

18 May 2021

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 (ie current account functionality) without also giving a fair and prominent indication of any risks (ie 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