

Green light for 'historic' US financial reform

The US Senate passed the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 on 15 July, giving final approval to a major overhaul of the US financial system. The Act implements a more robust consumer protection infrastructure, overseen by the new federal Consumer Financial Protection Bureau which has regulatory powers to monitor consumer-lending practices - in particular, mortgages and credit cards - and enforce sanctions if abusive practices are discovered. The Act also introduces tougher regulation of banks' lending and transparency requirements. Ben Bernanke, Chairman of the Federal Reserve, said that "the financial reform legislation approved by the Congress today represents a welcome and far-reaching step toward preventing a replay of the recent financial crisis". The Act has, however, been met with some criticism. The US Chamber of Commerce President and CEO, Thomas J. Donohue, said that "Congress had a historic opportunity to fix a broken system and it failed...Washington just piled bureaucracies and massive new regulations onto a broken system".

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Oman to equip ID card with electronic payment features

The Sultanate of Oman is going to link e-payment options to national ID Cards, the Oman Information Technology Authority (ITA) has announced. On 29 June, the ITA launched the Oman e-Government Architecture Framework (OeGAF). The e-Purse system, introduced last year to promote cashless and electronic payments in the Sultanate, has been made a key element of the OeGAF objectives. Under the e-Purse system, ID cards will be equipped with payment features using an embedded application in the Smart chip on the ID card. According to Muhanna Moosa Baqer, ITA's e-Payments Manager, "ID cards can soon be used for paying fees, driving licences, shopping, phone subscriptions, visa applications, parking and tollgate fees".

"[Oman] puts a contactless e-purse on the national ID card as

a way to kick-start the shift to cashless environments", said David Birch, Director of Consult Hyperion. "As well as providing an alternative to debit and credit cards, it will help government departments to collect their payments." The e-Purse system was introduced in May 2009. The first phase of this national e-wallet system began in July last year, allowing Omani citizens and residents to upload and store money on their national ID cards, in order to pay government and police bills. In the next few months, the system will be rolled out further. ITA stated that all major banks in Oman are participating so retailers will be able to collect payments via the ID card. "This is a prime example of how government agencies and private institutions can partner to improve services to the public", said Bruce Palmer, Managing

Partner of Curtis, Mallet-Prevost's Muscat office. Abdullah Al Kalbani, Captain of the Royal Oman Police, said: "Since it is mandatory for every adult resident in Oman to have a national ID card this will help those citizens in Oman who have no bank accounts, who do not carry debit or credit cards".

Mr Kevin Wong, General Manager of Astute Pte Ltd, the Singaporean company that is behind the development of the new Omani ID card, said: "The company is in discussions with the governments of Saudi Arabia, Kuwait, Bahrain and Jordan for a similar service".

"The future of payments is the future of identity", adds David Birch. "One could envisage, whether you think it is a good idea or not, a simple universal payment scheme that is linked to a single universal identity, a kind of galactic PayPal in which everyone participates."

Western Union cleared to offer money transfer services in Japan

Western Union is the first non-bank money transfer provider to obtain a licence to provide money transfer services in Japan as of July, under the Financial Settlement Act 2009. The Act came into force on 1 April 2010 and deregulates the Japanese payments market by creating a licensing system for payment service providers, which will be overseen by the Japanese Financial Services Agency. Pursuant to the Act, financial institutions other than banks are now also authorised to operate payment systems,

and provide national and international money transfer services in Japan, as long as the payments are 'of small value'. According to a spokesperson for Japanese law firm Nagashima Ohno & Tsunematsu, "the Act aims to improve the security, efficiency and convenience of fund settlement in Japan".

Yuji Fukuma, of the Centre for Financial Industry Information Systems - a not-for-profit organisation that conducts payment-related research in Japan - said that "now that the ban on the funds transfer

business is lifted, it is anticipated that non-bank companies will actively enter into this new business market, which will in turn trigger greater competition and innovation for providing even more convenient services for retail e-payments". Western Union - which applied for a licence in April 2010, as soon as the Act came into force - said the Act was 'robust' and 'progressive', and also deemed it 'a move in the right direction in facilitating convenient and regulated money transfer services [in Japan]".

editorial board

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newspaper in 2004 as a 'grade-A geek', by the Centre for the Study of Financial Innovation in 2005 as 'one of the most user-friendly of the UK's uber-techies'. Birch is a member of the advisory board for European Business Review, a columnist for SPEED and UK correspondent to the *Journal of Internet Banking and Commerce*. He is well-known for his more than 100 Second Sight columns in *The Guardian*. He is a media commentator on electronic business issues and has appeared on BBC television and radio, Sky and other channels around the world. Visiting Tutor at the Visa Business School since 2001, and lecturer at the annual Bank Card Business School.
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John Chaplin is European Payments Adviser for First Data International. He has particular expertise in the area of electronic payments and is currently responsible for ensuring that First Data is well positioned to respond to the challenges and opportunities of the Single European Payments Area. He has worked in the European payments industry for 20 years and is a frequent speaker about the future structure of the payments processing business. Prior to First Data, John held a number of senior positions at Visa in Europe where he was Executive Vice President, and at Honeywell Inc.

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Monthly: launched September 2003

World Sports Law Report is designed to address the key legal and business issues that face those involved in the sports industry. PRICE £520 (£540 overseas).

DataGuidance

Launched December 2007 - The global platform for data protection and privacy compliance. www.dataguidance.com

Editorial

Payment fraud - reductions but no room for complacency

Payment fraud - including card fraud and online banking fraud - continues to cause significant losses for the financial services industry. As part of an effort to address fraud, the UK Payments Administration (formally known as APACS) launched Financial Fraud Action UK (FFA), in July 2009, to coordinate industry activities against financial and payments fraud. The FFA has recently published a report giving an overview of payment industry fraud and measures to prevent it¹. The work of the FFA complements other initiatives to prevent fraud such as those of the National Fraud Authority² which was established in 2008 to coordinate the fight against fraud in the UK.

According to the FFA report, total fraud losses on UK-issued cards fell by 28% from £610 million in 2008 to £440 million in 2009. Card-not-present fraud, consisting of almost 2/3 of these losses (at £266.4 million), also saw a decrease of 19% from £328 million in 2008. This is the first time that card fraud has decreased since 2006. At the same time, card fraud losses, lost and stolen card fraud and card ID theft have also fallen. The FFA report attributes the decrease to a combination of factors, including the adoption of chip and PIN technology, the increasing use of fraud screening detection tools by retailers and banks, and the continuing growth in the use of cardholder authentication processes (such as MasterCard SecureCode and Verified by Visa). Additional factors include the current economic climate which impacts fraudsters as it has become much more difficult for consumers to establish new lines of credit. Cardholders are increasingly heeding advice to keep their personal information secure.

