CONSUMER AWARENESS AND BEST PRACTICES IN A DIGITAL ECONOMY

Deposit Insurance - Promoting Consumer Awareness & Financial Inclusion in a Digital Economy

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Presentation Outline

International Best Practice Standards

Deposit Insurance Scheme & Consumer Protection & Digital Financial Inclusion

General Approaches To Providing Deposit Insurance for Digital Stored-value Products

How Deposit Insurance Protects Users of Digital Payment Services in Jamaica:

a. Electronic Retail Payment Services – Custodian Account

b. The Deposit Insurance (Joint, Trust & Nominee Accounts) Regulations, 2014 – Financial Intermediaries Record keeping and Disclosure Obligations

Initiatives of the JDIC to Promote Financial Inclusion and Consumer Protection in a Digital Economy

Closing Thoughts

International Best Practice Standards

Organization of Economic Cooperation and Development (OECD) Best Practice Principles for Consumers in E-Commerce, 2016

Center For Global Development: Financial Regulations for Improving Financial Inclusion, 2016

International Association of Deposit Insurers' Core Principles for Effective Deposit Insurance Systems, 2014

Basel Committee on Banking Supervision Consultative Document Sound Practices: Implications of fintech developments for banks and bank supervisors, 2017

OECD Best Practice Principles for Consumers in E-Commerce (2016)

Transparent and Effective Protection

Education, Awareness and Digital Competence

OECD Principles for the Protection of Consumers in E-commerce

Fair Business, Advertising and Marketing Practices

Privacy and Security

Online Disclosures

Dispute Resolution and Redress

Confirmation Process

Payment

Center For Global Development: Financial Regulations for Improving Financial Inclusion, 2016

Recommendations	Description
Competition policy	Competition matters for financial inclusion because a market open to fair competition leads to a greater variety of products and services, higher efficiencies, and lower costs. The recommendation addresses the following areas: ❑ Banks and other traditional providers ❑ Nonbank digital services providers ❑ Market exit ❑ Abuse of market power ❑ Interoperability ❑ Contestability of inputs
Leveling the playing field	A level playing field in financial services is enabled by regulations ensuring that functionally similar services are treated equally as long as they pose similar risks to the consumers of the service. The recommendation addresses the following areas: ❑ Defining and differentiating between services ❑ Regulating functionally equivalent services equally ❑ Payment services ❑ Risks to users and general financial stability concerns arising from payment services ❑ Providers of store-of-value services ❑ Providers of credit services ❑ Consumer protection ❑ Establishing clear supervisory assignments

Center For Global Development: Financial Regulations for Improving Financial Inclusion, 2016

Recommendations	Description
Know-your-customer rules	Preserve the integrity of the financial system, in particular by combating money laundering and the financing of terrorism. The recommendation addresses the following areas: ❑ Improving cross-border coordination ❑ Scaling KYC requirements to client size ❑ Strengthening national identification systems ❑ Clarifying and graduating penalties ❑ Encouraging international account-to account transactions ❑ Recognizing the need for different approaches for difficult cases
The retail payments system	The expansion of digital financial inclusion and the realization of its benefits depend on progress in further extending payment services. The recommendation addresses the following areas: ❑ Promoting effective competition ❑ Access ❑ Pricing ❑ Interoperability ❑ Payment options ❑ Clearing and settlement infrastructures ❑ Ensuring consumer protection and KYC

Center For Global Development: Financial Regulations for Improving Financial Inclusion, 2016

Three main principles for pro-inclusive regulation

Regulating by function - With the influx of new providers and the development of new business models, the conventional mappings between financial products and services and different types of institutions are becoming increasingly blurred. The way for regulators to address this is to regulate by function rather than by type of institution. This approach is appropriate not only to regulating financial services effectively but also to promoting the goal of financial inclusion.

Regulating by degree of risk - Regulation according to risk of the financial services provider is already a fundamental principle of the modern approach to financial regulation. A risk-based approach should guide all aspects of the regulatory framework for financial inclusion: the riskier the financial service provider is to the user or the whole financial system, or the more the user is potentially at risk of loss of funds or to fraud, abuse, misuse, or being sold an inappropriate product, the higher should be the regulatory bar.

