POSITION PAPER

ESBG common response to the EBA discussion paper on outflows for retail deposits on the LCR.

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First of all, the European Savings Banks Group (ESBG) welcomes the opportunity to share its views on this more detailed Discussion Paper on retail deposits subject to higher outflows for the purposes of liquidity reporting under the draft Capital Requirements Regulation (CRR).

1. **General considerations:**

Generally speaking, we consider that the paper on retail deposits subject to higher outflows is a good basis for the discussion of a difficult task which is to figure out how depositors will react in a situation in which there are not many records or experiences. However, our initial reaction is that higher outflows ratios will decrease bank lending capacity. Therefore, before making a decision an impact assessment on higher outflow ratios is necessary. We are also concerned about the fact that whereas complexity has increased, it is not clear whether regulation has improved.

Whilst we generally agree with the EBA to implement a heterogeneous approach within the EU, it appears that the proposed methodology to identify retail deposits subject to higher outflows, as well as the proposed calibration of the scorecard is overly conservative and not corresponding with the experiences witnessed by us and other market participants.

An overly conservative and restrictive approach to retail deposits within the EU has the risk to potentially drive clients into unwanted deposit products, or even outside of Europe given the implications of less stability on the attractiveness of offering such products. This then has knock-on consequences for the ability of European banks to provide credit to the broader economy, or the attractiveness of lending products.

We would be interested to receive information on the empirical data that the EBA was receiving and which is being used throughout the analysis. We believe it would be helpful to understand if there is any (regional) pattern to be observed, and to analyse in more detail what the driver behind such regional differences may be, if any.

Additionally, it is clear that the proposed suggestions in this paper may be too complex to implement and will require too much effort. Moreover, this discussion paper focuses on a rather small part of the total LCR regulation. Retail deposits will very seldom be as volatile as some corporate or financial deposits. On the top of it, it seems like there are too many factors and they are in some way overlapping each other. Many of them focus on the same aspects of depositors' services but the gathering of information differs so the result will just increase the complexity.

The idea of identifying deposit accounts that can need a higher outflow than what is suggested in article 409 (1 & 2) by setting different factors could be a way of creating a method that can incorporate differences between banks in Europe. Nevertheless, this would likely render a model with too many factors and therefore be too complex. A model with fewer factors would more likely be a better solution. It could be suggested that these factors should focus on the relationship between the client and its bank and the type of deposit account. This relationship factor should be based on a study that assesses the different number of products and accounts that the client has with its financial institution. However, we understand that this may entail a classification of accounts that could be troublesome.

We think that finding an accurate historical data sample for assessing the outcome of the proposal will probably be quite difficult to achieve. The single most important factor, or limit, related to retail deposits is the DGS (Deposit Guarantee Scheme) limit in each country. It is hard, if even possible, to identify limits other than the DGS that affects the behavior of depositors in a significant way. Finally, concerning fixed-term deposits, it has to be acknowledged that they work differently in every jurisdiction, they are used for different purposes and they are not just an investment product.

2. Answers and reflections on the questions posed:

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?

Given confidentiality issues, it has always been extremely hard to find objective market data that provides evidence of how deposit products have behaved in crisis situations. The information that is available, however, generally shows that compared to many other funding sources, retail deposits are one the most sticky forms of unsecured financing for a bank, and outflows within a period of 30 days of severe stress are contained to 10%-15% at maximum. The EBA referenced analysis of outflows from 25%-100% in certain deposit products does not correspond to the information available to us.

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?

In our opinion the assumption in characteristic 4 that states that "Internet-only access" is a high risk distribution channel is not sufficiently argued for. We cannot see how deposits in internet-only banks are more easily accessed than those deposits in traditional banks offering internet services.

Should the loyalty argument be used, we consider that it could also be used in the other way around. We have doubts on the application of these criteria and we think that is hardly difficult to classify banks according to the level of "loyalty" of their customers, and thereby, on this basis, decide to allocate reduced outflow ratios. New distributions channels are vital in the process of making the industry more efficient, and must not be hampered by stricter regulation not anchored solidly and objectively.

Regarding characteristic 6, we do not agree on the fact that experience clearly indicates that non-resident deposits are less stable.

Furthermore, we have the following question on the structure of the characteristics included in the list: Are characteristics 1 and 7 independent enough to be separated?

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 be based on the amount guaranteed by national DGS and not a fixed 100 000 EUR. A fixed amount does not go along with the principles of having an outflow ratio based on outflow probability.

Alternatively, rather than to segregate deposits into high value and very high value, it should be studied whether one categorisation for deposits in excess of EUR 1mn could appropriately capture the category that could be assigned a higher outflow rate.

Q4: Do you agree with the criteria for deciding which products can be considered as rate-driven?
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 EBA sees the "Rate-driven or have preferential conditions" as one of the factors that more precisely indicates whether outflows will be larger or not, based on the experience. In opposition to this approach, it can be argued that there are good reasons to believe that banks in the future will to a larger extent use interest rates – or other preferential conditions - to attract deposits that are stable. If so, treating such deposits as less stable from the regulatory point of view will lead to adverse effects.

As we expect that the less stable deposits will also be identified as part of the group "high deposits", we cannot see the need of having "rate-driven or have preferential conditions" as an independent factor at all.

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?***

We believe that whilst there is some merit in analysing such characteristics for the purposes of long-term liquidity management and stability, the information has no direct relation to the behaviour of such components under stress. We believe the only sensible differentiation to be made is based on the level of sophistication, which can be broadly split into mass-retail clients and high-net-worth individuals.

The characteristics of the discussion draft represent a thorough enumeration but should concentrate on two or three main factors:

- Customer is single product user
- High volume deposit (considering DGS)
- Specific factors for SME business should be defined as well.

All other relevant influencing factors should be considered individually by each bank based on an individual risk assessment. Therefore, our internal policy comprises the option to assess other qualifying relevant criteria influencing the stability of deposits (e.g. business strategy, market competition, …).

About WSBI-ESBG (European Savings Banks Group)

WSBI-ESBG – The European Voice of Savings and Retail Banking

WSBI-ESBG (European Savings Banks Group) is an international banking association that represents one of the largest European retail banking networks, comprising of approximately one-third of the retail banking market in Europe, with total assets of over €7,631 billion, non-bank deposits of €3,500 billion and non-bank loans of €4,200 billion (31 December 2011). It represents the interests of its members vis-à-vis the EU Institutions and generates, facilitates and manages high quality cross-border banking projects.

WSBI-ESBG members are typically savings and retail banks or associations thereof. They are often organised in decentralised networks and offer their services throughout their region. WSBI-ESBG member banks have reinvested responsibly in their region for many decades and are a distinct benchmark for corporate social responsibility activities throughout Europe and the world.

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