While the fall in card fraud is certainly good news, there is no room for complacency. The changes in the card fraud landscape, e.g. the continuing success of chip and PIN in the UK, have led fraudsters to target those environments that do not yet use chip and PIN such as the internet. According to the FFA report, while there was a 15% decrease in 2009 in internet card fraud from 2008, such fraud now accounts for 58% of card-not-present losses - up from 55% in 2008. At the same time, online banking fraud in the UK increased by 14% from £52.5 million in 2008 to £59.7 million in 2009. This is largely due to the increasingly sophisticated phishing and malware techniques adopted by fraudsters who attack vulnerable users of online banking rather than banks and financial firms themselves.

To meet the continuing challenges of payment fraud, a number of UK industry and law enforcement agency initiatives have been put in place such as:

- the Dedicated Cheque and Plastic Crime Unit which is a special police unit sponsored by the banking industry with a

brief to stamp out organised card and cheque fraud across the UK;

- the National Fraud Intelligence Bureau established by the payments industry with the City of London Police as an intelligence sharing initiative;

- the Fraud Intelligence Sharing System which enables the banking industry to share information on all confirmed, attempted and suspected fraud in a shared database;

- the Industry Hot Card File which contains information on more than 6 million cards reported lost or stolen and which is subscribed to by more than 60,000 retailers and which prevented just over 430,000 cases of attempted fraud in 2009; and

- CIFAS which is the UK's Fraud Prevention Service with 265 members spread across banking, credit cards, asset finance, retail credit, mail order, insurance, telecommunications and share dealing through which members share information about identified frauds.

While overall fraud in the UK has increased significantly to over £1 billion in the first six months of 2010³ with financial services being one of the biggest losers, concerted actions and initiatives such as those taken by the payments industry demonstrate that it is possible to reduce fraud losses. However, in a difficult economy a better understanding of vulnerabilities, increased vigilance and a long term commitment by all stakeholders are key to try and reduce fraud and so limit the impact on consumers, businesses and the overall economy.

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1. Fraud the Facts 2010 - The Definitive Overview of Payment Industry Fraud and Measures to Prevent it by the FFA and the UK Cards Association.

2. The National Fraud Authority (formerly the National Fraud Strategic Authority) functions as an executive agency of the Attorney General's Office.

3. BDO - Fraud Breaks £1BN Barrier in 6 months, available at www.bdo.uk.com/press/2010/7/fraud-breaks-1bn-barrier-6-months

How networks, phones and cards shape e-commerce

Online sales in the US have been boosted by a combination of more consumer-focused legislation, new payment methods and new sales channels. Michelle Cohen, Partner at Thompson Hine LLP, examines how the internet has contributed to encourage US consumers to buy, even in a context of economic recession.

E-commerce remains strong

According to the United States Department of Commerce, US retail e-commerce sales for the first quarter of 2010 totalled \$38.7 billion, an increase of 1.5% from the fourth quarter of 2009. Significantly, the first quarter of 2010 e-commerce estimate increased 14.3% from the first quarter of 2009. E-commerce sales in the first quarter of 2010 accounted for 4.1% of total sales. While second quarter retail e-commerce sales estimates will not be released until mid-August, it is expected that e-commerce will continue to grow in the US. In fact, Forrester Research forecasts that online retail sales in the US will be nearly \$250 billion by 2014, up from \$155 billion in 2009. Forrester also predicts that e-commerce sales will represent 8% of all retail sales in the US by 2014, up from 6% in 2009.

Americans curtailed spending during the recent economic downturn and banks tightened credit. However, Americans continued to turn to e-commerce for three key product categories - computers, apparel, and consumer electronics - which represented more than 44% of online sales in 2009. The reasons for the rise in e-commerce during this period include increased consumer confidence with the security of online payments, traditional 'brick-and-mortar' retailers adopting a

greater web presence, price comparison made easier in the online environment, social networking growing business, mobile marketing, 'group buying' (such as Groupon.com - where discounts or exclusive merchandise are offered to shoppers based upon their activity - for example, 'we can offer this discount if 25 people sign up today') and 'flash buying' (time limited offers).

Due to banks' tightening of credit, increased unemployment and consumer reluctance to further increase credit card debt, the use of major credit cards for online purchases declined in 2009. Consumers turned to debit cards, prepaid cards, gift cards and other online payments. Prepaid cards, gift cards, and alternative payments (such as Paypal) are projected to have the highest rates of compound annual growth for e-commerce purchases through 2014, according to Javelin Strategy and Research. The popularity of these products is due to various factors, including a trend towards consumers wanting to 'pay now' and avoid interest and late fees associated with credit cards, and a perception of greater security when cards are not tied to individual accounts.

What lies ahead

Use of traditional credit cards may see resurgence due to new credit card law's consumer protection

With recent changes in US laws governing how credit card companies bill their consumer customers, consumers may again pull out their traditional credit cards along with alternative methods. Indeed, many consumers may need to rebuild their credit scores by showing on-time credit card payments after periods of financial difficulties during the economic downturn. Other

consumers may wish to accumulate reward points, such as free airline tickets when an airline-branded credit card is used.

This past February, the Credit Card Accountability Responsibility and Disclosure Act of 2009 ('the Act') went into effect. Certain provisions of the Act are still being implemented, including new rules which will become effective this August (as will be discussed below). In enacting the Act, Congress sought to combat credit card companies' practices that drew consumer outrage and may have pushed consumers to other payment methods. Some of these practices included significantly increasing interest rates without notice, hiding terms in fine, difficult to understand text in agreements and not providing consumers with sufficient time in which to pay their bills before late fees assessed. By way of example, late fee payments amounted to approximately \$15 billion paid by American consumers each year.

Under the Act, Congress sought to create an level playing field by mandating under federal law that card companies clearly set forth their terms and conditions, obey certain restrictions pertaining to interest rate hikes, allow consumers sufficient time for payment from the mailing of bills, state upfront the length of time and total interest it will take to pay off the card balance if only minimal payments are made, and post credit card agreements on the internet so consumers may compare and contrast terms of different providers.

While the full impact of the Act remains to be seen, the Act has garnered great interest in the mainstream and financial press. Consumers now are ensured of 21 days to pay their bills and are given notice of interest rate hikes. Individuals may be feeling more

confident in making credit card purchases because they have more information and fuller disclosures.

