THE NATURE AND ART OF FINANCIAL SUPERVISION

VOLUME XIV

BANKING SUPERVISION

THE SUPERVISION OF ONLINE DEPOSIT PLATFORMS

15 December 2025

TABLE OF CONTENTS

TABLE OF ABBREVIATIONS

AML	Anti-Money Laundering
ASF	Available Stable Funding
BCP	Business Continuity Plans
CDD	Customer Due Diligence
CRR	Capital Requirements Regulation
DGS	Deposit Guarantee Scheme
EBA	European Banking Authority
ECB	European Central Bank
FIAU	Financial Intelligence Analysis Unit
HQLA	High Quality Liquid Asset
ILAAP	Internal Liquidity Adequacy Assessment Process
LCR	Liquidity Coverage Ratio
LSI	Less Significant Institution
MFSA	Malta Financial Services Authority
NCA	National Competent Authority
NSFR	Net Stable Funding Ratio
ODP	Online Deposit Platform
RSF	Required Stable Funding
TR	Thematic Review
SREP	Supervisory Review and Evaluation Process
SSM	Single Supervisory Mechanism

1.0 EXECUTIVE SUMMARY

The rapid pace of digitalisation and the increasing need for operational efficiency have significantly reshaped the way credit institutions operate. In particular, Online Deposit Platforms ("ODPs") have gained widespread popularity as institutions adopt emerging technologies to modernise their outreach and meet growing customer expectations for more convenient and accessible banking services. This, whilst institutions are also benefiting from enhanced liquidity and more agile planning processes enabled by these platforms.

ODPs have become an important channel for deposit generation and funding diversification that goes beyond the domestic market. The pace of collection for online deposits has been on an upward trend in the EU, with amounts reaching approximately €38.5bn across the Single Supervisory Mechanism ("SSM") by June 2025, of which €24.1bn are amounts collected by Less Significant Institutions ("LSIs").

Maltese LSIs contributed to approximately 6% (or €1.45bn) of this amount, with a strong preference for platforms based in Germany. Whereas ODP-sourced deposits have shown a general upward trend, the MFSA has observed a recent decline in related reliance amongst local LSIs. ODP balances decreased to €1.4bn by June 2025, down from a peak of €2.13bn recorded in December 2023. This suggests a potential strategic shift in the LSIs' funding composition.

Recent pricing strategies reflect a shift in depositor preference towards shorter maturities. Higher rates were offered on one-year and nine-month term deposits at end year-2023, while by June 2025, the most competitive rates were observed on one- and two-year products. This structure continued to drive concentration in the short-term maturity buckets, warranting ongoing supervisory attention due to potential maturity mismatch and the overall stability of funding. Underlying these pricing behaviours is a clear correlation between ODP-sourced deposit rates and the European Central Bank's ("ECB") policy rates. As the ECB tightened its monetary policy between 2021 and 2023, ODP interest rates rose accordingly, reflecting their sensitivity to broader market conditions.[1] This alignment suggests that LSIs adjust their deposit pricing strategies in direct response to changes in the external interest rate environment.

ODPs create strategic opportunities for their users, such as wider market reach and greater funding flexibility. However, alongside these benefits, they also carry inherent risks that must be carefully managed. Credit institutions must remain vigilant in recognising and managing the associated risks, such as those related to operational resilience, liquidity volatility and money laundering vulnerabilities. Furthermore, institutions must ensure that robust governance, risk management, and contingency frameworks are in place to effectively mitigate these risks and respond to potential shocks. Sound risk management is critical to ensure longer-term resilience and maintain compliance with supervisory expectations, in particular as the digitalisation of deposit-taking activities accelerates.[2] [3]

Considering these developments, and as part of its supervisory priority to ensure the resilience of credit institutions, the Malta Financial Services Authority ("the MFSA") has been actively working to deepen its understanding of the risks associated with the use of ODPs. The MFSA recognises that effective supervision is essential for the safeguarding of the financial stability in an increasingly digital and interconnected banking environment.[4] Indeed, in 2021 the MFSA conducted a Thematic Review ("TR") on a sample of LSIs to assess the management and use of ODPs and, subsequently followed up on its recommendations through the Supervisory Review and Evaluation Process ("SREP")[5]. Ongoing supervisory engagement, including interactions with Key Function Holders and semi-annual data collection exercises, continue to support MFSA's efforts to monitor evolving trends and strengthen supervisory oversight of ODPs.

The MFSA will continue to advance its oversight role under the Compliance Outcomes-Based Supervision model. In 2025, the MFSA expanded the application of this approach to cover the supervision of the entire financial services sector, including that of credit institutions. The Banking Supervision Function within the MFSA has, inter alia, focused its efforts on assessing the adequacy of the Internal Liquidity Adequacy Assessment Process ("ILAAP") of a sample of LSIs. This also includes identifying possible weaknesses in strategies related to the high reliance in ODPs. The MFSA will work closely with a sample of credit institutions to ensure they implement prudent business plans and/or remedial actions that are commensurate with the risks posed by their use of ODPs. [4]

This publication presents an analysis of the data collected over the reference period spanning from June 2021 to June 2025 and outlines the MFSA's expectations regarding the monitoring and control frameworks applied to the use of ODPs among LSIs. It also aims to provide the wider interested public with a comprehensive overview of recent market developments, with particular reference to the Maltese LSI banking sector. Chapter Two provides an overview of ODPs. Chapter Three discusses the prudential treatment of ODPs in the context of liquidity adequacy calculations. Chapter Four examines ODP exposure within the local banking segment and outlines the MFSA's key supervisory observations. Finally, Chapter Five presents concluding remarks and outlines forward-looking considerations.

2.0 OVERVIEW OF ONLINE DEPOSIT PLATFORMS

The Banking Act (Cap. 371 of the Laws of Malta) defines deposits as:

> *"a sum of money paid in on terms under which it will be repaid, with or without interest or a premium and either on demand or at a time or in circumstances agreed by or on behalf of the person making the payment and the person receiving it".*[6]

This definition establishes the fundamental legal nature of a deposit and applies equally to deposits placed through Online Deposit Platforms ("ODPs").

ODPs enable users – typically retail customers – to place deposits with partner credit institutions. These platforms operate as online marketplaces for deposit products, offering side-by-side comparisons of interest rates, maturities and other features across various institutions and jurisdictions. By centralising this information, ODPs facilitate informed decision-making, allowing users to identify the most favourable terms that align best with their individual preferences and financial objectives. From a user's perspective, ODPs provide a convenient and efficient channel to access a diverse selection of deposit offerings through a single interface. This can enhance the ability to maximise returns or access more flexible and advantageous terms that may not be available through traditional banking channels. From the product banks' perspective, these platforms provide access to deposit funding without the need to have an extensive infrastructure in each market.

