

Panel Discussion—Part 2

Peter Lohmann [spelled phonetically]:

Peter Lohmann, from Telekom, Austria. From the role of mobile network operator, you mentioned, Ellen, what is best and what is worst. I hear some concerns concerning the premium rate services. All these services are not offered by the mobile network operators by themselves; they are offered by retailers of the mobile network operators, and this is why things happen. So, I think it's very important that the mobile network operators are controlling the business on their own, because the mobile network operators, the worst thing they want is fraud problems with their customers, because every piece of paper they have to pick up in customer care is money for them, and, they don't want to produce problems with their customers.

This is one point, and the second question: what is the worst for the Federal Reserve? I don't know too much about the Federal Reserve and the banking system of the United States, but if you want to enter into this business, and you say we want to regulate this business and we want to protect the consumer, then I don't think that this is a good approach to enable a business. So, first, we have to enable the business, and then you are into it and you try to regulate and try to be involved in this ecosystems, to take care that the mobile network operators or the banks or whoever is involved in this ecosystems are doing the right things. I don't know, but I assume this might be a challenge or a trade off, at least.

Allen Fishbein:

I can tell you that from our consulting work that we've found the carriers to be very conscientious and holding the standards for service very, very high. Especially when you look at premium SMS or inter-carrier billing that goes on today, the certification levels are very, very high. I would liken them to my 10-year stint with KPMG and the self-regulation that goes on through the AICPA; they are very, very conscientious about that.

The other is just look at, again -- we go to the Haiti relief effort -- normally, the charge that the carrier gets for premium SMS billing is 50 percent off the top line revenue. In the case of the Haitian donation effort, they waived all of those fees in order to get the funds to Haiti.

Female Speaker:

I'm reminded when we talk about top line compliance that the California attorney general had to sue AT&T even though there was a clear California statute that said you're not responsible for unauthorized charges on bills. So, I agree with what was said about the -- that low various entry means more frauds or [spelled phonetically] -- but I think that we need an enforcement that has equally to everyone, no matter how big and how well established they are.

Male Speaker:

Yes, in the back. Can we get a microphone [unintelligible]?

Maurice Helgran [spelled phonetically]:

Is it on? My name is Maurice Helgran with Capital One. Now, when I hear, "What could the Fed do to try to spur innovation?" I can't stop thinking about the ACH network. When you actually look at how the mobile innovations want to work -- "I want to offer some additional value to the consumer" -- you always end up relying on the ACH network. That seems like something the Fed could fairly easy -- because they have control over it -- could invest to innovate. I'd love to get your perspective on that.

Allen Fishbein:

Are you asking, "Should we modify the ACH network to -- for mobile payments?"

Maurice Helgran:

[low audio] ACH network takes two or three days -- mobile payments and innovations in general. The reason I ask is because whenever we've gone out to consumers to try to explain why it takes two days for their money to show up, they never really understand that it's not really the bank that has to do -- that there is a third party that's involved.

Allen Fishbein:

Okay. So, there is a discussion about accelerating finality in the ACH network. Really, the person I'm thinking of who knows the most about that is Rich Oliver, who could be the best person to answer that question for you.

I think the more general question is -- what is the role of the Fed as a provider of small dollar payment services for consumers as a way of addressing a form of market failure? So, for example -- one example of a market failure we have been sort of thinking about today is coordination issues in getting this thing off the ground in the U.S. I'm not optimistic that the best answer to a problem of coordination failure in mobile payments is that the Feds step in and provide something like that, because let's face it, we don't know a whole about the business model of economics; we have to be humble about what we really know well, and there should be better options available to us than that. The ACH conversation is a much broader conversation, and people do talk about it, and they also look to Europe, which is involved in its single European payment area program, which has an analog to ACH, using some new technology. We do look at that as well.

Male Speaker:

I think, actually -- again, a recurring theme here -- look to new entrants [spelled phonetically] to leverage ACH. The new entrants are factoring the settlement risks in order to prove the concept, but, most importantly, show a fix not to exceed price per transaction. That's very hard to compete with if you're doing a percentage of the face, as we have in the bank card models.

