

# Third-party deposit providers

Greater understanding and  
better risk management  
2024 UK Market Survey

# Why publish a note on third-party deposit providers?

Four out of six third-party deposit providers surveyed by Ernst & Young LLP (EY UK) had seen volumes quadruple in the past three years, drawing the attention of regulators and market participants alike.

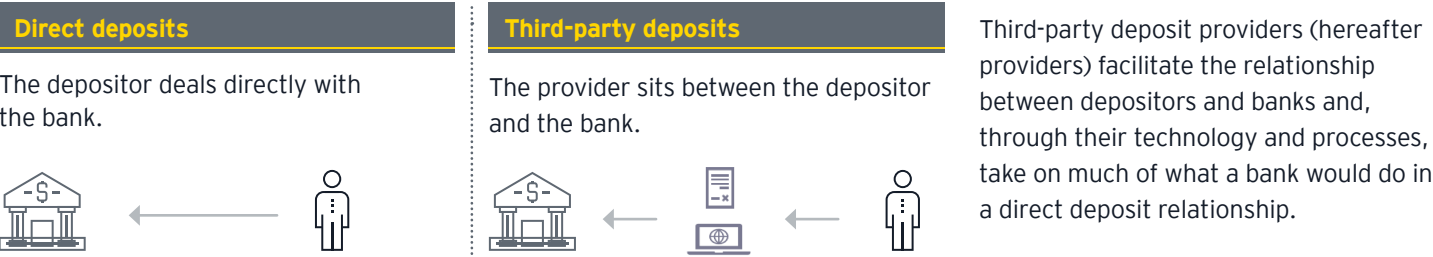
What was once a niche service has become something much more significant, used by at least 60 UK banks, including many smaller lenders.

The views of these providers held by treasurers, liquidity or operational risk heads, supervisors and others have sometimes reflected a level of understanding that was not consistent and sometimes insufficient.

Between February and March 2024, EY UK asked six of the largest providers 37 questions on their size and growth, execution structures and business model, liquidity risk, FSCS, and non-financial risks. By publishing this summary of the results and commentary, EY is seeking, to raise awareness and understanding across the sector. This is particularly important given recent regulatory communications to banks about dealing with ‘deposit aggregators’. This note uses the term ‘third-party deposit providers’ instead to reflect the ambiguity of the concept of ‘aggregation’ in this context.



## What do we mean by a third-party deposit?



## Contents

|  |   |
|--|---|
| Third-party deposit provider market overview ..... | 2 |
| Provider deposit flow and commercial models .....  | 3 |
| Liquidity risk factor analysis .....               | 4 |
| Customer motivation .....                          | 5 |
| Operational and conduct risk .....                 | 6 |
| Questions for the future .....                     | 7 |



## Third-party deposit provider market overview

### Total size

Deposits facilitated by the surveyed providers (at or shortly before survey dates) stood at ~£30bn. This remains small in the context of a £1.5tn retail savings deposit market (though providers also serve some businesses), however volumes have grown markedly in recent years, particularly after interest rates began to rise materially in December 2021.

### Deposit customers

Adoption has increased among individual retail depositors and small organizations (e.g., businesses and charities) that often fall within the regulatory classifications of retail customers.

The numbers and segment of customers each provider serves varies widely, reflecting the different cash flow and commercial models (discussed on page 3) employed.

