June 15, 2016

Keith Ernst, Associate Director  
Consumer Research & Examination Analytics  
Division of Depositor and Consumer Protection  
FDIC  
550 17th St. N.W.  
Washington DC  20429

Dear Mr. Ernst,

The Center for Financial Services Innovation (CFSI) is submitting this letter in response to the request for comments on “Mobile Financial Services Strategies,” issued by the Federal Deposit Insurance Corporation (FDIC) and published on May 3, 2016. Like you, we recognize the important role that access to high-quality financial products plays in helping consumers improve and maintain their financial health. We believe that finance can be a force for good in people’s lives and that meeting consumers’ need responsibly is ultimately good for both the consumer and the provider.

CFSI is a national authority on consumer financial health. We believe that financial health comes about when a consumer’s day-to-day financial systems enable them to build resilience and pursue opportunities. We lead a network of financial services innovators – banks, the fintech community, processors, servicers, non-profits, and community-based organizations – all committed to building higher quality products and services. CFSI informs, advises, and connects our network to seed innovation that will transform the financial services landscape. We hear the pain points and the see the opportunities from a variety of different viewpoints from both industry and consumers.

Through our consulting work, our Financial Capability Innovation Funds, and our Financial Solutions Lab, we have fostered innovative products and technologies that improve the financial health of consumers – many of these involve the use of mobile devices in one way or another. Our vision is to see a strong, robust, and competitive financial services marketplace, where the diversity of consumer transaction, savings, and credit needs are met by a range of providers offering clear, transparent, and high-quality products and services at reasonable prices.

Rather than comment on the mobile financial services (MFS) strategies identified by the FDIC – which we agree with and which many of our network members have been employing for a while
CFSI comments on FDIC’s *Mobile Financial Services Strategies*

– our comments focus on those issues that the FDIC and the banks will need to address between themselves and on those issues the banks will need to address with their customers.

**Issues for the FDIC and the Banks**

**Account Opening and Onboarding Hurdles**

For an un- or underbanked consumer, it can be intimidating to go into a bank. Working up the courage to open an account, and then being told there is a 5 to 10 day wait could cause consumers to not complete the process. Financial institutions that want to provide mobile accounts need to be able to open an account and onboard the consumer immediately from the mobile device. Consumers should be able to provide required documentation and be able to fund and use their accounts in real time.

It is also interesting to consider mobile account structures equivalent to the FDIC’s Safe Account that do not include overdrafts. These would still require fraud checks but would not need to include a pull from Chexsystems.

And as we move toward payment-enabled phones, the phone will become the “card” and consumers will be able to access and use their new account immediately, resulting in higher rates of consumers completing the account opening process. Mobile devices are able to recognize a range of identification types may be more common for undocumented immigrants (for example, ITINs) that may not be familiar to branch staff. In addition, applying via a mobile device may be less intimidating for an undocumented person than walking into a branch and having to answer questions. In the longer run, attracting and gaining confidence with this audience could result in lower customer acquisition costs and lower onboarding cost structures for banks. The FDIC and other regulators will need to review their CIP and KYC guidelines to make sure they are relevant and accommodate device-assisted account opening.

**Security Concerns**

From the financial institution’s perspective, security concerns revolve around authentication and verifying that the user is the consumer who holds the account. Biometrics and device use patterns (for example, how long it usually takes for consumers to enter PINs and passwords) can help verify the user. Mobile banking can actually help reduce fraud by using multi-factor authentication and tracking the location of phone in relation to where transactions are being made and knowing the usual geographic footprint of the consumer.

Financial institutions could consider a tiered approach to security for mobile devices. For example, while consumers may need an “unlock” code when opening the bank’s application on their phone, they may not need to use a password for low-risk activities such as checking a
balance. For unusual, higher dollar, higher risk transactions, more authentications would be needed.

The FDIC and other regulators would need to review data security requirements and protocols that are relevant for mobile devices, keeping in mind that these are different than existing desktop and PC devices (that is, banks can have real-time locational information from mobile devices). As technologies for authentication continue to evolve and improve, regulators need to allow banks to adopt the most relevant and secure protocols.

Channel, Strategy, or Line of Business?