ODPs generally do not charge fees to depositors. Instead, they generate revenue from partner institutions that may include flat fees, commission-based fees linked to the volume of deposits attracted, or a combination of both. These platforms' revenue model also includes revenue earned by offering space for advertising or promoting other financial products and services, such as insurance products, investment solutions, or other financial tools that are complementary to deposit accounts.

2.1 TAXONOMY OF DIGITAL PLATFORMS

In September 2021, the European Banking Authority ("EBA") published its *Report on the Use of Digital Platforms in the EU Banking and Payments Sector* which explores various definitions and classifications of digital platforms. The report also provides a framework for understanding the interconnection between credit institutions, payment institutions and electronic money institutions (collectively referred to as *financial institutions* in the EBA report) and non-financial institutions within the EU. [7]

The EBA report refers to four (4) core clusters within its definition of a digital platform:

i. ***Comparators*** for platforms comparing products offered by multiple financial institutions

ii. **Financial Institutions +** for platforms provided by financial institutions also providing access to third party products and services

iii. **Banking/Payments as a Side Service** for platforms with the provision of non-financial products and services as the dominant activity and financial products and services offered as a side service, and

iv. **Ecosystems** for platforms acting as a single point of entry to multiple third-party providers' financial and non-financial products.[7]

The category mostly aligned with Online Deposit Platforms ("ODPs") currently being used by the local credit institutions is the *comparators* model. These platforms enable depositors to compare deposit accounts offered by the different financial institutions across jurisdictions, in particular in terms of interest rates, maturity structures, and other key product features.

The EBA further distinguishes between two sub-categories of *comparators*, namely *comparison only* and *comparison plus*. While the former provides information solely for comparison purposes, the latter includes platforms that facilitate customer onboarding and the actual placements of deposits. On the basis that ODPs typically act as financial intermediaries by enabling users to directly place deposits with partner institutions through the platform, they would generally fall under the *comparison plus* category.[7]

2.2 STRUCTURE OF DIGITAL PLATFORMS

Online Deposit Platforms ("ODPs") make use of service banks, which broker deposits from depositors to product banks. These banks are fully licensed and regulated credit institutions. The service banks act as intermediaries for the flow of funds between depositors and product banks, providing services such as the maintenance of client accounts, settlement of transactions, and compliance with anti-money laundering (AML) and know-your-customer (KYC) requirements.

Deposits from ODPs are usually channelled through two types of models, namely the *direct model* and the *fiduciary model*. Under the direct model, the depositor establishes a direct contractual relationship with the receiving credit institution, meaning that each depositor has an account at the product bank, but the funds are still transferred from the service banks to the product bank. The fiduciary model involves the depositor opening an account with a separate credit institution – commonly referred to as the *service bank* – which is independent of both the platform and the ultimate *product bank* offering the deposit. The service bank then places the depositor's funds with the selected product bank. The depositor enters into a fiduciary obligation authorising the service bank to act on its behalf. Accordingly, the account held with the product bank is opened in the name of the service bank, rather than directly in the name of the end-customer.

While the Capital Requirements Regulation ("CRR") II does not explicitly define fiduciary deposits, it does provide a definition of a deposit broker under article 411(4). CRR II defines a deposit broker as:

> *"a natural person or an undertaking that places deposits from third parties, including retail deposits and corporate deposits but excluding deposits from financial institutions, with credit institutions in exchange for a fee"*. [8]

This definition is relevant in the context of ODPs, where an intermediary institution facilitates the placement of deposits on behalf of the end-customer. The concept of fiduciary obligations is also addressed under Sub-title VII of the Civil Code (Cap. 16 of the Laws of Malta), which provides that a fiduciary obligation arises from a relationship between two or more persons, whereby one party (or the fiduciary) is bound to act in the interest of another. In the context of ODPs, this obligation typically translates into agreements whereby a service bank acts on behalf of the depositor to place funds with a product bank, thereby assuming a fiduciary duty towards the depositor.[9]

This layered arrangement introduces additional legal and operational considerations, in relation to transparency, client protection and the proper application of AML and customer due diligence ("CDD") obligations. Credit institutions engaging in either model must ensure that adequate contractual and risk management frameworks are in place to mitigate the risks associated with each structure.

3.0 PRUDENTIAL TREATMENT OF ONLINE DEPOSITS

The main prudential metrics used to measure a credit institution's resilience from a liquidity and funding perspective are the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"), as established under the CRR and further clarified through the LCR Delegated Act.[10] While both ratios serve complementary objectives, they differ in terms of their time horizons.

Given the evolving funding landscape and increasing use of ODPs, this publication aims to provide further clarity on the prudential treatment of ODP-related deposits under the applicable liquidity frameworks. This further aligns with MFSA's supervisory expectation for institutions to appropriately identify, measure and report liquidity and funding risks, particularly where deposits are sourced through deposit platforms. Institutions are expected to ensure that their risk management frameworks and regulatory reporting practices adequately reflect the characteristics and risk profile of ODP-related funding, and that these are properly considered in their ILAAP and wider prudential planning.[4] [11]

3.1 LIQUIDITY COVERAGE RATIO

The LCR is designed to ensure that institutions maintain an adequate level of high-quality liquid assets ("HQLAs") to meet their net liquidity outflows under a 30-day stress scenario. It addresses short-term liquidity risk by requiring institutions to hold a buffer that can be quickly mobilised in times of financial stress. In accordance with article 412(1) of the CRR, it is defined as the ratio of the institution's liquidity buffer to its net liquidity outflows over a 30-calendar day period, and must be maintained at a minimum of 100%.[12]

Equation 1: Liquidity Coverage Ratio

$$\text{LCR} = \frac{\text{Stock of High Quality Liquid Assets}}{\text{Total Net Cash Outflows over 30 days}} \geq 100\%$$

Source: Regulation (EU). No. 575/2013

The detailed methodology and parameters for the calculation of the LCR are further specified in the LCR Delegated Act. In particular, article 28 of the Delegated Act sets out the treatment of outflows from other liabilities prescribing a standard outflow rate of 40% for deposits from non-financial customers, including sovereigns, central banks, multilateral development banks, public sector entities, credit unions authorised by a competent authority, personal investment companies or by clients that are deposit brokers. This, unless the deposits are covered by a recognised deposit guarantee scheme ("DGS") in which case the rate is reduced to 20%.[10]

The EBA issued a report aimed at promoting a harmonised application of regulatory requirements across the EU. With regards to the classification of deposits originating from ODPs for the purposes of the LCR calculation, the EBA clarifies its stance in the *Second EBA Report on Monitoring of LCR Implementation in the EU*. In particular, if the platform acts as a deposit broker and the depositor is not a financial institution — as described in Section 2.2 of this report — credit institutions are required to apply the outflow rates stipulated under article 28(1) of the LCR Delegated Act. Accordingly, the final (product) bank should apply either a 40% or 20% outflow rate, as applicable. [13]

