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EACB draft position paper on EBA discussion paper on retail deposits subject to higher outflows for the purposes of liquidity reporting under the CRR

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A. GENERAL REMARKS

EACB appreciates the EBA's efforts in trying to define what are the characteristics of retail deposits that should be subject to higher outflows according to article 409(3) of the CRR. We also appreciate that the EBA admits that the case of higher outflows on retail deposits is an exception to the rates in article 409(1) and 409(2).

We do, however, have some concerns relating to the proposed methodology which are described in detail in the following pages.

Too complex methodology

The proposed methodology seems rather too complex and could lead to problems when applied. It will be a challenge to register and judge all the mentioned aspects on a group-wide level. The diversity of systems is huge and customer-wide information is not always readily available everywhere. Aggregate data for deposits by person might be available, as it is required for the deposit protection schemes, but this is not valid for all types of deposits. Structured deposits, for example, are not under deposit protection schemes. Additionally, in some banks it may happen that the links with other products or the notice period deposits are not recorded in the systems, because they are characteristic only to specific products.

Even if available, the question remains how to collect the data. As the implementation date for the CRD-CRR is 1st January 2014, the banks will only have 6 months to develop and test the IT systems. This will not be feasible if the methodology is too complex. Moreover, while preparing the IT systems for the EBA observation period the banks will already use significant resources and even more additional resources will be needed to assess the proposed criteria.

Additionally, the remittance delay for liquidity data is 15 calendar days (as foreseen in the EBA Draft Implementing Technical Standards on Supervisory reporting requirements for liquidity coverage and stable funding). This is a very short delay which makes it very challenging to report on the liquid assets and net outflows and do all the other treatments requested as part of liquidity requirements.

While the costs are high, the added value of such an exercise remains limited, as the higher outflow for retail deposits should remain an exception to the rule. We thus favour a simpler approach with only a few relevant factors (high value deposits over 1 M EUR and rate driven deposits).

We think that the methodology should be simplified (fewer factors included – only main drivers) and the distinction of the two risk categories of risk factors deleted, as it seems unnecessary.

High value deposits – over 1M EUR

A limit of 100 000 EUR for high value deposits is far too low. This could lead to a case where stable retail deposits would receive as a rule a higher outflow. We remind that the higher outflow should be an exceptional case and suggest to have only one category of high value deposits – deposits over 1M EUR. This would be more in line with the Basel III limit on SME loans and with the internal categorization of deposits in some banks. Currently, the retail deposits definition is still uncertain, as the EBA is to assess the appropriateness of the threshold. The 1M EUR should not be a limit for retail deposits, but rather the threshold for retail deposits subject to higher outflows.

- Alignment with Basel III

  If the EU decides to categorize deposits above 1M EUR as non-retail deposits, this will lead to a competitive disadvantage for EU banks in comparison with non-EU banks subject to Basel III. On top of this, the EBA discussion paper suggests higher outflow rates for certain deposits between 100.000 EUR and 1M EUR. This will put additional pressure on EU banks in comparison with other jurisdictions. Therefore, we emphasize the importance of a level playing field for European banks compared to non-EU banks and the need for comparable rules.

This approach will be also more in line with the Basel Committee view on retail deposits in general. Through the changes to the LCR introduced in January, the BCBS reduces the outflow rates for insured deposits and keeps the outflow rates for all other retail deposits at 5% or 10%. Moreover, the 1M threshold to be more in line with the FATCA criteria of High Value Customers. Introducing significantly higher outflow rate on some of the retail deposits in the EU, would have a negative impact on the EU banking business.

We therefore recommend that the 5% outflow rate for assets according to article 409 (1) not be affected. Accordingly, the following steps need to be performed:

- first, the requirements in paragraph (1) of article 409 need to be checked - a 5% outflow rate should apply if the respective criteria are fulfilled
- second, the final EBA criteria of the current standards, defined by the EBA according to article 409 (3), need to be tested – a higher outflow will apply if the respective criteria are fulfilled
- if both don't apply, an outflow rate of 10% will be adopted, according to article 409 (2).

