

Michelle Jun

Female Speaker:

-- entourage. My colleague will be the next panel to address consumer protections.

Michelle Jun:

So, I want to pose a question to everybody in the room: who in this room has actually made a mobile payment? So, maybe about a quarter or so. And I'm going to make the suggestion that perhaps there would be more if there was more knowledge that consumers had protections in case anything went awry. Consumers largely want payment methods that are safe, secure, and solid.

So, I wanted to do just a quick overview on the impact that will come when consumers widely adopt and use mobile payments, and then go on to the different types of payment methods that currently exist in the marketplace -- going from the traditional types of payments methods to the more emerging, alternative methods -- and then review the consumer protections that are associated with these different types of payment methods, if any consumer protections exist.

A quick look at the numbers: there is a huge impact in the United States. According to a CTIA survey last June, there are about 276.6 million subscribers in the U.S., or, according to them, an 89 percent penetration rate of our wireless subscribers in the United States; that's not counting the prepaid. That's quite an impact, and the usage is not strictly just talking. Consumers are using their cell phones for texting, sending photos, downloading ringtones, playing games; I'm sure you're all very well familiar. Back in 2006, the CTIA did a survey, and that accounted for about half of their subscribers, and I'm sure at this point, that number has just ballooned. In using the cell phone, I'm sure many of you have texted, or have received a text, or have been pressured to text.

[laughter]

And a Nielson Wire survey last month found that American teens are texting an average of 3,100 texts a month, and this is not counting when they are in school or sleeping.

[laughter]

So, as this population ages, they will become more familiar with texting, and then one would surmise that more people would start using the mobile payments and those methods to make mobile payments. And just one more statistic that I found staggering: the CTIA survey found that 1.36 trillion texts were made last year.

So, in order to figure out what consumer protections exist, we need to trace the payment method. So, there are methods in which to use a mobile device to pay that are, I guess, in the more traditional realm at this point, which is PayPal, Amazon payments, and iTunes. Those are usually tied to credit, debit cards, or prepaid cards, or bank accounts, and some

of them are even gift cards. The other alternative emerging payments are the prepaid type cards, as well as being directly billed to the wireless carrier.

And just quickly going over the types of protections that do currently exist; we're all familiar with our credit card protections and our debit card or bank account protections. There are a lot of gaps and holes when you move on to the prepaid card realm and, of course, the direct billing to the cell phone.

And so, prepaid cards: they look like debit, they act like debit, everybody seems to believe that they're just like debit, but, however, on the back end, they don't have the same guaranteed protections as a debit card. And so, the people who are using prepaid cards are subject to the terms and conditions of the prepaid card issuers and also have Visa and MasterCard Zero Liability protections. As for the wireless billings, you are also subject to the terms and conditions, and I want to just point out one state law that may protect some consumers in that state -- the California Code -- and finally, the CTIA's Wireless Consumer Code, which is also a voluntary protection.

And so what does the network's zero liability policy look like? Well, it says zero liability; however, there are holes. First of all, under the Visa Zero Liability policy, the transaction must take place on the Visa network, which, to some, may seem simple, but if you're a consumer, you have no idea what that means. It does not cover any ATM transactions and it covers PIN transactions to the extent that it's on the Visa network, meaning an interlink transaction, but if it doesn't take place on that network, then you are out of luck. The same goes for MasterCard. It does not cover ATM transactions and they do not cover any PIN transactions. If you have made more than two or more reports of unauthorized transactions in a 12-month period, again, you are out of luck. So unfortunately, people who are using prepaid cards and people who are using prepaid cards tied to their mobile payments won't have the same types of protection, say, as if you were to use your PayPal account that is tied to your bank account or tied to your credit card.

Finally, I wanted to get to the billing towards the wireless contracts. The most recent example is, of course, the text to Haiti example, where \$35 million -- or, approximately \$35 million -- were generated in a very short period of time, which is pretty phenomenal. But what a lot of consumers were unaware of -- including myself, until recently -- was that there is a cap on the number of transactions that can be made, and the transaction is not instant. In the case of Haiti, we're trying to provide donations; that money needed to get there sooner rather than later. So, what happens is the wireless carriers then fronted the money to the Red Cross and are hoping to recoup those funds, I'm sure, by the consumers when they pay their bills. I think somebody suggested it earlier, but it could take up to 90 days, and that's according to the M Giving Foundation's contract.

In addition, consumers may have to pay another fee on top of that for that SMS text, the five digit text. It's up to the wireless carriers, again, to decide whether or not the consumer should be charged an extra fee for that. So, consumers have to pay attention to the terms and conditions in their wireless contracts. However, many of these terms and

conditions are just not there. So, the consumers have no idea as to what they are signing up for, which was my hesitancy in texting over that money to the Red Cross during that time, which is unfortunate. But, as a matter of providing notice, in case something does go awry on your cell phone bills -- say, you obtain your cell phone bill and it has a number of transactions, a couple of texts that you made to Haiti that you actually didn't do -- you are still on the hook to make that payment. Under the contracts from the telcos, you must make a payment even on some disputed charges or you may be sent to collections. So usually, that needs to be done within a 60-day to a 100-day period. There is one case from the state of California that Attorney General Brown, in 2007, fought against AT&T, which basically settled, and it came to that you cannot be made to pay for something that was unauthorized when you had lost your -- when your wireless device was lost or stolen.

Finally, the CTIA's Wireless Consumer Code, which is a voluntary code that many wireless companies have signed on to; it requires certain billing payments to be listed in a uniform way. However, it does not address the other types of payments or third party payments in the way that they should appear on billing -- on cell phone bills. And again, it's voluntary.

So, consumers have a lot to be wary of, until there are more standardized and uniform protections.

Thank you very much.

[end of transcript]