CFSI Center for Financial Services Innovation

April 20, 2012

Federal Trade Commission, Office of the Secretary
Room H-113 (Annex B)
600 Pennsylvania Avenue, N.W.
Washington, D.C. 20580

Re: FTC Workshop on Mobile Payments and Their Impact on Consumers, Project No. 124808

Dear FTC Representative,

The Center for Financial Services Innovation (CFSI) is submitting this letter in response to the request for comment by the Federal Trade Commission in advance of the FTC's Workshop on Mobile Payments and Their Impact on Consumers. We appreciate the opportunity to respond to this request for comment for the April 26, 2012 workshop.

CFSI is a nonprofit organization, in our eighth year of providing national leadership, research, and insights on the financial services needs of underserved consumers. We conduct consumer and industry research to develop a broad understanding of consumers in this segment and the products offered to them. We invest in nonprofits and for-profits serving underbanked consumers with sustainable, innovative financial products and services. And we advance federal financial services policy to spur product innovation and market competition and address impediments to accessing high-quality financial services. The comments in this letter reflect our belief that effective public policy must do three things: protect consumers from unsafe and harmful products and practices; ensure that they have access to safe and affordable products and services; and ensure that providers operate safely and soundly.

CFSI has followed mobile financial services for several years, and we first published a research paper on this topic in 2007. Given the advancements in mobile financial services in driving improved access to basic financial services in developing countries, it has long been apparent to us that mobile devices hold potential to improve the financial lives of underserved consumers in the U.S.

The disparity in access to mobile phones and access to financial services among U.S. consumers leads to a natural conclusion that there must be a way to serve underbanked consumers' financial needs through the mobile channel. Penetration of mobile phones among U.S. consumers is rapidly approaching 100%, and access to mobile phones crosses socioeconomic and demographic lines. In fact, recently released research from the Federal Reserve reveals that underbanked consumers are even more likely than all U.S. consumers to have access to a mobile phone: 91% of the underbanked have access to a mobile phone and 57% have a smartphone,

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compared to 87% of all consumers who have access to a mobile phone and 44% who have a smartphone. While these statistics may seem counterintuitive given the expense associated with owning and using a mobile phone, CFSI has found that these devices are viewed as a priority expense item for low- and moderate-income consumers. Mobile phones are likely to be more affordable to consumers relative to internet access through a PC at home, so consumers may view these devices a necessity, rather than a luxury.

Despite the clear opportunity that exists for financial providers to serve underbanked consumers through this channel, much of the development in mobile financial services in the U.S. – particularly among mainstream financial providers – has focused on expanding and enhancing services for more affluent populations, as opposed to creating new access for underserved populations. While a number of smaller innovators have begun to recognize the opportunity, we face an ongoing challenge in keeping underserved consumers top-of-mind as financial services providers develop their mobile strategies. This effort is critical. While the opportunity to provide effective mobile solutions for underserved consumers is clear, so is the risk that these consumers will be left behind if providers do not proactively include them when they design mobile banking and mobile payments solutions.

Reaching Underbanked Consumers Through Mobile Services
Below, we outline the specific opportunities we see for serving underbanked consumers through mobile financial services. These opportunities are explored in greater detail CFSI's recent white paper, which has been submitted along with this letter, and also can be found here. In the near term, mobile financial services (MFS) can help increase consumer financial capability, make key transactions more convenient, and make customer accounts more secure. In the future, mobile financial services could be used to convert cash-based payments to electronic payments, and could eventually help increase access to financial accounts for unbanked and underbanked consumers.

Drive Increased Financial Capability: Timely access to account information through alerts, reminders, and more can empower consumers to make more informed choices about how and when they spend, borrow, and save. Having access to these tools is particularly relevant and useful for underbanked consumers, who often closely manage their finances day to day. In the recent research study, the Fed found that financial information delivered via the mobile phone impacts consumers' financial decisions. The study found that 67% of mobile banking users have checked account balances or available credit before making a large purchase, and 59% of those consumers elected not to buy an item because of the information in the alert. Further, one-third of mobile banking users are enrolled to receive text alerts from their bank and 66% of these consumers have signed up to receive messages alerting them to a low balance. Among the 66%, then, nearly all consumers sought to address the low balance through transferring or depositing money into the account or reducing their spending.