Proportionality principle

We think that if the complex procedure of the assessment of some factors (e.g. rate driven deposits) will remain, simplified methodologies must be available for small institutions, which can be derived directly from the present IT systems (core information on products/customers).

In a stressed situation, besides the factors mentioned, the deposit outflow is highly dependent on the customers' confidence. Small institutions, which are not members in a group or network providing institutional protection is some way, are much more vulnerable and exposed to higher retail deposit outflow than other small institutions members of such a group or network or big institutions. This should also be reflected in the methodology.

Need for taking into consideration the interdependence between factors

To our understanding, the score-card methodology should be based on independent factors. However, the proposed drivers are not fulfilling this rule. There seems to be an interdependence between some factors: rate driven deposits, high-value deposits, deposits from sophisticated and high net worth individuals, brokered deposits.

- high net worth individuals generally place high value deposits;
- high value deposits, in practice, very often have preferential conditions or are rate driven

This interdependence should be take into account and some of the factors discounted. Because of data availability problems (see later), we propose to delete the high net worth individuals from the factors above and to consider the correlation effects between high value deposits and the rate driven deposits. We generally favour considering only the main drivers. This will also lead to a simpler approach.

Limit between a standardized method and national discretion

The EBA reminds at times in the discussion paper about the differences between the countries, dependence on local/national circumstances and the difficulties to identify a commonly experienced effect of the mentioned factors. Therefore, a clear limit between the standardized rules and national discretion should be included. EBA should propose a simple methodology and leave to the discretion to national supervisors whether additional factors should be taken into account.

Rate driven and preferential conditions deposits

While we agree that rate driven deposits might lead to higher risk of outflows in times of stress, we have some concerns relating to preferential conditions deposits. Due to the complexity of the products and market conditions in different countries, the term “preferential conditions” could be understood differently. From the perspective of the aim of the EBA’s methodology, we believe that the rate driven characteristic should be enough to signal a risk of higher outflows in times of stress.

Distribution channels

Internet banking has become an important feature for modern banking. This will only become more widespread as the time passes, with the introduction of mobile banking and other internet and telecommunication related features. Moreover, there are countries where savings are managed vastly by internet and this should not be hindered. While we agree that internet only (virtual) banks might experience higher outflows in times of stress, we have serious concerns about including in this category deposits to traditional banks done via internet.

Other relevant dimensions

The mentioned drivers for higher outflow are mainly product or price related, but there are other factors that need to be taken into account. The EBA tries to explain the outflow rates on retail deposits solely as a result of an intrinsic characteristics of such deposits. However, this is not always the case.

- Size and adherence to a network

The size of the institution and adherence to a network or IPS is one of the drivers of outflow rates. A small bank has a different behaviour as compared to a big bank. What might be a retail deposit for a big bank, could be treated already as large deposit for a smaller bank. A small independent bank will experience higher outflow factors than a small bank backed by a network or IPS, under similar circumstances. These are highly important issues for co-operative banks and EACB urges to regard the outflow factors in the context of proportionality and adherence to a network or IPS. Additionally, the size of an institution comes into question in a different form as well. SIFIs, national or global, might experience lower outflow rates, as they are seen to have more political backing than other banks.

- Additional characteristics at the discretion of national authorities

A good track record of a banks credit rating could also play a role in the decision of customers not to withdraw their deposits. However, this dimension should not be seen as fitting to all cases in absolute terms, as the sovereign rating also plays a role in the rating of the bank. It should be left to the discretion of national authorities to decide on this issue.

In the end, it is the customer who decides to withdraw funds and, from this perspective, there are missing characteristics that could bring added value to the methodology relating to:

- the customer type and
- the type of relationship the customer has with the institution (for example the period the customer is with the institution, which or how many other products does the customer have with the institution, which behavior in the past, what is the business model of the institution, does the customer have relationships with other banks etc.).

