

WRITTEN STATEMENT

OF

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ON BEHALF OF

VISA U.S.A. INC.

Before the

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND

CONSUMER CREDIT

of the

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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Chairman Bachus, Ranking Member Waters, and Members of the Subcommittee, my name is Rick Fischer. I am a partner of Morrison & Foerster and I practice in the firm's Washington, D.C. office. I am appearing today on behalf of Visa U.S.A. Inc. Thank you for the invitation to participate in this hearing on the credit card industry.

The Visa payments system is a membership organization comprised of 21,000 financial institutions licensed to use the Visa servicemarks. It is the largest consumer payment system in the world. Over 800 million Visa-branded cards are accepted at over 20 million locations. Consumers use them to buy over \$1.8 trillion in goods and services annually on a worldwide basis. Visa U.S.A., which is part of the Visa payment system, is comprised of 14,000 U.S. financial institutions. U.S. customers carry about 350 million Visa-branded cards and use them to buy over \$900 billion worth of goods and services annually.

Over the last 30 years, U.S. consumers have embraced general purpose credit cards and similar payment products. In 1970, 16 percent of U.S. families had bank-type credit cards; by 1998, that number had increased to 68 percent.¹ This dramatic increase is not surprising considering the convenience and benefits that credit cards and similar payment products offer consumers. Credit cards are used by consumers both for making payments and as a source of revolving credit. Credit cards, debit cards and similar payment products act as substitutes for cash and checks and make many transactions possible that otherwise would be less convenient. Credit cards also serve as a flexible substitute for other personal loans and installment sales contracts.

¹ Thomas A. Durkin, *Credit Cards: Use and Consumer Attitudes*, 1970-2000, 86 Federal Reserve Bulletin 623, 625 (2000).

The business of providing credit cards and similar payment products is highly competitive. Card issuers have developed thousands of competing card products with a wide variety of features, as they seek to satisfy increasingly specialized consumer interests. And the continuing efforts of Visa members and other issuers to attract and service customers have benefited consumers by providing them with a convenient and flexible tool to engage in retail transactions. Indeed, credit cards have become an increasingly important facilitator of consumer demand for products and services that, in turn, helps to fuel much of our economy today.

Importantly, the Visa system puts the choice of how to pay in the hands of the consumer. In our view, the decision for how to spend money should rest with the person who has the money, whether the CONSUMER chooses to pay with his or her credit or debit card, cash or check.

Under the Visa system, each member bank establishes its own fees, finance charges, credit limits, credit standards and rewards programs (such as airline miles or in-store benefits) for the cards it issues. Each bank also determines how many cards it wants to issue, as well as the focus of its marketing efforts. In addition, each Visa member prepares its own disclosures, develops its own privacy notices, handles its own consumer complaints and absorbs losses on its own accounts, and much of these activities are closely regulated by existing federal laws. For example, the federal Truth in Lending Act establishes rules for the solicitation disclosures, initial disclosures, monthly statement disclosures and change in terms disclosures that all credit card issuers in the U.S. must follow. The federal Electronic Fund Transfer Act establishes similar rules for debit cards. And the recently enacted Gramm-Leach-Bliley Act establishes extensive

rules under which all financial institutions, including all credit card and debit card issuers, must follow in disclosing their privacy or information practices to their customers. In fact, there are few activities of credit card issuers that are not already heavily regulated by federal statute, and federal agencies like those that appeared before you earlier in this hearing.

In addition, card issuers realize fully that their businesses depend on customer satisfaction. As a result, Visa members and other card issuers compete with each other on every aspect of the account relationship -- including fees, finance charges, credit limits, credit standards, reward programs and customer service. To the extent that an issuer fails to meet consumer expectations, the relative ease with which consumers can move balances between credit card accounts allows consumers effectively to vote with their feet when they are not satisfied. This highly competitive market ensures that consumers have choice in payment card products. In fact, many secondary sources have developed to help consumers compare and evaluate credit card products quickly and easily -- term-by-term and feature-by-feature.

