

Testimony of Scott Talbott, Senior Vice President of Government Affairs of ETA
Before the House Task Force on Financial Technology Hearing on
What's in Your Digital Wallet? A Review of Recent Trends in Mobile Banking and Payments

Chairman Lynch, Ranking Member Davidson, and members of the Task Force on Financial Technology, my name is Scott Talbott and it is my privilege as Senior Vice President of Government Affairs of the Electronic Transactions Association (ETA) to submit this statement on how digital wallets and similar innovative payments technologies are providing consumers and small businesses with safe and convenient tools for buying goods and service and transferring funds from person-to-person (P2P).

In addition to powering our economy, digital wallets play an important role in promoting inclusive banking and financial services, and they proved an invaluable tool for distributing economic stimulus payments during the COVID-19 pandemic. On behalf of ETA and its members, thank you for the opportunity to participate in this important discussion, and I look forward to discussing these exciting developments with the Task Force today.

I. Background on ETA and the Payments Industry

Before jumping into digital wallets in detail, it might be helpful to introduce ETA and explain the role of our members in powering the economy.

ETA is the leading trade association for the electronic payments industry, representing over 500 companies that offer electronic transaction processing products and services, including credit and debit card processing, P2P products, digital wallets, and other forms of digital payments. ETA's members include: financial institutions; payment processors; payment facilitators; mobile payment service providers; digital wallet providers; software service providers; companies providing security services; and non-bank online lenders that make commercial loans to small businesses, either directly or in partnership with other lenders.

Each year, ETA member companies spend billions of dollars on research to develop and deploy new products and services that securely move trillions of dollars in payments. To put the electronic payments industry in context, during 2020, consumers and businesses spent \$7.84 trillion in card volume in the U.S.¹ and another \$1 trillion was moved over the largest P2P networks — many of these transactions facilitated seamlessly through digital wallets. Combined, these equate to 40% of the U.S. GDP in 2018. During 2019, ETA members helped global consumers and businesses make \$24.3 trillion in purchases; that number is expected to grow to \$24.6 trillion in 2023.² The infrastructure supporting this system is sophisticated,

¹ <https://www.federalreserve.gov/paymentsystems/december-2021-findings-from-the-federal-reserve-payments-study.htm>

² <https://www.statista.com/>

secure, and fast — processing over 300,000 transactions per minute. The electronic payments system is also reliable — it operates 24/7/365, in the U.S. and around the globe, without interruption. And ETA members are not slowing down; the industry is constantly investing and innovating, creating new financial services and payments products that benefit individuals and small businesses alike.

Thanks to our industry, individuals and merchants have a wide array of electronic payment options available that allow them to instantly and safely transfer money to one another, store their money and their credit cards on their smartphones, buy products and services online, and quickly and safely purchase goods in stores with the mere tap of a card or phone. That innovation has accelerated in recent years in response to consumer demand and has been fueled by competing technologies, such as the development of digital wallets

II. Overview of Digital and Mobile Wallets

Every day, Americans use digital wallets to pay for coffee on the way to work, make secure payments at stores, and pay babysitters when taking time out with friends and family. But what is this technology, and how does it work?

Digital wallets can be defined broadly to include mobile and other online applications that allow users to process payments, access account information, and pay for services. Digital wallets provide users with access to stored payment credentials, which may include a credit or debit card, bank account, or, less commonly, a prepaid or gift card linked to the phone or app. This technology has gained popularity with consumers as a safe and convenient way to transmit funds in multiple settings, including for online purchases, payments at brick-and-mortar retailers, and person-to-business (i.e., bill pay) and P2P transfers. The concept of the digital wallet has been swiftly embraced by the public due to its ease of use. The user just has to download and register a mobile wallet app on his or her phone.

The benefits of digital wallets are numerous. By leveraging existing payment technologies, such as credit cards, automated clearing house (ACH) payments, or bank accounts, digital wallets allow consumers to make payments at almost any store in the country. Moreover, wallets are almost always accessible through a consumer's phone or online, which makes them easy to use in person or through a computer or tablet and enhances merchants' ability to meet consumers where they are – literally (aka omnichannel). In most cases, the transfer of payment is free for the user and comes directly out of his or her bank account or credit card (which they have linked to the mobile application). Put differently, consumers and businesses have safe and convenient payments right at their fingertips, whether for purposes of buying goods or services or for sending money to friends and family.

