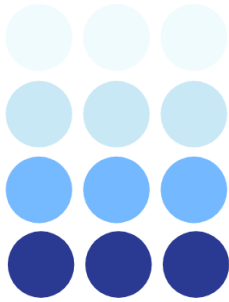




IADI Fintech Briefs provide high-level overviews and key takeaways on Fintech topics of relevance to deposit insurers.



NO. 4

FINTECH BRIEF

E-MONEY IN THE UNITED KINGDOM
A CASE STUDY

PAOLA CROSETTA

September 2021

IADI Fintech Briefs are written by Members of the IADI Fintech Technical Committee (Fintech TC), and from time to time by other authors, and are published by IADI. They provide high-level overviews and key takeaways on fintech topics of relevance to deposit insurers. The views expressed are those of the author(s) and do not necessarily represent the views of IADI or the institution to which the authors are affiliated. The author is grateful to the Fintech TC for helpful comments.

This Fintech Brief refers to the situation as of January 2021.

The editor of the IADI Fintech Brief series is Bert Van Roosebeke (IADI).

This publication is available on the IADI website (www.iadi.org).

© International Association of Deposit Insurers (2021).

All rights reserved. Brief excerpts may be reproduced or translated provided the source is stated.

International Association of Deposit Insurers (IADI), C/O Bank for International Settlements,
Centralbahnplatz 2, CH-4002 Basel, Switzerland. Tel: +41 61 280 9933 Fax: + 41 61 280 9554

E-MONEY IN THE UNITED KINGDOM: A CASE STUDY

Executive Summary

The Financial Services Compensation Scheme (FSCS) is the UK's statutory fund of last resort for customers of authorised financial services firms. It is an integrated compensation scheme covering not only deposits but also investment and insurance provision and intermediation, debt management, pensions, and home finance. FSCS is a statutory body created under the Financial Services and Markets Act 2000 (FSMA).

FSCS does not provide coverage for electronic money (e-money). There is consumer protection for e-money and payment services via regulatory rules, but they are related to safeguarding requirements for customer funds. Any decision to extend FSCS coverage would be as a result of a legislative change and/or changes to regulatory rules and would be subject to public consultation.

As of December 2020, there are around 1200 e-money and payments services firms operating in the UK. The growing presence of these players in the UK market brings challenges and opportunities for both consumers, who are increasingly dealing with these products, and regulators, as questions arise on how to best protect consumers if these providers, or the underlying institution holding the safeguarded funds, fail.

1 Background

Recent developments in technology have found their application in different sectors of the UK economy, including in the financial services sector. Examples of these include contactless payments and mobile payment wallets, as well as an increased use of e-money products and the consequent growth of firms providing these. Both opportunities and challenges exist in the regulatory field from the possible new threats these players might pose to the wider financial system.

1.1 Characteristics of e-money

E-money has been defined by IADI as an electronic store of monetary value on a technical device that may be widely used for making payments to entities other than the e-money issuer. The device acts as a prepaid bearer instrument that does not necessarily involve bank accounts in transactions. In short, e-money is a digital alternative to cash, money that is stored in an electronic form which can be used to make payments. Companies that offer e-money may provide similar features as traditional high-street banks¹ or one of the newer app-based banks (for example a sort code and an account number, a card to make payments or the ability to set up direct debits to pay bills). However, products such as bank payment cards and online banking services are not to be confused with e-money, as these systems simply allow consumers to access money held in their bank accounts. This can lead to confusion among consumers in relation to the nature of e-money and the protection available to them.

1.2 The Emergence of e-money in the UK

E-money is emerging as a prominent new player in the global financial services and payments landscape and this is evident in the United Kingdom (UK) too. The appearance of Covid-19 during 2020 has resulted in a generalised decrease in the use of physical cash and has helped accelerate the increase in the use of debit cards/cashless transactions providing opportunities for growth in e-money too.² However, well before Covid-19, payments in the UK had already witnessed a rapid change with people increasingly using debit cards, smart devices, mobile apps, and electronic wallets to make payments in stores or online. Over the last 10 years, new payment services firms, including non-bank firms (such as e-

¹ In the UK, deposit-taking institutions include banks, building societies and credit unions. We are using the term banks to cover all UK deposit-taking institutions.