In the context of banks of similar sizes, whether a customer has a good relationship with a bank or not can impact the likelihood of an outflow. This feature should be taken into account in order to incentivise the establishing of longer lasting relations with customers. Thus, we propose to exclude relational client's deposits when defining deposits subject to higher outflows.

Non-relevant dimensions

Among the factors mentioned, there are a number of factors that are not leading to higher outflows:

The experience of some of the EACB members does not show maturing fixed term or notice period deposits as being less stable than sight deposits. The choice between sight and term deposits is often dependent on the interest rate term structure. In this case, opting for fixed term or notice period deposits as opposed to sight deposits does not imply a higher outflow risk.

Moreover, the behaviour of depositors is country specific, due to the legal environment and historical background. Maturing fixed term deposits within the next 30 days or fixed term deposits with less than 30 days of notice period in itself is not a driver for higher outflow rates, if the deposits are, for example, insured. Further, in some countries the savings culture is based on term deposits instead of sight deposits, thus being a national phenomenon. Therefore, we propose to delete this factor from drivers for higher outflow rates.

Non-resident deposits can also prove to be quite stable. These are often deposits from nationals working in a foreign country, not necessarily in search of better conditions as suggested by the discussion paper.

Buckets of higher outflow rates

The Basel III LCR rules were based on the concept that insured retail deposits are less volatile than uninsured ones, provided they are either on transactional accounts or based on an established relationship with the customer. These deposits, therefore, originally have been mapped to 5% run-off factors. In crisis situation the run-off rates are also influenced by the state of the DGS in the given jurisdiction. Thus, according to the revised Basel III document on the LCR, a more preferential run-off rates (3%) may be applied in the countries where the DGS or sovereign guarantee fulfils certain conditions (pre-funded from contributions of credit institutions, ready access to additional funding and 7 day or less pay-out period).

According to the Basel Agreement, all other retail deposits non-compliant with the preferential run-off rates are mapped to a 10% run-off rate or even higher, as defined in a transparent way by national supervisors.

As the CRR includes no calibration for the LCR, it is not clear how the three buckets for higher outflow rates, i.e. 15%, 20% and 25%, relate to the other outflow rates. We assume that the underlying concept is that deposits which are not driving to higher outflow rates follow the revised Basel III rules. However, this should be clarified, otherwise it is difficult to estimate the effects of the higher outflow rates.

Also in case the 3% rate will be applied, there should be clarified in, a transparent way, which insurance schemes qualify for this reduced outflow and in which states.

Additionally, the outflow rates seem rather high (15%, 20%, 25%). Banks have provided to the EBA (in late 2011) historical data on retail deposits. These data showed that the maximum outflows in a month on retail deposits hardly reached 4% to 5%. Applying a 10% weight already takes into account deposits that would be less stable than expected. Further investigation might be needed, in case of different institutions and within banking groups, to understand if the proposed rates are comparable with the outflow rates experienced by banks. The impact of the proposed outflow percentages might be significant. As a consequence, banks might need to hold more liquid assets, which will impact their profitability and lending capacity. We believe it is important to calculate the impact of the higher outflows, before the finalization of these proposals, by means of a QIS.

B. ANSWERS TO SPECIFIC 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?

It will be a challenge to register and judge all the mentioned aspects on a group-wide level. The diversity of systems is huge and customer-wide information is not always readily available everywhere. The sophistication of the retail deposits also depends on both specificities in a Member State and on the credit institution itself.

Among the factors mentioned by the EBA, some factors, listed by EBA are core information for the deposits, like

- the value of the deposit
- the currency of the deposit

These data are available at all institutions and, in the case of insured deposits, the data is aggregated by individual depositor. However, aggregated data by person on deposits might not be available for all types of deposits. Structured deposits for example, which are not under deposit protection schemes, are not required to be aggregated.

