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ING response to the EBA Discussion Paper on Retail Deposits subject to higher outflows for the purposes of liquidity reporting under the draft CRR (EBA/DP/2013/2)

ING welcomes the opportunity to comment on the EBA’s discussion paper on ‘Retail deposits subject to higher outflows for the purposes of liquidity reporting under the draft CRR’. The efforts from EBA to harmonise the approach for higher retail outflows in Europe – where relevant - will provide the base for a level playing field for such outflows.

Please find below our initial comments and responses to your questions.

Please note that ING has also provided input to the NVB and the EBF and that the responses of NVB and EBF are fully endorsed.

General comments

1. It is understood, that EBA is required under the CRR to provide guidelines for retail deposits which could be subject to higher then the current defined outflow rates. We believe however that the current defined outflow rates (5-10%) in the LCR overall reflect a proper level. Monitoring more stressed situations is already part of local regulatory measures. Moreover, as it is stated in the discussion paper that ‘no robust inferences can be drawn’ from previous observations, the suitability of the proposed approach should be carefully considered.

2. Currently, there remains lack of clarity on the definition of retail deposit as stated by BCBS and the CRR. In the latter, individual balances above € 1 million are not treated as retail and would thus automatically incur a higher outflow rate. It seems that EBA is following this path, which can lead to such deposits being treated differently outside Europe rate-wise.

3. It is understood that certain types of retail deposits can – under circumstances – experience higher outflows then currently prescribed in the Basel 3 Accord, but the proposed distinctions and criteria in the discussion paper:

   a. Should not automatically lead to the higher proposed outflow rates (15% and higher), as other criteria (e.g. tenor of client relationship) can be more relevant.

   b. Should be carefully considered as certain of these criteria (e.g. internet access) are not/less relevant in our multi media age.

   c. Can be a source of distinction, but a more granular approach utilising internal modelling of outflows should be considered.

d. Does not take into account bank specific aspects, such as the business model of the bank with regard to retail savings.

e. Will lead to more (required) client differentiation and possible pricing differences to reflect the prescribed higher outflow rates. This will require major IT-work to provide the defined distinctions as stated.

In summary, client behavioural and bank specific aspects are currently insufficiently reflected in the proposed identification of higher outflow rates. The proposed approach is too complex and will not benefit either the institution or its customers.

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?

Even though data on outflow rates can be available, this data should be treated with caution as the link to the criteria as per the discussion paper are very hard to make in many instances. As an example, in similar situations, institutions experienced both inflows and outflows. The criteria defined, assume a causal relationship with outflow rates, but in crisis situations behaviour of clients is not as predictable on outcome.

Outflow rates should also relate to internal modelling as this will provide an additional and consistent set of data, also due to the fact that these models require validation on a regular basis.

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?

Some of the criteria in the discussion paper can be relevant for outflow rates, but the proposed number and their ultimate combination into a scorecard matrix is too complex. Also the additional outflow rates should not be applied to deposits which fall under DGS and deposits above DGS which have shown a stable character.

It is proposed that a more simplified approach is followed, whereby a limited set of key criteria are used to monitor higher outflow rates. Such criteria could be:

- Tenor of relation with customer
- Number of products with customer

These criteria will be already part of elements used for defining stable relationships under the LCR and should therefore maintain to be leading for distinction purposes.

Next to this, the perceived position of the institution (e.g. rating, country) also can influence the level of outflow rates as certain institutions are seen as safer as others.

In summary, in identifying criteria, a balance should be found between criteria essential from a risk perspective, but where the number is still manageable thus not introducing additional complexity.

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?

The characteristic should refer to the local DGS amount, as this is relevant from a client's perspective.

A distinction between high and very high value deposits lacks the other elements mentioned under Q2, which can create differentiation in behaviour of clients with different amounts of savings.

For internal monitoring purposes, a distinction is made in the volume of the deposit, but as stated this is just one of the factors and not the most distinctive one for outflow measurement. Again, internal modelling of behaviour is relevant for prediction of possible client behaviour.

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

Rate can be a factor but this should be viewed in the context of the total client relationship (e.g. services offered) and the competitive environment. The proposed 25% (threshold)differential as a signalling element is arbitrary and does not reflect experienced behaviour, as this differential should also relate to level of interest rates at a point in time.

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

No difference should be attributed to (maturing) term deposits and notice period deposits, as outflow will again be dependent on the client relationship factors. No significant differences in outflow rates have been identified in comparison with sight deposits.

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

Elements which can contribute to higher outflows are:

- Single product client
- Amount of funds placed at the institution
- (Experienced) behaviour of customer (e.g. level of sophistication)

Client behaviour is captured in internal models which are used for monitoring and predicting such behaviour.

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

The current descriptions of the characteristics yet leave room for interpretation. Also the approach on some of the characteristics is debatable, e.g. the reference to internet-only does not present a fair interpretation of how banking is being conducted today and in the near future. Also it is not clear whether the 'internet-only' refers to the business model or to the distribution channel, e.g. a bank with a large branch network could offer products which are primarily internet-only access.

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?

The defined threshold is a possible view for distinction purposes. However, as stated, amount does not necessarily provide the distinction and the relationship with the client is more important.

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 is clear. The need to create such a distinction within current systems for reporting purposes will be a challenge.

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

As mentioned in the response to the previous question, considerable implementation costs and lead time required to realise will be linked to usage of proposed characteristics.

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.)?

It is currently not possible to provide an exact number on the resources needed for implementation and ongoing assessments. The effort will be huge and next to IT resources will require resources from Finance, Risk and the business.

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.

Stability of deposits can be impacted by non-product related events. Statements such as 'your money is safe at national banks' can have unintended effects and impact for cross-border institutions.

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

Increasing the number of factors or combining the ones mentioned, theoretically can have the effect of higher outflow. The relationship with the client is the key item to be considered, next to the standing of the institution.

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

Please refer to response under Q9/10. Implementation will be costly and will come on top of all other costs already being incurred for multiple new regulatory requirements.

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

We do not agree in having maturing fixed term/notice deposits qualified as very high risk factors. Next to this the translation of the group items into fixed outflow percentages (15/20/25%) is arbitrary.

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

Such derogations should be allowed. As input for such derogations, institutions could provide the relevant information relating to modelled behaviour of clients. It should not be the case though that the models will require a lengthy evaluation and approval process by regulators.

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

In case the proper evidence is provided, derogation should be allowed and approved.

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