

POLICY HIGHLIGHTS SHEET

User protection measures in electronic payments

PREFACE

This is a policy highlights sheet to seek **consumer views** on MAS proposals for **user protection measures in electronic payments**.¹ The paper will cover the following areas:

- (a) What measures MAS is proposing;
- (b) Why MAS is proposing the measures;
- (c) What the measures mean for consumers and merchants;
- (d) The expected timeline for the implementation of the measures; and
- (e) The areas for which MAS is seeking public feedback on.

PART 1: WHAT MEASURES MAS IS PROPOSING

With technology advances and the increasing complexity of today's payments ecosystem, MAS is reviewing the current retail payments framework to address emerging risks. The changes will take the form of a new payments legislation, the Payments Services Bill (the "Bill"). One of the key proposals in the Bill is the enhancement of consumer and merchant (collectively "users") protection in retail payments.

For example, stored value facilities (SVFs) are increasingly being used by Singapore consumers for the prepayment of goods and services. In the Bill, MAS will regulate issuers of SVFs, as well as other types of retail payment services. We will require entities that carry out the following activities to be licensed:

- A. Providing account issuance services (including SVFs and other e-wallets)
- B. Providing domestic money transfer services
- C. Providing cross border money transfer services (both in-bound and out-bound)
- D. Providing merchant acquisition services
- E. Issuing e-money (similar to the value held in an SVF)
- F. Providing virtual currency intermediary services
- G. Providing money-changing services (exchange of physical currency notes)

¹ This note is intended to provide an overview, highlight key proposals and issues which MAS would like to seek feedback from the public on. Readers may wish to read this in conjunction with MAS' consultation paper on the proposed Payment Services Bill, accessible at <http://www.mas.gov.sg/News-and-Publications/Consultation-Paper/2017/Consultation-Paper-on-Proposed-Payment-Services-Bill.aspx>

MAS proposes to require large payment firms² that carry out Activities A to E³ above to protect customer and merchant funds in the following ways.⁴

1. Safeguarding of e-money float (*for Activity E*)
2. Safeguarding of funds in transit (i.e. funds received from a payment user by the payment firm for the execution of a payment transaction) (*for Activities B, C and D*)
3. Protection of personal e-wallets (*for Activity A*)
4. Protection of access to funds (*for Activity A*)

We seek your views on the above user protection measures which are explained in Part 3 below.

PART 2: WHY IS MAS PROPOSING THE MEASURES

MAS is proposing these changes in order to enhance user protection and to encourage adoption of electronic payments. We have expanded the scope of regulated activities under the Bill beyond SVF, remittance and money-changing services to include payment account issuance, domestic money transfer services, and merchant acquisition services.⁵ By expanding the payment services regulatory scope, MAS will be able to impose user protection measures across a wider range of payment activities. With these added measures, we aim to give users assurance and greater confidence that the payment accounts and instruments they use are safe.

PART 3: WHAT DOES THIS MEAN FOR ME?

We set out below the proposed user protection measures and what they mean for you as a payment service user, whether you are a consumer or a merchant.

Please note that only large payment firms need to comply with the user protection measures below.

- Small payment firms have fewer resources to implement such measures. To balance the interests of these small firms with yours, we will not require them to implement the user protection measures.

² Large payment firms are those that hold an average daily e-money float of above \$5 million over a calendar year or accept, process or execute an average monthly payment transaction volume of above \$3 million over a calendar year.

³ Activities F and G will be regulated primarily for money-laundering and terrorism financing risks.

⁴ MAS will be publishing a separate consultation paper on another user protection measure, on the protection of access to funds, soon.

⁵ Merchant acquisition services are those provided by payment firms that serve merchants by contracting to accept and process their payment transactions.

- However, we will require them to clearly disclose to you that they are a small payment firm. Please review the terms and conditions of payment solutions issued by payment firms to see if they suit your risk profile.

User Protection Measure 1: Safeguarding of e-money float

These are the key changes to the safeguarding of e-money float that will be effected in the Bill.

