After all, our payment system is built upon a foundation of mutual trust.

In the face of emerging developments, engagement across public and private sectors is key to understanding opportunities and challenges and identifying solutions that can promote healthy competition and consumer benefit, while ensuring financial inclusion.

Thank you again for having me today.

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