

## Discussion Paper

On retail deposits subject to higher outflows for the purposes of liquidity reporting under the draft Capital Requirements Regulation (CRR)



---

# Discussion Paper on retail deposits subject to higher outflows for the purposes of liquidity reporting under the draft Capital Requirements Regulation (CRR)

## Table of contents

|     |  |    |
|-----|--|----|
| 1.  | Responding to this Discussion Paper                        | 3  |
| 2.  | Executive Summary  | 4  |
| 3.  | Background and rationale                                   | 6  |
| 4.  | Discussion   | 8  |
| 4.1 | Introduction   | 8  |
| 4.2 | Factors affecting the stability of retail deposit products | 10 |
| 4.3 | Determination of the outflow rate                          | 17 |
|     | Annex - Summary of questions                               | 20 |

---

## 1. Responding to this Discussion Paper

The EBA invites comments on all proposals put forward in this paper and in particular on the specific questions stated in the boxes below (and in the Annex of this paper).

Comments are most helpful if they:

- respond to the question stated;
- indicate the specific point to which a comment relates;
- contain a clear rationale;
- provide evidence to support the view expressed;
- describe any alternatives the EBA should consider; and
- provide where possible data for a cost and benefit analysis.

Please send your comments to the EBA by e-mail to [EBA-DP-2013-02@eba.europa.eu](mailto:EBA-DP-2013-02@eba.europa.eu) by 21.03.2013, indicating the reference to 'EBA/DP/2013/02' on the subject field. Please note that comments submitted after the deadline, or sent to another e-mail address will not be processed.

### Publication of responses

All contributions received will be published at the EBA's website following the close of the consultation, unless you request otherwise. Please indicate clearly and prominently in your submission any part you do not wish to be publically disclosed. A standard confidentiality statement in an e-mail message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with the EBA's rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the EBA's Board of Appeal and the European Ombudsman.

### Data protection

Information on data protection can be found at [www.eba.europa.eu](http://www.eba.europa.eu) under the heading 'Legal Notice'.

### Disclaimer

The views expressed in this discussion paper are preliminary and will not bind in any way the EBA in the development of the treatment of retail deposits subject to higher outflows for the purposes of liquidity reporting under the draft Capital Requirements Regulation (CRR). They are aimed at eliciting discussion and gathering the stakeholders' opinion at an early stage of the process.

---

## 2. Executive Summary

In the draft Capital Requirements Regulation (CRR) Article 409(3) requires the EBA, having taken into account the behaviour of local depositors as advised by national competent authorities, to publish either guidelines or implementing technical standards<sup>1</sup> on the criteria for determining the conditions of application of paragraphs 1 and 2 of Article 409 in relation to the identification of retail deposits subject to higher outflows than specified. Furthermore the EBA is to specify the definitions of those products and the appropriate outflows for the purposes of liquidity reporting. As required by Article 409(3), the proposal is to take into account the likelihood of these deposits leading to outflows of liquidity during the next 30 days. These outflows shall be assessed under the assumption of a combined idiosyncratic and market-wide stress scenario.

This discussion paper (DP) defines the characteristics of retail deposits that can lead to higher outflows and provides a methodology for calculating higher outflow rates. Higher outflow rates for retail deposits are considered as an exception to the outflow rates of at least 5% and 10% prescribed in Article 409 (1) and (2), respectively.

The DP provides such methodology on the basis of the experience and judgement of national competent authorities, which focused on the outflows observed during the financial crisis. The approach is deliberately not based on a data collection of observed outflow rates for two reasons. Firstly, the level of granularity needed for such an analysis was not readily available at the EBA or at national supervisory authorities, i.e. it did not reflect the full spectrum of retail product categories. Secondly, according to article 409(3), the data should reflect circumstances of market and idiosyncratic stress, which would restrict the data availability even further.

The prominent experienced characteristics that can lead to higher deposit outflows relate to factors such as volatility, volume of the deposit, relationship with the customer, distribution channel, currency of the deposit and yield. As stated in Article 409 (3) of the draft CRR, these deposits flows shall be assessed under the assumption of a combined idiosyncratic and market-wide stress scenario. Therefore, the criteria for identifying deposits subject to higher outflows seek to capture the volatility observed by institutions during stress periods and the volatility they assume in stress scenarios.

Based on the behaviour of local depositors, the EBA is considering a uniform methodology for determining higher retail deposit outflow rates taking into account the characteristics and the underlying factors displayed by these deposits. The application of these proposals by competent authorities across the EU should result in a consistent and comparable measure of outflow rates across institutions for deposits subject to higher outflows than specified in Articles 409(1) and 409(2) of the CRR.

