

Panel 4 Question and Answer Session

Male Speaker:

I'll exercise my prerogative as moderator to ask the first question. And I would just like to ask this to the entire panel, tell us if there is a difference and what is the nature of the difference of how a consumer disputes a transaction that is cleared and settled on their -- a mobile transaction that is cleared and settled on their credit card for example versus one that might appear on their cell phone bill.

Female Speaker:

I can take that one. As for a credit card transaction, you have regulations. So if you find an unauthorized transaction on your credit card, you call the issuer or the issuing bank and you make a report that an unauthorized transaction has occurred and that investigation, I believe, correct me if I'm wrong, has to be completed within 45 days. On the flip side, if you were doing a mobile payment, and it's going directly to the wireless carrier, it all depends on the carrier's terms and conditions as to the amount of time that the investigation takes place. It's usually about 60 days, but you have to usually pay that disputed amount. Under the credit card you can -- you don't have to pay back that amount so that's the difference, the big difference, whether or not the consumer is out of cash while that disputed charge is being investigated.

Female Speaker:

I don't agree with that entirely, but I do somewhat. A lot of the mobile programs that I have seen, there's a bank, so there's an underlying payment network. There's often an association involved. And when you have, you know, a Visa or MasterCard association, American Express or Discover, they all have rules that set up timing and, by the way, they also do cover ATM transactions so I've always, even on a prepaid card, you will see that the regs in these associations cover those transactions, too. They call it Reg E light instead of Reg E but they still have their own processes in place to take care of consumers who have a problem.

I have to admit that, Bob, your example when it goes not back to a bank or a banking program, but instead to the bill comes on your monthly Verizon bill or whatever you have, then I agree entirely with Michelle. That really we'll look -- at this point you're looking at the terms and conditions, most of the telecoms that I've seen do have a very clear rights for consumers to dispute their charges. And I -- boy I've disputed plenty of those. The missing, you know, lost cell phone, \$500 of calls to Sri Lanka and have had it taken care of right away.

Male Speaker:

Okay. Let's start over here.

Female Speaker:

Thanks. Judy [spelled phonetically], I have two questions for you related to state regulation, money transmittal regulation. Twice you emphasized the point that they need to be holding dollar for dollar. But it was always my understanding that the bonding

requirements A vary state by state and B, are not sufficient to cover. So in the case of the bill payment company a few years ago in New York that went belly up, you know, leaving their consumers holding the bag, I wanted to just push you on that to make sure I'm clear.

Female Speaker:

Can I go ahead and answer that one?

Female Speaker:

Sure.

Female Speaker:

There's two things on the state money and transferring licensing laws. They have bonding requirements and then they have permissible investment requirements. And you are supposed to hold a dollar for dollar for outstandings, plus have the bond. And in that New York incident, that was one where the actual regulator when they were auditing apparently missed the fact that they were not holding the one for one. They were supposed to be. It is a typical rule in all of those.

Female Speaker:

I see. And then my other question is, as we move to increasingly virtual worlds how do you think about state level licensing? Like most of the businesses that we're talking about here today are really national or international in scope. So how do you deal with that tension?

Female Speaker:

That's a really good question. Because the state money and transferring licensing laws do offer protection, but it is a source of frustration when they are across the states and not always uniform. If you want to do a national program, you've got to be licensed in, you know, 40 to 50 states. It's very difficult. There actually has been a suggestion that perhaps it's time for a national licensing law. I've seen it floated around as a way if you're...rather than having to get a license on a state-by-state basis, to get one national license and actually I think that would be a pretty nice idea. But I don't know if it's going anywhere.

Male Speaker:

Okay. All the way in the back.

Lauren Saunders:

I'm Lauren Saunders with the National Consumer Law Center. Is this working? Relating back to Jennifer's earlier comment about the unbanked and underbanked population trust and confidence obviously being a key issue of bringing them into this space as well as Judith's comment about, you know, a few bad apples spoiling it for everybody else. I'd just like to make some comments about a couple of areas, one of course being fees and how these services are paid for and the importance of the cost of the services of the honest cost of the services being charged in an upfront way the

consumers see and realize and know ahead of time rather than, you know, having us fighting after the fact about, you know, particularly abuse of fees or payment that.

A couple that I've seen in the prepaid space to the extent that they migrate over to mobile payments, I'd just like to point out, in addition to overdraft fees, I won't get into that, you know, but we all know the debate there. A fee is for checking a balance, even if it's tiny, even if it's 50 cents, you know, it discourages somebody from responsible behavior. It can make somebody angry. Denied transaction fees are something similar and so I just think it's really important that as this develops everybody focus on up front pricing.

