



Testimony of Jodie Kelley, CEO of ETA
Before the House Financial Services Committee
Subcommittee on Digital Assets, Financial Technology and Inclusion
Hearing on Modernizing Financial Services Through Innovation and Competition
October 25, 2023

Chairman Hill, Ranking Member Lynch, and members of the Subcommittee on Digital Assets, Financial Technology and Inclusion, my name is Jodie Kelley, and it is my privilege as Chief Executive Officer of the Electronic Transactions Association (ETA) to submit this written statement on how the payments industry is driving commerce and financial inclusion by providing consumers and businesses with safe, convenient, innovative, and cost-effective financial services. On behalf of ETA and its members, thank you for the opportunity to participate in this important discussion.

ETA is the world’s leading advocacy and trade association for the payments industry. Our members span the breadth of significant payments companies, from the largest incumbent players to the emerging disruptors in the U.S. and in more than a dozen countries. ETA members facilitate commerce by processing approximately \$44 trillion annually in purchases and peer-to-peer (P2P) payments worldwide and by deploying payments innovation to merchants and consumers.

The digital payments industry is one of the most innovative, dynamic, and competitive industries, leveraging a sophisticated, interconnected infrastructure to deliver financial products and services that benefit consumers, businesses, and the American economy. These products and services are highly secure and promote financial inclusion by allowing consumers—including consumers who have historically not had full access to the financial system—to conduct everyday financial transactions.

We encourage policymakers to promote continued growth by establishing a policy environment that supports innovation, consumer protection, and financial inclusion. As the payments industry continues to evolve, it is imperative that the policy framework protect consumers and small businesses without stifling innovation or the development of new financial services. The best way to achieve this goal is through the development of common regulatory principles that not only balance innovation and protection but also provide sufficient flexibility for requirements to be tailored for individual company risk profiles and new or developing products and services.

I. The Payments Ecosystem Is Safe, Effective, Dynamic, and Efficient

ETA member companies have a long history of developing innovative payments products and services that enable commerce through fast, secure, convenient, and cost-effective payment solutions. Payments technologies provide numerous benefits for both consumers and small

businesses and help drive commerce worldwide. Each year, ETA members facilitate commerce by processing more than \$44 trillion in purchases worldwide through the deployment of innovative payment products and services. To put the electronic payments industry in context, during 2021, consumers and businesses spent \$9.43¹ trillion, and another \$1.8 trillion was moved over the largest P2P networks. Combined, these amounts equate to nearly 50 percent of the U.S. gross domestic product in 2021.²

Innovations in the provision of payments are being driven by a combination of incumbents and new entrants. There is both robust competition that helps drive innovation and increasing partnerships between traditional players and fintechs, which have expanded consumer access to a broader range of financial services. Consumers benefit from a wider array of choices, improved user experiences, and increased financial inclusion. These partnerships not only foster innovation but also expand access to financial services to better serve historically underserved communities.

The transactions processed by these market participants run over a payments infrastructure that is sophisticated, secure, and fast - processing more than 1.29 million credit card transactions per minute around the globe in 2022.³ The electronic payments system is also reliable; it operates without interruption all year round in the U.S. and worldwide.

Critically, the ecosystem is also highly secure. ETA's members are constantly developing and deploying new technology and tools to facilitate secure payments and detect, deter, and eliminate fraud. The payments industry has introduced point-to-point encryption (P2PE) and the tokenization of data to minimize or eliminate the exposure of unencrypted data in connection with a purchase. The industry has also introduced new methods to verify and authenticate transactions using biometric authentication, including the use of thumbprints, facial, and voice recognition; geolocation that compares a merchant's location with the location of the consumer's phone; and behavioral biometrics (e.g., monitoring keystrokes).

