What is an EMI?

An EMI is an institution that has the authorization to issue prepaid cards, electronic wallets, and other forms of e-money that individuals and businesses can use to make payments.

Article 2(2) of Directive 2009/110/EC defines e-money as, "electronically, including magnetically, stored monetary value as represented by a claim on the issuer which is issued on receipt of funds for the purpose of making payment transaction, and which is accepted by a natural or legal person other than the electronic money issuer."

Why do you need an E-Money Institution license in Europe?

EMIs need a license to operate in Europe because of EU Directive 2015/2366. The primary purpose of this Directive is to protect consumers in making e-money payments safely and securely. It also has a secondary goal of creating fair competition in the e-money payment industry. This Directive establishes the requirements for EMIs to provide payment services. One of the requirements of EU Directive 2015/2366 is for EMIs to obtain an EMI license.

An EMI can conduct business throughout Europe and beyond once it obtains a license. Customers can exchange traditional cash for e-money that the EMI issues and store their e-money in e-wallets that the EMI creates. Then, customers can make payments with the funds in their e-wallets. When they run out of funds in their e-wallet, they can load more funds by exchanging cash for e-money.

Requirements to Obtain an EMI License in Europe

There are several requirements an EMI must meet to obtain a license in Europe. These requirements include:

- Establishing an operational presence in a European country, including a physical office and local staff
- Having adequate financial and non-financial resources to manage and operate the EMI
- Demonstrating suitable management and employee experience to operate the EMI
- Having EUR 350,000 in start-up capital that is readily available in a bank account in the country where the EMI is applying for the license

How to Obtain an EMI License in Europe?

When applying for a license, an EMI will face regulatory due diligence in many EU countries. The EMI must have at least two managers residing in the EU. They must prove their professional qualifications to manage the EMI. Each jurisdiction in the EU may have its own rules in addition to the mandatory EU Directive 2015/2366.

An EMI must demonstrate it has high-quality software and strong technology infrastructure. They must establish internal controls, safety measures, a plan to manage operational risks to ensure payment security and prevent fraud. The EMI must also have several pieces of information when applying for a license. This information includes:

- A business plan and financial projections
- A description of the EMI's organizational structure
- Procedures for monitoring, handling, and following up on security breaches and customer complaints
- Internal protocols for combating money laundering and terrorist financing

These are just some requirements an EMI must meet to obtain a license. Every EMI has unique challenges in obtaining a license. It takes on average six months for an EMI to obtain a license.

Benefits of Having an EMI License

An EMI license is universal for e-money transactions and allows an EMI to provide other financial services. These services offer:

- Debit and credit card accounts
- Merchant services that accept debit, credit, and e-money transactions
- Money transfers for cross-border payments
- Payment initiation services where customers can initiate payments through their bank account
- Customers with consolidated account information in one place

5 key requirements to obtain the Electronic Money Institution licence in the UK or Europe

Regulatory Framework for E-money EMI / Electronic Money Institutions

PSD2, or the Payment Service Directive 2, which came into force on 13 January 2018, is an EU Directive (Directive 2015/2366) that sets requirements for businesses that provide payment services. It applies to Payment Institutions and E-money Electronic Money Institutions - Electronic Money Institution licence in the UK (also called the EMI licence UK or E-money licence in the UK)

The Directive aims to promote innovation within the payments sector. Furthermore, it aims to improve protection for consumers and make payments both safer and more secure.

1. Meet operational requirements for the E-money EMI / Electronic Money Institution licence in the UK or Europe

In order to obtain the E-money EMI / Electronic Money Institution licence in the UK or Europe, the FCA or the European financial regulator of the country you are applying in will expect that you establish a local presence in its country. For countries such as the UK, your CEO and money laundering reporting officer (MLRO) must be based in the UK. Other countries, such as Lithuania, offer greater flexibility, in the sense that your CEO and MLRO do not need to be based physically in Lithuania. You will also be required to have a local physical office in place.

2. Meet the Initial capital requirements for the E-money EMI / Electronic Money Institution licence

Depending on your licence type and the underlying permissions you are applying for, you will be required to meet initial capital requirements. For the E-money EMI / Electronic Money Institution licence in the UK or Europe, the initial capital requirement is EUR 350,000. For the Payment Institution licence, the initial capital ranges from EUR 20,000 to 125,000 depending on the payment service you wish to provide. You will also be subject to ongoing capital requirements.

3. Protect your customer funds

Under both the Payment Institution and the Electronic Money Institution licence (also called the EMI licence or E-money licence, you are required to protect client funds. You can do this by either placing the client funds into a separate ring-fenced client account or by obtaining an insurance policy. Insurance policy products are very rare and so you will most likely have to ring-fence the client funds into a separate client account.

4. Provide details of your IT systems in your E-money EMI / Electronic Money Institution licence application

In your Electronic Money Institution licence (also called the EMI licence or E-money licence, you will need to provide details of your IT systems. Similarly, it may well be the case that you are white-labelling your software. You do not need to have your IT systems in place at the time of submitting your E-money licence application, but you will need to provide the details at some point during the application assessment.

5. Ensure your key people are experienced and knowledgeable to operate the E-money EMI / Electronic Money Institution business

Your key people, such as the CEO and the money laundering reporting officer (MLRO), must have suitable experience and knowledge to carry out their roles. They will be assessed on this requirement during the application assessment.