

STATEMENT FOR THE RECORD

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BEFORE THE

**United States House of Representatives
Committee on Financial Services
Task Force on Financial Technology**

**What's In Your Digital Wallet?
A Review of Recent Trends in Mobile Banking and Payments**

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2:00 PM

Chair Lynch and Ranking Member Davidson, thank you for holding this important hearing to explore trends and developments in digital wallets. The hearing comes at a critical time for the country as financial services will be an important factor of Americans' recovery from the historic pandemic and its lingering effects, as well as our potential for improving and achieving universal financial health.

PayPal is a leading technology platform that enables digital payments and simplifies commerce experiences on behalf of merchants and consumers in 200 markets around the world. Our mission is to democratize financial services to ensure that everyone, regardless of background or economic standing, has access to affordable, convenient and secure products and services to take control of their financial lives, build resilience, and create capacity to achieve hopes and dreams. We aim to improve the financial health of individuals and to increase economic opportunity for entrepreneurs and businesses of all sizes around the world. We are aligned across the company around one central vision: to make the movement and management of money as simple, secure and affordable as possible.

We deliver our services responsibly by investing in compliance and risk management systems to empower and protect users, and to help ensure compliance with all applicable federal and state laws. PayPal's core payments services are regulated in the U.S. by the Consumer Financial Protection Bureau and at the state level as a licensed money transmitter. PayPal is a member of FinTech Industry Advisory Panel and related working groups established by U.S. state regulators (via the Conference of State Banking Supervisors), who have decades of experience regulating money services businesses, to ensure harmonization of existing state regulatory frameworks. Outside the U.S., our services are overseen by the relevant regulators in each of the jurisdictions in which we operate. Certain PayPal products are offered in partnership with banks which also brings regulatory oversight.

PayPal thrives because of the trust we have earned with our customers and the relationships built with regulators.

PayPal's Digital Wallet Offering

The PayPal app is an intelligent digital wallet that fosters a unique experience that is enhanced and tailored for each customer. The pandemic has transformed payments, and PayPal has been supporting our customers along this journey.

The PayPal app is a personalized set of services that offers customers the best place to manage their daily financial lives. As more and more people are using their smartphones to make purchases, receive payments, and manage their accounts, we offer individuals and businesses choices and flexibility when they send payments and receive payments. Whether sending money to friends and family through apps like PayPal, Venmo, and Xoom, engaging in e-commerce, or enabling people to support causes and charities they care about, our technology is providing more individuals and businesses with access to the global market and financial services tailored to their specific needs.

The PayPal wallet includes a personalized dashboard of a customer's account with PayPal; a wallet tab to manage payment instruments; and, a payments hub that includes send and receive money features, international remittances, and charitable/non-profit giving.

PayPal has been a leader in providing needed services to Americans during these trying times. PayPal and Venmo digital wallet users were able to cash their government-issued paper stimulus checks remotely, usually within minutes and free-of-charge. We also offered customers who received stimulus checks the ability to sign up for Direct Deposit to receive their funds faster.

The security and privacy of all our users and their information has always been a top company priority. Security has been front and center throughout the development of our digital wallet, as evidenced by the adoption of innovations such as tokenization technology, which reduces the number of entities that have access to sensitive financial data. PayPal has been a pioneer of tokenization technology, substituting a person's sensitive financial information with a series of non-sensitive numbers that confirm to the business that a payment is authentic, helping to minimize the likelihood and impact of data breaches as well as reduce fraud.

At PayPal, we regard fighting cybercrime as a strategic business priority, and we invest heavily in keeping our sites and services as safe and secure as possible. PayPal's philosophy on cybersecurity has a strong focus on customer data protection. Everything we do around security is focused on our commitment as the "secure way to pay and be paid." It is important to approach security holistically helping merchants keep their systems secure by analyzing data in real-time to understand behavior alongside static data to help verify identity and protect consumers. We also seek opportunities to assist law enforcement in the prevention and detection of financial crimes, including participation in industry – law enforcement alliances.