Digital wallets are not only ubiquitous, but they are also highly secure. The industry employs a multi-level approach to security. To access a smartphone, some form of authentication is required such as biometric (fingerprint, face recognition) or entry of a pin. The use of new authentication methods to verify and authenticate transactions helps minimize potentially fraudulent transactions. These new tools include the use of the following: tokenization, biometric authentication, including the use of thumbprints, facial, and voice recognition; and geolocation that compares the merchant's location with the location of the



consumer's phone. Visa estimates that AI analytics helped reduce payment card fraud by \$26 billion in 2021.³

Additionally, the payments industry has introduced point-to-point encryption (P2PE) and the tokenization of data to minimize or eliminate the exposure of unencrypted data in connection with a purchase. In most cases, digital wallets do not hold any actual payment card numbers, instead converting the payment card number to a token. When making a transaction, it is the token that is transmitted to the issuing bank, which converts the token back to the account number. Thus, even if a transaction using a mobile wallet was compromised, the bad actor would only have access to a token that could not be used to commit fraud. Visa estimates that tokenization has led to a 2.5% increase in approval rates for merchants and has reduced fraud by 28%⁴.

In addition to security, another important feature of digital wallets is that they are contactless, which means that they allow a consumer to make a purchase by simply tapping the card or device at a terminal. Contactless products often use a technology called Near Field Communication (NFC), which allows the card or phone to communicate with the terminal when cardholders place their payment card or mobile phone near it.

Consumers are increasingly adopting contactless payment because it allows them to pay without touching anything other than their own card or their own phone. They are not required to hand their card to a cashier or dip or swipe their card into the point-of-sale terminal. The use of contactless payment methods proved invaluable during the pandemic. For example:

- According to a Fiserv study, nearly 24% of respondents believed mobile payments were the safest to prevent the spread of the virus, compared to 6% of respondents saying cash was safest and 4% saying checks were. Nearly 67% of mobile payment users expect the increased use to be permanent.⁵
- A Mastercard Global Consumer study (April 2020) found that between February and March 2020, contactless transactions grew twice as fast as non-contactless transactions in grocery and drug stores.⁶
- Visa⁷ reported that in March 2020, 31 million Americans tapped a card or mobile device, a rate that is almost 50% higher than it was six months prior; and from March 2019 to March 2020, there was a 150% increase in contactless payments.

³ <https://usa.visa.com/dam/VCOM/blogs/visa-trust-in-digital-payments-infographic.pdf>

⁴ <https://usa.visa.com/dam/VCOM/blogs/visa-trust-in-digital-payments-infographic.pdf>

⁵ https://www.fiserv.com/en/about-fiserv/resource-center/consumer-research/2020-expectations-experiences-consumer-finances-covid19.html?_ga=2.206902867.1552485462.1615948799-1459718161.1615948799

⁶ <https://www.mastercard.com/news/press/press-releases/2020/april/mastercard-study-shows-consumers-globally-make-the-move-to-contactless-payments-for-everyday-purchases-seeking-touch-free-payment-experiences/>

⁷ <https://usa.visa.com/visa-everywhere/blog/bdp/2020/04/30/merchants-and-consumers-1588276426783.html>

- Nearly one-third of the US population uses NFC to make payments at POS locations.
- Based on data from PaymentsSource’s Future of Money Survey released in November 2020, 48% of Gen Z survey respondents stated that they would be extremely or very interested in using a mobile wallet as a primary payment method for all in-store transactions. Millennials scored even higher, at a 61% level.⁸
- Gen Z went from 3% mobile wallet usage as a primary payment method in February 2020 to 9% in November 2020, and millennials went from 2% to 7% in the same time period. Consumers above the age of 75 are also adopting mobile wallet payments. Although seniors’ use of digital wallets remains around 7%, it experienced a three-fold increase from 2% in 2019.

Put simply, digital wallets have grown dramatically in popularity because they provide consumers and businesses with safe and convenient payment options.

On this point, I’d like to take a brief moment to recognize the important role that the payments industry — including digital wallet providers — played in helping consumers and businesses weather the many challenges of the COVID-19 pandemic. It is worth noting that during the heart of the pandemic, over 4 million payments were distributed via prepaid debit cards and the providers were able to keep the fraud to a record low percentage.

ETA’s members helped the federal government deliver billions in stimulus money under the CARES Act, especially to low-income Americans, including Economic Impact Payments and unemployment benefits. Over four million payments were distributed by prepaid debit cards, with many of these cards capable of being stored safely and conveniently in digital wallets for future use.

In addition, with COVID-19 having forced most of the country to shelter in place for weeks at a time, digital wallets provided a way for consumers and businesses to engage in necessary transactions, such as paying remotely for the delivery of groceries, paying restaurants for curbside or delivery services, and transmitting funds to family members. As discussed, digital wallets, in particular, helped support social distancing by offering a “contactless” way for consumers to pay for goods and services without touching public equipment or passing cards back and forth to cashiers. All of the benefits combined to make digital wallets a critical tool during a time of great uncertainty in our country.

