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HEARING BEFORE THE  
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT  
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COMMITTEE ON FINANCIAL SERVICES  
UNITED STATES HOUSE OF REPRESENTATIVES

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Chairman Bachus, Congresswoman Waters, and members of the Subcommittee, my name is Joshua Peirez. I am the Senior Legislative and Regulatory Counsel for MasterCard International Incorporated (“MasterCard”). MasterCard is a global membership organization comprised of over 22,000 financial institutions that are licensed to use the MasterCard service marks in connection with a variety of payments systems. MasterCard and its members have always provided, and are fully committed to providing, extensive consumer benefits and the highest quality of consumer services. I thank the Subcommittee for taking the time to consider these issues and for the opportunity to discuss how MasterCard and its members serve and benefit MasterCard cardholders.

Benefits of MasterCard

MasterCard payment cards are enormously beneficial methods of payment for consumers and merchants alike. An individual carrying a MasterCard payment card knows that he or she can walk into an establishment almost *anywhere in the world* and make a purchase using his or her MasterCard card. In fact, MasterCard cardholders can transact in more than 150 currencies without the need to exchange large amounts of cash. A MasterCard cardholder can virtually travel the world with only a single piece of plastic about 3½” by 2” large and make payments without the need to carry large amounts of cash or travelers checks. A MasterCard cardholder can also buy everything from groceries to doctors’ services on a MasterCard card. Our popular advertising campaign says it best: “there are some things money can’t buy...for everything else, there’s MasterCard.” In essence, the MasterCard system is an integral part of the globalization that has fueled our economy over the last thirty years.

MasterCard cardholders can use a MasterCard payment card at millions of merchants. That means fewer trips to the bank, or ATM, and no longer having to worry about carrying the right amount of cash, losing it, or having it stolen. MasterCard cardholders also receive a convenient, detailed accounting of their spending through periodic statements provided by their card issuers. Many times, cardholders obtain what is essentially an interest-free loan for some period of time.

Further, a MasterCard cardholder need not even leave the comfort of his or her own home to shop the globe. The Internet has become a powerful tool for consumers to shop for the lowest prices on a myriad of products. This rapid development of e-commerce is due in large part to a cardholder's ability to pay for a product on-line by using a payment card. It is no overstatement to claim that the Internet would not be such a critical part of our economy today if it were not for the widespread use and acceptance of payment cards. Furthermore, MasterCard is developing, and intends to continue to develop, new and innovative payment options and features related to Internet purchases.

It is also important to note that MasterCard payment cards are valued not just by consumers. Approximately 22 million merchants worldwide have decided to accept MasterCard payment cards to improve business. The guarantee of payment from the MasterCard system is the cornerstone of the MasterCard merchant proposition. A merchant accepting a MasterCard payment card knows that he or she will be paid for goods or services. The merchant typically does not have that protection in accepting a check since the check may bounce. Indeed, the majority of merchants do not even accept checks from outside their local area.

In addition, acceptance of MasterCard cards can be more convenient, cheaper, and safer than other available forms of payment. As an example, merchants need not worry about cash being stolen (by employees or outsiders) and need not worry about physically depositing funds or checks as MasterCard cards allow merchants to deposit funds into their accounts electronically. Naturally, the acceptance of MasterCard payment cards (along with other payment forms) also allows merchants to give their customers a variety of payment options, which enhances overall customer satisfaction and, importantly, increases sales. It is the increased sales, decreased costs, and enhanced customer satisfaction that has led so many businesses to choose to accept MasterCard cards.

MasterCard has also created a great deal of choice through the vigorous competition with other payments systems and forms of payment as well as among the thousands of MasterCard member financial institutions. Indeed, through the innovation of MasterCard and its members, consumers have thousands of card programs from which to choose. For example, MasterCard cards can be credit cards, debit cards, secured cards, cobranded or affinity cards, or prepaid cards, among many others. This allows consumers to choose great rewards programs, to donate portions of proceeds to favorite charities, and to enjoy attractive interest rates, among many other options.

With all these card programs, the consumers receive the tremendous benefit of universal acceptance, *i.e.*, the knowledge that their cards will be accepted at any of the merchants that accept MasterCard worldwide, regardless of which MasterCard member issued the card, and regardless of the underlying terms of such issuance. Whether the card is a credit card, a prepaid card, a debit card, a platinum card or a secured card, whether the card has a \$20,000 or a \$200 credit line, whether the card offers frequent flier miles or not, the consumer knows that it will be accepted. This, in and of itself, illustrates the fabulous proposition that is MasterCard, but there is much more that MasterCard has done to increase the security and therefore the consumer benefits of MasterCard cards, as described below.