---

<sup>1</sup> Dependent on whether the draft CRR is based on the European Commission text, the agreed Council of the European Union agreed text (Presidency compromise) or the European Parliament text.

---

Note that the mandate of the EBA in respect of establishing methods for identification of retail deposits and appropriate outflows has undergone substantial changes in draft versions of the CRR published respectively by the European Commission, the European Council and the European Parliament. In particular, not only does it remain uncertain whether the EBA will be requested to publish guidelines or implementing technical standards, but also the scope of the EBA mandate differs in the different versions of the text. Therefore the EBA will launch a consultation by publishing a Consultation Paper, at a later stage, once the EBA mandate is fully clarified and taking on board the subsequent benefits of the present Discussion paper.

Given the importance of the treatment of retail deposit outflows for institutions in liquidity reporting, regardless of the uncertainties surrounding the EBA mandate, the EBA believes that input from relevant stakeholders should be sought trying to promote better grounds while the state of the art remains nascent and unstable in the banking sector at this stage. This DP therefore outlines the EBA's preliminary thinking on a methodology for identifying retail deposits subject to higher outflows than specified in Article 409 (1) and (2) and on a methodology for calculating the associated outflow rates.

---

### 3. Background and rationale

The draft CRR seeks to implement the Basel III proposals in the EU. In particular, with the view to improving the short-term resilience of the liquidity risk profile of financial institutions, Part Six of the draft CRR is expected to introduce a liquidity coverage requirement (LCR), which outlines a number of items subject to liquidity reporting.

At a later stage, the Commission is expected to propose a liquidity coverage requirement that will require institutions to match net liquidity outflows during a 30 day period with a buffer of high quality liquid assets. The net liquidity outflow will be determined as a pre-defined scenario that reflects both institution-specific and systemic shocks. The pre-defined scenario will take into account how stable the funding source can be considered.

Article 408 of the draft CRR sets out the liquidity outflows to be reported for the purposes of the liquidity coverage requirement. Article 409 (1) considers retail deposits that are subject to a Deposit Guarantee Scheme and are either '*part of an established relation making withdrawal highly unlikely*', or '*held in a transactional account*'. These retail deposits are considered the most stable and will be subject to the lowest outflow rates. Article 409 (2) of CRR proposal groups the remaining retail deposits which are not part of established relationships or not held in transactional accounts but still reflect the general stability of retail deposits, in a broad bucket that is subject to 10% outflow.

There will however be varying degrees of stability and the less stable retail deposits of both of these 'buckets' shall be subject to higher outflow rates. Article 409 (3) of the draft CRR requires the EBA to identify these retail deposits subject to higher outflows, while taking into account of the behaviour of local depositors as advised by national competent authorities. The EBA is to outline the treatment of these retail deposits, and more specifically the criteria for identification of retail deposits subject to higher outflows, the definitions of those products and the appropriate outflows. The treatment is to take account of the likelihood of these deposits to lead to outflows of liquidity during the next 30 days under the assumption of a combined idiosyncratic and market-wide stress scenario.

Accordingly, the EBA surveyed national competent authorities to determine the behaviour of local depositors, in particular during stress periods. The answers were based on the sample of institutions deemed to be representative for the sectors in each country.

In this survey, the EBA also considered the respective supervisory experiences and institutions' practices. In this respect, the results of the survey suggested that practices vary to a significant extent from one country to another. With regard to the definition of deposits, the majority but not all competent authorities establish categorisation of retail deposits. Some competent authorities prescribe quantitative and/or qualitative requirements to determine outflow rates for retail deposits, while others require institutions to use the results of internal assessments. In general, among EU jurisdictions, outflow rates are required for a number of purposes, including quantitative supervisory liquidity ratios, prudential requirements, stress tests, reporting/monitoring and liquidity management. The outflow rates prescribed by supervisors tend to consider or reflect the stress scenario assumptions. The majority of competent authorities, however, rely on either the institutions' methodologies for risk management purposes or on liquidity quantitative requirements.

---

Regarding the institutions' experiences with the behaviour of retail depositors during stress events, the EBA's analysis found that most institutions experienced increased outflows during periods of stress ranging from a low to a moderate level of retail deposit withdrawals. However, a minority of institutions perceived as 'safe havens' did experience deposit inflows and others experienced changes in funding behaviour. The latter related to both inter-product transfer as customers exited debt instruments perceived as of a higher risk than deposits, and a deposit migration from short-term and sight accounts to longer term ones.

The EBA's assessment identified that sight/current deposits proved the most stable retail product type during stress periods, followed by saving deposits and finally term deposits.