III. Digital Wallets Are Subject to a Comprehensive Legal Framework

While it is clear that digital wallets offer consumers and businesses numerous benefits, it’s equally important to recognize that these services are offered within a robust federal and state legal framework. ETA has published a white paper on the *Overview of Laws and Regulations Governing Payments and*

⁸ <https://arizent.brightspotcdn.com/e0/4f/07e37f224befa7a43e60383471d2/future-of-money-report-final-2020.pdf>

*Related Services*⁹ that provides a detailed outline of relevant federal and state laws. A few such laws are worth highlighting. Mobile wallets, depending on how they are structured, may implicate the Bank Secrecy Act and state money transmission laws, the Electronic Fund Transfer Act, information security requirements, the Gramm-Leach-Bliley Act, the CFPB's prepaid account rule, federal and state prohibitions on unfair and deceptive acts and practices, among many others. In addition, digital wallets are often provided through relationships with banks and other regulated financial services providers, meaning that wallet providers are generally required by contract to comply with various legal and regulatory obligations pushed down by the bank or financial services partner.

And that is just the beginning. The payments industry has always been a leader in self-regulatory efforts, including the development of robust and sophisticated self-regulatory programs to further protect the integrity of the payments ecosystem and the consumers and businesses that rely on it with every transaction. These self-regulatory programs govern many of the payment methods offered through digital wallets, including credit and debit cards and ACH transactions.

The card brand rules also establish customer due diligence, contract, transaction monitoring, and data security requirements. In particular, the payments industry took the lead in developing the Payment Card Industry Data Security Standard (PCI-DSS) for handling the safety of cardholder data. The PCI-DSS sets forth requirements designed to ensure that companies that process, store, or transmit credit card information maintain a secure environment for such data.

Finally, the payments industry has a long history of fighting fraud through robust underwriting and monitoring policies and procedures. With the benefit of decades of expertise, ETA members have developed effective due diligence programs to prevent fraudulent actors from accessing payment systems, monitor the use of those systems, and terminate access for network participants that engage in fraud. Working with its members and industry and government stakeholders, ETA has published various guidelines that provide underwriting and diligence best practices for merchant and risk underwriting, including the "Guidelines on Merchant and ISO Underwriting and Risk Monitoring" and "Payment Facilitator Guidelines."

These are just some of the tools that the payments industry has developed in recent years to fight fraud, protect consumers, and ensure the integrity of the payments ecosystem. These efforts have been remarkably successful in reducing fraud while ensuring that consumers have access to fast, reliable, and safe payment options.

IV. Digital Wallets Support Financial Inclusion and Access to Financial Services

Finally, I'd like to emphasize the payments industry's commitment to financial inclusion, and the important role that digital wallets play in providing all Americans with access to safe, affordable, and convenient payment options.

⁹ <https://www.electran.org/wp-content/uploads/ETA-WP-FedStatePayments-1.pdf>

ETA member companies continue to advance the global flow of commerce while delivering affordable financial tools and services that meet the needs of underserved consumers. Financial inclusion needs remain significant and urgent, however, a goal of ETA member companies is to continually enhance the electronic payments and financial ecosystem so that it is accessible to all consumers, while ensuring that their transactions can be completed securely, efficiently, and ubiquitously. A key driver to achieving such a system is the development of new technologies such as digital wallets, which have proved invaluable in helping the traditionally underserved consumers access financial products and services. In the U.S., 98% of the adult population has a mobile phone and of those, 81% are smartphones, a steady increase from previous years. Utilizing a mobile device as a primary method of account access enables greater financial literacy by allowing consumers to manage their accounts from their fingertips.

Expanding the ability to access the financial system not only empowers consumers to take control of their financial well-being but also creates a more resilient and inclusive economy. See ETA's annual white paper on *How Fintech Is Addressing the Financial Needs of the Underserved*¹⁰.

By leveraging mobile and other online systems, digital wallets provide consumers with access to safe and convenient financial services. This allows underserved consumers, in particular, to move away from cash-based transactions and gain access to more traditional financial services. In addition, the facilitating of P2P transactions helps underserved consumers move money more efficiently within a safe and secure environment. These are just a few of the reasons why digital wallets have proved so popular, particularly with younger generations that have less experience with traditional financial services.

V. Conclusion

The payments industry is innovative, dynamic, and competitive, focused on delivering cutting-edge products with robust security measures to help consumers connect with merchants, make payments, and move money. Digital wallets are a great example of this innovation. They provide all Americans with access to safe, affordable, and convenient payment methods that can be used in stores, online, and to make P2P payments. And while digital wallets are a remarkable development, the modern payments industry is already hard at work developing the next generation of products, services, and fraud prevention technologies to help individuals move money.

¹⁰ <https://www.electran.org/wp-content/uploads/ETA-Creating-a-More-Inclusive-Economy-2022-2.pdf>