The payments industry continues to refine tools for monitoring and analyzing payment data for suspicious activity, investing billions of dollars in technology to reduce fraud and increase security. With improvements in machine learning and artificial intelligence, payments companies are gaining additional tools for identifying suspicious patterns in transaction data. These are just some of the tools that the payments industry has developed in recent years to fight fraud, protect consumers, and ensure the integrity of the payments ecosystem. These efforts have been remarkably successful in reducing fraud while ensuring that consumers have access to fast, reliable, and safe payment options.

¹ 2022 Federal Reserve Payments Study

² Bureau of Economic Analysis, *Gross Domestic Product, Fourth Quarter and Year 2021* (2022)

³ <https://capitaloneshopping.com/research/number-of-credit-card-transactions/#:~:text=Total%20global%20credit%20card%20transactions,one%20transaction%20every%201%C2%BE%20days.>

In just the first six months of this year, two networks' fraud technology alone detected and declined hundreds of millions of attempted fraud transactions, totaling almost \$40 billion.

II. Innovation in Payments Offers Numerous Benefits for Consumers and Small Businesses

Due to the payments industry, individuals and merchants have a wide array of electronic payment options available that allow them to instantly and safely transfer money to one another, store their money and their credit cards on their smartphones, buy products and services online, and quickly and safely purchase goods in stores with the mere tap of a card or phone.

A. Payments Innovation Benefits All Consumers

Today, consumers have access to numerous cost-effective, easy, and secure payment options, including credit and debit cards, mobile wallets, Buy Now, Pay Later (BNPL), eCash, Automated Clearing House (ACH) payments, and P2P payments. These options enable consumers to conduct their daily financial transactions anytime from anywhere.

▪ Credit and Debit Cards

Approximately \$5 trillion in credit card transactions and \$4.55 trillion debit card transactions were processed in the U.S. last year alone⁴. The U.S. domestic payments system is safe, effective, and dynamic. Consumers rely on credit and debit to process transactions ranging from buying a cup of coffee to their most significant purchases. This method of payment brings numerous benefits to consumers.

The first benefits are ubiquity and ease. Credit and debit are the primary payment methods utilized by consumers, with 77 percent of consumers using a credit card⁵ and 87 percent of consumers using a debit card.⁶ The vast majority of transactions can easily be made with credit or debit, whether the transaction is for purchasing a cup of coffee, paying a utility bill, or paying for a visit to the doctor. Advances in technology have made card transactions frictionless and fast, whether a consumer is tapping to pay using a physical card, using a card stored in a digital wallet, or engaging in commerce online. Consumers use their cards and are confident that their transactions are secure. Consumers have \$0 liability for fraudulent transactions, which allows them to transact with confidence, knowing that they are fully protected. Moreover, credit cards in particular offer additional benefits, including cards that provide cash back on purchases or

⁴ 2022 Federal Reserve Payments Study

⁵ <https://www.bankrate.com/finance/credit-cards/credit-card-ownership-usage-statistics/>

⁶ <https://www.statista.com/statistics/649450/ownership-of-payment-cards-usa-by-type/#:~:text=This%20statistic%20presents%20the%20ownership,Americans%20owned%20a%20debit%20card.>

other forms of rewards. These are very popular with consumers who use them to extend their purchasing power. Notably, almost three-quarters of all Americans have a credit card that offers rewards.⁷

▪ **Prepaid Products**

Many ETA members offer prepaid products, which provide cost-effective, convenient, and innovative payment options for millions of consumers. A prepaid card is a form of secured card that is linked to a previously added cash balance. In essence, a prepaid card allows a user to load money on the card and then spend that money as they need; as they purchase, those purchases are checked for approval against existing funds. As the funds are spent downward, they can be reloaded.

Prepaid cards are backed by banks and typically carry major association logos and can be used to make purchases just like credit and debit cards. Prepaid cards have the same fraud protections, security measures, and dispute resolution rights as traditional credit and debit cards, and, similar to bank accounts, the funds loaded on them are Federal Deposit Insurance Corporation (FDIC) insured. Prepaid cards can be directly loaded with government benefits or by direct deposit of paychecks, or funds can be loaded from a bank account, at thousands of retail locations, transferred from a P2P service, or transferred from another prepaid card. According to the Federal Reserve, at the beginning of 2019, there were 2.2 billion cards in circulation, valued at \$60 billion.