² "It is possible that as people use cash less in the UK and other jurisdictions, there will be less cash stored by individuals at home for contingency purposes. This could, in turn, result in cash gradually being deposited in favour of electronic money." – Bank of England (2020).

money providers) have entered and transformed the payments landscape.³ While at the beginning banks were the sole issuers of e-money, nowadays smaller firms (with less stringent regulatory requirements compared to banks) have entered this market, increasing competition and what's available to consumers, especially to younger consumers (avid users of technology) and unbanked people.

Research commissioned by the Financial Conduct Authority (FCA) showed that, as of October 2017, approximately 700,000 adults within the UK (1% of the population) held an e-money alternative account.⁴ According to data from HM Treasury, since the introduction of the Electronic Money Regulations (EMRs) in 2011, which created the updated regulatory framework for e-money, the amount customers hold in e-money firms in the UK is now estimated to be in the region of GBP 10 billion.⁵ In addition, in 2019, almost 10 million people in the UK had registered for a mobile payment app such as Apple Pay, Google Pay or Samsung Pay.

The UK has emerged as one of the preferred choices of establishment for financial technology (fintech) businesses. The country has witnessed an increasing number of e-money providers setting up business here. As of 2020, there are around 1,200 e-money and payments services firms authorised to operate in the UK. Reasons why fintech firms choose to set up operations in the UK range from low corporation tax, low business costs, an agile regulatory environment, the ability to access a highly-skilled workforce, as well as the strong reputation of the City of London in the financial services sector.

2 E-money regulatory landscape in the UK

2.1 The UK institutions involved with e-money

HM Treasury: In relation to e-money, the UK's economic and finance ministry has launched calls for evidence and calls for inputs to gather information and views from the relevant stakeholders (industry, regulators, consumers associations) on its proposed future policies in this field. In December 2020, it launched a consultation seeking feedback on proposed insolvency changes for payment and electronic money institutions, including a new special administration regime.⁶

Bank of England: In 2017, the UK central bank announced that it was granting access to its real-time gross settlement service to non-bank payment service providers (including authorised e-money institutions, meaning that for the first time non-banks could apply for a settlement account with the Bank). The Bank is also currently undertaking work on the future development of a central bank digital currency (CBDC). The **Prudential Regulation Authority (PRA)**, part of Bank of England, is responsible for the prudential regulation and supervision of around 1,500 banks, building societies, credit unions, insurers, and major investment firms. The PRA Rulebook sets out regulatory requirements for firms and the rules governing depositor and policyholder protection which apply to FSCS.

Financial Conduct Authority (FCA): The FCA has a dual role: it is the conduct regulator for 60,000 firms and the prudential supervisor for 49,000 firms (some of these firms might be included in the 60,000 figure). It is the primary prudential supervisor for non-bank and non-insurance institutions that provide regulated services, for example consumer credit, payment services, lending, insurance intermediation and investment provision and intermediation. It is also the regulator and supervisor for e-money. The FCA Handbook sets out rules and guidance for all regulated firms and the COMP chapter sets out the rules relating to FSCS coverage for non-bank and non-insurance firms. The FCA also maintains the public register of UK authorised financial services firms, including e-money providers.

The Financial Ombudsman Service (FOS): An independent arbitration service dealing with complaints between consumers and financial services businesses, including e-money firms. The FOS will only consider a complaint where

³ E-money providers differ from payment service providers in that they can provide payment services and issue e-money; payment institutions cannot issue e-money, and thus have a more limited scope. Payment institution service provision is defined under the second Payment Services Directive (PSD2 Directive, Directive 2015/2336/EU), while E-money institution services are defined by the E-money Directive (Directive 2009/110/EC, EMD2) both transposed in UK law.

⁴ FCA (2017).

⁵ HM Treasury (2020).

⁶ HM Treasury (2020a)

a consumer is unsatisfied with the handling of the complaint by the firm itself. It can recommend awards of up to GBP 350,000.