Digital wallet service providers can leverage key information from the mobile device to improve identification, authentication, and fraud reduction. PayPal is a founding member of the Fast IDentity Online (FIDO) Alliance whose mission is to find new methods of authentication that move away from passwords and towards biometrics (fingerprint, etc.). Moreover, should something go wrong with a purchase, *i.e.*, an item doesn't arrive, or what arrives is significantly different than what was described, then PayPal can cover customers under Purchase Protection for eligible purchases.

PayPal is Responsibly Democratizing Access to Financial Services

PayPal is proud of the leadership position it has established in responsible innovation in financial services. Our investments in innovation have helped usher in an era where our customers can safely exchange value quickly and easily all over the world. A key principle for our digital wallet offering is providing our customers with choices on how to exchange value across various well known and accepted retail payment options. Many of these options sit on top of long established and well-regulated payment systems like Automated Clearing House (ACH) or credit/debit networks.

With well-established payment systems serving as the underpinning of PayPal's digital payment services, PayPal maintains a robust control framework to ensure money moves safely and

securely. We regularly monitor activity on our platform, apply a robust Know Your Customer framework and maintain compliance with anti-money laundering requirements. PayPal has built a platform that responsibly leverages technology tools to enable seamless value transfer across several payment media while meeting our compliance obligations.

As this landscape continues to evolve, PayPal will continue to build its services with responsible innovation as a North Star. Our customers choose PayPal because we are a trusted platform and they feel safe leveraging our services as they pursue their options for digital commerce and payments. This trust can only be earned through a relentless focus on mitigating risks in our operating environment and protecting our customers from financial harms and as a result of this focus we strive to be thoughtful about how we design our products, policies and procedures.

We encourage continued public-private dialogue on these matters and look forward to continuing to engage with the Financial Technology Task Force and the broader House Financial Services Committee in important conversations related to the growth of the digital payments business in the United States. We are happy to share some initial thoughts with the Committee on the following issues and look forward to continued dialogue on the vital matters in the Committee's jurisdiction.

Stability and Data Security. PayPal invests heavily in compliance, risk management and information security to help ensure that our systems are reliable and operate soundly so that the services in our digital wallet can be offered without incident for our customers or the broader payments system. PayPal's operations, capital and liquidity are regulated by dozens of state financial regulators as a part of the money transmitter licensing requirements.

Customer Liquidity. PayPal is a digital wallet provider, not a bank. It does not accept deposits. Customers typically add value to a PayPal account from an existing bank account or card. For PayPal Balance account holders, PayPal also permits consumers to add value to their accounts via cash uploads at thousands of participating retailers. PayPal Savings, provided by an FDIC insured bank partner, is a savings account available in the digital wallet for PayPal Balance account holders.

Privacy. PayPal deeply values the trust of its customers and takes their privacy seriously. The firm is subject to the Gramm Leach Bliley Act (GLBA) and Reg P covering consumer privacy.

Financial Crime. PayPal is a registered Money Services Business with the US Treasury Department and is therefore required by the Financial Crimes Enforcement Network (FinCEN) to maintain a compliance program dedicated to anti-money laundering. We deploy rigorous know-your-customer (KYC) requirements, screening, and other sophisticated tools to mitigate financial crime risks.

Community Investment. PayPal invests in and supports community organizations across our global footprint, especially in businesses and non-profits that invest in underserved communities. For example, in addition to facilitating fundraising and disaster relief with

charitable organizations, PayPal has committed \$535 million dollars to help support work in narrowing the racial wealth gap and empower equity.

Conclusion

Fueled by a fundamental belief that having access to financial services creates opportunity, PayPal is committed to democratizing financial services and empowering people and businesses to join and thrive in the global economy. We believe that individuals, families, small businesses and communities will benefit from the continued melding of digital wallet technology and payments, as well as increased competition.

Thank you again for the opportunity to provide a statement for the record to the Task Force on this important and timely topic.