

Proposal to Foster Growth and Innovation in Connected Commerce

U.S. consumers are rapidly changing behavioral shopping patterns with a shift to digital commerce channels in the online and mobile environments. These environments provide a tremendous opportunity for consumer payments to become simpler and easier for the customer, the business accepting the payment, and the technology provider responsible for making the payment fast, efficient, and secure. However, to ensure an efficient, secure, and customer-friendly experience evolves in these environments as the United States continues to make advancements in connected commerce, it is critical that industry adopt baseline standards for consumer-to-business payments in the United States. Baseline standards will provide the backbone upon which private industry can compete, innovate, provide flexible approaches for business partners and consumers, and develop new and improved customer shopping experiences that all promote economic growth. For example, General Motors and Ford are fierce competitors who grow their businesses by providing consumers with new and innovative vehicles and vehicle features, but these companies do not compete on items like seatbelt performance requirements or the width of vehicles which are critical to consumer safety and usability of roads with designated lane sizes.¹ These vehicle parameters are developed in an open, consensus standards environment.

Economic Growth

According to the U.S. Census Bureau, total e-commerce sales for 2016 were estimated at \$394.9 billion, an increase of 15.1 percent ($\pm 1.8\%$) from 2015,² which is faster growth in U.S. online retail sales than in the past three years. As consumer devices become more interconnected, this trend in digital e-commerce and mobile sales is likely to continue at even higher rates driving significant economic growth and business development in the United States. Ensuring connected consumer devices can integrate functionalities, such as payment features, efficiently and securely will be a critical component to maintaining that economic growth and ensuring continued innovation in the space to further grow digital sales and enhance the connected consumer experience. For example, with the deployment of smartphone digital wallets in the United States, biometric fingerprint authentication was brought to market as 1) the typical way verify the owner of a digital wallet, and 2) the technology providing the most convenient customer experience. However, there is no global, open standard that governs the use of biometrics for the actual processing and routing of credit and debit transactions, which limits the ability of all payment networks to authenticate individuals using this evolving security method resulting in a less secure and efficient marketplace for this emerging authentication tool. In order to ensure the payments functionality behind new security tools and connected consumer devices can be integrated seamlessly and work across different software and hardware operating platforms, as well as across international borders, it is critical that technology access be open and that standards for financial consumer-to-business payments be developed and adopted in an open and accredited standards environment. Moreover, as all payments stakeholders – merchants, payment

¹ <https://www.iso.org/standard/30312.html>; <https://www.iso.org/standard/4729.html>

² https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf

processors, payment networks, financial institutions and, ultimately, consumers - bear the cost and harm of security deficiencies that lead to fraud, open security standards are a matter of national security and public welfare.

Impact on the ability of consumers, market participants, and financial companies to participate in the economy

Both national and international standards provide a baseline to secure and streamline commerce. While consumer-to-business payments do utilize some business tools and messaging platforms derived from an open standards environment, many features of credit and debit card payments in both the plastic card and digital environments are moving away from an accredited standards process and being derived in closed technology circles, such as through EMVCo³ and the Payment Card Industry Data Security Council (PCI).⁴ This limits the ability of basic payments operations and technologies, including fraud prevention, to evolve in a consensus manner that meets the needs of all market stakeholders and best protects consumers. Furthermore, these closed systems are foisted upon the industry by a few globally dominant players that are able to use massive market share as barriers to entry for all other market participants. To the detriment of consumers and other businesses participating in the payments infrastructure, this ultimately leads to less competition, less innovation, and less efficiency in the marketplace while artificially driving up cost of acceptance. An open and consensus-driven standards process that fosters interoperability with international technologies is the best platform for growth, security, and efficiency for consumer-to-business payments as the United States' adoption of digital and connected commerce continues to grow rapidly. Simply put, open and accessible security standards should be treated as a greater societal good, not as a weapon that others may use for their own individual economic gains. And, as the lines between brick-and-mortar commerce and digital and e-commerce sales continue to blur, interoperability and connectivity between these systems at individual merchants is critical to helping better secure the overall payments ecosystem.

