

SUPERVISORY DIRECTIVE ON THE ISSUANCE OF MULTIPURPOSE PREPAID MONEY CARDS

1. Introduction

Developments in electronic money schemes have been evoking considerable interest over the last few years, although their use is still very modest compared to cash and traditional non-cash payment instruments. Traditional (retail) payments are generally low-value, consumer payments that do not require immediate settlement (examples: checks, demand drafts, cashier checks, money orders traveler's checks and other related bank drafts). Supplementing these traditional retail payments are newer payment products, or non-traditional retail payments. These are often referred to as electronic money (e-money) or new payment methods. A number of innovative products for making payments have been developed in recent years, taking advantage of rapid technological progress and financial market development. Implementation of these innovative products also entails potential money laundering and terrorist financing risks.

The purpose of this directive is to elaborate on the characteristics and potential money laundering and terrorist financing risks of prepaid money card and to outline the Centrale Bank van Aruba (the Bank)'s policy stance with respect to the issuing of multipurpose prepaid money cards by commercial banks in Aruba.¹

2. Characteristics of multipurpose or open-system prepaid money cards

Prepaid money cards provide access to monetary funds that are paid in advance by the purchaser of the card. While there are many different types of prepaid cards that are used in a variety of ways, they typically operate in the same way as a debit card and ultimately rely on access to an account. There may be an account for each card that is issued or, alternatively, there may be a pooled account that holds the funds prepaid for all cards issued. Prepaid cards can be issued for limited or multiple purposes:

- *Limited purposes* or *closed system* prepaid cards can be used for only a limited number of well-defined purposes and their use is often restricted to specific points of sale or specific services.
- *Multipurpose* or *open-system* prepaid cards can be used across a broad range of locations for a wide range of purposes. Such cards may be used on a national or international scale but may sometimes be restricted to a certain geographical area. Open-system cards function more like traditional debit cards, and can be used via ATM networks to access cash, and to make purchases at retailers with PIN-based point of sales terminals.

This directive regulates the issuance of multipurpose prepaid money cards (MPC's) issued by the commercial banks in Aruba.

¹ See also report on New Payment Methods, Financial Action Task Force dated 13 October 2006

SUPERVISORY DIRECTIVE ON THE ISSUANCE OF MULTIPURPOSE PREPAID MONEY CARDS

Characteristics of open-system cards are:

- Most open-system cards feature a MasterCard or Visa logo and can be used anywhere Visa or MasterCard may be used.
- Some cards can be reloaded with value by the cardholder.
- Generally a bank account or face-to-face verification of the cardholder identity is not required.
- Prepaid cards do not involve credit and are therefore popular with those people who cannot obtain credit.
- These cards are ideal for immigrants sending cash to family abroad.

3. Multipurpose prepaid cards risk assessment

The potential Money Laundering (ML) or Terrorist Financing (TF) risks posed by MPC's can vary from one service to another. Table 1 summarizes the ML/TF potential risk factors with respect to MPC's.

Table 1: MPC's money laundering and terrorist financing risks

Potential Risk Factors	Risk Mitigants
<ul style="list-style-type: none"> • Anonymous card holder • Anonymous funding (inflow) and anonymous access to funds (outflow) • High card value limit and/or no limit on the number of cards an individual can acquire • Access to cash globally through ATM's • Offshore issuers may not observe laws in all jurisdictions 	<ul style="list-style-type: none"> • Verify cardholder identification • Limit funding options • Limit card value and/or the number of cards that an individual can acquire and/or value per transaction • Limit cross-border access to cash • Monitor transactions and report suspicious activity • Implement a card/account block • Limit access to network by undesirable merchants and ATM providers/networks
<p><i>MPC's ML/TF risks:</i></p> <ul style="list-style-type: none"> • MPC's may be used to support anonymous cross border funds transfer. When cards are issued without a bank account and applications are accepted online, by telephone, via fax or via the counter at retailers, insufficient customer due diligence in the application process may increase the potential ML/TF risk. • Methods of account funding, such as cash and money orders, are anonymous and leave no paper trail, increasing the potential ML/TF risk independent of other risk factors. • The more money that can be moved through a card account, either at one time or through a series of ATM transfers, the greater the ML/TF risk. • MPC's that have the capability to provide access to cash at automated ATM's increases the potential ML/TF risk. Access to cash via the ATM networks, however, usually requires the use of a personal identification number (PIN) that must be pre-set with the issuing institution. The requirement of the PIN may not, 	

