

A message from Modulr: How we keep customer funds safe

At Modulr, we work hard to ensure that all our customer communications are clear and we're committed to playing our part in increasing standards across the industry. So, we welcome the chance to offer further clarity around the differences in protections between our services and traditional banking, and answer some frequently asked questions.

Who is Modulr?

Modulr is the embedded payments platform for digital businesses that need a faster, easier and more reliable way to move money. We provide the digital infrastructure that enables our customers and partners to embed payment and account functionality directly into their platforms, workflows and customer experiences.

Is Modulr a bank?

Modulr is not a bank, we're an E-money Institution (EMI).

An EMI is an organisation that has been authorised by the regulator to issue e-money accounts and provide related payment services. In the UK, we're authorised and regulated by the Financial Conduct Authority (FCA).

Our payment accounts come with account numbers and sort codes, access to the UK Faster Payment Service and everything you would expect, but all in a faster, easier and more reliable way.

How is Modulr different from a bank?

One of the main differences between Modulr, an EMI, and a bank is that banks lend money, whereas EMIs are prohibited from lending money. Specifically, banks receive deposits from customers that they use to lend money out and make a profit on the difference. By contrast, an EMI such as Modulr holds 100% of client funds at all times, does not lend any customer funds or offer interest on balances.

Our payment services however are regulated by the same payments regulations that apply to banks.

How does Modulr protect customer funds?

Modulr is required by law to use a process called Safeguarding to protect customer money. This means we ensure that 100% of the funds we receive in exchange for e-money are safeguarded on receipt, meaning that these are segregated from all other funds that we hold and they cannot be used for any other purposes. This is completely separate from the additional funds that Modulr holds to meet its corporate obligations and run its business. 100% of the funds we safeguard must be held in specially designated client accounts at credit institutions (banks) or the Bank of England (see 'Where is my money safeguarded?' below).

Furthermore, as an EMI, we must also hold an additional 2% of the total value of safeguarded client funds in our own funds, which are held separately to those client funds. The purpose of the additional 2% funds is to ensure that, in the case of any problems with our business, there are

enough funds to support an orderly business wind-down and the process of returning of client funds. Combining this '2%' requirement with the safeguarding means that customer funds are 100% available to a customer, and there is a protection mechanism to help ensure an orderly wind down if ever required.

So, while the Financial Services Compensation Scheme (FSCS) is not applicable to e-money, the regulatory requirements outlined above can be relied upon instead and protects the balance of customer funds, as opposed to only compensating up to a limit as is the case with the FSCS.

What is the FSCS and is it applicable to Modulr?

The FSCS offers consumers protection of their bank deposits up to £85,000 maximum, or £170,000 for a joint account, in the event of a bank failure. The FSCS scheme only applies to banks, and therefore is not relevant to an EMI such as Modulr. However, as mentioned, Safeguarding means that 100% of customer money at Modulr, regardless of the amount, is segregated from all other funds that we hold and cannot be used for any other purpose.

What would happen in the unlikely event of Modulr's insolvency?

In addition to the safeguarding and further '2%' requirements we're also required to prepare orderly wind down planning. These plans include the early identification of a potential insolvency event and the return of your funds before an insolvency process if possible. We have to provide these plans to the FCA and they are subject to external audit review. This further reduces the unlikely event of your funds having to be returned during our insolvency. In the unlikely event that Modulr becomes insolvent, your funds are separate from the funds of Modulr and therefore the creditors of Modulr (other third parties that are owed money from Modulr) are not able to make a claim or have effect on your funds.

An independent insolvency professional (referred to as an 'insolvency practitioner') will be appointed to return your funds to you. However, where an insolvency practitioner is unable to take their costs of sending the funds to you from elsewhere (for example, the general pot of Modulr funds remaining or from the additional 2% own funds described above) they are entitled to take their costs from your funds. In this unlikely circumstance, while you'll likely receive most of your funds you may not receive the total value if costs are deducted. The process of returning your funds by an insolvency practitioner is likely to take longer than if you were making a claim in the FSCS.

Where is money safeguarded?

Modulr must deposit 100% of the value of all the e-money it has issued to customers at a credit institution (banks) or the Bank of England. Modulr uses a range of clearing banks for different services but, with our direct access to Faster Payments and Bacs, Modulr is one of a few non-bank Payment Service Providers to hold funds associated with GBP domestic flows directly at the Bank of England. Our safeguarding processes are subject to independent yearly external audit, providing further confidence that we adhere to the regulations required for safeguarding.

Who regulates Modulr in the UK?

Modulr FS Ltd (FRN: 900573) is licensed as an authorised E-Money Institution (EMI) and regulated by

the Financial Conduct Authority (FCA). This enables Modulr to issue e-money to its customers, hold customer funds in safeguarded accounts and provide related payment services to customers. Modulr Finance Limited (FRN: 900699) is registered with the Financial Conduct Authority as an EMD Agent of Modulr FS Limited.

Payment services in the UK are subject to the Payment Services Regulations (PSRs). The PSRs apply to all payment services, meaning in relation to payment services, there is no difference in how Modulr and other payment service providers and banks are regulated.