

# **Response to EBA Discussion Paper on retail deposits subject to higher outflows for the purposes of liquidity reporting under the draft Capital Requirements Regulation (CRR) (EBA/DP/2013/02)**

## **INTRODUCTION**

Standard Chartered welcomes the opportunity to comment on the European Banking Authority (EBA's) Discussion paper on retail deposits subject to higher outflows for the purposes of liquidity reporting under the draft Capital Requirements Regulation (CRR).

## **EXECUTIVE SUMMARY**

- We understand and support the EBA's effort to identify retail deposits subject to higher outflows than specified in Article 409, but many of the factors presented have not proved to represent a higher outflow during a period of stress, and therefore the methodology could lead to perverse incentives (through mispricing or otherwise). This objective should also be balanced with feasibility given the planned implementation date of 1 January 2014.
- Existing data should be leveraged where possible in the EBA's analysis of retail deposits and their behaviour. Banks already track the stability of their retail deposits to ensure alignment with internal risk appetite, and information on UK banks in particular will be plentiful given that a similar exercise would have been performed in establishing the stability of retail deposits under the FSA's BIPRU guidelines.
- Bringing the outflow levels for retail deposits to the same level as some wholesale funding does not seem to align with the overall regulatory aim of increasing the proportion of retail deposits versus wholesale funding.
- SCB welcomes a cost-benefit analysis on the proposed methodology. Providing this level of data to the exact specifications as outlined in the paper, within the planned implementation date, would result in significant compliance costs to firms. Further, the net economic benefit of such a granular analysis on a relatively small contributing factor to the LCR metric as a whole is questionable. It's possible that rates paid to retail customers will fall as deposits classified as less stable decrease in value.
- Elements of the proposed criteria would be difficult to apply. For example, identifying 'rate-driven' products would seem open to subjective views and extremely challenging to do on a dynamic basis from an operational perspective. Also, known stability factors such as length of relationship should be utilised to ensure stable clients are not misrepresented as higher outflow.
- Using existing data would help on two fronts: it would help identify the most influential risk factors, and it would ensure the methodology could be implemented.

## RESPONSES 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?***

The level of additional infrastructure required to perform a regular analysis across a large spectrum of client characteristics should not to be underestimated. Obtaining and analysing the proposed information on a regular basis will require investment in IT and human resources. Given the relative outflow factors of retail products, the resulting additional analysis will provide minimal additional benefit to the LCR metric and the economic benefits of such a granular analysis on a relatively small portion of the balances sheet is questionable. Also, the use of a forward-looking approach would introduce some model risk where assumptions may not reflect actual future behaviour.

***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?***

SCB agrees that local DGS thresholds are adequate in determining a threshold for the stability of deposits as stipulated in CRR Article 409. However, we do not support the introduction of a €100,000 threshold as an indicator of a higher outflow (higher than the 10% given in CRR Art 409).

We do, however, believe it is sensible to assume that a sophisticated, high net worth client with a large balance, typically found in Private Banking, will manage its money more actively. We would suggest that €1 million seems a more appropriate threshold to capture these deposits.

It is important to notice that the size of the balance of a sophisticated client does not necessarily correlate with a higher outflow. Private Banking clients are relationship managed and as such tend to build stronger relationships with the bank. Deeper relationships tend to be associated with stickier funds. The length of time the customer has been with the bank or whether the client has some long term products with the bank should also be considered on top of the suggested risk factors before a higher outflow is allocated.

***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?***

SCB has identified a weak customer relationship, low local deposit insurance levels and low stability of average customer deposit levels as factors leading to higher 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?***

As described in question 3 above we would suggest a higher threshold (€1 million) to capture those deposits from high net worth individuals that may be subject to higher outflows under stress. However, it is worth noting that the implementation of a Euro threshold across all jurisdictions would compel a re-categorisation of clients on a regular basis in response to FX fluctuations. Further details around

the frequency of analysis and outflow levels are welcomed here; a periodic analysis would be more realistic considering the level of data mining involved.

***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 identification of a product as rate-driven and as an increased outflow factor is sound in principal. However, the calculation of average market rates is subjective and could vary significantly between institutions depending on data source and reporting frequency. Care should be taken to consider pricing relative to the market at the time the deposit was booked (e.g. back-book deals).

Further specifications surrounding pricing in a low-rate environment, allowing for current market margins and incorporating price sensitivity would assist in reducing differences in the calculated average market rate between institutions.

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

The proposed outflow for a non-resident deposit with balance greater than €100,000 at 25% seems excessive and may create the wrong incentives as it does not seem to align with the overall aim of increasing the proportion retail deposits versus wholesale. Retail deposits have proved to be inherently stable, it is feared that including factors such as non-resident deposits in category 2 will deter banks from obtaining funds through these sources. If the level of outflows from these retail deposits starts to exceed that of any wholesale deposit it would start driving the wrong behaviour as banks increase wholesale funding at the expense of the more granular retail sources.

Identifying 10 risk factors will require significant investment across the industry to monitor on a regular basis. We would suggest that banks be supported in leveraging their existing analysis around classifying retail deposits, especially as some of the risk factors considered within the DP do not necessarily reflect indicators of higher outflow. SCB customer behaviour indicates that emerging market customers tend to convert their savings to US\$ as the local currency depreciates during a stress. Also, non-resident deposits could be more stable in stress as customers look at relative risks. Finally, industry response in Basel III pointed out that most bank accounts are primarily internet accessed, and this channel does not necessarily make a deposit less sticky.

SCB is therefore of the opinion that these risk factors should be reviewed to ensure that they do not provide a disincentive for firms to obtain funding sources that have proven to be stable in times of stress..

We hope you find these comments helpful and look forward to engaging with the EBA in this and other areas of CRDIV/ CRR implementation. Please do not hesitate to contact us if you wish to discuss any of the above further.

Yours sincerely