



21/03/2013

EBA

e-mail: EBA-DP-2013-02@eba.europa.eu

Discussion paper on retail deposits subject to higher outflows for the purpose of liquidity reporting under the draft Capital Requirement Regulation (CRR)

A simple model should be used

The Swedish Bankers' Association is strongly convinced that the proposed methodology in the Discussion Paper is too complex to be handled by a bank, especially on a daily basis. Too many resources will have to be spent on a rather small part of the total LCR regulation. We believe that there are too many risk factors and that they are overlapping. Many of them focus on same characteristics of deposits and depositors which make the process even more complex.

The idea of using different mixes of a large number of risk factors for the calculation of higher outflow rates should therefore in our view be questioned. We suggest that classification of outflow rates should be simplified. We have illustrated this in a matrix below with just a few explanatory factors. We suggest that the outflow assumptions should be in line with what is described as minimum levels in the Basel committee's last revision of LCR.

Outflow rates for retail deposits

	Prefinanced		
	DGS	Other DGS	No DGS
Transaction account			
Established relation			
No established relation			

We believe that a simple model has a number of advantages. First of all it is possible to use by banks that have to fulfill the LCR requirement on a daily basis. Secondly, it gives strong focus on the most important characteristic, namely the deposit guarantee coverage. Thirdly, we believe that the total outflow assumptions will be about the same using this model as the result would be using the very complex model proposed in the Discussion Paper.

In the following we provide answers to some of the specific questions in the



Discussion Paper. We also refer to the more detailed answers in the response from the European Banking Federation.

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?

To be able to give a reliable answer to this we need a better and clearer definition of all the used criteria's. The risk factors that need historical time series will be troublesome for new banks, but also for banks that change the conditions on deposit accounts and where client relationship change.

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?

As already being said, we believe that too many risk factors are proposed in the Discussion Paper. Therefore, the ambition should be to decrease rather than to increase the number of factors.

One example is that we cannot see that the distribution method is something that influences the stability of deposits. There are in our view no difference between a client in an "internet access only" bank and one in a "traditional" bank using internet as the main distribution channel when it comes to the clients' possibility to end an account. It is in both cases easily done via internet.

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 amount covered by the national deposit guarantee should be used instead of a fixed 100.000 EUR.

For amounts above the minimum deposit guarantee amount we have not seen any proof that outflow behavior vary with the amount of deposits. To separate high value deposits from very high level deposits would therefore only make the system more complex without adding any benefits.

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



First of all, we don't agree that deposits for which the interest rate is 25 per cent higher than other deposits should be seen as "high risk" in itself. The risk for higher outflows is in our view much more depending on for example the relationship between the bank and the customer. Furthermore, using this kind of criteria may distort the competition on the market since banks can refrain from marketing accounts with high interest rates if they are "punished" by a high outflow rate.

Secondly, we see large problems how to operate this criteria. Especially this is true for small banks there this will be a heavy burden if they are required (on a daily basis) to compare their offer with offers from many other banks.

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

We like to emphasize that there are considerable differences between countries when it comes to the use of term deposits. In countries where term deposits are as widely used as ordinary deposits it seems strange to categorize these deposits as more risky.

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

It will be hard for all banks to handle the proposed method with a large number of factors that, in our view, nearly explain the same things and that need to be handled and operational on a daily basis. It will lead to high costs for data supply and for different kinds of market observation. It is difficult to see that these efforts should lead to significant benefits in the calculation of outflow rates.

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.)?

The proposed model will lead to increased costs especially for IT and additional staff. It is also important to point out that the LCR requirement must be fulfilled on a daily basis which makes the proposed complex model even more burdensome.



SWEDISH BANKERS' ASSOCIATION



Thomas Östros



Jonny Sylvén