



**Mobile Payments and Electronic Banking:
The New Horizon**

July 15, 2010

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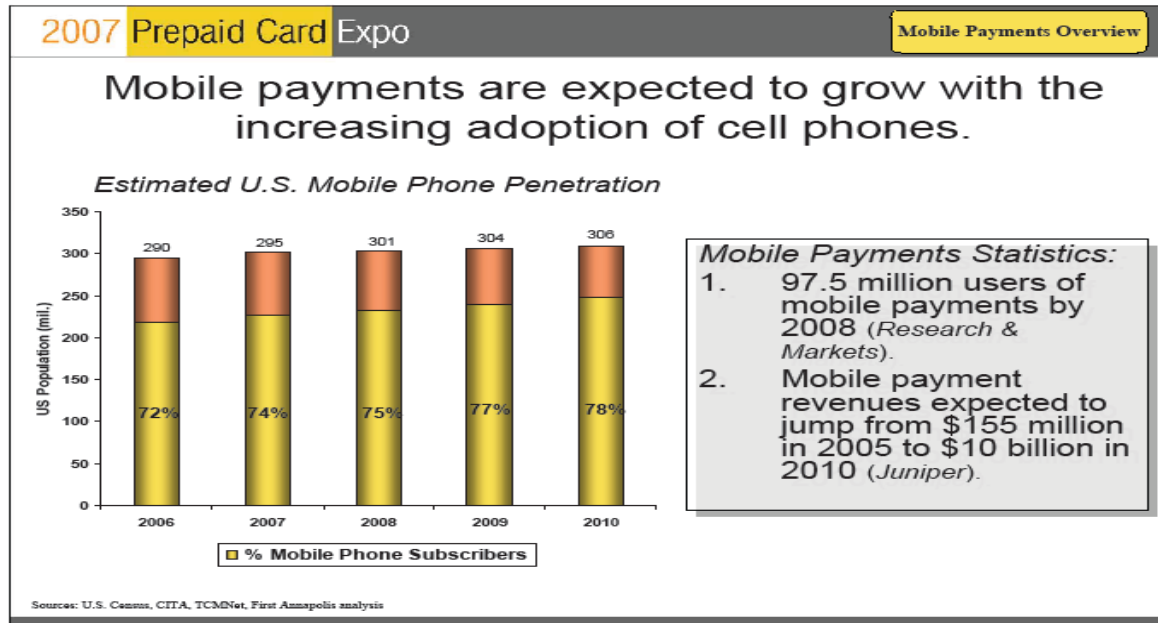
Jim Stubbs

3. New Products --- Mobile Payments

5. Response to this area - key controls and risks assessments - Industry AML response

New Products -- Mobile Banking / Payments

Watch this space...



“The worldwide market for mobile payments will grow to \$633.4 billion by 2014, up from \$68.7 billion in 2009, according to a new report by Generator Research. Meanwhile, mobile payment users will grow 600 percent, to 490 million in 2014 from 81.3 million last year.” GIGAOM Research. May 13, 2010

<http://gigaom.com/2010/05/13/mobile-payments-to-reach-633b-by-2014/>

New Products -- Mobile Banking / Payments

Mobile banking - two categories:

- Informational
 - Check account balances
 - Generate statements
 - View transactions
 - View marketing material
- Transactional (accessing bank services through a mobile device)
 - Transfer funds between accounts, including loans, credit cards, etc.
 - Make payments (domestic or international)
 - Manage investments

New Products -- Mobile Banking / Payments

Mobile payments technology

- Contactless
 - one powered item, e.g. merchant reader and plastic card, fob, cell phone cover, sticker
- Near-field Communication
 - Two autonomously powered items: reader and phone
 - NFC Chip and antenna embedded in phone – payment account information can be programmed, preloaded, downloaded
- Text messaging or short message service (SMS)
 - Texting or data connection
 - PayPal & Obopay
- Wireless application protocol (WAP) / internet browser

New Products -- Mobile Banking / Payments

Mobile payments technology – other

– Currently banks remain gatekeepers for ultimate settlement

New Products -- Mobile Banking / Payments

- **Yes**

- Funds accessed through a cell phone or PDA – not a branded credit, debit or prepaid card raises issues “Who’s Holding the Money”?
- Linkage between the Mobile Payments and banking system less obvious
- Where are the Terms & Conditions? Where’s the Expiration Date?
- What if the cell phone is lost/stolen? How is the consumer protected?

