



Cell Phone “E-Wallets” For the Unbanked and Immigrants

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Nifty New “Bank In Your Pocket” Needs Same Protections Given Banked Consumers

Cell phones are increasingly becoming payment devices. For banked consumers, phones are simply a way to access bank accounts, with no change in consumer protections. But cell phone e-wallets aimed at the unbanked and immigrants offer a completely new financial product not tied to a bank account. They offer convenience and new services, but operate as a shadow banking system not clearly governed by current laws.

Mobile payments that do not access a bank account typically work by turning the cell phone into a prepaid card. Payments from a previously funded account can be made by text message or using contactless near-field communication chips being integrated into cell phones.

Cell phone e-wallets are common in some countries but are just developing in the United States. Issues that consumers and policymakers must consider include:

Protection from loss of funds and unauthorized transfers: If the phone is lost, will account information be retrievable? What protection do consumers have from unauthorized transfers or access to their account? Like other prepaid cards, cell phone payments may not be fully covered by federal consumer protection statutes like the Electronic Funds Transfer Act.

Statements/account information: Consumers must be able to see unauthorized transfers and fees. Paper statements and text confirmation may or may not be available. Information on the internet does not help the unbanked or immigrants without internet access.

Fees. The ease of use of cell phone payments could also be their downfall. Consumers should get clear, simultaneous information about the cost of each

Examples of Mobile Payments

Obopay offers person-to-person (p2p) transfers to Citibank customers and holders of its own, MasterCard prepaid card. A text message sends funds to family members on the same account and others with access to Obopay. Each transfer costs \$0.25, in addition to fees to load the card. *PayPal* has a similar service, free for personal but not business accounts.

Western Union, Radio Shack and Trumpet Mobile have teamed up to offer cell phone remittances. The phone comes with a Green Dot prepaid card, accessed by text message, to send funds disbursed through an agent in the recipient’s country.

Consumer Portfolios Services uses *Western Union’s SpeedPay* bill-payment service to send text message reminders to auto loan borrowers. For a \$10 fee, the borrower can reply “yescps” to authorize payment by credit card, bank debit, or prepaid card.

Denarii Payment’s SizzleMoney targets Hispanic immigrants and small businesses in Hispanic neighborhoods. Domestic funds transfers and mobile purchases cost \$0.49, domestic ATM withdrawals are \$1.49, and international transfer and ATM fees are \$6 and \$2.49, respectively.

Boku customers can use their phone to purchase games and other digital goods, with the charges on the cell phone bill.

transaction so that they can be aware of fees and decide whether the service fits their needs.

Dispute rights: Cell phone e-wallets may not be covered by federal laws that require debit card issuers to address billing errors and other disputes. Unless the cell phone accesses credit, the consumer does not have the same right that credit card holders have to withhold payment if goods are defective.

1-inch Disclosures? Will providers rely on the cell phone to provide cost and other disclosures or changes in terms? Information conveyed on a tiny screen should not be a substitute for more legible disclosures in a form consumers can keep.

FDIC insurance. Funds in cell phone e-wallets, like funds loaded onto other prepaid cards, are eligible for FDIC insurance but only if the accounts are set up properly. Lawmakers should require providers to do so.

Predatory lending? Cell phones have been used for triple-digit payday loans in Europe. Triple-digit payday loans are available on some U.S. prepaid cards and could migrate to cell phone e-wallets.

Mobile Payments Abroad

Cell phone wallets are one of the few technologies that have taken off first in the developing world and are more slowly catching on in this country. Over 1 billion people worldwide do not have bank accounts, and often live far from banking services, but do have a cell phone. Grameen Solutions, founded by Nobel-prize winner Dr. Muhammad Yunus, has teamed up with Obopay to launch the Bank A Billion initiative to deliver banking services to a billion of the world's poorest people by 2018. Cell phone banking services received another big boost recently when the Bill & Melinda Gates Foundation announced \$12.5 million in funding for its Mobil Money for the Unbanked initiative, in partnership with GSMA, a worldwide mobile communications industry trade association, focusing on the developing world.