Center For Global Development: Financial Regulations for Improving Financial Inclusion, 2016

Three main principles for pro-inclusive regulation Cont’d

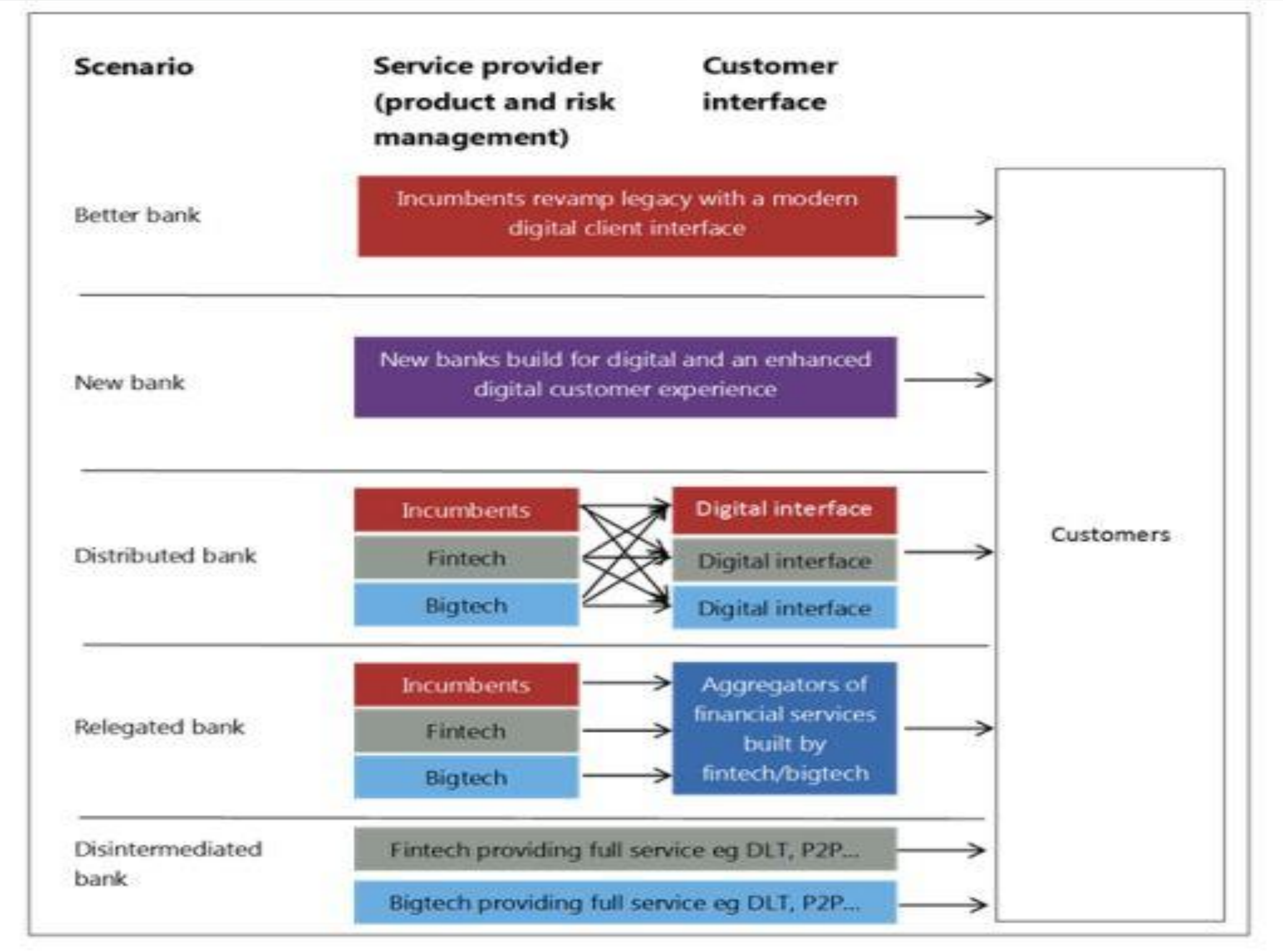
Balancing ex ante and ex post regulation - Banks and other traditional providers of financial services are subject to regulations that are well defined on an ex ante basis. Regulations governing the activities of most other industries more typically follow an ex post approach. Ex post regulation, in contrast, refers to regulatory intervention that occurs only after a problem or market failure has been identified . This regulatory approach typically is adopted in industries other than financial services, to ensure appropriate market conduct and, especially, to avoid anticompetitive behavior by dominant market players. Because the provision of digital financial services involves the participation of both the financial services industry and an important nonfinancial industry such as the telecommunications industry, designing an appropriate mix of ex ante and ex post regulation for digital services is a difficult challenge.

