

Panel 1—Question and Answer

Don Saxinger:

Hi. Don Saxinger, FDIC, and I do IT examinations. My question, I guess, I'll direct sort of towards Marianne from a regulatory consumer perspective. There are some examples given in other countries where they've had to deal with mobile network operators, and it seems like there's two models. One, where the mobile network operator took over and eliminated the banks out of the system, out of the payment system, and another model where the regulator stepped in and had to keep the bank within the model so that they could continue to regulate it. And those examples were given for undeveloped countries, but there are other countries where the mobile network operators, they want that type of business, including the U.S. where we see more and more network operators who want to get into the content business.

And so, from a consumer perspective, the models you drew there kind of all showed banks in there. What would happen if the banks were eliminated from that? How would we port over our consumer protection such as Reg E and Reg Z so that the mobile network operators would be just as responsive to those requirements? You mentioned or suggested partnering or dealing with the operators themselves, but what about the regulator? I kind of got that the FCC, you know, they oversee that but do they have the experience or even the mindset to protect consumers in that area or what would we do in that case?

Marianne Crowe:

Well, I think that's an excellent question in terms of what happens if the -- in this country in particular -- if the mobile network operators, because the banks either don't want to or just, you know, don't try to keep up with them. You're going to have these independent parties out there trying to do financial types of services without the protections or other regulations that are linked to the banks to do it. And so, right now, there's nothing stopping them from doing that. And the FCC doesn't regulate -- they regulate, I mean, I don't really understand how they do it, but they're not regulating focused on the consumer the way we are. They're worrying about the way any information is transmitted, but they don't have the expertise in terms of complying with the kinds of things that banks would --

And so in some countries, like in Europe, they've got this payment system directive that kind of covers broadly across electronic payments, and mobile's part of that, so and what they've said is that they're not a bank, but we are a payment service provider and so they provide some kind of umbrella around them in order to build the regulations so that they can follow some of the rules that the banks do. And that's happened in some other countries, too, or they step in after a problem's happened.

So we need to give that some thought because that's the potential reality of this country. Either we prepare for that or we really push to truly try to do a collaboration model so that we bring the parties together, and we avoid that kind of a situation.

Male Speaker:

Here and then we had Bob and then Cathy [spelled phonetically], I think, are the next two hands up.

Di Neesi [spelled phonetically]:

Hi, my name is Di Neesi, and I work for CGAP. My question is more -- it's more a general question on the interest for mobile payments. You said that what can we do to promote more mobile payments in the U.S.? But is that more from a regulator's perspective because something's already happening and then you need to see what is necessary from a regulatory standpoint? Or is that a desire to promote something because you have underbanked and underserved communities in the U.S.?

Marianne Crowe:

I think that -- and Jim, you're probably going to want to jump in on this too -- I think from the unbanked and the underbanked perspective, there's probably more of a potential to need to use mobile phones for payments and financial transactions in this country and, on the other, for consumers who are banked and have other payment methods in their hands, that's what I was saying, there really isn't yet as much of a demand for that. Now, the younger generation might change that, but at this point we have lots of other alternatives whereas the unbanked don't have those alternatives.

Male Speaker:

Yeah, we look at consumer behavior and how business models evolve in response to opportunities for new product innovation and service innovation. You know, I don't think there will be a lot of promotion required. You know, there are cases where you get -- where misunderstandings have to be cleared up. So, for example, you know, an education is required and people just aren't doing things that would make sense for them like, you know, so many paperless statements are available and received by consumers today. I mean, the numbers, the majority of consumers get at least some paperless statements and yet they continue to get the paper statements that criminals love and they send checks around which is an absolutely dangerous thing to do. So sometimes there's education required and promotion. That's one answer to your question.

But the other answer, I think, on mobile payments because it's such an everyday activity, moment by moment, that if you meet the three goals for individual handling of money, which are convenience, safety and then goal fulfillment, which means help people make their nest egg more full, then people will flock to it and you could have to deal with some educational concerns. But it's really more of a supply problem than a demand problem as I see it.

Male Speaker:

So we've got Bob right behind you, Rochelle [spelled phonetically].

Bob Hunt:

Bob Hunt from the Payment Cards Center. I just want to dovetail back to that first question for a moment. So if we have a mobile payments infrastructure in which banks

are not very active, there is a sort of a different regulatory environment out there so FCC has a truth in billing rule. The FTC has a dispute process for what they call pay per call transactions and they have a whole program of prosecution that deals with cramming which is the introduction of unauthorized charges on the bill. And then at the state level, you have much more activity in terms of regulation through the utility commissions. So I'm not saying that this apparatus is adequate for dealing with mobile transactions. But the point is that if we have a -- if we go to a non-bank centric model, we're going to have to figure out what that regulatory environment looks like and what kind of improvements will need to be made in order to provide the kinds of protections we usually think about in the banking environment.

Marianne Crowe:

That's right, and just to add, and now you have to figure out what they do, you have to link them all together and somehow try to make it transparent to the consumer so they know where they go and not that they're dealing with five or six different sets of regulations and rules and trying to understand all that.

Cathy Allen:

Cathy Allen with the Santa Fe Group. And a couple of things. First of all, I applaud what you're trying to do, and I think the Fed is the right place for this to occur, and I think you've heard that over and over at several of the Fed meetings about that. Because you do have the neutral role and the knowledge of payments and those two things are critically important.

There are some vehicles out there that could bring the telecoms to the table, but I even notice here, there are very few telecoms at this meeting, and I don't know how many were invited or if they were, but oftentimes they won't come to the table. And there's an inherent competition between the U.S. telecoms and banks that has yet to come and that is the U.S. telecoms do have an interest in owning or driving payment systems, and, I think, that's part of what keeps them from the table. But a more important thing is the differences in opinions between the FCC and really how they purview regulation of the telecoms.

A couple of years ago after 9/11, Steve Nofus [spelled phonetically] from the Federal Reserve Board and I, when I was the Head of BETS [spelled phonetically], went to the In-Stack [spelled phonetically], which is the group of CEOs of telecoms, and the In-Rick [spelled phonetically], which is the sort of standards making organization of the telecoms. We were the only financial services people there and the goal was to try to get the telecoms to understand how dependent the financial institutions are on them for security. And I will say just because of personal relationships between Dwayne Ackerman [spelled phonetically] and some of our CEOs in the financial area, we made some progress in that area.

But by and large, the regulatory body and the CEO groups of the telecoms are not yet ready to come to the table. And I almost think the Fed is going to have to go up to the Office of the President and down to the FCC and kind of have a -- because certainly this

administration understands security and technology -- and put pressure for those two regulatory bodies to get together which will then perhaps make the In-Rick and In-Stack be the way, at least in the telecom world, to look at the changes in regulation that need to come there.

Long-winded but you were the right place for this to happen, I believe, and I think making the FCC work with the banking regulatory agencies is the way it's going to take place.

Male Speaker:

My apologies to all those who had hands up. We have time for one more comment, and I was told it was this long, and that's about how much time we have before we have to take a break.

Judy Reinyers [spelled phonetically]:

Hi. I'm Judy Reinyers. I'm from Bryant Cave [spelled phonetically]. A couple of very quick comments. The FCC did issue a notice of inquiry this summer asking for information on emerging applications. So they have started to dip into that.

There is, also, on an issue that was raised earlier about what if banks aren't involved? There is the whole set of -- don't forget the state money transmitter licensing laws and the money service business regulations -- there are already mobile payment providers who are licensed, and that's another way that we can insure, for consumers and users, security.

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