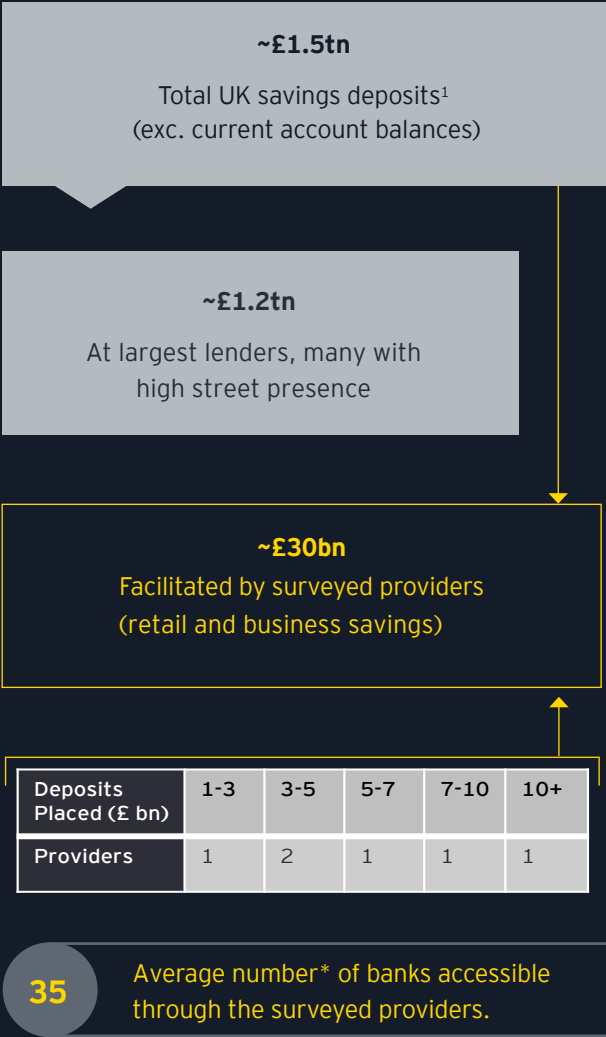
### Panel banks<sup>2</sup>

Each provider maintains a ‘panel’ of banks to which customer cash can flow.

The number of banks whose deposits are accessible via a given provider generally reflects a deliberate narrowing or broadening of bank panels based on how providers seek to serve their depositors and panel banks best.



## The significance of third-party deposit providers



\*The standard deviation was ~18, albeit in a small population.

Four out of six providers had seen volumes quadruple in the past three years, with a fifth provider seeing tripling and a sixth facilitating more than £1bn despite not even existing three years ago.

<sup>1</sup> From May 2023 Bank of England household saving statistics

<sup>2</sup> This note refers to ‘partner banks’ for ease; a small number of building societies generate deposits through third-party providers.

## Deposit flow models: How depositor cash reaches partner banks

### Variations in deposit flow models

Different structures (see 'Stylized deposit flow models' box) reflect balances struck between customer and provider discretion, the operational cost of taking on and maintaining new depositors and partner banks, and the requirements and preferences of partner banks. Regulators are closely examining these models and the risks to customers and banks.

### Infrastructure-sharing or 'white labelling'

Understanding how providers acquire and serve clients is important for partner banks when assessing risks. Some providers do not operate the entirety of the technology and infrastructure that supports their customers' service. Instead, they use their brand and customer-facing technology to acquire customers and use another provider's infrastructure to place the deposits. The typical term for this is white-labelling.

EY's survey only covered providers that operate their own infrastructure, though one surveyed provider relies on interfaces provided by wealth management firms to reach their depositor base.



### Stylized deposit flow models

#### Direct model

- Provider facilitates account opening.
- Depositor funds account.



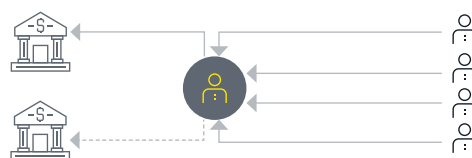
#### Trust model

- Provider opens trust to hold depositor cash.
- Trust places cash per depositor instruction.



#### Broker model

- Provider aggregates cash from many depositors.
- Provider places cash at its own discretion.



#### Models offered by surveyed providers\*



\*Providers can offer clients more than one model

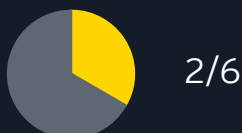
## Provider Commercial Models: what providers get in return

EY's survey found that no two providers approached the deposit flow and commercial model combination in exactly the same way, meaning incentives for depositors, providers, and

Partner bank explicitly pays X bps fee per £ of deposit.

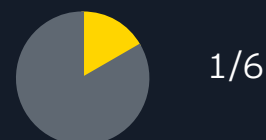


Depositor explicitly pays X bps fee per £ of deposit.

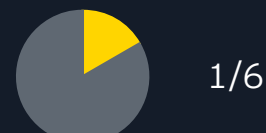


banks vary widely. Also important is how banks manage any pricing differential between products offered directly versus through providers.

No explicit fee; provider earns interest margin on from-bank and to-customer interest rates



Partner bank pays for data and analysis.



