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January 30, 2020

The Honorable Stephen Lynch
Chairman, Task Force on Financial Technology
House Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Tom Emmer
Ranking Member, Task Force on Financial Technology
House Committee on Financial Services
4340 O'Neill House Office Building
Washington, DC 20024

Re: Is Cash Still King? Reviewing the Rise of Mobile Payments

As the Task Force on Financial Technology for the House Committee on Financial Services undertakes an analysis of the use of cash and the rise of mobile payments, The Pew Charitable Trusts is pleased to offer comments on the implications of our research on consumers' use and adoption of various payment types. Pew is a non-profit, research-based organization, and our interests include providing data and analysis to help ensure a safe and transparent marketplace for consumer financial services. Pew's consumer finance project conducts research that identifies the needs, perceptions, and motivations of consumers, as well as the impacts of market practices and potential regulations.

Pew's research in this area focuses on consumers' use of not only mobile payments but also cash, bank accounts, debit, credit, and prepaid cards – including a focus on how consumers without checking or savings accounts adopt and use payments differently from banked individuals. Our findings demonstrate that mobile payment adoption has lagged compared with the robust smartphone adoption in the U.S. and consumers often avoid these transactions due to concerns about the risks of loss of funds, privacy, and/or security. An analysis of the hurdles underserved populations face should be useful for policymakers as they think about ways to help foster innovation while ensuring strong consumer protections are in place to support growth of a safe and healthy market. We thank the Task Force on

Financial Technology for the House Committee on Financial Services for its request and exploration of cash use and mobile payments.

Introduction

Cash use has declined over time as consumers have adopted mobile payments (a transaction made using a cellphone), debit, credit, and prepaid cards. However, cash is used monthly by more Americans than any other payment type and remains the primary way that one in seven adult consumers pay. This is especially true for consumers who are without a bank account (unbanked), have a household income of under $50,000, or are minorities. At the same, though uptake has been slower than projected, mobile payments have gained in popularity and are now used by more than half of adult Americans. Consumers tend to be more worried about payment issues (i.e.. theft, merchant disputes) or their protections against loss of funds when using mobile payments compared with their other payment choices – including cash. Compared with debit and credit cards those with mobile payment disputes find the process more difficult. Adoption is especially slow for certain segments of the population such as the Baby Boomers generation or older, the unbanked, and those with lower household income. Though mobile payments have helped give consumers without a bank account in developing countries an electronic option for storing and spending money, they have yet to reach most unbanked households in the U.S. and are unlikely to do so unless the products serve their specific needs and challenges – which differ somewhat from those in Africa or other regions.

Faster payments (that move funds in seconds or minutes rather than the days the U.S. system currently takes) holds promise for making electronic transactions as instantaneous as handing a person cash. The system, if widely adopted, could help give customers certainty about when funds will be available to use and reduce costs borne by families who incur overdraft and other fees due to current delays. However, outside of receiving wages, consumers are likely to access faster payments using apps and it is not clear that those who hesitate to use mobile payments now will overcome their concerns to access this system.

Yet faster payments could widen an existing gap in consumer financial protections and expose users to increased liability due to scams. The Consumer Financial Protection Bureau's new Prepaid Rule has done much to ensure that prepaid accounts – including most mobile payments – are protected against fraud and theft. However, unless the minimum protections found in the Prepaid Rule are maintained across all electronic payments and enhanced to combat victim initiated faster payments (aka push payment) fraud, it is likely that faster payments and other innovations will also expand risks.

Research suggests at least three actions that could improve inclusion and consumer adoption of innovative payment options.

1. Create ways for cash to be easily, inexpensively, and safely moved into an electronic format compatible with mobile, faster, and other innovative payments
2. Improve funds availability (via changes to regulations and/or access to faster payments) to give consumers certainty about their ability to use their money without risk of overdraft or other fees
3. Maintain consistent consumer protections across electronic payments especially with regard to dispute resolution and push payment fraud

Consumer Cash Use, Reliance, and Views of Protections

According to a Pew survey conducted in 2018, one in seven Americans say that they primarily pay with cash and it remains the most widely used payment type with 78 percent of consumers using it in the last month. However, some groups are more likely than others to use cash, including minorities, households with incomes under $50,000, and unbanked consumers. Minorities are nearly twice as likely to say they primarily pay this way (20 percent compared with 11 percent of whites). In addition, 23 percent of households with incomes under $50,000 say they primarily pay with cash compared with just 10 percent of households earning $50,000 or more per year.[1]

