

KEEPING UP WITH **FINTECH**

AN INITIAL GUIDE

EXPLAINER #2 – BANKS V EMIs

In recent years, technology has revolutionised the financial sector. Financial Technology (fintech) has disrupted traditional banking by offering targeted solutions to everyday problems directly to the end consumer. The pace of change is great, however, getting up to speed with the new developments is not an easy task. This series aims to provide an initial guide to help explain the different services that the fintech sector aims to offer and the institutions behind them.

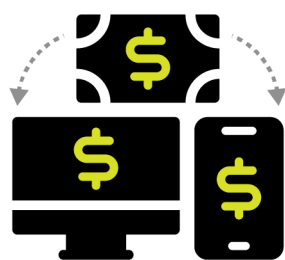
**BANK****EMI**

BANKS V EMIs

An Electronic Money Institution (EMI) is not a bank. However, consumers may wrongly assume that an EMI is a bank because of the overlap in the services they provide. A major difference between the two is that the licence required to operate an EMI is less stringent than that of

banks primarily because of the limited scope of activities that an EMI is permitted to conduct. Another source of confusion may occur when an EMI operating within the UK also has a banking license in Europe, leading the consumer into assuming that the UK entity is a bank as well.

WHAT IS THE DIFFERENCE BETWEEN A BANK AND AN EMI?



EMI



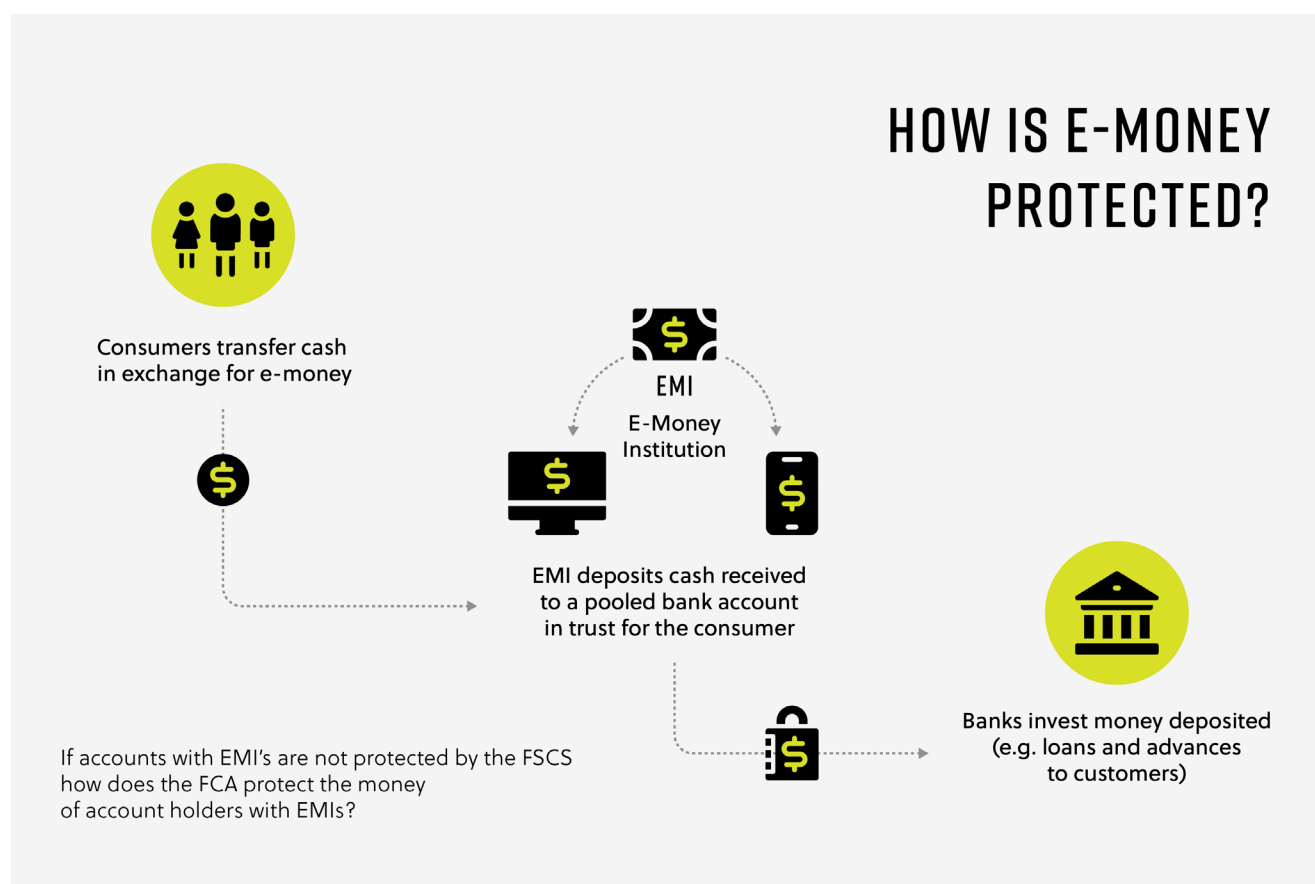
BANK

REGULATORS	FCA	FCA and PRA (Prudential Regulation Authority)
MAIN REGULATION	Electronic Money Regulation 2011 (EMR)	Financial Services and Markets Act 2000 (FSMA)
MINIMUM CAPITAL REQUIREMENT	€ 350,000	€5,000,000 or €1,000,000 (smaller, specialist banks)
SERVICES OFFERED	Current accounts (e.g., prepaid/debit cards and e-wallets) Issuance of International Banking Account Number (IBAN) Transfer/payment of money to 3rd parties	The full range of banking related products and services, including: Accepting deposits; issuance of IBAN Bank account overdrafts Direct debits Credit and debit cards Personal loans Bank transfers
INTEREST - BEARING ACCOUNTS	An EMI cannot award interest in respect of the money it holds	Banks can award interest in respect of its deposits
CUSTOMER ACCOUNT PROTECTION	Accounts open with an EMIs are not covered under the Financial Services Compensation Scheme (FSCS)	Deposits are covered by the FSCS protection up to £85,000


IF ACCOUNTS WITH EMI'S ARE NOT PROTECTED BY THE FSCS HOW DOES THE FCA PROTECT THE MONEY OF ACCOUNT HOLDERS WITH EMIs?

The Electronic Money Regulations (EMR) provide methods of safeguarding funds that have been received in exchange for e-money, compliance with which is mandatory for EMIs. One of these safeguarding methods is the segregation of operating funds of the EMI and funds provided

by the account holders. The funds held by the EMI for the account holders are placed in a pooled fund and cannot be used for any other purpose. This pooled fund is deposited with a bank.







In addition to this, there are other safeguards provided by the EMR including but not limited to obtaining insurance policies or guarantees for the account holders pooled funds.

operating within the UK, which is easily accessible through the FCA website (<https://register.fca.org.uk/>).

If in doubt, the FCA has a register of all EMIs

NEXT IN THE SERIES:

The entities operating under EMIs (i.e., Electronic Money Distributors (EMDs) and Electronic Money Agents (EMIs))

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