- (a) The Bill will regulate the issuance of e-money. E-money is broader than stored value in an SVF. Stored value in the SVF is limited to prepayment for goods and services. E-money does not have this restriction. E-money is value that is stored in your wallet that can be used to purchase goods or services, or to transfer funds to another individual (i.e. peer to peer transfers).

- **This means that in future, the funds you have in an e-wallet that are for peer to peer transfers will also be protected by statute.**

- (b) Currently for SVFs, only stored value that is held in a widely accepted stored value facility (WA SVF) is statutorily protected. The float of a WA SVF is above S\$30 million. The issuer of such float is currently required to safeguard the float with a bank approved by MAS which is liable for the whole float. The existing WA SVF are NETS Cashcard, NETS Flashpay, EZ Link, and CapitalLand Mall vouchers.

In the Bill, an e-money issuer with a float above S\$5 million will need to safeguard the float with a full bank, or other means approved by MAS.⁶ If the payment firm is insolvent, the customers of that firm can claim their outstanding e-money from the safeguarded assets. To be clear, this is not the same as deposit insurance where the Singapore Deposit Insurance Corporation will pay out the compensation to depositors in the event a bank becomes insolvent.

- **This means that in future, as long as e-money is issued by a large payment firm, your funds in that e-wallet are protected by statute.**

⁶ The proposed approved means are as follows.

- (a) The float is protected by any full bank which is fully liable for the whole float;
- (b) The float is guaranteed by any full bank;
- (c) The float is escrowed by T+1 in any full bank;
- (d) The float is held by T+1, in cash or secure low risk assets placed with a custodian approved by MAS, with the type of assets and custodian as prescribed in regulations.

T+1 means the the next business day after the payment firm receives the money from its customers.

Please note that float protection measures apply to e-money issued to Singapore residents only. Singapore residency status is as agreed between the e-money issuer and the user, and not based on other factors such as citizenship or Permanent Resident status.

User Protection Measure 2: Safeguarding of funds in transit

We propose to require that large payment firms carrying out these activities also safeguard the funds (on a next day basis) that belong to consumers or merchants.⁷

1. Providing domestic funds transfer services
 2. Providing cross border funds transfer services (both in-bound and out-bound)
 3. Providing merchant acquisition services
- **This means that all your funds processed by a large payment firm will be protected by statute until that firm has completed its payment service.**

User Protection Measure 3: Protection of personal e-wallets

We propose to impose additional measures to protect funds held in e-wallets (i.e. any account or instrument that stores e-money) that are owned by individuals for personal use (“personal e-wallet”). Unlike bank deposits, the funds in e-wallets are not protected by deposit insurance. Although we are proposing safeguards for e-money issued by a large payment firm, the safeguards do not accord the same level of protection as deposit insurance.

To protect your funds in any personal e-wallet use, we propose to set the following restrictions:

- (a) The maximum personal e-wallet load capacity will be set at S\$5,000.
 - (b) The maximum amount you can transfer out of your personal e-wallet is S\$30,000 on a 12-month consecutive basis.⁸ Transfers to personal bank accounts (either yours or as designated by you) held in Singapore do not count towards this S\$30,000 restriction.
- **This means that personal e-wallets will receive additional protection in the form of wallet limits and transfer limits.** This will benefit more vulnerable users such as the elderly and the young.

⁷ The proposed safeguarding means for funds in transit are the same as that for e-money float.

⁸ This is computed as the one year period up to and including the day of the proposed transfer.

PART 4: EXPECTED TIMELINE

MAS plans to develop and draft the Bill in 2018.

We would like to hear from you!

MAS welcomes your feedback, which should be sent by **8 January 2018** to psb_userconsult@mas.gov.sg.

In particular, we would like to know:

- Your thoughts on whether the user protection measures proposed for large payment firms are adequate. To summarise, the user protection measures are:
 - (a) Safeguarding of e-money float;
 - (b) Safeguarding of funds-in-transit; and
 - (c) Protection of personal e-wallets.
- Your views on whether the personal e-wallet protection measures are suitable, including how you as a consumer will be impacted by these measures, and whether your business if you are a merchant will be impacted by the restrictions on your customer's personal e-wallets.
- Your suggestions on what small payment firms can do to protect your funds.