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The Protection Gap in Digital Finance: Client Funds, CMDI and Depositor Outcomes

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Abstract

The digital transformation of financial services has significantly altered the way individuals interact with the banking system, leading to the emergence of client fund arrangements in which customer assets are held through intermediaries rather than in direct relationships with credit institutions. These structures, commonly based on pooled or omnibus accounts, challenge the traditional foundations of deposit insurance by separating the legal account holder from the ultimate beneficiary. At the same time, the European Union's Crisis Management and Deposit Insurance (CMDI) reform seeks to enhance depositor protection and strengthen the role of deposit guarantee schemes (DGS) within the broader financial safety net. This paper examines the implications of client fund structures for depositor protection in digitally intermediated financial ecosystems. It argues that, while legal eligibility remains a necessary condition for coverage, effective protection increasingly depends on a broader set of operational capabilities, including beneficiary identification, data availability, technological resilience, and institutional coordination. Particular attention is given to the challenges associated with pass-through deposits and the limited visibility of beneficial owners within complex fintech arrangements. To address these challenges, the paper proposes the Digital Deposit Inclusion Index (DDII), a multidimensional framework designed to assess the effectiveness of depositor protection beyond traditional binary notions of coverage. The framework incorporates legal, operational, technological, data, and accessibility dimensions and is applied to a range of digital finance models, including Banking-as-a-Service, embedded finance, and safeguarding structures. The analysis reveals the existence of significant protection gaps, whereby depositors may be formally covered yet encounter practical obstacles in accessing their funds during stress situations. By connecting the CMDI agenda with the realities of digital financial intermediation, the paper contributes to the emerging debate on the future of depositor protection and offers DDII as both an analytical framework and a policy instrument for evaluating protection outcomes in increasingly complex financial ecosystems. The findings suggest that



effective depositor protection should be viewed not merely as a legal entitlement, but as a data-driven and operationally enabled capability.

Keywords: Client Funds; CMDI; Depositor Protection; Digital Deposit Inclusion Index (DDII); Digital Financial Intermediation; Pass-Through Deposits.