Moreover, observing the historical total outstanding value of (Very) High Value deposits might be misleading, as some of the deposits will get out of the pool and some others will come in, from month to month, without having an important change on their amount (e.g. a deposit can be at an outstanding level of 505k€ at month M0 and 490K€ at month M1).

Among the factors identified by the EBA, the following can be regarded as product specific:

- products that are rate driven
- maturing fixed term or notice period deposits
- product linked deposits

Generally, all these information could be available in the IT systems of the product provider in some form. Nevertheless, it may be the case that the information is available only on the level of the subsidiary and, for the time being, are not centralised.

We see a number of additional problems relating to such deposits:

- In some banks, it may be the case that the links with other products or the notice periods are not recorded in the systems, because they are characteristic only to specific products.
- A history of product linked deposits ending within 30 days might be impossible to construct in some cases.
- In the case of some banks, information on the ”rate driven deposits” and “preferential conditions deposits”, as such, is not available in in the systems.
- The term deposit might come to its term and not be rolled, but transferred to the current account. This should not be considered as an outflow. However, it is

impossible to trace the amount drawn from the maturing term deposit to the current account.

Taking into account the above mentioned issues, there might be no history of such data and several banks will have to significantly develop their central reporting systems in order to gather or produce the necessary information on the product-related factors.

Finally, it is not clear what the location of deposits means. We assume, in case of co-operatives measures should only be done by liquidity subgroups and on the consolidated level. In that case, location could mean the deposits of the subsidiary. Otherwise, it is hard to interpret this factor, because, from the point of view of deposit withdrawal, an institution will be indifferent where the customer has opened his deposit account. Thus it does not seem to be an important risk factor that could lead to risk of higher outflows.

Some other factors mentioned by the EBA DP are customer specific:

- non-resident deposits
- deposits of high net worth individuals

While the information on non-residents should be available in all systems, the relevance of this criterion is questionable.

With regard to high net worth individuals we draw attention to the following issues:

- It is difficult to separate sophisticated customers or high net worth persons from other customers. Moreover, in several countries the domestic regulations strictly limit the information which can be kept by credit institutions.
- The term of "high net worth individuals" is not an objective category and could be very complex to identify, since it is influenced by the general income level in a country, the local environment, the size of the institution etc.
- If high net worth individuals have deposits, their deposits generally have high value and, in most cases, have preferential conditions or are rate driven.

Due to the arguments mentioned above, we suggest to delete the risk factor high net worth individuals.

Even if data is available, the question remains how to collect it. As the implementation date for the CRD-CRR is 1st January 2014, the banks will only have 6 months to develop and test the IT systems. This will not be feasible if the methodology is too complex.

Moreover, it might be difficult to assess the proposed data and to derive clear results regarding higher outflow rates. Some banks have experienced growth rather than outflow rates as they were considered safe-havens.

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?

The categories listed are already very conservative. Moreover, some of the criteria are not relevant or are not feasible to use. We believe that a simpler approach should be employed.

We believe that the size (and whether or not the institution is a (G) SIFI), whether a bank is part of a network or not, are relevant characteristics.

Furthermore, the financial position of the bank (e.g. credit rating) and customer characteristics (number of products, duration of the relationship, primary bank for customer) could also be relevant in determining the stability of the savings. We propose to exclude relational client's deposits when defining deposits subject to higher outflows

For more details see the general comments on "Non-relevant dimensions" and "Other relevant dimensions".

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?

We believe that the fixed amount of EUR 100.000 is far too low. Also, the local DGS threshold does not seem relevant for defining a less stable category of deposits. This is already a limit that brings the exceeding amounts on deposits to the "less stable" category, weighted 10% in the LCR. Imposing an even higher outflow for deposits exceeding the local DGS, would be then a double counting of risks.