On the other hand, when the fiduciary entity placing deposits is itself a financial institution (i.e., a financial customer), article 31A(1) of the Delegated Act requires that these deposits be treated with a 100% outflow rate for LCR purposes. This stricter treatment reflects the higher liquidity risk associated with deposits placed by financial counterparties, which are generally considered less stable and more likely to be withdrawn under stress conditions. The application of a 100% outflow rate ensures that banks maintain sufficient liquid assets to cover potential sudden outflows related to such liabilities. This distinction is critical for institutions managing deposits via fiduciary arrangements, as it directly affects the calculation of liquidity buffers and the overall assessment of funding stability.[13]

Table 1: Extract of LCR Outflow Rates for ODP-Related Deposits under the LCR

Category	Description	Outflow Rate of the Final Bank
Deposit Broker Structure	Original depositor is not a financial institution	40% Outflow rate if not covered by DGS 20% Outflow rate if covered by the DGS
Fiduciary as a Financial Customer	Original depositor is a financial institution	100% Outflow Rate

3.2 NET STABLE FUNDING RATIO

The NSFR covers a longer time horizon. It aims to promote long-term funding stability by requiring institutions to maintain a stable funding profile that is relative to the composition of their assets and off-balance sheet activities. It does so by assessing whether an institution's available stable funding ("ASF") adequately covers its required stable funding ("RSF") over a one-year horizon. In accordance with article 413(1) of the CRR, credit institutions are required to maintain an NSFR of at least 100%, calculated as the ratio of the institution's ASF relative to its RSF.[12]

Equation 2: Net Stable Funding Ratio

$$\text{NSFR} = \frac{\text{Available Stable Funding}}{\text{Required Stable Funding}} \geq 100\%$$

Source: Regulation (EU). No. 575/2013

Institutions must calculate this ratio using their reporting currency and apply it across all transactions, regardless of currency denomination. The detailed methodology for determining ASF and RSF, including applicable factors, is laid down in Chapters 3 and 4, respectively of Title IV, Part Six of the CRR.

The *Second EBA Report on Monitoring of LCR Implementation in the EU* continues to provide interpretative guidance on the prudential treatment of deposits sourced via ODPs in the calculation of the NSFR.[13] Pursuant to article 428l(b)(vi) of the CRR, liabilities arising from these structures are to be treated as funding obtained from:

> *"credit unions authorised by a competent authority, personal investment companies and clients that are deposit brokers to the extent that those liabilities do not fall under point (a) of this paragraph"*.

In such cases, credit institutions are required to apply a 50% ASF factor to deposits with a residual maturity of less than one year. This classification reflects a moderate level of funding stability, acknowledging that, while such deposits may be more stable than unsecured wholesale funding from financial counterparties, they fall short of the stability characteristics required for higher ASF categories such as stable retail deposits. If the ODP structure results in the intermediary qualifying as a financial institution, the ASF factor may be reduced to 0%, significantly affecting the institution's funding profile.

On the asset side, the RSF requirement varies depending on how these funds are deployed, for example, lending activities attract an RSF of up to 100%, while placements with central banks or investments in HQLAs carry significantly lower RSF factors.

Table 2: AFS/ RSF Mapping for ODP-Related Deposits under the NSFR

Scenario	ASF Treatment	RSF Implication
ODP deposit via fiduciary or deposit broker (<1 year)	50% ASF factor (per CRR Article 428l(b)(vi)	Depends on how funds are deployed (e.g., high for loans)
Deposit placed with product bank directly (≥1 year)	Higher ASF factors up to 95%	RSF varies based on asset type (lower for HQLA, higher for loans)
Fiduciary deposit with a financial institution intermediary	0% ASF (treated as wholesale funding)	RSF depends on funded assets—needs high stable funding

Credit institutions are expected to undertake a comprehensive assessment of the legal and operational structures underlying deposit arrangements facilitated through ODPs, ensuring their accurate classification under the LCR and NSFR frameworks. Inaccurate or inconsistent application of these prudential requirements may expose institutions to a range of risks, including liquidity shortfalls, funding mismatches, disruption to business strategy, and potential breaches of regulatory obligations. As such, institutions must maintain robust internal processes to ensure that ODP-related funding is appropriately reflected within their liquidity risk management and regulatory reporting frameworks.

4.0 AN ANALYSIS OF THE EVOLVING ROLE OF ODPS

This section provides an overview of the developments observed in the use of ODPs within the Maltese LSI sector over the reference period June 2021 to June 2025. The analysis covers nine LSIs out of a total of 14 currently operating within the sector. It draws upon the information submitted by these credit institutions as part of the semi-annual data collection exercise and is supplemented by qualitative insights gathered from engagements with Key Function Holders. This section excludes ODP-related data for institutions that have since surrendered their banking licence. However, it includes institutions that have discontinued the active use of ODP funding, provided that their contractual relationship with the respective platforms remains in place.

The MFSA's assessment indicates an overall steady increase in the reliance on ODPs by LSIs until December 2023, followed by a decrease in usage throughout 2024 and in the first half of 2025. The aggregate sum of deposits sourced through ODPs reached €2.13bn as at the end of 2023; the highest along the period under review. At its peak, ODP-sourced deposits accounted for 50.0% of the total deposits placed with LSIs using digital platforms; and 42.3% of the total liabilities, representing 21.1% of the total deposit across the LSI cohort. By December 2024, this figure decreased to €1.5bn and further to €1.4bn by June 2025, thereby suggesting a strategic shift in the funding composition of LSIs.

Towards the end of 2023, institutions were observed to offer higher rates for shorter maturity products, with rates for one-year term deposits ranging from 2.07% to 3.64%, followed closely by 9-month deposits, ranging from 2.08% to 3.54%. For the June 2025 reference period, the highest rates were offered on the 1- and 2- year deposits, with average rates of 2.27% and 2.22%, respectively. This pricing structure incentivised depositors to allocate funds to maturities within the 'one year but over three months' bucket, with total deposits in this category reaching €0.96bn as at end-December 2023 and €0.84bn as at end-June 2024. The subsequent decline in ODP usage reduced funding costs but also triggered a sharp decline of approximately 50% in deposits within this maturity range. Despite the decline, this segment remained the most concentrated maturity bucket, still indicating reliance on short-term funding.

