Retirement Income
JOURNAL

Election’s Impact on Financial Services Industry: Aite Group

By The Aite Group *Thu, Nov 12, 2020*

A team of analysts at the Aite Group offers tentative forecasts of the incoming Biden administration's impact on the regulation of the financial services industry in the US. The report covers wealth management, banking, health insurance and other sectors.

Barring any legal challenges to former Vice President Biden’s election as president of the United States, and keeping in mind that control of Congress remains undecided, Aite Group analysts share first takes on the recent U.S. election results and expect the following to unfold from the 2020 presidential election for the financial services industry:

Retail Banking and Payments

Future direction of the Consumer Financial Protection Bureau

Naming a new director to the CFPB is going to be a top priority of the new administration, with action likely to occur within the first 30 days. Many of the names being floated for this role include top staffers from the Cordray era, along with consumer finance experts, such as Representative Katie Porter of California. A new director will likely re-elevate the Enforcement and Fair Lending offices to their prior statuses and give a second look to rule-makings related to small-dollar/payday lending and overdraft fees.

Consumer financial regulation generally

President-elect Joe Biden’s administration will likely bring several issues/topics to the forefront: a reconsideration of how to approach Community Reinvestment Act rule-makings; a serious look at how practices in the financial services industry affect communities of color and what levers government entities can pull to influence this; what, if anything, should be done with regard to reform for government-sponsored enterprises (Fannie Mae and Freddie Mac); and new directions for long-simmering issues such as disparate impact, how guidance should be interpreted and deployed, the balance of power between states and federal regulations, etc.

Libra, bitcoin, and other cryptocurrencies

The Democrats are not any more supportive of Libra, bitcoin, or other cryptocurrencies than are their Republican counterparts, and they largely support bans for financial licensing of big tech companies. The presidency of Joe Biden will likely focus on developing a central bank digital currency long before moving forward with licensing for any cryptocurrency.

Cybersecurity

Data protection and privacy

President-elect Joe Biden has signaled that he will quickly strengthen consumer protections and empower the Consumer Financial Protection Bureau to offset President Donald Trump’s 2018 Economic Growth, Regulatory Relief, and Consumer Protection Act. The act exempted dozens of banks from the CFPB’s regulations. A resurgence of the CFPB by a Biden administration will resurface calls by consumer protection advocates for a stringent national data protection and privacy law, likely based on some of the provisions of the European General Data Protection Regulation and the voters’ recent approval of Proposition 24 to enhance the California Consumer Protection Act. Although a national law will harmonize a patchwork of state laws, its enactment and subsequent enforcement would be expected to increase regulation requirements for financial services organizations and their technology providers—and raise the cost of compliance.

Remittances

President-elect Joe Biden has been opposed to President Donald Trump’s immigration policy and has also opposed building a border wall. The Biden presidency will likely encourage and further enable the formal transfer of funds between migrants and their families due to the far-reaching socioeconomic benefits that remittances provide. Additionally, the Biden presidency may encourage policies such as limiting fees on remittances to make more funds available to migrant families in light of the COVID-19 pandemic.

Card issuance impacts

The new administration will likely give power back to the Consumer Financial Protection Bureau, which may refocus its attention on card products that rely heavily on fees and breakage income, such as single-use cards, incentive cards, and prepaid rebate gift cards. Additionally, depending on which party controls the Senate, retailer lobbies could see an opportunity to push for new limits on credit card interchange rates as they did with debit card interchange rates. A reduction in interchange expense will undoubtedly affect credit card rewards programs, but it reduces the risk that merchants will test alternative, less expensive payment options.

Fintech charters

President-elect Joe Biden has not released enough details to indicate where he stands on this topic or if his administration will reverse course. Charters for fintech firms first gained traction during former President Barack Obama’s administration, although there has been significant pushback from bank and credit union lobby groups. Issuance of charters to fintech firms will likely continue, notwithstanding any big technology disruption or other big anti-consumer impact that may turn the Democratic Party against fintech firms providing these banking services.

COVID-19 relief through payments

A Democratic administration is more likely to pass larger COVID-19 relief packages that may include additional direct payments to Americans and extended unemployment benefits. As some studies have suggested, Americans largely spent much of the relief provided in the Coronavirus Aid, Relief, and Economic Security Act, waterfalling this relief to merchants, payment networks, and financial institutions. A larger relief package will therefore inject more use and spend, benefitting the payments and banking ecosystem as a whole.