\*Some providers earn fees under more than one of these models



## Know the flow: liquidity risk factor analysis

For small bank treasurers, in particular, understanding the liquidity risk profile of deposits gathered from providers requires clarity around the rights and obligations of partner banks, providers and depositors, even before seeking to understand behavior and motivation. They then need to transpose this clarity into their regulatory liquidity reporting and internal stress testing, which is especially important for many partner banks because it is their binding liquidity constraint. The risk factors discussed below reflect those discussed in Liquidity Coverage Ratio regulation and form the basis of liquidity risk analysis at many institutions.

### Risk factors relating to depositor types and rights

Banks need to understand whether the depositor is a person or organization and where the depositor resides. Different providers target different market segments, so there is extensive variability between their depositor bases.

They must also understand the depositor's rights to withdraw cash versus the provider's. For example, all deposits under direct structures are only withdrawable at the discretion of the depositor and not the provider. Under the broker model, deposits are withdrawable at the provider's discretion, with maturity for the depositor defined by product tenor.

### Risk factors relating to deposit characteristics

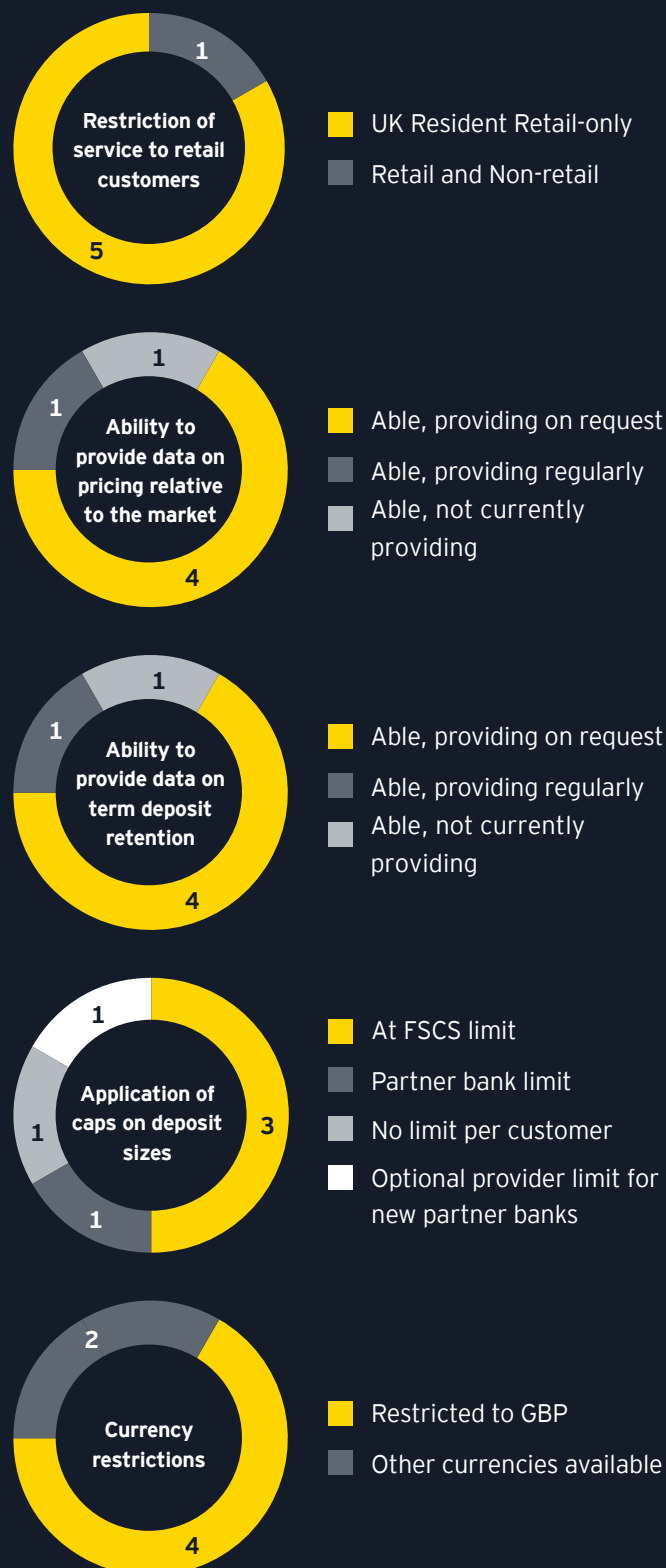
Banks also need to understand product pricing relative to peers so that they can infer the extent of price motivation (see page 5) and, for term deposits, historical behavior in relation to product rollover at maturity.

