

# Practical approaches to navigating reconciliation challenges in Banking-as-a-Service (BaaS)

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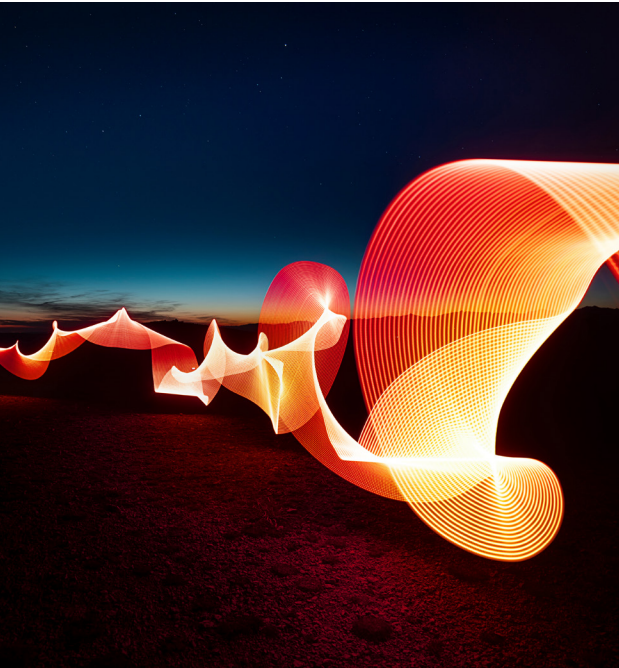
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Banking-as-a-Service (BaaS) companies must overcome fragmented data and governance challenges to build sustainable, risk-mitigated reconciliation frameworks.

## Key takeaways

- 1 Inconsistent formats and poor traceability in BaaS ecosystems increase financial exposure and compliance risks across partners.
- 2 Scalable data standards, automation, service level agreements (SLAs) and cross-functional governance are essential to reduce reconciliation risk.
- 3 Align finance, risk, compliance and tech teams to enable three-way matching, optimize For Benefit Of (FBO) structures, and monitor reconciliation performance.

# Executive summary

The BaaS ecosystem brings together multiple players – FinTechs, banks and technology partners – leveraging their unique strengths to deliver financial products. However, this multi-entity model introduces significant challenges in data exchange, as each participant may capture, store and transmit data differently. While some BaaS companies operate partly on standardized BaaS platforms, many still exchange data bilaterally based on counterparty-specific requirements. Without mandatory data standard requirements, a BaaS company may use data from a third party within the data chain that is incomplete or inaccurate. Resolving data issues has proven extremely challenging given the high volume and lack of transparency to fully track all transaction level customer details (e.g., returns or failed transactions).

Given the risks of incomplete and inaccurate data, it is critical to regularly reconcile the bank's data to its FinTech partners' data. Many institutions identify reconciliation breaks due to weak onboarding governance, inconsistent data standards, lack of automation and insufficient oversight of third-party information. These issues create financial, compliance and reputational risks, impacting stakeholders.

This article highlights the strategic importance of embedding reconciliation control and governance oversight early and outlines steps for finance, technology, risk, compliance and operations teams to mitigate reporting risk.

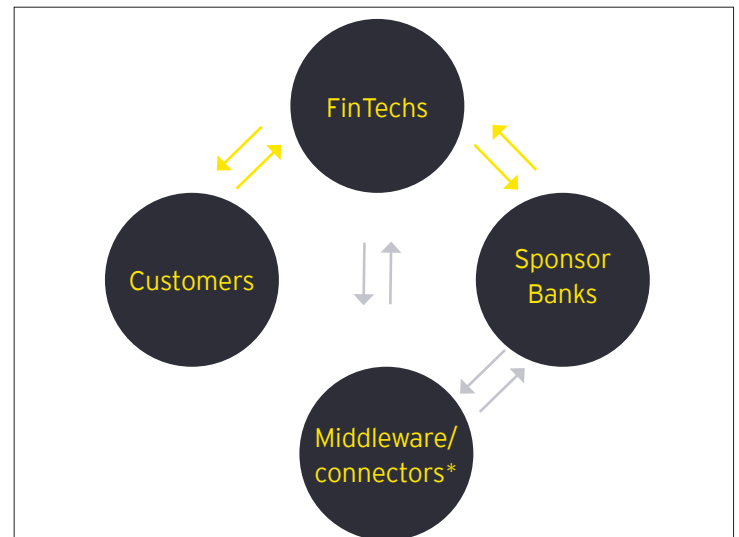


Figure 1: The BaaS value chain

\*Middleware/connectors are optional for BaaS, and their role is evolving to adapt to industry trends.