The experience of competent authorities and the increased volatility observed during stress periods supports the application of higher retail deposit outflow rates to certain products. This DP presents the EBA's current thinking on the suitable criteria for identifying retail deposits subject to higher outflows. It also provides preliminary views regarding the characteristics that can lead to higher outflows and a methodology for calculating higher outflow rates.

The paper considers a scorecard methodology for calculating outflow rates for retail deposits subject to higher outflows in accordance with Article 409 (3). This methodology explicitly differentiates according to the riskiness of characteristics and determines whether a higher outflow rate applies. Three higher outflow rates could apply, namely 15%, 20% and 25%. The underlying characteristics would be ranked into 2 groups of high and very high risk. The combination of the factors a given product would meet, taking into account the number of factors and their riskiness, would affect the final outflow rate.

The EBA seeks input on the methodology developed for identifying retail deposits and the application of the higher outflow rates. Ultimately, the application of such a methodology is expected, in practice, to assist institutions with developing their internal assessment of retail deposit stability for the purposes of liquidity risk management. It would therefore be of particular interest to the EBA to hear about any practical concerns regarding the implementation of this methodology by institutions.

Overall, the introduction of criteria for identifying less stable retail deposits and the methodology for calculating higher outflow rates is expected to enhance the quality of the application of liquidity coverage requirements by addressing the potential underestimation of outflows for these deposits.

---

## 4. Discussion

The methodology presented in this DP is expected to contribute to achieving a common understanding and preparing convergence path amongst institutions and EU's national competent authorities about the approach for identifying retail deposits subject to higher outflows rates by determining the characteristics that negatively affect their stability. It is therefore the intention of the EBA to strive for harmonization and consistency of practices in this area.

### 4.1 Introduction

The proposed methodology put forward in this paper follows a two-step approach:

Step A –It provides a list of characteristics for identifying and defining retail deposits that may be subject to higher outflow rates other than those specified in paragraphs 1 and 2 of Article 409.

Step B – It proposes an approach for determining the levels of higher outflow rates for retail deposits.

The scope of the DP covers all retail deposits as per Article 409 CRR, i.e. it includes those covered by a deposit guarantee scheme and those that are part of an established relationship or held in transactional accounts (Article 409 (1) (a) and (b) CRR). Emphasis is put on the fact that the characteristics for identifying retail deposits that carry higher outflow risk need to be applied to these deposits, as well.

The scope of this DP does not include guidance on the definition of established relationships. The EBA may consider issuing guidelines according to Article 16 of Regulation 1093/2010 should this be deemed necessary for the common, uniform and consistent application of Article 409 CRR, depending also on the final CRR text.

In order to identify the characteristics in Step A and the outflow factors in Step B, it was considered useful to seek to perform an empirical analysis of the outflows observed during the financial crisis. This would allow the setting of outflow factors and the identification of characteristics linked with higher outflows to be based on empirical evidence.

Nevertheless, the data needed for such an analysis proved to not be currently available in all of the national supervisory authorities. This presented the EBA with two options: either relying on limited data from supervisory authorities, which lack the sufficient level of granularity for the purposes of this exercise, or launching a data collection exercise among firms across the EU, via national supervisory authorities, which would entail a substantial reporting burden for firms.

The latter option also proved to be difficult to apply in practice, given that the level of data granularity needed for such an analysis would be split into categories of retail deposit products, which cover a very broad spectrum of products, which would pose substantial challenges in terms of categorising retail deposit products across institutions into comparable categories. Such classification of retail

---

deposit products is not available within institutions. Therefore such a categorisation would also introduce further uncertainty into the analysis.

In addition, only a very limited sub-set of firms' data could be used for the purposes of our analysis here, given that these need to reflect a scenario of institution-specific and systemic shocks, but only few institutions have experienced institution-specific and systemic shocks. Thus, if such limited sub-set of data were to be used, the results could be questioned as stemming from a sample bias, and they would not cover the most relevant experiences, i.e. where institutions have failed. For all the above reasons, the EBA has decided to rely on the experiences from national supervisory authorities for its analysis.

As a consequence of the above, the EBA conducted, instead, a survey among national supervisory authorities, which identified a broad range of products and characteristics. A number of defining traits could be derived from the answers to the survey, which has led the EBA to define a number of characteristics that appear to be associated with higher outflows for retail deposit products. The selection of the list of characteristics identified and the level of outflow rates is based on a mix of quantitative analysis at the national supervisory authorities combined with qualitative criteria.

The survey also revealed differences in the behaviour of retail depositors and products during stressed periods for credit institutions across countries. It has proven difficult to draw robust conclusions from such heterogeneous experiences, as the circumstances surrounding these experiences are substantially different in several aspects. While it cannot be excluded that the behaviour of depositors, for instance in a given jurisdiction, may be different from that in other jurisdictions, neither can it be concluded that this is definitely the case. The circumstances are too different to allow any robust inferences to be drawn.