The size of deposits, relative to deposit insurance limits and in total, is also relevant, as this can assist in proxying depositor sophistication.

Banks will also consider deposit currency when assessing liquidity risk, so they need to know whether providers restrict currency.



## Key findings from the six surveyed providers



## Liquidity risk: motivations and calibrations

Aside from identifying the risk factors that LCR and internal stress testing frameworks need to consider, banks using deposits from these sources need to calibrate appropriate

out-flow factors. Doing this requires an as-deep-as-possible understanding of customer motivations and what these could imply for depositor behavior under stress.

### Customer motivations

| We asked providers for their understanding of the motivations of depositors for using their deposit placement services, asking them to rank (1–5, with 1 being their top motivation) the importance to their customers of:                              | Average rank |
|---|--------------|
| <b>Convenience</b> – Deposit placement technology makes it easier for customers to find available products, manage choices upon product maturity and monitor their balances.  | 1.8          |
| <b>Risk management</b> – For customers with more than £85,000 to deposit, deposit placement services make it easier to take advantage of £85,000 allowances across multiple institutions than if they managed them one by one with each recipient bank. | 2.4          |
| <b>Access to the highest rates</b> – Providers acknowledged that they would not always be able to offer customers the maximum available in the market but that they would offer rates that would compare favourably to it.                              | 2.8          |
| <b>Deposit placement supplements other services offered by the provider</b> – Some providers offer deposit placement alongside other money or investment management services their customers are already using.   | 4            |
| <b>Access to exclusive rates</b> – Some banks only offer certain products through certain providers.  | 4            |

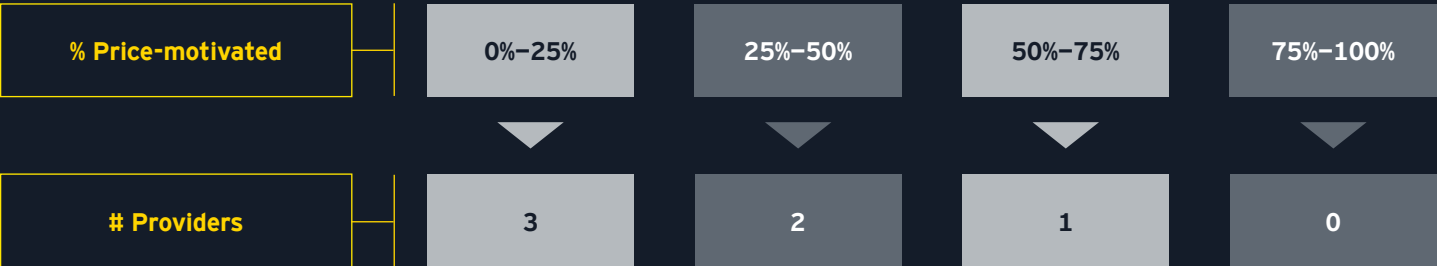
It is important to note that these findings were an average across the participants; treasurers should ensure they understand well the profile of the depositors that their provider serves, and whether the approach taken by their bank

to pricing or distribution channels (i.e., considering any white-labelling, see P.3) could result in deviations from expected behavior.

### In detail: price motivation

EY’s discussions indicated that providers would often design their processes to dissuade or to avoid encouraging depositors from switching between products from different providers, a key concern when evaluating liquidity and interest rate

risk profiles. Providers gave the following estimates for the prevalence of price-motivated depositors within their customer base:



Some providers indicated that motivations may vary between new users of their services and those who have already used the service to determine where to place their cash, but in both

cases, these findings emphasize the importance to partner banks of seeking and acting upon the information available from providers about their customers.



## Managing non-financial risks with third-party deposit providers

The November 2023 PRA Dear CFO letter emphasized the need to ensure that using providers does not dilute the robustness of controls or bank-wide operational resilience.

