

EC AML Proposal Would Ban Anonymous Use of Prepaid Cards Online, Lower CDD Thresholds for In-Store Use

Written by [FinTech Futures](https://www.bankingtech.com/author/bankingtechnology/) (https://www.bankingtech.com/author/bankingtechnology/) 6th July 2016

(http://paybefore.com/pay-gov/european-council-sets-deadlines-for-new-virtual-currency-prepaid-rules/attachment/european_commission_eu/#main) Following up on its promise to tighten rules for prepaid cards and virtual currencies (<http://paybefore.com/pay-gov/european-council-sets-deadlines-for-new-virtual-currency-prepaid-rules/>) in an effort to thwart terrorism financing and money laundering, the European Commission has released a proposal this week to lower the threshold that triggers cardholder identification requirements for prepaid cards and ban the use of anonymous prepaid cards online. The proposed amendment (<https://www.bankingtech.com/files/2016/07/Proposal-for-Amendment-of-the-4th-Anti-Money-Laundering-Directive.pdf>)s to the Fourth Anti-Money Laundering Directive (<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52013PC0045&from=EN>) (4AMLD) also bring virtual currencies (<http://paybefore.com/pay-gov/eu-to-form-virtual-currency-task-force/>) under the scope of the directive.

Citing the risk of terrorist financing, the EC is proposing to lower the threshold for nonreloadable prepaid cards for in-store payments to €150 (US\$166) from €250 (US\$277) before cardholder identification is required. The proposal also prohibits online use of reloadable and nonreloadable prepaid cards without identity verification. Closed-loop cards remain exempt from 4AMLD.

Following the terrorist attacks in Paris (<http://paybefore.com/pay-gov/in-wake-of-paris-attacks-france-eyes-stricter-prepaid-rules-nov-24-2015/>) last year, French officials claimed prepaid cards were used to help fund the operation, but details about just how prepaid cards were used and whether the proposed rules would have prevented them are still unknown.

“Limiting the anonymity of prepaid instruments will provide an incentive to use such instruments for legitimate purposes only, and will make them less attractive for terrorist and criminal purposes,” according to the proposal.

The [Prepaid International Forum](http://paybefore.com/pay-news/qa-with-emily-baum-prepaid-international-forum/) (<http://paybefore.com/pay-news/qa-with-emily-baum-prepaid-international-forum/>) is “highly concerned” by the EC’s amended 4AMLD, according to [Dr. Hartwig Gerhartinger](http://paybefore.com/on-the-move/people-on-the-move/people-on-the-move-hartwig-gerhartinger-prepaid-international-forum-pif-board/) (<http://paybefore.com/on-the-move/people-on-the-move/people-on-the-move-hartwig-gerhartinger-prepaid-international-forum-pif-board/>), chair of the PIF AML Working Group and vice president of Group Regulatory and Government Affairs at [Paysafe Group](http://paybefore.com/pay-connect/mobile-payments-or-bill-pay-providers/paysafecard-wertkarten-gmbh-3/) (<http://paybefore.com/pay-connect/mobile-payments-or-bill-pay-providers/paysafecard-wertkarten-gmbh-3/>).

“In a multichannel society where the [lines between offline and online commerce are blurring](http://paybefore.com/infrastructure-value-chain/seamless-and-secure-navigating-the-future-of-commerce/) (<http://paybefore.com/infrastructure-value-chain/seamless-and-secure-navigating-the-future-of-commerce/>), customers should be able to use prepaid products online and offline under the same conditions,” Gerhartinger tells Paybefore. “Apart from this, the industry provides for much stronger capabilities to detect and stop suspicious usage behavior in real-time for the online use of prepaid products than is the case for their offline use.”

He contends that the EC’s amendments burden the regulated e-money sector, specifically for online payments, while unregulated products that are not subject to any KYC requirements and oversight explicitly are excluded from the proposal. “PIF is calling on stakeholders in the legislative process to even these inequalities out and allow the innovative, low-value, low-risk online payment solutions to benefit from the customer due diligence exemption under Article 12,” he notes.

What’s more, prepaid cards issued outside the European Union only could be used in the EU if they comply with 4AMLD requirements, according to the proposal. This stipulation has ramifications for any issuers outside the EU, including those in the U.K. once terms of [its exit](http://paybefore.com/pay-world/u-k-votes-to-exit-eu-payments-industry-faces-uncertainty/) (<http://paybefore.com/pay-world/u-k-votes-to-exit-eu-payments-industry-faces-uncertainty/>) from the EU are finalized.

The EC also has proposed bringing virtual currency exchange platforms and wallet providers under the scope of the 4AMLD, and these businesses will have to apply customer due diligence controls when exchanging virtual currency for real currencies.

“This is the first time that virtual currencies, virtual currency exchange platforms and custodian wallets are defined under European law,” [Monica Monaco](http://paybefore.com/op-ed/viewpoint-balancing-digital-money-counter-terrorism-and-the-future-of-e-money-in-europe/) (<http://paybefore.com/op-ed/viewpoint-balancing-digital-money-counter-terrorism-and-the-future-of-e-money-in-europe/>), founder and managing director of TrustEuAffairs, tells Paybefore. “Despite the [fact that the] definitions may need some fine tuning, I think this comes with a very clear message from the [EC] that they embrace and value technology as long as the prevention of money laundering and terrorism financing can continue and improve.”

The EC, which also has issued an AML [fact sheet](https://www.bankingtech.com/files/2016/07/AML-Factsheet.pdf) (<https://www.bankingtech.com/files/2016/07/AML-Factsheet.pdf>), on the proposal, would like to see 4AMLD go into effect Jan. 1, 2017; however, before that can happen the European Parliament has to review and issue a report that could include amendments to the proposal. “The European Council will also have to start discussing the text, and I understand a first meeting at the council level is called this week,” Monaco adds. “Member states have very different positions on both the prepaid- and virtual-currency-related proposed provisions.”

Related stories:

- [EC Deadlines Delayed for Virtual Currency, Prepaid Requirements](http://paybefore.com/pay-gov/ec-deadlines-delayed-for-virtual-currency-prepaid-requirements/) (<http://paybefore.com/pay-gov/ec-deadlines-delayed-for-virtual-currency-prepaid-requirements/>)
- [Viewpoint: Terrorist Financing and Prepaid Cards: Ban Them!](http://paybefore.com/op-ed/viewpoint-terrorist-financing-and-prepaid-cards-ban-them/) (<http://paybefore.com/op-ed/viewpoint-terrorist-financing-and-prepaid-cards-ban-them/>)

- [Viewpoint: 4AMLD and Its Impact on the Prepaid Industry in Europe and-its-impact-on-the-prepaid-industry-in-europe/](#)