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Switching to Responsible Banking

How Empowering Consumers To Switch Accounts Can Boost Bank Accountability to Consumers, Workers, and the Planet

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Introduction and summary

Individual customers of deposit-taking banks are extremely important to big banks' bottom lines. In addition to paying fees for services, these customers provide banks with an astonishing amount of low cost, stable funding through their checking accounts. The money in these accounts—called demand deposits in banking parlance—allows banks to make loans and buy assets. In the third quarter of 2020, domestic demand deposits in Federal Deposit Insurance Corp.-insured commercial banks and savings institutions totaled more than $15.6 trillion.[1]

Given the importance of demand deposits to bank funding, one would expect banks to treat their customers well and be sensitive to the way their customers view their business behavior. But the evidence suggests that this is not so. Banks must be more concerned that poor treatment of customers or lending that conflicts with the interests of a sizable number of depositors—for example, private prisons or union-busting companies—could reduce their overall funding.

From just the 2008 financial crisis onward, major U.S. banks misled investors, resulting in more than $150 billion in fines; opened more than 3 million fake accounts that consumers did not want; subjected hundreds of service members to illegal foreclosures; paid millions of dollars in settlements over racial discrimination in hiring practices; and charged Black and Latino applicants higher interest and heavier refinancing fees.[2] Black and brown Americans in particular continue to pay far more in high-cost banking fees, as they often do not have the wealth to afford lower-cost bank products.[3]

Banks have also not been particularly attuned in their lending and investing behavior to growing popular concerns about climate change. Since the Paris climate change agreement in 2015, the largest American banks have provided almost $1 trillion in financing for the fossil fuel companies most aggressively expanding oil and gas projects.[4] Broad-based membership groups—such as the Sierra Club with its environmental members and Business Forward with its small-business partners—and activists and consumers are raising their voice in favor of change.[5]

However, banks that have a record of mistreating their customers, being indifferent to the climate effects of their investment portfolios, or treating their workers poorly are, in general, not disciplined by customer exit. They still enjoy stable amounts of demand deposits that help them fund their business. In fact, customer account switching is notoriously rare. J.D. Power's 2019 U.S. Retail Banking Satisfaction Study showed that just 4 percent of consumers switched primary banks in 2018.[6] This raises the question of why customers do not simply leave for banks that would treat them better—or that invest more responsibly.

The explanations for this behavior are not hard to find. In practice, it is costly to switch banks. Porting account data from one bank to another is a time-consuming process that varies with the banks involved, creating transaction costs and potential delays for the consumer. Moreover, customers who would like to do business with a bank that has a progressive approach to environmental, social, and governance (ESG) matters have an informational problem. Learning the facts about how a bank governs itself, how it treats its employees, or to whom it provides credit and under what conditions is a difficult task because there are no requirements for standard, easily understandable bank reporting around these issues.

Eliminating transaction costs associated with account switching and increasing the information that banks provide to their customers about ESG issues could have important effects. If individual customers withdraw their funds from banks that mistreat them or that have socially harmful investment portfolios, these banks will have reduced access to an important source of low-cost funds. Conversely, banks that operate their businesses in a better manner will gain. While this will not completely end poor treatment of bank customers nor completely resolve ESG issues, it will certainly alter bank incentives in a helpful way.

This report considers the current state of switching accounts in the United States and offers recommendations for enhancing consumers' voice and control over their financial assets. In particular, it recommends steps to enhance both consumer information and support for smaller banks to be able to compete in today's highly digital banking environment. These include:

- Reduction in transactions costs through account portability rules
- Transparency for consumers around a bank's ESG practices
- Enhanced protections for whistleblowers and bank worker rights
- Consumer rights around data privacy and ownership

- Technological and other support from the U.S. Treasury Department and Federal Reserve System for community banks and credit unions, including to enhance their technological interface
- Support for the growth of mission-driven responsible banks and credit unions
- Enhanced competition in the banking sector

The American people want the financial system aligned with the long-term public interest on racial justice, worker rights, climate change, and much more. Taken together, the consumer financial protection tools outlined in this report would empower consumers and small businesses to vote with their feet and, in the process, change the banking system to be more responsive to the lived experiences of, and long-term economic performance for, the American people.

