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Comments on a paper entitled 'The importance of deposit
insurance credibility' by Diana Bonfim, and Joao A. C. Santos

Slawek Kozdras, Policy Expert, European Banking Authority

Views expressed in the presentation are of the presenter and do not necessarily represent those of the EBA

Recap of the paper

- Empirical research paper on the credibility of deposit insurance.

- The paper looks at two events:
 - Sovereign crisis in Portugal in 2010-11, and
 - Cypriot bailout in March-April 2013.

- The paper tests if these events, which may have challenged the credibility of deposit insurance, had an impact on depositors' behaviour in Portugal.

- The paper finds that depositors react to events, which may undermine the credibility of deposit insurance, and that households are more sensitive to such events in comparison to businesses.

Overall assessment

- A very interesting and highly relevant paper, particularly in light of the ongoing discussions on the European Deposit Insurance Scheme.
- By focussing on the impact of the **credibility** of deposit insurance it adds to the literature on the impact of the existence of such insurance schemes.
- It makes clever use of two significant events.
- When finalised, it would be of interest to policy makers in the field of deposit insurance.

Comments and suggestions – general comments

Use of household and corporate deposits as proxies

- The paper uses household deposits and corporate deposits as a proxy for insured and largely uninsured deposits, respectively.
- Results could be influenced by a potentially different nature of the relationship households and businesses have with their banks – would a business have a deeper, and more stable relationship with a bank, even if the amounts are more volatile? Could that impact the conclusions on the motivations behind the outflows?

Motivation of depositors

- The paper aims to assess the impact on depositors' behaviour by teasing out the impact of concerns in relation to the credibility of deposit insurance.
- Could the background section benefit from more information about depositors' actions, perhaps as reported by the media at the time?
- What were the channels for the transmission of information about differences in deposit insurance between branches and other institutions?

Comments and suggestions – sovereign crisis in Portugal

Link between inflows and interest rates

- The paper concludes that inflows to branches protected by non-Portuguese deposit guarantee schemes are not driven by interest rates.
- However, Figures 2 and 3 seem to show that the inflows of funds to branches followed a sharp increase in the interest rates for household deposits (around the 5th month), and seem to follow the interest rates offered to businesses.

Comments and suggestions – crisis abroad

Materiality of flows

- The paper concludes that in light of the crisis in Cyprus, depositors in Portugal, particularly households, moved their deposits away from weaker banks.
- The paper could be clearer on the extent of such flows.
- The extent of potential outflows would be of particular interest to policy makers.

Outflows and inflows

- The paper reports on the outflow of funds from weaker institutions. But is less clear on what happened to these deposits, and where were they placed.
- The haircut initially announced in Cyprus on 16 March 2013 was supposed to apply to all deposits (including covered and not covered), not just those in banks in trouble.
- If Portuguese depositors' behaviour was driven by the events in Cyprus, wouldn't they be concerned that a similar haircut could be announced in Portugal and so wouldn't they take out money irrespective of the bank's financial condition? And why wouldn't businesses do the same?



EUROPEAN BANKING AUTHORITY

Floor 46, One Canada Square, London E14 5AA

Tel: +44 207 382 1776

Fax: +44 207 382 1771

E-mail: info@eba.europa.eu

<http://www.eba.europa.eu>