Male Speaker:

We have a question way over there.

Amber Lee Hossem-Boulier [spelled phonetically]:

I'm Amber Lee Hossem-Boulier with the Federal Reserve of Richmond, and I just wanted to ask about video disclosures. I've been exposed to phone disclosures, and if we are going to start disclosures on a mobile device, the great advantage to video disclosures is you could actually display the APR; you could actually -- so, it could serve as both hearing, like the phone disclosures, but also have a visual component that helps different types of learners, so...

Female Speaker:

That sounds great. You could even have a, like, little test at the end, right?

Female Speaker:

We might also want to take a look at updating the time limits requirements for those APR disclosures. Last time I looked at that rule, if they were 30 to 60 days old, they were still up to date, even when making those disclosures online, which seems, really, kind of, like, [unintelligible] meets technology.

Female Speaker:

And again, that's an area maybe where policy makers could lead the way in research and development and testing some of these different ideas.

Allen Fishbein:

So, a video is one of the 17 channels, and don't forget, video goes both ways here, right? You can use the camera feature of the phone now. Sixty-eight percent of all phones are shipped with a camera, and those in the last two years have been shipped with autofocus. So, suddenly, the camera comes into play; you can scan a 2-D or QR or a Microsoft tag and suddenly have all of the information appear on your phone. It can also be used as a token, and it doesn't require a chip to be installed in the phone. It doesn't require a carrier to approve it. It doesn't require all of the overhead and complexity and moving parts of a trusted service manager. And, it's something that a merchant can install to enable what the merchant calls "a friendly tender," meaning prepaid gift, private label credit, or decoupled debit.

[laughter]

Male Speaker:

Uh, yes. Jennifer?

Female Speaker:

So, I know we are supposed to be talking about what the Fed should and shouldn't do. But, I just cannot stop --

Male Speaker:

Fed or other regulators.

Female Speaker:

Or other regulators, pardon.

I just cannot stop thinking about the comment that you made, Gail, about the family plan. Only because I think this has been a big failing of the account-based banking system. Right? So, you have a joint account with your spouse or whoever, and you're constantly having to call back and forth, "What transactions did you make? What transactions did I - -" I mean, this happens every day to all different kinds of people.

Or think about people who are living with extended families and are pooling their funds to make rent or whatever, but really can't walk into the bank collectively and open a collective account. Or think about sort of group savings and credit circles, as an example. And then think about how your cell phone bill arrives, right? So, our bill comes, and I see the calls that my husband made, and I see the calls that I made, you know, separated out by the phone number that made them, and, gosh, it seems so obvious now that you've said it, but I think that this is a very powerful innovation for making financial services work the way that we want them and need them to based on how we live our lives that has real positive implications, for underserved consumers, in particular. So, I just -- it's very exciting.

Allen Fishbein:

That's a good point. In fact, the technologists call that "preference management." What I referred to earlier is that the legacy systems need to be adopted, either outside of the legacy or in middle wear [spelled phonetically], to provide the preferences. So, carriers are best in class examples of that. We separate by number; they even can put limitations; you can stop at the number of text messages, and so forth. Try to see those types of preferences inside financial account structures and you're hard pressed to show good examples.

Female Speaker:

So, can you get them to stop dropping my calls?

[laughter]

Allen Fishbein:

It's the network.

Male Speaker:

That's a really interesting -- I was waiting for that to come up, because when you talk about reliability in a payments systems network, how many of you are okay with a payment transaction getting dropped in the middle? "Oh, I'll just call back," or, "I'll just swipe my card again." How do you feel when -- yeah, right -- when a merchant says, "Oh, we'll just swipe your card again"? We really resist that. So, there still is a fair bit of convergence yet to happen in terms of what we think about these things.

Male Speaker:

I'd just like to ask Richard a question. Is it the case that -- are telephone bills done real time or are they done in badge mode?

Richard Crone:

That's an excellent question. So, just as with banking, they are rendered on a badge basis, on a monthly basis, but the accounts -- the account -- just like you see on transaction-based memo posting -- they have a memo posting, as well. Everybody -- I mean, that's the age-old thing, right? As we move to online, real time access, the systems systemically -- we need to get the systemic problem of going to online, real time posting and transaction processing. I think that's an age-old challenge that, when I started my career 32 years ago, we were debating. You know, the difference between a savings and loan and a credit union was online, real time, but a bank was badge and posting later.