Visa has long recognized that consumers will be best served if they have a solid understanding of personal financial management. Visa also believes that it is important for financial institutions to anticipate the needs of their customers and to be responsive to changing circumstances.

I would like now to focus on three examples to illustrate these points. The first relates to steps that Visa and its members have taken to provide financial education to cardholders, as well as to elementary, secondary and college students. The second is the protections that Visa and its members are providing to cardholders through their “zero

liability” policy for unauthorized use of Visa payment cards and Visa’s extensive fraud control efforts. The third is the spontaneous steps that Visa members and others in the credit card industry have taken to help cardholders in the aftermath of the terrible terrorist attacks that took place on September 11, 2001.

FINANCIAL EDUCATION

In a recent speech to the National Council on Economic Education, Federal Reserve Board Chairman Alan Greenspan stated:

Improving basic financial education at the elementary and secondary school level can provide a foundation for financial literacy, helping younger people avoid poor financial decisions that can take years to overcome.²

This statement comes as no surprise to Visa and its members, since they have long recognized the importance of financial education. In fact, Visa and its members have undertaken multiple programs in their commitment to promoting financial literacy for children and young adults. Visa’s comprehensive financial literacy initiative -- called Practical Money Skills for Life -- is a free online educational resource for parents, teachers, students and consumers. Visa and its members have developed this holistic approach because they believe a smart consumer is the best consumer, armed with the tools they will need to make educated choices about their finances throughout their lives.

Classroom Resources

- ***Practical Money Skills for Life: Internet-Based Curriculum*** – Visa provides a free online K through 12 Practical Money Skills curriculum to

² Chairman Alan Greenspan, The Importance of Financial Education and Literacy, Remarks before the National Council on Economic Education 3 (Oct. 26, 2001).

more than 200,000 educators and 5 million students nationwide. From making a budget and sticking to it, to buying a first home, Practical Money Skills for Life helps ensure students are fiscally fit. Visa also has provided computer labs and educator professional development to many schools and school districts across the U.S.

- ***What's Up with Money in Your Life*** – Visa recognizes that college-bound freshmen, who will be managing money for the first time away from home, can use a little help learning the financial ropes. So Visa has created a turn-key educators' kit for freshman orientation directors at colleges to develop and incorporate a personal finance quick study in freshman orientation. The kit has been distributed annually since 1998 and has been sent to college campuses throughout the U.S.
- ***LifeSmarts*** – Visa is a proud sponsor of LifeSmarts, a program of the National Consumers League. Practical Money Skills is the official teaching curriculum for educators participating in LifeSmarts. LifeSmarts is a state and national competition for teens that helps them develop their consumer and marketplace knowledge in an enjoyable game format.

Parent Resources

- ***Parent Resource Center on www.PracticalMoneySkills.com*** – In a fast-paced financial world, parents can use a little help in teaching their children to be financially savvy. To support the unique needs of parents, Visa has joined forces with Jayne Pearl, author of *Kids and Money: Giving Them the*

Savvy to Succeed Financially, to offer easy to implement parenting strategies for raising a fiscally fit generation. Parents with children of any age will find useful tips for teaching how to make a budget and stick to it, how to avoid spending pitfalls and important lessons about saving and investing.

- ***Practical Money Skills for Life CD-ROM*** – For families with computer access, Visa has developed a CD-ROM that teaches important financial lessons through interactive games and quizzes. Most appropriate for young adults (16-22), the Practical Money Skills CD-ROM can be played by individuals or small groups. One component of the CD-ROM called Money Management Intelligence will lead the player through a real life simulation of a character's financial choices, putting him or her in the driver's seat to make the money decisions that will affect the character's financial well-being.

