

# Mobile Payments: Emerging Issues for Policymakers

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DEFINING SUCCESS TOGETHER



# Agenda

## Mobile payments 101

- Vocabulary and technology

## Existing laws and regulations

- The new product maze

## Policy considerations

- Focus on what is truly new



# Mobile payments 101



## Mobile payments 101

- Mobile payments are payments for goods or services initiated from a mobile device
  - Remote mobile payments involve transfers of money remotely, typically through the Internet, regardless of the customer's location
  - Proximity mobile payments require a mobile device to be in close proximity with a terminal in order to make payments; typical example includes a point of sale (POS) transaction



## Mobile payments 101

- Mobile payments use a mobile device (usually with a digital wallet) as an alternative payment form factor
- Instead of paying with traditional physical payment methods (cash, check, credit/debit card), a mobile device is used to initiate payment
- The mobile device
  - holds payment credentials; or
  - accesses an account from which payment or transfer of funds will be made





## Mobile payments 101

- Mobile banking refers to conducting banking and other financial services transactions using a mobile device
- Mobile banking means using your device to connect to the Internet and check balances, conduct bank and stock market transactions, and manage your accounts



# Mobile payments 101

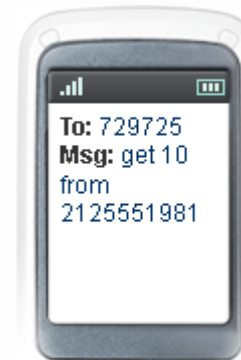
## Short Message Service

- SMS is a communication protocol allowing interchange of short text messages
- Used for mobile banking and mobile payments
- Slow, store-and-forward operation
- No security or encryption, sent in clear text only (except during transmission over the air)
- No inherent proof or confirmation of receipt or delivery
- Example: PayPal Mobile



### Send money

Send a text to 729725 (PAYPAL). Specify the amount and the recipient's phone number or email address.



### Request money

Send a text to 729725 (PAYPAL). Include the words get and from, and then specify the amount and the phone number of the person you're requesting money from.



# Mobile payments 101

## Online or Cloud

- Account credentials are saved online, not on the mobile device
- At time of payment, users are sent to a branded checkout screen that allows them to check out or send money using their account information saved with the provider without needing to re-enter credit card numbers or shipping addresses
- Examples: Amazon Payments, PayPal, Google Checkout, Pago







# Mobile payments 101

## Mobile Billing

- Payments for purchases are charged directly to consumer's mobile account
- Does not require the use of credit/debit cards or pre-registration at an online/cloud-based payment solution
- Consumers enter their mobile number at any e-commerce website, a text message is sent to the mobile number and the consumer confirms the purchase
- Examples: BilltoMobile, Boku, Zong





# Mobile payments 101

## Contactless

- Payment for purchases is made using a contactless technology
- Customer holds mobile device in close proximity to the merchant's point of sale terminal to initiate payment
- Customer account credentials or tokens are stored on the mobile device
- Examples: Google Wallet, Isis (near field communication), Paycloud (sound), Starbucks (quick response codes)





## Mobile payments 101

- NFC (“near-field communication”) is a short-range high frequency wireless technology that enables the exchange of data between devices over about a 4 cm distance
  - Emulates existing contactless payment standards
  - Allows P2P transfers (NFC device to NFC device)
  - Can read “tags” to retrieve data or information
- Advantages of NFC over other technologies
  - Security (information never passed as clear text)
  - Uses existing payment infrastructure
  - Can be used for more than just a payment device



