

Protection of Customers' Funds in Electronic Money

a myriad of regulatory approaches



What is electronic money?

"Stored value or prepaid product in which a record of funds or value available to the consumer for multipurpose use is stored on an electronic device (which might be a prepaid card, chip or mobile phone) owned by the consumer"

(Bank for International Settlements, 2004)

Electronic money presents risks for customers...which have been addressed by regulators in different ways

1. LIQUIDITY RISK

The risk

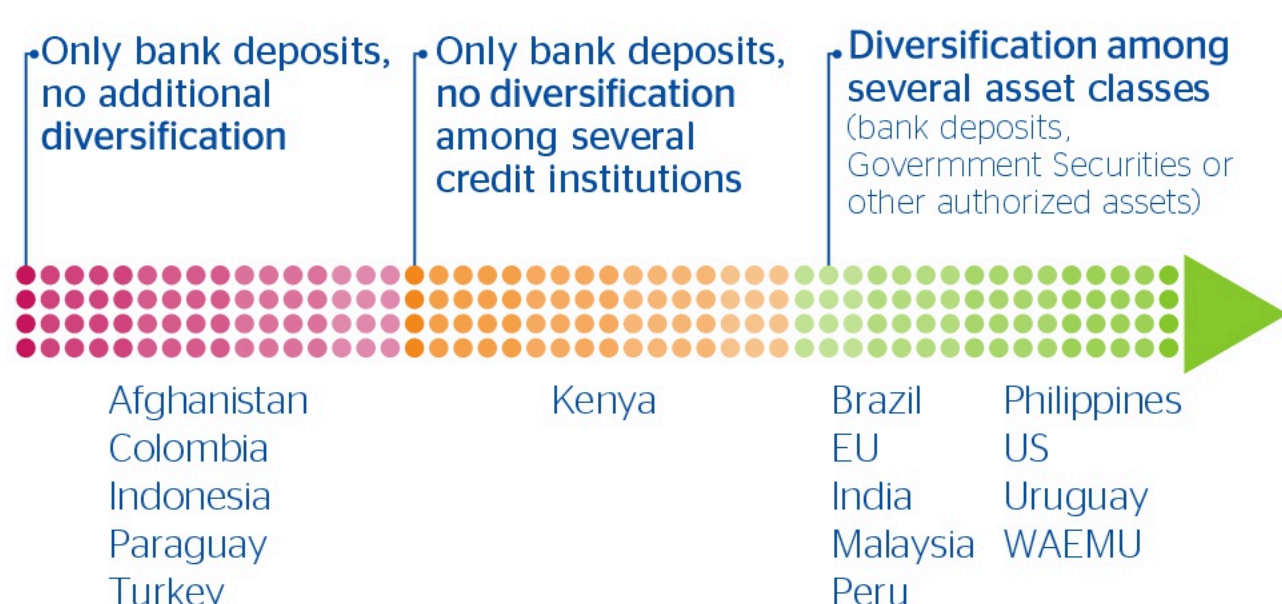
Clients may not be able to access their funds upon demand if the electronic money provider does not have sufficient funds

The solution

Restrictions on use of the funds: e-money providers cannot grant credit

E-money providers must hold funds equal to 100% of the electronic money float in safe, liquid investments. The preferred choice is bank deposits, but some countries opt for more diversification