A movement toward ESG in banking

Corporate responsibility is a two-way street: The voices of stakeholders must be heard if corporate boardrooms are to be responsive. Investors increasingly are pressing companies to incorporate ESG risks and opportunities into their management and operations. And at least on the surface, the business community is responding. In August 2019, 181 CEOs of America's largest companies, including banks, committed "to lead their companies for the benefit of all stakeholders – customers, employees, suppliers, communities and shareholders."[7] The next month, the U.N. Environment Program's Finance Initiative launched the Principles for Responsible Banking, which today feature the signatories of more than 200 banks worldwide that are committed to incorporating sustainable finance goals and the Paris climate agreement into their banking activities.[8]

As important as these commitments are, however, they must be backed by actions. In each of the areas discussed below, progress is nascent but tangible.

Climate risk

Action on climate change is one of the leading issues that consumers are pushing banks to consider. In 2020, one of the leading bank financers of emissions faced a shareholder proposal that would call for transparency of climate risks in its lending portfolio.[9] Meanwhile, under pressure from investors and the public, leading banks joined the Partnership for Carbon Accounting Financials last year, with a commitment to measure and disclose the emissions financed by their lending portfolios, and announced their commitment to reach net-zero financed emissions by 2050.[10]

Racial equity

The extraordinary movement demanding racial justice for George Floyd and other victims of police violence and governmental inaction led to a spike of interest in supporting banks owned by people of color. One Black-owned bank in North Carolina experienced close to a 20 percent increase in overall deposits from individuals and small- to medium-sized businesses.[11] Unprecedented attention is being brought to the historical legacy of racism that America's banks funded and may well continue to finance in certain ways.[12]

Change is afoot: Groups such as Bank for Good and BankBlackUSA are raising public awareness of issues in the financial sector that affect people's daily lives, encouraging consumers to find financial institutions that align with their personal beliefs and offering resources on how to best support them.[13] And initiatives such as Imperative 21, powered by partner groups such as B-Lab, JUST Capital, and others, are driving a new vision—and imperatives—for stakeholder capitalism.[14] The banking sector can be more incentivized to live up to its new stakeholder vision of management if the system were designed to give consumers greater mobility to protect themselves and make their voices heard.

Worker voice

The necessity of increasing worker voice at banks is increasingly clear, too. The financial sector is the least unionized in the United States, with less than 1.2 percent of the labor force having collective bargaining rights.[15] Yet bank workers have been instrumental in bringing to light extraordinary financial stability, consumer protection, and other compliance failures—ones that supervisors missed or ignored.[16] This recognition of the importance of bank workers, and the crucial role of unions in protecting their rights and raising their wages, is behind an uptick in worker organizing at banks. And, notably, a community development bank on the West Coast unionized with the Communications Workers of America earlier in 2020, becoming the first in the financial industry to do so in 40 years.[17]

Hidden obstacles to competition and accountability

Growing market concentration across the economy is reducing choice for consumers of all products, but banking competition poses some special challenges. Banks keep their financial policies, such as hidden overdraft fees, opaque; when combined with other bureaucratic barriers, this leaves consumers less financially literate and less able to evaluate and act on all the options available to them. Moreover, smaller banks are inherently disadvantaged by this lack of transparency in the market.

Consumer deposits are a stable source of funding for banks. They are very rarely pulled from the bank, in good times or bad. The stickiness of consumer deposits is driven largely by the fact that the government insures them up to $250,000. But another reason that consumers rarely pull their deposits from a bank is that switching bank accounts in the United States is notoriously difficult, often by design.

Today's banking practices revolve around relationship banking, where consumers, in order to qualify for perks such as fee waivers, are required to use multiple bank products, such as mortgages or credit cards, thus tying up more of their assets and patronage of financial services and making it harder to leave.[18] Other features of modern banking, such as automatic payments, are more convenient for consumers to use, and changing these features for a new bank can seem overwhelming.[19]

As these practices are currently configured, customers wishing to migrate their account from one bank to another experience high transactions costs. Switching automated features usually requires customers to contact the third parties that initiate transactions, update their account information, and wait for automatic transfers to start going in and out of the new account. This expenditure of time and effort can be intimidating for consumers who have to transfer multiple automatic deposits and debit arrangements to a new account.

