

NR 96-102
September 20, 1996

Remarks by

Eugene A. Ludwig
Comptroller of the Currency
Before the

Department of the Treasury Conference
Toward Electronic Money & Banking
The Role of Government

September 20, 1996

As your luncheon speaker today, I'm the mop up pitcher at this conference. I hope that you have found this meeting worthwhile -- I know I have. I want to take this opportunity to thank our speakers and panelists for doing an outstanding job. I also want to thank my own staff at the OCC and staff from the other Treasury bureaus who have also done an outstanding job of taking care of all the logistics necessary to make a conference like this a success.

Now, of course, the problem with mopping up today is that earlier speakers have already hit the ball out of the park. Or put another way, I feel a bit like the balloon act at the circus after a bunch of tigers have already done a high wire act.

On the other hand, there's something to be said for having the last word. So let me take advantage of that opportunity by offering a few thoughts about what we've heard over the past day and a half.

First, the fundamental value of a conference like this is that it gives the private sector and the public a chance to pick up some of the drum beats -- the preliminary thinking, if you will -- of government policy makers. Of course it goes both ways -- it also gives us a chance to listen in on what industry and consumers are thinking. This exchange of information allows us to work together to develop solutions to significant issues -- solutions that do not involve heavy handed regulation. Industry and consumers have the chance to devise solutions to concerns identified by government, and government gains a better understanding of the opportunities and constraints facing the private sector and the general public.

Conferences like this one, plus careful study of the issues, minimize the need for regulation. They ensure that, if regulation does become necessary, it addresses the issues involved without unduly burdening the market.

Second, a number of themes began to emerge in virtually all the presentations we have heard over the past two days. Perhaps the most significant is the importance of trust. The new marketplace offers businesses new opportunities for increased efficiencies, larger markets and greater profits, and offers consumers greater convenience and access to new products and services. At the same time, how useful this marketplace becomes depends on how much confidence participants -- particularly consumers -- have in its dependability and integrity. We heard different views on what is required to develop this trust -- assurances of privacy, clear statements of liability if systems fail, elimination of fraud, the need for some form of disclosure. But everyone agreed trust is the key to developing a robust e-money system.

It was also interesting to me to see the wide range of opinions about how quickly electronic money will develop. I think the consensus at the conference is that the market is developing rapidly, although opinions differ -- sometimes dramatically -- on what may reasonably be expected in the near term. But while there is disagreement on the precise pace of change, there is clear agreement on the need to plan for and develop risk management systems for e-money systems. And there is also agreement that rapid and continuing changes in technology will make this planning all the more difficult.

Equally important, throughout the conference, it has become clear that there is an international dimension to virtually all the major issues discussed at this conference. For example, in one of the discussions, a panelist pointed out that one possible solution to the the potential misuse of smart cards to facilitate financial crimes would be to establish limits on how much value could be stored on a card. But that would only work, the panelist said, if these load limits are the same in all countries.

Thinking about these themes, I am coming to the view that certain attributes are essential to an orderly market for electronic money and banking. Let me mention some of the most important:

Transactions should be enforceable and reliable. Many basic legal questions concerning electronic commerce remain to be resolved, and the resolution of these issues is essential to building confidence in electronic money transactions. These questions are compounded by the borderless nature of electronic commerce. It is unclear what laws apply in many transactions, or what courts have jurisdiction to resolve disputes. In individual cases, it may be possible to settle some differences through contractual arrangements. But the market may not develop as quickly if transactions continue to be governed solely by contractual agreements.

The market should be largely free of fraud. The market should facilitate efforts to enforce laws against financial crimes and unsafe and unsound practices. At the same time, the concerns of law enforcement must be balanced against consumer privacy concerns.

Consumers must have reasonable protection from abuse of privacy. New technology facilitates the accumulation and manipulation of vast quantities of personal information. This has already led to rising public concern about who has access to that information and how it is used. In addition, foreign governments already are imposing their own privacy standards. To accommodate a truly functional international market will require attention to the privacy concerns of our citizens.

Consumers must have adequate information to make informed choices. They need adequate information about the payment systems they are using, as well

as the products they are buying. Consumers need to understand the risks involved with using electronic money and banking products and conducting commerce over the Internet.

Development of new electronic forms of payments must not get in the way of broad consumer access to financial services. As the payments system evolves, we must make certain its evolution does not impede access to financial services for people who currently have such access. In addition, these new forms of payment services offer opportunities to serve those who are now unserved by the financial services system. It is in all our interests -- public and private -- to take full advantage of these opportunities.

Now, as to the role of government in facilitating a vigorous market that has these attributes, my own view is that we in government must be guided by three principles:

First, we should work with the private sector and the public wherever possible. Electronic money and electronic payments are evolving so rapidly that government cannot possibly develop and retain all the expertise necessary to accomplish any of its objectives without the support and cooperation of industry.

Second, we should avoid premature regulation. We recognize the dangers of involving government too early in such a rapidly evolving area and do not want to chill or unduly influence the market by encumbering it with regulation that may quickly become outmoded, inappropriate, or detrimental.

Third, we should be prepared to take action when action is required. While we are mindful of the dangers of acting prematurely, waiting too long to address problems also will impede the full development of this promising market.

That brings me to the next steps Secretary Rubin mentioned in his speech yesterday morning. The study sponsored by the G-7 will, for the first time, bring together central bankers, bank regulators, finance ministries, and law enforcement authorities from each of the G-10 countries to address electronic money and banking issues from an international perspective. They will build on the work of other international groups that have already begun to study these important issues. And they will identify gaps -- areas where international cooperation is needed but where no action or study has yet begun. This is important because electronic money is truly an international phenomenon. The simple fact is that we cannot afford to have these new beneficial technologies disrupted by international pirates. And, as I said a moment ago, countries must find ways to cooperate to provide greater security and certainty to participants in electronic money and electronic commerce systems.

The Consumer Electronic Money Task Force is also a critical

next step. This Task Force will bring together relevant federal governmental policy makers -- the Treasury Department, the Federal Reserve, the FDIC, and the Federal Trade Commission -- to address in detail many of the consumer issues raised at this conference. Issues such as how to ensure appropriate disclosure of the characteristics and risks of e-money products, and how to avoid its evil twin, consumer confusion ... how to protect consumers against fraud ... how to promote broad access to new products and technologies ... and who should bear the liability when transactions go wrong. We will meet within the next several weeks to begin a full examination of these and other questions. And let me assure you we have no intention of working in a vacuum -- we must and will depend heavily on input from industry and consumers as we tackle these issues.

Let me conclude by saying this has been an exciting conference for me, not just because we have had first class speakers but because this is an exciting subject. Electronic money and banking are more than important changes in the way financial services are delivered. They are nothing less than a revolution in financial services that holds great promise for Americans and for people around the world. It holds the promise of new products and new markets for providers, and greater convenience and access to financial services for all consumers. It is the possibility of making this promise a reality -- while at the same time avoiding the pitfalls -- that makes the issues surrounding electronic money not only timely but exciting.

As we move into the information age of the twenty-first century, our nation can and should be a leader in the development of electronic money and banking products. Our private sector and our markets have the capability of this leadership. It is therefore incumbent upon those of us in government to work with the private sector to achieve this promise. That is what we intend to do.

#

The OCC charters, regulates and examines approximately 2,800 national banks and 66 federal branches and agencies of foreign banks in the U.S., accounting for more than half the nation's banking assets. Its mission is to ensure the safety and soundness of the national banking system.