Prepaid cards are either closed-loop or open-loop. Closed-loop products are limited to purchases from a single company or at a designated location, such as a gift card for a particular retail store that can be purchased in stores or at another retail location. Open-loop products can be used at virtually any retail location or business. Examples include reloadable gift cards or general-purpose, network-branded reloadable cards that can be used to make purchases and obtain cash from automated teller machines.

The utility of open-loop cards was never more apparent than during the Coronavirus Disease 2019 (COVID-19) pandemic, when ETA members played a key role in helping federal and state government agencies deliver billions of dollars in Paycheck Protection Program (PPP) small business loans, stimulus payments, and other benefits to alleviate economic hardship. As federal and state governments provided stimulus and unemployment payments to Americans struggling with the fiscal repercussions of COVID-19, the electronic payments industry helped expedite and secure the distribution of benefits. The Coronavirus Aid, Relief, and Economic Security (CARES) Act authorized economic impact payments (EIPs) totaling \$290 billion. To distribute stimulus funds, the Treasury Department and the Social Security Administration relied in part on two long-standing prepaid card programs—MasterCard’s Direct Express and Visa’s U.S. Debit—as well as P2P systems. Federal agencies used these payment solutions to

⁷ Wells Fargo, *Americans Lean Into Credit Card Rewards to Offset Rising Costs – Including Travel* (2022)

distribute more than \$9 billion to 5.7 million Americans, highlighting the ways in which innovation in the payments industry can expand consumer access to financial services, even during the most challenging of times.

- **P2P Services**

P2P payment services allow people to quickly make payments directly to each other, usually for free, using apps. P2P services were employed in 2022 by hundreds of millions of Americans to transfer over \$1.3 trillion dollars. These services, which include Zelle, Cash App, PayPal and Venmo, are frequently used when individuals are sending money to friends or family—to pay a babysitter, reimburse a friend for dinner, or send a birthday gift to a family member. Consumers can also use P2P services to store money, make purchases at merchants, and reload prepaid cards.

These services are frequently accessed by cell phone and are thus convenient for the majority of consumers. The Pew Research Center found that 97 percent of the U.S. adult population has a mobile phone, and that 85 percent of people have smartphones. Mobile phone and smartphone usage has been steadily increasing and is expected to continue. The ubiquity of smartphones has made it an ideal platform to house robust payment solutions.

- **Digital Wallets/Mobile Payments**

Every day, Americans use digital wallets to pay for coffee on the way to work, make secure payments in stores, or buy groceries. Digital wallets provide users with access to stored payment credentials, which may include a credit or debit card, a bank account, or, less commonly, a prepaid or gift card linked to a phone or app. This technology has gained popularity with consumers as a safe and convenient way to transmit funds in multiple settings, including for online purchases and payments at brick-and-mortar retailers.

The benefits of digital wallets are numerous. By leveraging existing payment technologies, such as credit cards, ACH payments, or bank accounts, digital wallets allow consumers to make payments at almost any store in the U.S. Moreover, wallets are almost always accessible through a consumer's phone or online, which makes them easy to use in person or through a computer or tablet and enhances merchants' ability to meet consumers where they are—literally (aka omnichannel).

Mobile payments are also highly secure. Because accessing a phone typically requires some form of authentication—whether biometric or password—an added layer of security exists. In most cases, the payment is free for the user and is withdrawn from their bank account or credit card (which they have linked to the mobile application). Put differently, consumers and businesses have safe and convenient payments at their fingertips, whether for purposes of

buying goods or services or sending money to friends and family.

- **Embedded Payments**

Embedded payments, which are also known as integrated or in-app payments, have revolutionized the way businesses and consumers interact in the digital age, bringing about a host of benefits to businesses and consumers alike. These benefits include quick, secure, and seamless payments that occur in the background of the purchase.