We propose not to distinguish between high and very high value deposits. As mentioned in the general remarks ("High value deposits – over 1M EUR"), we consider that only the retail deposits over EUR 1M EUR should be defined as high value. Deposits below this threshold should be treated as all other retail non-insured deposits (according to Basel III run-off rate). According to the international rules, insured deposits should receive a favourable outflow rate, the uninsured retail deposits (up to M EUR) should then receive the non-preferential outflow rate, and some of the retail deposits over 1 M EUR could be subject to higher outflow.

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

EACB agrees that the rate driven characteristic of some deposits could lead to higher risk of outflows in times of stress. However, attention should be paid as the notion of peers and similar products, as these could be subject to multiple interpretations.

The procedure to compare the yield of rate driven deposits with a reference rate is too complex. The higher yield (and higher risk) could be demonstrated only in the long run. We think that, from the point of view of the rate-driven structured products, the volatility of the underlying rate is much more relevant in order to map these products to one of the outflow factors. Preferential interest rate products should be defined in a more simple way (e.g. 250 basis points above the rates of a similar group).

See also the general remarks "Rate driven and preferential conditions deposits"

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

The behaviour of depositors with regard to term deposits is influenced partly by the legal environment in the specific Member States, partly by the historical and economic factors.

The experience of some of the EACB members does not show that maturing fixed term or notice period deposits are less stable than sight deposits. The choice between sight and term deposits is often dependent on the interest rate term structure; it does not indicate a higher outflow risk.

Further, in some countries the savings culture is based on term deposits instead of sight deposits, thus being a national phenomenon. There are Member States (e.g. Hungary) where depositors are legally entitled to withdraw their deposits at any time without prior notice, even if they are term deposits. There are also countries, where the one-month roll-over deposits are popular.

Following the above reasoning, the criteria related to term deposits/notice period should be deleted from the risk factors leading to higher outflow rate. Such deposits should be treated equally to sight deposits as the introduction of the term deposit/notice period criteria would unjustifiably increase the considerably the cash-outflow in these cases.

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 ?

Generally, internal policy is not primarily focused on product outflow, but rather on customer retention. Testing what other characteristics make deposit more or less stable seems a disproportionate work in rapport to the impact. The work would imply burdensome data-mining techniques on huge data-bases, which might not even be currently connected with each other.

However, relationship management/ customer intimacy lowers the outflow risk. These should also be captured when assessing the outflow risk.

Also other characteristics might be relevant for the retail deposits subject to higher outflows – see answer to question 2 and the general comments on “Other relevant dimensions”.

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

In our view some of the factors are either not relevant, interdependent with others or not necessarily the drivers of outflows (see general remarks “Non-relevant dimensions”, “Need for independent factors”, “High value deposits – over 1M EUR”, “Rate driven and preferential conditions deposits”, “Distribution channels”). Moreover, it is not clear how some combinations of factors can be interpreted. For instance, the description of the location criteria in combination with the currency criteria are quite difficult to understand. Examples on the final criteria would be appreciated.

The modeling conducted by institutions might vary when the quality of data is different. This can lead to various outflow rates for deposits with similar product characteristics. Moreover, such a model is difficult to build in some cases. As some banks have not experienced high outflow of savings in the past, little data is available. Also, in some cases, central institutions of co-operative networks do not have a relevant retail deposit base. In those cases the deposits are primarily from the local institutions of the co-operative network.

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?

With regard to the thresholds, there should be only one threshold for high value deposits over 1M EUR (see general remarks “High value deposits – over 1M EUR”). Deposits from 100 000 to 1M should fall in the category of retail uninsured deposits. This would be more in line with the Basel rules for LCR, which do not increase the outflows, but rather reduce even more the outflows for insured deposits (under 100 000 EUR). While this has not been taken up in the CRR, it still remains the international view on retail deposits. A significant increase in the outflow rates on some of the deposits under 1M EUR would lead to high discrepancies between EU and other jurisdictions (see answer to question 3 and general remarks “High value deposits – over 1M EUR”). Moreover, the 1M threshold to be more in line with the FATCA criteria of High Value Customers

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

The definition of preferential features can be interpreted in different ways, as the banks offer a wide variety of products with different product and interest conditions (see general remarks “Rate driven and preferential conditions deposits”).The rate driven characteristic should be enough to reflect the risk of higher outflow rates

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

No, we do not think that this is feasible, taking into consideration the factors as proposed by the discussion paper. Factors should be designed such that the date required could be easily available from the IT systems already used.

