

Opening Remarks of Commissioner Terrell McSweeney
FTC FinTech Series: Crowdfunding & Peer-to-Peer Payments

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Washington, DC

Good afternoon and welcome to the Federal Trade Commission's second installment of the FinTech Forum series – focusing on emerging financial technologies and their impact on consumers and businesses.

Innovations in financial technologies – which we all now know as “FinTech” – have the potential to transform the way consumers engage in their most fundamental day-to-day financial transactions, including how they share, spend, and raise money. For many consumers and small businesses, such technologies can represent a life-changing opportunity to gain access to important financial services. These technologies also offer us all the ability to complete transactions and manage our basic finances more quickly and conveniently.

Last June, we opened this FinTech Series with a forum focused on marketplace lending.¹ Today, we turn our attention to two other important, growing financial technologies: Peer-to-peer payment systems and crowdfunding.

Peer-to-peer payment platforms have become hugely popular in today's marketplace, particularly among younger consumers. With a few taps on a smartphone, these platforms allow consumers to exchange funds with one another directly – for example, splitting a dinner check - or, in my case, pay a babysitter – without the need to hand one another cash, or to write or mail checks.

Such platforms can make transferring money faster and more convenient for consumers than other traditional options. So it should be no surprise that, according to a 2015 survey, 46% of consumers report that they have used a mobile app to make a peer-to-peer payment, and 27% of consumers report that they do so at least monthly.² Given the broad and growing use of these platforms, it is important to ask what protections they have for consumers.

For example, how do these platforms ensure that consumers' funds get to their intended recipients, and are not diverted to potential scams? If consumers do experience a problem with a payment, or wish to dispute a charge, what is their recourse? To what extent are peer-to-peer platforms protecting consumers' privacy and data security? And how do all of these protections compare to those provided by the financial institutions

¹ *FTC FinTech Series: Marketplace Lending*, Jun. 9, 2016, available at <https://www.ftc.gov/news-events/events-calendar/2016/06/fintech-series-marketplace-lending>.

² Accenture, 2015 North America Consumer Digital Payments Survey, at 13, available at <https://www.accenture.com/us-en/insight-digital-payments-survey>.

and other entities that have traditionally overseen fund transfers and payments in the past?

The FTC previously explored similar questions in our 2012 workshop on the mobile payments industry,³ and our subsequent 2013 staff report on mobile payments.⁴ During our first panel today, we will examine these issues more closely in the context of peer-to-peer payments.

Following that discussion, we will then take a look at crowdfunding. The basic concept of crowdfunding is nothing new: For many years, some entrepreneurs and fundraisers have sought small contributions from a large number of people to finance their projects or causes. However, the emergence of online platforms has greatly expanded the use of crowdfunding as a mechanism for seeking charitable donations, financing the creation of a new project or venture, and even selling securities. The Smithsonian has even used crowdfunding platforms to fund conservation projects, including Neil Armstrong's space suit and Dorothy's ruby slippers. According to Massolution, in 2015 alone crowdfunding sites raised more than an estimated \$8 billion globally.⁵

Consumers, in turn, can use online crowdfunding platforms as a way to more easily find, and contribute to, the project or causes they are passionate about. In some cases, by funding a project, consumers can get an early prototype of a product or other small reward. However, as the use of crowdfunding continues to expand and evolve, it has also attracted some scams. For example, last year the FTC brought its first-ever law enforcement action against a fraudulent crowdfunding campaign. In that case, called *Forking Path*, we alleged that the defendant claimed he was raising money from consumers to produce a board game, but instead used most of the funds for personal expenses.⁶

So, today, in our second panel, we plan to dig further into both the significant promise, and the associated risks, of crowdfunding. And as a lead-in to that panel, the FTC's Office of Technology Research and Investigation will provide a presentation surveying the largest crowdfunding platforms, including the information they provide to consumers and collect from campaigns.

³ FTC Workshop, *Plastic... or Mobile? An FTC Workshop on Mobile Payments*, Apr. 26, 2012, available at <https://www.ftc.gov/news-events/events-calendar/2012/04/paper-plastic-or-mobile-ftc-workshop-mobile-payments>.

⁴ FTC Staff Report, *Paper, Plastic... or Mobile? An FTC Workshop on Mobile Payments* (Mar. 2013), available at https://www.ftc.gov/sites/default/files/documents/reports/paper-plastic-or-mobile-ftc-workshop-mobile-payments/p0124908_mobile_payments_workshop_report_02-28-13.pdf.

⁵ "Trends Show Crowdfunding to Surpass VC in 2016," *Forbes*, June 9, 2015, available at <http://www.forbes.com/sites/chancebarnett/2015/06/09/trends-show-crowdfunding-to-surpass-vc-in-2016/#8dc6a06444b5>.

⁶ *FTC v. Erik Chevalier, Co.*, No. 3:15-cv-1029-AC (D. Ore. filed June 11, 2015), available at <https://www.ftc.gov/enforcement/cases-proceedings/142-3061/erik-chevalier-forking-path>.

As we recognize the significant potential benefits of FinTech, we must all work to ensure that we protect consumers from risks or unlawful activity that arise in this changing landscape. The FTC is committed to doing so through both law enforcement actions and through outreach and educational efforts like today's forum.

So I am looking forward to today's discussions. And I want to thank the team that put this event together, including FTC staff Evan Zullo, Elizabeth Kwok, Patrick Eagan-Van Meter, Duane Pozza, Malini Mithal, Stephanie Cox, and Jessica Skretch. I would also like to thank our panelists, and all of you for coming here today.