Many consumers have interacted with embedded payments without realizing it. Every time a consumer uses a ridesharing app or orders and pays for food through a delivery app, they are experiencing embedded payments. As with so many other payments innovations, embedded payments have made consumers' lives more seamless and frictionless. For that reason, they have become a cornerstone of the digital economy, powering innovation, and delivering convenience, security, and enhanced user experiences to consumers worldwide.

- **Open Banking**

Consumers are increasingly turning to digital applications and services to manage their finances, a trend that has significantly accelerated as a result of the COVID-19 pandemic. As consumers continue to rely on fintech apps and services to manage their finances, providing exceptional banking experiences means ensuring seamless access to those services.

Open banking entails providing consumers with a full picture of their finances and allowing banks and fintechs to use financial data, with the consumer's consent, to generate new products and services for their customers. As the Consumer Financial Protection Bureau (CFPB) implements Section 1033 of the Dodd-Frank Act, ETA supports consumers' ability to easily access and share their financial account information. This allows them to choose financial products and services that fit their personal financial needs and take more control over their financial lives. Moreover, financial applications and services built on consumer-permissioned data create greater competition in financial markets, even more competitive pressure on rates and fees, increasing innovation and the quality and quantity of financial products and services available to consumers, and expanding access to consumers. By more effectively helping parties share financial data, ETA members are helping consumers manage their financial lives, expanding financial offerings and access to financial services, lowering costs, improving financial management, providing more affordable options, and increasing transaction security.

B. Payments Innovation Benefits for Small Businesses

A fast, secure, and convenient payments system not only benefits consumers, it provides the critical infrastructure that drives commerce for small businesses operating online and in brick-

and-mortar stores around the country.

Small businesses are the backbone of the American economy, creating more than 60 percent of net new jobs and employing roughly half of the workforce in the private sector.⁸ ETA's members facilitate commerce by providing the tools that allow U.S. merchants, including the over 33 million small U.S. businesses, to sell their products and accept payments worldwide. In addition to the ability to sell goods and services worldwide, digital payments allow merchants to have immediate and secure access to funds, increased sales, and the flexibility to meet customers where they are.

Never was this more important than during the pandemic. When in-person shopping was dramatically reduced, small businesses who relied on in-person purchases were at incredible risk. Most businesses had little in the way of capital reserves, and many businesses had no way to reach their customers. The payments industry quickly engaged, helping these small businesses with flexible options. Whether it was enabling online commerce, providing solutions such as buy online, pick-up curbside or enabling tap to pay, innovative payments solutions allowed many businesses to remain in business that otherwise would not have.

Once they adopted these payment options, many small businesses saw a road map not only for survival but also for expansion. According to one study, more than 82 percent of small businesses will accept digital payments this year.⁹ Merchants can accept payments via credit and debit cards, ACH payments, BNPL, digital wallets, and more. These payment options can be used to pay online or in stores or even through a purchaser's mobile phone. The convenience and efficiency of these payment options helps merchants increase sales and allows merchants to take advantage of new and expanding market opportunities in the U.S. and worldwide. The same study revealed that a majority of surveyed small and micro businesses plan to prioritize cross-border sales as they seek to scale beyond Main Street to new geographies.¹⁰

Another important innovation that has helped small businesses is the introduction of faster payment and settlement technologies. There are numerous options on the market, including card network "push to card" services, same day ACH payments, and faster network settlement services. These "faster payments" technologies are benefiting small businesses by accelerating the settlement process so that they receive the proceeds of sales in a matter of hours instead of days.