From a supervisory perspective, the increasing reliance on ODPs presents several emerging risks and regulatory considerations. ODPs may enable institutions to access substantial retail funding rapidly, often from depositors located in multiple jurisdictions, thereby introducing funding concentration, interest rate sensitivity, and potential liquidity mismatches. Furthermore, the elevated proportion of short- to medium-term deposit maturities—particularly those between three months and one year—heightens rollover risk and may exert pressure on liquidity buffers in a stressed environment. These dynamics underscore the need for enhanced liquidity risk management practices, including stress testing and contingency planning, particularly considering the observed contraction in 2024 and the volatility in interest rate conditions.

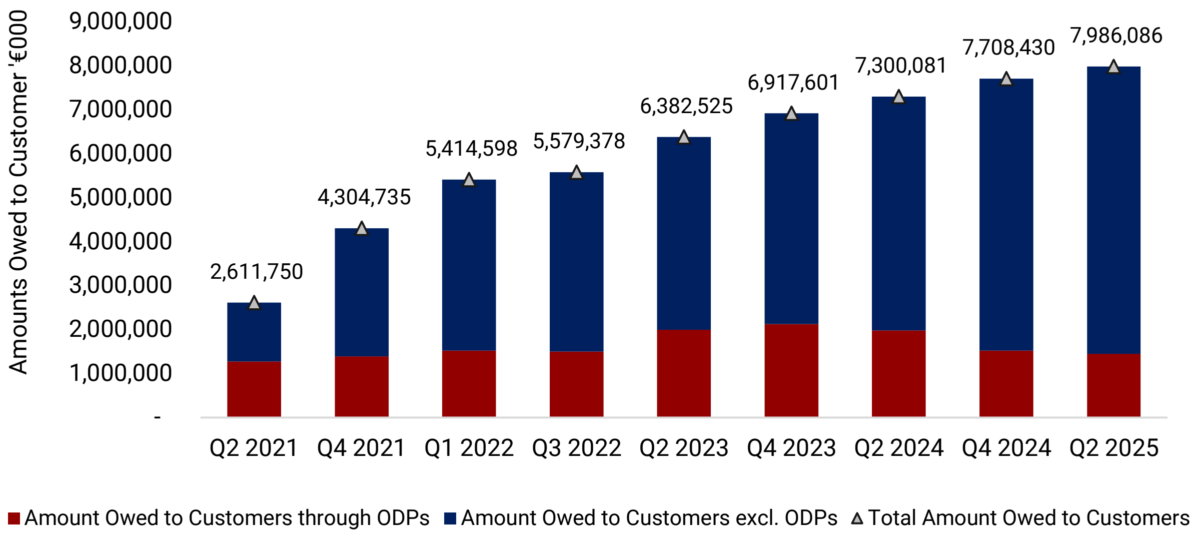
4.1 TRENDS IN THE USE OF ODPs WITHIN THE MALTESE LSI LANDSCAPE

The MFSA observes an upward trend in customer deposit volumes amongst LSIs utilising ODPs. The total customer deposits across these LSIs increased significantly, from €2.6bn as at end-June 2021 to €8bn as at end-June 2025. While this growth is partly attributable to the use of ODPs, the primarily driver has been a considerable increase in funding sourced in-house, through the domestic market.

Figure 1 shows a consistent upward trend in ODP-sourced deposits from June 2021 to end-2023. As at the end-June 2021, €1.27bn deposits – equivalent to 48.8% of total customer deposits – were sourced through ODPs. The most significant growth was recorded during 2023, with ODP-sourced deposits increasing by approximately 30%, reaching €2.1bn by end-2023. However, this upward trajectory was reversed in the subsequent period. As at end-2024, exposure to ODPs among the LSIs declined to €1.5bn, representing a 23.2% decrease compared to June 2024 and a 28.6% reduction relative to December 2023. This downward trend continued into the first half of 2025, with ODP-sourced deposits falling further to €1.45bn, accounting for 18.1% of total customer deposits as at end-June 2025.

LSIs utilising funding from ODPs, have managed to improve diversification within their funding base and increased their uptake of deposits from the local market. This strategic shift allowed the institutions to move away from the more expensive funding sources and strengthen their presence locally. In parallel, the supervisory measures introduced by the MFSA – outlined in sections 4.4 and 4.5 of this report – further reinforced this transition by compelling institutions to conduct more comprehensive risk assessments related to the use of digital platforms. In response, LSIs have recognised the importance of safeguarding the institutional stability and ensuring longer-term sustainability, while maintaining depositor confidence in an increasingly digitalised and competitive funding environment.

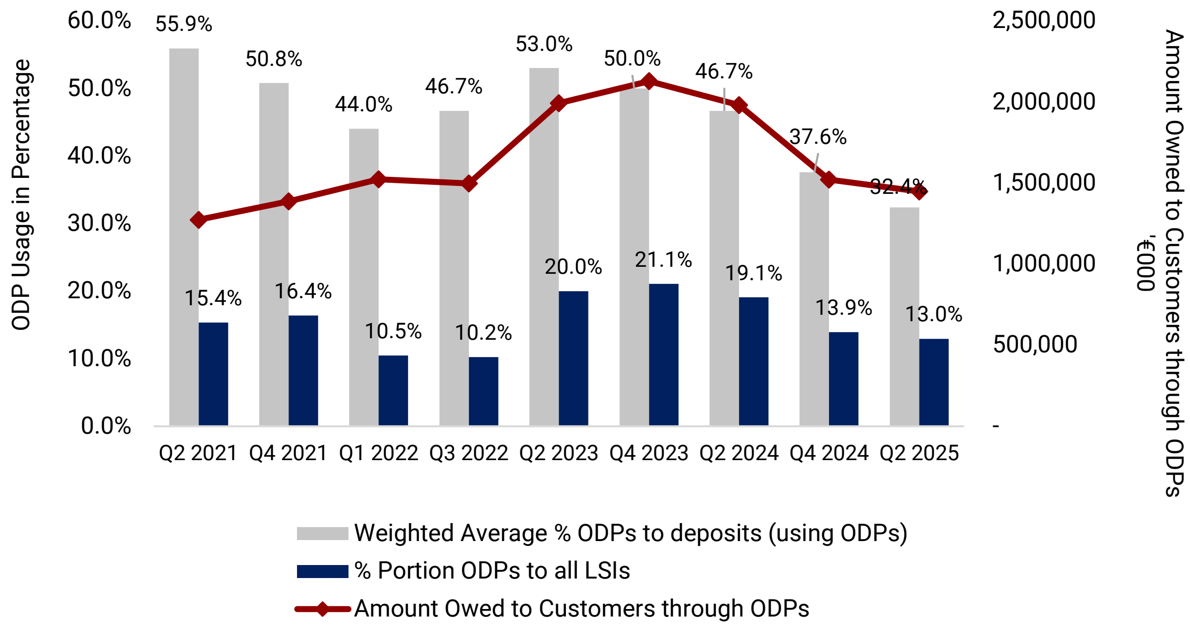
Figure 1: Breakdown of Amounts Owed to Customers



NOTE: **This chart captures amounts owned to customers by institutions sourcing deposits through ODPs. It excludes institutions that have since surrendered their banking licence, but includes those that are no longer actively using ODPs, provided that their contractual relationship with the respective platforms is still in place.**

Although funding sourced through ODPs does not constitute the primary source of financing for most LSIs, it remains a material component of their overall funding structure. A disruption within this segment could give rise to liquidity constraints and funding shortages, with possible spillover effects across the broader financial system. As previously noted, the trend observed in 2024 indicates a reversal, with the contribution of digital platforms to LSI funding declining to levels below those recorded as at year-end 2023. Figure 2 presents data on the share of ODP-sourced deposits as a percentage of total customer deposits across the LSI cohort. This share fluctuated over the period under review, peaking at 21.2% in December 2023, before declining to 13.01% by end-June-2025.

