

Today's hearing on cash and mobile payments was brief and very broad, sparsely attended in person. The hearing focused largely on the need to increase financial inclusion, rather than offering solutions or on the technicalities of mobile payments. In particular, I wanted to flag for you the conversation around Direct Deposit from Aaron Klein of Brookings, a 2018 GRAG meeting speaker (highlighted below).

House Financial Services Committee

Task Force on Financial Technology

Hearing: *Is Cash Still King? Reviewing the Rise of Mobile Payments*

1.30.20

This morning the HFSC's FinTech Task Force convened for a hearing entitled, "Is Cash Still King? Reviewing the Rise of Mobile Payments." The witnesses were:

- [Deyanira Del Rio](#), Co-Executive Director, New Economy Project (echoed lots of what we have heard from Chair Waters)
- [Usman Ahmed](#), Head of Global Public Policy, PayPal
- [Aaron Klein](#), Fellow, Economic Studies and Policy Director, Center on Regulation and Markets, Brookings Institute
- [Christina Tetreault](#), Senior Policy Counsel, Consumer Reports
- [Kim Ford](#), Executive Director, U.S. Faster Payments Council

Key takeaways

- The hearing was very brief, poorly attended by members and focused on the broad, ongoing theme of understanding how to foster innovation while encouraging financial inclusion and ensuring consumer protection in a digitizing economy.
- Rep. Payne (D-NJ) attended the hearing (non Task Force member) and discussed his legislation, the Payment Choice Act of 2019 ([H.R. 2650](#)), which would prohibit retail business from refusing cash payments and from charging higher prices for customers using cash, and provides a private right of action for consumers. Members did not offer their views on the legislation.
- Chairman Lynch (D-MA) asked how the U.S. payment system compares internationally, and Klein recognized China as dominant in the space with a system built on digital wallets and QR codes, and "leapfrogging" the card-based system. Ahmed attributed much of China's success in moving to mobile payments to merchant acceptance.
- There was a large focus on blockchain technologies and cryptocurrencies. Ranking Member Emmer (R-MN) expressed his support in moving towards a blockchain-based system, and Chairman Lynch (D-MA) responded with great concern as this type of system would eliminate the intermediaries (FDIC, FinCEN, etc.)

Financial inclusion

- Del Rio urged the Task Force to focus on structural barriers that block low-income and minority populations from mainstream financial institutions, rather than solely on consumer behavior and choice, or on the need to design "alternative products."
- Rep. Scott (D-GA) noted that typically in order to have access to mobile banking, a consumer must have a checking or savings account, and asked how PayPal is working to include the un- and under-banked population without these traditional accounts. Ahmed said this must be done through partnerships with retailers, remittance providers, and other entities that enable the use of cash at point-of-sale, and then digitize it on the back end.

- Ford responded to Rep. Scott (D-GA) by also recognizing the constraints posed by the regulatory framework in which traditional financial institutions have to operate, resulting in the rise in nonbank fintechs entering the intermediary space.
- Rep. Luetkemeyer (R-MO) discussed bank account fees, noting that it's not realistic to offer a service for free without another form of subsidization. Del Rio responded that a problem with checking accounts is that it's often low-income consumers subsidizing these costs through overdraft fees.

Cryptocurrency

- Ranking Member Emmer (R-MN) discussed his support of cryptocurrencies and the potential benefits to financial inclusion, referencing Rep. Hill's (R-AR) letter to the Fed regarding a "digital dollar." Tetreault disagreed noting that cryptos are outside the financial mainstream and do not fix financial inclusion issues, as the same populations are deprived of access, nor are they properly regulated or supervised.
- Ranking Member Emmer (R-MN) discussed the declining number of community banks and credit unions due largely to Congressional and regulatory intervention and advocated for a blockchain system that eliminates these intermediaries. Chairman Lynch (D-CT) disagreed, citing the creation of the FDIC as successful government intervention, and expressed great concern with this type of P2P system.
- Rep. Hill (R-AR) discussed tokenization, and asked if there is potential for an approved regulatory payment rail that's blockchain-based and available to banks and nonbanks. Ford responded that the issue would not likely fall on technology being able to support that rail but rather on the policy implications, noting the inconsistency in regulation in this space.
- Rep. Davidson (R-OH) advocated for blockchain technology, noting it broadly protects personally identifiable information and can eliminate intermediaries through distributed ledger technology but called for regulatory certainty.

Digital transactions

- Rep. Scott (D-GA) asked about the costs associated with accepting cash for small businesses. Ahmed noted that while a typical small business assumes that cash acceptance is a costless transaction, there are actually a number of associated costs (i.e. payouts to employees, payouts to vendors and providing security for the cash), and that digital transactions can limit these costs.

Real-time payments (RTP)

- Rep. Hill (R-AR) discussed RTP and asked what the Federal Reserve can do to ensure consumers have immediate access to their own funds. Klein briefly discussed the Expedited Funds Availability Act and noted that the Fed has the legal authority to change the current \$100 requirement. He suggested allowing access to the first \$5,000 of any deposit immediately.
- In a response to Rep. Axne (D-IA) regarding the large amount of overdraft fees in rural and low-income areas, Klein noted that a large issue to address regarding overdraft fees is that many consumers do not know when their check is cleared – that a direct deposit is not necessarily an immediate deposit. The quote was, "do not mistake Direct Deposit for immediate deposit"

Data Privacy

- Chairman Lynch (D-CT) asked if we need a new architecture to be more protective of our financial data or can we overlay this on the existing system. Tetreault recommended a strong

federal privacy floor that includes curbs on data collection and sharing. She noted that while GLBA is often touted as a privacy law, it is not privacy protective in those ways.

- In response to Rep. Luetkemeyer (R-MO), Ford noted that the increase in digital payments inevitably increases the risk of cyberattacks and breaches. She highlighted that, understanding this, financial institutions are now looking at how to devalue the data rather than only focusing on increasing protections through encryptions, etc.

BSA/AML

- Rep. Gonzalez (R-OH) expressed support for the transition to more of a blockchain system and briefly discussed the associated BSA/AML compliance issues and whether addressing this is a tech challenge or a regulatory challenge. Ahmed responded broadly that it is a hybrid of both – that there are technological solutions to track transactions but a clear regulatory and enforcement structure is vital.