February 20, 2024

Natalia Li
Office of Consumer Policy
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Re: Request for Information on Financial Inclusion
Docket ID: 2023-28263

To Whom It May Concern:

My name is Nicholas Anthony and I am the policy analyst at the Cato Institute's Center for Monetary and Financial Alternatives. I appreciate the opportunity to provide input to assist the U.S. Department of the Treasury (the Treasury) in its effort to better understand and improve financial inclusion.[1] The Cato Institute is a public policy research organization dedicated to the principles of individual liberty, limited government, free markets, and peace, and the Center for Monetary and Financial Alternatives focuses on identifying, studying, and promoting alternatives to centralized, bureaucratic, and discretionary monetary and financial regulatory systems. The opinions I express here are my own.

In my comments below, I will address the following questions: A1, B1, C1, D4, D5, and D6.

A1. How do you or your organization define financial inclusion?

Financial inclusion can quickly cover a vast range of issues. Therefore, I most commonly define financial inclusion within the context of the unbanked population. However, doing so can lead to many mistakes that are all too common in popular discourse. I'll outline some of these mistakes below.

First, there is often a mistake in thinking that the total number of unbanked households is the number of people in need of a bank account rather than the number of people without a bank account. The problem begins when people see the number of unbanked households reported in the Federal Deposit Insurance Corporation's (FDIC's) survey of unbanked and underbanked

[1] Department of the Treasury, "Request for Information on Financial Inclusion," *Federal Register* (December 22, 2023). Available at https://www.federalregister.gov/documents/2023/12/22/2023-28263/request-for-information-on-financial-inclusion.

households.[2] People often see the headline number and begin to craft policy solutions. However, the initial number is not the full story.

As the FDIC goes on to explain in the report, it also asks the unbanked population about their interest in acquiring a bank account. In the latest report, 72 percent of the unbanked households were uninterested in having a bank account (Figure 1).[3]

Figure 1

Interest in having a bank account, among unbanked households

Source: Federal Deposit Insurance Corporation, *FDIC National Survey of Unbanked and Underbanked Households* (Washington: FDIC, 2022).

This later number is what policymakers should be basing decisions on. Much like how the unemployment rate factors in the labor force participation rate, the measure of the unbanked should factor in just how many people are interested in getting a bank account. Factoring in interest, the unbanked population falls from 5.9 million households to 1.6 million households, or 1.22 percent of U.S. households.

The second mistake is in believing that the unbanked are in need of being "fixed." It is understandable that this mistake is made given terms like "unbanked" and "underbanked" suggest a negative or suboptimal condition. However, policymakers must be willing to accept that some people may prefer to use alternatives that better serve their preferences. A bank account is certainly helpful for many, but it is not a panacea.

The third mistake is that of treating the unbanked population as a single, homogenous group. Again, however, the FDIC's research provides information deeper in its report that is helpful for fixing this misunderstanding. Namely, the information shows that the unbanked population does not have accounts for specific reasons. The top three reasons are an inability to meet minimum balance requirements, a desire for financial privacy, and a distrust for banks (Figure 2). Any policy solution proposed must address these factors.[4]

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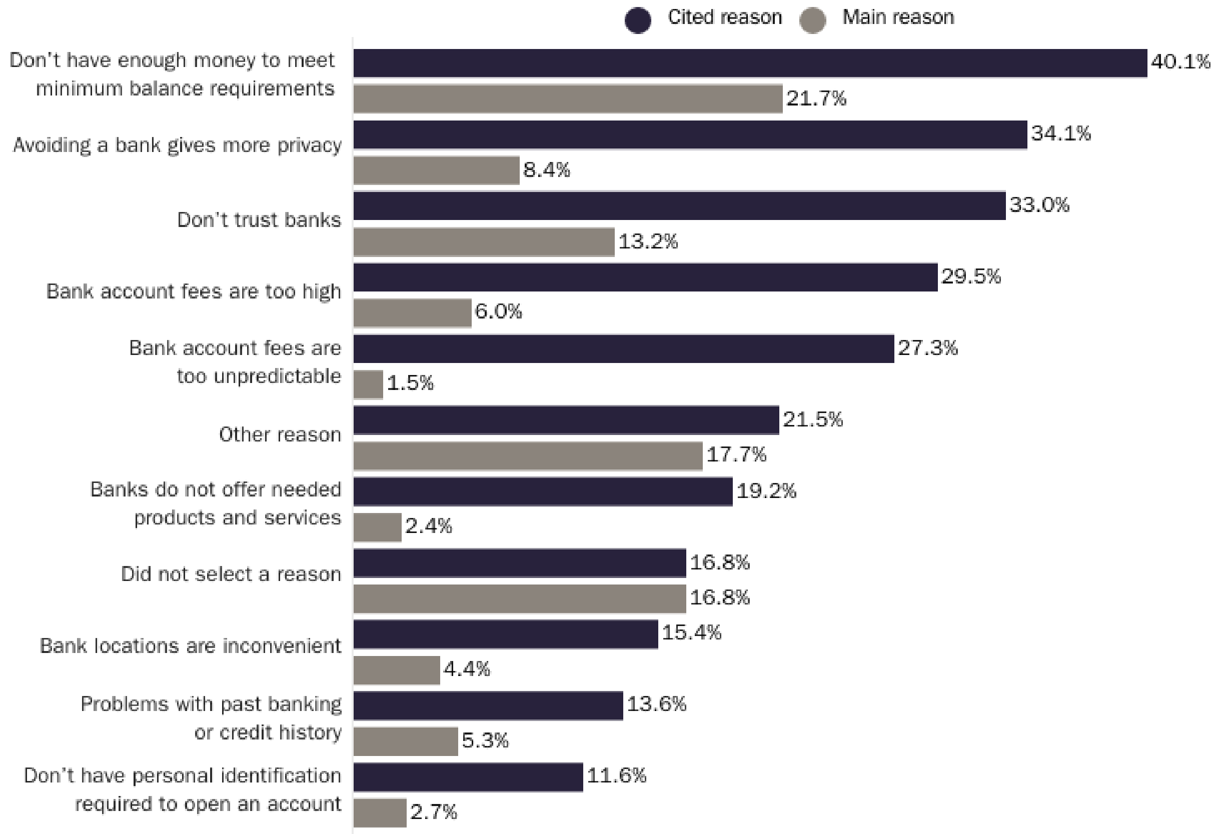
[2] Federal Deposit Insurance Corporation, "FDIC National Survey of Unbanked and Underbanked Households," October 2022, https://www.fdic.gov/analysis/household-survey/2021report.pdf.
[3] Federal Deposit Insurance Corporation, "FDIC National Survey of Unbanked and Underbanked Households," October 2022, https://www.fdic.gov/analysis/household-survey/2021report.pdf.
[4] Federal Deposit Insurance Corporation, "FDIC National Survey of Unbanked and Underbanked Households," October 2022, https://www.fdic.gov/analysis/household-survey/2021report.pdf.