Other Background:

An open standards process is critical to economic growth because standards ensure the basic infrastructure for products, services and technologies work; thus, enabling private companies to grow and innovate with new products and services that integrate efficiently with those standards. Products and services also become more portable between providers encouraging more competition, growth and innovation by market participants in order to meet the needs of business end-users and consumers. Additionally, interoperable and portable technology services are more likely than closed technology systems to have redundancy capabilities to best protect critical systems and infrastructure, such as transactional payments platforms. Ultimately, by fostering a free and open market for innovation, consensus payment standards will foster economic growth and position U.S. businesses as leaders in digital commerce allowing them to compete on the global stage.

³ <https://www.emvco.com>

⁴ <https://www.pcisecuritystandards.org>

Unfortunately, the U.S. payments system is still riddled with fraud. According to a payments trade publication the *Nilson Report*, “U.S. gross card fraud losses were \$8.45 billion last year and accounted for 38.7% of the worldwide total. U.S. fraud reached 11.76¢ per \$100 last year. Fraud in all other regions combined was **5.55¢**.”⁵ Open, consensus-driven standards should help reduce this security inefficiency to the benefit of all market participants in part by creating more meaningful opportunities for U.S. domestic network technology providers – who have a better track record on security than global network technology providers – to participate in the marketplace.⁶

Furthermore, businesses and consumers have experienced major challenges with the transition to EMV chip technology for plastic and digital credit and debit cards in the United States. The biggest underlying challenge had been that EMV (EMV stands for EuroPay, Mastercard, and Visa - since EMV’s inception, Europay has been acquired by Mastercard) is a closed technology with operating rules and technical specifications determined through a closed organization – EMVCo – that lacks a consensus standard process with equal stakeholder rights and participation. This has led to tremendous market inefficiencies for the EMV chip card deployment and acceptance in the United States. Productivity of market participants has been slow, the technology has not provided the promised security benefits, access by U.S. financial services and technology companies to some features of the marketplace have been limited (i.e. failure of EMVCo chip technology owners to license the EMV chip to allow domestic debit networks access to biometrically fingerprint authenticate transactions), and ultimately the technology has resulted in a less than optimal customer experience with the product. Open, consensus standards development for similar plastic and digital payment card technologies would yield much greater efficiencies for U.S. payments, as well as better protect our customers, and it is critical that U.S. commerce head in a positive direction with more open competition and innovation for digital payments.

According to the **International Standards Organization**, “International Standards **make things work**. They give world-class specifications for products, services and systems, to ensure quality, safety and efficiency.... For business, they are strategic tools that reduce costs by minimizing waste and errors and increasing productivity.”⁷ Additionally, according to the **American National Standards Institute (ANSI)**, “the ANSI Federation’s primary goal is to enhance the global competitiveness of U.S. business and the American quality of life by promoting and facilitating voluntary consensus standards and ensuring their integrity.”⁸

Open standards yield more efficient solutions because they 1) respond to a need in the market; 2) are based on global expert opinion; 3) are developed through multi-stakeholder collaboration; and 4) are based on a consensus where input from all stakeholders is taken into

⁵ *Nilson Report*. Issue 1096. October 2016.

⁶ Domestic debit card networks are traditionally categorized as single-message payment networks, and have historically had significantly lower fraud losses than global dual-message networks.

https://www.federalreserve.gov/paymentsystems/files/debitfees_costs_2015.pdf. Exhibits 14 and 15.

⁷ <https://www.iso.org/about-us.html>

⁸ https://www.ansi.org/standards_activities/overview/overview?menuid=3

account.⁹ Collecting input from multiple stakeholders, managing an appeals process where all stakeholders are treated equally, and ensuring equal voting rights for market participants are all critical components utilized in the standards development process to ensure an efficient outcome, as well as equal market access to system participants.

There are hundreds of other industries that rely on open consensus standards to:

- 1) Manage supply chain challenges and security, such as with food safety management and best practices;¹⁰
- 2) Ensure business efficiencies, such as construction industry standards regarding the size, shape and weather-efficiency of doors and windows;¹¹
- 3) Inform consumers about international product differentiations, such as those with electrical plugs, sockets, and voltage;¹²
- 4) Develop standard connection points for consumer electronics, such as USB plugs and cords;¹³ and
- 5) Ensure interoperability between U.S. and global companies, including for items such as date and time format¹⁴ and International Financial Reporting Standards.¹⁵

These are just a few of the many ways open, consensus-driven standards help improve efficiency and security, foster open-market competition, improve productivity and growth, establish international interoperability, and provide consumers with better tools and knowledge surrounding every day consumer-facing devices and technologies.