New rules further protect consumers

In June, the Federal Reserve Board issued rules under the Act. These new rules are designed to protect users from unreasonable late payment and other penalty fees, and to require credit card companies to reconsider interest rate increases imposed since the beginning of 2009. The new rules will go into effect on 22 August 2010. Under the new rules, credit card companies may not charge a penalty fee of more than \$25 for a late payment unless the consumer has engaged in repeated violations, or certain other conditions exist. Credit card companies are also prohibited from charging penalty fees that exceed the dollar amount associated with the consumer's violation. Thus, if a consumer is late making a \$20 minimum payment, the fee cannot exceed \$20 - late fees currently average \$39 dollars industry-wide. With the new restrictions, late fees may be reduced up to 30%. These changes may boost consumer confidence in their card companies. However, consumer advocates have warned about new fees that credit card companies may tack on, such as new annual fees, in an effort to recoup lost revenues.

Prepaid cards will remain strong

We should not overlook prepaid cards, which have increased in popularity over the years for online and retail store purchases. The Act now requires that all gift cards have at least a five-year gift span. Formerly, many gift cards had expiration dates and deductions for lack of use during the active period. Now, consumers can use gift cards for half a decade. As the Act imposed new restrictions on

The popularity of these products is due to... consumers wanting to 'pay now' and avoid interest and late fees associated with credit cards, and a perception of greater security when cards are not tied to individual accounts

credit card marketing on college campuses, many parents are turning to prepaid cards as an alternative to carrying larger amounts of cash or traditional credit cards.

E-commerce increases with new marketing trends

Finally, several trends in e-commerce marketing will further spur consumer purchases. Social networks where online retailers can connect and interact with consumers are developing consumer loyalty. Facebook 'fan' pages allow retailers to announce new products, offer special discounts and other promotions, and are generating interest and encouraging purchases. 'Flash sales' which give consumers discernible time limits to offers (such as Gilt Groupe) spur consumers to act. As discussed above, the group buying sites offer discounts when a certain number of people purchase the offer. These offers, similar to gift cards, await redemption at a later date, but the merchant collects the purchase price up front.

Mobile marketing (m-commerce) continues to rise. With the growing popularity of smartphones, and increased competition among marketers to reach those often-affluent consumers making buying decisions from their iPhones and other similar devices, marketers are reaching out to more consumers via these devices. Marketing research firm eMarketer predicts that US mobile advertising spending for 2009 will reach \$416 million, a 30% increase over the \$320 million spent last year. US mobile commerce sales will grow 100% this year to \$2.4 billion from \$1.2 billion in 2009, according to ABI Research.

Conclusion

E-commerce in the US will continue to grow over the next few

years. As the economy recovers and consumers feel empowered by the Act's protection against credit card company abuses, consumers will continue to make purchases online. Individuals will use e-commerce tools to advance their 'savvy shopper' skills - comparison-shopping, and acting on deep discounts and other offers such as free shipping. The emergence of the smartphone - such as the Iphone and its applications - will continue to fuel consumer online retail searches and purchases. Consumers will use a combination of traditional credit cards, prepaid cards and alternative payments, picking and choosing the best payment method for their needs - whether it is building credit, providing teenagers and young adults with a non-cash, but limited payment method or using credit cards to accumulate awards. The same consumer may choose a variety of payment methods with multiple, or even the same retailer, depending on the consumer's needs.

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How new payment methods shape emerging markets

Financial services are increasingly offered online in emerging markets, where the number of payment methods is growing rapidly. Paul Davis, Managing Director at the Counting House (IOM), examines which payment methods are on the rise and what to expect in emerging economies.

An acceleration in the development of new electronic payment types is afoot across the upper echelon of the emerging markets. Penetrating new markets as traditional geographies become saturated, but the products have far wider application to internet and customer-not-present sales generally. The impulsive nature of many decisions has created the need to pass funds securely from consumers to merchants more quickly than ever before, while regulatory demands and supplier nervousness has restricted access to established payment systems. A vendor seeking to expand penetration faces the same two challenges with payments as in any other market: taking money in and paying money out.

However, there are further common barriers particularly applicable:

- Credit card issuers may block properly coded (MCC 7995) transactions.
- The card schemes themselves (Visa, Mastercard, Amex, JCB etc) may impose rules or restrictions on gaming merchants limiting the numbers of approvals.
- Issuing banks (those that provide consumers with credit cards) may not have systems that handle common payment products (e.g. Visa Original Credit Transactions, popular in Europe for payment of winnings, but unavailable to Mastercard holders and not required of issuers of cards

in North America).

- Financial institutions in a country may be unfamiliar with the risks associated with gaming, particularly if the industry is poorly regulated, and reluctant to engage with operators or their payment processors.
- An underdeveloped anti-fraud industry or regime in a country may make risks of fraud losses to credit card thieves unacceptable.
- Payment products of the types favoured by gaming operators may be underdeveloped or non-existent.
- Expertise in developing payment products may be lacking.

These considerations apply equally in all the great developing landmasses - South America, Africa and Asia provide multiple examples.

In adversity lies opportunity, and incentives aimed at improving payment products in national markets have come in two forms: locally-driven products which interface with the traditional banking market, and non-bank alternatives which are typically developed and funded with an international flavour. Three payment types have gained particular prominence and show significant promise for the immediate future.

Real time bank transfer

Real time bank transfer (RTBT) systems are gaining rapidly in popularity and usage. Vendors demand payment systems to be fast, locally accessible and secure. Most countries, regardless of their state of development, have some sort of consumer-to-business (C2B) bank transfer system, but settlements through a BACS type RTGS (real time gross settlements) system can typically take two to three business days. This is too long for some businesses, which need to know now that secure

funds are on their way. RTBT systems address this need by providing secure access to information previously known only to the consumer. How it works is as follows. The merchant site gives consumers the option to pay from their internet banking access, and consumers select their bank. The site then pops up on the internet banking system of the consumers' bank, and after login, pre-populates the payment system with the amount desired and the merchant as the payee. Once a transaction has been executed - so that funds are secured - the merchant is immediately notified of the success of the transaction and can allow consumers to play, even though actual settlement of the funds to the merchant's account can take two to three days. A third party provider who charges mere cents for the service but fills the gap between the bank-to-bank transfer system and merchant knowledge typically operates RTBT systems. There are many examples of such products in Europe - for example *Sofortüberweisung* in Germany or IDEAL in the Netherlands - but developers in many emerging markets are close to launching very similar products. We can anticipate seeing RTBT systems launched in Brazil, Chile, Peru, Mexico, Singapore and elsewhere by the end of 2010, frequently with very well established providers fuelling their market acceptance, for example Braspag and Ernet.

