

New Models for Payment and the Mobile Wallet

Business models and the regulatory requirements they trigger

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Agenda



- What is a mobile wallet?
- Mobile wallet technologies
- Bank perspective
- MNO perspective
- What's needed for U.S. adoption?
- Major deal and legal issues

What is a mobile wallet?



- Basically 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
- Mobile device
 - holds payment credentials; or
 - accesses an account from which payment or transfer of funds will be made



Mobile wallet technologies



Short Message Service

- SMS is a communication protocol allowing interchange of short text messages
- Generally used to purchase digital goods (ringtones, avatars, games) or send money P2P or P2B
- 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.



Send money

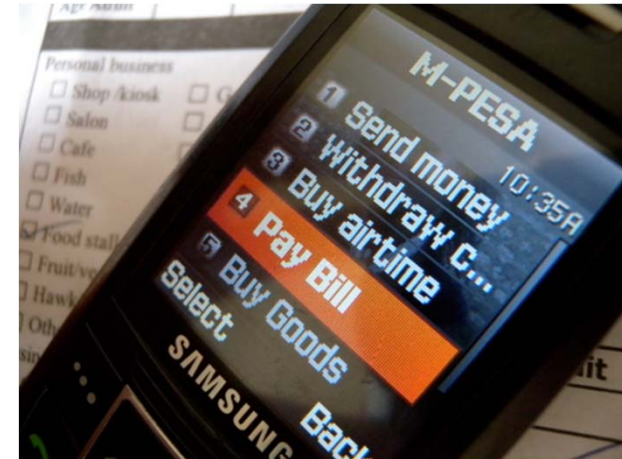
Request money
Send a text to 729725 (PAYPAL). Include the words get and from, and then specify the amount and the phone number of the person you're requesting money from.

Mobile wallet technologies



Unstructured Supplementary Data Service (USSD)

- USSD is a mechanism for transmitting information via a GSM network
- Unlike SMS, USSD offers a real-time connection during a session, which makes it faster
- Used extensively overseas for mobile financial services such as remittances and bill payment
- Examples: M-Pesa (Kenya), Voila, TchoTcho Mobile (Haiti)

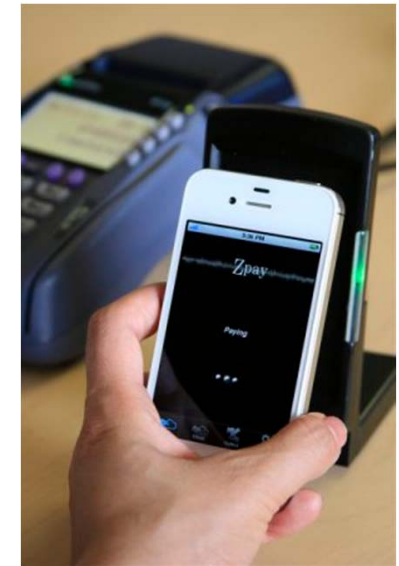


Mobile wallet technologies



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 (QR) codes)



Mobile wallet technologies



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: Pago, PayPal, Serve, Google Checkout, Amazon Payments



Mobile wallet business models



- Collaborative
 - Key stakeholders jointly develop a mobile wallet that allows each entity to participate
 - Example: Google Wallet, Isis
- Bilateral
 - Two key stakeholders reach an agreement to develop a mobile wallet
 - Example: Serve and Verizon Wireless
- Standalone
 - A single entity develops a mobile wallet
 - Example: Starbucks, Bank of America microSD trial

Bank perspective



- Security
- Quality and reliability of product/service
- Ownership and use of data
- Value proposition
 - Leverage bank payment products to remain central to financial services needs
 - Cross-sell other bank products
- Brand recognition/identity
- Regulatory authority and supervision
 - Leverage charter authority and core competence in retail payments – add to deposit base
 - Banking agencies and CFPB

MNO perspective



- Ownership of customer
 - Control of user experience
- Ownership and use of customer data
- Value proposition
 - Leverage network
 - Reduce churn with value-added service
- Keep funds off balance sheet
- Regulatory supervision – avoid adding financial services regulation to existing obligations
 - FCC, FTC, state public utility commissions

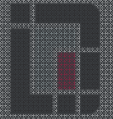
What's needed for U.S. adoption?



“Chicken and egg” two-sided market – what will it take to ignite?