⁸ Federal Reserve Banks of New York, Atlanta, Cleveland and Philadelphia, Joint Small Business Credit Survey Report, 2014 at 4 (released February 2015) ("Joint Small Business Credit Survey Report"); Karen Gordon Mills, Brayden McCarthy, The State of Small Business Lending: Credit Access During the Recovery and How Technology May Change the Game, Harvard Business School Working Paper 15-004 (July 22, 2014) at 3 ("State of Small Business Lending")

⁹ Visa's Global Back to Business Study (Sept 2023), <https://usa.visa.com/content/dam/VCOM/blogs/visa-back-to-business-7-one-pager-september-2023.pdf>

¹⁰ *Id.*

Embedded options have also been critical for merchants, including small businesses. Increasingly, software that can be used to manage a business integrates the ability to accept payments. For example, software that allows a small restaurant to accept reservations, schedule staff, and track inventory may also allow it to accept payments. Software that allows a doctor's office to schedule patients and submit insurance claims may also allow the office to directly accept payments. For small businesses that need a single solution to help them run their business, these solutions can be the difference between being profitable or not.

Additionally, embedded solutions can help small businesses to access much-needed capital. ETA's members and others are expanding access to credit. Online technology, for example, simplifies and expedites the loan application process for small businesses. Many lenders use small business financial and operational data to unlock access to capital for small businesses and enhance fraud detection and prevention. The use of such information has enabled an increase in the number and types of small businesses.

III. Innovation in Payments Expands Access to Financial Services for Underserved Communities

ETA and its members are not just focused on providing the tools that facilitate commerce; we are also long-standing proponents of an inclusive financial system that provides high quality, widely accessible, easy to use, and affordable financial services for all Americans. An inclusive financial system provides consumers and businesses with access to a range of financial products and services, and financial inclusion is contingent on the development of new technologies. In recent years, financial institutions (FIs) and fintech companies have transformed the financial landscape, introducing cutting-edge technologies that broaden consumer access to new financial solutions at reduced costs.

Each year, ETA publishes a white paper that highlights the many ways in which our industry provides products and services that help the underserved.¹¹ The efforts share the following core attributes:

- **Access:** Permitting consumers to gain access to funds and financial services wherever and whenever it is necessary.
- **Affordability:** Ensuring that consumers can select from an array of reasonably priced products and services. Technology is increasing competition and decreasing the price of goods and services, which makes products more affordable and accessible to consumers.
- **Convenience:** Providing consumers with multiple payment options to save them time and money.

¹¹ <https://www.electran.org/wp-content/uploads/2023-ETA-Advancing-Economic-Inclusion-Whitepaper.pdf>

- Security: Protecting consumer funds from physical and electronic theft or fraud.
- Control and Financial Management: Helping consumers gain better control of their finances through financial literacy and a variety of financial management tools.

ETA's member companies have been at the forefront in developing various other innovative products and services that advance the global flow of commerce while delivering affordable tools and services that meet the needs of underserved consumers and small businesses. These advancements in technology and products highlight the ways in which the payments industry has expanded access to safe, convenient, and rewarding payment solutions and financial services.

Below, we highlight some of these technologies, including prepaid cards and eCash solutions, and spotlight one such innovation—BNPL.

A. Prepaid Products

Many ETA members offer prepaid products, which provide cost-effective, convenient, and innovative payment options for millions of consumers, especially for those with limited or no access to other financial services. According to the FDIC, 4.5 percent of households do not have an account through an FI and instead rely on alternative products to complete basic financial services.¹² Although that rate, which represents approximately 5.9 million U.S. households, is shrinking, and is almost a full percentage point lower than when the survey was last conducted in 2019¹³, reaching and serving those consumers in need remains critically important.

The FDIC survey highlighted just how critical prepaid cards are to unbanked households. Almost nine of 10 unbanked households used prepaid cards to pay bills or receive income, which are core financial functions.¹⁴ Ease of use and ubiquity were key, because these households were able to use prepaid cards both in stores and online. The flexibility that the cards provide is also critical. The survey found that more than 40 percent of unbanked households use prepaid cards to save or keep money safe.¹⁵

Given their utility, it is unsurprising that the federal government uses prepaid cards as an alternative to paper checks for many of its benefit programs, as do a number of states.