Payment cards

Payment card systems have gained enormous popularity in several countries where there is a significant educated but unbanked population. Among developed nations, Spain's success with PaySafeCard was probably the flag carrier but imitators have spawned widely including AstroPayCard in

Brazil, Todito and Si Vale in Mexico. Payment cards complete the interface between retail distribution networks and the internet. Much like a mobile phone top-up card, the item is available for purchase in a network of retail outlets, post offices or even bank machines, and the card can be used on-line to top-up an account with a variety of merchants.

Virtual cards

Virtual cards have gained tremendous currency in the internet retail sector. A virtual card issuer is a member, or participates in the membership of another party, in a card scheme (Visa or Mastercard) and is empowered to issue virtual prepaid debit cards with all the features of a plastic card but for use only on the internet. Typically, issue of a virtual card is generated by an email to the recipient, meaning that it is highly useful for outgoing payments (winnings) and transcends all national boundaries. Costs are very low and are usually shared by the merchant and the consumer. In one real example, the merchant pays just 99p for each card issued by email, while the consumer pays a commission of between 1 and 3% to 'pick up' the card and the loaded funds. Aside from these solutions, which still have a strong component of electronic commerce, local agency systems are still a preferred method in some very difficult markets. The issue with agency systems is that control is very labour-intensive and subject to difficulties of trust, enforcement and human error. A real concern in certain countries has to be the risk of innocently developing an interface with organized crime.

Other challenges

Having overcome all the obstacles and engineered success in a remote and difficult market, the successful

Some places in which it is relatively difficult to collect money make it surprisingly easy to pay it out, for example Brazil (where cheques are widely used) or South Africa (which has a world class local payments system)

vendor will be faced with one final challenge: repatriating profits. This is not a new problem for international businesses, it has existed much longer than the internet. Sometimes, it is relatively simple to earn an income in Remnimbi, Rupees, Rubles, Rands or Reais - but if the operator doesn't want to become a long-term investor in an unstable economy, the effort may have been wasted. A great deal of ingenuity is required to bring together 'trade swaps' with importers and exporters to make legal arrangements that satisfy this objective.

Outbound payments specifically require very particular attention, country by country. Some places in which it is relatively difficult to collect money make it surprisingly easy to pay it out, for example Brazil (where cheques are widely used) or South Africa (which has a world class local payments system). These two examples illustrate the existence of another barrier, however. In Brazil, it is easy to issue a cheque but really difficult to make sure it does not get lost in the mail. South Africa has a great bank-to-bank payments system, but consumers are very conscious of fraud risk and extremely reluctant to give out bank account details.

Done well, payments systems in exotic markets provide a substantial profit opportunity for savvy providers. Success will not come without a thorough understanding of cultural, political and social norms and expectations in a target market, coupled with a very thorough understanding of traditional banks, their payment systems, governmental regulations and paths which avoid the plethora of obstacles. National and international providers have something to offer, and neither type should be discounted. Job one

is always to understand how people think in a given country or area, then to work with the prevailing culture and not to seek to impose a foreign system just because it has worked elsewhere.

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The models and technology surrounding mobile payments

Mobile payments depend on complex technical processes and require the right infrastructure. Trevor La Fleche, Senior Research Analyst at IDC Financial Insights, discusses the different mobile payment models and processes, and explains why mobile payments have not been as successful as other payment methods have been so far.

Mobile payments sound like a very simple concept but there are a number of distinct processes and infrastructures required to give consumers and businesses what they would perceive as true mobile payment capabilities. While the mobile phone and banking industries try to generate a marketing buzz around the concept, there may be a fundamental reason that we have not seen mobile payments take off as quickly as other technologies have done. The lack of a runaway success in mobile payments either points to a lack of a potential profits or a lack of demand. Either way, mobile payments are the next battleground for banks, mobile operators and third parties.

Mobile payments processes

When we look at making a payment from a mobile phone, there are a number of distinct ways in which it can be used. This creates a layer of unexpected complexity for the consumer as no other payment instrument works in such a complex way and needs to access such disparate infrastructure for settlement. In addition, where the value is actually stored is significantly different for many of these processes making it more difficult for the consumer to use. A brief look at the main mobile payments processes being talked about in the

industry highlights a number of payment scenarios for the mobile phone.

Remote commerce

Mobile remote commerce is when goods and services are purchased at a distance from the retailer. This form of commerce is well suited to electronic downloads and ticketing applications where there are no physical goods involved. This model has seen success in the 'bill to operator model', where costs are simply added to the subscriber's bill or deducted from a prepaid account. There is also a number of services that simply allow access to an existing account that is pre-populated with the user's personal credit or debit card and the payment is made on the rails of existing banking and card networks. This service is popular in gambling, parking and services like the iTunes Music store that allow music to be purchased and downloaded onto the iPhone.

Retail proximity payments

A strict definition of a retail proximity payment is a payment that is carried out by presenting a wirelessly provisioned secure token (i.e. near field communication, a NFC-enabled mobile phone) to a contactless point of sale terminal (POS). This can be authorized either online or offline, depending on the value of the sale and market clearing models available. This model is predicated on the existence of a contactless point of sale infrastructure and presents a chicken and egg problem for the card schemes. In addition, there are further issues about wirelessly provisioning the secure token, as operators will want to be paid for access to their subscribers.

P2P payments

The process with the most hype in the world of mobile payments is

the person-to-person (P2P) space. This model has been very successful in Africa with services like M-Pesa and other competitive services. Almost all P2P service are defined whereby the sender and receiver must have an account with the service provider and are essentially close loop systems. The virtual account is owned by the service provider and defines how money can be accessed and withdrawn from the system. Currently, these schemes are not interoperable and money cannot be sent from one scheme to another, or to the banking system.

International remittances

Whilst the domestic context of P2P payments is one ecosystem where one or more systems will compete for dominance using a 'close loop stored value account', the international arena is significantly more complex. International remittance flows are estimated to be worth several billion dollars with several corridors being particularly attractive. In addition, in a number of countries with significant migrant populations, which ban payments in cash, there is a great convergence of the need for a mobile salary payment and international remittance service. The challenge in this market is to provide coverage in both the originating and receiving country and the processing network in between.

Issues

Although the technology for mobile payments exists, the barrier to success is in the myriad of business and contractual issues, as well as some elephants in the room that all the parties around the table must deal with first.

Account identifier

There are significant issues around the ultimate account identifier. In

the heterogeneous world of mobile phones, the internet and banking consumer will end up with multiple accounts and multiple identifiers to use these accounts. If the mobile phone number is used as an account ID, there are significant legal issues about mobile phone number re-use. Consumers and businesses change their mobile numbers significantly more frequently than they change their bank account.

