Testimony of Jodie Kelley, CEO of ETA
Before the House Financial Services Committee Task Force on Financial Technology Hearing
on
Inclusive Banking During a Pandemic Using FedAccounts and
Digital Tools to Improve Delivery of Stimulus

Chairman Lynch, Ranking Member Emmer, and members of the Task Force on Financial Technology, my name is Jodie Kelley and it is my privilege as CEO of the Electronic Transactions Association ("ETA") to submit this statement on the role of the electronic payments industry in promoting inclusive banking and financial services, including by using digital tools to distribute 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.

Our industry is acutely aware of the hardships that the COVID-19 pandemic has imposed on our country over the past several months, and the challenges that we face in rebuilding our economy and supporting those who have been hardest hit. We share your commitment to financial inclusion and recognize that the past few months have highlighted the need to ensure that individuals and businesses have access to useful and affordable digital payment tools and financial products that meet their needs.

As an industry, we have long worked to help ensure that all Americans have access to secure, convenient, and ubiquitous payments and related financial services. When the Coronavirus Aid, Relief, and Economic Security Act [1] ("CARES Act") became law and state and federal policy makers began to look for ways to get stimulus money to consumers and businesses as quickly and securely as possible, ETA members immediately offered the tools of

[1] Public Law No: 116-136, 03/27/2020

the modern electronic payments industry to help. ETA is pleased to provide the Task Force information on the ways in which the digital payments industry is supporting financial inclusion during this challenging time, as well as detail on how the modern payments industry is helping deliver CARES Act stimulus money to the American people.

I. Background

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, peer-to-peer (P2P) products, mobile wallets, and other forms of digital payments. ETA's members include: financial institutions; payment processors; payment facilitators; mobile payment service providers; mobile 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**.**

Every day, ETA member companies are creating innovative offerings in financial services, spending billions of dollars annually on research and development to develop and deploy new products and services that securely move trillions of dollars each year. To put the electronic payments industry in context, during 2019, consumers and businesses spent $7.58 trillion in card volume in the U.S.[2] and another $1 trillion was moved over the largest peer to peer networks. Combined these equate to 40% of the U.S. GDP in 2018. Payments are ubiquitous

[2] https://www.federalreserve.gov/paymentsystems/2019-December-The-Federal-Reserve-Payments-Study.htm

on a global scale as well. 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.[3]

The infrastructure supporting this system is sophisticated, secure and fast – processing over 270,000 transactions per minute.[4] The electronic payments system is also reliable - it operates 24/7/365, in the U.S. and around the globe, without interruption.

Every day, Americans rely on the modern payments industry, whether we are paying our babysitters using a digital app, shopping online while we are quarantined at home, or tapping our phones to make a secure payment at the grocery store. 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.

II. Helping the Underserved Including Through Distributing Stimulus Dollars

a. ETA Member Companies' Commitment to the Underserved

ETA and its members are long-standing proponents of an inclusive financial system that provides high quality, widely accessible, easy to use, affordable financial services. Our annual white paper on the subject highlights some of the ways in which our industry is providing products and services designed to help the underserved, including through mobile payments, prepaid products, mobile banking, P2P payments, and education on financial literacy and readiness.[5]

b. The Electronic Payments Industry's Assistance Distribution of Stimulus Dollars

[3] https://www.statista.com
[4] This translates to 16,130,136 per hour, 387,123,287 per day, or 141,300,000,000 per year.
[5] https://www.electran.org/wp-content/uploads/ETA-WP-UnderServed-2B.pdf

The COVID-19 pandemic has brought a sharp focus to the importance of this work – now, more than ever individuals and businesses need access to affordable and secure payments and financial services. As discussed in this statement, the payment industry is well-positioned to help – and in fact is already helping. Digital payments products are being deployed today to assist with the delivery of the (as of June 6) $266.8 billion in EIP[6] and $511 billion in PPP[7], along with the $260 billion in unemployment insurance allocated under the CARES Act.

i. General Purpose Reloadable Prepaid Cards

General purpose reloadable prepaid cards ("prepaid") is one of the mechanisms currently being deployed to deliver stimulus money. A prepaid card is a form of secured card that is linked to a previously added cash balance. In essence, a prepaid card allows a user to load money on the card, then spend that money as they need – as they purchase, those purchases are checked for approval against existing funds. As the funds are spent down, they can be reloaded.

