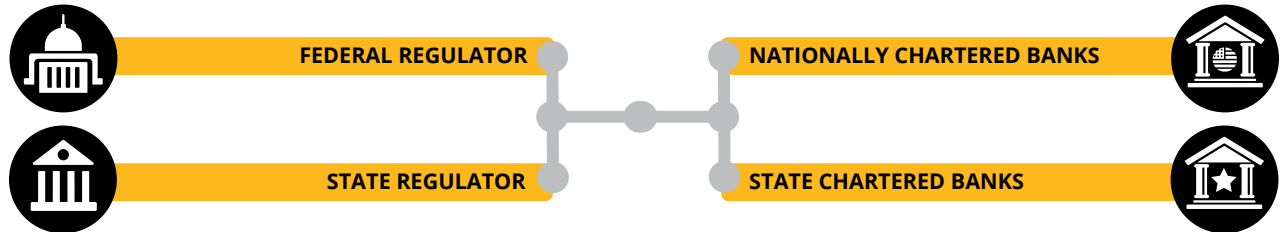


Promoting State Financial Innovation

ENHANCING STATE BANKING POWERS

U. S. Dual Banking System

The U.S. dual banking system consists of both state and nationally chartered banks, supervised by state and federal regulators.



THE PROBLEM



Numerous industries face challenges in **obtaining and maintaining bank accounts**.



In many cases, these **industries are controversial or politically out-of-favor** among some.



Banks are **limiting or closing accounts** with these customers to avoid "perceived regulatory concerns."

The Result: Targeted Debanking Effort



Companies are forced to close shop or move their businesses overseas, or remain in a constant scramble to find new banking relationships. Any of these lead to the **stunting of financial innovation and economic growth** in the United States.

What role do states, whose banking authorities are powerful and historically critical, have at this current juncture?

Summary and Recommendations for State Lawmakers

- 1 Reassert State Authority in Financial Regulation** 

States have historically played a crucial role in financial innovation and regulation. It's vital for state governments to reassert their authority in the dual banking system, especially given the current federal regulatory overreach.
- 2 Partner with Other States** 

States often have economies larger than other countries. By partnering together they could offer alternative services like deposit insurance, which was initially a state invention. This would limit another federal regulator over state chartered banks.
- 3 Embrace Innovative Financial Solutions** 

States like Wyoming and Nebraska have demonstrated the potential for innovative financial regulation, particularly in blockchain and cryptocurrency. Their support for stablecoin innovation at both the bank and government levels should be closely examined and explored. Lawmakers should consider similar innovative approaches to support emerging financial technologies within their jurisdictions.
- 4 Develop State-Specific Banking Models** 

States should explore the creation of state-level public banks or correspondent banks to foster a more supportive environment for state-chartered banks. This could include niche banking for specific industries and advocating for regulatory clarity at the federal level.
- 5 Adapt to Rapid Technological Changes** 

The rapid evolution of financial technology, including cryptocurrencies, necessitates regulatory systems that can adapt swiftly. State lawmakers should ensure their regulatory frameworks are agile and capable of supporting financial innovation while maintaining stability and consumer protection.

By focusing on these areas, state lawmakers can play a significant role in shaping the future of financial regulation, ensuring it is responsive to technological advancements and balanced in terms of state and federal powers.