September 20, 2023

The Honorable Sherrod Brown
Chairman
Senate Committee on Banking,
Housing, and Urban Affairs
Washington, DC 20510

The Honorable Tim Scott
Ranking Member
Senate Committee on Banking,
Housing, and Urban Affairs
Washington, DC 20510

Dear Chairman Brown and Ranking Member Scott:

On behalf of the Electronic Transactions Association (ETA), we appreciate the opportunity to submit this statement for the record before the Committee's hearing, "Artificial Intelligence in Financial Services."

ETA is the world's leading advocacy and trade association for the payments industry. Our membership includes a diverse group of payments and fintech companies, ranging from established players to emerging disruptors in the U.S and over a dozen countries worldwide. ETA members process roughly $44 trillion in annual purchases globally and are committed to enabling commerce by delivering innovative payment solutions to merchants and consumers.

The payments industry is at the forefront of deploying new technologies in a safe manner to improve the consumers' experience by making payments more secure and frictionless. Over the past decades, the payments industry has developed and deployed artificial intelligence and machine learning (AI) tools that have made payments faster, more secure, and has unlocked numerous benefits for the payment industry and consumers alike.

While recent attention and scrutiny of emerging AI tools, like Large Language Models and transformer-based image generators, have raised important policy questions, ETA encourages policymakers to review how the payments industry uses AI to better understand the scope, scale, and impact that they have in fostering a stronger and more secure financial system. The payments industry is subject to robust oversight from federal and state regulators. To the extent there may be a need for new laws and regulations, they should be complimentary, not duplicative, to existing rules that the payment industry adheres to. This requires recognizing how AI is currently being utilized in payments today and acknowledging the role existing regulations play, regardless of the technological advancements that have taken place in the payments industry over the last 20 years.

To encourage innovation and continue national economic competitiveness, it is crucial for policymakers to avoid implementing inflexible regulations that solely rely on current AI mechanisms. Instead, policies put forward should be technology agnostic, principles-based and industry-led standards that strike a balance in promoting innovation, protecting consumers, advancing U.S. economic and national security interests, and ensuring the continued development of secure and inclusive financial services. Additionally, ETA believes it is crucial for policymakers to work with industry experts and stakeholders to establish common definitions and understanding of key AI terms to ensure clarity and consistency of AI technologies.

For years, payment companies have integrated AI tools for consumer benefits, such as:

- **Protecting consumers from fraud:** AI and tools are integral to maintaining the safety and security of payments systems, which include consumer information and resources. AI's ability to work faster, identify more patterns, and respond more quickly than possible for humans, is an asset to protecting consumers from fraud. For example, payments companies use their technological capabilities and unique industry insights to track and stem the flow of fraud schemes. As the volume and complexity of fraud in transactions has risen, the importance of identifying, preventing, and deterring fraud in payments has likewise increased.

- **Streamline payments:** AI enhances the speed and efficiency of the payment. For instance, paying a simple invoice, AI facilitates a straight-through processing of payments by automating workflows, providing decision support, and applying image recognition to documents.

- **Assisting with regulatory compliance:** The integration of AI in payments compliance has allowed companies to enhance their compliance practices. AI-powered tools enable financial entities to more efficiently review their transaction screening/review processes to identify suspicious transactions and potential risks in real-time, eliminating the false alerts and mitigating risks while saving time and resources. These tools allow compliance officers to be alerted real-time and enable them to react swiftly to potential compliance violations.

- **Improving customer service:** AI is deployed to create chatbots and virtual assistants that provide basic customer service features to customers. AI improves customer service by enhancing the human element of customer service, not replace or frustrate it. While some inquiries can be handled with AI technologies, others can only be resolved by an experienced person who can connect with the consumer. For example, AI-powered virtual assistants are best empowered to handle simple inquiries about account balances and transactions, while also being able to validate and activate new or replacement cards. Additionally, the use of virtual assistants at the start of a customer service interaction can aid in expediting and the appropriate routing of more complex queries and issues to live representatives.
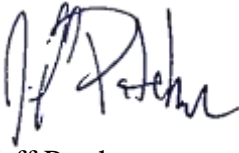
As policymakers contemplate laws and regulations, it is crucial to recognize AI systems used in payments are designed to comply with current relevant federal and state laws, regulations, frameworks issued by various agencies, and industry standards. This includes data protection regulations, anti-money laundering requirements, and any specific guidelines related to payment processing, fraud prevention, and customer data privacy.

For example, the use of AI has prompted payment companies to consider how to factor in these technologies into their governance frameworks. To ensure payment companies have the correct tools and frameworks in place, many follow NIST's Artificial Intelligence Risk Management Framework and the OCC's Model Risk Management.

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The integration of AI technologies in the payments industry has brought about numerous benefits and possibilities for both the industry and consumers. While recent attention has focused on specific AI applications, policymakers must approach AI regulation with caution, considering potential unintended consequences and acknowledging the rapid advancements in this field. Rather than relying on current AI mechanisms alone, a principles-based, industry led approach that fosters innovation, consumer protection, and the development of secure and inclusive financial services is necessary. Flexibility and a forward-looking perspective are vital to navigate the continuous evolution of AI technology in the payments industry.

We appreciate the opportunity to submit this letter for the record and the Committee's leadership on this topic. If you have any questions, please contact me or ETA's Executive Vice President, Scott Talbott at stalbott@electran.org.

Sincerely,

Jeff Patchen
Director of Government Affairs
Electronic Transactions Association