E-payments without frontiers Issues & Issuers

10 November 2004
Dr Thaer Sabri
Electronic Money Association

Summary

- The evolution of electronic money products and markets
- Issues addressed on the way
- Current and upcoming challenges

Evolution of products and markets 1/3

- Initial objective was largely the displacement of physical cash – with minor exceptions
  - Products therefore largely smart card based
    - Accounted; Proton, Banksys etc.
    - Unaccounted; Mondex
  - Limited migration online
    - Infrastructure requirements

Evolution of products and markets 2/3

- The Internet brought new needs for prepaid payment products
  - Auction market
  - Gaming
  - Money remittance etc.

- Software based products easier to implement, and cheaper
  - Examples include PayPal, Neteller & Nochex
  - Use of such products mirrors that of cash
    - smaller values,
    - occasional high values; with immediate redemption
    - P2P

Evolution of products and markets 3/3

- The long awaited digital content market:
  - Signs of resolution for music – i-Tunes
  - Mobile device specific: ring-tones, games & data
  - Wider content and services, unbundling of subscription

- Mobile network driver to exploit potential of 3G
  - Considerable investment in content & its promotion
  - Development of devices that enable consumption of services

Issues addressed on the way

- Regulatory regime required significant development
  - Limitations of investments
  - Systems and controls
  - Redemption, purse limits, waiver criteria

- Interpretation of the Directive
  - Boundary with banking, technical neutrality
  - Boundary with single purpose products, intended scope

- Anti Money laundering regulations needed to be adapted; a number of initiatives

- European legislation; e-commerce, distance marketing

More issues addressed on the way

- Development of an operational risk framework; and particularly

- Addressing IT Systems & Security
    - Greatest risk to an e-money issuer is likely to be counterfeit
    - Lead taken by the ECB

- Unified approach for all products being developed

Current and upcoming issues

- Third Money Laundering Directive
    - Verification of identity – timing
    - Retention of records

- New Legal Framework for Payments
    - Scope of a Payment Institutions’ activities
    - Provisions relating to all payment service providers

- (UK) OFT Task Force review of the payment system

Some objectives

- Systematic collection of industry data
  - Size and value of market
  - Fraud & security
  - Customer service

- Review of the Directive and proposed amendments
  - Limitations of investments
  - Definition
  - Redeemability

Challenges in the internal market

- Passporting and local compliance requirements
  - Consumer law
  - Possible money laundering legislation

- Verification of identity online (for ML & fraud purposes) varies significantly from member state to member state

- Boundaries of the definition of e-money vary to some extent

More challenges in the internal market

- Efficiency of products dependent on the interface with the existing payment infrastructure
  - Cost of loading e-money is dependent on payment system charges
  - Ease and cost of redemption also similarly dependent
  - Hence efficiency of e-money transactions sensitive to overall infrastructure

  - Specific card loading issues being addressed:
    - Which is the final transaction, loading of e-money or e-money purchase of merchant goods?

Thank you!

Dr Thaer Sabri
Chief Executive
Electronic Money Association
T +44 (0)20 8399 2066
M +44 (0)797 111 2066
Thaer.Sabri@e-ma.org