Some restaurants, stores, and stadiums around the country have stopped accepting cash as payment and instead are requiring patrons to pay with cards or digital devices, although some have already abandoned the practice in response to a public backlash and many businesses say that they want to continue taking cash payments.[2] Policymakers around the country have reacted swiftly to the changing payments market. In Massachusetts, where lawmakers banned cashless businesses in 1978, legislators have been considering a repeal of the prohibition. Meanwhile, New Jersey, Philadelphia, San Francisco, and New York City acted to prohibit cashless storefronts in the last two years.[3]

Though cash can be cumbersome and carries no recourse against loss or theft (the way debit, credit, prepaid cards, and most mobile payments do), it is protective in certain respects as it also carries no personal or financial data that can be hacked or stolen. Consumers are split on their views of cash: A quarter of consumers in the U.S. view it as carrying no protection against payment issues (like theft, fraud, or merchant disputes) but a third say that it is "perfectly protected" against such problems.[4]

Why Unbanked and Low-to-Moderate Income Households Are More Likely to Use Cash

To help underserved Americans it is important to understand why they are choosing to use cash or options outside of the traditional banking system. Unbanked households – who also tend to be lower income – do not use checking accounts for a variety of reasons. More than half say they don't have enough money to keep in an account and about a third list that as the main reason. But trust in banks, privacy, and high or unpredictable account fees are all cited.[5]

The use of cash cannot lead to overdrafts, whereas low bank account balances can leave a consumer vulnerable to fees either due to minimum balance requirements or overdrafts. Overdraft fees are most onerous for a small number of bank customers. Research from the Consumer Financial Protection

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[1] The Pew Charitable Trusts, "Rise of Cashless Retailers Problematic for Some Consumers: Cash Remains Important Payment Option for Many" (2019), 4-6, https://www.pewtrusts.org/en/research-and-analysis/articles/2019/11/08/rise-of-cashless-retailers-problematic-for-some-consumers?utm_campaign=finance_economy&utm_source=twitter&utm_medium=social.
[2] Square, "Is the "Cashless Society" All Hype?" (2019), https://squareup.com/us/en/making-change.
[3] C. Jones, "New York Says Don't Ditch Your Cash: City Is Latest to Ban Cashless Restaurants, Stores," *USA Today*, 01.23.2020, https://www.usatoday.com/story/money/2020/01/23/new-york-city-bans-cashless-businesses/4551974002/.
[4] The Pew Charitable Trusts, "Are Americans Embracing Mobile Payments?; Survey of Consumer Experiences Finds Greater Trust in Credit, Debit Cards" (2019), https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2019/10/are-americans-embracing-mobile-payments.
[5] G. Apaam et al., "Fdic National Survey of Unbanked and Underbanked Households" (Federal Deposit Insurance Corp., 2018), 24, https://www.fdic.gov/householdsurvey/2017/2017report.pdf.

Bureau shows that less than a fifth of account holders pay more than 90 percent of all overdraft fees – generating tens of billions of dollars per year for banks.[6]

Mobile Payments and Financial Inclusion

Mobile payments have provided a way to increase financial inclusion in developing regions such as Sub-Saharan Africa. As a result, some believe that mobile payments should improve financial access in the U.S. However, there are distinct differences between these populations that should be considered. In Sub-Saharan Africa just, 43 percent of adults have an account at a bank or mobile money service. This has improved quite a bit in the last few years largely due to uptake of mobile money on cellphones, but the majority of the population continue to rely completely on cash as their only payment option.[7] In the United States 93.5 percent of American households have a bank account. The unbanked in both the U.S. and in Sub-Saharan Africa cite not having enough money and high costs as the largest reasons for lack of an account.[8] However, about a quarter of unbanked individuals in Sub-Saharan Africa said that financial institutions (FIs) are too far away[9] compared with just nine percent of Americans without accounts.[10] In addition, consumers in the U.S. have many payment types to choose from and, though they don't serve the needs of all Americans, they provide reasonably well protected options for most whereas Africans largely have no other option but cash or mobile money. Cash currently makes up just 26 percent of transactions in the U.S. and individuals often decide which payment method to use based on the transaction and circumstances.[11] But 90 percent of transactions in Sub-Saharan Africa in 2017 were made in cash – and mobile payments are nearly the only alternative – leaving customers and businesses far more susceptible to theft and in need of better alternatives.[12]