### KYC and AML

We found that all providers carried out KYC and AML checks for themselves rather than relying on those carried out by current account providers or other third parties.

### Controls and Attestations

The Dear CFO letter emphasized the role of attestations and audits in ensuring robust controls; we found that partner banks were already imposing exacting requirements on providers to gain comfort around their processes.

### Operational Resilience

Equally, while deposit providers will seldom be as integral to bank operations as outsourced providers supporting day-to-day account management and lending flows, the PRA is keen to ensure that banks understand the centrality of provider systems and processes to customer activity and take steps to manage the resulting operational risk.

### FSCS Compliance

As the section below sets out, Financial Services Compensation Scheme (FSCS) coverage is a vital consideration for depositors and the providers who serve them. Providers have embraced the need for close dialogue with FSCS and participate in their voluntary testing programs. This helps to reassure partner banks about their own FSCS coverage measurement and reporting processes, a particular concern given recent publicity around bank FSCS reporting.

### Non-financial risk findings

- 5/6 of surveyed providers would be able to provide KYC and AML evidence documentation within 0–2 days for 1% of the depositor base of a given partner bank.
- 4/6 provide attestations or dedicated audit submissions on KYC and AML processes to partner banks.
- 5/6 comply with FCA operational resilience standards.
- 6/6 participate in voluntary FSCS data capability testing.
- 5/6 test single customer view reporting processes with monthly or greater frequency.

## In detail: FSCS coverage analysis

As survey respondents indicated, customers value the reassurance of assuring (for those with <£85k to deposit) or extending deposit insurance (for those with >£85k) on their cash. As the FSCS limit applies at a bank license level, there is a risk that customers exceed their allowance under a single license by holding cash directly and indirectly with the same institution. All the providers we spoke to had processes to help customers understand their risk profile. This is particularly important as the presence of a third party under the trust or broker models can lead to a more-protracted reimbursement process in the event of bank failure.

Where deposit flow processes necessitate the use of holding accounts to handle cash in transit (e.g., between the original depositor bank account and the final partner bank account, or where a term deposit has matured and depositors have not instructed reinvestment), providers also have analysed FSCS coverage at that stage.

- 4/6 emphasise FSCS protection within promotional material.
- 3/6 coordinate with partner banks to identify directly- and indirectly-held balances at a customer level.
- 2/6 actively encourage customers to check for any other holdings at their chosen partner bank.
- 5/6 providers achieve FSCS coverage of cash held in holding account structures.

## To treasury and beyond: third-party providers and bank strategy

We expect depositors to remain keen to optimise returns on cash holdings actively if rates remain high versus recent historical trends. Given the service levels they offer depositors, providers should remain attractive to UK depositors in the years to come. Indeed, as demographics and patterns of trust in technology and institutions shift, it is possible that their prevalence within the market will grow even further.

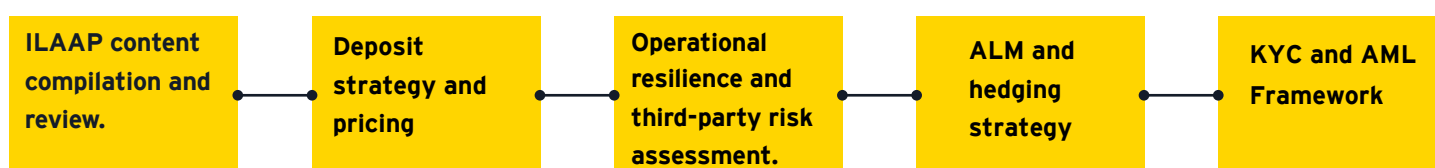
Which provider business models will survive and thrive as the interest rate environment alters and facilitated deposit volumes adjust remains unclear, but for their partner banks, regulators and even government, what follows the first set of questions around regulatory compliance and risk management are much more fundamental ones.

### Fundamental questions for the future

- ▶ How should partner banks balance operational and diversification benefits with risks of, and reliance on, providers?
- ▶ Will providers help loosen the grip of high street banks on the savings market?
- ▶ What does an increase in covered deposits mean for FSCS?
- ▶ How does the customer relationship change when intermediated through providers?
- ▶ How does greater price transparency interact with Consumer Duty obligations?



Whatever questions you have about third-party deposit providers, EY teams can help with:



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