PERMISSIBLE INVESTMENTS FOR ELECTRONIC MONEY FUNDS LEVEL OF DIVERSIFICATION SET OUT IN REGULATION



2. RISK OF INSOLVENCY OF THE ELECTRONIC MONEY INSTITUTION

The risk

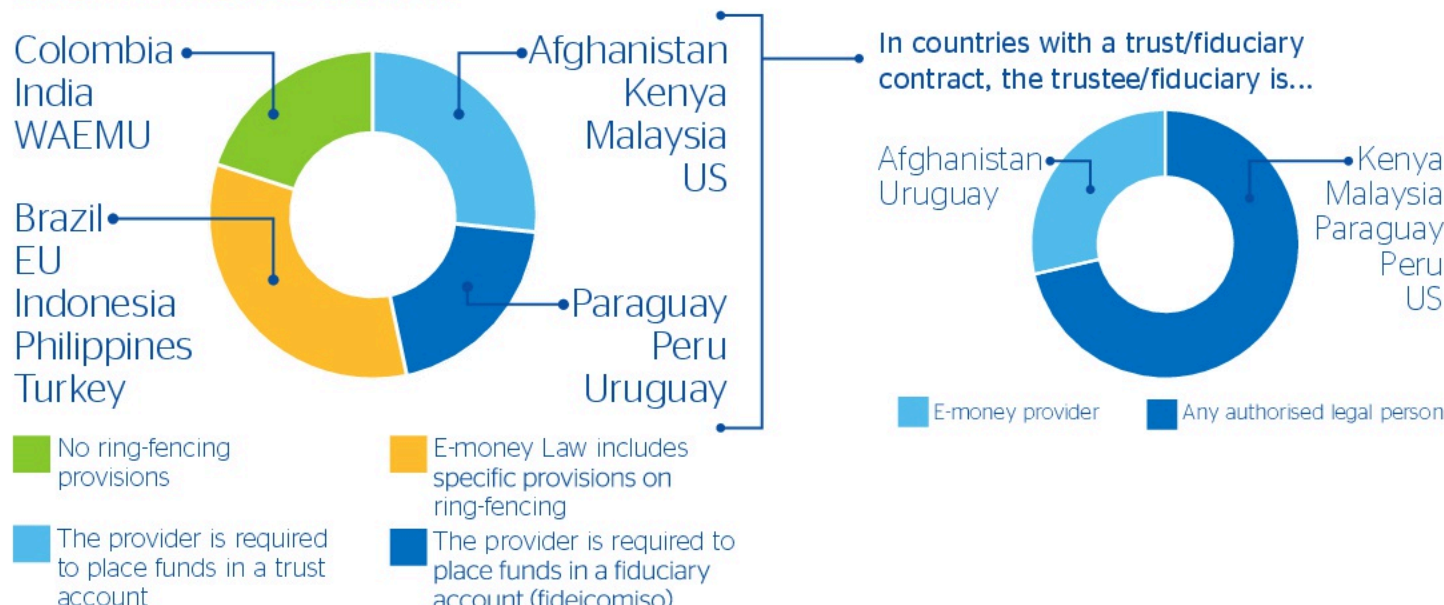
If the electronic money provider becomes insolvent, customers' funds may be used to meet the providers' obligations and customers may lose their funds

The solution

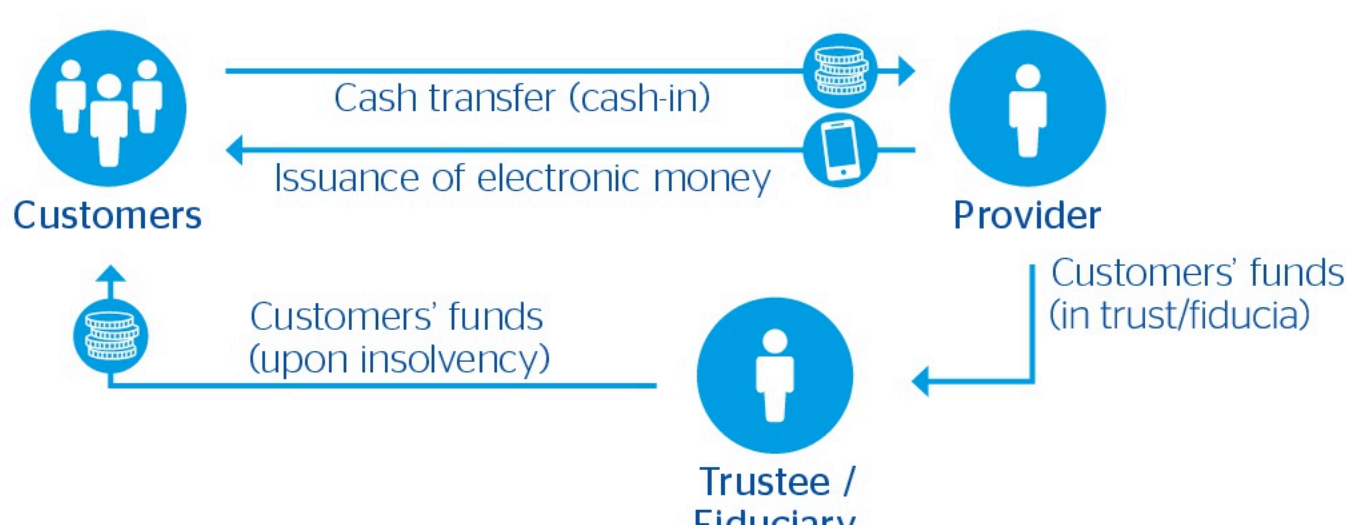
Requirement to isolate and ring-fence customer funds from the issuer's assets deposits, but some countries opt for more diversification