## 1. Introduction: the rise and risk of BaaS

BaaS is transforming the financial services landscape by allowing FinTechs and other non-bank platforms to offer financial products like debit cards, credit cards, loans and deposits – often without customers ever interacting directly with a traditional bank. At the heart of this model are sponsor banks, licensed institutions that provide access to payment rails and deposit infrastructure. These banks collaborate with FinTechs, middleware providers and technology platforms to bring embedded financial services to market, accelerating innovation and expanding access to financial services.

However, this distributed operating model introduces new risks. With multiple entities involved in capturing, processing and reporting, critical control functions such as settlement, fund availability and financial reporting become harder to govern. Discrepancies in data completeness, accuracy and timeliness can lead to operational, financial, and reputational consequences.

Functions that have long been core to traditional banking – like reconciliation – must now be reimagined for a distributed multi-party environment. Without strong onboarding controls, proper data governance, real-time traceability and scalable automation, seemingly minor data mismatches can quickly escalate into financial exposure or compliance failures.

Recent regulatory inquiries, FinTech and middleware failures, and industry exits have underscored these risks. As the BaaS model matures, fragmented data exchange and a lack of standardized reconciliation have become key vulnerabilities. The following section examines the core friction points emerging in today's BaaS reconciliation landscape and offers targeted strategies to address them across technology, data management, governance and operational execution.



## 2. Reconciliation challenges and mitigation strategies in BaaS operating model

An essential risk mitigation tool is the ability to timely reconcile a bank's BaaS transaction data to its partners' transaction data. Without a timely, successful reconciliation process, banks risk a counterparty requesting settlement for an amount different than what is reflected in their own records and one that they may not be able to fulfill.

### 2.1 Data and technology

In the absence of industry-wide data standards, financial reconciliation remains fragmented, highly manual and effort-intensive across BaaS partnerships. Poor data quality, lack of standardized data formats and data exchange patterns, dependency on legacy core solutions, and inadequate data governance create major barriers to accurately and consistently reconcile financial transactions. Institutions often struggle with unreliable file transmission, data quality issues, decentralized storage and limited transaction traceability – especially when reconciling activity in FBO accounts, such as those held by FinTechs on behalf of individual users (e.g., a neobank holding a pooled account at a sponsor bank, back to end-user transactions.)

In order to mature reconciliation processes, organizations should focus on building reusable data ingestion pipelines (e.g., Application Programming Interface (API), Extract, Transform, Load (ETL) frameworks, batch loaders, streaming pipelines), defining common data requirements, automating validation checks, and collaborating with partners to improve traceability through consistent transaction identifiers.

#### Standardize data model

Map partner data to a common internal data model across products and transaction types. Align with partners on expected file delivery patterns and flag deviations that require action, while documenting those that do not.

#### Build robust data exchange platform

Create scalable data exchange pipelines that support multiple file types and delivery methods, anchored to a single source of truth. Embed automated validations in your data pipelines to improve quality, data integrity, completeness and timeliness, with built-in alerts and dashboards for monitoring.

#### Optimize account structure for FinTech funds

Improve the design of accounts used to hold FinTech's funds (commonly known as FBO accounts) to eliminate intermingling of different FinTech's money. This enhances transparency and strengthens risk management during financial reconciliation.

#### Automate reconciliation process

Leverage combination of machine learning, natural language processing, domain rules and predictive analytics techniques to identify patterns across structured and unstructured transactional data to improve matching accuracy over time.

#### Enhance account structure and metadata for traceability

Establish program-level accounts (e.g., suspense, clearing, transaction-type specific) and enrich transaction postings with metadata that links original and returned items.

### 2.2 Reconciliation, execution and governance

Timely and complete reconciliations remain a significant challenge due to highly manual processes, large data volumes and partner-specific data capture. Differences in data formats, product types, processing cycles and exception handling lead to fragmented workflows that impede the timely reconciliation of a complete data set.

