

March 5, 2014

The Honorable Janet L. Yellen  
Chairman  
Board of Governors of the Federal Reserve  
20<sup>th</sup> Street and Constitution Avenue NW  
Washington, D.C. 20551

Dear Chairman Yellen:

Ensuring the security of customer data has long been a priority of the banking industry. Its importance has been recognized in common law for almost 100 years and memorialized in the Right to Financial Privacy Act, the Gramm-Leach-Bliley privacy provisions, and banking agency guidance on authentication. Banks of all sizes have embraced their expansive regulatory responsibilities and dedicate hundreds of millions of dollars annually to the protection of the integrity of the payments system. We do so recognizing that there are many other important participants in that system who likewise share responsibility for the overall integrity and security of the payments ecosystem.

It is thus with some concern that we read that in a letter to you dated February 12, 2014, Senators Richard Durbin (D-IL) and Al Franken (D-MN) are seeking information from the Board on the data security efforts of banks, along with an implicit urging for greater oversight *of financial institutions*. This letter comes in the wake of various data breaches *at large retailers*, and is, from our perspective, based on a highly tenuous reading of the so-called “Durbin Amendment” on debit card interchange.

The undersigned 53 state bankers associations representing thousands of large, mid-size and community banks, respectfully but strongly disagree with the perspectives expressed by these Senators. We believe this is a thinly-veiled effort to once again advance the regulation of interchange under the guise of current concerns over data security.

Maintaining an ongoing culture of security is neither cheap nor easy. This is particularly true in payment transactions where those that seek to benefit from the system – in this case, the merchant community – have long sought to reduce their cost to support the system while simultaneously shifting the risk of fraud losses to the banks and, in some cases, attempting to dictate security technology. This tension between industries pre-dates the current debate, but shouldn’t obscure the complexities of the issues at hand. Nor should it hide the fact that in 2013, businesses, healthcare organizations, and educational institutions accounted for 86% of all data breaches. The financial industry accounted for 3.7%.<sup>1</sup>

Providing payment transactions that are convenient, cost-effective and secure for consumers is the ultimate goal. It requires the balancing of many competing factors, a process made more complex by our diverse payments marketplace made up of close

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<sup>1</sup> Identity Theft Resource Center, *2013 Data Breach Category Summary*. Accessed at: <http://www.idtheftcenter.org/images/breach/2013/BreachStatsReportSummary2013.pdf>

to 14,000 financial institutions of varying sizes and charter types, over 8 million merchants, and over 300 million consumers. This necessitates thoughtful approaches towards modernizing the payments system that protects the important role that banks play in the payments ecosystem but also recognizes the responsibilities of other participants to contribute to that system's strength.

This is not just a matter of dollars and cents for banks. It is about the culture of prudence and caution that is the hallmark of a sound banking system and that is too easily eroded when non-bank participants in the payments system value short term commercial expediency over long-term security, stability, and customer satisfaction. This should not be allowed to happen. The Senators' recent efforts to convert this into one over interchange only complicates, not makes easier, the path to a positive resolution that best serves the needs of consumers and the overall economy.

Thank you in advance for considering our views.

Respectfully,

Alabama Bankers Association  
Alaska Bankers Association  
Arizona Bankers Association  
Arkansas Bankers Association  
California Bankers Association  
Colorado Bankers Association  
Connecticut Bankers Association  
Delaware Bankers Association  
Florida Bankers Association  
Georgia Bankers Association  
Hawaii Bankers Association  
Heartland Community Bankers  
Association  
Idaho Bankers Association  
Illinois Bankers Association  
Illinois League of Financial  
Institutions  
Indiana Bankers Association  
Iowa Bankers Association  
Kansas Bankers Association  
Kentucky Bankers Association  
Louisiana Bankers Association  
Maine Bankers Association  
Maryland Bankers Association  
Massachusetts Bankers Association  
Michigan Bankers Association  
Minnesota Bankers Association  
Mississippi Bankers Association

Missouri Bankers Association  
Montana Bankers Association  
Nebraska Bankers Association  
Nevada Bankers Association  
New Hampshire Bankers Association  
New Jersey Bankers Association  
New Mexico Bankers Association  
New York Bankers Association  
North Carolina Bankers Association  
North Dakota Bankers Association  
Ohio Bankers League  
Oklahoma Bankers Association  
Oregon Bankers Association  
Pennsylvania Bankers Association  
Puerto Rico Bankers Association  
Rhode Island Bankers Association  
South Carolina Bankers Association  
South Dakota Bankers Association  
Tennessee Bankers Association  
Texas Bankers Association  
Utah Bankers Association  
Vermont Bankers Association  
Virginia Bankers Association  
Washington Bankers Association  
West Virginia Bankers Association  
Wisconsin Bankers Association  
Wyoming Bankers Association

cc: Eric S. Rosengren, President  
Federal Reserve Bank of Boston

William C. Dudley, President  
Federal Reserve Bank of New York

Charles I. Plosser, President  
Federal Reserve Bank of Philadelphia

Sandra Pianalto, President  
Federal Reserve Bank of Cleveland

Jeffrey M. Lacker, President  
Federal Reserve Bank of Richmond

Dennis P. Lockhart, President  
Federal Reserve Bank of Atlanta

Charles L. Evans, President  
Federal Reserve Bank of Chicago

James B. Bullard, President  
Federal Reserve Bank of St. Louis

Narayana R. Kocherlakota, President  
Federal Reserve Bank of Minneapolis

Esther L. George, President  
Federal Reserve Bank of Kansas City

Richard W. Fisher, President  
Federal Reserve Bank of Dallas

John C. Williams, President  
Federal Reserve Bank of San Francisco

cc: Members of the U.S. Senate