Figure 2: ODP Usage within the Maltese LSI sector relative to Total Deposits



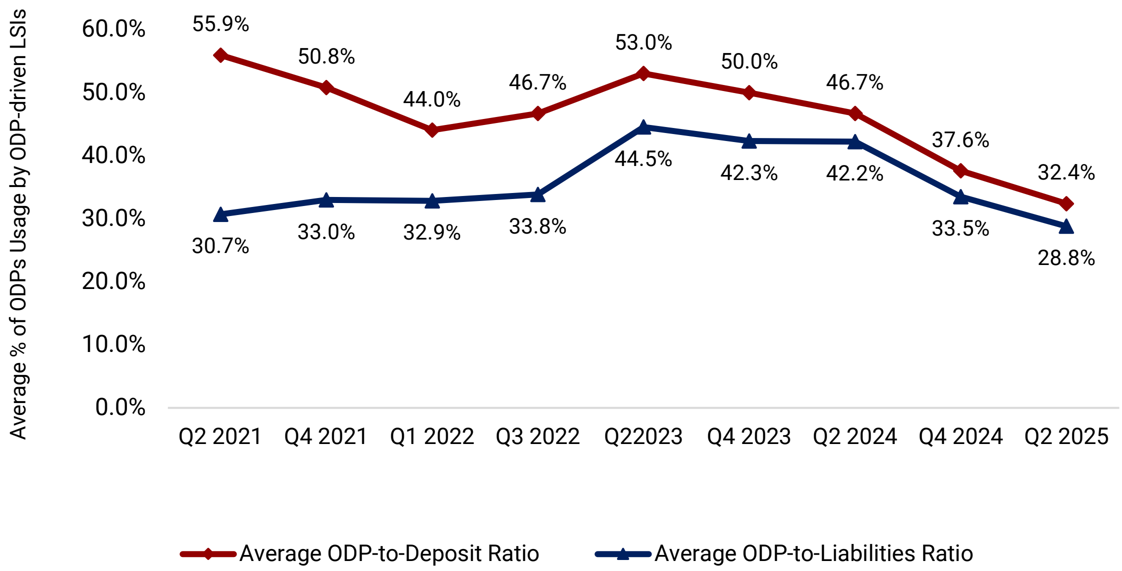
NOTE: **This chart excludes institutions that have since surrendered their banking licence, but includes those that are no longer actively using ODPs, provided that their contractual relationship with the respective platforms is still in place.**

Figure 3 illustrates the average proportion of ODP-sourced funding relative to total deposits and total liabilities across LSIs making use of online platforms. While material differences remain in the extent to which individual institutions rely on ODPs, the data reveals an emerging convergence in funding strategies. In this respect, institutions are increasingly exhibiting similar behavioural patterns in their utilisation of digital deposit platforms. This alignment is evident in the data – although absolute usage levels differ, most institutions are moving in the same direction, either increasing their reliance on ODPs during periods of expansion or reducing it in response to interest rate movements, regulatory expectations or internal risk considerations. Such convergence may reflect common strategic adjustments across the sector, particularly in response to the evolving supervisory guidance, changing funding costs or shifts in depositor behaviour.

The average ODP-to-Total Deposit ratio shows that online deposits constituted a material funding source for those LSIs actively using digital platforms. With the exception of 2024, the average ratio of ODP-sourced deposits to total deposits was substantially above the 50% mark, reflecting a heightened concentration risk and a high dependence on this funding channel. The MFSA observes that larger institutions, measured in terms of balance sheet size, initiated the process of gradually reducing their reliance on ODPs earlier than their smaller counterparts. This trend aligns with the observations presented in Figures 1 and 2, which further support the sector-wide shift away from significant dependence on digital platforms. The average ratio of ODP-sourced funding to total deposits reduced to 37.6% in December 2024 and further to 32.4% in June 2025. This showcases that most of the institutions have taken concrete steps to diversify their funding profiles by expending their access to the domestic deposit market.

The trend in the ratio of ODP-sourced funding to total liabilities mirrors that of total deposits over the assessment period. This ratio increased from 30.7% in June 2021 to 42.3% in December 2023 and, down to 28.8% by June 2025. The MFSA further observes that institutions with access to alternative sources of funding, for example interbank funding or parent company support, were better positioned to manage their balance sheet composition and reduce their relative dependence on ODPs. On the other hand, institutions that are predominantly deposit-funded, or face structural challenges in accessing diversified funding channels, tend to rely more heavily on ODPs. Consequently, for these institutions, the ratio of ODP funding-to-Liabilities remains significantly higher.

Figure 3: ODP Trends relative to Total Deposits and Total Liabilities



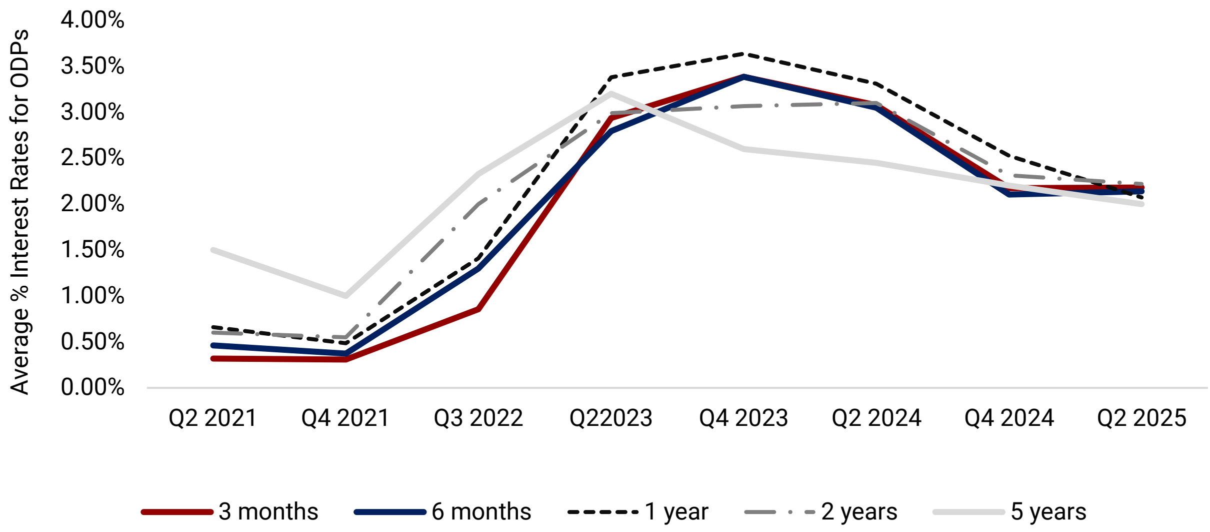
NOTE: **This chart captures amounts by institutions sourcing deposits through ODPs. It excludes institutions that have since surrendered their banking licence, but includes those that are no longer actively using ODPs, provided that their contractual relationship with the respective platforms is still in place.**