2.2 The regulatory framework: the EU and the UK

2.2.1 FCA and the Definition of e-money

The FCA defines e-money as:

“monetary value as represented by a claim on the issuer which is:

- *stored electronically, including magnetically;*
- *issued on receipt of funds;*
- *used for the purposes of making payment transactions (as defined in regulation 2 of the Payment Services Regulations);*
- *accepted as a means of payment by persons other than the issuer;*
- *and is not otherwise excluded by the Electronic Money Regulations.*

Electronic money is an electronic payment product. The value is held electronically or magnetically on the payment instrument itself (either locally or remotely) and payments using the value are made electronically. So, for example, monetary value stored on a:

- *prepaid payment card;*
- *personal computer; or*
- *a plastic card that uses magnetic stripe technology;*

*may all fall within the definition if the value is intended to be used for the purposes of making payment transactions”.*⁷

This definition is also in the UK Electronic Money Regulations (EMRs) which mirrors the definition in the EU Electronic Money Directive (EMD). Most of UK rules surrounding e-money derive from legislation (directives) set by the European legislators. Directives must be transposed by EU Member States (MS) into their national legislation. Failing or incorrect transposition may result in legal action taken by the European Commission or private parties and subsequent liability claims.

2.2.2 European laws and UK regulations on e-money

In recent years, rules and legislation have introduced a more defined regime for e-money providers to operate in. They provide definitions of the types of firms that can issue e-money, the activities they can carry out, the requirements for operating, the supervision in place, and safeguards available to consumers dealing with them. This is with the aim of increasing fair competition and a safe market.

In the EU, e-money has been regulated since 2002, revised via the *Second E-Money Directive (EMD2, applicable as of 2011)* which has been further amended by the PSD2 in 2015 (applicable as of 2018). This legislation set up a new regime, creating a new type of institution with a smaller capital requirement, and whose activities would be limited to the issuing of e-money. The EMD2 defines both e-money and the institutions issuing it (which include banks, e-money firms, the European Central Bank, and national central banks). In addition, the EMD2 creates a set of requirements for obtaining a licence as an e-money institution and minimum initial capital requirements of EUR 350,000 as well as rules on calculating own funds.

In the UK, the EMD2 requirements were transposed via the *Electronic Money Regulations 2011 (EMRs)*. Issuing e-money is also a regulated activity under the *Financial Services and Markets Act (FSMA) 2000 (Regulated Activities) Order 2001*, for those companies that are not authorised under the EMRs (mainly banks and building societies). Electronic Money Institutions (EMIs) must also comply with the *Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017*. The FCA published an *Approach Document* outlining its approach to e-money regulation⁸, and there is also information about e-money regulation in the *FCA Handbook*. The FCA oversees the application of the EMRs, creating a regulated environment for firms to operate in and for consumers to engage with. In relation to e-money, the FCA can impose penalties and censures for breaches of their requirements,

⁷ FCA Handbook - PERG Manual, 3A.3 The definition of electronic money: <https://www.handbook.fca.org.uk/handbook/PERG/3A/3.html>.

⁸ FCA (2019).

and instigate criminal prosecutions, including against those persons who provide or claim to provide or claim to issue e-money but are not authorised or registered to do so (or are otherwise exempt). It can also order EMIs, agents and excluded providers to provide restitution to their customers.

2.2.3 Brexit and e-money

E-money providers are not exempt from the changes stemming from the UK exit from the EU. With the end of the transition period for Brexit on 31st December 2020, UK based e-money firms lost their right to passport their services into the European market. If they wish to continue operating within an EU MS, they will need to seek authorisation in an EU MS.

2.2.4 How e-money firms become authorised or registered in the UK

In the UK, EMIs are regulated by the FCA and the requirements imposed on e-money providers are “lighter” than the ones required to become a deposit taking institution (for example in relation to initial capital requirements). A firm that wants to issue e-money must register with, or become authorised by, the FCA as an EMI. They can do so via the FCA web portal. In relation to authorisation, the FCA distinguishes between authorised e-money institutions (authorised EMIs) and registered small e-money institutions (small EMIs) depending on the amount of business they generate (the threshold is whether they generate more or less than an average of EUR 5 million of outstanding e-money⁹ before registration). Credit institutions, banks, building societies, credit unions, or municipal banks do not need registration or authorisation as they must already have permission, under FSMA Part 4A given by the PRA, to operate as a deposit taker. In relation to the initial capital requirement, generally an EMI needs to hold an amount of at least EUR 350,000. As for the fees, the FCA authorisation application fee is a one-off fee of GBP 1,000 for a new small EMI and GBP 5,000 for new authorised EMIs. The firms will also have to pay annual regulatory charges.