Interoperability

Closed loop payment schemes are never long lived. A recent Financial Insights Survey over 80% of respondents indicated that interoperability was the main reason for the lack of success in mobile payments. Going forward, this issue will become the showstopper. There is little room in the world for a payment instrument that is less than universal. In the EU, a mobile payment in the UK should be the same as a mobile payment in France. This is not the case at present and there are significant issues for existing and new schemes that are progressing and need to be re-tooled at a later date to comply and interoperate. Unfortunately, there is little incentive or leadership by any player to make this happen.

'Know your customer' requirements

Know your customer (KYC) requirements. Once you start transferring value electronically, the fraudsters and money launderers will follow with unique scams. Depositing small amounts across numerous handsets and pooling into larger accounts will happen. Mobile operators and payment service providers are generally ill-equipped to handle the robust KYC data collection required to satisfy regulators at the

The safest assumption is that the internet and IP technologies are here to stay and will extend into the mobile space more readily than phone technologies such as SIM cards. SMS and USSD will extend in the opposite direction

moment. In addition, finding an acceptable way to perform KYC checks on unbanked - and often unidentified - people, mobile payments are designed to address is problematic.

Technology

In the mobile space, the complexity of technology and the pace of technological change should not be underestimated, when coming to market with new products. Previous experiments with technologies such as WAP and WAP-banking were done in an era when mobile data transfer rates were painfully slow. Considering the continued pace of change regarding mobile technology, success in the mobile payments market might be more about avoiding the pitfalls, rather than reaching the perfect answer.

The blurring of the lines between what constitutes a mobile device and what does not is a significant technology trend that cannot be underestimated. Mobile devices in the market in 2010 may or may not contain a SIM card or other previously standard mobile phone hardware. New WiFi networks and capabilities create new possibilities for mobility that were previously impossible. The safest assumption is that the internet and IP technologies are here to stay and will extend into the mobile space more readily than phone technologies such as SIM cards. SMS and USSD will extend in the opposite direction.

Consumer acceptance

The big remaining question is: do consumers really want mobile payments? While there are legitimate use cases for mobile payments there is little real world evidence that this demand is universal or overcomes the convenience barriers for the consumer in many markets.

Conclusion

Mobile payments still have a long way to go before they become the mainstream success the industry would like us to believe they will be. From a lack of infrastructure on the retail proximity payment side to the significant investment required to service international remittances, there is significant infrastructure that needs to be put in place before the market is ready. On the consumer side, there is the issue of understanding the complexities of the mobile phone as a multifunction payment instrument and a limited acceptance of this in the marketplace. On the contractual side, there are significant issues to be worked out between the players on revenue, liability and risk that have not yet been worked out. Putting all this together indicates that, while mobile payments are a great idea in theory, the reality is significantly more difficult than the industry would like us to believe.

Having said that, there is a case for mobile payments where the lack of payment infrastructure is so acute that the mobile and a simple payment infrastructure can be successful.

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Single Market does not yet translate into single payments

Time has passed since the introduction of the Single Euro Payments Area (SEPA), which intended to harmonise electronic payments across the EU. However, the success of the SEPA scheme is debatable as many obstacles still appear to be in the way. Jelle-Frodo Huisman, Consultant at Innopay, evaluates why EU Member States are so slow in introducing harmonised payments.

It would seem obvious that anybody trading goods and services in the EU Single Market, using a single currency, would be able to accept or make payments in a uniform and convenient manner. Strangely, this is not the case. Almost 20 years after the creation of the Single Market - and over ten years after the introduction of the euro - most European countries still operate national systems for the execution of bank transfers. Even electronic payments between two Eurozone countries are often treated as international payments. Merchants and corporations typically choose to open bank accounts in countries where their customers are located and use their national payment instruments. In the Eurozone, over 50 billion electronic retail payments are made every year. Yet, as a result of the current fragmented infrastructure, only 2% of all credit transfers in Europe are cross-border.

SEPA leads the way

EU politicians were frustrated by this reality and introduced the concept of the Single Euro Payments Area (SEPA). It involves the creation of a zone for the euro in which all electronic payments are considered domestic. SEPA aims to turn the fragmented national markets for euro

payments into a single domestic one which enables individuals and corporations to make cashless euro payments to anyone in the area using a single bank account and a single set of payment instruments. Use of these instruments should be as easy, efficient and safe as currently available national payment instruments. European politicians primarily blamed the banking industry for the existing fragmented market for electronic payments and set off to realise SEPA through EU regulation, against the wishes of the European banking industry. In 2001, the European Parliament adopted Regulation 2560/2001 on cross-border payments in euro, which effectively prohibits different pricing for national and cross-border payments in euro.

The banking industry reacted. In an attempt to prevent any further unwanted EU legislation, they set out to create SEPA through self-regulation. In 2002, the banking industry founded the European Payments Council (EPC) as the decision-making and coordination body of the European banking industry in relation to payments.

The EU Commission agreed with this structure and allowed the EPC to be the coordinating force behind SEPA, closely monitored by the European Central Bank (ECB). The EU Commission, however, reserved their right to create SEPA through legislation if the results were not satisfactory.

The most eye-catching results of the EPC have been the conception of three pan-European payment instruments: SEPA Credit Transfers (SCTs), SEPA Direct Debits (SDDs) and the SEPA Cards Framework (SCF). These payment instruments are intended to replace all national and international electronic payments in euro across the 32-country SEPA zone.

SEPA goes 'live'

On 28 January 2008, the SCT scheme went 'live'. From that date onwards, more than 4,000 EU banks adhering to the new EPC scheme were reachable for SCT. Therefore, this date is considered to be the start date of the Single Euro Payments Area. In November 2009, the SDD also came into service. However, SEPA banks are not required to be reachable for SDD transactions until November 2010. Finally, starting 2011, all general purpose payment cards in circulation will be SCF compliant.

The EPC roadmap for 2004-2010, set out by the EPC, reads that SEPA payment instruments will become the dominant form of electronic payments in euro in 2010 and will replace all national payments in 2011. In reality, however, take-up of SEPA payment instruments has been much slower than predicted. In April 2010, only 7.5% of all credit transfers in the Eurozone were executed through SCT, the remaining 92.5% were executed using legacy national or international credit transfer systems. The market share of SDD in April 2010 was virtually non-existent. Currently, Luxemburg is the only Member State that completely abolished its national credit transfer system in favour of SEPA. In their Sixth Progress Report on SEPA of November 2008, the ECB criticised SEPA's progress and urged the banking industry to speed up the process and turn the 'downbeat' attitude. In their report, the ECB found that many banks still offered SEPA instruments to customers as cross-border payments in euro rather than domestic payments. The ECB also strongly urged the EPC to get on with additional products, including SEPA e-payments for internet purchases, electronic mandates as an option for direct debits and electronic invoicing.