Male Speaker:

A comment was posed, I think, in one of the earlier sessions about the certain uncertainty in the examination processes of being in an inhibiting factor. I was wondering if anyone on the panel might want to comment on that without naming names, necessarily.

Female Speaker:

Well, I think before we talk about clear roles for the examiners, we've got to have clear regulations that clearly apply the laws we already have to these products, and then there always are issues of -- you know, is the exam books -- are the examiner instructions efficient? Are they applied equally by all examiners, and so forth. But, of course you have regulatory uncertainty now, because Reg E requires those preconditions, including, according to the reg, a consumer asset account. Do we have one or not if my money and your money is pulled from the same place? Let's answer those basic questions and then find out if we're getting consistency across individual examiners.

Male Speaker:

Brad, what would be your view on that?

Male Speaker (Brad):

Well, maybe I'm naive, but I think all of these reduce down to either an ACH transaction -- in which case there is an originator somewhere in the mix that's a regulated entity, that's going to be that gate keeper into that rail -- or it's card transaction, card or debit transaction. So, I really take Richard's word seriously in thinking about new entrance.

At the same time, there's a base infrastructure there that everybody's trying to get access to and trying to drive out. So, whether it's decoupled debit or some other, it's still an electronic funds transfer; it's still going to come up under an existing code set that tells us how these things should work. And I like the way Gail said it: let's get the regulations in place, and then we'll know how to examine on those regulations -- and you as well: let's eliminate the arbitrage. So, is it going to be FCC or FTC or Federal Reserve or OTC or OTS? Who's going to be involved? Well, let's -- I'm glad many of us are in the room now -- I don't know about the five years of committee meetings -- to decide what the final mix will be, but let's get that resolved quickly.

Male Speaker:

Do we have any more comments, thoughts? Yes. Just hold on a minute.

Male Speaker:

Hold your hand up there.

Male Speaker:

Keep your hand up.

Paul Thomashefski [Spelled phonetically]:

It's me again, Paul Thomashefski, with Secure Mobile Payment Accounts. As Bob said before, these aren't necessarily the comments of the council, but my own.

I think we have to be careful about the amount of new regulation at this point. I mean, we're all coming off of the trauma we've had, where books are still [sic] need to be written about what was the cause of the so-called "financial meltdown". I think there's going to be a multifaceted area there. We used to talk about innovation in a positive way, and that became a four-letter word, at least up on The Hill, right around this -- in the last 18 months, because innovation seemed to have been the cause of what we thought was the financial problems. I think there was further root causes to that, et cetera. We won't get into that, but, in this case, it's a comment, really, not a question, but my belief is that, from a mobile standpoint, that what policy makers should be doing is focusing on safety and soundness, especially, when we have new types of companies coming in holding funds, even if -- to Judy's point -- we have some statutory requirements that those funds be held dollar per dollar. Well, they still may disappear even with that regard. So, audit and compliance are very important as well. Focus on the safety and soundness part of it, and not just for new entrance, but for any entrant, any participant, as well, and create an environment where discussions can be held. This is a great one today.

As far as prescribing exact solutions or picking certain market solutions or ways to do things -- one, I don't know -- I know the Fed and policy makers are very smart, but I don't know if anyone has that kind of knowledge. We tend to, as humans, we kind of start things up and kind of keep messing around with them and then eventually, maybe, they get close to perfect, or probably someone else does something else and makes them obsolete. There is no King Solomon, basically, I don't think, and so, for us to try to figure out what the answer is from a policy making perspective and choose one, I think is just a disaster. Again, focus on safety and soundness, and let the market participants, through their pursuit of profit -- but not unbridled pursuit of profit, not greed, but their pursuit of a reasonable profit -- let them come up with solutions that the consumers will then vote on with their dollars.