As the introduction of liquidity requirements to some extent is based on actual behaviour observed during a stressed situation which may be considered realistic, it was decided to apply the same general principles across all jurisdictions for the definition of characteristics. However, it is also recognised that some other factors may be of relevance. As regards the outflow rates, these have also been set on the basis of the experiences observed throughout member states. In general, the experiences showed that outflow rates in certain deposit types ranged between 15% and close to 100%, which is a wide range of outflow rates. Further, in relation to the setting of the outflow rates, it was important that this was done consistently with other outflow rates, especially the non-financial corporate outflow rate.

- (a) Retail deposits should be assessed against each of the criteria discussed in point 4.2, together with other criteria not included that may impact potential outflows, on an individual or combined basis. In addition, institutions should analyse their retail deposit portfolios in order to identify other characteristics that might indicate a retail deposit type with higher outflow rates than those specified in the Article 409 (1) and (2) of the draft CRR. The identification of such other characteristics should be documented.
- (b) Based on this assessment, the outflow rate for these deposits should be determined in accordance with the outflow factors given above.

---

In the course of the above process, institutions should use both local historical data as well as a forward looking approach.

Where local historical data does not support the need to apply higher retail deposit outflow rates, institutions should gather additional information from other sources. For example, institutions part of a cross-border banking group should consider collecting data from group entities that offer similar products for the purpose of analysing their experience of retail deposits with higher outflows. If there is evidence from other entities that a similar retail deposit product experiences higher outflows, these outflow rates should be applied proportionately, taking into account the local specificities of the market where the institution operates.

Under a forward looking approach, institutions should not assume that past experience is a sufficient basis on which to assess deposit stability. This is particularly true where institutions have not experienced a combined idiosyncratic and market-wide stress scenario.

#### Question

Q1: How do respondents assess the availability of data to empirically substantiate work on criteria for identification of retail deposits subject to higher outflows, as well as setting such outflow rates?

## 4.2 Factors affecting the stability of retail deposit products

A number of factors to be associated with higher outflows on retail deposits have been identified. The list is not considered exhaustive and institutions that identify additional metrics would be required to include these in the analysis. Respondents are further asked to comment on three aspects, namely the applicability of the factors selected by the EBA, their appropriateness for determining retail deposits that should be subject to higher outflows, and whether more factors should be added. Please refer to the text box containing the full set of questions on which the EBA seeks input.

In general, the identified characteristics are linked to the degree of professionalism in the management of the deposits. Under an institution-specific or systemic stress, the more actively managed deposits will be more prone to experience withdrawals. This is consistent with the behaviour during the financial crisis, as observed by supervisory authorities in the EU.

The characteristics identified could be grouped into the classifications given below. All characteristics are based on experiences in EU member states.

1. The value of the deposit (High value deposits and Very high value deposits)
2. Products that are rate-driven or have preferential conditions
3. Maturing Fixed Term or Notice Period Deposits
4. High risk distribution channels including Internet only access and brokered deposits

- 
5. The currency and location of deposits
  6. Non-resident deposits
  7. Depositors are sophisticated or high net worth individuals
  8. Product linked deposits
  9. Other characteristics

Each of the factors describe are aspects that in isolation are considered to heighten the risk of outflows in a stressed market environment. The factors may therefore, each separately, or in combination with each other, lead to substantially higher outflows. As a consequence institutions should be aware of the liquidity risk linked to these characteristics.

Retail deposits should be assessed against each of the factors discussed in this section, together with other factors not included that may impact potential outflows, on an individual or combined basis. In addition, institutions should analyse their retail deposit portfolios in order to identify any other characteristic that is or might indicate a retail deposit type with higher outflow rates than those specified in the Article 409 (1) and (2) of CRR proposal. The identification of such other characteristics should be documented. Based on this assessment, the outflow rate for these deposits should be determined in accordance with the outflow factors provided.

Question

Q2: Can you identify any other factors that may lead to higher outflows, especially in relation to the introduction of innovative products designed to lower outflow rates?

**1. The value of the deposit (High value deposits and Very high value deposits)**

High value deposits contribute to the concentration of the deposit base, therefore over-reliance on them can compromise the stability of the deposit base. These deposits tend to be placed by clients who are more sophisticated and responsive to market-wide and idiosyncratic stress than regular retail depositors. They can also represent discretionary funds placed for non-transactional purposes. For these reasons, high value deposits can be subject to higher and faster outflows in a combined idiosyncratic and market-wide stress scenario.

