



14 April 2021

Dear CEO

Obtaining Deposits via Deposit Aggregators

This letter highlights the risks associated with the increasing volumes of deposits that are placed with banks and building societies ('firms') via Deposit Aggregators and how to mitigate them. We also outline some of the key responsibilities that your firm will be held accountable for.

Depending on the model, the core activity of a Deposit Aggregator may not be regulated and we are writing to all banks and building societies to ensure that you are aware of the risks, and that these risks are suitably mitigated in accordance with relevant regulators' rules (including the PRA's Fundamental Rules and the FCA's Principles for Business). We expect you to have performed an appropriate degree of due diligence on the Deposit Aggregators with whom you have relationships.

Deposit Aggregators are providers of intermediary services who sit between savings account providers and retail customers.

Business models vary, but they can include keeping customers informed of changes in the savings rates available in the market and offering a convenient service for customers to spread deposits around different banks and building societies, to take advantage of these rates and to maximise FSCS protection for high balances.

These business models also offer customers a platform to view and manage all their accounts in one place and, in some cases, enable customers to access preferential interest rates. Deposit Aggregators operate under several models where their customers also become direct customers of the firm ('direct models'), or where the Deposit Aggregator holds the deposit accounts on trust for their customers who therefore do not become the firm's direct customers ('trust models').

Deposit Aggregation is a relatively new and growing part of the industry and we recognise the benefits the services bring to consumers. We do not want to stifle competition or innovation, but we do want regulated firms to be aware of any potential risks as the industry develops. We are keen to work with firms to ensure that regulatory objectives are not compromised by the adoption of new business models.

Depositor protection, financial promotions and customer awareness

If customers who deposit with your bank or building society through Deposit Aggregators – with a 'direct' or 'trust' model – do not understand how they are protected then there is a risk of consumer harm.

Customers who place their deposits via a Deposit Aggregator may not fully understand how these relationships work or, in trust models, how they can differ from a direct-depositor relationship with firms. They may not know that in the event of a bank or building society failure, FSCS payments can take longer for deposits placed via a Deposit Aggregator under the trust model. There are also scenarios where customers may have less FSCS protection than they expected, for example where they hold deposit accounts at a bank or building society under both a direct and trust model and have balances that in total exceed £85,000.

The content of and conduct around financial promotions for deposit accounts, and communications with customers about these accounts, are relevant to the risks identified above. Where a third party such as a Deposit Aggregator, who may or may not be within the FCA perimeter, advertises and undertakes financial promotions as your firm's agent with the aim of attracting deposits for your firm, it is your firm's responsibility as principal to comply with applicable rules on financial promotions in the FCA Handbook, notably BCOBS 2.

We expect your firm to be comfortable with the detail of any customer-facing messages in promotions that are subject to FCA rules, for example that the communications are fair, clear and not misleading. This includes any claims made regarding FSCS protections, including the length of time that a pay-out may take.

Where information about FSCS protection is provided on your website, or the website of a firm acting as your agent, it may be preferable for messages to directly link to the FSCS website, rather than attempting to summarise or explain the FSCS process. We also suggest that any references to timelines should mirror FSCS' communications on pay-out timelines (that is within 7 days or within 3 months).

Managing data to permit orderly failure

Regulated firms should also be mindful of their obligations to prepare for resolution. A firm must prepare for resolution so it can be resolved in an orderly manner with a minimum disruption of critical services.

The Deposit Aggregator model represents some unique challenges – while deposits are generally eligible for FSCS coverage, firms may need to plan ahead with Deposit Aggregators to ensure eligible claimant criteria are met and client-specific information is available to ensure a swift pay-out. Similar to other recovery and resolution measures, your firm should make arrangements on the basis of contingency planning and not wait for actual financial stress.

Managing liquidity risk

There is a risk for deposit-takers, notably for small and medium-sized firms, that deposits from a Deposit Aggregator may represent a significant portion of their balance sheet and present a concentrated liquidity risk. While the deposits from the Deposit Aggregator may come from a diversified client base, the flow of deposits sourced from a Deposit Aggregator may be correlated, as there is a single commercial relationship between the Deposit Aggregator and the deposit-taker. Firms should factor this into their management of liquidity risk and funding needs.

Senior management oversight

We expect your firm's senior management to have appropriate oversight over its relationships with Deposit Aggregators. You may wish to discuss the contents of this letter with the appropriate governing body in your firm and determine whether further action is necessary to ensure your firm has adequate arrangements in place.

In the future, we may wish to discuss this matter with you and would like you to be prepared to explain any actions taken in response to this letter.

You are reminded that your firm is required to disclose to us any material issues or concerns it identifies with its Deposit Aggregator arrangements which are notifiable under Principle 11 or SUP 15.3.1R for the FCA, or PRA Fundamental Rule 7 and the Notifications Part of PRA Rulebook for the PRA.

Next steps

We expect you to

- have discussions at the appropriate level within your firm and consider addressing any aspects that are directly relevant to you and your business model
- consider the extent to which your deposit book relies on business sourced via Deposit Aggregators and whether this requires you to take any action
- consider measures to achieve a faster customer repayment by the FSCS in the event of need. We would welcome any views on this matter from you or your trade body.
- look at widening the information provided to the FSCS, FCA or PRA to include both information about the Deposit Aggregators used by your firm and the level of deposits coming via them and whether you use a 'direct' or 'trust' model which will support swift pay-out
- consider the level of transparency regulated firms have regarding the beneficial owners of deposits sourced from Deposit Aggregators

Yours faithfully

David Geale

Director
Retail Banking and Payments Supervision
Financial Conduct Authority

Rebecca Jackson

Director
International Banks Supervision Directorate
Prudential Regulation Authority

Melanie Beaman

Director
UK Deposit Taker Supervision
Prudential Regulation Authority