The second area is how people get information. And people who are doing mobile payments are in a middle ground. Between somebody who is totally, you know, outside of the computer world and gets paper statements and never uses a computer on the one hand. And on the other hand somebody who does all their banking online and, you know, has electronic statements and views their transaction activity. So these people are in the middle. They've got this device. They can get some electronic information. But I don't think it's a substitute for either one of the two, and I'm curious what the panel must think in terms of, you know, substituting the idea of reading terms and conditions on a cell phone, or even expecting that people can go online later to see them. How you get transaction information, statement information. I think, you know, we can't substitute have everything in that cell phone. And there may still be need for some sort of paper, either for the initial disclosures or statements that people opt in for paper statements. For those who aren't able to do it in the electronic space. And I need comments on either of those topics.

Female Speaker:

Can I comment on that? And also comment on the other question before about the difference when you have a bank and when you don't have a bank. I'm sorry for talking about empeza [spelled phonetically] again but, I think it's a very illustrative case because it's a case where, in a country with no regulation at all. There was no customer protection relation. There was no consumer protection law. No financial consumer protection regulation, very few rules about consumer protection, and you have a non-bank providing financial services, very basic financial services to 8.5 million people now. That's way more than the banks offer, serve in that country. That's -- I think it's more than double the amount of bank accounts in the country. And it's going fine. It's going very fine, and people are extremely happy. There's no regulation for these non-banks to protect the clients. Not even regulations saying that this provider should be liable for the services or for the agents and the provider has been responding to consumer complaints and solving problems with consumers. So I think that example is very illustrative, and we should keep that in mind when talking about all kinds of protections we should provide to consumers. What is the point of reference?

On the types of communications and if it's needed to have a paper based communications, I think we have many types of models out there, some with paper based. For example, when you have electronic wallet, by wallet substituting cards so you have a wallet of cards in your mobile phone. I've seen models out there that the client

receives a monthly statement just like a credit card but, for example, empeza clients do not receive anything, and we need to remember that we are still talking about a very basic service. So it's payments. It's not checking accounts or anything very complex. Not insurance. There is some examples out there, but it's very basic services that you can keep paper to a minimum.

Female Speaker:

Can I just make a comment? You know it's great that it's been working in other countries because there are the services that they so desperately need but, you know, we have a wide range of different kinds of services, and it's hard for consumers to know exactly what they're signing up for if they're not provided all the information in a place that they can access readily and before they sign up. So, for instance, the prepaid card space, there's so many types of cards. How can a consumer, you know, really expect to assess which product will be best for them when all the fees are hidden? So it's quite important for consumers to be able to have that information front and center.

Male Speaker:

Just to add to that, I absolutely agree with that. I don't think that the mobile phone should take the place of paper. But perhaps the two can complement each other. As I said, I don't have confidence the terms and conditions will be read easily or at all on a mobile phone screen. But perhaps they can be sent on paper. And while phones can be part of the impetus to strip down some of these terms and conditions to something that's more readable so you can have your paper statements or your paper terms and conditions, and then also something that's accessible on the mobile phone.

Female Speaker:

There's a lot of questions [laughs].

Male Speaker:

One of the questions that comes to mind is when we start thinking about electronic statements, privacy, and we start focusing on how can I get all this information on a small screen, I would challenge us as an industry of regulators, everybody involved, to the following. It's a partnership. We shouldn't have to be burdened with 4 pt. fonts or pages. It should be more interactive. For me, at least, I remember ten years ago, 12 years ago when were thinking, okay how do we do the paper statement? Does that apply? Doesn't apply? And the reality is for the end consumers, 10 years after the fact, it's so much better to get an alert that tells them this is your balance right now, what the balance might be at 30 days after the fact. Oh because, by the way, statements are always behind. I'm very encouraged by the opportunity that this movement of payments for telecom operators goes because, quite frankly, who here knows what their phone bill is this instance? Most of us don't. And so to the extent that we start the movement and yet at the same time, most of us will know, more or less, what our balance is on our checking account. And to the extent that we're still moving there, this presents an opportunity.

And now more of a question to the panel and to anybody else out there, when you're thinking about how to make regulations fit, so for example paper statements, privacy,

whatnot, instead of just thinking how do we make the existing standard fit onto the new technology, how do we leverage the technology? What are some of the thoughts that are coming about how to leverage the technology to make it better than the way it used to be? I don't know if there are any thoughts or ideas on that topic?

Female Speaker:

I just want to add that I agree. That we've -- the difference with people with prepaid cards that have the text messaging, the alerts so they never have overdrafts, so they know what they have, I mean, it's like a huge shift for them. And it is going to be very hard to kind of marry that concept what we're used to, I'm used to the terms and conditions, and I agree that we're going to have to figure that out. But we can.

Male Speaker:

Go ahead.

Male Speaker:

To go to your question, some of the regulations, particularly when it comes to privacy, were born out of a lack of consumer choices with what happened to their data. And we're seeing, especially on the online space, and places like Facebook and most recently with Google Buzz, that consumers are increasingly asserting their privacy rights and demanding to have control, or at least privacy controls available to them, even if they don't use it. So if those controls are there and consumers have the ability to control what happens to their personal information, then perhaps the underlying reason why rules like CPNI or even GLBA where the privacy rules embedded in those laws, regulations. Perhaps the general underlying reason that they were put into existence in the first place will no longer be there.