During the financial crisis, withdrawals of high value deposits were observed in a number of countries and proved to be a leading driver of outflows. There is also some evidence indicating that at least some of these high value deposits are being managed in a semi-professional manner. Therefore there is robust evidence for including (very) high value deposits as a characteristic that is linked with higher outflows.

The evidence from supervisory authorities indicates that outflows ranging from 20% and substantially more seem to be warranted, based on their experience in the financial crisis. In a number of cases, it was especially (very) high value deposits that tended to experience large outflows under stressed

---

conditions. This also seems consistent with supervisory experience that indicates that all deposits above the amount guaranteed by national deposit guarantee schemes (DGS) tend to be sensitive to the credit risk of the institution.

In general, high value deposits are defined as any deposits above the minimum DGS amount. It however appears plausible that the degree of professionalism in the management of high-value funds is increasing in proportion to the amount. For that reason, although all high-value deposits above the DGS amount appear prone to outflows, the largest time deposits should be categorised separately.

Taking into account the above-mentioned rationale this category is divided into 2 groups:

- High value deposits – deposits exceeding the guaranteed amount of 100 000 EUR, but lower than 500 000 EUR,
- Very high value deposits – the sum of the deposits from the client equals at least 500 000 EUR and up to 1 mn.

For the purpose of the calculation of the value of the deposits from the client all the accounts of a client should be considered.

In addition, institutions should complete a concentration analysis of their deposit base while adequate thresholds and/or limits to define high value retail deposits need to be introduced for internal purposes.

There are a number of methods that may be employed to identify the concentration of the deposit base. For example, institutions can identify a 'certain number' of large retail deposits or identify the 'number of largest retail deposits' that represent a certain percentage of the retail deposit base. To identify high value retail deposits institutions can use the threshold tailored to the local market for the deposit guarantee amount, the amount above which the interest rate is negotiated or any special arrangement agreed with the depositor that may limit the risk of outflows.

#### Question

Q3: Do you agree with this characteristic? Should the local DGS amount be used instead of a fixed 100.000 EUR? Is it sensible to distinguish between high and very high value deposits? What are the concentration analysis and management tools used internally as regards high value deposits?

## **2. Products that are rate-driven or have preferential conditions**

Retail deposits that are rate driven or have preferential conditions tend to be more sensitive to market-wide and idiosyncratic stress. Depositors influenced by higher yield, preferential conditions or negotiated rates can be more responsive to competitors and other attractive offers prevailing in the market during normal times. During periods of market-wide stress the level of price competition tends to increase and these deposits can prove less stable. High yield deposits can also represent excess funds that can be easily withdrawn in stressed times.

---

Institutions can identify rate driven or other preferentially treated deposits by comparing the yield of deposits with a reference rate on the yield curve, or by comparison with other similar products and other market factors, including but not limited to foreign exchange rates and stock indexes.

Institutions should therefore establish procedures that establish relevant market benchmarks, if this is not already done. It is the impression of the EBA, that institutions are very aware of competitor levels and often set their own prices relative to competitors.

Like for high value deposits, outflows were also significantly observed in products with rate-driven or other preferential conditions under stressed market conditions. This likewise suggests that these deposits are the results of active management. As a consequence it appears justified that such products are subject to higher outflows.

Institutions can identify 'rate driven' products by comparing their offered deposit rate to the average paid by their peers for similar products. Peers in this regard refers to institutions with a comparable business model and size, to be defined by the national supervisor, or - by consent of the supervisor - by the institution verified by the national supervisor upon request.

In case an institution offers an interest rate that exceeds the average rate for similar retail products offered by their peers by 25% (relative), or whose return is derived from return on market index or set of indices or other market variable than a floating interest, rate a deposit should be considered to be rate driven.

Question

Q4: Do you agree with the criteria for deciding which products can be considered as rate-driven?

### **3. *Maturing Fixed Term or Notice Period Deposits.***

Retail deposits which were originally placed as fixed-term or deposits with fixed notice periods, other than those that qualify for the treatment provided in Article 409(5), can be less stable as they are more likely to be funds that depositors do not need for day-to-day transactions. As such they may be more vulnerable to withdrawal during stress periods, as the products are likely to be subject to more active management.

This category should include all products where a notice period is needed or where there is a fixed expiry date. However, clearly only deposits which mature within a 30 days' period according to contractual arrangements need to be considered subject to the outflow factors, but not exercised notice period deposits (where the notice period is shorter than 30 days).

When assessing retail deposit outflow rates, institutions should consider the impact of withdrawal limits or notice periods. It is clear that the cost of withdrawal also has to be taken into account for retail deposit products which can legally be terminated prior to their original maturity date. If institutions have developed a practice of allowing early redemption of these deposit products, the consequence, on the reputation of the bank, of not allowing deposit withdrawals should also be considered.