- **Prepaid Cards Have Long Been Used to Deliver a Wide Array of Government Benefits**

Prepaid cards are simple to use and manage. They are also administratively less expensive than paper checks (or other paper-based payment instruments such as vouchers or coupons).

¹² 2021 FDIC National Survey of Unbanked and Underbanked Households

¹³ The Economics and Regulation of Network Branded Prepaid Cards, Sept 2013
<https://scholarship.law.ufl.edu/cgi/viewcontent.cgi?article=1160&context=flr>

¹⁴ 2021 FDIC National Survey of Unbanked and Underbanked Households

¹⁵ *Id.*

Additionally, the back-office management of prepaid cards—including issuing the cards, disbursing program funds, and providing customer service—can be outsourced to FIs.

Because these cards do not require a bank account and can be easily and broadly employed, numerous federal and state government benefits and reimbursements are already delivered via prepaid cards. For example, the Supplemental Nutritional Assistance Program, which is the largest government program user of prepaid cards for distribution, disbursed more than \$60 billion on prepaid cards in 2018. The Social Security Administration has been using prepaid cards since 2011 and currently disburses almost \$40 billion annually through those cards. Other examples of federal benefits that are distributed using prepaid cards are listed as follows:

- Delivering CARES Act and EIP Stimulus Payments
- Child Support
- Temporary Assistance for Needy Families
- Low-Income Home Energy Assistance Program
- Childcare
- Refugee Assistance
- Various General Assistance Programs
- Women, Infants, and Children
- Veterans
- Payroll
- Income Tax Refunds
- Health Savings Accounts
- Flexible Spending Accounts
- Health Reimbursement Arrangement Accounts
- Jury Duty Payment Programs
- Tribal Government Programs

B. Cash-Based Consumers Can Also Access Digital Payments

The digital payments industry has an offering for all consumers, including those who are cash-based. For consumers who prefer to transact in cash, ETA members have developed secure and convenient ways for consumers to add cash directly to their accounts and pay for online purchases. These eCash solutions allow consumers to pay for online purchases but then complete the process at a physical payment point with cash. Participating merchants provide the option for consumers to pay with cash at checkout. The consumer receives a barcode to complete the payment amount via text, email, or printable PDF and can then complete the purchase in cash at participating retail locations, such as CVS and Walgreens, via a barcode.

Other eCash solutions enable consumers to load cash into their digital wallet accounts so they have alternative ways to shop or pay their bills online. Some solutions even allow individuals to

directly deposit their paychecks into their account for free, so consumers can enjoy the benefits of spending their balance anywhere.

IV. Buy Now, Pay Later

BNPL enables consumers to purchase an item without paying the full price upfront and to pay the remaining balance in cost-free installments. Consumers have embraced BNPL, with 35 percent of Americans using BNPL in 2023, up from 27 percent two years earlier.¹⁶ As of mid-2023, the BNPL industry was projected to support \$125 billion in payments by 2027, an 18 percent per year growth rate. As of 2022, the percentage of Gen Zers who had used a BNPL product was estimated to be 58 percent. This growth was confirmed with survey data from August 2023 that not only showed millennials and Gen Xers constituting a vast majority of all U.S. BNPL users but also found that these younger cohorts tend to use BNPL services more frequently, with 75 percent of Gen Z BNPL customers and 74 percent of millennial BNPL customers reporting using the service at least once a month.

Consumers choose to use BNPL for several reasons—the installment payment model, budgeting support, convenient access to financing, and the ability to shop through online marketplaces offered by BNPL providers. By providing easy access to funding, typically with no interest, BNPL products help consumers purchase the items that they need, when they need them.¹⁷ For their part, tens of thousands of US and global merchants enjoy the fact that BNPL drives sales by increasing average order values and attracting new customers.