Americans Have Many Payment Options

In a given month, most Americans use a range of methods to make payments: cash (78 percent), credit cards (70 percent), debit cards (61 percent), checks and money orders (37 percent), and prepaid cards (12 percent). Fifty-six percent (roughly 143 million adults)[13] have made at least one mobile payment in

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[6] J. Chang, "Americans Paid $34 Billion in Overdraft Fees Last Year. Here's How to Stop the Charges," *Forbes*, April 5, 2018, https://www.forbes.com/sites/learnvest/2018/04/05/americans-paid-34-billion-in-overdraft-fees-last-year-heres-how-to-stop-the-charges/#4fb5546b3ce9.

[7] L. Klapper et al., "Sub-Saharan Africa Series: Mobile Money and Digital Financial Inclusion" (World Bank, 2019), 3, https://globalfindex.worldbank.org/sites/globalfindex/files/referpdf/FindexNote1_062419.pdf.

[8] Ibid., 4. Apaam et al., "Fdic National Survey of Unbanked and Underbanked Households," 4.

[9] Klapper et al., "Sub-Saharan Africa Series: Mobile Money and Digital Financial Inclusion," 4.

[10] Apaam et al., "Fdic National Survey of Unbanked and Underbanked Households," 4.

[11] R. Kumar and S. O'Brien, "2019 Findings from the Diary of Consumer Payment Choice" (Federal Reserve Bank of San Francisco, 2019), 3, https://www.frbsf.org/cash/publications/fed-notes/2019/june/2019-findings-from-the-diary-of-consumer-payment-choice.

The Pew Charitable Trusts, "Are Americans Embracing Mobile Payments?; Survey of Consumer Experiences Finds Greater Trust in Credit, Debit Cards."

[12] K. Ighobor, "Africa's Quest for a Cashless Economy Gains Momentum," *Economic Development* (blog), United Nations, 07.2017, https://www.un.org/africarenewal/magazine/may-july-2017/africa%E2%80%99s-quest-cashless-economy-gains-momentum.

[13] The Census Bureau estimated the U.S. population at 327,167,434 as of July 1, 2018, with 77.6 percent being adults 18 or older. U.S. Census Bureau, Quickfacts, 2010-2018, last modified June 20, 2019, https://www.census.gov/quickfacts/fact/table/US/PST045218. Pew's survey found that 56.29 percent of adults

the past year – though 32 percent of U.S. adult consumers chose not to use a mobile payment even though they own a phone capable of a transaction.[14]

Overarching Concerns with Mobile Payments

A quarter of U.S. adult users and more than half of non-users ranked mobile payments as poorly protected against issues like theft or double billing. Twenty-nine percent of consumers said they sometimes or always avoid mobile payments for fear of loss of funds – usually because of distrust or concerns about either their phone or the merchant. Unsurprisingly, avoidance of mobile payments correlates with respondents' views of security: Those who rated mobile payments as poorly protected tended to avoid them more often than those who viewed their safeguards favorably (43 percent vs. 15 percent). Debit cards are eschewed at similar rates to mobile payments (53 percent and 19 percent, respectively), and respondents often said that they opted not to use debit cards in unfamiliar or unsecured situations because direct access to a bank account could expose their personal funds. These findings do not mean that consumers with concerns about the security of a payment type never use it, but they do indicate that people are consciously choosing other methods in certain circumstances. Even though nearly 30 percent of mobile payment users sometimes avoid them, few discontinue using them altogether: 84 percent of those who used a mobile payment in the past year also used one in the past month.[15]

Demographics of Mobile Payment Customers

Mobile payment users are more likely than nonusers to be millennials or Generation Xers, live in metropolitan areas, have bank accounts, and have college or postgraduate degrees. Of these demographic categories, age is the most predictive of mobile payments use, particularly as it relates to smartphone ownership. These findings suggest that if innovations are dependent on adoption of a mobile payment solution older Americans are the most likely to be left behind.[16]

Challenges for Unbanked Consumer Adoption of Mobile Payments

Those without a bank account face additional hurdles to adopting mobile payments in the U.S. These consumers generally lack access to electronic forms of payment such as debit and credit cards. Prepaid cards can bridge this gap and 22 percent of unbanked consumers report using them to receive income or pay bills.[17] Unbanked individuals also tend to have a lower household income (the majority are paid under $25,000 per year), and three-quarters of them said that they have not adopted mobile payments

(142,910,138 people) have used mobile payments in the past year. Some respondents who made payments in the past year did not complete the survey accurately, so this finding probably underreports payment activity.