---

For instance, product innovation may occur in order to circumvent the obligation of including liquidity outflows, for instance by incorporating 31+ days notice periods. As the liquidity coverage requirement is a 30-day requirement, this is clearly not subject to the reporting requirement. However, it might be possible that the requirement is included in the terms and conditions of this product, but not enforced in practice, say by allowing as an informal agreement, that the money can be withdrawn in a shorter time period (less than 30 days), although no formal right exists. In this case a situation where the institution actually refuses to pay, may be seen as a crisis warning, which in itself may trigger a new round of withdrawals. Any product innovation should therefore not only be in the legal documentation, but actually reflect practice.

These products seemed to be particularly prone to high outflow rates during the crisis and national supervisory authorities have indicated that these retail deposit products, together with high value deposits, appear to have the highest tendency of leading to outflows in a stressed market environment.

While these deposits appear to be subject to some element of active management, which leads depositors to also incorporate credit aspects, the EBA acknowledges that a general classification of term-deposits as a higher outflow category may lead to an unintentional reclassification of such deposits to sight deposits. The EBA is particularly interested in obtaining views on possibilities to address the risk of higher outflows in connection with term deposits, without incentivising banks to broadly change the underlying contracts to sight deposits.

Question

Q5: What criteria do you propose to address potentially higher outflow rates connected to term deposits?

#### **4. High risk distribution channels including Internet-only access and brokered deposits**

The distribution channel risk can affect the stability of retail deposit products. Customers' ability to react instantaneously or quickly to market developments, more attractive offers from competitors' or negative publicity concerning the institution, can impact deposit stability to different degrees depending on the distribution channel. Internet-only access retail deposit accounts provide a distribution channel that can be prone to instant client reactions. Therefore, these deposits can be less stable, especially during times of stress.

The clients of Internet-only (virtual) banks have access to their accounts only through remote delivery channels/ the Internet. There is no possibility for accessing such a bank through traditional delivery channels such as branches or other physical offices. Internet-only banks may also provide their clients with the ability to make transactions via remote delivery channels of other institutions.

Deposits placed by brokers (who gathered funds from individual natural persons) can be prone to quicker withdrawal or less roll-over than in the case of other distribution channels. Also for this category, there appears to be an element of active management behind the use of these products.

---

It was the experience of national supervisory authorities that outflow factors for such products should be slightly higher. However, the experience also suggested that some element of management may also be present in normal branch-driven retail deposits, which typically also could be accessed via the internet. Nonetheless, these risky distribution channels were deemed to have less consumer loyalty in a crisis situation.

#### **5. The currency and location of deposits**

The currency denomination of retail deposits can impact their volatility, as can the geographical location of institutions. The resultant impact on deposit stability can vary depending on local/national circumstances and these should be considered by institutions.

In some jurisdictions deposits denominated in foreign currencies can be less stable than deposits denominated in the local currency. However, this may not hold true for all jurisdictions. Moreover, exchange rate volatility can also affect the stability of both foreign and local currency denominated deposits, and this will ultimately depend on the national economic circumstances and the depositor type. In addition, the geographical location of institutions may impact the stability of deposits.

Institutions should therefore distinguish between local and foreign currency denominated retail deposits.

#### **6. Non-resident deposits**

The residence of the retail depositor can significantly influence the stability of the underlying deposit. Non-resident deposits can, in certain circumstances, be less stable than resident deposits. The ability of retail depositors to transfer deposits abroad, perhaps in an attempt to eliminate adverse local market risk, may impact the stability of deposits placed by non-residents. These deposits tend to be more reactive to institution or national/local market specific stress and therefore less stable.

Institutions should distinguish between resident and non-resident retail deposits. The definition of 'residence' for the purposes of liquidity coverage requirements should generally follow the statistical or tax definition applicable in each member state.

#### **7. Depositors are sophisticated or high net worth individuals**

Deposits from sophisticated or high net worth individuals often have negotiable features. Such depositors are likely to be more reactive to market forces, including heightened price competition and market or institution-specific stress events. This may lead to higher outflow rates.

Institutions should identify appropriate characteristics at which they assume greater depositor sophistication, for example in cases where customers are not handled through the retail branch network but by specialist relationship managers. Once again deposits placed by such clients are typically actively managed, possibly even with professional assistance.

#### **8. Product linked deposits**

The stability of a deposit can be affected by the reason it is placed with the institution. For example, the deposit may be linked to other factors, such as the requirement to place it to gain access to other products or where it acts as a lien to a loan provided by the institution. Such a deposit may be less

---

stable if the product to which it is linked terminates during the 30 day period and the client can then disburse the accumulated savings.