There are also significant opportunity costs to switching. Usually, consumers must have enough money to maintain two accounts during the switching process. A 2012 report from Consumers Union notes:

While waiting for institutions to redirect automatic transactions, consumers usually have to keep a float – a cash buffer – in both old and new accounts to ensure that all of their bills are paid on time. Because the transfer process can take four to six weeks, the only safe bet is to have enough money in both accounts to cover any potential auto-debit. This may not be a feasible option for many people on a tight budget, and can result in late payment penalties or overdraft fees.[20]

These problems have persisted throughout various attempts at account portability in different spheres. The United Kingdom implemented the Current Account Switch Service (CASS) in 2013 to provide seamless and quick switches in current accounts, the U.K. equivalent of checking accounts, and lay the foundation for account number portability, which works like cellphone numbers and allows consumers to take an account number from bank to bank.[21] Though a quicker and simplified switching process struck down many cost and bureaucratic barriers, only around 3 percent of U.K. consumers switched accounts after one year of CASS implementation. This is partly attributed to lack of awareness over the specific features of the new service and how they address barriers.[22]

In the United States, similar patterns occurred after the 1996 Telecommunications Act, which required all local exchange carriers to offer number portability. On a fundamental level, mobile number portability (MNP) works the same way as account switching, where the consumer contacts the prospective new carrier, which then starts the process of porting by contacting the consumer's current carrier. The adoption of a standardized format of phone numbers was meant to allow consumers to take full advantage of their options in the telecommunications market, leading to lower prices and greater competition. After MNP was implemented, projections for consumers switching phone providers surpassed 30 million; however, only 7.8 million Americans switched from one carrier to another.[23]

Carriers responded by indirectly increasing switching barriers, having consumers sign long-term contracts and imposing hidden costs, thereby increasing subscriber lock-in. But the increased possibility of customer exit also caused service providers to become increasingly similar as they all strove to provide the best possible customer service.[24] Had the act prevented the imposition of new transaction costs, the quality improvements might well have been greater.

Financial regulators have shown action is possible

The securities industry proves that account switching can be improved in the United States. A similar framework to the CASS exists for brokerage accounts. The Automated Customer Account Transfer Service allows U.S. customers to transfer accounts and common assets such as cash or stocks from one broker-dealer to another, usually within a week.[25] The transfer service was implemented in 2006 after high levels of customer dissatisfaction with the transfer of their accounts.[26] Under the principle that customers have the right to move their accounts freely and should be able to expect that to happen quickly and efficiently, the Financial Industry Regulatory Authority found that the carrying and receiving firms should coordinate with each other, with little intervention needed on the part of the customer.

However, given the still limited level of takeup, this case study shows that even after account switching is facilitated, consumers must have additional reason to switch. Even consumers who are interested in supporting sustainable practices can often have a skewed vision of what more socially conscious banks look like—offering paperless transactions, for example—rather than examining the downstream effects of bank activities such as fossil fuel financing.[27] That highlights the importance of information about firm practices and risks to consumers, including to their views about broader societal impacts.

Allowing people to have full information about the implications of their banks' behavior while giving them the opportunity to enter and exit relationships with these institutions with minimal personal cost at least gives consumers a platform from which to exert pressure on specific issues or sectorwide standards even if they do not move their assets. After sustained pressure from investors and activists, several banks divested from private prison facilities that supported family separation immigration policies.[28] Other backlashes around proposed monthly debit card fees offer concrete examples of consumers making their needs and preferences clear.[29] If banks, like phone provider companies, became more responsive to consumer needs as a result of market competition or outward pressure, consumers would benefit, and their voices would have real effects on the distribution of capital and financial sector standards. However, such future bank policies should not come at the expense of additional transaction costs.

Recommendations to boost competition and accountability

More can be done in the United States to facilitate bank accountability to customers. The recommendations below will help create a more fair and equitable financial system.

Transparency through disclosures to consumers

A starting place for accountability is transparency. Laws and regulations such as the Truth in Savings Act, or Regulation DD, require institutions to disclose to consumers a range of information about annual percentage yield, interest rates, minimum-balance requirements, and more.[30] The Consumer Financial Protection Bureau (CFPB), under the Gramm-Leach-Bliley Act, also already mandates that financial institutions provide customers with annual notices regarding their privacy policies, including how to opt out of third-party sharing.[31] Hence, it would be only a modest additional step for the CFPB, utilizing its broad authorities to protect consumers and ensure fair, competitive consumer banking markets, to direct banks to provide consumers with ESG information about their operations.