Figure 2

Reasons for not having a bank account, among unbanked households in 2021



Source: Federal Deposit Insurance Corporation, *FDIC National Survey of Unbanked and Underbanked Households* (Washington: FDIC, 2022).

B1. Are there features of the existing financial system (for example, pricing strategies, fees, penalties, underwriting methods and standards, uses of consumer data, technological systems or constraints, institutional protocols related to fraud or risk management, or other features) that limit or create inequalities in the ability of consumers and communities to access, use, and benefit from financial products and services? Which features are the most limiting, and for whom? Please provide specific examples.

There are features of the existing financial system that limit consumer appetites for financial services. Although it may be surprising to hear for some officials, the Bank Secrecy Act regime has created a set of barriers that impacts the unbanked population in terms of their concerns about privacy and costs associated with the traditional financial system.[5] I'll consider each in turn.

[5] For additional notes on these concerns, see the answer to the previous question as well as the FDIC's survey of unbanked and underbanked households. Federal Deposit Insurance Corporation, "FDIC National Survey of Unbanked and Underbanked Households," October 2022, https://www.fdic.gov/analysis/household-survey/2021report.pdf.

The surveillance that occurs under the Bank Secrecy Act regime is often hidden behind confidentiality requirements,[6] but consumers see its impact nonetheless when they are required to prove who they are, where they work, where they live, and the like to open an account. While some information is needed to establish a business relationship, it is the federal government that has deputized financial institutions into de facto law enforcement investigators. And it is the federal government that has forced financial institutions to report their customers' activities. To the extent that the unbanked are concerned about privacy, the surveillance created under Bank Secrecy Act cannot be ignored.

These layers of information collection and reporting also impact consumers' wallets. Each year, the cost of compliance increases. In 2022, it was estimated that U.S. financial institutions spent $46 billion in compliance.[7] Those are costs that get passed on to consumers and raise the barrier to entry for competitors. To the extent that the Treasury is interested in lowering these barriers to entry, an immediate starting point would be to adjust the currency transaction report (CTR) threshold for inflation. Originally set at $10,000 in 1972, the threshold should now be over $75,000. Every year this threshold is not adjusted, the number of reports and the associated compliance costs increase.

C1. What are key indicators that can be used to measure and track financial inclusion? If possible, please provide specific examples of existing data sources.

Please see my response to question A1.

D4. What should be prioritized (in policy, regulation, practice or otherwise) in the effort to promote financial inclusion?

When considering policy and regulatory efforts to promote financial inclusion, the Treasury should prioritize identifying where past laws and regulations have either been flawed from their inception or gone awry over time.

For example, when it comes to weighing the creation of new policies, the first question to prioritize should be: "Is there a market failure taking place to justify an intervention?" If a failure appears to be taking place, the second question should be: "Have past policy interventions led to this failure or undermined market solutions?"

As mentioned in response to question B1, the Bank Secrecy Act regime is an example of how a policy intervention can increase the cost of financial services—affecting consumers' wallets and privacy. However, the Bank Secrecy Act is not alone. The government's hostility toward alternatives like industrial loan companies, cryptocurrency, and the like has consistently meant

[6] Under 31 U.S.C. § 5318, customers are not allowed to know if a financial institution reports their information to the government. The process is confidential.
[7] "True Cost of Financial Crime Compliance Study," LexisNexis, https://risk.lexisnexis.com/insights-resources/research/true-cost-of-financial-crime-compliance-study-for-the-united-states-and-canada

that the financial services market has suffered from a lack of competition—competition that could have otherwise lowered the barriers to entry.[8]

By reducing the barriers to entry, the Treasury can welcome new competition to financial services to help bring prices down, expand access, and create more options for Americans.

D5. What roles should the public, private, and nonprofit sectors play in promoting financial inclusion?

Please see my response to question D4.

D6. In your view, what should a national strategy for financial inclusion contain or aim to accomplish?

Please see my response to question D4.

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Thank you for the opportunity to provide these comments. If you have any questions, please feel welcome to reach out.

Sincerely,

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[8] Diego Zuluaga, "To Help the Unbanked, Break the Industrial Bank Taboo," *Cato at* Liberty, June 9, 2020, https://www.cato.org/blog/help-unbanked-break-industrial-bank-taboo; Nicholas Anthony, "A Case for Cryptocurrencies Elizabeth Warren Can Support," *Real Clear Policy*, February 22, 2022, https://www.cato.org/commentary/case-cryptocurrencies-elizabeth-warren-can-support.