2.3 E-money and consumer protection

There is some protection available for e-money account holders, including specific rules on how customers’ money should be protected. These rules are known as ‘safeguarding’. This is a key consumer protection measure to protect and return customers’ money if an EMI were to fail. Safeguarding funds entails several restrictions for EMIs such as the type of institution where the customers’ funds can be deposited, the fact that these funds cannot be lent to a third party (as for example banks do with deposits), and restrictions on the use of the funds by the EMI while they are held, etc.

Under the EMRs, specific rules require all e-money firms to segregate customer funds to ensure that, if the EMI becomes insolvent, customers’ funds are returned in a timely and orderly way. EMIs must either keep customer funds separate from their own money in accounts held with a custodian bank or customer funds must be covered by an appropriate insurance policy or similar guarantee. If held at a custodian bank, customer funds must be placed in a separate account from the EMI’s working capital and other funds (that is, customer funds must be placed in a separate account with an authorised bank or the Bank of England, or invested in secure, liquid assets that are placed with an authorised custodian). The safeguarding obligation starts as soon as the EMI receives customer funds.

If the EMI fails, claims of e-money holders are paid from the asset pool formed for these funds in priority to all other creditors. The only exception is that expenses of the insolvency proceedings take priority in respect of the costs of distributing the asset pool. This means that any Insolvency Practitioner costs are covered by the funds of the failed e-money firms including customer funds. In other words, e-money customers may find that they have to bear (parts of) the cost of the insolvency proceedings. Hence, it is important that the asset pool (that pays the claims of e-money holders in priority to other creditors in the event of the insolvency) is not undermined by the firm improperly mixing funds, assets or proceeds received or held for different purposes.

⁹ "Average outstanding e-money" is a defined term in the EMRs meaning the average total amount of financial liabilities calculated by reference to a set period.

2.3.1 E-money firms' issues according to the FCA

In July 2019¹⁰, and again in July 2020¹¹, the FCA publicly noted issues relating to the safeguarding of customers funds including: a poor understanding by EMIs of which funds are relevant and should be segregated, delays in segregating funds following their receipt, and the failure to check that the correct amounts are being segregated frequently enough.

2.3.2 Insolvency arrangements for EMIs - HM Treasury consultation

In December 2020, the UK Government launched a consultation on its proposal to introduce a bespoke Special Administration Regime (SAR) for EMIs.¹² This would help protect customers when an EMI is put into insolvency. This is as a result of issues in recent administration cases involving Payment Institutions (PIs) and EMIs where customers were left without access to their money for long periods and received reduced amounts after the cost of distribution. The consultation noted that in six cases of PIs and EMIs in insolvency proceedings (of which three started in 2018), only one has so far returned funds to customers. Among the SAR features for the EMI, there would be the objective for the special administrator to return customer funds as soon as possible; a bar date¹³ for client claims to be submitted to the administrator; a mechanism to facilitate the transfer of customer funds to a solvent institution; provisions for continuity of supply to minimise disruption; rules for treatment of shortfalls in the institutions' safeguarding accounts and rules for allocation of costs of insolvency proceedings, among many others. The proposed rules would also extend the powers of the FCA to participate and protect consumers in an insolvency process for PIs and EMIs, as it already does for other FCA supervised firms.

