

# Defining regulatory space for non-bank service providers

**Dominic Peachey**

**Technical Specialist & Senior Policy Adviser**

**Financial Services Authority**

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# Overview

- e-money and regulatory objectives
- issues of confidence
  - – consumers & fund holders
- risk issues
- the European approach

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# PART ONE

## e-money and regulatory objectives

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# The Electronic Money Proposition

- definition
- surrogate for coins and banknotes
- distinct from deposit taking?
- safeguarding consumer funds
- accessed through mobile handsets
- transacted through wireless networks
- enables x-border scramble
- transaction monitoring

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# Objectives of Financial Regulation

- public confidence in financial services
- keep consumers informed and protected
- keep financial criminals out of system
- bring unbanked on board
- preserve systemic stability
- facilitate innovation & competition
- ensure technological neutrality

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# PART TWO

## issues of confidence: consumers and fund holders

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# How to Safeguard Customer Funds

- deposit at a prudentially regulated bank
- invest in secure liquid low risk assets
- what exactly does this mean?
- realisability of float
- maturity profile of float
- concentration risk
- entrust to Central Bank?

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# Can non-banks offer the service?

- bankers' conservatism
- current mood of retrenchment
- public distrust post credit crunch
- are prudentially regulated non-bank financial institutions feasible?
- proportionate regulatory response to e-money?
- systemic and inflationary risks
- statistical reporting and Minimum Reserve Requirements

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# Partnerships

- bank and technology provider
- marriage of.....
- .....financial stability and prudence
- with technological know how
- level playing field or barriers to market entry
- would such partnerships be stable?
- consequences of divorce

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# If not banks, then who?

- MNOs are already guardians of large consumer floats
- more phones than bank accounts
- is there an appetite for financial services?
- or should they just do information transfer
- non-banks successfully provide e-money in EU
- but prudential regulation of e-money in EU is unduly onerous

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# PART THREE

## risk issues

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# Perceived risks inherent in e-money

- failure due to poor business case
- technology risk
- operational risk
  - management,
  - systems and controls
  - fraud
- market risk (investment of float)
- liquidity (failure to meet redemption)
- AML/CFT

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# On the other hand

- no credit risk
- other risks can be mitigated
- through rules on:
  - capital,
  - liquidity,
  - ALM
  - management, systems & controls
- only failures in Europe due to poor business case

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# E-money as a risk mitigant

- which is worse – losing your wallet or your cell phone?
- bring the financially excluded into the mainstream economy
- remote storage of consumer funds
- ability to monitor volumes and velocities of circulation

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# How e-money differs from deposit taking (1)

- fine judgement (see EU Directive)
- may need specific exclusion from definition of deposit
- spending rather than savings product
- interest not allowed on float funds
- purse limits?
- or unlimited storage

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## How e-money differs from deposit taking (2)

- balance may be stored on card (bearer) or at server (accounted scheme)
- how long may a balance remain on A/C
- is there an expiry date on product
- is redemption guaranteed
- does the account provide credit?
- does deposit protection apply?

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# PART FOUR

## the European approach

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# EU experience

- EU has prudential e-money regime since 2002
- licenses non-banks to do e-money and payments
- stored value prudentially regulated
- COB regulation of payments from 11/09
- EU over-regulation stifles innovation
- policy making in EU is highly complex

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# EU Policy Making

- 27 Member States
- plethora of policy making bodies
- EC, EP, ECB, Council (experts, attaches, COREPER, ECOFIN, Heads of Government)
- EU lawmakers do not necessarily understand finance, technology or risk
- EU persists in regulating an issue before it has decided where the risk lies
- policy based evidence making

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# The split in European thought

- Conservative MS want to restrict e-money issuance to banks
- Liberal MS want to see new providers enter the market

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# The European Central Bank

- happy for independent e-money sector to develop but
- concerned with price stability in the Euro zone
- wants ELMIs to be credit institutions
- for statistical reporting purposes and
- to impose minimum reserve requirements
- appears to be losing the argument

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# Thoughts on regulation

- expensive
- do market failure and cost benefit analysis
- underpin consumer confidence
- politically desirable if overseas entity
- better to follow rather than anticipate risk
- do not hamper technological innovation
- be prepared to take risks
- just saying “no” is an easy option

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