[14] The Pew Charitable Trusts, "Are Americans Embracing Mobile Payments?; Survey of Consumer Experiences Finds Greater Trust in Credit, Debit Cards," 4.

[15] Ibid., 9, 12.

[16] In a relative importance analysis, age explained more variance between mobile payments users and nonusers than banked status, residential status (metropolitan versus nonmetropolitan), education, or income. The Pew Charitable Trusts, "Who Uses Mobile Payments?" (2016), 3, https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/05/who-uses-mobile-payments.

[17] Apaam et al., "Fdic National Survey of Unbanked and Underbanked Households," 9-12.

because they mostly use cash.[18] Though a growing majority own a phone capable of a mobile payment, unbanked consumers are more likely to face disruptions in access because they are nearly twice as likely as banked consumers to suspend or cancel their cellphone plans due to the cost of maintaining coverage. Forty-two percent of these consumers are paid by check or money order and another 14 percent are paid in cash. Thirty-seven percent of the unbanked did report receiving direct deposit to either a bank account owned by someone else or prepaid card. Comparatively, 84 percent of banked consumers receive income via direct deposit to a bank account – which reduces barriers to using these funds electronically. Cash and checks are both cumbersome to upload onto a mobile payment app as they must be deposited into a bank account or prepaid card. Those without these options generally lack a way of uploading money into an app.[19]

Faster Payments Will Solve Some Consumer Pain Points, But Not All of Them

In October, the Federal Reserve announced its intention to expand a faster payments system that will allow transactions at its member banks to process funds between accounts instantaneously and irrevocably, unlike today's system that usually takes several days. This will affect not only how quickly individuals are paid but also how quickly they can pay other people or businesses.[20] For faster payments to effect meaningful change in the way Americans pay and get paid, a new system will need to achieve high rates of adoption. In 2016 the Federal Reserve's Faster Payments Task Force collected proposals from 16 different financial firms detailing how they would send and deliver funds instantaneously. Most proposals required the use of a smartphone to access the technology. However, the task force's report indicates that mobile technology is not an essential component of an effective faster payments system, and a few companies have proposed models that would allow customers to make payments at kiosks in brick-and-mortar stores, or with a basic cellphone or other internet-connected device.[21]

The speed and irrevocability of faster payments will undoubtedly have consumer benefits such as helping to give families certainty that their funds are available to use and protecting them from overdrafts due to timing issues. They will also help families who struggle to make ends meet due to current delays to access funds and pay bills on the same day as a deposit is made. However, faster payments will not solve the problem of expensive overdrafts, payday loans, or other credit for customers who do not have enough money to cover expenses.[22]

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[18] The Pew Charitable Trusts, "What do Consumers Without Bank Accounts Think About Mobile Payments?" (Jun. 22, 2016), https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/06/what-do-consumers-without-bank-accounts-think-about-mobile-payments.

[19] The Pew Charitable Trusts, "What Do Consumers without Bank Accounts Think About Mobile Payments?" (2016), 6, https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/06/what-do-consumers-without-bank-accounts-think-about-mobile-payments.

[20] L. Brainard, "Delivering Fast Payments for All," news release, August 5, 2019, https://www.federalreserve.gov/newsevents/speech/brainard20190805a.htm.

[21] Faster Payments Task Force, "Final Report Part Two: A Call to Action" (2017), 14-16, https://fedpaymentsimprovement.org/wp-content/uploads/faster-payments-task-force-final-report-part-two.pdf.

[22] Consumers overdraft their bank accounts for several reasons. Timing issues can cause overdrafts when, for example, a deposit takes several days to post to an account and a consumer does not know when the money actually becomes available. However, not all overdrafts are mistakes: 31 percent of overdrafters view them as a way to borrow when short on cash. The Pew Charitable Trusts, Overdraft Does Not Meet the Needs of Most Consumers: Bank Programs Often Function as Costly, Inefficient Credit, 2017, accessed Dec. 20, 2017,