Wholesale Banking and Payments

Legal cannabis banking

The Democratic victory will likely see rapid passage of the long-stalled Secure and Fair Enforcement Banking Act, granting legal protections to banks that provide services to legal cannabis businesses in the US. With the Democratic platform including federal-level legalization of cannabis for medical and potentially recreational use, the removal of cannabis from Schedule I classification will rapidly enable financial services providers to enter the market without the constraints and significant regulatory hurdles they currently face. Expect to see a very rapid entrance from Tier-1 banks into the market, while the major payment networks will quickly reverse their avoidance of the market in the U.S. As happened in Canada, once the laws change, the networks will be quick to accept and process payments in the space, even if they do not announce this change very loudly. These moves will likely have a negative impact on some of the cannabis-related fintech firms that have arisen to address the lack of banking and payment support in recent years. Compliance, fraud, and anti-money laundering considerations will remain major concerns for the sector in the medium term, however, as many cash-rich businesses revert to more standard banking relationships and because cannabis-related businesses need to comply with state-level regulations regardless of federal status.

Wealth Management

Sustainable investing in US retirement plans

The financial services industry has expressed sweeping and far-reaching challenges to President Donald Trump's proposal to make it harder for most institutional defined-benefit and private defined-contribution plan fiduciaries to adopt sustainable funds in their plans. That proposal, which was finalized on October 30, 2020, effectively holds environmental, social, and governance investing to a greater level of scrutiny than traditional investments are held to. Aite Group projects that the new administration will cancel the proposal and, by so doing, advance the evolution of sustainable investing options in U.S. retirement plans. In such a scenario, record-keeping platforms will increasingly make tools and data available that enable employers to offer comprehensive, bundled plan services, with fiduciary and investment outsourcing capabilities. Going a step further, once large corporate plans commit to sustainability in their retirement plans, the retail advisory firms will have to engage (as a matter of strategy), building capabilities in that area and training the front-line salespeople.

Fiduciary regulation in wealth management

With the Democratic victory and Joe Biden elected as the 46th president of the United States, Aite Group expects an increasing focus on creating a uniform fiduciary standard. Fiduciary advocates believe that the Securities and Exchange Commission and Department of Labor would be pressured to reconsider the issues of best interest and a uniform fiduciary standard. Regulatory entities would not rely on new legislation but would instead use their existing authority to make changes. However, don't expect any immediate changes, as the administration, Congress, and regulators will want to minimize disruption and confusion that could result from enacting changes too soon.

Institutional Securities & Investments

Capital markets

With President-elect Joe Biden's win, there is a higher possibility of an initial negative reaction in U.S. equities and corporate credit markets due to concerns over higher taxes and regulation, but this can change as soon as the new fiscal stimulus package is approved. Financial institutions' spend on regulatory initiatives has increased year over year, and Aite Group expects the introduction of more chapters under existing regulations (e.g., the Dodd-Frank Act).

Health Insurance

Health savings accounts for all

A Democratic win will usher in an era in which attention shifts to preserving and expanding health insurance access through federal and state-level programs. While a Democratic win does not jeopardize the “HSA for all” approach, its priority level will likely be deescalated in favor of more imminent public health needs—namely, addressing COVID-19-related challenges. Beyond the immediate term, the Biden administration will strive to provide healthcare coverage for those who are unemployed or otherwise unable to access health insurance.

Health insurance exchanges

A Democratic win means that efforts to provide health insurance coverage for those who don’t have it will continue in the spirit of the Affordable Care Act (ACA), featuring a hybrid health insurance environment with elements of “Medicare for All” or a public option. The ACA will likely be mired in the courts system but will remain largely intact. The individual health insurance exchanges will benefit from a redesign that may encourage more health plans to participate in state-based health exchanges and ideally make it easier for individuals and families to navigate them. Health insurance exchanges will fill a gap for those who are no longer covered by employer groups, including those who are unemployed, as well as freelancers, contractors, and sole proprietors who otherwise have few choices.

Healthcare price transparency

The Affordable Care Act and its transparency provision remain intact, and consumers remain positioned as winners with price disclosures and a focus on eliminating surprise billing. Areas to watch are the impact to seniors if Medicare is replaced with a single-payer healthcare system and how transparency is addressed.

P&C Insurance

Commercial lines insurance

With President-elect Joe Biden’s win, more regulation is expected, as is an elevated likelihood of more state and local COVID-19 lockdowns, the latter of which could lead to further business contraction and subsequent business closures. However, with Democrats in control of the House and possibly in control of the Senate after the election, it will be easier for a business relief deal to be reached. The unknowns are what types of businesses will be granted relief and which businesses will become regulatory targets. A Biden administration will likely embrace certain tenets of the Green New Deal proposed by some members of the Democratic caucus, and some businesses could face some rough times as they come under greater regulatory pressure.

This report was prepared by Aite senior analysts Leslie Parrish, Talie Baker, Gilles Ubaghs, Wally Okby, Dennis Gallant, Vinod Jain, Inci Kaya, Jay Sarzen, Joe Krull, and David Shipper and research associate Francisco Alvarez-Evangelista.