Prepaid cards are backed by banks and typically carry major association logos and can be used to make purchases just like credit and debit cards. They come with the same fraud protections and security measures, the same dispute resolution rights as traditional credit and debit cards, and, like bank accounts and P2P service, the funds loaded on them are FDIC insured. Prepaid cards can be loaded directly with government benefits or by direct deposit of paychecks, or funds can be loaded from a bank account, at thousands of retail locations,

[6] Through June 5, 2020. The CARES Act authorized $290 billion.
[7] https://home.treasury.gov/system/files/136/SBA-Paycheck-Protection-Program-Loan-Report-Round2.pdf

transferred from a P2P service, or transferred from another prepaid card. According to the Federal Reserve, at the beginning of 2019 there were 2.2 billion cards in circulation, valued at $60 billion.[8]

- **Prepaid Cards Have Long Been Used to Deliver a Wide Array of Government Benefits**

Prepaid cards are simple to use and manage. They are also administratively less expensive than paper checks (or other paper-based payment instruments such as vouchers or coupons). Additionally, the back office management of prepaid cards -- including issuing the cards, disbursing program funds, and providing customer service – can be outsourced to financial institutions.

Because these cards do not require a bank account and can be used easily and broadly, numerous federal and state government benefits and reimbursements are already delivered via prepaid card. For example, the Supplemental Nutritional Assistance Program, the largest government program user of prepaid cards for distribution, disbursed over $60 billion on prepaid cards in 2018. The Social Security Administration has been using prepaid cards since 2011, and currently disburses almost $40 billion annually through those cards. Other examples of federal benefits distributed using prepaid cards include:

- Child Support
- Temporary Assistance for Needy Families
- Low Income Home Energy Assistance Program

[8] Board of Governors of the Federal Reserve System, Report to the Congress on Government-Administered, General-Use Prepaid Cards - September 2019

- Childcare
- Refugee Assistance
- Various General Assistance Programs
- Women, Infants, and Children
- Veterans
- Payroll
- Income Tax Refunds
- For government employees:
  - Health Savings Accounts
  - Flexible Spending Accounts
  - Health Reimbursement Arrangement Accounts
- Jury Duty Payment Programs
- Tribal Government Programs

During 2018 alone, the Federal Reserve reported that government agencies disbursed $137 billion through prepaid cards.[9] Additionally, more than forty states use these types of cards to distribute unemployment benefits, and last year over $20 billion in unemployment benefits were distributed using prepaid cards. [10]

- **Prepaid Cards are Being Used to Deliver Stimulus**

The CARES ACT was designed to provide quick relief to Americans who needed it because of the pandemic. For those Americans without a bank account, many of whom are

[9] Board of Governors of the Federal Reserve System, Report to the Congress on Government-Administered, General-Use Prepaid Cards - September 2019

[10] Ibid.

among the most vulnerable, the stimulus dollars were particularly needed. Those funds are now being disbursed, in part, on prepaid cards.

Specifically, the CARES Act expanded unemployment insurance by 13 weeks and increased the amount the benefit by $600 a week through July 31, 2020. States are currently delivering these unemployment benefits electronically using prepaid cards.

The CARES Act also authorized EIP's totaling $290 billion. The Treasury Department[11] and the Social Security Administration[12] turned in part, to two long-standing prepaid card programs - Direct Express and US Debit - to distribute stimulus funds. As of June 5, 2020 via prepaid cards over $9 billion in EIP's has been distributed to 5.7 million Americans.[13]

Prepaid cards allowed the EIP stimulus to reach consumers quickly, and the funds could be used immediately. Individuals did not have to wait weeks or months for a physical check, then figure out how and where to cash that check (assuming that cash would suffice to meet their payments needs). Instead, armed with the prepaid card, they could immediately use stimulus funds, directly advancing the goals of this important program. In fact, the utilization of prepaid cards allowed many consumers to use the critical stimulus money even before actual transfers were made to the financial institution, as prepaid issuers could allow consumers access to funds as soon as the pending credit appeared on the account, where traditional checks may have a processing period of up to three business days for stimulus checks to clear.[14]

[11] https://home.treasury.gov/news/press-releases/sm1012
[12] https://home.treasury.gov/news/press-releases/sm979

[13] https://home.treasury.gov/system/files/136/EIP-data-update.pdf
[14] https://www.washingtonpost.com/business/2020/04/14/1200-relief-checks-have-begun-arriving-bank-accounts-people-are-mostly-spending-it-food/

For the most vulnerable and hardest-hit consumers and small businesses, those saved days matter.

ii. P2P Services

Peer-to-peer payment systems — also known as P2P payments or money transfer apps – are also being used to distribute stimulus dollars. P2P systems — like PayPal, Venmo, Zelle, and Cash App -- allow users to send one another money from their mobile devices through a linked bank account or card. Consumers are not typically charged to use them. Hundreds of millions of Americans used P2P services to transfer over $300 billion dollars during 2019. Consumers can use P2P services to store money, make purchases at merchants, transfer money to other users on the same system and, as previously noted, to reload prepaid cards.