The EU takes control again

In 2009, the EU Parliament, EU Commission and ECB remained frustrated by the lack of result from banking industry self-regulation with regard to the progress of SEPA. Since the 'natural migration' foreseen by the EPC was not taking place, the EU Parliament started stressing the need for a SEPA end-date, after which no national payment system would be in operation for payments in euro. On 12 March 2009, the EU Parliament adopted a resolution calling on the EU Commission to set a clear, appropriate and binding end-date - which should be no later than 31 December 2012 - for migrating to SEPA instruments. In 2010, the EU moved further away from banking self-regulation by creating the SEPA Council. The mission of this new body under the co-chairmanship of the EU Commission and the ECB is to strengthen the governance of the SEPA project at EU level. Immediately after its inaugural meeting on 07 June 2010, the members of the SEPA Council issued a statement stressing their strong support for the establishment of end-date(s) for migration to SCTs and SDDs by means of legislation at EU level.

Meanwhile, the banking industry, represented by the EPC, has protested against imposing such an end-date. They agreed with the EU Commission on the merits that an end-date would bring. However, it is their opinion that it is not only banks that are involved in the creation of SEPA but rather a close conjunction of stakeholders including consumers, small and medium enterprises, merchants, corporations and government. The banking industry believes that banks have done their part in creating SEPA while other stakeholder communities have yet

Can politicians create SEPA on their own when stakeholders are either not interested, unwilling or incapable?

to give their full support. In June 2010, the EPC has still not committed to a SEPA migration end-date.

Payment Services Directive

In order to make SEPA a reality, legislation with regard to payment services needed to be harmonised across Europe. In 2007, the EU adopted the Directive on Payment Services (PSD), which harmonises rights and obligations in the relationship between payment service providers and payment service users, thereby enabling the introduction of pan-European payment instruments. The PSD has a broader perspective of payment services than the banking industry alone. It allows for non-banks to join payment systems that were traditionally accessible to banks only, like for example SCTs and SDDs but also VISA, Maestro and MasterCard. These non-bank entities are known as payment institutions and, like banks, need to be licensed by a national competent authority - hundreds of payment service providers across Europe need to be licensed, including many internet payment service providers and money remittance offices. However, on 23 March 2010, the EU Commission's 'Payment Systems Market Expert Group' concluded that only 71 payment institutions were licensed at that time. In June 2010, eight Member States were still not ready to implement the PSD into national legislation. The EU Commission is now taking action by explicitly requesting Member States to fully implement the PSD before referring them to the European Court of Justice.

Conclusion

Almost 20 years after its introduction, there is still no convenient way to accept or make electronic payments for the trade

of goods and services in the EU Single Market. The EU perceives this as a major hurdle towards its political ambition to move towards a more integrated, competitive and innovative Europe. Significant political pressure was required to persuade the banking industry to create SEPA through self-regulation. On the behalf of the banking industry, the EPC has created pan-European payment instruments, while the EU Commission created legislation making the rollout of these instruments in all Member States possible. Introduction and uptake of these basic SEPA instruments has been much slower than expected. Introduction of more advanced and innovative products like e-invoicing, e-payments and e-mandates has stalled. The EU Commission is now preparing a head-on collision with the banking industry by taking control of the SEPA project through the newly founded SEPA Council and by expectedly setting a SEPA migration end-date on 31 December 2012 through EU-level legislation. Meanwhile, many countries have not yet (fully) implemented PSD legislation and, mysteriously, few payment service providers are currently licensed as payment institutions.

Corporations, merchants and consumers have shown very little interest in SEPA so far. Governments appear unable to start using SEPA instruments themselves or even to fully implement PSD legislation. The EU is now set to force SEPA through legislation. Can politicians create SEPA on their own when stakeholders are either not interested, unwilling or incapable?

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International expansion and adequate payment systems

International merchants conducting business online need access to local payment systems as well as alternative payment options. Tricia Lines Hill, Vice-President of Marketing & Corporate Communications at First Atlantic Commerce, explains why choosing a service provider to process payments for an online business is not an easy process and why the task can be daunting, at best.

Certain pre-requisites come to mind when looking for a high-end payment gateway, including PCI certification, strict internal and external security policies, technological flexibility, fraud management services, and of course, staff industry expertise and top customer service.

Today, however, business owners that are looking to expand outside their domestic marketplace require even more to compete internationally. The criterion - as listed above - for a valued payment service provider is no longer enough for merchants to compete in the global marketplace.

British online merchants, for example, are facing international payment challenges as they look to expand across Europe. They are not able to grow their businesses efficiently using their current payment infrastructure.

In fact, according to a recent report commissioned by Chase Paymentech Europe and the independent research firm Dynamic Markets, 30% of the 200 UK businesses questioned have international growth plans within the next couple of years. But they said they lack the payment systems to appropriately support potential European customers.

And, according to the report, 77% of UK companies already trading internationally felt their

payment systems were not set up to meet the demands of their European customers.

This is a common issue that we see with many companies looking to do business outside of their own borders. Cross-border sales require merchants to present and settle in various currencies. However, many domestic payment providers only have the capacity to enable presentment and settlement in their own local currency. And they do not offer the alternative payment methods that are frequently used in other territories.

Changing business models

Just as merchants are offering an assorted product mix in order to stay competitive and grow their business, payment gateways, which in their simplest form used to be the switch between the merchants and the banks for online credit card processing, are now offering other forms of online payment to satisfy their clients and help them expand internationally. Those that differentiate themselves will gain market share and continue to lead the online payment space, while those that stick to credit card processing only - especially within the context of one market - will surely fall behind.

Apart from secure and reliable credit card processing, leading payment providers are providing other forms of payment through their platform such as debit card processing, regional payment forms such as IDEAL in the Netherlands, virtual cash in the form of Ukash and/or PaysafeCard, PayPal, inbound bank transfers, and payout solutions such as cheque and bank transfer issuing services, as well as prepaid cards.

The top payment solution providers also have access to global banks, and facilitate the set up of your merchant account(s) with the bank(s), and provide premium

fraud management tools and data to protect your business from fraud.

We also should see these payment providers start to adopt mobile payment capabilities, especially since the combined market for all types of mobile payments is expected to reach more than \$600 billion globally by 2010, according to Juniper Research.

