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MasterCard
Worldwide

June 24, 2016

The Honorable Thomas J. Curry
Comptroller of the Currency
Department of the Treasury
400 Seventh Street, S.W.
Washington, D.C. 20219

Dear Comptroller Curry:

In response to certain statements made by two retail industry lobbying firms, the Merchant Advisory Group (MAG) and the Retail Industry Leaders Association (RILA), in a letter to the Office of the Comptroller of Currency (OCC), MasterCard would like to take this opportunity to set the record straight regarding its commitment to financial innovation. MasterCard is a technology company in the global payments industry committed to using our technology and expertise to make payments safe, simple and smart. We operate the world's fastest payments processing network, connecting consumers, financial institutions, merchants, governments and businesses in more than 210 countries and territories. MasterCard's products and solutions make everyday commerce activities—such as shopping, traveling, running a business and managing finances—easier, more secure and more efficient for everyone.

On May 31, 2016, MAG and RILA submitted the above-referenced letter for the stated purpose of commenting on the OCC's white paper on responsible innovation. However, the MAG/RILA letter is little more than a pretext for a set of unsubstantiated cheap shots at the banking community and the payment networks.

This is unsurprising as the merchant lobby has a history of trying to co-opt legitimate regulatory and public policy discourse to achieve narrow commercial aims, and the May 31 MAG/RILA letter fits this predictable pattern. The letter pays lip service to the serious issues of innovation in the financial services industry while attacking banks and payment networks ostensibly for putting payment security and reliability ahead of merchant objectives.

The most outrageous allegation in the MAG/RILA letter, and the one so clearly outside the scope of the OCC's request for comments, is that EMVCo. and the payment networks have "failed to foster a smooth transition to EMV smart card technology in the United States." The truth is that the U.S. EMV migration is proceeding at a rapid pace. Nearly 600 million EMV chip cards were issued in the United States in 2015, making the United States the largest EMV market in the world (ABI Research). As of this writing, 68% of consumer credit cards are chip enabled and more than one million merchants have turned on their chip card terminals. Notably, more than 75% of these merchants are small and medium-sized businesses. This is remarkable considering the size of the United States and that it took Europe, Canada and Latin America nearly 10 years to reach levels of card penetration above 85%. In addition, payment networks are already innovating to further improve the consumer experience, with the introduction of software capable of expediting chip card transactions.

The EMV migration is the result of careful, extraordinary planning and coordination by the payment networks with all industry stakeholders. In January 2012, MasterCard announced its roadmap for U.S. migration to the EMV standard. We understood that the United States is the largest and most complicated retail payment market in the world. Therefore, we provided *more than three and a half years' notice* of the October 2015 liability shift to the merchant community so that there would be adequate time to plan and to make the needed technology changes. We also engaged in an extensive awareness and education campaign individually and as part of cross-industry collaborations, such as the Payment Security Task Force and the EMV Migration Forum. Since announcing our EMV roadmap, MasterCard has convened hundreds of individual and group calls, meetings and working sessions with merchants to discuss technical standards, operational concerns, cost considerations and all manner of issues relevant to the EMV migration.

The primary reason why the pace of EMV migration has not been even faster is one that the merchant lobby does not like to discuss. Quite simply, many merchants did not plan for changes to their point-of-sale terminals in a timely manner, even with full knowledge of the EMV road map for *years*. Instead of preparing for the October 2015 shift to a more secure payment environment, the merchants (through their lobbyists, including MAG and RILA) mounted a comprehensive attack on the October 2015 scheduled timing of the liability shift hoping to push this date out. On Capitol Hill and in state capitals, in the news media and in all other ways imaginable, the merchant lobby argued that the liability shift must be delayed. This was a political gamble that resulted in merchants and their processors not updating terminal software.

However, after several high-profile and massive merchant data security breaches, which were largely the result of merchants' inability to safeguard cardholder information, the merchant lobby's delay message became politically unattractive. This translated into a last-minute scramble to update and test terminal software. Predictably, the eleventh hour frenzy of activity has caused delay. While MasterCard could not require the merchant lobby to act responsibly during the more-than-three-year lead up to the liability shift, it is dutifully working to ameliorate the effects of the merchant delay tactics.

Additional statements in the MAG/RILA letter are just as concerning. MAG and RILA falsely assert that "some of the largest global payment card networks and financial institutions have demonstrated an interest in bringing legacy analog products into the digital environment instead of building new and innovative products within the digital environment;" that "existing legacy banking system[s] and network rules may be inhibiting such innovation;" and that "payment card network acceptance rules and business practices are inhibitors to innovation in the mobile commerce space."

Nothing could be further from the truth. MasterCard has an entire team, MasterCard Labs, dedicated to research, development and partnerships, and has spent substantial resources for digital payments innovation in 2015.[1] In fact, our commitment to innovation is embedded in part of our mission, which is "to reimagine the future of commerce by using technology and data-driven insights to deliver solutions that empower and transform how people live." We are confident that innovation efforts are pursued on a similar scale at competing global networks. Moreover, the MasterCard rules are updated on an ongoing basis to address the development of new payment-based products and services and changes in technology. MasterCard has been at the forefront of developing the technologies and business practices that support the successful offering of the next generation of payment methods, including mobile payments, in a secure environment. Assertions to the contrary are untenable and pure lobbyist fiction. In fact, the EMV chip is a perfect example of such industry innovation. The EMV chip is, in essence, a micro-computer, the use of which undermines the ability of a fraudster to counterfeit a card. The chip allows for superior security, including tokenization, which encrypts cardholder credentials and therefore makes it almost impossible for fraudsters to steal personal information. This is a far cry from a "legacy" system.

MAG/RILA also claim that community banks and mid-size banks "are unlikely to get equal treatment and access" compared to larger banks in relation to digital wallets that involve global payment networks. The crux of the argument seems to be that global payment networks "have historically favored their biggest clients" and that smaller banks tend not to be big clients of global payment networks. It is difficult to say which is more ironic: the merchant lobby purporting to care about banks or lobbying firms that are funded by the nation's largest retailers criticizing the notion of businesses favoring their biggest clients. Is *extremely favorable treatment* not exactly what the largest retailers *demand* of their suppliers? In any event, please know that MasterCard has worked (and will continue to work) diligently to ensure that banks of all sizes can enable their respective cardholders to participate in all digital payments experiences that meet our high standards for safe, fast and reliable payments.

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It is unfortunate that MAG/RILA have sought to divert the OCC's attention from the important issue of innovation in the federal banking system. We are grateful for the OCC's ongoing work with the banking community to ensure a proper balance between innovation and the safety and security of bank customers. If you have any questions regarding this letter, please contact me at 914.249.6715 or randi.adelstein@mastercard.com.

Sincerely,

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Randi D. Adelstein
Group Head, Global Regulatory Counsel

[1] MasterCard Labs focuses on the evolution of technological and consumer trends and how emerging innovations and new partnerships can be used to improve the payments ecosystem for all stakeholders. Our Digital Payments team partners closely with MasterCard Labs, but has a greater focus on new technologies, including tokenization, MasterPass and other digital payment innovations.