Nederlandse Vereniging van Banken

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European Banking Authority
Via email: EBA-DP-2013-02@eba.europa.eu

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Subject: NVB response to EBA DP on retail deposits subject to higher outflows for liquidity reporting

Dear Sir, Madam,

On behalf of the Dutch Banking Association[1] (NVB) I would like to thank you for giving us the opportunity to react to Discussion Paper 02 on retail deposits subject to higher outflows for the purposes of liquidity reporting under the Capital Requirements Regulation (CRR). The NVB welcomes the efforts of EBA to harmonise the approach for higher retail outflows in Europe, as this enhances the level playing field.

<u>Behavioural, cultural and bank-specific aspects are insufficiently reflected</u>
The approach taken by EBA is primarily focusses on quantifiable dimensions. Although these dimensions are important, they only tell part of the story. For instance, it is not necessarily true that high net worth individuals always demonstrate more volatile behaviour. The following considerations should be reflected:
-the customer type;
-the type of relationship the customer has with the bank (e.g. the number of years the customer has done business with the bank, the type and the number of products the customer uses and past behaviour);
-bank specific indicators (such as the impact of the business model of a bank on client behaviour), and;
-mitigating factors on expected outflows, such as the reputation of the bank, the financial stability of the country of operation and the size of the institution.

In some countries the savings culture is based on term deposits instead of sight deposits. Maturing fixed term or notice period deposits, therefore, are not per se less stable than sight deposits. The choice between sight and term deposits often depends on the interest rate term structure and the term structure does not imply a higher outflow risk. Although the mentioned drivers for higher outflow are mainly product or price related, in the end it is always the customer who decides to place or withdraw deposits.

[1] The Dutch Banking Association (NVB) is the representative voice of the Dutch banking community with over 90 member firms, large and small, domestic and international, carrying out business in the Dutch market and overseas. The NVB strives towards a strong, healthy and internationally competitive banking industry in the Netherlands, whilst working towards wider single market aims in Europe.

The split between high value and extremely high value deposits
EBA is looking to introduce a split between high value and extremely high value individuals. Given that the final CRR text has not yet been published, it is unclear if the discrepancy between Basel 3 and the CRR in terms of the classification of retail assets will remain or not, where the draft CRR appeared to exclude retail deposits in excess of EUR 1 mln. from the retail definition. In our opinion, the CRR should be aligned with the Basel retail classification, by also treating savings of natural persons in excess of EUR 1 mln. as retail deposits. Against this backdrop, we suggest to define the extremely high value category as all deposits > EUR 1 mln., and to define the high value category as all deposits that fall in the range of EUR 100k and EUR 1 mln. Also, the operational impact of the changes required for the incorporation of the liquidity requirements to banks' systems, should not be underestimated.

Treatment of internet accounts
The use of internet as a channel has increased substantially. The popularity of digital channels is such that many banks see this as a key development area of their service in the years to come. This is also underlined by the immense popularity of mobile apps. For some banks, the mobile app is already the primary source of contact with its clients. Against this backdrop, the availability of internet as a channel to interact with the customer should in itself not result in higher outflows.
At this point, it is unclear what data EBA used to specify its proposal and how the percentages of higher outflows on page 7 (15%, 20% and 25%). Additionally, it should be noted that the impact of the proposed outflow percentages might be significant in terms of additional liquidity buffer requirements. The consequence of this might be decreasing profitability and - more importantly –a decreasing lending capacity. Before finalising the proposal, a quantitative impact study should be carried out.

Next to the changes in liquidity buffer requirements, significant IT implications are also expected. These implications relate to challenges regarding capturing and registering all of the mentioned aspects on a group-wide level. In practice, banks use a variety of systems and customer-wide information is not always readily available.

This concludes the main remarks. Please refer to the annex, for the reponses to the various questions. Should you have any questions or remarks, please feel free to contact me at your convenience.

Kind regards,

Onno Steins
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Annex - Answers to 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?

A: The availability of data will vary across institutions. Please see the EBF response in this regard, as it contains an elaborate assessment of data availability. Irrespective of data availability, some institutions might have experienced outflows, while other institutions that were regarded as a safe haven probably experienced inflows.

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?

A: Yes,
-The financial position of the bank.
-The reputation of the bank.
-The size of the institution.
-The financial stability of the country of operation
-Customer characteristics, such as the number of products and the duration of the relationship.

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?

A: The first amount of EUR 100.000 per person should always be seen as stable. For a household that consists of n family members, *n* * EUR 100.000 should be considered stable. The amount between EUR 100.000 and EUR 1mln. should be considered as ‘high value’, and all amounts above EUR 1mln. should be considered as ‘very high value’.

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

A: Rate driven products should be regarded in the context of other dimensions, such as the ones mentioned in the letter. With regards to the text, the concepts ‘peers’ and ‘similar products’ are multi interpretable. For non-DGS-covered deposits, it would be better to look at the absolute interest rate difference, instead of relative differences.

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

A: In our experience, fixed term and notice period deposits maturing within the scope of the LCR are not less stable than sight deposits. The choice between sight and term deposits is often dependent on the interest rate term structure, which does not imply higher outflow risks. Further, the use of either term deposits or sight deposits is subject to culturally differences, as was mentioned earlier.

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?

A: Relationship management is an important mitigant of outflow risk. Where the bank maintains a close relationship with its clients, the observed outflows are lower. Customer retention is a key priority for banks, which also mitigates outflow rates. When assessing the various other characteristics, we request EBA to keep a close eye on balancing complexity with the required granularity to achieve an appropriate level of differentiation in the most efficient manner.

Nederlandse Vereniging van Banken

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

A: Observed depositor behaviour differs from one bank to the other. Banks that are perceived as a safe haven might experience inflows during a crisis, and others might experience outflows.

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?

A: As was mentioned under question 3, the threshold should be set at EUR 1mln. instead of EUR 500.000.

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

A: The definition of preferential features is multi interpretable. Banks offer a wide variety of products with different conditions, both in terms of the product and the interest paid.

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

A: From an operational perspective, the assessment will be challenging.

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.)?

A: It will be a challenge to capture and judge all the mentioned aspects on a group-wide level. The systems landscape used by banks can be diverse. Customer-wide information may not be readily available at every geographical location. As a consequence, the costs will be mainly IT related.

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.

A: Yes;
-The financial position of the bank.
-The size of the institution.
-The reputation of the bank in general.
-The financial stability of the country of operation.
-Customer characteristics, such as the number of products, the duration of the relationship, whether or not the bank is the primary bank for the customer.

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

A: For amounts in excess of DGS coverage, the types of institution and customer characteristics are dominant in the determination of the liquidity risk.

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

A: The changes required as a result of the regulatory changes regarding liquidity risk management are substantial. Retail deposits subject to higher outflows add complexity to an already complex process.

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

A: The proposed list appears to be overly complex and embodies a risk of double counting. Also, maturing term deposits do not act as a risk factor in practice. The same goes for non-resident deposits. Term deposits of high net worth individuals that fall below the EUR 100k threshold should be treated as stable retail funds.

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

A: Yes, that would be beneficial.

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

A: Derogation should be allowed, based on strong idiosyncratic evidence that is linked to stable long term characteristics of an institution.