

BITS

FINANCIAL SERVICES
R O U N D T A B L E

August 12, 2008

Project No. P059106; Pay on the Go: Consumers and Contactless Payment
Federal Trade Commission
600 Pennsylvania Avenue, NW
Washington, DC 20580

Dear Organizers of the “Pay on the Go” Town Hall,

Thank you for inviting me to participate in the Town Hall on “Pay on the Go: Consumers and Contactless Payment” held on July 24 at the University of Washington. Contactless payment is an important topic, and I commend the Federal Trade Commission and the University of Washington convening a diverse group of experts. I believe the conference was a useful opportunity to hear varied views of experts, and for me to offer thoughts on contactless payments given my experience in the financial services industry and as a former financial regulator at the Office of the Comptroller of the Currency.

There are several important themes that arose during the discussion that merit highlighting and further consideration for the FTC as it continues to address consumer protection and emerging technologies. First, contactless payments that have been utilized by financial institutions do not pose a significant security or privacy protection risk to consumers. The contactless programs that have been developed, tested and deployed are intended as a replacement for cash in low-value transactions (typically under \$25). Currently, there are millions of contactless cards in use for low-value, high speed transactions in specific niche areas, such as transportation systems and fast food restaurants. To date, there has been very little risk of identity theft and other types of fraud associated with current contactless payments applications.¹

Second, it is vital that the government permit financial institutions and technology providers to innovate using new technologies so long as it is done in a safe and sound manner and meets the needs of consumers. During the Town Hall, I quoted a 1996 paper that the US Treasury Department prepared for a Treasury Department conference on electronic money and banking. That 1996 report wisely stated that “...government must be careful not to overact to, or stifle, new innovations that can greatly benefit the consumer and the American economy. Government should take advantage of marketplace solutions to issues where appropriate. To do this, and at the same time to be in a position to act appropriately, it is important for government to maintain expertise in electronic money and payments development, and to consider carefully major questions presented by these developments.”² While the report is 12 years old, the advice is still

¹ According to Visa, there have been no confirmed reports of fraud associated with the contactless technology.

² See page 21 of <http://www.occ.treas.gov/netbank/paper.pdf>.

relevant and I would encourage the FTC to consider this as it continues to explore the impact of new technologies on consumers.

Third, it is important for government agencies to work together to address issues that span their jurisdictions. As noted at the Town Hall, contactless technology is used by financial institutions, telecommunications companies, and other suppliers of information technology. Regulatory and supervisory requirements should be in harmony to ensure adequate levels of protection for consumers, and to ensure that appropriate incentives are aligned so that all players in this space (e.g., financial institutions, contactless card manufactures, wireless phone manufacturers, service providers) have appropriate incentives for adequate security and consumer protection. Based on a conference on wireless security that BITS hosted in 2007, U.S. financial regulators are paying close attention to industry developments, even though they have not issued specific guidance on contactless payments or other forms of wireless technologies.³ However, regulators have indicated that they believe existing regulations and supervisory guidance provide an adequate foundation for security and privacy protection. One conclusion from the BITS conference was the need for U.S. financial regulators to work more closely with the Federal Trade Commission and the Federal Communications Commission to address the mix of technologies, companies involved in delivering wireless technologies, including contactless payments, and the need for greater coordination and collaboration.

Fourth, it is important for government to encourage the private sector to collaborate during the development of domestic and international standards and best practices so that contactless payment technologies can achieve the benefits mentioned during the Town Hall. For example, BITS is involved in the Financial Services Technology Consortium (FSTC) project on mobile payments. Other participants include the Federal Reserve System, The Clearing House, ABA, NACHA, and SWIFT. The goal is to create a standard for mobile payments that may include contactless technologies for point of sale payments and use of the NFC chip in mobile phones.

Once again, thank you very much for the opportunity to speak at the Town Hall. Please do not hesitate to contact me if you have any questions at 202.589.2442 or john@fsround.org.

Sincerely,

John Carlson
Senior Vice President
BITS/Financial Services Roundtable

³ For example, federal financial regulators have issued numerous guidance documents covering electronic banking, authentication, and identity theft, including Federal Financial Institutions Examination Council (FFIEC) Guidance on Authentication in an Internet Banking Environment (2005), FFIEC Information Security and E-Banking Booklets (2002-2006), Federal Deposit Insurance Corporation (FDIC) Study on Account-Hijacking Identity Theft (2004), FDIC and Office of the Comptroller of the Currency (OCC) guidance on WiFi (2002), and OCC Technology Risk Management Bulletin (1997).