

Debate

Should Banks Track Cell Phones?

Issue: Is it ethical for banks to track customers' cell phones as a way to prevent credit-card fraud?

The costs of credit-card fraud are staggering. With approximately 4.5 percent of American consumers experiencing credit-card fraud per year, total losses amount to \$8 billion. On the other hand, sometimes legitimate credit-card transactions are declined because they look suspicious. One possible method banks are considering is tracking their customers' cell phones. Consumers are increasingly using banking apps on their cell phones to complete transactions, so being able to link the location of a transaction with the person's cell phone would alert the bank that the transaction is most likely legitimate. In this case, a fraudster would have to steal both a person's cell phone and credit card information to commit fraud.

Ensuring that the credit-card transaction is coming from the same location as a cell phone could act as a good tool for preventing misconduct. Pilot tests of this technology have shown that it is effective in combating fraud. U.S. Bancorp has become the first bank to adopt this system, tracking customers' cell phones on an opt-in basis. Visa developed a new feature that uses the location function on smartphones to let customers' banks know where they are. If a person makes a transaction out of the country, for instance, the smartphone he or she is carrying will contact the bank and let it know the person is in another country. This could save consumers from having to call their credit-card companies and letting them know in advance.

Tracking cell phones as a way to authenticate credit-card transactions has numerous benefits. Many privacy experts support the system because of how much it could cut down on credit-card fraud and save on costs. For instance, Visa believes that this technology will reduce the number of unnecessary declines (when a credit-card transaction is declined when it should not be). This reduction in unnecessary declines could be as high as 30 percent, representing significant cost savings. Also, the potential to reduce credit-card fraud could save banks millions and help consumers avoid the costly hassle of having to deal with the theft of their information.

On the other hand, there is always a risk when allowing big companies access to detailed personal information. Criticisms against tracking include the fact that firms might use tracking to send unwanted marketing messages or sell consumers' personal information to others. Generally, consumers have been adverse to companies tracking their locations. For instance, 77 percent of U.S. adults said they do not want retailers tracking them in-store, in spite of potential benefits that may result from the tracking, and 43 percent claim they are not as likely to frequent a store that tracks mobile devices.

Banks and credit-card companies have said they will not sell personal customer data they collect on customer locations. Those that have adopted the system also use an opt-in system where customers must currently choose to have their locations tracked. However, banks have discussed making this a part of the terms of service for consumers using a bank's mobile application. This means consumers would no longer have a choice to opt in if they want to use the bank's mobile apps. Many consumers are willing to share more personal information in

This material was developed by Jennifer Sawayda under the direction of Harry Van Buren and John Reed. It is provided for the Daniels Fund Ethics Initiative at the University of New Mexico and is intended for classroom discussion rather than to illustrate effective or ineffective handling of administrative, ethical, or legal decisions by management. for more information. (2016) Users of this material are prohibited from claiming this material as their own, emailing it to others, or placing it on the Internet. Please call Harry Van Buren at 505-277-3909 for more information. (2016)

exchange for greater security, but to reassure consumers banks will have to be transparent with how they plan on using the information.

There are two sides to every issue:

1. The tracking of cell phones to authenticate credit-card transactions is an effective and ethical way to combat credit-card fraud.

2. The tracking of cell phones to authenticate credit-card transactions is a violation of customer privacy.

Sources:

Associated Press, "To combat fraud, Visa wants to track your smartphone," *Los Angeles Times*, February 13, 2015, <http://www.latimes.com/business/la-fi-visa-security-20150213-story.html> (accessed March 9, 2016).

CBS News, "Visa app will track your location to prevent credit card fraud," February 16, 2015, <http://www.cbsnews.com/news/visa-app-will-track-your-location-to-prevent-credit-card-fraud/> (accessed March 9, 2016).

Victor Luckerson, "Your Bank Wants to Know Where You Are at All Times," *Time*, March 6, 2015, <http://time.com/4247847/banks-tracking-cell-phone-fraud/> (accessed March 9, 2016).

Robin Sidel, "Why Your Bank Wants to Track Your Phone," *The Wall Street Journal*, March 4, 2016, <http://www.wsj.com/articles/why-your-bank-wants-to-track-your-phone-1457087400> (accessed March 9, 2016).

Bill Siwicki, "Consumers just say no to in-store mobile tracking," *Internet Retailer*, March 27, 2014, <https://www.internetretailer.com/2014/03/27/consumers-just-say-no-store-mobile-tracking> (accessed March 9, 2016).