Military Family Resources

Most recently, Visa has partnered with the Reserve Officers Association in an effort to help provide financial information and resources to members of the military community deployed as a result of Operation Enduring Freedom. Through this partnership, Visa and the Reserve Officers Association are distributing information packets related to money management based on content from Visa's free, online, financial literacy resource, Practical Money Skills for Life. The information packets are distributed in affiliation with the Reserve Officers Association Defense Education Forum.

Other Educational Resources

Visa and its members also have undertaken steps to educate consumers regarding financial management skills. These programs include:

- ***Knowledge Pay\$*** – A consumer magazine that helps consumers understand today’s payment products and learn important money management strategies related to budgeting and saving, as well as tips for shopping on the Internet and protecting against fraud.
- ***Managing Your Debts*** – A consumer-friendly brochure that helps consumers facing potential financial difficulty to regain their fiscal fitness. Produced in conjunction with Consumer Federation of America, *Managing Your Debts* highlights the warning signs for financial difficulties by presenting real-life scenarios and solutions.
- ***Creditpage.com*** – Visa also is a sponsor of *Creditpage.com*, the place to learn how to manage and protect your credit. An individual may use the Web site to test his or her financial situation, to order and better understand his or her credit report and to find out more about credit counseling agencies that can help individuals regain financial vitality.

CONSUMER PROTECTIONS THROUGH ZERO LIABILITY AND FRAUD CONTROL

Zero Liability

Under federal regulations, credit card issuers are required to limit liability for unauthorized use of credit cards to \$50. The corresponding liability limit for debit cards may be higher. However, Visa and its members have chosen to go beyond these requirements to ensure that cardholders are fully protected against monetary losses due to fraudulent use of their payment cards.

Recognizing that technological and market developments could lead to an increased concern on the part of consumers about the integrity of their transactions, Visa implemented a new operating regulation in April of 2000 that eliminates consumer liability in cases of unauthorized use of Visa payment cards. This zero liability policy covers the use of all Visa consumer card products -- including both debit and credit cards. As a result of this new policy, a consumer will not be held liable for unauthorized use of any Visa consumer payment card.

This zero liability policy applies to online transactions as well as offline transactions. Customers are protected online in exactly the same way as when they are using their cards at a store, ordering from a catalog by mail or placing an order over the telephone. In case of a problem, Visa provides unprecedented protection against unauthorized card use, theft or loss. If someone steals a Visa payment card or a Visa card number from one of the Visa cardholders while the cardholder is shopping, online or offline, the cardholder is fully protected -- they pay nothing for the thief's fraudulent activity.

Fraud Control Programs

In addition, Visa has been a leader in combating fraud -- including identity theft -- for more than a decade. It is in the common interest of Visa, its members, consumers and merchants to prevent fraud. Fraud prevention protects merchants from absorbing the costs of fraud and protects consumers from the higher prices that they would have to pay in order to cover fraud losses. Fraud prevention further protects consumers from the trouble of having to identify and reverse unauthorized transactions. For these and other reasons, preventing fraud involving Visa credit and debit cards is a top priority for Visa and its members. Fraud prevention also is essential in protecting the integrity of the Visa brand and maintaining the confidence of consumers and merchants that use the Visa payment system. Through significant investments in technology, cooperative efforts between Visa, its members, and law enforcement agencies and a wide variety of educational initiatives, the incidence of Visa-system fraud in recent years is at an all-time low, even as the volume of Visa card transactions has grown dramatically.

Visa and its members have developed a varied arsenal of fraud control programs that helps merchants reduce the incidence of unauthorized use of Visa payment cards.

These programs include:

Application Verification

- The Application Verification system verifies an applicant's address, telephone and Social Security number and whether the address, telephone and/or Social Security number utilized on submitted applications have

previously appeared on fraudulent applications or in prior credit card fraud transactions.

Card Activation Method

- A Card Activation Method is used by most Visa card issuers to confirm that a card has been received by the cardholder before activating the account. Under this method, cards are blocked from use at the time of mailing. For the card to be activated, the cardholder typically must call the issuer, often from the same phone number previously provided to the issuer by the cardholder, and must confirm receipt and provide proof of identity.