SUPERVISORY DIRECTIVE ON THE ISSUANCE OF MULTIPURPOSE PREPAID MONEY CARDS

however, provide sufficient information within the transaction record to identify with full certainty the recipient.

- Cards that can provide access to cash via ATM's on a global basis may increase the potential ML/TF risk independent of other risks.

4. Bank's policy on the issuing of MPC's

Commercial banks are allowed to issue personalized and non-personalized (bearer) MPC's under the following minimum conditions:

Identification

Personalized/bearer cards

Proper identification procedures have to be in place.

Bearer cards

Additionally, in case a person wishes to purchase more than one card, the reasons thereof have to be disclosed by this person in writing. The bank in question has to review whether the reasons given are plausible and, if not, file an unusual transaction report with the "Meldpunt Ongebruikelijke Transacties".

Value limits

Personalized cards

Maximum value held in the card account is set at Afl. 1,800 (US\$ 1,000)

Bearer cards

Maximum value held in the card account is set at Afl. 900 (US\$ 500)

Methods of funding

Personalized cards

Reloading is allowed at the issuing commercial bank, but needs to be monitored strictly.

Bearer cards

Reloading option is not allowed.

Geographical limits

Personalized/bearer cards

The usage of MPC's outside the Kingdom of the Netherlands is only allowed for cards that feature a MasterCard, Visa or other logo from a well-established international credit card company.

SUPERVISORY DIRECTIVE ON THE ISSUANCE OF MULTIPURPOSE PREPAID MONEY CARDS

Usage limits

Personalized cards

Usage is restricted to point-of-sale (POS), secured internet purchases and ATM networks. A card/account block feature is required.

Bearer cards

Direct cash access via ATM is not allowed. A card/account block feature is required.

Customer Due Diligence Directive

Finally, also the requirements laid down in the Bank's Customer Due Diligence directive, insofar applicable, have to be observed.

5. Bank's policy on the issuing of Prepaid Debit Cards for salary payments

The purpose of the prepaid debit card is to pay salaries to non-accountholders.

Commercial banks are allowed to issue prepaid debit card for salary payments under the following conditions:

- One card per person;
- The card is issued in name of the employer and the employee;
- The card is valid for a maximum of 24 months;
- AML/CFT risk assessment to be performed for this product (before issuing the card);
- Policies and Procedures must be in place for monitoring the transactions on the card (before issuing the card);
- No deposits permitted other than from the employer;
- The maximum value held per card is set at Afl. 10,000; and
- The usage of prepaid debit cards for salary payments outside the Kingdom of the Netherlands is only allowed for cards that feature a MasterCard, Visa or other logo from a well-established international credit card company.

Identification

Prepaid debit cards for salary payments

Proper identification procedures have to be in place.

Value Limits

Prepaid debit cards for salary payments

Maximum value held per card is set at Afl. 10,000 (US\$ 5,555.56).

SUPERVISORY DIRECTIVE ON THE ISSUANCE OF MULTIPURPOSE PREPAID MONEY CARDS

Methods of funding

Prepaid debit cards for salary payments

Uploading of debit cards is allowed only through salary payments.

Geographical limits

Prepaid debit cards for salary payments

The usage of prepaid debit cards for salary payments outside the Kingdom of the Netherlands is only allowed for cards that feature a MasterCard, Visa or other logo from a well-established international credit card company.

Usage

Prepaid debit cards for salary payments

Usage is restricted to point-of-sale (POS) and ATM networks.

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