



Money in Motion

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**EML Payments Limited**

**2 November 2022**

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**ASX Market Announcements**

20 Bridge Street  
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## Investor Briefing Transcript

**EML PAYMENTS LIMITED (ASX: EML) ("EML")** is pleased to provide investors with the attached transcript of a briefing to shareholders and the investment community held on Monday 31 October 2022, following the release of an update on regulatory matters.

### About EML Payments Limited

EML Payments is a global payments company that operates in Australia, the UK, Europe, and the US. Our customers are diverse and include major banks in Europe, government, retail brands and financial services companies. For more information: [EMLPayments.com](https://www.emlpayments.com)

This announcement has been authorised for release by the Company Secretary.

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**Company:** EML Payments Limited  
**Title:** Update on Regulatory Matters  
**Date:** 31 October 2022  
**Time:** 10:30am AEDT

## Start of Transcript

Operator: Thank you for standing by and welcome to the EML Payments conference call. All participants are in a listen only mode. There will be a presentation followed by a question-and-answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Emma Shand, Managing Director and Group CEO. Please go ahead.

Emma Shand: Thank you operator. Good morning and thank you for joining today's investor call. I'm Emma Shand, the Managing Director and Group CEO of EML Payments. Since taking on the role of CEO in July, it has been my priority to have conversations with many of our key stakeholders, our customers, our people, our regulators and you, our investors. These conversations and feedback have been valuable as we seek to evolve and transform EML. So with that in mind, I want to briefly outline what actions we are taking to address regulatory concerns in the UK and Ireland.

You will have seen our ASX announcement on a regulatory matter in relation to our UK subsidiary, Prepaid Financial Services. To recap, as part of our engagement with the UK regulator, the FCA, we have agreed to temporarily cease taking on new customers, agents and distributors. As part of our market announcement, the financial impacts of this temporary measure being implemented now is not itself material to our business and that we expect the impact to Group revenue will be less than \$5 million in FY23.

The issues in our UK subsidiary are similar in nature to those raised by the Central Bank of Ireland relating to our Irish subsidiary PFS Card Services (Ireland) of which we're currently undertaking a remediation program. This has already been disclosed to the market. For context, these businesses were part of an acquisition EML made in 2020 when it purchased Prepaid Financial Services Group. I acknowledge that you will be very disappointed with today's announcement, as has been the case when we have disclosed regulatory issues in our Irish subsidiary. I genuinely acknowledge this disappointment and can assure you it is one of my top priorities to resolve these regulatory matters and enable our businesses to grow sustainably into the future.

We are committed to embedding strong controls, systems and processes to be operationally more effective and to meet if not exceed regulatory expectations. I also want to assure you we are working constructively with the regulators and are taking these issues seriously. We have recruited key positions. In our Irish subsidiary we have a new CEO in Fiona Flannery. Fiona has extensive C-suite leadership, risk management and regulatory experience, joining us with more than 30 years in the banking sector in Europe and the UK. We have appointed a Group Chief Compliance and Regulatory Officer, Jennie Power, based in Ireland, who has a wealth of experience in banking and asset management and comes to us from Barclays Bank.

We are well underway with our global search for a good Chief Risk Officer based in London. We also have a new Head of Corporate Affairs, Joanna Ball. Jo has more than 20 years' experience in financial services and leadership roles across corporate affairs and strategic communications, most recently at National Australia Bank. These are key roles. We are succeeding in attracting great talent. We are building capability in areas including governance, risk management and regulatory compliance. It takes time to hire the right talent; there's a demand in our industry for top people but we are making progress. In fact, I'm encouraged that many share my desire to actively contribute to industry-wide efforts to tackle financial crime.

Building a strong culture is critical to transforming our business, one that is customer focused, innovative and agile like any good fintech should be, with strong risk and compliance capability. At our full year results, I announced a strategic review that is now well underway. As I said at the time, the objective of this review is to ensure that our strategy for growth in both revenue and earnings over the next three to five years is underpinned by a solid business and operating model, a well-aligned organisational structure and importantly, enhanced compliance and regulatory processes. I look forward to updating you further on this review at the AGM in late November.

Thank you for your time today. Operator, I'm happy to take some questions.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you are on a speakerphone, please pick up the handset to ask your question. We will just pause momentarily for questions to enter the queue. Once again, if you wish to ask a question, please press star/one on your telephone and wait for your name to be announced. Your first question comes from Alex, a private investor. Please go ahead.

Alex: (Shareholder) Good morning Emma. I just wondered if you could put some more colour and detail around the UK issue. Are we talking about recent transactions? Are they long tail? It would be good to get some more details please.