Basel Committee on Banking Supervision Consultative Document Sound Practices: Implications of fintech developments for banks and bank supervisors, 2017

The Basel Committee on Banking Supervision (BCBS) looked at the implications for supervisors and banks' business models particularly as it relates to the following areas:

- ❖ Fintech developments and forward-looking scenarios
- ❖ Implications for banks and banking systems
- ❖ Implications for bank supervisors and regulatory frameworks

Basel Committee on Banking Supervision Consultative Document Sound Practices: Implications of fintech developments for banks and bank supervisors, 2017



Deposit Insurance - Consumer Protection - Financial Inclusion

The Basics of Deposit Insurance Systems:

- ❖ Deposit insurance aims to protect depositors against the loss of their savings when an individual depository institution fails. This protection reinforces trust in the financial system and averts deposit runs. Deposit insurance is referred to as an "explicit" system, where the cost of protecting deposits is largely borne by the financial industry and its customers.

- ❖ According to the International Association of Deposit Insurers (IADI), over 110 jurisdictions have an explicit deposit insurance system as part of their "financial safety-net.

- ❖ Deposit insurance focuses on depositors who cannot assess the risks of their providers.

- ❖ Deposit insurance systems aim to maximize the participation of relevant providers, to avoid both the systemic stability and consumer protection consequences of uninsured non-members competing in the market

Deposit Insurance - Consumer Protection - Financial Inclusion

"The principal objects of the Jamaica Deposit Insurance Corporation (JDIC) are to establish and manage a Scheme for the insurance of deposits or parts thereof against the risk of loss." (Deposit Insurance Act, section 4 (1))

- ❖ The mandate of the JDIC: inter-agency collaboration and cooperation with other FSSN agencies and institutional arrangements support financial inclusion and the overarching public policy objectives of protecting depositors and maintaining financial system stability.
- ❖ ***Deposit Insurance Supports Consumer Protection***: Depositors have the right to be informed and educated about matters related to deposit insurance; It is important to reassure the majority who will be fully covered and warn the minority who will have funds at risk, as access to savings not covered by deposit insurance is adversely affected in a crisis.
- ❖ ***Deposit Insurance Promotes Financial Inclusion:*** Confidence in financial institutions can potentially lead to greater savings among the unbanked which importantly contributes to economic growth.

Deposit Insurance - Consumer Protection - Financial Inclusion

- Public awareness and education about the deposit insurance system is also critical, as it:

  - Reinforces consumer protection

  - Promotes the dissemination of accurate information and the financial education of depositors

- Consumers who are financially informed and know their rights can impose additional discipline on the banking system.

- A well-informed public is less susceptible to rumors, and public confidence in the safety of deposits is a powerful force in preventing bank runs

General Approaches To Providing Deposit Insurance for Digital Stored-value Products

APPROACH	DESCRIPTION
Direct Approach	Eligible/ insurable deposits - Directly insured by JDIC as per coverage rules of the Deposit Insurance Act and Deposit Insurance Scheme (DIS)
Exclusion Approach	Ineligible/ uninsurable deposits - Entities and products are explicitly excluded from deposit insurance coverage and not eligible for deposit insurance as per the Deposit Insurance Act
Pass-through Approach	Deposit insurance coverage is provided to the individual customer of the digital product provider (although this provider is not a member of the DIS). The customer funds must "pass through" a custodial account maintained by the provider at a licensed deposit taking institution that is a member of the Deposit Insurance Scheme

Eligible Deposits: Level and Scope of Deposit Insurance Coverage – Direct Approach

Institutions Covered

- Commercial Banks
- Merchant Banks
- Building Societies

Deposit Products Covered

- Savings & Chequing
- Time Deposits & CDs
- Share Accounts in Building Societies
- Foreign Currency Accounts
- Managers Cheques
- Money orders /Money Orders / Travellers Cheques
- Prepaid Letters of Credit

Deposit Accounts Ownership Categories

- Individual Accounts
- Joint Accounts
- Trust Accounts
- Nominee Accounts
- Business Accounts (sole trader, partnership, limited liability company)

Coverage Limit – JMD$600,000

Ineligible Deposits and Depositors: – Exclusion Approach

Institutions not Covered

- Non-Deposit Taking Institutions

Depositors not Covered

(a) Policyholders
(b) Statutory body or authority or government company;
(c) Ministry, department or agency of the Government;
(d) a Parish Council, the Kingston and St. Andrew Corporation or a Municipal Council;

Products not Eligible for Deposit Insurance

- Products that do not fall within the legal definition of deposits
- Products that are offered by non-deposit taking institutions e.g. stock and bonds

Custodian Account Based Payment Services – Pass Through Approach

- The Bank of Jamaica Guidelines for Electronic Retail Payment Services requires issuers of Custodian Account Based Payment Services to open a custodian account(s) at one or more DTI(s) licensed by the BOJ and member of the DIS.