- **No**

- It’s simply a payment product in a different form – the underlying payment systems are still there.
- The money is still held securely at a bank
- The terms and conditions are provided when a user enrolls
- Consumers are protected by contract, or by the bank card association rules

Who's Right? It Depends.

- Proximity Payments
 - Simpler
 - Often builds on existing networks
 - But a new stand-alone Proximity Payment network is also possible
- Remote Payments
 - More complex
 - “Accounts” established with non-banks
 - Almost always requires a separate, stand-alone network – but can be linked to existing payment networks

**Right now the “rules” are still uncertain
– as are the regulators.**

Industry AML response

- Banks generally appear to be taking a conservative approach to adopting the technology; methods, customers, limits, etc. Having said that there is a proliferation of participants:
 - Banks
 - Merchants
 - Consumers
 - Payment networks
- New participant segments: Hardware, software, communication lines, systems management, accounting, marketing distribution. New entry of non-banks as both outsourced service providers and increasingly as competitors
- AML approach leverages existing program requirements, as for any new product
 - Understand bank strategy
 - Risk assess product through lens of bank strategy
 - Communicate with business – don't insulate from risks and outside perspective
 - Design appropriate controls
 - Incorporate into program infrastructure, e.g. DD/EDD process, monitoring, training, policy, risk assessment

Industry AML response

- Risk assessment
 - “KYV” Know your vendor(s) / partner(s)
 - Similar risk appetite?
 - Dependency on vendor control environment
 - What to delegate / what to maintain
 - Size and vested interest in compliance: what’s at stake, staying power
 - KYC / EDD
 - Existing / long standing / “well known”
 - On-boarding channel
 - Identification at transaction
 - Value limits
 - Per transaction
 - Over time
 - Velocity limits
 - Reloads
 - Number of transactions
 - Sanctions and Monitoring
 - Full transaction information?
 - Specifically identify such transactions?
 - Monitor as component part of underlying transaction types, e.g. funds transfers, check clearing, etc.

Industry AML response

- Consider whether information beyond the financial transaction can be associated with data needed for processing
 - ISP address
 - GPS data
 - Specifically identify such transactions
 - NACHA standards would appear to be going a different way – but is monitoring the situation.

Subsequent phases of rulemaking will address additional topics, including considering transaction identification codes for mobile payments and evaluating unique attributes of specific uses of mobile payments (such as person-to-person payments). Dialogue on these additional aspects has already begun so that the Rules can be responsive to changing technology and requirements of the industry.

NACHA® Membership Approves Rule on Mobile ACH Payments *New Rule Enables Mobile Payments via WEB Transactions June 23, 2010*

- Instances of poor controls or criminal activity will drive legislative / regulatory reaction

Legislative & Regulatory Recommendations

Regulatory principles for effective AML/CFT regulation

- Regulation should be risk-based and technologically neutral—i.e. ‘same risk – same regulation’—for everybody.
- When assessing the risk and its mitigation, it is critical that the unique ‘domino effect’ of mobile money is allowed to increase the degree of financial inclusion. Expanding the formal financial sector and shrinking the informal economy directly lowers overall ML/TF risks.
- The digital and traceable nature of mobile money makes it a lower ML/TF risk than cash.
- Financial inclusion and AML/CFT are complementary and support each other.
- Mobile money services should be a regulated activity under the supervision of the financial regulator or other financial regulatory authority.
- *Proportionate AML/CFT regulation should emerge from close cooperation between financial regulators and industry. Using a collaborative ‘test and learn’ approach, risks of new services are systematically assessed before deciding on the appropriate risk-mitigation measures.*

Mobile Money: Methodology for Assessing

Money Laundering and Terrorist Financing Risks GSMA DISCUSSION PAPER

Marina Solin

Andrew Zerzan

Resources

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<http://mmublog.org/global/methodology-for-assessing-money-laundering-and-terrorist-financing-risks/>

FATF - REPORT ON NEW PAYMENT METHODS

13 OCTOBER 2006 <http://www.fatf-gafi.org/dataoecd/30/47/37627240.pdf>

Mobile Payments in the United States at Retail Point of Sale: Current Market and Future Prospects

Marianne Crowe, Marc Rysman, and Joanna Stavins May 17, 2010

<http://www.bos.frb.org/economic/ppdp/2010/ppdp1002.pdf>