

# 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

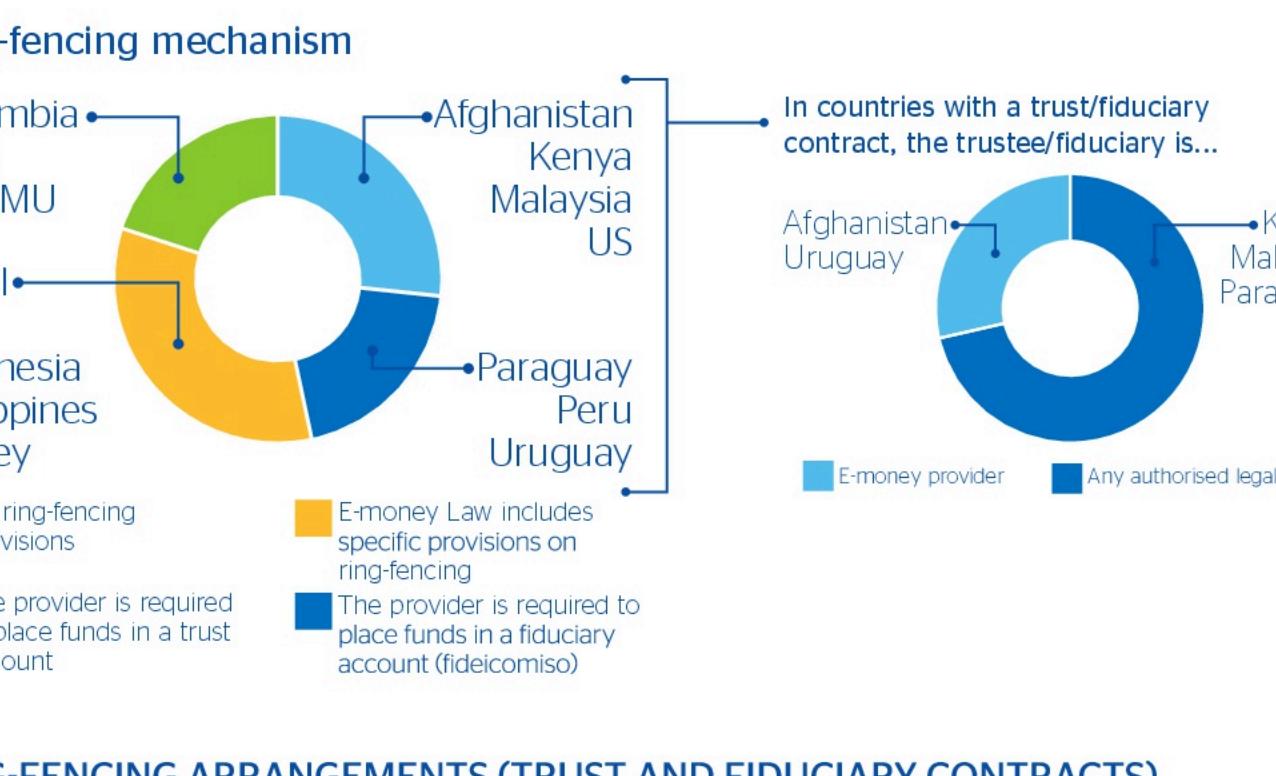
Clients may not be able to access their funds upon demand if the electronic money provider does not have sufficient funds

### 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

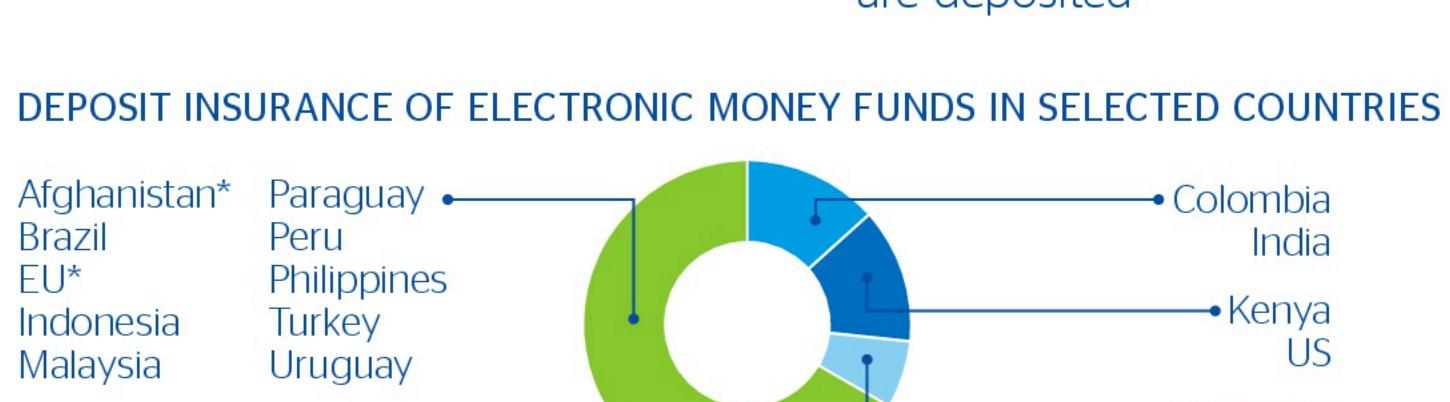
If the electronic money provider becomes insolvent, customers' funds may be used to meet the providers' obligations and customers may lose their funds

### 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

#### Deposit insurance coverage



\* Afghanistan and the European Union allow funds to be covered by a private insurance policy

### DIVERSIFICATION REQUIREMENTS IN KENYA

#### Diversification requirements

E-money funds over KES 100 million (approx. EUR 890,000)

#### Bank placement

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

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