# Existing laws and regulations

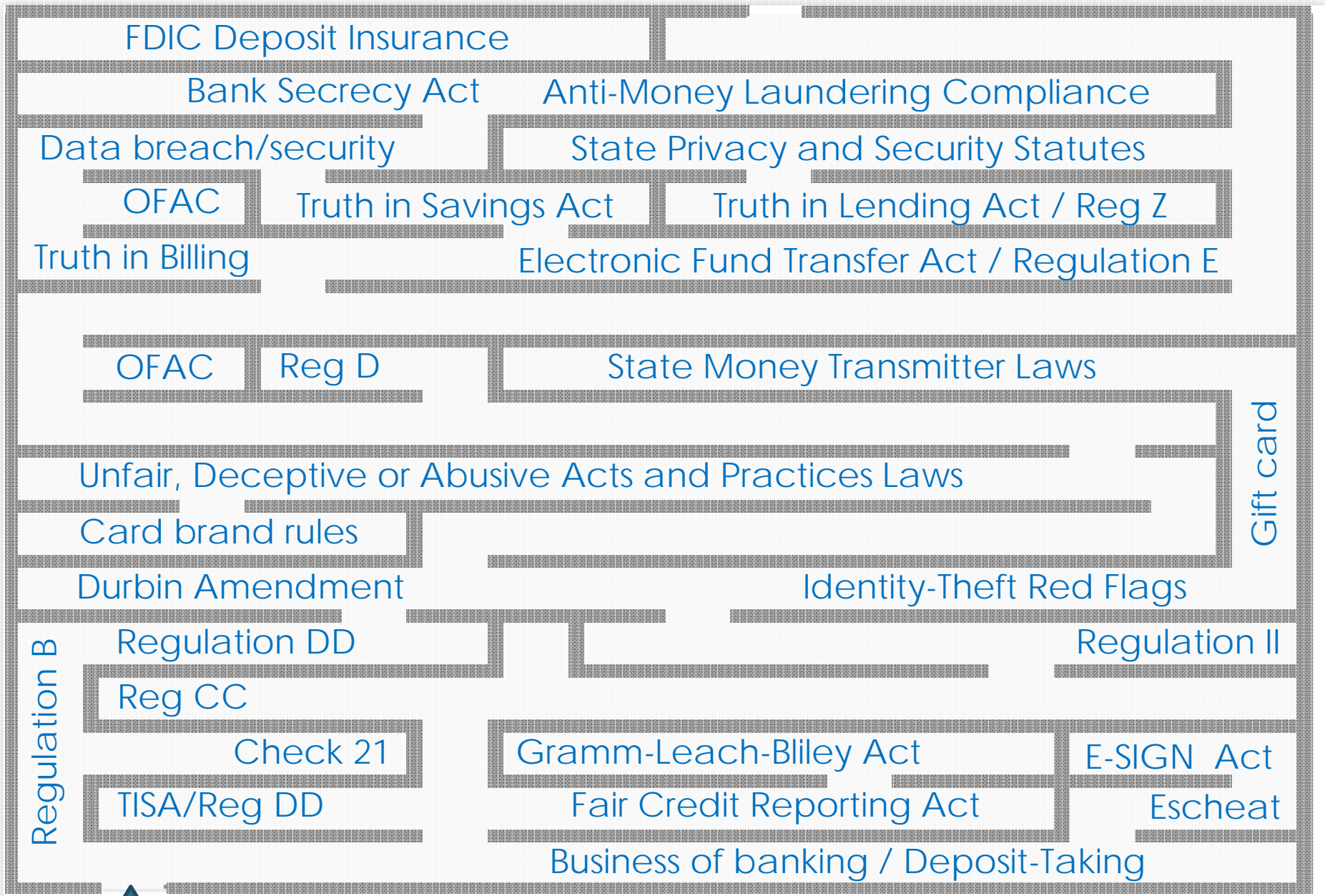


## Existing laws and regulations

Yes, mobile payments are regulated...the real news is how much they rely on existing payment systems already subject to a maze of regulation.



# Existing laws and regulations





## Existing laws and regulations

... and with so many regulations, of course we need many regulators...



# Existing laws and regulations

State Public Utility Commissions



State Banking Departments

Board of Governors of the Federal Reserve System

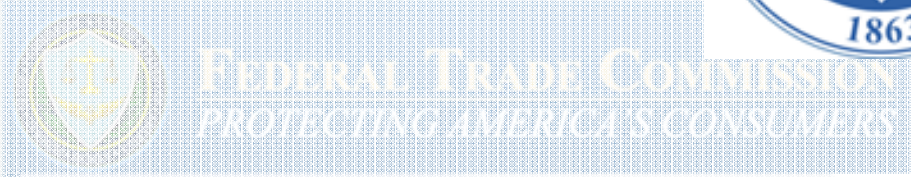
The Federal Reserve is the central bank of the United States. It works with the other major financial institutions and the financial system.

Payment Networks

State Attorneys General



Office of Foreign Assets Control







# Policy considerations



## Policy considerations

- So it uses a mobile device – so what?
  - Most of what happens in payments is invisible to the user
  - Payments law is fragmented – this is NOT news
  - Does adding more regulation make sense just because a mobile device is used?
- Success abroad...doesn't always translate to U.S. market and regulatory structure
  - Can't force-feed adoption by merchants and consumers
- Major potential benefits to using smart connected devices for payments



## Policy considerations

- **Suggestion 1:** Focus on what is truly new
  - Privacy - more data: geo-location
  - Smaller format makes disclosure harder
  - Wholly electronic process (okay, not entirely new: think e-commerce)
  - More complexity in system and more customer relationships
- **Suggestion 2:** Don't make the maze worse
- **Suggestion 3:** Encourage innovations that will increase competition in payments to the benefit of:
  - Unbanked/underbanked
  - Consumers
  - Merchants



## Policy considerations

- **Prediction:** much \$ will be lost on bad mobile payments ideas...but overwhelmingly it will be investor \$, not consumer \$ – as it should be



Questions?

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