Consumer Risk with Expansion of Faster Payments

The Consumer Financial Protection Bureau's new Prepaid Rule has done much to ensure that prepaid accounts – including most mobile payments – are protected against fraud and theft. But gaps remain that could widen with increased payments innovation. In particular, faster payments could increase customer risk of scams that will be quicker and easier for criminals to carry out. Currently the most common and costly cause of losses in the U.S. payment system are victim assisted frauds (when the person being defrauded initiates and/or authorizes the payment to a scammer, also known as "push payment" fraud). These thefts most often rely on wire transfers with a growing number of gift card frauds and together they make up more than 50 percent of total losses and reported frauds that involve a payment method.[23] Wire transfers and gift cards are payment types that are relatively cumbersome for the victim to initiate – giving the payment sender the benefit of time to realize the scam and choose not to transmit funds.[24]

Increasing access to nearly instantaneous faster payments will intensify the risks of loss. In the United Kingdom (which has had faster payments for more than a decade) personal losses due to authorized push payment fraud[25] accounted for 30 percent of fraud losses in 2018 totaling £354.3 million[26] (approximately $472.4 million U.S. dollars[27]). Sixty-four percent of these were personal losses and 36 percent were business losses. In the absence of regulatory control and increased consumer access to faster payments there will be more exposure to risk of loss of funds. Disclosure of risk to is not sufficient to protect customers from these thefts largely because individuals believe that they are completing a legitimate transaction at the time they execute it. In order to create a system that is well trusted and adopted it is essential that such liability is minimized.

Ways to Improve Inclusion and Adoption of Innovative Payment Options

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https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2017/12/overdraft-does-not-meet-the-needs-of-most-consumers.

[23] The current magnitude of losses due to victim assisted fraud aren't generally gathered by U.S. financial institutions, however, in 2018 the Federal Trade Commission's Consumer Sentinel Network received nearly 350,000 complaints of fraud that also resulted in a financial loss. These totaled $1.48 billion, an increase of 38 percent compared to the year before. Of these, nearly $488 million were lost to imposter scams (the top reported category) with a median victim loss of $375. Federal Trade Commission, "Consumer Sentinel Network Data Book 2018" (2019), 4, 11, https://www.ftc.gov/system/files/documents/reports/consumer-sentinel-network-data-book-2018/consumer_sentinel_network_data_book_2018_0.pdf.

[24] N.C.L. Center, "Fintech and Consumer Protection" (2019), 19, https://www.nclc.org/images/pdf/cons-protection/rpt-fintech-and-consumer-protection-a-snapshot-march2019.pdf.

[25] S. Rutherford, "What Is Authorized Push Payment Fraud," FICO, 12.05.2017, https://www.fico.com/blogs/what-authorised-push-payment-fraud.

[26] UK Finance, "Fraud and the Facts 2019; the Definitive Overview of Payment Industry Fraud" (2019), 7-8, 41, https://www.ukfinance.org.uk/system/files/Fraud%20The%20Facts%202019%20-%20FINAL%20ONLINE.pdf.; Federal Reserve Bank of Atlanta, "What Can We Learn About Fraud from the United Kingdom?," accessed Jan. 1, 2019, https://www.frbatlanta.org/blogs/take-on-payments.aspx?keywordsIDs=0b770cab-ac2e-4330-917a-c002b39ef241.

[27] In 2018 the exchange rate was $1 in United States currency to buy £.75 United Kingdom currency. Internal Revenue Service, "Yearly Average Currency Exchange Rates," accessed 1.21.2020, https://www.irs.gov/individuals/international-taxpayers/yearly-average-currency-exchange-rates.

Available research suggests that there are at least three ways that adoption of innovative payment options could be encouraged and fostered in the United States safely and while improving inclusion of un- and underserved populations:

1. Create ways for cash to be easily, inexpensively, and safely moved into an electronic format compatible with mobile, faster, and other innovative payments
2. Improve funds availability (via changes to regulations and/or access to faster payments) to give consumers certainty about their ability to use their money without risk of overdraft or other fees
3. Maintain consistent consumer protections across electronic payments especially with regard to dispute resolution and push payment fraud.

In sum, Pew's research demonstrates that cash use is still an important way that Americans pay, though mobile payment adoption is growing. If greater financial inclusion is to be achieved through innovations and mobile payments it will be necessary to take thoughtful steps to ensure that underserved populations are not left behind and consumers are exposed to unreasonable liability by gaps in protections. We encourage the Task Force on Financial Technology for the House Committee on Financial Services to utilize our research as it considers the role of cash, mobile payments, and innovation in the United States.

Sincerely,

Nick Bourke

Project Director

www.pewtrusts.org/money