June 15, 2016

VIA EMAIL - MFSDemonstration@fdic.gov

Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Re: Financial Institutions Letter (FIL) 32-2016: Request for Comments on Mobile Financial Services Strategies and Participation in Economic Inclusion Demonstrations

Ladies and Gentlemen:

Financial Innovation Now ("FIN") appreciates the opportunity to offer its views in the Federal Deposit Insurance Corporation's ("FDIC") request for comments on Mobile Financial Services ("MFS") Strategies and Participation in Economic Inclusion Demonstrations ("the Request").[1] FIN is an alliance of technology companies, including Amazon, Apple, Google, Intuit, and PayPal, working to promote policies that will enable technology to transform financial services to be more accessible, safe, and affordable.[2] These industry leaders recognize the essential role that digital technology plays in the democratization of finance, and have brought to market some of the most innovative and secure financial technology products available to consumers today.

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1 Federal Deposit Insurance Corporation, Financial Institutions Letter (FIL) 32-2016: Request for Comments on Mobile Financial Services Strategies and Participation in Economic Inclusion Demonstrations (May 3, 2016), https://www.fdic.gov/news/news/financial/2016/fil16032.html.

2 For more information regarding FIN's policy priorities and principles, please visit https://www.financialinnovationnow.org.

FIN's members share the FDIC's goal to better understand how MFS can more effectively meet the financial needs of underserved consumers. FIN commends the FDIC's ongoing research in this area and thanks the agency for working to illuminate the transformative potential of today's MFS technology to enable access for the underserved.

Long before wide adoption of smartphones, the internet created a platform for non-bank innovators to engineer new ways to help consumers manage their money and move it faster, safer, and more cheaply. In the 1990s and early 2000s, FIN companies like PayPal began to facilitate payments online between small businesses and every day consumers, and Mint was created to help consumers manage their financial accounts in one place, create budgets, avoid late fees, and find better rates. These are just two prominent examples of internet-enabled services that grew rapidly because consumers preferred them over traditional options.[3] Paying via PayPal was much simpler, cheaper, and faster than a wire transfer or paper check. Mint gave consumers direct access to all of their financial information in one place and helped them track spending and set savings goals - for free. Wherever there was an internet connection and a computer, consumers had alternatives to a brick and mortar bank branch or ATM. These alternatives have since spurred some FDIC insured depository institutions ("IDI's") to improve their own products and services.

The early internet, despite its remarkable growth and power to enable consumer access to new services, was still limited to those who had access to it and could afford both an internet connection and a computer to make use of it. The more recent evolution of the *mobile* internet - particularly the dramatic growth in smartphone adoption, increased wireless broadband penetration, and lower computing costs - are creating significantly more opportunities for

[3] Importantly, these innovative tools often operate together with services offered by traditional financial institutions.

underserved consumers to access financial services. Likewise, the scale and reach of the mobile internet and mobile technologies provide new opportunities for innovators and IDIs to enhance financial inclusion.

Mobile is Transforming the Opportunity to Help the Underserved

Smartphone use in the United States has doubled in the past five years, from 35 percent penetration in 2010 to 68 percent in 2015.[4] Perhaps more importantly, consumers now spend more time on their smartphones than desktops,[5] and the constant proximity of the device makes possible a much wider variety of financial applications, especially access to timely account information, better account management, alerts and of course, payments - all of which helps consumers take better control of their financial lives. The cost of smartphones worldwide continues to become more affordable,[6] while the amount of computing power in smartphones increases at an astonishing rate.[7] Subsidies in the US will soon help underserved consumers pay for wireless broadband access, [8] while the cost of internet access is also decreasing.[9]

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4 Monica Anderson, *Technology Device Ownership:* (October, 2015) PEW RESEARCH CENTER http://www.pewinternet.org/files/2015/10/PI_2015-10-29_device-ownership_FINAL.pdf

5 In 2010 consumers spent 2.3 hours per day on desktops/laptops, or 80% of their time with digital media, and just over 12% of their time on mobile. In 2015 consumers spent 51% of their time on mobile, 2.8 hours per day. *See* Mary Meeker, *Internet Trends 2015 – Code Conference,* KLEINER PERKINS CAUFIELD AND BEYER (Slide 14 *Time Spent per Adult User per Day with Digital Media, USA, 2008 - 2015YTD)* http://www.kpcb.com/blog/2015-internet-trends.