- Custodian Account is a special purpose **trust account** where the issuer is the **trustee**, the relevant customers are the **beneficiaries**, and where funds of such customers are pooled for the purpose of settlement and management of the payment services to which the customers are entitled.

- Issuers (trustee) that are authorized to operate Custodian Account Based Payment Services must maintain the cumulative sum collected from all electronic retail payment service account holders (beneficiaries) in the custodian account/s at all times

Custodian Account Based Payment Services – Pass Through Approach

- The custodian bank / DTI is responsible for the following inter alia:

  a. providing the issuer with the ability to electronically extract transaction information on the account, as well as request reports.

  b. cooperate with the regulatory authorities to facilitate timely payout of funds due to customers from the custodian account of the issuer in the event of disruption/closure of the DTI. These activities must be coordinated with the BOJ

- Custodian banks / DTI shall ensure that the funds in the custodian account are segregated from and made inaccessible to the issuer in the case of bankruptcy/close of business of the issuer.

- The liquidator of the issuer would be obligated to ensure that the custodian account is operated in accordance with the account agreement terms until it is distributed to each beneficiary / customer.

Issuers of Custodian Account based Payment Services Record Keeping and Disclosure Requirements Under the Deposit Insurance (Joint , Trust & Nominee Accounts) Regulations, 2014

- Deposit insurance coverage recognizes each beneficiary of a trust or nominee account as the depositor for the purpose of deposit insurance entitlement.

- The JDIC is obliged to make payment out of the Deposit Insurance Fund in respect of a deposit held in a trust account or nominee account for the benefit of the individual beneficiaries if a DTI should fail and is unable to pay its customers **(Refer DIA Section 18 – Payments out of the Fund).**

Issuers of Custodian Account based Payment Services Record Keeping and Disclosure Requirements Under the Deposit Insurance (Joint , Trust & Nominee Accounts) Regulations, 2014

- For the purposes of payment out of the Deposit Insurance Fund and providing deposit insurance protection to customers, the issuers of Custodian Account Based Payment Services are required to:

    - Make certain disclosures to the DTI on opening the custodian account with the DTI.

    - Engage in sound due diligence processes and is subject to the customer identification and transaction verification procedures in the Proceeds of Crime Act (POCA) and Terrorism Prevention Act (TPA).

    - Prepare and maintain accurate records that fully incorporate, in its record keeping system, the information with respect to all beneficiaries /customers ***AT ALL TIMES***

    - For the purpose of the JDIC carrying out its mandate, disclose to the JDIC within the time, and in the format specified by the Corporation, details relating to the custodian account.

Issuers of Custodian Account based Payment Services Record Keeping and Disclosure Requirements Under the Deposit Insurance (Joint , Trust & Nominee Accounts) Regulations, 2014

Under the Deposit Insurance (Joint, Trust & Nominee Accounts) Regulations and the simplified requirements for Know Your Customer (KYC) and Customer Due Diligence (CDD), issuers offering Custodian Account Based Payment Services are required to maintain in respect of each customer / beneficiary information for the purpose of deposit insurance payment which include the following:

- ❖ Full name of customer
- ❖ Valid identification such as Passport, Driver’s License or National Identification
- ❖ Taxpayer Registration Number
- ❖ Amount or percentage of the beneficial entitlement or the beneficial interest of each beneficiary

Initiatives of the JDIC to Promote Financial Inclusion; Consumer Protection in a Digital Economy

- ❖ Ongoing robust public awareness and education programme in collaboration with other FSSN agencies and member institutions of the DIS to enhance depositors' understanding about the DIS.
- ❖ Keeping abreast of financial inclusion initiatives and financial technological innovations and product offerings (domestic and global) particularly those involving unsophisticated small savers.
- ❖ Identifying the potential implications of these developments for deposit insurance and the protection of small depositors and ensuring the public policy objectives are met.
- ❖ Ongoing collaborations with DTIs and other agencies in the business and value chain of offering digital services and products.
- ❖ Participating in the initiatives of the National Financial Inclusion Council.

Closing Thoughts For Us

Are the offerings of electronic retail payment services promoting financial inclusion and targeting the unbanked or are we merely cross selling to the already banked?

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Thank you!

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