One recent example of consensus standards fostering growth and innovation is with the global transition to real-time payments platforms where the United Kingdom's Faster Payments organization "has released a tool, available to all, to help translate transactions in ISO format 8583, to ISO 20022 . . . which is the de facto global message standard with expanded message capabilities being used in the development of many of the up and coming real-time payments platforms."¹⁶ Having historical standards as ISO 8583¹⁷ messaging formats that specify the information included in financial transactions make it possible for developers to build and innovate on top of that baseline messaging standard to deliver technical updates that are usable by all stakeholders in the payments chain. This helps improve the adoption of payments technology and paves the way for worldwide global data exchange promoting international interoperability and economic growth.

⁹ <https://www.iso.org/developing-standards.html>

¹⁰ <https://www.iso.org/iso-22000-food-safety-management.html>

¹¹ <https://www.iso.org/ics/91.060.50/x/>

¹² <http://www.iec.ch/worldplugs/>

¹³ <https://www.iso.org/committee/45270/x/catalogue/p/0/u/1/w/0/d/0>

¹⁴ <https://www.iso.org/iso-8601-date-and-time-format.html>

¹⁵ <http://www.ifrs.org/About-us/Pages/IFRS-Foundation-and-IASB.aspx>

¹⁶ <http://www.paymentsjournal.com/Page.aspx?id=34278>

¹⁷ <https://www.iso.org/obp/ui/#iso:std:iso:8583:-1:ed-1:v1:en>

As the use of connected consumer devices continues to grow in the United States, empowering customers with more knowledge and transparency around how all facets of these technologies – including payments – work is critical to having informed consumers. Connected commerce provides tremendous opportunities for businesses to interact with consumers in very new ways, and many of those ways, such as through voice recognition technology and interactive chatbots have features with which consumers are still gaining familiarity. As such, it is critical that industry stakeholders make payment – a part of commerce consumers are already somewhat familiar with – even more seamless and transparent. Furthermore, as the economy becomes more global, consumers will grow to expect their devices and payments to work more seamlessly worldwide.

Recommendation

It is our strong recommendation that the Banking Committee consider legislation to guarantee the adoption of open, consensus standards for consumer-to-business payment products, such as plastic and digital credit and debit cards.

This Recommendation is being submitted by the following organizations:

Food Marketing Institute (FMI)

Food Marketing Institute proudly advocates on behalf of the food retail industry. FMI's U.S. members operate nearly 40,000 retail food stores and 25,000 pharmacies, representing a combined annual sales volume of almost \$770 billion. Through programs in public affairs, food safety, research, education and industry relations, FMI offers resources and provides valuable benefits to more than 1,225 food retail and wholesale member companies in the United States and around the world. FMI membership covers the spectrum of diverse venues where food is sold, including single owner grocery stores, large multi-store supermarket chains and mixed retail stores. For more information, visit www.fmi.org and for information regarding the FMI foundation, visit www.fmifoundation.org.

Key Contact: Hannah Walker - Senior Director, Technology & Nutrition Policy – hwalker@fmi.org

Merchant Advisory Group (MAG)

The Merchant Advisory Group (MAG) was founded in 2008 by a small visionary group of merchants in the payments field dedicated to driving positive change in payments through multi-stakeholder collaboration. Today, the MAG represents over 120 of the largest U.S. merchants who account for nearly \$2.6 Trillion in annual sales at over 430,000 locations across the U.S. and online. Roughly \$1.5 Trillion of those sales are electronic representing over 41 Billion card payments. MAG members employ nearly 11.5 million associates. For more information, visit www.merchantadvisorygroup.org.

Key Contact: Liz Garner - SVP, Policy & Public Affairs - Liz.Garner@merchantadvisorygroup.org

SHAZAM

The SHAZAM Network was founded in 1976 and is one of the last remaining national member-owned financial services providers and debit processors in the industry. SHAZAM's vision is to be THE trusted partner providing answers, choice and innovation through delightful experiences. SHAZAM is a single-source provider of the following services: core, risk management, card, ATM, marketing, merchant, mobile and automated clearing house (ACH). For more information, visit

<https://www.shazam.net/index.htm>

Key Contact: Dan Kramer - SVP, Government and Community Affairs – dkramer@shazam.net