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ING draft Response to EBA Consultation on draft Guidelines on retail deposits subject to different outflows for purposes of liquidity reporting (EBA/CP/2013/34)

ING welcomes the opportunity to comment on the EBA's 'Consultation on draft Guidelines on retail deposits subject to different outflows for purposes of liquidity reporting'. 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. We wish however to highlight some points and as such provide you with specific ING input.

General comments

1. It is not clear whether there will be alignment on a global scale with regard to this topic. At the moment, EBA is preparing the input under the CRR but how other supervisors will define this additional element within their jurisdictions is not evident. This can create major issues in consolidation and reporting, specifically once the ratio needs to be disclosed publicly. EBA should therefore align with guidance provided via BCBS on this topic. Please also note that the outcome will affect liquidity requirements and thus can have impact on the real economy.

2. It is understood, that EBA is required under the CRR to provide guidelines for retail deposits which could be subject to higher than the current defined outflow rates. We believe however that the current defined outflow rates (5-10%) in the LCR overall reflect a proper level.

3. Applying additional outflow on accounts which are already deemed stable, as they are under a DGS and defined transactional/established, by applying a next set of risk factors is not in line with the guidance as already provided in the CRR.

4. ING does not agree to the definition and identification of the internet access accounts in the Consultation, on the following grounds:
    a. For all banks, whether they are coming from a traditional branch based model or from a direct only model, direct channels are today's dominant interaction between the customer and the bank. Therefore, in case of market wide stress conditions, customers of all banks could in theory withdraw their savings through direct channels remotely and instantaneously. The presence of branch networks does not change that situation.

b. One could argue, on the contrary, that the presence of physical places where clients can go to get their money back in crisis situations could potentially lead to images of lines of people waiting, which would increase the stress of the situation (refer Northern Rock). The advantage for internet only banks is that outflows in stress situations are less visible and therefore don't have a self-propelling effect.
c. Branches do not imply stability of deposits. Branches are a channel. If there are idiosyncratic and market-wide stress conditions, customers will not choose to not withdraw their money because of the branch network.
d. The "established" client relationship through the transactional account does create stability and it is true that traditional branch banks generally have a larger percentage of these customers than internet only banks. However, these factors are already (and should be) covered in another part of the consultation and will therefore in practice already lead to higher liquidity requirements for internet only banks that have not succeeded to convert the relationship into an "established relationship".

Based on above points, we therefore do not agree that "internet only banks" are a separate factor when assessing the risk of instability of retail deposits.

5. 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 Consultation:

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

   b. 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. Next to this, the proposed approach is too complex, possibly leading to non-level playing fields and therefore can significantly impact (local) economies.

<u>**Questions**</u>

Q1: Do you agree with these criteria for assessing the existence of an 'established relationship'? In your view, what other criteria could be considered to qualify deposits as being part of an 'established relationship making withdrawal highly unlikely' under a combined idiosyncratic and market-wide stress scenario?

Yes, though the definitions are not precise enough (also refer to EBF input). It should be possible for banks to use other criteria to validate an "established relationship" if they can demonstrate to the satisfaction of their supervisor that these criteria are robust.

Q2: Do you agree with this criterion for identifying a transactional account?

The EBA definition is not fully aligned with CRR 421 (1-b) and it is not clear if the EBA's definition for transactional account is consistent with the definition of "payment account" in Directive on Payment Services (PSD). It is preferred to have uniform definitions throughout the regulation.

Q3: Regarding established relationships, how would you assess that the contractual relationship with the institution and the minimum number of products are active in the sense of being actively managed?

Minimum duration/tenure of client relationship must be used to assess contractual relationship.

With regard to the definition of "active" in the sense of being actively managed, it must be demonstrated that "active management" of a product has a direct relation in terms of stability on the relationship with customers.

Q4: What is your view concerning the threshold proposed for high and very high value deposits? Please give your reasons.

Experience – also in the crisis situation – has shown that there's no specific evidence about different behavioural approaches among the different thresholds proposed in terms of liquidity outflows. The relationship with the depositor is key versus the value of the deposit.

Q5: Do you agree with the criterion for considering a deposit to be rate driven?

In theory, deposits are rate driven, but in practice utilising rates to attract customers and then moving to 'normalised rates' does not necessarily lead to outflows as again client relationship and services offered are key elements. Also note that there is a certain threshold in rates before clients start to move funds.

Q6: Do you agree with the criteria to identify this risk factor?

We don't agree entirely with this criterion. The recent historical experience proves that the deposits of non-residents with origin in the jurisdiction in question are quite stable, independently of the currency of the deposit.

Q7: Do you agree with the above analysis of the cost and benefit impact of the proposals?

Yes. The new treatment concerning deposits may have a significant impact on the dimension of liquidity buffer. In addition, the costs of the operative impact (staff, resources, IT) of gathering data, reconciling and reviewing internal models (deposits stability) will be high.

Q8: Please provide any evidence or data that would further inform the analysis of the likely cost-benefit impact of the proposals.

The level of information must be much more detailed than it is now in order to identify the deposits that require bigger outflow rates. This requires significant IT costs.
Also in order to provide proper evidencing of models utilised on outflow rates, currently limited data is available which can lead to discussions and non-evidenced punitive outflow rates vis-à-vis supervisors.

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