6 *The Rise of the Cheap Smartphone*, THE ECONOMIST, (April 5, 2014) http://www.economist.com/news/business/21600134-smartphones-reach-masses-host-vendors-are-eager-serve-them-rise-cheap

7 An iPhone4 has more computing power than a Cray-2 Supercomputer from 1985, while an Apple Watch has *twice* the computing power of that iPhone4. *See* Maddie Stone, *The Trillion Fold Increase in Computing Power, Visualized,* GIZMODO (May 24, 2015) http://gizmodo.com/the-trillion-fold-increase-in-computing-power-visualiz-1706676799

8 Brian Fung, *America's Poor Can Finally Get Cheap Internet Access*, WASHINGTON POST (March 31, 2016) https://www.washingtonpost.com/news/the-switch/wp/2016/03/31/americas-poor-will-now-get-cheaper-internet-access/

9 FCC data shows a yearly decline in the per gigabit cost of fixed broadband access. This may help make wi-fi mobile access more affordable. The FCC has difficulty measuring price trends in wireless broadband access due to

For nearly one-in-five Americans, smartphones now serve as an essential, sometimes only, connection to the online world.[10] The potential benefits of this transformation are expanding the reach of financial services to the underserved. According to a 2015 survey by the Federal Reserve Board of Governors, 53 percent of smartphone owners with a bank account had used mobile banking in the past year, and 40 percent of the unbanked and 70 percent of the underbanked, respectively, had a smartphone.[11]

This dramatic shift is changing the way Americans conduct commerce. Consumers are rapidly adopting financial technologies offered by FIN's member companies. For example, in 2015, PayPal saw $66 billion in mobile payment volume and over 1.4 billion mobile payment transactions.[12] That same year, for the first time, more people did their holiday shopping online than in stores, and one third of consumers used a mobile device to make purchases as "the rise of mobile wallets, like PayPal or Apple Pay was also making mobile shopping easier."[13] Similarly, PayPal's peer-to-peer payments app, Venmo, grew by almost $2 billion in just the first quarter of 2016, representing 154 percent growth year over year.[14]

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the wide diversity of wireless plans. See *International Broadband Data Report* (January 2016) FEDERAL COMMUNICATIONS COMMISSION, https://apps.fcc.gov/edocs_public/attachmatch/DA-16-97A1.pdf

[10] Aaron Smith, *U.S Smartphone Use in 2015,* PEW RESEARCH CENTER (April 1, 2015) http://www.pewinternet.org/2015/04/01/us-smartphone-use-in-2015/

[11] *Consumer and Mobile Financial Report 2016* (March 2016) BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, http://www.federalreserve.gov/econresdata/consumers-and-mobile-financial-services-report-201603.pdf

[12] *PayPal Q1 2016 Fact Sheet,* PAYPAL, https://www.paypalobjects.com/digitalassets/c/website/marketing/global/shared/global/about/documents/paypal-q1-2016-fast-facts.pdf

[13] Hiroko Tabuchi, *Black Friday Shopping Shifts Online as Stores See Less Foot Traffic,* NEW YORK TIMES (NOVEMBER 27, 2015), http://www.nytimes.com/2015/11/28/business/black-friday-shopping-shifts-online-as-stores-see-less-foot-traffic.html?_r=0

[14] *PayPal Q1 2016 Fact Sheet,* PAYPAL, https://www.paypalobjects.com/digitalassets/c/website/marketing/global/shared/global/about/documents/paypal-q1-2016-fast-facts.pdf; Venmo allows consumers to pay anyone with a Venmo account instantly using money they have in Venmo, or link a bank account or debit card quickly.

