Analysis of the Necessity of Developing Regulatory Guidelines for eMoney Operations in Sri Lanka

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Keywords- Electronic Money, eMoney, Legislation, Regulations.

“Virtual Money” has been an interest domain for many scholars and financial institutions especially during the last three decades. Different denominations printed on same sized papers of the same material can also be argued as virtual as the raw paper of the same size does not carry any face value. However, “Electronic Money” which is also known as eMoney or Digital Money is clearly segregated by the definition from other substitute products with electronic usage of money. Stored value or pre-paid products in which the monetary value is stored on an electronic device in the consumer’s possession are considered as electronic money products. Hence, typical debit cards, credits cards, mobile banking and Internet banking are omitted from this category.

Sri Lanka as an emerging market, despite all efforts on electronic payments, currency in circulation has increased by 22.7% to Rs.416.9 billion as at the end of the fourth quarter of 2014 from Rs.339.8 billion as at the end of the same period of 2013. This is more than 62% of a growth compared to the currency in circulation as at 2010 which was Rs.256 billion. Even cheque circulation has grown from 11.3 million cheques in 2010 to 12.2 million cheques in 2014 during the last quarter. Hence, it would be difficult to conclude that physical cash usage or cheque circulation is declining.

However, it is pertinent to note that the electronic modes of payments and transactions have also significantly improved. Number of Sri Lanka Interbank Payments (SLIPS) has increased by 87.57% from 2.9 million transactions to 5.5 million transactions from the fourth quarter of 2010 to that of 2014. Number of debit cards has grown by 93% from 6.96 million to 13.57 million during last four years. Similarly, while mobile based payments have grown by 415% from 49,881 to 256,846 transactions, Internet based payments have grown by 141% from 1,183,571 to 2,854,515 transactions during the same period. Therefore, electronic based payments are growing faster in the country and sustainable electronic money solutions will have a greater potential for adoption and enhance the financial inclusion. Today, not only financial institutions but also mobile network operators and other private and public sector institutions possess interest. There are few eMoney products in Sri Lanka at this moment of time. Dialog “eZ Cash” and Mobitel “mCash” are examples of mobile based eMoney products. “eZCash” is the first in the world to have multiple mobile network operators in the same eco system and currently has close to 2 million subscribers and 16,500 merchants. Subscribers are able to deposit money, withdraw money, send money, pay utility bills, insurance premiums and even pay for goods and services at merchant points. HNB One of Hatton National Bank and Dialog Touch Card are leading examples for card based electronic money products. Together with its increasing popularity earned among the consumers as well as merchants, electronic money products have also raised a number of issues to central bank, supervisory authorities and other key stakeholders due to various regulatory and governance implications.

There are no specific regulations or legislation setup for electronic money in Sri Lanka. However, current electronic money operations are mainly governed by Mobile Payments Guidelines No. 1 of 2011 for the Bank-led Mobile Payment Services and Mobile Payments Guidelines No. 2 of 2011 for Custodian Account Based Mobile Payment Services. Furthermore, the operation is falling under several other regulations including Payment Cards Regulations No.1 of 2009 under Payment and Settlement Systems Act No. 28 of 2005, Electronic Transactions Act, No. 19 of 2006, Payment and Settlement Systems Act No. 28 of 2005, Payment Devices Frauds Act, No. 30 of 2006, Financial Transactions Reporting Act No. 6 of 2006, Credit Card Guidelines No: 01/2010 and Banking Act Direction No. 07 of 2012.

Despite of the above guidelines, there are several gaps identified for electronic money operation and some of the key highlights are;

- guidelines do not provide a technology framework and specification for national electronic money operation
- said guidelines do not mandate interoperability amongst operators of eMoney
- non-availability of a national clearing system or clearing guidelines for payments made via eMoney
- even though the Mobile Network Operators are currently dominating this domain, none of the applicable regulations to them defined by Telecommunication Regulatory Commission are relevant to monetary payments
- more clarity and direction should be given on “Know Your Customer” requirements and regular monitoring of users and transactions including “Anti Money Laundering” framework focusing eMoney operation

Considering above mentioned and various other operational aspects, Sri Lanka needs to develop specific legislations and directions focusing on electronic money. A thorough analysis is to identify gaps of the existing regulation, compare international standards and build specific regulations for Sri Lankan eMoney Operations.
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