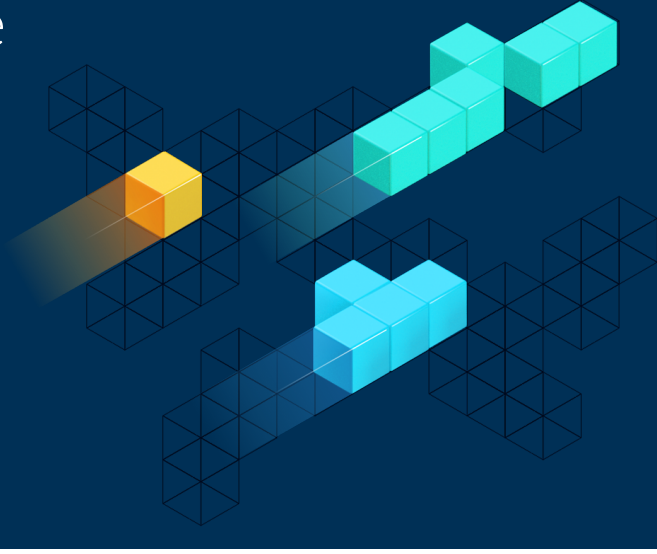


How we keep your money safe

June 2021



How we keep your money safe

We think it's important that you understand how we protect your money when you send it to Modulr¹ and we work closely with industry partners and our regulators to make sure this message is communicated clearly. Our UK regulator, the Financial Conduct Authority (FCA), has recently asked all authorised e-money institutions (AEMIs), which includes Modulr, to remind their customers how their funds are protected. While we set this out in our terms and conditions with you, this email provides more detail on how we achieve that protection.

Background

Modulr is an AEMI and regulated by the FCA. This means Modulr is allowed to do certain things which include issuing electronic money (e-money) to clients, holding client funds and providing payment services to clients.

Modulr is also a directly connected settling participant to the Faster Payments and Bacs payment schemes. As a result, when you use a Modulr account to make a payment using Faster Payments or Bacs, Modulr directly processes that payment for you with the payment scheme and there is no other payment provider or bank involved in that payment. Because Modulr directly connects and settles in this way we are subject to additional supervision by the FCA and an independent audit to ensure that we comply with our obligations. It also means we're able to have accounts and hold funds at the Bank of England.

Like all AEMIs, Modulr is required to comply with two important sets of regulation which are the Payment Services Regulations 2017 and the Electronic Money Regulations 2011. It is worth noting that all payment services within the UK are subject to the Payment Services Regulations 2017, meaning there is no material difference between how a payment service at Modulr or a bank is regulated.

How Modulr protects your money

We hold 100% of your funds separately from Modulr's own funds and in an account that is clearly identifiable as being for our clients with a bank. This means that any money you send to your Modulr account is held separately from Modulr's money and we must put it into an account held with a bank where it is labeled as being specifically for our clients. The rules concerning how we protect your money in this way are referred to as 'safeguarding'.

Our access to the Bank of England enables us to hold the majority of your funds in special accounts at the Bank of England and, when necessary for treasury and payment scheme settlement, we hold funds with other banks in the same way.

How safeguarding is different to the Financial Services Compensation Scheme

As Modulr is not a bank we don't have access to and therefore don't protect your money in the Financial Services Compensation Scheme (FSCS). As an AEMI, we're different to a bank in that we don't manage your funds to make profit by lending your money to others. This is primarily why the FSCS is in place - to protect users of bank accounts in case something goes wrong with the business of the bank and customer funds are lost. As an AEMI, we're not allowed to lend your money or make any investments with it. We use safeguarding to protect 100% of your money while the FSCS is limited up to a total of £85,000 for individual accounts.

Further funds an AEMI must hold

To reduce risk further, an AEMI is also required to hold additional 'own funds' to the value of 2% of all client money that it holds and has a responsibility to notify the FCA if funds fall below this level. This money is held separately, over and above your money that we're holding. The primary purpose of these additional 2% own funds is to ensure that, in the case of any financial issue with an AEMI, there's enough money to support an orderly business winddown and the return of funds to clients. The FCA can also intervene in the running of an AEMI if it has concerns around their financial stability, in order to ensure your money is protected. This can include requiring the AEMI to hold more additional 'own funds'.

Insolvency

In addition to the safeguarding and further 'own fund' 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. 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 any 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 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.

Further information

We hope this email was useful and helps you understand how your money is protected. Please do not hesitate to contact your customer success representative if you have any additional questions on the ways in which Modulr protects client funds. You can find more information about using a non-bank payment service provider on the [Using payment service providers | FCA](#) page.

Yours faithfully

Modulr

¹ Modulr refers to Modulr FS Limited which is authorised and regulated by the FCA as an Electronic Money Institution (Firm Reference Number: 900573)