New Alternatives that Benefit the Underserved

Just as the early phase of the internet enabled new competitive financial services from non-bank innovators, the mobile evolution of the internet is accelerating the pace of change in financial services and ultimately, making more services and features available to the underserved market. There are an estimated 2000 new financial technology startups, and nearly $23 billion of venture capital and growth equity that has been invested in these companies over the past five years.[15] In addition to the mobile device platforms themselves, these new financial technology innovators are bringing entirely new payment and personal finance management services to the market. Importantly, the genesis of these services is consumer driven. They are more user-friendly and easier to understand; they address significant "pain points" consumers have in managing their finances; they empower consumers to better control their finances, meet savings goals and avoid fees and penalties; and they typically offer significantly lower prices.

Many of these non-bank services align with the FDIC's interests. As noted in the Request, FDIC indicates that its qualitative research highlights six strategies that represent the most promising opportunities to meet the needs of the underserved:

1) Increase consumer control over finances by improving access to timely account information (e.g. posting transactions as close to real time as possible);
2) Expedite access to money (e.g. mobile remote deposit capture);
3) Make banking more affordable through better account management;
4) Encourage long-term financial management;
5) Increase awareness of mobile tools;

[15] Miklos Dietz, *Cutting Through the Noise Around Financial Technology,* MCKINSEY AND COMPANY (April 2016) http://www.mckinsey.com/industries/financial-services/our-insights/cutting-through-the-noise-around-financial-technology

6) Address real and perceived security shortfalls.[16]

Strategies 1 and 2 are largely core functions of depository institutions and constrained by the existing payments infrastructure in the United States. Nonetheless, while these opportunities are currently dependent on the motivations and capabilities of IDIs, FIN agrees that transactions should be posted and clear in real-time. As referenced above, many consumers are adopting peer-to-peer payment services, such as PayPal's Venmo or Google Wallet because they are an easy way to make a payment, in real-time, and at a fraction of the cost. Further, in some cases these apps allow consumers to also save small amounts for incidental costs.[17]

FIN supports the FDIC's exploration of these real-time opportunities, as well as the Federal Reserve's efforts through the Faster Payments Task Force, precisely because it is so important to the financial health of the 24.8 million[18] underbanked families and young adults across the United States. While the use of checks has been in decline, $535 billion in checks are still cashed, rather than deposited, annually.[19] That is partly because funds from checks totaling more than $200 deposited into large banks will take more than one business day to become available[20] and can sometimes take up to five business days.[21] If a weekend or bank holiday falls within that timeline, a customer might wait up to a week to access to the funds from their own paycheck.

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[16] Federal Deposit Insurance Corporation, Financial Institutions Letter (FIL) 32-2016: Request for Comments on Mobile Financial Services Strategies and Participation in Economic Inclusion Demonstrations (May 3, 2016), available at: https://www.fdic.gov/news/news/financial/2016/fil16032.html. Numbers included, not in order of original publication.

[17] Telis Demos, *PayPal Isn't A Bank, But It May Be The New Face Of Banking,* WALL STREET JOURNAL (June 1, 2016) http://www.wsj.com/articles/as-banking-evolves-fintech-emerges-from-the-branch-1464806411

[18] FDIC, *2013 FDIC National Survey of Unbanked and Underbanked Households*, (October, 2014)

[19] Federal Reserve Board, *2013 Federal Reserve Payments Study,* (July 2014)

[20] Theresa Kim, *How Long It Takes a Check to Clear at Top 10 Banks*, MYBANKTRACKER (November. 27, 2013) http://www.mybanktracker.com/news/2013/11/27/long-takes-check-clear-top-10-banks/

[21] Richie Bernardo, "*Funds Availability: When Will Your Deposit Clear*?"*?* WALLETHUB, (February 4, 2016) https://wallethub.com/edu/available-funds/11314/

