

Electronic Financial Services Council

Statement Before the House Judiciary Subcommittee on Courts and Intellectual Property

September 30, 1999

The Electronic Financial Services Council appreciates the opportunity to submit its views concerning legislation that addresses the growing and important role of electronic commerce in our society and more specifically addresses the delivery of financial services and products through electronic commerce. The Council represents a group of financial service providers and software companies that offer their products and services (such as mortgages, insurance, securities) over the Internet. The Council's mission is to update laws and regulations to facilitate the electronic delivery of financial services. A list of Council members is attached.

Chairman Bliley and your Subcommittee, Mr. Chairman, are to be commended for your efforts in promoting the enactment of H.R. 1714, the "Electronic Signatures in Global and National Commerce Act." This bill provides important and needed national standards to permit consumers and business to contract online. In addition, of particular importance to consumers of financial services, the bill would empower those consumers to contract to receive related state and federal consumer financial disclosures online. This provision is wholly consistent with the actions of the Federal Reserve which recently issued proposed and interim rules to permit the delivery of federally mandated consumer disclosures electronically. It also compliments legislation introduced by Representatives Roukema, Lazio and Inslee, H.R. 2626, the "Electronic Disclosures Delivery Act," which sets out a uniform statutory framework for the provision of federally mandated consumer financial disclosures.

The Internet has rapidly transformed commercial activity, and industry experts believe that the growth of e-commerce has just begun. Access to computers and the Internet is rising in virtually every segment of the population. Statistics show that consumers are increasingly turning to the Internet for financial products. A recent study by Forrester Research predicts that the number of households accessing financial services online will grow from 3.3 million current users to 20.9 million users in the next four years. A study of California homeowners looking to refinance showed that over 60% are already using the Internet to research products.

Electronic media will make it possible for consumer disclosures and other information to be provided faster, at a more cost effective rate, and in a more user friendly fashion than is possible in static paper formats. Many believe that the Internet will level the playing field for providers of financial services (small banks and other financial institutions will have equal access to a national marketplace) and will empower consumers by providing enhanced product information and access to a broader and more competitive credit marketplace. Online disclosures which facilitate the delivery of financial services and products electronically will provide consumers with significant benefits.

First among these benefits are convenience and time-saving. Consumers can conduct transactions virtually anywhere and at any time, 7-days-a-week, 24-hours-a-day. With disclosures being delivered over the world wide web or e-mail, consumers will be able to access the web page or their e-mail account from any computer with standard Internet capabilities. Americans are flocking to personal computers for an ever-growing list of functions in their everyday lives. Allowing consumers to put this new technology to further use will give them the flexibility and choice that they are insisting upon.

Secondly, electronic disclosure provides more "user-friendly" information. Electronic disclosures containing links to defined terms will make current consumer disclosures more understandable to consumers. For example, legalistic jargon in standard disclosure forms can be linked to plain-English definitions, making them much more readable. Electronic disclosures will also allow consumers to search documents for key words using browsers and other technology. In addition, electronic storage of important mortgage disclosures, for example, will allow customers easier access than trying to find old paper disclosures.

Third, under-served persons and communities, both urban and rural, will be provided enhanced access to financial products and services, even where brick and mortar branches are not available. Libraries and schools can provide access to computers for an increasing number of urban and rural residents.

Finally, the provision of electronic disclosures could mean that consumers will benefit directly from the lower costs of doing business online. Electronic delivery would cost less than paper-based delivery, a reduction that marketplace competition would pass on to the consumer. Consumers who start and complete their loan applications over the Internet could save up to a quarter point on a \$100,000 mortgage because of the lower overhead and hedging costs facing lenders.

The delivery of federal or state disclosures electronically will not in any way change the rights or responsibilities of any party or affect the content of any disclosure. Indeed, the electronic delivery of consumer notices, contracts, and disclosures will only enhance the effectiveness of existing consumer protection statutes by causing them to be provided in real time in a format that is far more user-friendly than the current stack of papers received by mail days after an application has been filed.

In closing, we urge the House of Representatives to reject the counsel of those who want to deny consumers the right to contract to receive disclosures electronically and to move forward with confidence that access to electronic disclosures will empower and inform consumers who are increasingly choosing to use the Internet to access financial services.