

Client Alert

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CFPB Holds Field Hearing on Mobile Financial Services

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Yesterday, at the historic Old U.S. Mint in New Orleans, Louisiana, the Consumer Financial Protection Bureau (“CFPB”) held a field hearing on mobile financial services in connection with its newly released formal Request for Information (“RFI”) on the subject. As we noted in our alert announcing this event, the field hearing represents the first time in more than two years that a federal agency has sponsored a public forum on mobile financial services, and likely signals a CFPB interest in how financial services are delivered to consumers via smartphone technology. These developments also demonstrate the CFPB’s desire to stay abreast of innovation within the financial services industry. The following provides an overview of the field hearing.

REMARKS BY DIRECTOR CORDRAY

CFPB Director Richard Cordray opened the event by announcing the RFI and stating that the CFPB has two primary areas of interest with regard to mobile financial services. First, the CFPB is interested in learning about how mobile financial services might provide unbanked and underbanked consumers with better access to financial products and services. Second, the CFPB wants to understand how mobile devices can provide consumers with additional tools to manage their finances in real time.

Elaborating on these points, Director Cordray emphasized that some consumers are unable to afford, or have difficulty accessing, traditional banking services. He stated that mobile financial services may eliminate many of these barriers by allowing consumers to bank from anywhere, and that such services are less costly to banks, which could potentially result in cost savings to consumers. Director Cordray also noted that mobile financial services can enable consumers to more closely monitor financial transactions and avoid in-branch visits, which may help consumers more actively manage their financial accounts.

Notwithstanding the benefits of mobile financial services, Director Cordray identified two areas of potential concern. First, Director Cordray indicated that the CFPB may have concerns related to the provision of adequate customer service. For instance, he said that consumers may need options for continued access to bank services, such as customer service representatives available via telephone or in person, in the event of technological disruptions. Second, Director Cordray said that consumers continue to have privacy and security concerns regarding mobile financial services, such as what to do if a mobile phone is lost or stolen and how to limit data collection and use.

OVERVIEW OF FIELD HEARING PANEL

Following Director Cordray’s remarks, a panel of speakers addressed several topics related to mobile financial services. The panel was moderated by Daniel Dodd-Ramirez and Cheryl Parker Rose of the CFPB. The panelists represented Green Dot Corporation, the Hope Enterprise Corporation, Simple Mobile, Puentes New Orleans, the Center for Responsible Lending, and the Center for American Progress.

Consumer group representatives emphasized the need for the industry to meet consumer needs. These panelists observed that some consumers lack financial literacy or have limited English proficiency, and may prefer

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to communicate in person or with financial services providers that communicate in non-English languages. They said that the ability to communicate with consumers in a culturally relevant manner can help establish consumer rapport. There was general agreement among the consumer-group panelists that consumers from some cultural backgrounds mistrust banks and that this is an obstacle to the broader use of mobile financial services by the unbanked and under-banked populations. According to consumer-group panelists, broad financial education efforts could help address this issue. The panelists also emphasized that expanding access to financial services via the mobile network will aid in interrupting the cycle of poverty in rural, inner city, and other underserved areas.

Industry representatives focused on how innovative financial products can improve the delivery of financial services to consumers and enhance the banking experience. For example, one industry representative noted that reloadable prepaid cards often help serve low- and moderate-income consumers by providing access to mainstream financial services. Similarly, another industry representative explained how his company is focused on delivering mobile application technologies, such as a “Safe to Spend Balance” alert feature, that can provide consumers with useful information to help monitor spending. Others also emphasized the benefits of smartphone applications, noting the relative prevalence of smartphones and explaining how supplementing the existing banking infrastructure through the development of smartphone applications can enhance consumer access to financial services. For example, one industry representative noted that remote deposit capture of checks through smartphone technology saves consumers the time and costs associated with utilizing check cashers.

INITIAL TAKEAWAYS

The CFPB’s initial focus in this area appears to be on the intersection between mobile financial services and the unbanked and under-banked populations; that is, how mobile financial services can be accessed by those populations. Mobile payments have not yet been singled out as a specific area of focus for the CFPB, although several questions in the RFI arguably reach mobile payment technology and services. Nevertheless, the CFPB’s recent activity regarding mobile financial services is a strong signal that the agency is paying attention to technological developments in this area and could focus on products and services that involve access to financial services and bank products.

We will continue to follow the CFPB’s work on mobile financial services and any initiatives resulting from this RFI.

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