While we have not seen full market adoption in the mobile payment sector, several trends indicate the mobile payment market is expanding. According to ABI Research Inc. mobile online shopping in the US rose from \$396 million in 2008 to \$1.2 billion in 2009, indicating significant consumer interest.

Embracing alternative online payment methods

We have seen robust growth in alternative online payment solutions for all online merchants in the past decade, and the alternative payment market continues to grow its share of the acquiring business. Interestingly, just a decade ago, analysts and merchants did not hold up much hope for the alternative payment industry. Yankee Group analyst Christine Loebar told the *E-Commerce Times* in 2001 that alternative payment methods in the US, for example, were "not gathering steam". She said it was a typical catch 22. Consumers were reluctant to adopt a new web payment method if not widely accepted online, and merchants were reluctant to set up alternative systems until consumers were comfortable using them.

I should note here that emerging markets were ahead of the industrialised world in terms of alternative payment method acceptance because credit card penetration is traditionally low in these markets, especially in South

America and China. However, these markets were also slower to adopt online sales in general.

Today, merchants are embracing all sorts of alternative payment methods in an effort to acquire and retain their customers. It is more a question of which alternative payment methods to implement, as opposed to whether or not to use them at all.

Consumers and merchants are driving the alternative payment option marketplace as they search for new ways to pay and get paid. For both, alternative payments offer convenience, flexibility and security. Merchants are finding that offering alternative payment options can lower their overall transaction costs, increase conversions, and create new revenue streams, while reducing charge backs and fraudulent activity.

Meanwhile, consumers want the merchant to accept the payment method they want to use. We know that different demographic groups tend to gravitate toward different payment options. And while alternative payment methods certainly appeal to the underbanked and unbanked for obvious reasons, all types of consumers - including those that hold credit cards - are adopting convenient alternative payment methods.

The economic downturn has also contributed to alternative payments use as credit cardholders are more conscious of their credit-based spending.

Nevertheless, credit cards will continue to be crucial to an online payment strategy, and, even though 'an improving economy will lead some consumers back to credit card products, which may slow the growth of alternative payments', according to Javelin Strategy & Research, alternative payments are also here to stay.

Consumers were reluctant to adopt a new web payment method if not widely accepted online, and merchants were reluctant to set up alternative systems until consumers were comfortable using them

Working with the right payment provider

By partnering with an international, internet payment solutions provider that understands and provides credit card processing and alternative payment options, companies can continue to focus on their business, while leveraging key benefits such as access to new global markets and payment types via one source.

As an example, if merchants want to capture the Chinese market, they must support China Union Pay (debit) since it is the predominant payment card in China. Similarly, debit card use in Germany and Poland is much higher than credit card usage so merchants doing business in these geographies must have access to the local payment brands and currencies. Local currency support increases the capture rate in local markets as many cards are issued for use only with local currency. The right international payment provider can help.

Through a single integration, a good payment partner will enable merchants to work with various acquiring banks in different jurisdictions around the world for card processing - thereby lowering costs to entry - as well as enable them access to various payment types in multiple currencies, which lowers the costs and time associated with direct integrations to each payment method.

Gaining access to alternative payment options via one implementation is key. Not only is it a cost saver in terms of integration time and IT resources from the outset, but it allows the operator to spend less time on managing these payment infrastructures going forward.

One should remember, however, that it is never possible for one vendor to offer every global

payment type. Online merchants need to zero in on what they require for their business and compare those needs against other payment requirements. Many payment solution providers, for example, do not facilitate direct merchant accounts for credit card processing, which means that the merchant will not have direct control of their funds. Other payment providers may not offer a full suite of fraud management tools, so it is important for a business to weigh out their needs.

But clearly, there is an expectation now for payment gateways to offer a full portfolio of payment solutions, especially from those companies doing business outside of their jurisdiction. Just as merchants are transforming consumer preferences by introducing added features and products/services, best-in-breed online payment gateways have shifted the thinking behind online businesses, and what they should expect from their payment solutions partner.

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Non-bank digital currency systems: regulation and growth

Digital currencies have operated, for some time, beyond the realm of any governmental banking regulation - however, they have been the subject of increasing scrutiny in the US and in the EU. Mark Herpel, Editor of DRC Magazine, a publication focusing on gold as a currency, analyses how digital currencies backed by gold can no longer go unregulated and undetected.

Digital currency is often described as money or value that circulates online but does not circulate through a bank or recognized financial institution. Many digital currency companies emerged in the mid to late 1990s with names such as DigiCash, CyberCash, eCash and e-gold. During the 1990s, these privately issued digital tokens representing value were not recognized as government issued 'money'. Consequently, the creation and transfer of the units was not considered a regulated banking operation. This was true for almost a decade.

The 'digital currency' unit of the 1990s was an anonymous digital token which could be transferred from one account to another within a closed system. These systems could be described as large accounting programs where one account is debited and another account receives the credit. What makes these systems so special is that from the early 1990s, digital currency granted anyone, in any country, instant and easy access to the world of online commerce.

In its early days, this industry operated in a brand new unlicensed and unregulated environment. While about a dozen or so companies online today still live in that bubble, the largest companies and the industry leaders have all gone through a period of

growing pains and evolved into more modern systems.

However, several popular digital currency companies were intentionally domiciled or re-domiciled in under-regulated or obscure jurisdictions lacking sophisticated regulation and internet oversight. These companies presently transferring funds around the globe each day for thousands of anonymous customers are quite simply flying below the radar. While freedom lovers call it 'privacy', international law enforcement does not always hold that view. No matter what your perspective on the situation, this is definitely not conventional online banking.

To open and operate a digital currency account in the late 1990s, all you needed was a computer and an internet connection. Almost all of the early systems operated using a similar type of model. Some companies changed over the years and grew out of that first structure, many have not. Since the mid-1990s, very few have retained all of their original features. Unlike an online bank account, 'digital currency' is defined by these features. During the past decade, some of these features were popular but have evolved while other features are still widely used:

- Digital currency accounts can be opened and used instantly.
- There were no distinctions between a personal account or a 'merchant account'. All digital currency accounts were identical whether personal or 'merchant'.
- All transactions clear instantly, there are never any delays.
- All digital currency transactions are final, there are never any charge backs or reversal of funds.
- To open and use a digital currency account the currency issuer/operator did not require identification, credit check or verification of identity.

(GoldMoney was an exception with a CAP. Webmoney accounts (passports) require ID for anything more than a basic act.)