- Offers platforms – merchant-funded offers
- Targeted advertising
 - Use of behavioral and geo-location data
- Killer applications
 - Public transit, college/corporate campuses and cafeterias, other closed- to open- systems opportunities

What's needed for U.S. adoption?



- On the left side of the slide, there is a list of items, each preceded by a small square bullet point. The first item is "On the left side of the slide, there is a list of items, each preceded by a small square bullet point." The second item is "On the left side of the slide, there is a list of items, each preceded by a small square bullet point."

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Major deal issues



- Need for multilateral and bilateral agreements
 - Other ecosystem participants: trusted service managers, OS developers, handset manufacturers
- Responsibility for service
- Control of customer and experience
 - User interface, terms and conditions, privacy policy
 - Dual/triple customer relationships
- Use and disclosure of data generated
- No common language: must translate among technology, banking, telecom

Major legal issues (I) – who regulates?



- Overlapping jurisdiction
 - Existing banking regulators may predominate (Federal Reserve, FDIC, OCC, NCUA)
 - State financial services regulators (and maybe Attorneys General)
 - New CFPB for consumer protection, backed up by FTC
 - FCC for billing and consumer protection
 - State public utility commissions(?)

Major legal issues (II) – what laws apply?



- Electronic Fund Transfer Act/Reg E
- Truth in Lending Act/Equal Credit Opportunity Act/Regs Z and B
- Gramm-Leach-Bliley Act/Fair Credit Reporting Act
- Dodd-Frank Act – CFPB's new authority
- State Money Services Acts
- Others: Bank Secrecy Act, Bank Service Company Act, rules of SROs like payment networks, CTIA and MMA

Electronic Fund Transfer Act/Reg E



- Governs electronic funds transfers (EFTs) to or from a consumer asset account held by a financial institution
- A person will be subject to EFTA/Reg E if it (1) provides EFT services and (2) issues an “access device” to a consumer, but (3) does not hold the consumer’s bank account or contract with the bank holding the consumer’s account regarding the EFT service
 - As of July 21, 2011, Reg E is interpreted by new CFPB – no bright lines as to applicability to mobile payments implementations
 - MNOs engaged in receiving and holding funds on balance sheet may be subject
- New coverage of cross-border remittance transfers will affect mobile initiated remittances to foreign receivers

Truth in Lending Act/Reg Z



- Governs open and closed-end credit transactions, for example, credit cards, and is applicable to “each individual or business that offers or extends credit” (1) extended to consumers, (2) done regularly, (3) subject to a finance charge or more than 4 installments, and (4) is primarily for personal, family, or household use
- As of July 21, 2011, is interpreted by new CFPB
- Complexity of consumer credit regulation = banks, credit unions, and state licensed lenders predominate

Gramm-Leach-Bliley Act



- Title V of the GLB Act governs the privacy of customer information held by a financial institution
- Applicability of the GLB Act will vary with the implementation
 - Financial institution includes any “institution the business of which is engaging in financial activities as described in section 4(k) of the Bank Holding Company Act of 1956 (12 U.S.C. 1843(k))”
 - Applies to those “significantly engaged in financial activities”
 - Banks clearly covered, but may also include MNOs depending on their role

Dodd-Frank Act



- Title X of the Dodd-Frank Act created the Consumer Financial Protection Bureau with broad authority over consumer financial products and services
 - “Consumer financial product or service:”
 - “extending credit”
 - “selling, providing or issuing stored value or payment instruments” (with exceptions for some types of sellers)
 - “providing payments or other financial data processing products or services to a consumer . . . including payments made through an online banking system or mobile telecommunications network”

State Money Services Acts



- Money Services Acts govern the activity of non-depository money services businesses like money transmitters, check cashers and currency dealers
 - Apply to those receiving money for transmission, transmitting money, or issuing payment instruments
 - Not applicable to “closed loop” systems
 - Such laws generally require MSBs to be licensed, bonded, maintain certain net worth/investments, retain records, and submit to state examinations



- Bank Secrecy Act
 - FinCEN requirements: Banks, money services businesses
 - New “prepaid access” rule
 - New “monetary instruments” rule
- Bank Service Company Act
 - Requires submission to examinations
- CTIA “best practices” guidelines
 - Mobile financial services
 - Collection and use of geo-location information
- Mobile Marketing Association guidelines
- Payment network rules: Visa, MasterCard, American Express, Discover, ACH



Questions?

For More Information...



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