4.2 INTEREST RATE DEVELOPMENTS AND MATURITY SHIFTS

During the assessment period, interest rates experienced significant fluctuations. Institutions' pricing decisions are based on external factors, such as the ECB's monetary policy stance, as well as bank-specific considerations such as the targeted maturity profile, the cost of funding which it is prepared to absorb and prevailing liquidity requirements.

As Figure 4 shows, the interest rates offered on ODP-sourced deposits generally increased between December 2021 and December 2023. This trend mirrors the monetary policy tightening implemented by the ECB during the same period, with the deposit facility rate rising progressively to reach 4.00% by December 2023. The MFSA observes that deposits rates offered via online platforms appear to move in close correlation with the ECB's policy rate, suggesting a strong sensitivity to the prevailing interest rate environment, and a strong passthrough. This relationship may be attributed to the fact that LSIs adjust their retail pricing strategies to remain competitive and management liquidity costs in response to market rates. Following the peak in late 2023, the average ODP interest rates and the ECB's deposit facility rate began to trend downwards.[1]

Figure 4: Average Interest Rates for ODP-Sourced Deposits



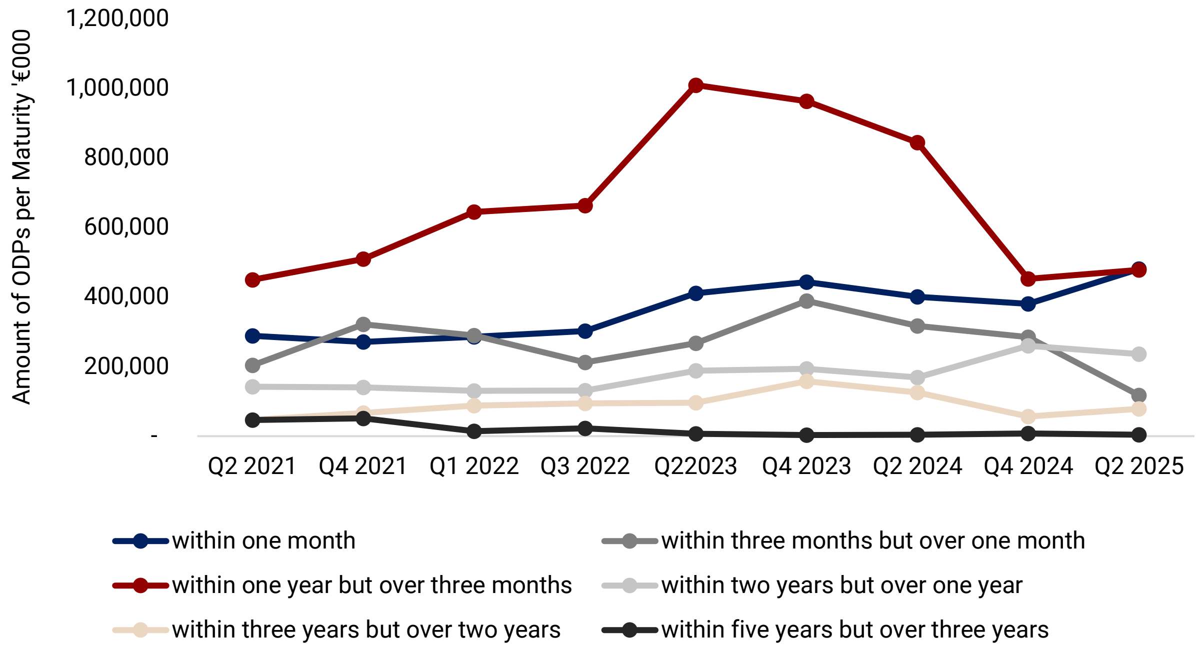
NOTE: **This chart excludes institutions that have since surrendered their banking licence, but includes those that are no longer actively using ODPs, provided that their contractual relationship with the respective platforms is still in place.**

Figure 4 demonstrates the significant variation of ODP interest rates across maturities, reflecting both market dynamics and institution-specific funding strategies. In June 2021, the five-year maturity deposits offered higher interest rates (1.50%) compared to one-year products (0.66%). However, by June 2025, this pattern shifted: one-year deposits offered an average rate of 2.27%, surpassing the five-year rate which stood at 2.0%. Similarly, the rate on three-month fixed-term deposits rose from an average of 0.32% in June 2021 to 2.18% in June 2025 – also exceeding the rate offered on longer maturities. This trajectory indicates a strategic shift by LSIs, driven primarily by short-term liquidity needs and efforts to attract funding without locking in higher long-term costs.

The most pronounced upward movement in interest rates was observed in 2023. The average rate on three-month deposits rose sharply from 0.32% in June 2021 to 3.39% by December 2023. In general, funding through digital platforms became more costly than traditional local retail deposits. In response, institutions intensified competition by offering increasingly attractive rates, as interest rate levels remain the primary factor influencing depositor behaviour on digital platforms.

The above-mentioned shift in interest rate dynamics led to a transfer of funds towards shorter term products, with deposits having maturities of *over three months but within one year,* gaining traction. More specifically, in June 2021 this maturity bucket accounted for approximately €450m, representing nearly one third of total ODP-sourced deposits. By June 2023, the volume of deposits in this segment had more than doubled, to €1bn. Although the figures for December 2024 and June 2025 indicate a decline in the volume of deposits allocated to this maturity bucket, it remains the most concentrated segment. As of June 2025, deposits within this range totalled €480m, accounting for approximately 30% of total ODP-sourced deposits.