A. BNPL Offers Numerous Benefits for Consumers

BNPL is convenient and easy to use. Consumers are typically able to quickly get signed up before a purchase at the point of checkout¹⁸. As BNPL firms commonly conduct soft credit checks, the approval time is, in many instances, instant. Thus, customers are able to immediately go about their shopping experience, rather than waiting for their next paycheck or credit approval. In addition, consumers who are new to BNPL start with relatively low dollar limits, which allows for increased approval rates. Soft credit checks do not affect consumers' credit scores and are not visible to potential lenders. Thus, soft credit checks do not affect future potential for loans, which bodes well for younger generations who may struggle with access to credit.

¹⁶ The Economic Impact of Buy Now, Pay Later in the US, Accenture 2021 <https://afterpay-corporate.yourcreative.com.au/wp-content/uploads/2021/10/Economic-Impact-of-BNPL-in-the-US-vF.pdf>
¹⁷ <https://content.pymnts.com/wp-content/uploads/2023/05/PYMNTS-The-Credit-Economy-June-2023.pdf>, June 2023

¹⁸ *Id.*

Consumers also choose BNPL because the structure of the product is simple and easy to understand¹⁹. The simplicity of these products allows consumers to avoid significant costs, such as those that they might incur when using other short-term offerings. Typically, BNPL products do not charge interest or fees on installments that are paid on time. When payments are made on time, BNPL is an easily accessible, inexpensive form of financing, which increases the purchasing power of consumers and benefits merchants and the economy.

The use of BNPL can also help consumers budget²⁰ and wisely spend their funds. Underserved consumers that successfully repay their BNPL loans avoid recurring debt. By allowing access to funds, typically with no interest, BNPL products may help underserved consumers match their repayments to their cash flow, making it easier to be prepared to make everyday purchase such as clothing and groceries and major purchases such as furniture, airline tickets, and emergency expenses.

In addition, BNPL providers have put in place processes to protect customers by capping late fees and pausing customers to prevent overspending if they miss even a single payment. Many BNPL providers underwrite individual transactions before making real-time decisions and strive to avoid extending any financing to consumers that do not have the ability to repay.

B. BNPL Offers Numerous Benefits for Merchants

Tens of thousands of US merchants enjoy several benefits from offering BNPL, from driving sales to increasing average order values and attracting new customers. A recent study noted that U.S. merchants accrued \$8.2 billion in new revenue in 2021 from a single BNPL provider. Furthermore, BNPL providers and their merchant partners created more than 70,000 local jobs in 2021. ETA members and their merchant partners engaging in BNPL have also made a substantial contribution to the US economy, supporting jobs and broader economic growth from one end of the supply chain to the other end of the supply chain. In 2021, for example, BNPL purchases were the equivalent of 2.4 percent of US online retail and 12 percent of US online fashion retail. These jobs have been spread across geographies, industries, and business sizes and, as a result, make a substantial contribution to the US economy.²¹

V. ETA Encourages a Positive Legislative and Regulatory Environment That Supports Innovation and Access to Financial Services

ETA member companies continuously work to enhance the electronic payments and financial ecosystem so that it is accessible for all consumers, while ensuring their transactions can be

¹⁹ According to the Financial Health Network, only 1 percent of BNPL users reported having difficulty understanding the terms associated with their BNPL service. <https://finhealthnetwork.org/wp-content/uploads/2022/03/Buy-Now-Pay-Later-Brief-2022.pdf>

²⁰ A majority of consumers cite the product's ability to support budgeting as the main reason for choosing BNPL.

²¹ The Economic Impact of Buy Now, Pay Later in The US, Accenture 2021 <https://afterpay-corporate.yourcreative.com.au/wp-content/uploads/2021/10/Economic-Impact-of-BNPL-in-the-US-vF.pdf>

securely and efficiently completed. In pursuing this goal, ETA and its members work closely with federal and state regulators, whether cooperating to combat fraud or working to develop best practices and policies for expanding access to financial services. In this regard, ETA believes that industry and policymakers should collaborate to ensure that the legislative and regulatory framework supports opportunities for all consumers and small businesses to access and benefit from innovative financial products and services.