Because P2P services can be accessed from a smartphone, they can reach the vast majority of individuals, regardless of where they live or whether they have access to a bank account. The Pew Research Center found that 98% of the U.S. adult population has a mobile phone, and that 81% of people have smartphones.[15] That number has been steadily increasing and is expected to rise further. The ubiquity of smartphones has made it an ideal platform to house robust payment solutions.

While final numbers are not yet available, it is estimated that hundreds of thousands of EIP stimulus dollars were sent to P2P accounts directly. P2P services thus made it possible for individuals to securely and quickly receive stimulus money and then immediately use it to make needed purchases, or transfer money to a family member or friend.

iii. **Mobile Wallets**

[15] https://www.pewresearch.org/internet/fact-sheet/mobile/

Mobile wallets have increasingly been used by individuals during the pandemic. A mobile wallet is an app on a mobile device, such as a smartphone, that stores payment information from a credit card, debit or prepaid card.[16] The phone can then be used to securely make purchases. There are a number of different mobile wallets that are compatible with specific devices. The stimulus dollars sent to prepaid cards or bank accounts linked to a card (credit or debit) already loaded into a digital wallet, are very easy for consumers to spend the money quickly, easily and securely.

Mobile phones and wallets are not only ubiquitous, they are also highly secure. To access a smartphone, some form of authentication is required such as biometric (fingerprint, face recognition) or entry of a pin. Additionally, mobile 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.

iv. Contactless Payments and COVID-19

In addition to the security and speed of receiving stimulus and making payments, another important feature of all three of these products 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

[16] ApplePay and GooglePay are mobile wallets that, as introduced, hold payment card credentials, but do not allow users to store money. P2P services like Venmo are sometimes referred to as mobile wallets, but offer additional services, including allowing the user to store money, and make transfers and purchases. For purposes of this statement we distinguish between P2P services and mobile wallets based on this distinction.

terminal. Contactless products use a technology called Near Field Communication, which allows the card or phone to communicate with the terminal when the cardholder places their payment card or mobile phone near it.

Consumers are increasingly adopting contactless payments because they allow consumers 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. Because it allows them to transact without touching common surfaces, the use of contactless payment methods has risen dramatically during the pandemic. For example:

- A Mastercard Global Consumer study (April 2020) found that between February and March, contactless transactions grew twice as fast as non-contactless transactions in grocery and drug stores.

- Visa[17] reports that:
    - In March 2020, 31 million Americans tapped a card or mobile device which is almost 50% higher than it was 6 months ago;
    - In the last twelve months (March 2019 – March 2020), there has been a 150% increase in contactless payments
    - Outside the U.S., more than 60% of all payments at a physical point of sale are contactless and the U.S. is quickly accelerating its adoption

v. ETA Members Also Played a Role in Distributing Stimulus to Small Businesses

The electronic payments industry's ability to deliver stimulus also included relief to small businesses. ETA members - both traditional and fintech participants - used modern lending tools to help the Small Business Association process and disburse $659 billion in Paycheck

[17] https://usa.visa.com/visa-everywhere/blog/bdp/2020/04/30/merchants-and-consumers-1588276426783.html

Protection Plan loans. As of June 6, the SBA disbursed $511 billion to over 4.5 million businesses.[18]

III. The Broader Electronic Payments Industry

The specific payments products used to distribute and use stimulus dollars are part of a broader payments landscape, fueled by innovation and security, providing ubiquitous access to convenient, secure, financial and payments products and services, both here in the US and across the globe.