3 E-money and FSCS

FSCS does not currently provide protection to e-money account holders. In relation to deposit insurers, the EU Deposit Guarantee Scheme Directive (DGSD) which was implemented in the UK and transposed in domestic legislation and rules, specifically excludes e-money accounts from protection as a deposit (*Electronic money and funds received in exchange for electronic money should not [...] be treated as a deposit and should not therefore fall within the scope of this Directive*).¹⁴ E-money is viewed more as a method of payment, like cash, and not as a deposit held by a bank, building society, or credit union. The UK does not consider an e-money issuer as accepting deposits when receiving a sum in exchange for e-money as mentioned in FSMA 2000 RAO 2001: “[...] a sum is not a deposit [...] if it is immediately exchanged for electronic money”.¹⁵

FSCS has ongoing conversations with UK regulators and supervisors and should the rules be changed to extend FSCS protection to e-money accounts, there would be a public consultation. FSCS would be involved in the process as there are various aspects that would need to be considered including:

- The amount of coverage FSCS would provide (currently FSCS covers deposits per depositor, per authorised institution, up to GBP 85,000);
- Funding: whether e-money issuers would be in the same funding class as deposit takers or a separate one and how FSCS coverage would be funded by the e-money industry. Any FSCS funding class must be sustainable by its members;
- Reimbursement: how FSCS would get the data related to e-money firms' clients and their account balances as well as how quickly reimbursement could be completed. For deposits, FSCS has a publicly stated aim to reimburse depositors within seven days from the firm's failure. This is made possible due to deposit-takers being required to hold a Single Customer View (SCV) file for all of their depositors. FSCS takes longer to process reimbursements related to investments or insurance failures as no SCV is required of firms involved in those regulated activities. How quickly e-money holders would be reimbursed, in the event of failure, would be a topic for discussion;

¹⁰ FCA (2019a).

¹¹ FCA (2020b).

¹² HM Treasury (2020a).

¹³ Bar date is a term in the English law that indicates the date beyond which claims cannot be accepted.

¹⁴ Recital 29 of Directive 2014/49/EU.

¹⁵ Chapter IIA, article 9B, of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, SI 2001/544.

- Resolution regime: whether e-money firms would need a resolution regime as well as protection by FSCS (HM Treasury is consulting on this currently);¹⁶
- Cross-border issues: thanks to the nature of e-money (non-tangible and available via online platforms), consumers have easy access to providers based in different jurisdictions. These products can be regulated in different ways or the same company can hold different permissions across Europe.

In any case, for any new regulated activity that becomes protected by FSCS, regulatory changes will be needed and FSCS would be involved in the discussion which would also require public consultation.

Currently, in the event of insolvency of the underlying bank holding the segregated funds of an EMI, there is a possibility that FSCS may be able to cover the EMI clients' funds. In its guidance, the FCA mentions that the 'safeguarding accounts' at custodian banks used by e-money firms are considered to be held in a trust for the EMI's customers.¹⁷ Hence, in the event of a bank failure, if the EMI's accounts are held in the form of a trust, FSCS might be able to look through the trust account to the underlying beneficiaries and treat them as separate claimants up to GBP 85,000 each. This is because UK law would apply pass-through coverage to trust accounts in general, but this would only apply if the safeguarding account is established in line with the rules/conditions which allow pass-through coverage to be applied. For this to take place, FSCS would need to verify the terms and conditions of the safeguarding account. As FSCS does not verify this ex-ante, nor are EMIs legally obliged to ensure that safeguarding accounts meet pass-through conditions, this may create uncertainty for consumers, if the underlying bank holding EMI funds fails.

4 Impact on depository institutions

Part of the challenge to depository institutions presented by e-money firms is their ability to offer services already provided by traditional deposit taking institutions (i.e., payment services) with, in some cases, a more engaging user experience and easier accessibility. Nevertheless, deposit-taking institutions and EMIs do not currently compete at the same level. There is still a long way to go before e-money firms reach the same size as the traditional banking sector. Regardless, there is no doubt that e-money providers are often more agile and attractive to consumers than traditional banking models and are often particularly suited to mobile phone usage. They are also attractive to some consumers who may find it difficult to access banking services due to poor credit or poor access to bank branch networks. New entrants in the payment arena may even start off as e-money providers and become banks themselves at a later stage (which Monzo did in the UK, receiving its banking licence in April 2017).