In particular, Section 1032 of the Dodd-Frank Act gives the CFPB robust authority to mandate consumer disclosure of the features of a consumer financial product to enable the consumer "to understand the costs, benefits, and risks associated with the product or service, in light of the facts and circumstances." Under that authority, banks should be required to disclose a selected set of information about, for example, racial discrimination issues, worker pay and benefits standards, consumer protection practices, contributions related to climate change such as financed emissions, and more, which would provide an additional layer of important information that would allow consumers to think more critically about their banking decisions and the costs, benefits, and risks the product poses.[32] Section 342 of the Dodd-Frank Act also calls for more inclusive hiring practices for bank employees and public disclosures of diversity.[33] Rep. Maxine Waters (D-CA) and the House Financial Services Committee are leading the way in enforcing these regulations, releasing a report last year that noted the lack of diversity in banks' boards of directors and senior employees and called for banks to share their diversity and inclusion data with regulators and the public.[34] As this information is increasingly being collected and disclosed as part of sustainability reports and is increasingly being incorporated into core financial reporting around the world, taking those steps would come with very little additional cost, especially for the larger banks.[35]

Standardized information and regulations

Transparency can also be supported through the enhanced availability of information from within banks. Whistleblower programs, especially around climate, worker rights, and racial equity concerns, can be enhanced through giving workers greater protections against unjust dismissals for raising concerns.[36] Establishing worker councils and other forums for workers' voices to be heard, including with bank supervisors, as part of institutions' ongoing examination processes, will help bring to light compliance failures and other troubling practices. Because unions have a track record of being on the side of consumers and the public interest, regulators can also explore ways to highlight to bank management and workers the importance of unions themselves and thus show government affirmatively on the side of worker collective bargaining.[37]

Voting with one's feet must be easier, too. Standardized information formatting is one of the first places to score an easy win for consumer choice as it opens up channels for private sector turnkey solutions.[38] Section 1033 of the Dodd-Frank Act provides for the CFPB to standardize the information that consumers are getting from their banks—for example, hidden overdraft fees—and to ensure they get the information on an annual basis, "including through the use of machine readable files, to be made available to consumers under this section."[39] Section 1033 and other CFPB regulations already grant third- and fourth-party authorized data access. This access is currently used for entities such as data aggregators, which enable consumers to see their checking accounts, savings accounts, investment accounts, and more in one place.[40] Hence, simply making a consumer's information, properly formatted, available to them is one of the missing links to enabling much easier account switching.

Lower costs associated with closing and switching accounts

Even then, cost can be a limiting factor, especially for lower-income families. To ameliorate some of these burdens, the CFPB should set standards around banks and third-party platforms that facilitate switching accounts. In particular, standards should be set to eliminate the need to hold funds in two accounts at the same time. To that end, regulators can learn in particular from thoughtful congressional proposals in this space. The Freedom and Mobility in Consumer Banking Act, introduced by then-Rep. Brad Miller (D-NC) in 2011 and reintroduced by Rep. Janice Schakowsky (D-IL) and then-Sen. Tom Harkin (D-IA) in 2013, included protections enabling consumers to close an account at any time with no charge, regardless of balance; the right to close an account by remote means and receive funds by check or electronic transfer to the new account; and prohibit fees or charges from being assessed to an account subsequent to receiving a request to close the account, among other policies that protect consumers from facing financial issues or fees when switching accounts.[41]

Federal support to level the playing field for smaller banks and mission-driven lenders

Boosting the competitiveness of smaller lenders can help bring greater accountability. To start, addressing the genuine economies of scale associated with technology would be a wise focus. Building on projects, such as those implementing faster payments or otherwise, the Federal Reserve System should explore ways that it can provide ready-to-use technological solutions and support to community banks and credit unions in order to address the cost and quality issues with their information technology systems—an ongoing area of concern for many community banks.[42] This can enhance their competitiveness generally and help to improve consumers' ability to interface with these banks through account switching platforms. The Federal Reserve System itself may consider establishing platforms to directly facilitate account switching.

The Treasury Department should also examine ways that its Community Development Financial Institutions (CDFI) Fund and programs such as the Small Business Lending Fund, if reauthorized, could be leveraged to support the ability of small banks and credit unions to grow—especially mission-driven institutions that are committed to tackling problems such as climate change and to financially empowering Black and brown communities.[43] The U.S. Department of Agriculture should similarly support diverse rural communities, which are in desperate need of capital in order for residents to make scalable local investments that promote homegrown wealth creation.[44] Without adequate capital, rural America is unable to participate in the transition to a greener economy or provide more affordable housing. CDFIs and other mission-driven lenders—such as those focused on climate action—that commit to leveraging funds in support of these targeted goals are therefore vital to developing these communities.[45] These policies help empower smaller, mission-driven institutions that can draw people away from concentrated big banks.