It is an industry that has evolved dramatically since 1958 when the first credit card was issued. A system that started as one in which plastic cards were run through "knucklebuster" machines, and authorizations were obtained through merchants calling in a request, has now evolved to one in which 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 and companies that invest billions of dollars annually to develop and constantly improve products that meet individuals' needs, in a secure way. Many of the technologies that we take for granted – our ability to use an app on our phones to order and pay for a car or taxi to take us from one place to another, or to order and pay for dinner that will be delivered to our homes – are examples of that innovation. The

[18] https://home.treasury.gov/system/files/136/SBA-Paycheck-Protection-Program-Loan-Report-Round2.pdf

pandemic has further accelerated those trends as consumers figure out how to transact in new ways while social distancing. And, as discussed above, it has also highlighted the need to have solutions that benefit the underserved. The payments industry has proudly demonstrated both its commitment and ability to do so, including by efficiently distributing stimulus dollars to individuals. [19]

IV. Providing Security for Electronic Payments

Importantly, the story of payments is one of both innovation and security. The industry has quickly innovated in the security space as well; recent examples include the tokenization of data to minimize or eliminate the exposure of data that would allow credentials to be used unlawfully[20]; the introduction of point-to-point encryption (P2PE)[21]; the deployment of tools for monitoring and analyzing payment data for suspicious activity; and the protection of data through PCI-DSS[22], chip cards, and EMV technologies. When combined with state-of-the-art authentication techniques, including biometrics, these various security technologies help make payments secure and safe.

These efforts have been remarkably successful in reducing fraud. During 2019 alone, the electronic payments industry detected and prevented $84 billion in fraud.[23] That is not to

[19] Importantly, the system is also interoperable and facilitates cross-border commerce. Consumers can use credit cards when they travel abroad and when they don't -- cross-border commerce is increasing. Cross-border shopping is estimated to reach $1 trillion during 2020. 54% of US shoppers reported making online purchase from a foreign site. https://www.invespcro.com/blog/cross-border-shopping/

[20] Tokenization is a technology that replaces a user's actual card number with a token (typically a random string of numbers) so that the user's card number cannot be intercepted by fraudsters when transmitting payment information from the mobile wallet to a retailer's payment terminal.

[21] Encryption involves the use of cryptography to protect data while in transit. The data is scrambled between the end points using encryption, with a third party responsible for providing encryption keys to both end points.

[22] 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 companies that process, store, or transmit credit card information maintain a secure environment for such data.

[23] https://cmspi.com/nam/resources/pi-magazine-march-2020/.

say, of course, that fraud has been eliminated. It has been minimized, however; according to the Federal Reserve, the fraud rate is a mere $0.46 for every $10,000.00 in payments.[24]

And where fraud occurs notwithstanding efforts to prevent it, the payments industry protects consumers from financial harm. When it comes to credit cards, for example, if a consumer is the victim of fraud he or she can notify the bank that issued the credit card and the acquiring bank or merchant – *not the consumer* – will bear the cost of the fraud. Consumers using debit cards benefit from similar protections. These safeguards are among the many reasons consumers continue to choose electronic payments over cash and checks.

V. Electronic Payments are Subject to a Robust Legal, Regulatory, and Self-Regulatory Framework

The electronics payments industry is subject to robust oversight from federal, state, and international regulators and law enforcement, and the industry has spent decades building out systems to ensure that it complies with its legal and regulatory obligations. The list is long, but a few examples include laws related to anti-money laundering, know-your-customer, money services, business licensing, the Electronic Fund Transfer Act, the Gramm Leach Bliley Act, and the Truth in Lending Act.

And that is just the beginning. The payments industry has always been a leader in self-regulatory efforts. In addition to the legal framework, the payments industry has implemented 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.

[24] https://www.federalreserve.gov/publications/2018-payment-systems-fraud.htm

These self-regulatory programs govern all aspects of the electronic payments industry and include due diligence, contract, transaction monitoring and data security requirements. The various parties in the ecosystem have built robust infrastructures to ensure they comply with both legal and regulatory requirements, and the additional rules developed by the industry itself. This effort involves hiring and training staff, developing and implementing software solutions, and constantly working to improve compliance and fraud monitoring.

At ETA, we are proud to have developed guidelines to help industry participants, including new entrants, ensure they are meeting their legal obligations and deploying best practices. [25]

VI. The Future

ETA members are already working on the next generation of digital payment tools and services. While we are working to ensure merchants can safely accept payments in light of COVID-19, we are developing new products and services to allow consumers move money, to shop in-store, on-line, and with a mobile phone, securely, quickly and readily available to all Americans.

VII. 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. This system is already effectively delivering government benefits quickly and securely and is proud to have delivered billions of dollars in stimulus dollars during the pandemic. The modern payments industry is already hard at work

[25] https://www.electran.org/industry-affairs/srp-eta-self-regulation-program/

developing the next generation of products and services and fraud prevention technologies to help individuals move money and stands ready to assist further in the distribution of government benefits, including any additional stimulus dollars.