A. The Payments Industry Are Subject to a Comprehensive Legal and Regulatory Framework

Before discussing specific ways in which policymakers can collaborate with industry to expand access to financial services, it is important to understand that the payments industry is already subject to a comprehensive legal and regulatory framework. There are numerous federal and state laws and regulations related to money transmission, anti-money laundering, economic sanctions, credit reporting, information security, data protection, privacy, and prohibitions on unfair, deceptive, or abusive acts or practices. In addition, most payments companies work closely with banks and other regulated financial services providers, which means that they are often contractually obligated to comply with additional requirements that are applicable to their banking partners. Most recently, in June 2023, the Federal Reserve, the FDIC, and the Office of the Comptroller of the Currency issued final guidance for banks regarding third-party oversight and risk management when partnering with fintechs and other third parties.²²

In addition to the legal framework, ETA and its members have always been leaders in self-regulatory efforts, including the development of technology and self-regulatory programs designed to protect the integrity of the payments ecosystem and the consumers and businesses that rely on it with every transaction. The payments industry took the lead in developing the Payment Card Industry Data Security Standard (PCI-DSS), which is related to the security of cardholder data. The PCI-DSS sets forth requirements designed to ensure that companies that process, store, or transmit credit card information maintain a secure environment for such data. In addition, the PCI-DSS establishes a framework for implementation of the data security standards, such as assessment and scanning qualifications for covered entities, self-assessment questionnaires, training and education, and product certification programs.

In addition, ETA members have developed effective due diligence programs to prevent fraudulent actors from accessing payment systems, to monitor the use of those systems, and to terminate access for network participants that engage in fraud. Working with its members and industry and government stakeholders, ETA has published and subsequently updated various guidelines that provide underwriting and diligence best practices for merchant and risk underwriting, including the “Guidelines on Merchant and ISO Underwriting and Risk Monitoring” and “Payment Facilitator Guidelines.” More recently, ETA’s members published “5 Guiding Principles for Crypto” and “7 Guiding Principles’ for Creation of U.S. CBDC”

²² <https://www.govinfo.gov/content/pkg/FR-2023-06-09/pdf/2023-12340.pdf>

to help guide policymakers' consideration of any new laws and regulations for digital assets.

These are just some of the tools that the payments industry has developed in recent years to fight fraud, protect consumers, and educate policymakers. These efforts have been remarkably successful in reducing fraud while ensuring that consumers have access to fast, reliable, and safe payment options.

B. Policy Recommendations to Further Support Innovation and Access to Financial Services

As previously discussed, ETA member companies continue to advance the global flow of commerce while delivering affordable financial tools and services that meet the needs of underserved consumers. Because policymakers consider new laws and regulations for the payments industry, they should carefully consider the existing legal and regulatory framework and how potential changes might impact the ability of the industry to provide access to safe, innovative, and cost-efficient products and services. Any policy changes should be designed to serve the needs of both consumers and businesses, further financial inclusion, preserve and strengthen the financial system, minimize fraud, and ensure that consumers and businesses continue to have access to a robust and innovative array of secure banking and payment options.

ETA encourages policymakers to ensure a positive policy environment by promoting policies that are technology neutral and principles-based and allow for industry-led standards that support innovation and consumers and ensuring the continued development of secure and inclusive financial services. Public policies should also be tailored to the risk of the entity or risk profile of the entity, following the concept of same risk, same regulation. As the industry continues to evolve, it is imperative that the policy framework is equipped to embrace the proper safeguards to protect consumers without stifling progress.

VI. Conclusion

The payments industry is innovative, dynamic, competitive, and focused on delivering cutting-edge products with robust security measures to help consumers connect with merchants, make payments, and move money. ETA's members provide Americans with access to secure, affordable, and convenient payment methods that can be used in stores, online, and to make P2P payments. Focused on continuous improvement, ETA's members are already hard at work developing the next generation of convenient, safe, and affordable payments and fraud prevention products and services that promise to further expand commerce and financial inclusion.