In fact, over half[22] of the adult population faces these cash flow problems every day, and instead turns to high-cost check cashing or small-dollar loan alternatives. An FDIC study found that 60 percent of customers using non-bank check cashing services already have an account and a relationship at a financial institution.[23]

In other words, people are willing to pay excessively high fees just for instant access to their own money. What is most important to note is that consumers are not incurring these fees because of an extravagant, unaffordable lifestyle. Roughly 69 percent of first-time users of short-term loans said they used the loans to cover a recurring expense, such as rent or utilities, and 16 percent are using the loans to meet an unexpected but necessary expense.[24]

Delay-induced fees that lead to enhanced cash flow problems are unacceptable in 2016. Consumers are using smartphones to instantaneously send secure email, upload health information to a doctor, or make tokenized and encrypted credit card payments at the grocery store. Consumers rightly expect MFS to be at least somewhat comparable in speed and ease of use, particularly for access to their own money, and IDI's should not be entitled to more fees for such service.

Strategies 3 and 4 are in many ways best exemplified by many new services offered by non-bank innovators. A number of technology companies, such as Level, are offering tools that allow customers to reduce unexpected fees through low balance alerts or perform instant balance and transaction monitoring.[25] Other apps, such as Acorns, Digit, and Even, are providing mobile

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22 Exact number is 57%. *See* Aliza Gutman, Thea Garon, Jeanne Hogarth, and Rachel Schneider, *Understanding and Improving Consumer Financial Health in America,* CENTER FOR FINANCIAL SERVICES INNOVATION, (March 24, 2015)

23 FDIC, *2013 FDIC National Survey of Unbanked and Underbanked Households*, (October, 2014)

24 How Borrowers Choose and Repay Payday Loans. Washington, DC: PEW CHARITABLE TRUSTS, 2013. 9. Print.

25 "Level" is an application, acquired by Capitol One, that helps consumers automatically analyze their financial picture and spending patterns. *See* https://www.levelmoney.com/about. Similarly, Intuit's "Mint" application gives consumers direct access to all of their financial information in one place, for free. *See* https://www.mint.com/.

tools to help consumers more effectively monitor progress toward fulfilling financial goals through spending management, automatic savings and investment, or smoothing cash flow for volatile income earners.[26]

Indeed, the White House Council of Economic Advisors recently released an Issue Brief concluding that, "in the United States, mobile phone and smartphone technology appears to be a useful way to address financial inclusion by offering an additional way to perform payment, as well as a way to enhance savings…" and these platforms "may also reduce the nonmonetary costs of safe and affordable banking, preventing more of the underbanked from incurring the high monetary costs of alternative financial services."[27] Likewise, the FDIC's recent qualitative research indicates that control over finances and access to money appear to be the key priorities of the underserved.[28]

Collaboration and Partnership

Mobile financial services are being deployed by a variety of stakeholders, often successfully through collaboration. While a number of MFS products are developed wholly from within banks, many increasingly are being accomplished in partnership with non-bank technology providers.

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26 "Acorns" is an app that allows consumers to save small amounts on individual transactions and invest it in low-cost exchange traded funds. *See* Nathan McAlone, *How to Use Acorns, the app that helps you easily turn your spare change into an investment portfolio.* BUSINESS INSIDER, (March 23, 2016); "Even" is an app that smooths the irregular, up-and-down paychecks of some workers. *See* Anand Giridharadas, *Want a Steady Income? There's An App For That.* NEW YORK TIMES (APRIL 29, 2015) http://www.nytimes.com/2015/05/03/magazine/want-a-steady-income-theres-an-app-for-that.html?_r=0; "Digit" is another app that analyzes a consumer'sconsumer's income and spending, and finds small amounts of money it can safely set aside in savings. *See* https://digit.co/about/how-it-works.

27 *Issue Brief: Financial Inclusion In The United States*, (June 2016) COUNCIL OF ECONOMIC ADVISORS, https://www.whitehouse.gov/sites/default/files/docs/20160610_financial_inclusion_cea_issue_brief.pdf.