If e-money providers were to become directly protected by FSCS, this could provide additional consumer protection and potentially increase their attractiveness to consumers. However, extension of coverage to customers of EMIs by FSCS would come at a cost, including a requirement for e-money firms to contribute towards FSCS management expenses and cover any compensation costs in their funding class. Potentially increased costs or regulatory requirements may lead to smaller players exiting the market, reducing competition, shrinking the market and the choices available to customers.

5 Impact on consumers

Consumers in the UK are increasingly dealing with e-money products as confirmed also by the FCA ("*more firms and new products are entering the market and more consumers and businesses are using PIs and EMIs*").¹⁸ However, consumers may engage in e-money without fully understanding the products they are using and the protections available to them, raising concerns from the consumer awareness point of view.

FSCS has seen evidence of some consumer confusion about what is covered by FSCS in relation to e-money, especially when the products are issued by banks where a consumer's deposit is FSCS protected but an e-money product issued by the same institution is not. E-money providers may be perceived by consumers as offering a similar service to the high-street banks. We have seen evidence that firms such as Revolut, with e-money and payment services permissions

¹⁶ HM Treasury (2020a).

¹⁷ FCA (2020).

¹⁸ FCA (2020a).

in the UK, are often viewed by consumers in the same way as online based banks, such as Monzo or Starling (we see customers searching for e-money providers on our website for example).

In a letter to the EMIs CEOs published in May 2021 (Appendix 2), the FCA set out their concerns about e-money firms comparing their services to traditional bank accounts or holding themselves out as an alternative to banks in their financial promotions. The FCA asked e-money firms to write to their customers to remind them of how their funds are protected through safeguarding and to make it clear that FSCS protection does not directly apply. EMRs do not require EMIs to disclose the protection available to consumers.

The FSCS does not cover e-money but does cover deposits and has tried to clarify this to consumers. FSCS has an online tool called FSCS protection checker where customers can find out if their funds are covered. FSCS added a disclaimer to make it clear that e-money providers are not protected by FSCS. When customers look for an e-money firm on the FSCS protection checker they get the message that it is not protected. Furthermore, FSCS has a specific page on its website in which it is clarified why FSCS doesn't cover this product (please see the article in Appendix 1) as well as a specific FAQ (Frequently Asked Question). The FCA is aware of this confusion and in a guidance for e-money and payments providers related to Covid-19 issued in July 2020, it specifically requested these firms to *“avoid suggesting to customers that the relevant funds they hold for them are protected by the Financial Services Compensation Scheme”*.¹⁹

There is also the issue of who engages with these products and providers. Some people for example choose to use these e-money providers because they haven't been able to get an account with a bank, building society or credit union. There is evidence that financially vulnerable customers and some unbanked consumers are using e-money as an alternative banking service. Additionally, people moving to the UK find it easier to open an account with an e-money provider and to get their salary paid there. In general though, we see e-money providers being used alongside traditional banking services, not instead of, as it is common in the UK for people to have different accounts (one of them may be an account with an e-money provider).

6 Conclusions

E-money has emerged and disrupted the financial services market in recent years, both in the UK and globally. The more this phenomenon expands, the more regulators and supervisors have to keep pace with innovation and adapt the regulatory framework accordingly. This raises a number of questions on whether the regulations that surround e-money are fit for purpose and whether they can keep pace with emerging technological advancements. The UK regulatory framework for e-money is well established but at the same time still developing and under constant review to ensure the relevant issues are taken into account.

There is some regulatory protection available to consumers in case of insolvency, such as safeguarding of funds, but e-money accounts are not currently directly protected by FSCS. In the future, regulators might decide to review this position but any change to FSCS coverage would be a matter of public consultation. As of January 2021, the UK is no longer bound by EU legislation, which will allow more regulatory flexibility to address the issues in relation to the UK market specifically.

The increasing presence of e-money providers alongside traditional banks can generate confusion and misunderstanding. Consumers may not fully understand what e-money is, its features and implications of its usage, and most importantly what protection is available to them if the e-money provider fails. The pace of development in the fintech sector, including e-money, is a challenge for regulators and consumer protection.

¹⁹ FCA (2020).

Appendix 1

Article from FSCS website: E-money and prepaid accounts – why doesn't FSCS protect my money?