Institutions should identify retail deposit products with linkages to other factors which may change during the 30-day period (such as the requirement to place deposits to gain access to other products, or where the deposit acts as a lien to a loan provided by the institution). The 30-day period refers to the period before the expiry date of such a linkage.

### **9. Other characteristics**

Institutions should analyse their retail deposit portfolios in order to identify any other characteristics that indicate or might indicate a retail deposit type with higher outflow rates than those specified in the Article 409 (1) and (2) of CRR. The identification or non-existence of other characteristics should be documented.

In order to identify such characteristics institutions should assess the observed (historical) and expected stability/volatility for the specific retail deposit products offered and identify product types that proved, or they believe could prove, to be unstable. For this purpose, institutions should conduct a stress test scenario assuming a combined severe idiosyncratic and market wide event. Internal statistical and mathematical models could be used to assess the volatility of retail deposit products. The inputs for these methods generally comprise data derived from the past behaviour of deposits and from hypothetical assumptions based on stress scenarios.

Small and less sophisticated institutions could use simplified methods based on statistical models, such as models identifying the maximum decrease observed in a 30 day period for a given deposit on a given time horizon including a stressed period.

The use of expert judgement is encouraged in order to include factors not taken into account by a model. It is especially valid in case of innovative products without long history.

A ranking of retail deposit products in terms of volatility or perceived volatility would be a very useful tool in the analysis. This would assist in the application of a consistent implementation across an institutions retail deposit products. The comparison of the results obtained for different products and the identification of outliers can facilitate the identification of less stable deposits.

The assumptions underpinning these methods should comprise a 30 day prediction and be frequently reviewed, in particular to capture a material change in market conditions. In addition, institutions should consider correlation and seasonal effects to improve the quality of this assessment.

#### Questions

Q6: What are the other characteristics identified capture the key attributes of retail deposits subject to higher outflows ? What is the internal policy extended to detect other characteristics?

Q7: In your view are the descriptions applied to the characteristics and their analysis sufficiently

---

comprehensive?

Q8: Is the threshold based on the guaranteed amount and the threshold of 500 000 EUR appropriate? If not what in your opinion could be the uniform benchmark for the thresholds?

Q9: Is the definition of products with rate-driven and preferential features precise enough? If not please specify what additional specification would you include?

Q10: Is it feasible to assess the proposed characteristics on robust operational grounds?

Q11: How much and what additional resources will be needed by institutions to implement this assessment? How much and what additional resources will be needed by institutions to run the assessment on an ongoing basis? Could you explain what will drive the costs (for instance, IT resources, additional staff, etc.)?

Q12: Are there any other factors which appear to be associated with higher outflows on retail deposits? If yes, which factors? Please justify your answer.

Q13: Do institutions view the combination of any of these (or any additional) factors as more prone to lead to liquidity risks?

### 4.3 Determination of the outflow rate

The approach for determining the outflow rate assumes that the product should generally meet at least two conditions in order for it to be subject to higher outflows. If only one criterion is met the treatment of 5% or 10% rate may be maintained depending on the type of product.

The assessment of the retail deposits against the respective factors described in point 4.2 should be performed assuming the most conservative case scenario. This means, for instance, that if the value of all products deposited by the client is higher than the threshold of 500 000 EUR the criterion 'Very high value deposits' should apply to all of the separate products of this client.

Further, a granular approach is assumed (15%, 20% and 25%), in order to avoid potential cliff effects resulting from a single higher outflow rate.

On a group-wide/consolidated basis different potential local outflow rates, at branch or at subsidiary level, should be weighted with the relative share of the local deposit base as part of the total.

#### **Methodology for determining the outflow rate:**

Factors would be divided into two categories: High Risk and Very High Risk, as stated in Table 1. Following the assessment of the retail deposits against the set of factors described above, institutions would be required to assign outflow rates for particular retail deposit products on the basis of the classification from Table 1, according to the rates prescribed in the Table 2.

**Table 1**

|  |  |
|--|--|
| <b>Category 1:</b><br>High risk factors      | <ol style="list-style-type: none"> <li>1. The currency and location of deposits,</li> <li>2. Product-linked deposits,</li> <li>3. Products that are rate-driven or have preferential conditions,</li> <li>4. High risk distribution channels including Internet only access and brokered deposits,</li> <li>5. Depositors are sophisticated or high net worth individuals,</li> <li>6. High value deposits,</li> <li>7. Other characteristics</li> </ol> |
| <b>Category 2:</b><br>Very high risk factors | <ol style="list-style-type: none"> <li>1. Maturing Fixed Term or Notice Period Deposits,</li> <li>2. Non-resident deposits,</li> <li>3. Very high value of the deposit.</li> </ol>   |

**Table 2**

| <i>The mix of characteristics related to the retail deposit</i>   | <i>Outflow rate</i> |
|---|---------------------|
| Two factors from category 1   | 15%                 |
| Three factors from category 1, or<br>one factor from category 1 and 1 factor from category 2                                  | 20%                 |
| Two factors from category 2, or<br>two factors from category 1 and one factor from category 2, or<br>any other mix of factors | 25%                 |

Institutions would be required to compare the outflow rate resulting from the table above with the historical or expected volatility of respective products. Should the historical or expected volatility experienced be higher than the rate assessed according to the table above, institutions would be required to notify the competent authorities.