Address Verification Service

- The Address Verification Service is a fraud prevention system that allows merchants to verify automatically that a shipping address provided by a cardholder at the time of purchase matches the cardholder's billing address and other information. This service helps merchants minimize the risk that they will accept fraudulent orders from persons using stolen cardholder information.

Cardholder Risk Identification Service

- Visa's Cardholder Risk Identification Service ("CRIS") is a transaction scoring and reporting service that employs advanced neural network technologies to develop artificial intelligence risk-scoring models that help identify fraudulent transaction patterns. Card issuers can use CRIS as a

stand-alone fraud detection system, or together with their own internal fraud detection methods.

Exception File

- Visa's Exception File is a worldwide database of account numbers of lost/stolen cards or other cards that issuers have designated for confiscation, referral to issuers or other special handling. All transactions routed to Visa's processing system have their account numbers checked against this Exception File.

Card Verification Value

- The Card Verification Value ("CVV") is not printed on the card itself, but can be found on the card's signature strip on the back of the card. These codes help merchants confirm that cardholders are in possession of the actual card. Online merchants and other merchants in situations where the card is not present at the merchant's premises during the transaction can verify that their customers have the actual card in their possession by requesting the customer to provide the CVV from the signature strip.

Payer Authentication Service

- Visa's Payer Authentication Service is currently in the implementation phase. This service will enable issuers to confirm a cardholder's identity to an Internet merchant during the virtual (online) checkout process. This process will be accomplished using a password that the cardholder registers with his or her card issuer. The process will help reduce fraud by enabling

Internet merchants to confirm the cardholder's identity at the time of purchase.

Data Security Requirements

- Visa was the first card company in the industry to develop and publish data security requirements for all entities holding card data (such as merchants, gateways, internet service providers, etc.). This program includes education for merchants, merchant self-evaluations and logical firewall testing (the latter is in the pilot stage now). With these requirements in place, the theft of information that can facilitate identity theft is reduced.

Materials to Issuers on Identity Theft Fraud

- Visa has helped to develop a video and other materials on identity theft that are designed to help card issuers combat fraud related to identity theft.

These extensive fraud detection and prevention programs have achieved significant success. For instance, in 1992, the ratio of fraud-to-sales on Visa cards was just .15 percent or 15 cents out of every \$100. That has now dropped to just .08 percent, or 8 cents out of every \$100, as of last year. Indeed, during recent years the absolute number of fraudulent transactions in the Visa system has actually been reduced, even as Visa card volume has soared. We are extremely proud of the success of our many fraud prevention efforts.

RESPONSE TO SEPTEMBER 11 ATTACKS

Visa members and others in the banking industry have worked closely with federal authorities in the aftermath of the September 11 attacks. In addition, Visa

members have been proactive in assisting customers that have been either directly or indirectly affected by the September 11 attacks. For example, many banks have waived late fees and interest charges on customer accounts. One bank temporarily suspended enforcement of due dates completely soon after the September 11 attacks to help its customers. Another bank estimated that it has waived more than \$15 million in fees and interest in the past month alone. Still another bank searched through its records to identify whether victims of the September 11 attacks held its credit cards. For victims identified, the bank chose simply to forgive the debts, even though it was not required to do so by law, because the bank wanted to do its part. Banks also are reviewing their mail operating procedures in light of the anthrax and mail scares to ensure that they can address delays in the mail, and to be sure that their own mail operations are as safe and secure as possible. In addition, banks are working to comply as quickly as they can with the Soldiers' and Sailors' Civil Relief Act of 1940, which protects persons called to active military service and their dependents from undue hardship resulting from their military service. Overall, I have found that banks are not asking what they must do to comply with the law; instead, they are asking how they can help -- how they can do their part to respond to the September 11 attacks.

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Visa appreciates the opportunity to appear before you today. I will be happy to answer any questions that you may have.