On 26 June 2020, the Financial Conduct Authority (FCA) suspended e-money provider Wirecard from operating after problems were reported with its German parent company, Wirecard AG. The FCA has now lifted its suspension and Wirecard can issue e-money and provide payment services again.

What is e-money?

E-money (including prepaid cards and accounts) is money that's stored in electronic form which can be used to make payments - a well-known example is PayPal.

Companies that offer e-money, including some who used Wirecard's services, can offer many of the same features as a traditional high-street bank or building society, or one of the newer app-based banks. You might get a card from them to make payments or set up direct debits to pay bills with an account number and sort code.

Some people choose to use a prepaid account or card to help them budget, or because they haven't been able to get an account with a bank, building society or credit union.

There is protection in place for e-money, including rules on how customers' money should be protected. These requirements are known as 'safeguarding'. E-money firms must be regulated by the FCA, whose Wirecard article gives more details.

Why doesn't FSCS protect e-money?

FSCS protects deposits you pay into a bank, building society or credit union. A deposit is classed as money that's placed in a bank, building society or credit union in current and savings and accounts, cash mini ISAs and some types of saving bonds.

E-money is considered a method of payment, like cash or currency, and not a deposit that a bank, building society or credit union holds. This means it falls outside our remit and we can't protect it.

If your bank, building society or credit union fails, we will return your money up to our £85,000 per person compensation limit, usually within seven days.

How can I check if my money is safe?

Our protection checker tool will tell you if we can protect your deposits. Simply enter the name of the bank, building society or credit union where your money is held and how much money is in your account. We'll then tell you if we can protect your money and, if so, how much.

Check if FSCS protects your money

Something else to look out for is a statement on a company's website or in its paperwork that says something like: "This is a prepaid account, not a bank. Prepaid accounts are not covered by the Financial Services Compensation Scheme."

As well as deposits, FSCS protects many other financial products, including insurance policies, pensions, mortgages, and investments.

(By Jess Spiers; Published: 03 July 2020 on <https://www.fscs.org.uk/news/protection/e-money/>)

Appendix 2

Text of the FCA “Dear CEO” letter to e-money institutions

Dear Chief Executive

Please act: ensure your customers understand how their money is protected

We are asking you to write to your customers to make it clear how their money is protected.

We are concerned that many e-money firms compare their services to traditional bank accounts or hold themselves out as an alternative in their financial promotions, but do not adequately disclose the differences in protections between e-money accounts and bank accounts. In particular, they do not make it clear that Financial Services Compensation Scheme (FSCS) protection does not apply.

Firms must consider the information needs of customers and communicate with them in a way which is clear, fair, and not misleading. This includes ensuring that the information you give customers is accurate and does not emphasise potential benefits without also giving a fair indication of the risks. We expect firms to give consumers enough information to enable them to take informed decisions about how their money is protected.

E-money firms -background

We published a Portfolio strategy letter and Finalised Guidance regarding safeguarding for payment services and e-money firms in July 2020.

The portfolio letter set out our view of the key risks within the payments and e-money sector which had the potential to harm consumers. It made clear that in light of the economic impact of the Covid-19 pandemic, addressing any weaknesses in these key areas was an important priority.

Given the growth of the payment services and e-money sector, we noted the risk that consumers may not understand how their money is protected and the difference compared to sectors they may be more familiar with, such as banking.

The Guidance warned about giving consumers misleading impressions about the level of protection for their money which you are safeguarding for them. In particular, we set out our concerns that consumers may not understand that if a payment or e-money firm were to go out of business, then the money held with that firm would not be protected by the FSCS. It could take longer for monies to be refunded than if it was in a bank, and as some costs could be deducted by the administrator or liquidator of the insolvent firm, the consumer might not get all their money back.

We have information on our website to help consumers understand the differences between a bank account and an e-money account, the protections provided in each case, and what to do if FSCS protection is important to them.

In our portfolio letter we said we would continue to monitor firms’ financial promotions and take action where firms are not meeting our requirement that they be fair, clear, and not misleading in their communications to customers.