Common pitfalls include improper transaction selection that can obscure discrepancies, two-way matching that misses settlement issues and procedural gaps such as undocumented manual steps, inconsistent quality checks and weak evidence documentation. While technology and data limitations contribute to these challenges, the root causes (which may lead to financial losses and regulatory actions) often stem from weaknesses in reconciliation governance. Traditionally viewed as a finance-led activity, effective reconciliation governance today requires a collaborative model elevating risk and compliance alongside finance, with technology serving as a critical enabler.

Common governance gaps include unclear escalation and resolution processes with partners, undefined tolerance limits for variances, absence of contractual agreements (such as those for loss sharing), quality control and insufficient cross-functional engagement. Sponsor banks should establish clear roles, responsibilities and SLAs; implement policies for variance thresholds; and promote regular oversight and collaboration across finance, risk, compliance, and technology to enhance control, reduce risk, and ensure regulatory compliance.



| Governance and oversight   | Standardized execution   | Automation   |
|--|--|--|
| <ul style="list-style-type: none"> <li>■ Define SLAs and escalation paths.</li> <li>■ Set thresholds by transaction type.</li> </ul> | <ul style="list-style-type: none"> <li>■ Standardize data by type.</li> <li>■ Document variance handling procedures.</li> <li>■ Establish quality assurance/quality control (QA/QC) for manual steps.</li> </ul> | <ul style="list-style-type: none"> <li>■ Automate three-way matching: Partner ↔ FBO ↔ Network.</li> <li>■ Automate variance detection and matching.</li> </ul> |

Figure 2: Governing, executing and automating reconciliation in the BaaS environment

To strengthen reconciliation process, entities should improve governance and oversight, standardize execution steps and automate the reconciliation process for improving accuracy, reducing risk, and enabling scalable operations.

### Governance and oversight

Define SLAs, escalation paths and clear standards for transaction selection, documentation of variances and evidence, QA/QC of manual steps, and formalize undocumented processes. Standardize data elements for matching by transaction type (e.g., ACH, wire, card).

### Establish partner engagement and issue resolution models

Define SLAs, escalation paths and contract language for reconciliation issue resolution. Use workflow and monitoring tools to track and manage issues efficiently.

### Set thresholds and tolerances

Define variance thresholds by transaction type and partner, with severity levels and resolution timelines to prioritize efforts effectively.

### Review and align reconciliation strategy

Regularly assess reconciliation challenges with internal stakeholders, perform sample audits of past results and establish ongoing testing for continuous improvement.

### Standardize reconciliation execution

Standardize reconciliation workflows and rules for each transaction type to ensure consistency across all partner relationships.

### Implement three-way matching

Automate the reconciliation process by matching partner transaction records, FBO account activity and network settlement files to catch discrepancies missed by simpler two-way matches.

### 3. How EY teams can help

EY professionals have deep cross-functional experience across the BaaS community in financial reporting and controls, risk and compliance, technology and data, and forensics in helping participants across the BaaS ecosystem – from banks to FinTechs to middleware intermediaries – grow, run and protect their businesses.

- **Enhance reconciliation processes:** Implement automated reconciliation tools, dashboards, exception workflows, and anomaly detection to efficiently identify and resolve discrepancies.
- **Strengthen controls and governance:** Build practical internal control processes to ensure reconciliations are performed completely, accurately, and in a timely manner, and develop issue management and overall governance policies and procedures to support appropriate escalation.
- **Leverage data and technology:** Modernize core systems and middleware, define target architecture and API strategies, and deploy real-time data ingestion pipelines with robust validation and exception handling.
- **Perform risk assessments:** Conduct reconciliation lookbacks to identify prior period gaps, report risks, and optimize monitoring models.
- **Support compliance and partner governance:** Establish partner onboarding and monitoring frameworks, align teams on AML processes, and enhance case management for BaaS-related compliance risks.