Offer Greater Convenience: One of the most significant benefits of mobile financial services is the added convenience of using MFS tools. Underserved consumers who do not hold bank accounts – or who rely, in some part, on alternative financial services – often conduct

transactions (cashing checks, paying bills, transferring money) in a more manual fashion relative to banked consumers. This can be time consuming, inconvenient and costly. Being able to conduct these transactions via phone can lead to significant gains in convenience for underbanked consumers. Underscoring this point, the Fed's study found that the underbanked are more likely to pay bills using their mobile phones relative to all mobile phone users (62 percent versus 47 percent), likely demonstrating the specific utility of having bill pay capability on the mobile phone. There is some evidence to suggest that innovators have begun to explore the opportunity of offering mobile remote deposit capture (RDC) for check cashing customers, another service that would provide a great deal of convenience to the financially underserved. While a number of hurdles remain before this service becomes broadly available – the most significant concerns being related to fraud risks and the time it takes to clear funds – the level of interest in this area suggests that a viable solution is on the horizon.

Lead to Improved Security and Fraud Protection: Although many consumers are rightfully concerned about security and fraud protections when engaging with their financial accounts on the mobile phone, mobile financial services can actually improve security through features such as enhanced authentication, transaction alerts, and dynamic PINs. All consumers, but especially those who are underbanked, may benefit if security advances lead to a higher level of mutual trust between consumers and financial providers.

Transition consumers from cash to electronic transactions: Turning cash transactions into electronic transactions could benefit consumers with added convenience and potentially lower cost, while enabling providers to generate additional fee revenue on electronic transactions. Broad-based deployment of mobile payments has the potential to create an unparalleled increase in financial inclusion by bringing cash-based consumers into the electronic payments system.

Improve access to basic financial accounts: Mobile devices may eventually become a distribution channel for financial products, creating new access for the underserved. This has been seen in developing countries such as Kenya, where a mobile payments system has been quite successful in expanding financial services access to underbanked and unbanked populations. In the U.S., where a much larger and more mature banking and payments infrastructure exists, the same leap in population-wide access is not likely, but there remains significant potential for improving basic financial access through mobile devices. In fact, the Fed's consumer research revealed that unbanked and underbanked consumers in the U.S. are as active or more active in mobile payments today relative to the overall population: in total, 17% of underbanked and 12% of unbanked consumers reported using mobile payments, compared to 12% of all consumers. These numbers underscore the untapped potential for addressing underserved consumers' financial needs through the mobile channel.

Several small innovators have emerged in recent years that have recognized this opportunity and are focused on enabling mobile payments for the underbanked: companies we have tracked with interest include mVia (Boom system for remittances), wipit (mobile payments system akin to Paypal for the "cash-preferred" customer), Chexar (Dupex system for mobile remote deposit capture), Square and Intuit GoPayment (devices for mobile payment receipt for small-business

owners, many of whom may be financially underserved). Further, a number of prepaid program managers have built sophisticated mobile capabilities to go along with their products (program manager Plastyc offers a full suite of MFS services), and these providers will play an important role in making mobile financial services tools accessible to underbanked consumers. One of the clearest opportunities we see for improving financial services for this population with mobile financial services is in the area of offering a virtual prepaid account that could be initiated and fully accessed through the mobile phone. This would be significant for consumers because it would enable them to begin and maintain a relationship with a financial provider through a channel to which they have access and with which they are comfortable today.

Since the publication of CFSI's white paper on mobile financial services last fall, we have continued to track developments in this area and we will continue to look for opportunities to proactively promote the underbanked as a target population for new developments mobile financial services. Our specific plans for this area over the next 12 months include the following. At our annual conference, the Underbanked Financial Services Forum (June 13-15), we will feature a panel discussion on mobile financial services. The panel will include representatives from the Federal Reserve and Consumers Union to discuss the consumer research findings and consumer protection priorities in the deployment and development of mobile financial services. The panel will also include three industry representatives who will discuss the latest MFS innovations that are serving the underbanked. In addition, CFSI's Rob Levy will moderate a panel discussion at this year's Mobile and Commerce Summit, focused on consumer usage of mobile phones and MFS. In addition, we will explore other ways of engaging in this space throughout the year, possibly including publishing written pieces (both formal and informal) on the latest developments and research initiatives on MFS, partnering with other organizations to encourage stakeholders across the financial services and technology landscape to create innovative MFS solutions that will benefit the underbanked, and conducting additional research to illuminate the opportunity that serving this population with MFS presents.

We appreciate the request for comment and hope our ideas are helpful in developing content for the Workshop, and ultimately in driving greater financial inclusion for underserved consumers in the U.S. While industry-based innovations are needed to address the needs of this population, government agencies – and the FTC in particular – have an equally important role to play in supporting the development of mobile financial services for underserved consumers. Further, various government agencies, including the FTC, the Federal Reserve, the Consumer Financial Protection Bureau, and Treasury, will need to coordinate among themselves to help ensure regulatory clarity and efficiency as new standards are set for the market.

Sincerely,

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