Our ongoing concerns

We are still concerned that many e-money firms are not adequately disclosing the differences in protections between their services and traditional banking, in particular, that FSCS protection does not apply.

Our rules (BCOBS 2.3.1AR) require communications made to electronic money customers and each payment service or electronic money promotion to be accurate and not emphasise any potential benefits of a payment service or electronic money product (i.e. current account functionality) without also giving a fair and prominent indication of any risks (i.e. lack of the FSCS protection). Leaving out this fact could mean the information firms give customers is insufficient, or even misleading. We are concerned that firms are not meeting this requirement.

We are also concerned that firms are giving a potentially misleading impression to customers about the extent to which products or services are regulated by the FCA. If a communication or a financial promotion or payment service or electronic money promotion names the FCA as the regulator of a firm or other provider, and refers to matters we do

not regulate, the firm should ensure that the communication makes clear that those matters are not regulated by the FCA (BCOBS 2.3.4G).

What you need to do

We ask that you write to your customers within six weeks of the date of this letter to remind them of how their money is protected through safeguarding and that FSCS protection does not apply. You may wish to include a link to our website to help customers decide whether that level of protection is appropriate for their circumstances.

Please make this communication separate from any other messaging or promotional activity. We expect you to consider the appropriate method(s) of communication based on your business model and customer base, including any vulnerable customers.

We also ask you to review your financial promotions in the light of BCOBS 2.3.1AR and BCOBS 2.3.4G. In particular, to ensure that:

- your promotions give customers enough information*
- and that where any promotion does name the FCA as regulator and refers to matters we do not regulate, it must make it clear that those matters are not regulated by the FCA*

Finally, we would ask you to draw this letter to the attention of your Board. We expect the Board to have considered the issues we have raised here and to have approved the action

taken in response. We also intend to follow up, with a sample of firms, to assess the action taken.

If you have any further questions about this letter and what we are asking you to do please contact firm.queries@fca.org.uk or your normal supervisory contact.

Yours faithfully

Paul Roe

Head of Department, Payments Supervision

(FCA Dear CEO letter to e-money institutions; published on 18 May 2021 on <https://www.fca.org.uk/publication/correspondence/dear-ceo-letter-e-money-firms.pdf>)

7 Resources

EU legislation

[Directive 2009/110/EC](#) of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions amending Directives 2005/60/EC and 2006/48/EC and repealing Directive 2000/46/EC (the Electronic Money Directive (the EMD))

[Directive 2014/49/EU](#) of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (DGSD)

UK rules and acts

[Electronic Money Regulations](#) (2011)

[The Financial Services and Markets Act](#) 2000 (Regulated Activities) Order 2001

[FCA Handbook – PERG manual](#)

[FCA authorisation process](#)

[FCA fees](#)

[FCA Financial Services Register](#)

Other documents

Bank of England (2020), [Cash in the time of Covid](#), Quarterly Bulletin 2020 Q4

FCA (2017), [Understanding the financial lives of UK adults](#) - Findings from the FCA's Financial Lives Survey

FCA (2019), [Payment Services and Electronic Money – Our Approach](#) (version 4, 2019)

FCA (2019a), [Letter to EMIs and PIs CEO to review their safeguarding arrangements](#)

FCA (2020), Finalised Guidance: [Coronavirus and safeguarding customers' funds: Additional guidance for payment and e-money firms](#)

FCA (2020a), [Coronavirus and safeguarding customers' funds: guidance for payment and e money firms](#), Feedback statement FS20/10

FCA (2020b), [Portfolio strategy letter for payment services firms and e-money issuers](#)

HM Treasury (2020), [Payments Landscape Review: Call for Evidence](#)

HM Treasury (2020a), Consultation: [Insolvency changes for payment and electronic money institution and supplementary annex](#)

Previous issues in this series

No 1 September 2021	Introductory Brief Challenges for deposit insurers	Rachel Youssef, Rose Kushmeider, and Diane Ellis (FDIC)
No 2 September 2021	Data Standardisation	Daniel Hoople (FDIC)
No 3 September 2021	Machine Learning Methods Potential for Deposit Insurance	Ryan Defina (IADI)