Other policies that have become topics of popular discussion, such as postal banking or government bank accounts, would also benefit from more free-flowing account switching processes and a more informed customer base.[46] Since these proposals focus on financial inclusion and giving the unbanked an opportunity to enter the financial system, reducing barriers to choosing smaller banks or CDFIs can help consumers make choices that better benefit themselves and their communities.

Support to strengthen banking competition regulations and antitrust enforcement

Lastly, rather than seek to undermine bank merger limits as the Trump administration did during its tenure, the federal banking regulators, in partnership with the U.S. Department of Justice, should engage in a top-to-bottom study of market concentration and anti-competitive practices within the banking sector.[47] This should be done with an eye toward invigorating old tools and developing new ones that can promote fairer competition and better accountability to customers. This review should include items such as evaluating the opportunities and risks arising from new technological developments and drawing on technological expertise such as the Office of Financial Research and even the National Institute of Standards and Technology. An important focus should also be on practices, such as relationships with colleges and universities, that have anti-competitive implications for consumers and that have had a track record of problematic consumer protection risks. For example, Sen. Dick Durbin (D-IL) has brought attention over the years to the relationships between large banks and college campuses after reports that some banks charged students some of the highest average fees among college-connected bank accounts while tying student ID cards to their bank accounts.[48]

Conclusion

America's banks can do better, and pressure works: In response to public opinion and organizing, some of America's largest banks divested from private prison companies in 2019.[49] Furthermore, smaller banks have already begun to move firmly away from oil and gas companies, and even larger banks are divesting from certain fossil fuel investments such as oil and gas from shale or tar sands and Arctic oil and gas exploration.[50] As the Basel Accords that set global bank regulatory standards have long recognized, market accountability is a necessary piece of the regulatory puzzle.[51] That market accountability is not complete unless consumers and workers are truly empowered.[52]

Ultimately, money talks, and consumers should be able to seamlessly align their money and banking with their stances on issues of racial justice, worker rights, weapons manufacturing, or fossil fuels. Policymakers should facilitate the ability of consumers to vote with their feet by lowering current barriers to account switching.

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Appendix

This text box provides an example of a possible ESG disclosure form that discusses issues of financial and social importance for consumer financial literacy. Banks should disclose their information in a similar format, with their own specific data, to current or prospective customers.

Bank disclosure form addressing consumer values and risks

Customer satisfaction

In fiscal year 2021, our bank received _____ complaints per customer, compared with an average of _____ complaints industrywide.

We retained _____ percent of our customers.

Labor

_____ percent of our labor for U.S. activities are domestic employees.

_____ percent of our U.S. workers are unionized.

Investments

____ percent of your deposits fund green projects, such as wind and solar development.

____ percent of your deposits fund oil and gas projects, compared with ____ percent industrywide.

Loans and services

We provided _____ percent of our loans to Black customers this year, _____ percent to Hispanic customers, and _____ percent to our other nonwhite customers.

_____ percent of our account services this fiscal year went to families or customers who were classified as low-income in their state.

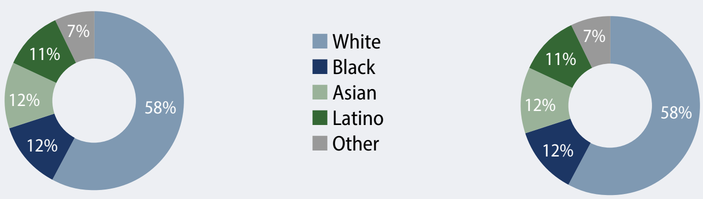
Diversity at our bank

We hire our employees using fair, nondiscriminatory practices.

Comparison between example bank and national bank demographics

Example bank employee demographics, fiscal year 2021*

National bank employee demographics, fiscal year 2021



* This chart presents hypothetical data to provide an example of what this comparison can look like.
Source: U.S. House Committee on Financial Services, "Diversity and Inclusion: Holding America's Large Banks Accountable" (Washington: U.S. Congress, 2020), available at https://docs.house.gov/meetings/BA/BA13/20200212/110498/HHRG-116-BA13-20200212-SD003-U1.pdf.

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