## Consumer Protections

MasterCard is also pleased to offer its cardholders outstanding consumer protection benefits. In fact, we believe that our cardholder protections are extremely valuable as they provide consumers with the security and comfort necessary to make the MasterCard system “the best way to pay for everything that matters.” For example, MasterCard has voluntarily implemented a “zero liability” policy for the unauthorized use of MasterCard consumer cards issued in the United States. It is important to note that MasterCard’s policy with respect to zero liability is superior to what is required by law. Specifically, the Truth In Lending Act imposes a \$50 liability limit for the unauthorized use of credit cards. Under the Electronic Fund Transfer Act, a cardholder’s liability for unauthorized use of a debit card can be higher. However, MasterCard provides all U.S. MasterCard consumer cardholders, regardless of the particular card type, with even more protection. Under MasterCard rules, a cardholder victimized by unauthorized use generally will not be liable for any losses at all. This has greatly enhanced consumer confidence, including with respect to shopping on-line. Although many Internet merchants have taken care to provide consumers with a secure transaction environment, MasterCard cardholders can shop on-line with the confidence that they will have no liability in the unlikely event that their account number is misused.

Cardholders who use MasterCard cards also gain additional protections against merchants who do not perform as expected. In many instances, if a cardholder uses his or her MasterCard card to pay for a product or service, and the merchant does not provide the product or service as promised, the issuer can “chargeback” the transaction and thereby afford its cardholder a refund. This is a valuable consumer protection that is obviously not available with other forms of payment such as cash, checks, or travelers checks.

## Customer Satisfaction

Consumer feedback also demonstrates the high quality of the services the payments industry provides to consumers. MasterCard is pleased to note that a recent survey by Thomas A. Durkin, of the Federal Reserve Board’s Division of Research and Statistics, published in the Federal Reserve Bulletin indicates that consumers are extremely satisfied with their payment cards. For example, 91% of consumers who have a bank-issued payment card are “generally satisfied in [their] dealings with [their] card companies” and 92% believe “card companies provide a useful service to consumers.” The survey also found that 90% of bankcard holders agree with the statement that “my credit card companies treat me fairly.” Durkin also noted that, to the extent the survey revealed some negative opinions with respect to payment cards, any “negativity may have arisen in part from an individual’s perceptions of *other* consumers’ difficulties rather than from the individual’s own experiences...it seems likely that as card use has become more common, negative opinions about card use may [be] a result of perceptions about ‘the other guy.’ Views about personal experiences with [] cards, in contrast, are much more positive.” (emphasis in original)

**How many other major industries can claim a customer satisfaction rate of 90%?**

## Financial Education

MasterCard firmly believes that financial literacy is critical for individuals of all ages. With this in mind, MasterCard has developed numerous important consumer financial education programs and continues to work with Congress and the Administration on additional efforts to improve consumer financial awareness. The following are just some of MasterCard's consumer education programs:

- **“Are You Credit Wise?”** With the support of national student leaders, MasterCard developed a campus-based education program providing money management information to college students.
- **Creditalk.com.** Creditalk.com is an interactive financial education web site created and operated by MasterCard. The site offers a variety of money management information for new and experienced credit consumers such as: obtaining and understanding a credit report; establishing and managing a budget; dealing with a debt crisis; and calculating when outstanding balances will be paid off using an on-line credit calculator. And because web-based initiatives must stay current and fresh, MasterCard is now investing in redesigning and relaunching this site so that it is even more helpful for consumers.
- **“Kids, Cash, Plastic, and You.”** This is a highly successful consumer education magazine developed with the former U.S. Office of Consumer Affairs. The magazine provides tips to help parents teach children about money management and outlines a “parent coach” approach for achieving this goal.
- **League of United Latin American Citizens (LULAC).** Through its partnership with LULAC, MasterCard has developed “The Art of Building a Financial Future” that is helping Latino leaders conduct financial management workshops in communities across the United States.
- **“Master Your Future.”** The “Master Your Future” program materials consist of a video and curriculum guide for high school teachers that can be integrated into their lesson plans. More than 23 million students have had the opportunity to develop positive personal finance habits as necessary life skills through this program.
- **“Money Talks.”** A collaboration between MasterCard and College Parents of America, the Money Talks brochure provides advice to parents on how to talk to their college-aged students about personal finances.

MasterCard is also active in Washington with respect to efforts to improve our nation's financial literacy. For example, MasterCard is a strong supporter of H.R. 61, the “Youth Financial Education Act” introduced by Representatives David Dreier and Earl Pomeroy. The Dreier-Pomeroy legislation would authorize the Secretary of Education to provide grants to state educational agencies to develop and integrate youth financial education programs for students in elementary and secondary schools. We are pleased that the House and Senate have each

incorporated this bill in the larger education reform measure that currently awaits final action in conference.

MasterCard has also been working with the current Administration to develop approaches to increasing financial literacy. We were pleased to see that Secretary O'Neill had been scheduled to testify in the Senate to highlight the Administration's efforts in this area. Unfortunately, the hearing had been scheduled for shortly after the terrorist attacks and has not yet been rescheduled. MasterCard looks forward to resuming our progress on this matter at the appropriate time.

### Conclusion

MasterCard is proud of its, and its members', record of offering cardholders and merchants a highly beneficial and convenient payment method with superior protections. MasterCard is also proud of its efforts in the private and public sectors to improve financial literacy for Americans of all ages. Quite simply, we have set high standards, and, as always, we will strive to meet them.

Mr. Chairman, thank you again for the opportunity to discuss MasterCard's commitment to its cardholders. I would be pleased to address any questions the Subcommittee may have.