Female Speaker:

I'm going to let you go second, because you're the banker of the future. So, you probably already know. I'll ask Matt. I also think the benefit here of being able to look at international models. I mean, I think to some extent the future's already here, somewhere else, and we could probably learn from a lot of those, about where the consumers' vote and different scenarios.

Male Speaker:

All I was going to offer was, reiterating what you said, I think there are going to be certain combinations that emerge over the next 12 to 18 months of folks that make a go of it. And right, market forces, as long as they work within the regulatory framework and not -- and don't get stopped by regulatory forces, the market is going to help decide how that works. What may seem as a free ride for the first 12 or 18 months may find itself get arbitrated away in terms of its value prop in the long run.

Female Speaker:

And I think when we -- I agree with you about safety and soundness as the primary consideration, but for the household using the payment mechanism, safety and soundness is: the folks who have my money don't go under, but also, nobody else spends my money, and if it's wrongly processed, I get it back. So, dispute resolution and credit are part of safety and soundness for the household.

Allen Fishbein:

I'd structure your thinking around mobile two ways. I'll quote Yoda, "There's always two: a master and apprentice." The master here is the funding account, and that comes in three flavors: credit, debit, or prepaid. And the structure and policies and regulations are in place for those. The second part of mobile, though, is the token.

Now you heard today, mobile payments being accessed principally through near field communications, but I gave you an example of how the camera could be used, and, there's 17 other channels that can be used to access that. And so, the tokens come into play here, and really don't much affect the existing infrastructure and guidelines and regulations that we have for all three payment types.

I will say this, though, of the three available, it is prepaid that most the start-ups are focusing in on for a good reason: because, they can eliminate the settlement risk. It's, for the most part, treated like cash, and, because of what you've heard from the consumer groups, rather attractive from the fee schedules standpoint. But most importantly, it does, as Roy will attest to, serves [sic] a market that is rightfully termed "underserved," and this is a way to provide those services in a way that doesn't bind them to a card that won't tell you your balance, right? The problem with most prepaid cards: "Hello? What's my balance?" It won't tell you, but a mobile gift card will, and on top of that, maybe even provide personalized offers and incentives that you selected. It's not mass marketing; it's not spam. It's an extension of what Matt talks about as mobile banking or mobile self-service. In this case, it's self-marketing.

Male Speaker:

What I would emphasize is mobile transactions as opposed to mobile banking. As in its very early days in the U.S., we're not that far down in terms of scale economies. In the literature we study, we're very early on in the diffusion curve, and we've already heard people talk about that one of the principle bottle necks that we have is that there has to be enough margin for all of the players to be able to earn a return if they're going to make

that investment, and so it is important to think about the fixed cost of whatever regulatory strategy you're going to impose, especially early on. Later on, when this market is built out, those fixed costs are probably not going to be very important, but they could be very important early on, and as a result, it could influence the speed with which we actually get to ubiquity in mobile transactions.

Male Speaker:

That's actually a good concluding point, Bob, and I think, unless there's another burning question from the audience, maybe we'll draw this panel to a close. I want to give anybody on the panel -- if they want to make a concluding remark, this is your opportunity.

Female Speaker:

I just wanted to say, I have a paper on this topic, and I brought the one-page excerpt and the longer piece. So, help yourselves when we're done. I don't want to [unintelligible]

Allen Fishbein:

Wow, how many trees did you kill?

[laughter]

Female Speaker:

No, these are the one-pagers. [Unintelligible] so, help yourself when we're done.

Allen Fishbein:

So, for the financial institutions in the room, I think a great concentrated day to hear the issues, but the bottom line is if you don't have a mobile strategy, now is the time to get it. And if I leave you with one thing to remember, as a part of that, the one who enrolls is the one who controls, and it's now time for financial institutions to enroll their mobile credentials as a part of their customer profile.

Male Speaker:

Matt, any concluding thoughts?

Male Speaker:

I'm just thankful for the day. It's a -- you know, many of us, when we go back home and we sit inside our conference rooms and sort of listen to ourselves talk about these issues, you never get the kind of insights or entertainment -- like, I didn't think I'd hear Yoda.

[laughter]

[unintelligible]

But, thank you to our hosts for organizing this. It was a fantastic day.

[end of transcript]