

4 July 2019

Dear CEO

Non-bank payment service providers – requirements for safeguarding of customer funds

Safeguarding customer funds is a key consumer protection measure within the Electronic Money Regulations 2011 (EMRs) and Payment Services Regulations 2017 (PSRs). It is vital that all firms have appropriate and well managed safeguarding arrangements to ensure that, if a firm becomes insolvent, customers funds are returned in full in a timely and orderly way.

There is a high potential for harm to consumers if a failing firm has not safeguarded customer funds adequately, as authorised payment institutions (APIs) and e-money institutions (EMIs) are not covered by the Financial Services Compensation Scheme (FSCS).

As a condition of authorisation, applicant APIs and EMIs must satisfy us that they have taken adequate measures to safeguard customer funds. The legislation is prescriptive in how firms must manage and maintain safeguarding arrangements. Our [Approach Document](#) provides guidance on these requirements.

Over the past 6 months we have reviewed how well firms meet the safeguarding requirements in practice and whether e-money holders/payment service users may suffer financial loss or other harm if a firm fails.

This letter outlines our findings. Please review your firm's safeguarding arrangements to ensure they meet the requirements. Having done so, please either send us the attestation at the end of this letter or notify us immediately if your firm is non-compliant in any material respect. We give more details at the end of this letter.

Our findings

Problems with segregation

Our review found that most firms use the segregation method to keep relevant funds separate from other sources of funds. The significant shortcomings we identified in firms' safeguarding arrangements included:

- poor understanding of which funds are relevant and should be segregated;
- delays in segregating funds following receipt; and
- failing to check that the correct amounts are being segregated frequently enough (i.e. through reconciliation processes)

Weak risk management and oversight

Our sample of firms also showed insufficient oversight of arrangements for managing the risks to customer funds. Examples of this included a lack of detail and rationale in policy documentation and a lack of effective and regular monitoring and review of safeguarding.

Several of the firms we reviewed had rapidly evolving business and operating models. Few of these firms could evidence adequate consideration of the impact of their operational changes on safeguarding arrangements.

Priority areas for improvement

We have set out our key findings in the attached document and some points firms should consider to help ensure that customer funds are protected in an insolvency event. We have also provided examples of how firms have operationalised the requirements in line with the rules and guidance, and other examples of non-compliant processes.

What you need to do next

We expect you to review your current safeguarding arrangements, including the rationale for the decisions you have made, to make sure they fully meet the requirements. To help in this process your firm should, if not already done, map each of its products or services to determine when the funds you hold are relevant funds and whether you require additional safeguarding arrangements.

Wherever you identify inadequacies we expect you to take prompt remedial action. Your firm should notify us in writing without delay if in any material respect it has not complied with or is unable to comply with the requirements in regulation 20 of the EMRs or regulation 23 of the PSRs.

Your firm should ensure it reviews and updates its safeguarding arrangements regularly to reflect any changes to your business.

Please complete and return the relevant attestation (attached) by email to: SafeguardingProject@fca.org.uk by 31 July. If you are not able to attest by this date you should contact us at the same email address to discuss next steps.

We will be conducting further work on firms' safeguarding arrangements, and expect to see that firms have acted to review and where necessary remediate their safeguarding arrangements. Where we find inadequacies in firms' safeguarding we will take appropriate action.

Yours sincerely

Jonathan Davidson

Executive Director of Supervision - Retail & Authorisations Division