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 on-going basis? Could you explain what will drive the costs (for instance, IT resources, additional staff, etc.)?

It will be challenging to register and appropriately assess all the mentioned aspects on a group-wide level. The diversity of systems is huge and customer-wide information is not always readily available. The cost will, therefore, be mainly IT driven (see general comments "Too complex methodology"). Additionally, high net worth individuals cannot be recorded in the systems in some cases because of legal constraints. Collecting and using other factors, like rate-driven products, following the method described in the discussion paper, would also have relevant costs.

The time allowed for implementation and production of resources will drive the costs as well.

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.

We believe that the size (and whether or not the institution is a (G) SIFI), whether a bank is part of a network or not, are also relevant dimensions.

Furthermore, the financial position of the bank (e.g. credit rating) and customer characteristics (number of products, duration of the relationship, primary bank for customer) could also be relevant in determining the stability of the savings. These characteristics could be reflected at the discretion of the national authority.

For more details see the general comments on "Other relevant dimensions".

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

In our opinion the type and size of institution and customer characteristics should be dominant in the determination of the liquidity risk. We refer back to our general comments and to question number 2 and 12. We believe that such characteristics could reflect better the liquidity risk.

We remind that some of the factors are not the main drivers and are interdependent. We also found that some of the factors may not necessarily be relevant (see general remarks "Non-relevant dimensions", "Need for independent factors")

Among the factors mentioned by the discussion paper, the characteristic of high value deposits and the rate driven characteristic could reflect in a simpler and fairer way the risk of higher outflow rate.

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

As mentioned in the general comments ("Too complex methodology") the proposed methodology would require developments of the IT systems, but also specific interpretations because of the legal constraints on deposits and customer information, more operational resources and a change in the management of resources.

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

With regard to the two groups, we remind about our comments in the general remarks ("Non-relevant dimensions") and in the answer to question 5. We do not consider that maturing term deposit should to be risk factor. Additionally, non-resident deposits are not necessarily a risk factor either.

With regard to the methodology, we believe that it is rather complex due to the number of possible combinations of the various factors. The two different categories lead to an increased complexity. We favor a simpler approach, taking into consideration only a few leading drivers (high value and rate driven deposits) and other characteristics which do not refer directly to deposits, but rather to the institution features and relation with the customer (deposits from relationship customers should be exempted from higher outflows)

See general remarks "Other relevant dimensions" and "Too complex methodology".

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

In this case it has to be taken into account that the behaviour of depositors and the legal background of the deposits are not uniform in all the Member States, so derogations should be allowed. Principle based rules could be a solution for uniform criteria.

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

In general, we believe that there should be a limit between the standardized rules and national discretion. Some factors should rather be left at the decision of national authorities and not part of the standardized method as banks' and customers' behaviour may differ from one country to another. Such factors could be for example: location of deposits, credit rating of banks. This is even more relevant in case EBA will have to issue guidelines, rather than technical standards.

Factors like FX deposits may be relevant for some non-Eurozone Member States and negligible for Eurozone countries. Until the full harmonisation of the DGS, the different financial and legal conditions of the deposit guarantee systems may also be a cause for derogations. In the case of small institutions, derogations should take into account the safety net, specifically the case of co-operative networks.

Moreover, EBA should not create wrong incentives. This could be particularly relevant in case of internet access and customer relation. EBA should not impose rules that could disincentivize the development of these two features.