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Dear Chief Financial Officer

Working with Deposit Aggregators

In this letter we set out steps that your firm should consider taking to mitigate risks relating to Deposit Aggregators (DAs) that your firm may have relationships with – whether now or in the future.

The Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) first highlighted the potential risks associated with the increasing volumes of deposits that are being sourced via DAs in April 2021 via the joint Dear CEO letter ‘Obtaining Deposits via Deposit Aggregators’.¹ The PRA has since sought to enhance its understanding of the size and nature of firms’ relationships with DAs. To this end, the PRA sent out an information request on the topic to firms in 2022.

Through this work we have learnt more about the steps that can be taken to mitigate risks that DAs could pose to the safety and soundness of regulated firms. We are therefore setting out specific examples of actions that we would encourage you to take, to the extent that your firm’s deposit book relies on funding sourced via DAs. These actions aim to mitigate risks in three main areas:

- Pay-out risk in relation to the Financial Services Compensation Scheme (FSCS)
- Liquidity risk
- Third-party risk

¹ April 2021: www.bankofengland.co.uk/prudential-regulation/letter/2021/april/deposit-aggregators.



Ensuring depositor protection

DAs can represent some unique challenges to the speed and success of FSCS pay-outs in the event of a firm failure, particularly under ‘trust models’.²

Therefore, we want to ensure that the FSCS can respond effectively to the failure of a deposit-taker that uses DAs. In this section we set out steps that your firm could take to mitigate risks that could impact FSCS pay-outs.

We remind you that your firm must prepare so it can be resolved in an orderly manner with minimum disruption of critical services, if necessary. Similar to other recovery and resolution measures, your firm should make arrangements on the basis of contingency planning and not wait for an actual financial stress.

Verifying ‘absolute entitlement’ for underlying beneficiaries:

Underlying depositors must have ‘absolute entitlement’³ to funds held on trust (via the DA arrangements) in order to have similar protection to customers who make direct deposits with a deposit-taker. To ensure that this is the case, you should consider:

- Conducting internal and/or external legal reviews at onboarding of contracts and any other legal documents (such as trust acknowledgement letters).
- Reviewing contractual terms and trust arrangements regularly as part of ongoing due diligence.

Managing data to permit orderly failure:

When acting as trustee, the DA needs to be able to provide the FSCS with sufficient and accurate data on ultimate beneficiaries to facilitate swift pay-out. To gain assurance that the DAs you work with are able to do so, you should consider:

- Testing the ability of DAs to provide the relevant data (or a sample of data) in a timely manner to enable the FSCS to make a fast pay-out, if required. This could be done at on-boarding, as part of audits, ahead of site visits, and/or during periodic reviews.
- Periodically requesting full Single Customer View (SCV) equivalent files from DAs.
- Including terms covering the provision of information in contractual arrangements with DAs (eg, what data they must be able to provide to the FSCS, the relevant timeframes, etc).

² DAs can operate under two models: one where their customers become direct customers of the firm (‘direct models’), or one where the DA holds the deposit accounts on trust for their customers (‘trust models’).

³ Depositor Protection Part of the PRA Rulebook, Chapter 6.2.

- Asking senior figures at DAs to attest that they can produce the relevant data on time and that they regularly test their own data provision capabilities.
- Monitoring whether DAs are continuing to test their data provision capabilities as part of audits/periodic reviews of DA relationships (eg, by asking them to re-attest or to provide updates on any recent testing they have performed).

Confirming customer checks are performed and evidenced to a sufficient standard:

If Know Your Customer (KYC) and Anti-Money Laundering (AML) checks have not been completed, not evidenced, or not performed to a sufficient standard by the DA, further delays to the pay-out of FSCS compensation could arise. To guard against this risk, you should consider:

- Performing regular reviews of DAs' KYC/AML policies and procedures, both at on-boarding and as part of ongoing due diligence to ensure the DAs remain up to date with any changes in regulations. This may include undertaking checks on a sample of underlying customers to ensure compliance.
- Specifying, eg in legal documentation with DAs, what KYC/AML standards they should fulfil.
- Performing an assessment of any differences in DAs' KYC/AML policies and procedures vs. those of your own firm.
- Requiring the DA to notify the firm of any changes to their KYC/AML processes and related financial crime framework.
- Encouraging use of third-party providers by DAs to check their own KYC/AML processes.

