

## **CFPB Fines Online Payment System For Lax Data Security**

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By Dani Kass

Law360, New York (March 2, 2016, 7:47 PM ET) -- The Consumer Financial Protection Bureau said Wednesday it has issued a \$100,000 penalty against an Iowa online payment platform for having weak security practices despite advertising that customers' personal information would be protected.

Des Moines-based Dwolla Inc. claimed to have data security practices that surpassed industry standards but in actuality came up short, the CFPB said. This is the first time the agency has penalized a company over data security.

"Consumers entrust digital payment companies with significant amounts of sensitive personal information," CFPB Director Richard Cordray said in a statement. "With data breaches becoming commonplace and more consumers using these online payment systems, the risk to consumers is growing. It is crucial that companies put systems in place to protect this information and accurately inform consumers about their data security practices."

Dwolla said that it has fixed its security systems and now meets industry standards. The company said it has never detected a data breach or received a complaint or notification of one, and that the government did not find that the company caused any harm to consumers.

"We've never been more proud of our information security policies, practices and technologies, and have gone to great lengths to implement them up, down and across the company," Dwolla said in a statement. "The data security assessments that are part of the settlement will validate that implementation process. We are confident in the capabilities of our system and welcome the opportunity to demonstrate it to the market."

Dwolla, which started in December 2009, had more than 650,000 users by May 2015, leading to combined transfers of up to \$5 million per day, the CFPB said. From its users, Dwolla would collect names, addresses, dates of birth, telephone numbers, Social Security numbers, bank account and routing numbers, passwords and four-digit pins, the agency said.

The company advertised that all transactions and the mobile application were "safe and secure," that Dwolla was Payment Card Industry Data Security Standard compliant, and that the company encrypted sensitive personal information, according to the agency, but Dwolla "fell far short" of living up to those claims. This included releasing

applications before properly testing if they were secure and not encrypting all sensitive data.

The misleading claims stretched from December 2010 through 2014, the CFPB said.

“Dwolla was incorporating new ideas because we wanted to build a safer product, but at the time we may not have chosen the best language and comparisons to describe some of our capabilities,” Dwolla said in a blog post. “It has never been the company’s intent to mislead anyone on critical issues like data security. For any confusion we may have caused, we sincerely apologize.”

In addition to the fine, Dwolla must stop misrepresenting its security, fix the flaws, and train its employees properly.

--Editing by Edrienne Su.