

July 9, 2015

Consumer Protection Principles: CFPB's Vision of Consumer Protection in New Faster Payment Systems

When making payments today in the United States, consumers generally have multiple options. These options include providing cash, writing a check, swiping a credit or debit card, and entering information online for an electronic payment. For all non-cash payments, there can be a delay of several hours to several days between the time a consumer initiates a transaction and when the financial institutions complete the transaction.

However, the existing payment systems mentioned generally suffice, particularly for recurring payments and deposits that are scheduled in advance like regular wages or monthly utility bills. Still, consumers may prefer faster transfers for certain situations, such as a transfer to another person like a relative or repair person, a last-minute bill payment, or a retail payment where both the consumer and merchant want to settle a transaction immediately.

Furthermore, while we enjoy these robust and nearly ubiquitous payment systems in the U.S., there remains substantial opportunity to improve efficiency, reduce transaction costs for participants, and reduce credit and fraud risks. Improvement in payment systems can aid many users — and consumers, in particular — if accompanied by more robust and timely information about payments and receipt of funds. When integrated with systems such as mobile banking and other channels by which consumers may obtain real time information about their account balances, consumers could know more definitively when they do and do not have funds with which to conduct transactions. At best, faster payments could enable faster, safer, and more accessible commerce.

Given the potential benefits to consumers, the Consumer Financial Protection Bureau has been advocating for the development of faster and safer consumer payment capabilities in both new and existing payment systems. This support has been provided through multiple channels, including Director Richard Cordray's November 2014 speech to The Clearing House, Associate Director David Silberman's February 2015 comment letter to the National Automated Clearing House Association (NACHA) in support of its same day ACH proposal, and participation in the Federal Reserve's FedPayments Improvement initiative. In addition to these public-facing initiatives, the Bureau has been engaging in outreach with payment stakeholders — including entities involved in implementing faster payment systems in other parts of the world. We have learned that private industry is actively developing real-time or near real-time payment systems for the United States.

To ensure consumer interests remain top of mind throughout system development and to facilitate the integration of consumer interests into these developing systems, today the Bureau is releasing a set of Consumer Protection Principles. These Principles express the Bureau's vision for new payment systems that draws upon lessons we have learned from existing systems and ongoing payment innovation. In publishing these Principles, we are not specifying how they must be achieved. Rather, we recognize that a variety of system components, including system architecture, operator covenants and warranties,

requirements for participants and intermediaries, rules, and other mechanisms may play critical roles in providing consumer protection, utility, and value. The Bureau will continue to work with our fellow regulators, entities that are developing these new systems, consumer advocates, and other stakeholders to ensure that the new payment systems address consumer needs and interests.

Consumer Protection Principles:

CFPB's Vision of Consumer Protection in New Faster Payment Systems

Faster payment systems hold great promise for consumers. New payment systems may provide them with greater utility and more effective account management, enabling consumers to take greater control of their financial lives. But to be safe, transparent, accessible, and efficient, faster payment systems must keep certain consumer protection concerns in mind, including the following:

1) Consumer Control Over Payments

Any new faster payment system is clear about when, how, and under what terms consumers have authorized a payment. Each payment aligns with what the consumers has authorized. Systems enable consumers to put parameters on the payment, such as limiting the time period for which an authorization is valid, the amount, and the payee. Systems also specify procedures for consumers to easily revoke authorization.

2) Data and Privacy

When helpful to consumers, consumers are informed of how their data are being transferred through any new payment system, including what data are being transferred, who has access to them, how that data can be used, and potential risks. As appropriate, the systems allow consumers to specify what data can be transferred and whether third parties can access that data. When consumer data are collected, they are only used in ways that benefit consumers. The systems protect against misuse of the data associated with payment transactions.

3) Fraud and Error Resolution Protections

Faster payments are accompanied by robust consumer protections with respect to mistaken, fraudulent, unauthorized, or otherwise erroneous transactions. System architecture ensures that information is created and recorded to facilitate post-transaction evaluation. Systems provide mechanisms for reversing erroneous and unauthorized transactions quickly once identified. They also provide consumers with regulatory protections, such as Regulation E and Regulation Z, along with other appropriate safeguards.

4) Transparency

Faster payments include real-time access to information about the status of transactions, including confirmations of payment and receipt of funds. Consumers also receive timely disclosure of the costs, risks, funds availability, and security of payments.

5) Cost

To ensure access and ubiquity, systems are affordable to consumers. Fees charged to consumers are disclosed in a manner that allows consumers to compare the costs of using different available payment options. For consumers using any system, fee structures do not obscure the full cost of making or receiving a payment.

6) Access

Any new faster system is broadly accessible to consumers. To ensure access and usability, systems are widely accepted by businesses and other consumers. They permit consumer access through qualified intermediaries and other non-depositories, such as mobile wallet providers and payment processors, except to the extent necessary to protect functionality, security, or other key user values.

7) Funds Availability

Faster payments bring with them faster guaranteed access to funds, which decreases consumer risk of overdraft and declined transactions due to insufficient funds. Consumers – not just depository institutions or third parties – are primary beneficiaries of faster clearing and settlement.

8) Security and Payment Credential Value

Systems have strong built-in protections to detect and limit errors, unauthorized transactions, and fraud. These protections safeguard against and respond to data breaches. System architecture and rules enable gateway institutions to offer consumers enhanced security protections. Systems also limit the value of consumer payment credentials so that security breaches are of limited worth to fraudsters and minimally harmful to consumers. Credential value limits can be implemented with tokenization and other tools that impact the data transferred or stored in connection with payments.

9) Strong Accountability Mechanisms that Effectively Curtail System Misuse

The goals and incentives of system operators, participants, and end users align against misuse. Commercial participants are accountable for the risks, harm, and costs they introduce to payment systems and are incentivized to prevent and correct fraudulent, unauthorized, or otherwise erroneous transactions for consumers. Systems have automated monitoring capabilities, incentives for participants to report misuse, and transparent enforcement procedures.