Emma Shand: Sure. Thanks Alex for the question. So FCA's concerns really relate to our Prepaid Financial Services business, so that's our UK subsidiary that was acquired as part of the PFS acquisition in March 2020. The PFS UK business is part of EML's general purpose reloadable segment, so the remainder of the EML UK business is actually unaffected by these measures. So just to be clear for everyone on the call, measures announced today affect PFS UK only. They do not affect our gift and incentive business segments, our Sentenial open business banking – open banking, rather, that business and also the digital payments business conducted in the UK and elsewhere.

Thanks operator, I'll take the next question.

Operator: There are no other questions in the queue currently.

Emma Shand: Okay, I'm happy to give it another one or two minutes if anyone else has another question, happy to take them.

Operator: We just had a question register from Alex Leyland with Leyland Private Asset Management. Please go ahead.

Alex Leyland: (Leyland Private Asset Management, Analyst) Good morning, Emma. I've got a question just around the ongoing cost impact of this and so obviously with the Irish regulator, we were a long way through that process but we've obviously got significant embedded costs in the risk and compliance division in the Company. Do you foresee that this is going to add additional costs long term to the business, so it's more of a revenue hit – sorry, more of a cost hit than a revenue hit? Thank you.

Emma Shand: Okay, good morning. Thanks for the question. So we continue really to work through what's required as part of the remediation with the FCA and we're going to provide a more definitive assessment at the AGM as part of providing FY23 guidance. So what we have done is committed to meeting the FCA's expectations and having sufficient resources in place for a firm of our size in that market. So there will be additional investment in resources as well as additional one-off costs.

What I will say is the concerns highlighted by FCA, they're very similar in nature to those raised by the Central Bank of Ireland and disclosed to the ASX relating to our Irish subsidiary. So we need to be cognisant that both regulators have specific requirements but we certainly are making investments in people and building up the right capabilities in areas around governance, risk management, regulatory compliance. And we're investing in top people, so that's a key part of

my strategy, is to really invest and transform as an organisation so that EML can actually be a world-class competitor in this space.

So we know that there is dynamic regulations in this space and actually there's a bit of a war for talent, but I'm really encouraged. We've actually appointed some key people into our team, top leadership roles, as I've mentioned, the CEO of the Irish entity, we've got strong leadership running the program with PFS UK from a program management perspective. So we're definitely building the capabilities that will drive some further costs, but we will give you more information on that around the AGM.

Alex Leyland: (Leyland Private Asset Management, Analyst) Sorry, just quickly on that, will you require staff in each jurisdiction or can you have roles providing the risk and compliance framework feeding into both the UK and Ireland and other jurisdictions, for that matter, or do you have to duplicate roles?

Emma Shand: Under our regulatory licence obligations, it depends in each jurisdiction actually the nature of the licence. But some will have a requirement for you to have what they call PCF roles that must be within that entity and within that country. What we are finding is there is quite a bit of commonality in terms of the processes, procedures, systems that we'll use and wherever possible, we'll try and share that knowledge and indeed we can share quite a lot of knowledge already from the Irish PCSIL remediations. But to the extent that we have to have dedicated people in PCF roles which is the compliance roles in each entity, we'll absolutely do that to maintain our licence obligations and in fact we have got persons in those roles today. So I hope that answers your question.

Alex Leyland: (Leyland Private Asset Management, Analyst) Thank you.

Operator: The next question comes from Pradeep Petat, a private investor. Please go ahead.

Pradeep Petat: (Shareholder) Hi, Emma. My question is around UK issues. So is it only EML or is it J.P. Morgan and some other companies are also involved in such a compliance issue investigation as well?

Emma Shand: So certainly, I mean I can speak towards what's happening in the payment space and probably the banking and payment space generally, it's fast evolving particularly where it comes to e-money. So in our own space that we operate in, most companies in the fintech sector are going through similar, I guess, focus and engagement with the regulators and I can't speak for any specific company or banks for that matter, but I would say a focus on tackling financial crime is really high within the industry and with EML, we want to do the best that we can to contribute to tackling those efforts. So it's certainly an industry-wide concern that a lot of companies are facing.

Pradeep Petat: (Shareholder) Cool, thank you.

Emma Shand: Thank you.

Operator: The next question comes from Tom, a private investor. Please go ahead.

Tom: (Shareholder) Hi, are you able to give just a little bit more colour around the benefit of interest rate increases in UK and Europe, to the bottom line?

Emma Shand: Sure. So when it comes to obviously the higher interest rate environment that we're in now, that actually creates some really nice tailwinds for the business. So we'll be providing more information and colour around that, as I've said earlier on in the call, when we give FY23 guidance. That will be at our AGM in November. But it's certainly a positive for our business.