As show in the box above the characteristics are differentiated according to their riskiness into 2 groups of high and very high risk. This ranking mechanically leads to determination of the outflow level and therewith ensures a harmonized application. However it may be argued that the ranking does not reflect behaviour of deposits across all EEA jurisdictions. Therefore, if substantiated by strong evidence, a mechanism could be considered to allow taking into account local specificities in an appropriate manner.

Such a mechanism could be applied to a specific institution, a specific sub-set of institutions with common liquidity risks or to the banking sector in general where at least one of the following conditions would be met:

- the outflow rate attributable to one or more specific products according to the above mentioned methodology would be lower than those effectively experienced by the institution/s under stressed

---

conditions and would be due to one of more of the factors outlined above or due to other characteristics not described in the text above but appropriately documented,

- the size, scale, complexity of activities undertaken by the institution would increase the risk of higher retail deposit outflow rates,
- systemic characteristics justifying higher retail deposit outflow rates for specific products driven by institution-specific or national circumstances and country-specific financial stability risks,
- a more restrictive outflow rate could help in the prevention of a liquidity stress e.g. in the case where indications of potential higher outflows in certain retail deposits categories would occur.

The application of higher outflow rates would be required to be fully documented by the national competent authority and notified to the relevant institution(s) and the EBA. This is to ensure that the application of the above described mechanism shall remain exceptional and shall not invalidate the main methodology put forward in this paper.

#### Questions

Q14: What is your opinion on the feasibility and resource-intensiveness of implementing the proposed methodology in your jurisdiction?

Q15: What is your opinion on the composition of the 2 groups of the characteristics ranked according to riskiness?

Q17: Do you believe it would be appropriate to allow derogations from the application of outflow rates on the basis of uniform strict criteria?

Q18: What are in your opinion factors that could lead to the application of the above-described derogation mechanism?

---

## Annex - Summary of questions

Q1: How do respondents assess the availability of data to empirically substantiate work on criteria for identification of retail deposits subject to higher outflows, as well as setting such outflow rates?

Q2: Can you identify any other factors that may lead to higher outflows, especially in relation to the introduction of innovative products designed to lower outflow rates?

Q3: Do you agree with this characteristic? Should the local DGS amount be used instead of a fixed 100.000 EUR? Is it sensible to distinguish between high and very high value deposits? What are the concentration analysis and management tools used internally as regards high value deposits?

Q4: Do you agree with the criteria for deciding which products can be considered as rate-driven?

Q5: What criteria do you propose to address potentially higher outflow rates connected to term deposits?

Q6: What are the other characteristics identified capture the key attributes of retail deposits subject to higher outflows? What is the internal policy extended to detect other characteristics ?

Q7: In your view are the descriptions applied to the characteristics and their analysis sufficiently comprehensive?

Q8: Is the threshold based on the guaranteed amount and the threshold of 500 000 EUR appropriate? If not what in your opinion could be the uniform benchmark for the thresholds?

Q9: Is the definition of products with rate-driven and preferential features precise enough? If not please specify what additional specification would you include?

Q10: Is it feasible to assess the proposed characteristics on robust operational grounds?

Q11 How much and what additional resources will be needed by institutions to implement this assessment? How much and what additional resources will be needed by institutions to run the assessment on an ongoing basis? Could you explain what will drive the costs (for instance, IT resources, additional staff, etc.)?

Q12: Are there any other factors which appear to be associated with higher outflows on retail deposits? If yes, which factors? Please justify your answer.

Q13: Do institutions view the combination of any of these (or any additional) factors as more prone to lead to liquidity risks?

Q14: What is your opinion on the feasibility and resource-intensiveness of implementing the proposed methodology in your jurisdiction?

---

Q15: What is your opinion on the composition of the 2 groups of the characteristics ranked according to riskiness?

Q17: Do you believe it would be appropriate to allow derogations from the application of outflow rates on the basis of uniform strict criteria?

Q18: What are in your opinion factors that could lead to the application of the above-described derogation mechanism?