Figure 5: Amount of ODP-Sourced Deposits per Maturity Bucket



The overall trend reflects a clear shift towards shorter deposit tenors. This increasing reliance on short-term funding—particularly among institutions with higher dependence on ODPs—raises supervisory concerns related to rollover risk and balance sheet resilience, particular in cases where there is a maturity mismatch with the asset side. Institutions exhibiting such funding concentration may face growing challenges in sustaining competitive deposit pricing and expanding their funding base through local market engagement. These developments warrant continued supervisory attention, particularly in relation to liquidity risk, market sensitivity, and the adequacy of institutions' asset-liability management frameworks.

4.3 RISK CONSIDERATIONS AND OPPORTUNITIES OF ODPs

ODPs present strategic opportunities for their users; however, they also give rise to risks that require robust oversight and mitigation. This is particularly relevant for Maltese LSIs, considering the recent expansion in ODP usage and the evolving competitive pressures within the sector.

Funding through ODPs offers smaller credit institutions - particularly those with limited brand recognition in Malta - several strategic advantages. ODPs allow institutions to tap into a wider range of markets, positioning them as a viable alternative to traditional funding sources. These platforms provide greater flexibility in securing deposits, facilitate broader depositor outreach and, often result in lower costs compared to other funding methods such as equity or debt securities issuance. Furthermore, smaller institutions, licensed in Malta but mainly operating abroad, which often face limited brand recognition in the local market, may struggle to attract retail depositors or access alternative funding channels. In this context, ODPs serve as a valuable tool to diversify deposit bases.

However, overreliance on ODP-sourced deposits introduces risks. These include heightened cost sensitivity, potential funding instability, AML vulnerabilities, and regulatory and supervisory challenges.

To remain competitive, institutions using ODPs usually offer higher interest rates to attract depositors, which in turn increase finding costs. Moreover, deposits sourced through online platforms tend to be less “sticky”, due to limited depositor loyalty towards the institution chosen, thus providing less funding stability.

The digital and cross-border nature of ODPs also raises significant ML risks. When third-party service providers are involved, the risk of weak adherence to AML protocols increases, potentially enabling illicit funds to enter the financial system. This outsourcing of payment processing responsibilities may also dilute the effectiveness of customer verification and transaction monitoring controls. Institutions must therefore implement robust onboarding procedures and conduct ongoing risk assessments to mitigate financial crime risk. These requirements are consistent with the EBA’s Report on the Use of Digital Platforms in the EU Banking and Payments Sector.[14] In addition, institutions are expected to conduct ongoing due diligence on all parties involved in ODP arrangements as outlined in Chapter 4 of the Financial Intelligence Analysis Unit (“FIAU”) Implementing Procedures.[15]

Furthermore, institutions must remain vigilant about reputational risks associated with the use of digital platforms. Reliance on a single platform to source deposits can be particularly problematic in the event of platform disruptions which may include the suspension or cessation of the platform’s operations, or the termination of contractual relationship with the platform or declining depositor engagement. Such dependency may expose institutions to operational risks, including system outages, technological failure or cybersecurity vulnerabilities, which can compromise service continuity and result in reputational or legal consequences if institutions are unable to meet their obligations to customers.

Credit institutions may also be subject to the rules and regulatory frameworks of multiple jurisdictions when sourcing deposits through ODPs. AML-CFT standards, consumer protection laws, and data privacy requirements may differ across jurisdictions. In this regard, institutions must consider these jurisdictional differences and factor them in their supervisory frameworks and regulatory compliance.

The MFSA emphasises the importance for credit institutions to integrate these risks into their overall risk management strategies. Institutions must ensure that governance structures, internal controls, and contingency planning frameworks are sufficiently robust, to address the evolving challenges posed by ODP usage. Moreover, institutions should remain aware of any regulatory gaps that may arise from operating in multiple jurisdictions.

4.4 INSIGHTS FROM THE MFSA’S THEMATIC REVIEW ON ODPs

In 2021, the MFSA conducted a Thematic Review on the use of ODPs to assess how credit institutions in Malta manage the risks associated with this funding channel. The review targeted LSIs with significant reliance on ODPs to meet their funding needs.

The assessment highlighted that most of these LSIs placed a high degree of concentration on a single ODP, thereby increasing their exposure to dependency risk. Such reliance heightened the potential impact of platform disruptions, termination of contractual agreements, or restricted access, all of which could have compromised funding stability. This level of dependence also raised concerns regarding the longer-term sustainability and the resilience of the institutions’ funding strategies.

In response to its findings, the MFSA recommended that institutions enhance diversification measures and establish clearly defined internal risk limits to monitor and manage their exposure to ODPs.

Institutions were also expected to integrate ODP-related considerations into their broader liquidity risk frameworks and contingency planning processes, to enhance both operational and strategic resilience.

The review also found that most institutions did not adequately reflect ODP-specific risks and control measures within their internal risk management frameworks. In particular, the MFSA observed that in some jurisdictions, ODP contracts contained restrictive cancellation clauses which were often not sufficiently considered in the institutions' liquidity risk assessments. The MFSA emphasised that such legal and jurisdictional risks must be appropriately assessed and embedded into the institutions' overall liquidity and contingency planning processes.

Furthermore, the MFSA requested that institutions incorporate a comprehensive assessment of the risks tailored to their specific funding strategy within their ILAAP. Institutions were also asked to reflect their ODP-related funding strategies within their Business Continuity Plans ("BCPs"), including the identification of alternative funding options to be activated in the event of platform disruptions or funding shortfalls.

The implementation of these supervisory recommendations was subsequently monitored and evaluated as part of the SREP, through which the MFSA has ensured that institutions adequately addressed the identified risks within their risk management frameworks and contingency planning.

4.5 INTEGRATION OF ODP-RELATED RISK AND CONTROLS INTO SREP

The MFSA is responsible for assessing the risks posed by credit institutions and determining whether they have the capacity to manage these risks in a sound and effective manner. This assessment is conducted through SREP, which examines the adequacy of an institution's internal governance, risk management frameworks and, capital and liquidity planning under both business-as-usual and stressed scenarios. Where deficiencies are identified, the MFSA imposes supervisory measures to address these shortcomings and safeguard institutional resiliance.[5]

As part of SREP, the MFSA followed up on the implementation of the liquidity-related recommendations stemming from its thematic review on ODPs as outlined in Section 4.4 of this report. In response, institutions have strengthened their ILAAP by enhancing the integration of stress testing assumptions and scenario analysis to better capture vulnerabilities associated with high reliance on ODP funding. These enhancements have reinforced institutions' preparedness for adverse conditions and supported the resilience of their funding strategies.

Nonetheless, it remains essential for credit institutions to continue assessing all material risks related to ODPs in the context of an evolving regulatory landscape and emerging risks. Institutions may consider the inclusion of severe but plausible stress scenarios that model potential disruptions to ODP funding. Such scenarios could include cyber-attacks on the platform, abrupt shifts in depositor behaviour, sharp interest rate movements and macroeconomic shocks.