RING-FENCING MECHANISMS IN SELECTED COUNTRIES

Ring-fencing mechanism



RING-FENCING ARRANGEMENTS (TRUST AND FIDUCIARY CONTRACTS) IN THE CONTEXT OF ELECTRONIC MONEY



3. RISK OF INSOLVENCY OF THE BANK(S) WITH WHICH THE FUNDS ARE PLACED

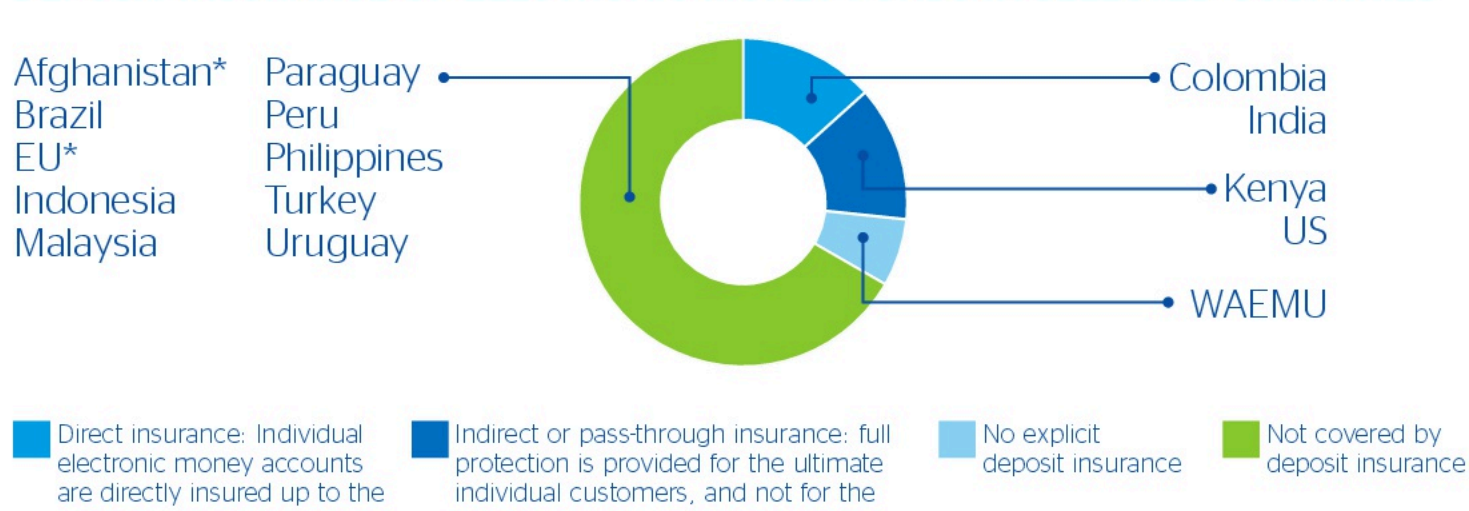
The risk

If the bank where e-money funds are deposited becomes insolvent, customers may lose their funds

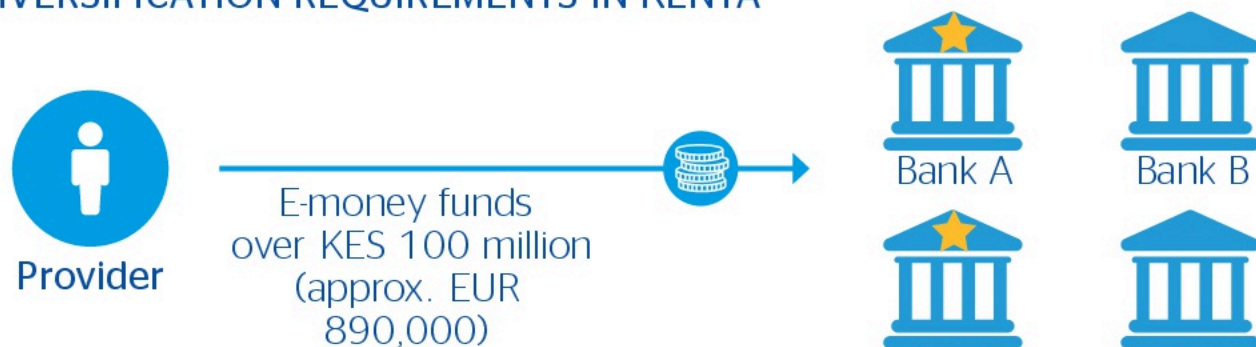
The solution

Deposit insurance
Capital requirements might be imposed at the time of authorisation and/or on an ongoing basis
Additional requirements on the number and strength of the banks where the funds are deposited

DEPOSIT INSURANCE OF ELECTRONIC MONEY FUNDS IN SELECTED COUNTRIES



DIVERSIFICATION REQUIREMENTS IN KENYA



Funds must be placed in at least four banks, each of them holding max. 25% of funds.
At least two banks must be strongly rated