FSCS testing facilities for DAs:

The FSCS has developed an approach to testing DAs' data capabilities. These services are voluntary for DAs to participate in. However, it would be beneficial for DAs to do so since the function of helping customers to maximise FSCS protection for larger balances is central to DAs' business models.

We would encourage you to proactively engage with the DAs you work with to raise awareness of this offering and to promote their participation.

Managing liquidity risk

As the PRA and the FCA set out in the previous Dear CEO letter in April 2021, there is a risk for deposit-takers, notably for small and medium-sized firms, that deposits from a DA may represent a significant portion of their balance sheet and present a concentrated liquidity risk. While the deposits from the DA may come from a diversified client base, the flow of deposits sourced from a DA may be correlated, as there is a single commercial relationship between the DA and the deposit-taker. Further, the

speed of outflows could be greater than expected due to the characteristics of DA-sourced deposits.

You should factor potential correlation and concentration risk, in addition to the potential speed of outflows, into your management of liquidity risk and funding needs. You should ensure that you are treating such deposits appropriately in your firm's Liquidity Coverage Ratio calculations, in particular with reference to Articles 24, 25 and 28 of the Liquidity Coverage Ratio (CRR) Part of the PRA Rulebook, and liquidity risk management more broadly, especially in light of the market events of March 2023 that demonstrated that correlated depositor behaviour in a world of increasing digitalisation can result in fast and large-scale deposit withdrawals. For the purpose of applying Articles 24 and/or 28, you should account for an individual's total deposits held, including both deposits directly and indirectly held (eg via a DA), when considering whether the deposits exceed the limit applicable to a relevant deposit guarantee scheme (eg the FSCS or a scheme in another relevant jurisdiction).

We therefore remind you that, as part of your firm's Internal Liquidity Adequacy Assessment Process, the PRA expects you to make appropriate assumptions around the correlation and concentration of funding in your firm's internal stress testing to ensure compliance with the PRA's overall liquidity adequacy rule.⁴ To achieve this, you should understand the specific risks associated with your firm's use of DAs, such as the extent to which DAs (or other intermediaries acting on behalf of DA depositors) could take or influence decisions to place or withdraw deposits in a stress and the potential for a DA to terminate its relationship with your firm. You should consider the potential quantum and timing of deposit flows resulting from the specific risks associated with your firm's use of DAs and capture these in your firm's internal liquidity stress testing. You should also consider the implications of the possible loss of a DA relationship or relationships for your firm's funding plans.

We also remind you of your firm's responsibilities under the PRA's Fundamental Rules 3, 4 and 5 to: (i) act in a prudent manner; (ii) at all times maintain adequate financial resources; and (iii) have effective risk strategies and risk management systems. We would expect your firm to have in place an effective limit framework to monitor and control the correlation and concentration risks associated with DA use.

⁴ July 2021: www.bankofengland.co.uk/prudential-regulation/publication/2015/the-pras-approach-to-supervising-liquidity-and-funding-risks-ss.

Outsourcing and third party risk management

Deposit-takers should manage their arrangements with service providers closely and prudently, consistent with the PRA's expectations on outsourcing and third party risk management.

The PRA's supervisory statement (SS)2/21 – Outsourcing and third party risk management⁵ is likely to be relevant to your firm's relationships with DAs. You should therefore consider how the PRA's expectations relate to the arrangements that you have with DAs, including the controls that your firm should have in place to mitigate risks in relation to third party arrangements.

Furthermore, the PRA's letter sent to firms earlier this month regarding innovations in the use by deposit-takers of deposits, e-money and regulated stablecoins⁶ will also be of relevance to deposit-takers which use DAs.

Next steps

Please consider the recommended actions set out in this letter in the context of the arrangements that you currently have with DAs, or plan to have in the future. If you have any queries about this letter, please discuss with your firm's supervisor.

Yours faithfully



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⁵ March 2021: www.bankofengland.co.uk/prudential-regulation/publication/2021/march/outsourcing-and-third-party-risk-management-ss.

⁶ November 2023: www.bankofengland.co.uk/prudential-regulation/letter/2023/innovations-in-the-use-of-deposits-emoney-and-regulated-stablecoins.