Male Speaker:

This gentleman here.

Marc Wise:

Hi, I'm Marc Wise with Fifth Third Bank. Just to speak to the privacy issue, I think that's the one that I struggle the most with when you talk about a small economies that have proven out to be able to use these, you know, the Internet started out as a very small economy. And today we're in a constant battle of new attacks that are occurring. And I think that's one of the inherent concerns that we need to think about as we move forward. That, you know, we need to learn from what we learned on the Internet as far as how much, you know, how many new types of attacks are going to occur, because that economy of scale goes up as more users are out there, the same way the Internet did. There's more value to the folks who want to break into that and take that value away from the consumer and, ultimately, the bank because of zero liability. So I just wanted to get your thoughts on that.

Female Speaker:

Can I comment on something? I can't remember the person who said that, but it's someone said very recently -- maybe Michael knows who it is -- but worse than being exploited is not being exploited at all [laughs] --

[laughter]

-- so that just -- I don't want to sound with everything that I say here that we should go crazy and not have protections at all. I am myself a former bank regulator and you know that, and I have my own internal fights between protection and allowing those who do not have services today having the service. I just think I agree with everyone that protection is needed on all of those fronts, privacy, security. It's just this new world might require a change of paradigm for regulators and supervisors.

Male Speaker:
Paul?

Paul Tomasofsky:
Thank you, Bob. Paul Tomasofsky with the Secure Remote Payment Council. This is a question from Michelle. One of your slides confused me a little bit and I just want to make sure that I'm getting it right. Normally, when I think of regulation in some industry or company that goes beyond that, that's a good thing. And when I see zero liability that goes beyond the regulatory requirement, as a consumer I see it as a good thing, yet I thought the way that I understood the way you were presenting this like it was a bad thing for zero liability. Did I miss something there?

Female Speaker:
I was addressing mostly the prepaid card issue, it being just like a debit card and a lot of people confuse it be so. And yet Reg E doesn't provide the protections of a debit card or a traditional debit card linked to a bank account. And so those cardholders are subject only to the zero liability policies that are extended by the networks, which are a good thing. But our argument is that prepaid cardholders should have the same Reg E protections as debit card holders.

Male Speaker:
Okay, we have time for one last question. Gentleman over here.

Male Speaker:
My kind of a comment I'd like to get a reaction to it, it's about I'm a big fan of protecting consumers to the greatest extent possible, and it seems to me one of our biggest obstacles has been that we're not clear sometimes, not as precise as we could be on the exact nature of the problem. Who's being victimized by how much, in what way, where sometimes? In the case of one bank versus another bank or issuer versus another. So, you know, the way it looks to us when we get annual very fresh databases, we'll see for example a debit card issue. Two years ago there were precisely two large banks representing more than half of all deposits that had zero liability provisions on debit cards that were not as good as credit cards, just two. Last year there was one. Now, there are zero. So if you bank at

a large bank, you have a debit card your protections are essentially zero liability policies, which are just as good as they are for a credit card. I can't speak to all the very smaller ones, and I don't happen to know the data on prepaid so it's a very good point to bring up, worth investigating.

My point is, you know, then we'll see some of the -- to add to some of the -- I guess I'll just say you've got to have a better way to do it. So what looks like political theater where you get an identity theft day by somebody running for a political office at one side of the aisle or another, to me that does so much harm, because it's really rare to see a factual perspective there. And so I'm just curious on a comment. Do you also agree that there's some harm being done to the actual real consumer if we don't take a very precise view of what the picture of damage looks like so we prescribe something that actually matches up with where the real harm is? Or do you see it differently somehow?

Male Speaker:

Would you propose zero liability for cash?

[laughter]

That's what it is it's a prepaid [inaudible].

Female Speaker:

Now, I don't know which question to ask.

[laughter]

I guess, well, yeah, I mean I guess back to your question on whether or not we need to define what the harm is to the consumer in order to know what we're going to fix. I think that that's valid. I think that would be useful. I think certain things like, you know, take Reg E on prepaid cards, which is a hot issue today, I could see -- I would want Reg E on, you know, on my general purpose reloadable card quite frankly or my kid's university card, but I don't want my Reg E on my gift card if it's going to make my gift card, you know, not available or accessible. I mean you have to, as you said, you have to define what the risk is. And consumers -- consumers I think are really pretty smart. And they know what they want, and they will be able to let you know this is a risk I can accept. This is a risk that I'm not going to accept.

And it's very difficult to find that data so one of those things that is useful to have like the group that's here is to know that people are looking at this and people are talking to consumers. We've heard, for example, that consumers don't want statements. A lot of them don't want statements, and there are better ways to get that data to them. But so you can't rely, as we heard before, on the old paradigms. Well, we've always had statements before so they surely want them now. You know, as I said, I'm trying to get my daughter just to carry her things in something besides the pocket on her blue jeans and, you know, she won't have anything to do with it so it's a shift, and we have to try to keep up with it.

[end of transcript]