Tom: (Shareholder) Thank you.

Operator: The next question is a follow-up question from Alex, the private investor. Please go ahead.

Alex: (Shareholder) Hi again Emma. I just wanted to clarify, with the UK issue, are these self-reported transaction issues or did the FCA discover issues in the PCL business as part of their compliance monitoring, or is this more structural around the level of resource that you have in that market and the underlying operating methods?

Emma Shand: Sure, Alex. I mean I'll just highlight for you the FCA's concerns because I think that really goes to your question. So the FCA, they've got concerns around the adequacy of governance, risk management frameworks, oversight arrangements and financial crime systems and controls for a firm of the size of PFS UK. So these areas, it's not specifically transactional focused, it's similar to the areas of focus with our Irish entity, which obviously we're actively remediating under the direction of Central Bank of Ireland. So both businesses, they stem from that one acquisition of PFS in 2020 and I just want to assure you, Alex and all investors, that we are taking these issues seriously.

We're working really constructively with the FCA and we are committed, really committed, to embedding strong controls, systems and processes so we can be more operationally effective and to meet or exceed regulatory expectations. The regulators conduct frequent audits and engagements of any EMI regulated entity. So there will be periodic audits which is just the normal course of our business, to be frank and so this has been one of those engagements that they've said they've highlighted some concerns and then we've decided to agree to the measures that we have in order to focus on remediating those concerns effectively.

Alex: (Shareholder) Okay, so no underlying transactional issues, a question from the regulator around resources and systems and methods, but no underlying breach of transactional throughput, as it were.

Emma Shand: At present what we have from the regulator is concerns around the adequacy of governance, risk management frameworks, oversight arrangements and also financial crime systems and controls for a firm the size of PFS UK. So obviously the entity has grown to a certain size that often demands more enhanced supervision from regulators, so from that perspective, this is just something that we have to focus on, remediate, embed in our business so we hopefully take these sorts of audits in our stride in the future. But that's what I can say as to the FCA's concerns.

Operator, is there any further questions?

Operator: We have one more question, would you like to take it?

Emma Shand: Yes, that's fine.

Operator: Yes, from Ron Shamgar with TAMIM. Please go ahead.

Ron Shamgar: (TAMIM, Analyst) Hi Emma. Just in terms of the CBI remediation, that growth limitation expires in December. Are you guys just waiting for them to come back to you or are you still going through the remediation, it's not finished yet?

Emma Shand: Hi Ron, thanks for the question. So as you and others will know, PCSIL is operating under a material growth cap which does expire in December this year. We outlined that to the ASX previously. The further regulatory direction or limitations of course are unknown to us at this time, but the listing as such would be subject to completing the remediation program and satisfactory third-party assessment. What I can say is that the Board and CEO of our Irish entity and myself, we're actively engaging with the CBI; we'll keep investors and the market informed in accordance with our continuous disclosure obligations.

Ron Shamgar: (TAMIM, Analyst) Yes, okay. The question is, though, I mean have you finished the remediation process from EML's side and you're basically waiting for the CBI to let you know whether they'll remove those limitations, or you're still actually going through the process of remediation, so it's not actually finished on EML's side?

Emma Shand: Okay, sure, let me take that question. So we're definitely progressing through our remediation work in respect of PCSIL. As I outlined in our 25 July announcement that we made this year, we've definitely got more work to do, so that hasn't changed. We're progressing through that work and we're wholly committed, of course, to full compliance that we've outlined in a similar nature to today's announcement. So that work is ongoing and as I said, that would continue through 2023. So that's our current expectation in regards to our Irish entity.

What I should, Ron and others, remind you is that we've made some really key announcements here and that's really pleasing. So having Fiona Flannery being appointed CEO of that business, as I said in my prepared comments, she comes from an extremely strong background in the banking sector in the UK and Europe and we've also brought on a senior program director who has 25 years' experience in payments and technology and working with regulators. So we've definitely got a solid team there working on our Irish remediation and we'll have an update for you on that also at the AGM in November.

Ron Shamgar: (TAMIM, Analyst) Yes. Okay, thank you.

Operators: There are no further questions.

Emma Shand: Okay, thank you operator, I think that will conclude, yes, my remarks for today. I will just close by saying that my focus now is really to evolve and transform EML to be a world-class competitor. There's lots of work to be done as we streamline the business, better integrate our acquisitions and build sustainable growth. Also as we drive cultural change from a fast-paced entrepreneurial business, we're moving definitely into one that's extremely innovative and agile, but also has risk and compliance strengthening our core. So thank you all for joining the call today. I appreciate you listening to my comments and I appreciate your questions.

**End of Transcript**