- There were no age limits - a ten-year old could operate an account with no questions.
- There were no jurisdictional restrictions. Residents of Iran, Cuba, India, South Africa or China were all free to use digital currency.
- Unlike a bank account, there are no minimum deposits required to open and maintain that account. Digital currency accounts can be opened with no deposit and remain open without issue or fee.
- There were no business restrictions. Gambling, online pharmacies, pornography, MLMs, investments, pyramid/ponzi schemes and many others were permitted using digital currency (exceptions: GoldMoney & Webmoney have restrictions).
- Account holders were always adding/withdrawing funds (national currency) through third party independent agents, not the digital currency issuer/operator.
- Because funds could not be reversed, there are never withholdings or reserve funds. One hundred percent of each transaction clears and is immediately available.
- Digital currency transaction fees were and still are extremely low. Compared to credit card processing fees, digital currency transaction fees are often less than 1/5 of the cost.

Digital currency differences

For more than a decade, digital currency units denominated in dollars, euros and rubles, or backed by precious metal were technically not government issued money. As units moved over the internet and not through a bank, it was believed digital currency circulated beyond the reach of existing bank regulations.

Today, however, this loose concept has evolved and several of the larger countries like Australia, Canada and the US have encircled the issuers and exchange agents with challenging new regulations along with clarifications of the existing bank laws.

In contrast to online bank accounts, digital currency has more anonymous cash like features. A banker would say that the accounts lack oversight. These digital currency units are issued by a private company and quietly move around the globe with just a few keystrokes. No strict bank regulators or sophisticated AML software is monitoring this account activity. This was true in the 1990s and is generally still true today.

In a recent interview for DGCmagazine with the operator of gBullion, a brand new digital gold currency domiciled in the United Arab Emirates, I asked, "If I am transferring €1 million a week through my gBullion account, month after month, do you ever ask the account holder for a source of funds on where that money came from and is that information reported to any government organization or tax authority?" The answer was "If identification is confirmed and we 'know our client', they can buy or sell gold daily up to amounts of €1 million, €2 million or even €10 million per day. This is their right."

Here is a new online financial business which would permit deposits or withdrawals of €2 million to €10 million per day, but never question where the funds originated. Is this freedom and privacy or simply ignorance?

Operators of these early 1990s style digital systems did not have bank accounts and never accepted direct transactions with retail consumers. All financial transactions between retail public customers were completed via

To open and use a digital currency account the currency issuer/operator did not require identification, credit check or verification of identity

independent third party exchange agents. Retail customers always sent money to a third party and not the operator of the system. This structure provided absolute protection for the assets backing the digital units. Whether the value behind the digital currency was cash, precious metal or anything else, that value remained protected at all times from the everyday risks of doing business. Today, many existing companies still use an identical structure.

This model creates a 'round-the-clock' third party liquid market for the digital units and offers a myriad of payment options in various countries. The ability of a customer to fund or withdraw money from their digital currency account using any number of a dozen local methods is a spectacular incentive for global non-bank users (methods include cash, IBAN, SWIFT, Western Union, Ukash, cashU, Moneygram, Anelik, Zoom, money order etc.) It is doubtful if any type of regulations could ever slow down the growth for this type of third party exchange business.

On the opposite side of the payment spectrum, companies like PayPal are integrated with banks, process credit card transactions and operate as licensed money transmitters. The PayPals of the world require all national currency transactions to flow directly through PayPal bank accounts. All customer funds sent to PayPal or withdrawn from those accounts must flow directly through PayPal. No third party exchange transactions have ever been permitted. Unlike digital currency businesses, the big online payment processing companies absorb 100% of the risks when dealing with the public.

In 2002, while PayPal prepared for a public offering, the company's corporate lawyers were

quick to secure those important financial licences required for doing business in the United States. However, during those years, between 2002 and 2005, most digital currency companies were not following that same regulatory path.

Regulation and growth

It has been said that government regulation lags behind the development of new technology by three or more years.

In 2006, concerned with the anonymity of digital currency products, a number of US government agencies began to take a closer look at the industry along with those independent exchange agents which handled the customer transactions. All of companies located in continental US fell under scrutiny. The following year, a number of these businesses were charged with operating as unlicensed money-transmitting businesses.

In April 2007, a US court-ordered seizure forced the e-gold company to liquidate a large number of customer accounts and hand over the funds. The amount of seized money was in the millions. The confiscated accounts mainly belonged to independent exchange agents operating within the United States which had been declared 'unlicensed & illegal'.

This 2007 action killed 99% of the digital currency business in the US, eventually led to criminal charges for e-gold and forced the closure of payment systems such as 1MDC and Crowne Gold. What is interesting to note regarding e-gold is that during the 2005 to 2008 period, while they were engaged in a very public legal battle, the number of customer accounts more than doubled as e-gold picked up three million new accounts. Since the company never used paid advertising, this was the

first mainstream publicity it had ever received.

Immediately after this action, a few large agents and operators permanently fled the US for more casual business environments such as Central America. Several of them left the business and retired. The industry had seen a similar consolidation resulting from new Financial Services Licensing regulations enforced by the Australian Securities and Investments Commission during 2004. Forced out of business in Australia, some had closed but other larger agents changed jurisdictions and simply moved their business. The world is a very big place.

While regulations and growing pains have becoming the norm for digital currency companies, this has not slowed the industry's growth. Global leader Webmoney Transfer has shown dramatic growth each year for the past decade. The number of users, day-to-day transactions and funds on deposit have surged as Webmoney has expanded into new territories and offered new products. Webmoney Transfer now has more than 11 million customer accounts, and has never required any user to have a credit card or bank account. Digital currency flows through more than 8,000 cities in 70 countries around the globe.

The 2009 e-money industry in Russia had sales of more than 40 billion rubles (\$1.3 billion). Despite the Russian Government's effort to pass new e-money regulation this year - which could possibly effect business expansion through higher fees - Webmoney's

business is booming. GoldMoney customer holdings have just passed \$1 billion in value and there are even several other new digital currency companies new to the marketplace in just the past year.

Outside of the United States, proper digital currency regulations compatible with current market models should not slow industry growth. In fact, some additional know your customer and anti-money laundering regulations should help bolster the growth of digital currency across major emerging markets.

New consumers entering the digital currency marketplace do not come from credit card companies or banks. In fact, it is very difficult to convince anyone to put down their plastic. Digital currency attracts those people in cash markets wanting to do business online. Digital currency speaks to those customers in markets not yet serviced by the PayPal's of the world and new users surface from an ever-expanding customer base of non-bank consumers.

The business opportunities that digital currency offers to someone without a bank account or credit card are enormous. In the years ahead, we can expect to see more non-bank internet users and, despite additional government regulations, the forecast is for a continued boom in these products.

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