### Conclusion

As the BaaS ecosystem continues to expand and evolve, participants face mounting pressures to resolve reconciliation challenges that pose significant financial, operational and regulatory risks. Addressing these challenges requires a holistic approach that combines leveraging data and technology with strengthened governance and controls. Organizations can build a sustainable reconciliation process by adopting scalable data standards, automating key processes, improving transaction traceability and fostering collaboration across finance, risk, compliance, and technology teams. This approach reduces risk while helping manage operational costs and potential legal or regulatory exposure. Implementing clear governance structures, defined escalation paths and consistent performance monitoring will not only mitigate risk but also build the resilience needed for sustainable growth in the BaaS industry. Ultimately, proactive and coordinated efforts across the ecosystem are essential to unlock the full potential of embedded finance while safeguarding trust and compliance.



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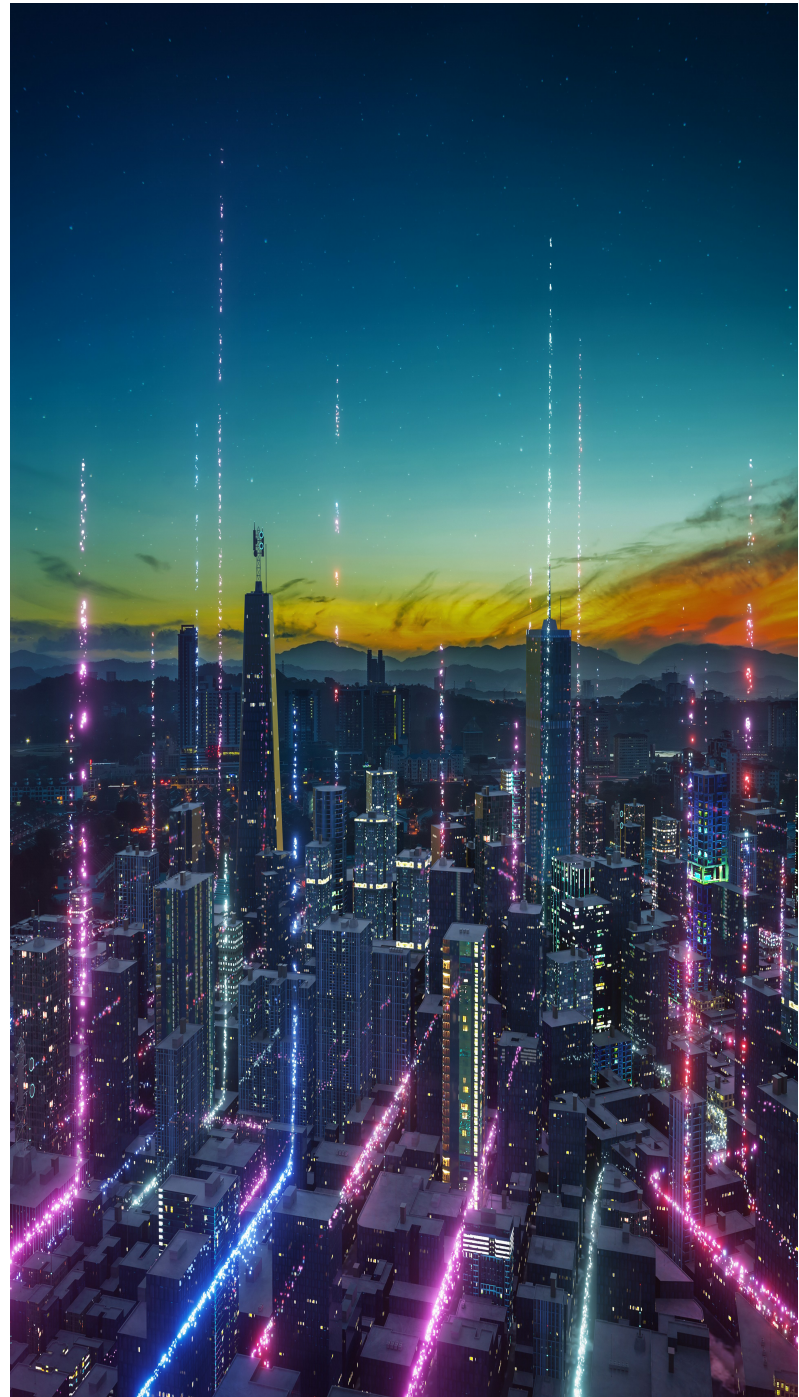


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