5.0 CONCLUDING REMARKS AND WAY FORWARD

ODPs provide credit institutions with a strategic alternative to attract deposit funding, particularly from non-domestic markets. This is especially relevant for smaller institutions that may face structural challenges in sourcing deposits locally. The flexibility, geographical reach, and efficiency offered by ODPs make them an attractive component of banks' funding strategies. However, the use of ODPs is also associated with a distinct set of risks that must be carefully identified, assessed, and managed within institutions' broader risk frameworks.

Throughout recent years, the MFSA has actively analysed the growing reliance on ODPs within the Maltese banking sector, with a particular focus on liquidity and funding risks, dependency on single providers, and potential misalignments in the calculation and reporting of regulatory liquidity metrics such as the LCR and NSFR. Certain institutions have understated liquidity outflows or overstated the stability of ODP-sourced funding, posing material risks to their funding resilience. It has also been observed that deposits sourced via ODPs tend to be more rate sensitive and exhibit lower loyalty compared to domestically sourced retail depositors, increasing volatility and reducing predictability in funding.

Moreover, the operational model of ODPs introduces third-party and business continuity risks. Any disruption in platform functionality, such as system outages, cyber incidents, or contractual termination, could impair an institution's ability to sustain its deposit base. These considerations require institutions to maintain strong due diligence, outsourcing oversight, and contingency planning.

The MFSA has assessed these risks both through a dedicated thematic review and during its SREP on the individual banks. These assessments revealed that in several cases, credit institutions were not sufficiently integrating ODP-specific risks into their ILAAP, funding plans, or wider risk management and governance frameworks. This includes inadequate recognition of ODPs' impact on business models, third-party risk and ML risk exposure, and insufficient consideration in stress testing frameworks.

As a result, the MFSA issued qualitative supervisory measures to address these shortcomings. Institutions were required to enhance their ILAAPs and stress testing frameworks to ensure that all material risks from ODP use are adequately captured. The Authority continues to expect institutions to embed severe but plausible stress scenarios related to ODP funding within their risk assessment processes. Such scenarios may include platform disruptions, changes in depositor behaviour, interest rate volatility, and broader macro-financial shocks.

Looking ahead, the MFSA will maintain close supervisory scrutiny of institutions' use of ODPs and will continue collecting granular data to improve the visibility and oversight of this funding channel. The MFSA expects institutions currently using, or planning to use, ODPs to demonstrate a clear understanding of the risks involved and to manage them within a robust regulatory and governance framework that ensures depositor protection and financial system stability.

In line with its commitment to carry out forward-looking and risk-based supervision, the MFSA will continue to advance its supervisory role under the Compliance Outcomes-Based Supervision model. In 2025, this approach continued to guide the Authority's engagement across all sectors of the financial system, including the banking sector. Under this framework, the MFSA will focus on driving better risk identification, targeted supervisory action, and enhanced resilience across the sector.[4]

The MFSA underlines the importance of institutions utilising ODPs as a source of funding to:

i. Fully incorporate ODP funding considerations into their liquidity and funding risk management practices, ensuring alignment with their risk appetite and business model,

ii. Reflect ODP-related risks and controls in their ILAAP, recovery plan, and stress testing frameworks, including the use of severe but plausible scenarios,

iii. Maintain robust governance over third-party relationships, supported by defined accountability structures, appropriate oversight mechanisms, and robust contractual safeguards; and

iv. Comprehensively assess and mitigate operational, cross-border, and ML risks associated with the use of ODPs, including any outsourcing or jurisdictional considerations.

The MFSA further underscores the importance of integrating these elements not only within internal frameworks but also within the institutions' strategic planning and business continuity arrangements. Preparedness must extend beyond regulatory compliance to include the institution's ability to withstand adverse developments in the funding landscape, particularly considering growing reliance on rate-sensitive and platform-sourced deposits.

In conclusion, while ODPs present strategic funding opportunities, they also pose supervisory concerns that merit continuous attention. The MFSA, in collaboration with the ECB and other national competent authorities, will continue to monitor and evaluate the use of ODPs to ensure that institutions operate in a safe, sound, and resilient manner, thereby safeguarding depositor protection and the overall stability of the financial system.

[1] European Central Bank, 'Key ECB Interest Rates' (2025). Available at: https://www.ecb.europa.eu/stats/policy_and_exchange_rates/key_ecb_interest_rates/html/index.en.html, accessed 06.09.2025

[2] European Central Bank, 'LSI Supervision Report' (2022). Available at: https://www.bankingsupervision.europa.eu/ecb/pub/html/LSIreport/ssm.LSIreport2022~aac442c1a3.en.html?utm_source=chatgpt.com, accessed 28.08.2025

[3] European Central Bank, 'LSI Supervision Report' (2024). Available at: https://www.bankingsupervision.europa.eu/ecb/pub/html/LSIreport/ssm.LSIreport2024~b8dd7cda4f.en.html, accessed 28.08.225

[4] Malta Financial Services Authority, 'Supervisory Priorities 2025' (2025). Available at https://www.mfsa.mt/wp-content/uploads/2025/02/MFSA-Supervisory-Priorities-2025.pdf, accessed 28.08.2025

[5] Malta Financial Services Authority, 'The Nature and Art of Financial Supervision on LSI SREP Benchmarking and Supervisory Effectiveness, Volume XIII.' (2025). Available at: https://www.mfsa.mt/publications/corporate-publications/the-nature-and-art-of-financial-supervision/, accessed 16.11.2025

[6] Banking Act (1994), Chapter 371 of the Laws of Malta

[7] European Banking Authority, 'Report on the Use of Digital Platforms in the EU Banking and Payments Sector' (2021). Available at: https://www.eba.europa.eu/, accessed 30.08.2025

[8] Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012 OJ L 150

[9] Civil Code Act (1874), Chapter 16 of the Laws of Malta

[10] Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions OL J 11

[11] Malta Financial Services Authority, 'Stress Tests' (2021). Available at: https://www.mfsa.mt/publication/stress-tests/, accessed 30.08.2025

[12] Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

[13] European Banking Authority, 'Monitoring of Liquidity Coverage Ratio Implementation in the EU – Second Report' (2021). Available at: https://www.eba.europa.eu, accessed 30.08.2025

[14] European Banking Authority, 'Report on the Use of Digital Platforms in the EU Banking and Payments Sector' (2021). Available at: https://www.eba.europa.eu/sites/default/files/document_library/Publications/Reports/2021/1019865/EBA%20Digital%20platforms%20report%20-%20210921.pdf, accessed 07.09.2025

[15] Financial Intelligence Analysis Unit, 'Implementing Procedures'. Available at: https://fiaumalta.org/procedures-guidance-2/implementing-procedures/, accessed 07.09.2025