28 *Opportunities for Mobile Financial Services to Engage Underserved Consumers, (May 2016)* FEDERAL DEPOSIT INSURANCE CORPORATION, https://www.fdic.gov/consumers/community/mobile/MFS_Qualitative_Research_Report.pdf

Strategy 5 outlined above is primarily connected to consumer awareness and customer acquisition. In this case, IDIs and financial technology innovators have mutual interests. New financial technology entrants can give consumers greater control over their finances and access to money because they often benefit from lower costs, along with internet-enabled reach and scale. Accessibility and affordability can help make a particular service more attractive, particularly to the underserved who may not already be a bank's customer or are unlikely to step into a physical branch. On the other hand, that same potential customer may also want the peace of mind that may come with FDIC insured deposits at a traditional financial institution. As such, partnerships that use the strengths of both stakeholders are well positioned to help the underserved.

Security

Security is critical to the success of mobile financial services, as Strategy 6 indicates. Despite research from the FDIC and others indicating that consumers perceive mobile financial services to be less secure,[29] the reality is that mobile technologies make financial services *more secure*. Companies like Apple, Google, and PayPal have each brought their own mobile payments technology to market in just the past few years. That technology—which generally involves using a smartphone to make payments rather than cash or credit cards—is not only convenient, but third parties have consistently found that it is also more secure than traditional

[29] *Opportunities for Mobile Financial Services to Engage Underserved Consumers,* FEDERAL DEPOSIT INSURANCE CORPORATION, (May 2016) https://www.fdic.gov/consumers/community/mobile/MFS_Qualitative_Research_Report.pdf; See also *Who Uses Mobile Payments,* (May 2016) PEW CHARITABLE TRUST, http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/05/who-uses-mobile-payments.

credit card use.[30] Mobile technologies now enable a wide variety of other advanced security techniques, including two-factor authentication (e.g. using SMS codes), device identification, biometric authentication, and advancements in encryption algorithms made possible by stronger mobile computing power. These techniques can vastly improve user authentication and significantly drive down fraud.[31] Tokenization is another security technique, implemented by FIN members for many years, that is now finally seeing widespread use as more ecommerce moves online and goes mobile.[32]

More research is needed to understand the breakdown between consumers' perception of security and reality, including how the government and private sector bank and non-banks can partner to educate consumers about the strengths of mobile financial privacy and security. As the FDIC examines what draws consumers to MFS, it should also seek ways to successfully increase confidence in the security of mobile options. This not only will help consumers but also will help financial institutions and technology providers alike.

Conclusion

Significant innovation in financial services, particularly in MFS, is driving improvements to financial inclusion. Many of these improvements are being realized by non-bank innovators, although collaborations with traditional financial institutions may be necessary and have an integral role to play.

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[30] Danny Yadron, *Why Apple's Tap-to-Pay Beats Credit Cards*, WALL STREET JOURNAL (Sept. 10, 2014), http://www.wsj.com/articles/whys-apples-tap-to-pay-beats-creditcards-1410394757.

[31] David Froud, *The central role of authentication in fighting fraud in mobile commerce.* JOURNAL OF PAYMENTS STRATEGY & SYSTEMS (Jan. 1, 2016): 274-279.

[32] Notably, tokenization can be implemented in diverse ways and sometimes can require significant cooperation between traditional financial institutions and non-bank payment innovators. *See* Jaikumar Vijayan, *Banks Push for Tokenization Standard to Secure Credit Card Payments,* COMPUTERWORLD (February 12, 2014), http://www.computerworld.com/article/2487635/data-security/banks-push-for-tokenization-standard-to-secure-credit-card-payments.html

As the FDIC looks to structure its demonstrations on mobile financial services, it should identify partnerships that already exist between non-bank financial technologies and traditional IDIs, as well as the relative value each provider may bring separately to this market. FIN members stand ready to work with the FDIC to identify key technologies.

FIN appreciates the opportunity to provide comment in this matter.

Respectfully Submitted,

Brian Peters
Executive Director
Financial Innovation Now