Banks need to consider how they are using mobile as a channel, as a strategy, and as a line of business – where are there overlaps and where are there opportunities? The FDIC may need to re-define banks and branches and consider how they view mobile as a “virtual branch” – including what that might mean for CRA ratings and other compliance issues (noting that online and virtual banks can centralize compliance more easily than banks with branches).

Issues for Banks and Their Consumers

Device and Service Hurdles

The Federal Reserve Board’s Mobile Financial Services data show that while 83 percent of low-to-moderate income households (incomes $40,000 or less) have mobile phones, only two-thirds of these (65 percent) have smart phones. While this is likely to change quickly over time, at present it is worth noting that MFS needs to be designed for “minimum users,” considering screen resolution and keystroke limitations, and employing more universal mobile communications technologies like SMS.

Another hurdle for MFS is that these consumers – even if they have smart phones – tend to use prepaid services with limited data plans. Financial institutions need to assess the data demands their MFS tools require and find ways to provide access to Wi-Fi services for their customers. Some cities are considering ways to provide municipal Wi-Fi, and some community-based organizations provide Wi-Fi to their clientele. But without access to Wi-Fi, it’s unlikely that some consumers – especially LMI customers – will adopt MFS more widely.

Consumers’ Perspectives on Security

Data from the Federal Reserve Board’s 2016 Consumers and Mobile Financial Services survey show that security issues rank third as a reason consumers do not use mobile banking (more frequently-cited reasons include “My banking needs are being met without mobile banking” and
“I don’t see any reason to use mobile banking”). More financial institutions are using tokenization to transmit account numbers during transactions, but consumers don’t understand these security provisions. Banks could do a better job of explaining their security protocols so that consumers are more confident when using mobile financial services. In cases where a mobile phone is lost or stolen, consumers need to know how to shut down their phone with their provider.

Virtual versus Real Branches

Consumers can find mobile banking more convenient. For those still using check cashers, mRDC is definitely more convenient than transportation to the check cashier and waiting in line (although issues of funds availability may remain; see below). ATMs can solve the issue of both putting cash into the account and getting cash out, but for virtual banks this may mean developing a partnership with ATM networks or retailers beyond just “cash out” capabilities.

Fund Access

Access to funds is very important for underserved consumers, who tend to have volatile incomes and be financially vulnerable – they need to be able to access and use the funds in their accounts immediately. It’s not clear that the U.S. will become as “check-less” as other countries, but as employers and governments move toward an all-electronic payments framework and as the U.S. payments systems continue to evolve toward real-time funds movement, the issues around mobile remote deposit capture risks and funds availability should diminish.

However, if consumers can start saving – if they can build up a buffer of $200-$300 – the issue of access to funds also goes away. Combining MFS with automatic savings plans can be another solution to the liquidity needs of consumers.

In the meantime, any fees for immediate access to remotely deposited funds should reflect the true price of risk the financial institution faces with this technology. Setting the fee to the equivalent of a check-cashing fee is not good enough.

Conclusion

We appreciate the FDIC’s initiative in engaging with opportunities presented by mobile banking and mobile financial services, and we strongly encourage you to continue to stay engaged broadly across the agency. As financial technologies continue to grow and evolve, it is important that financial services providers feel comfortable in adopting these innovations without worrying about sanctions and censure from their regulators.
We believe that consumers will be better able to achieve financial health if they have access to high-quality financial services that are innovative – evolving and growing as the consumers themselves evolve and grow in their financial journey. Innovations can help consumers spend, save, borrow, and plan safely and effectively, enabling them to manage their day-to-day finances, weather financial shocks, and providing them with longer-run financial opportunities.

We believe that the marketplace will benefit from a range of banks and fintech companies, start-ups and incumbents, direct-service providers and partners all playing important roles in developing and delivering innovations that are consumer-centric. We recognize that regulators play an important role in keeping the market fair for both providers and consumers.

Innovation is not going away – if anything, the pace of change will only increase. Both regulators and the market need to grapple with how they will respond. We are glad that the FDIC is tackling the issues around mobile financial services. We look forward to working with you as this effort moves ahead.

Sincerely,

Jeanne M Hogarth

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Vice President
Center for Financial Services Innovation