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Doc 0885/2013

ESBG common response to the EBA Discussion Paper on retail deposits subject to different outflows for purposes of liquidity reporting.

WSBI-ESBG (World Institute of Savings Banks - European Savings Banks Group)

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WSBI-ESBG Register ID 8765978796-80

October 2013

The European Savings and retail Banking Group (ESBG) welcomes the opportunity to share its views on this more detailed Discussion Paper on retail deposits subject to different outflows for purposes of liquidity reporting under Regulation (EU) No 575/2013 (Capital Requirements Regulation - CRR).

1. **General considerations**

Firstly, we would like to welcome the application of the 5% weight for stable retail account deposits. However, we propose waiving the need for a fundamental, comprehensive review of the seven risk categories for deposits which meet the precondition under Art. 421(1) CRR and to only request such a review should banks have obvious evidence that – in the event of a market-wide and bank-specific stress scenario - the expected outflow rate for the respective deposit will differ from the 5% set out under the Discussion Paper’s current proposals.

By suggesting the aforementioned seven criteria under Indent 13, the EBA seeks to oblige banks to review additional characteristics in order to assess whether they could be used as a measure for higher outflow rates in the field of retail deposits. For this purpose, Indents 13.1 to 13.7 include a long list of requirements which would imply considerable implementation costs as they would entail the setting up of the new data requirements during the identification of the risk factors of individual transactions as well as the collection of data history for the respective categories needed in order to calculate an estimated outflow rate. In some cases such data are non-existent on the level of the individual transaction or, moreover, on an aggregated customer level. The amount of additional liquidity outflows which could be identified by the means of these models and which are not already covered by other criteria would be extremely low. In our opinion, the overall cost-benefit impact will be negative. Hence, we recommend deleting Indent 13.

In this sense, we would like to express our disagreement with the proposal for calculating retail deposits featuring different outflows. In fact, we are extremely concerned by the considerable implementation costs involved as well as the short implementation period. Generally speaking, we consider that the methodology is really complex to implement compared to the additional outflows provided in terms of the available information. Furthermore, we understand that it is quite difficult to combine with a D+15 remittance for such a light effect.

Such a comprehensive calculation of risk parameters is particularly unrealistic for smaller banks with a business model based on retail clients and SMEs. Especially for the savings banks, the implementation cost is foreseen to be sizeable. For the calculation of more volatile deposits, the EBA suggests using the deposit level (aggregated deposits per person) as a risk factor. Therefore, we would like to suggest introducing an absolute fixed threshold that shall be based on the level of the deposits below which the test included Art. 421(3) CRR should not apply.

Therefore, if a bank were to be incapable of carrying out the required calculations or if the calculation were to be economically unviable in light of a bank’s retail deposit volume, supervisory authorities should stipulate (within the meaning of a “fallback approach”) outflow factors, too.

We are also concerned about the lack of autonomy that this proposal will create. The establishment of a binding risk factor hierarchy will impede banks to carry on using their own established categories. In our view the EBA should either provide the full guidelines or let banks continue using their own internal models.

Finally, we would like to express our doubts as to the fixed buckets assigned to individual products. In our opinion the approach by which fixed-term deposits shall be deemed as inherently less stable deposits is not consistent. Such a simplistic assessment completely ignores the option of a prolongation for these deposits. At this juncture, a more differentiated presentation would be helpful.

1. **Response to questions**

**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?*

**Comment**: The intensity of the existing relationship with the client is one of the key factors influencing the probability of a deposit withdrawal under a combined idiosyncratic and market-wide stress scenario. The proposed definition of ‘established relationship’ offers a good and overall guideline. However, we are also of the opinion that an ‘established business relationship’ should already be assumed if the customer maintains an on-going account with the bank. In our view, such an account is already enough evidence of close customer relations making an outflow of funds in a stress scenario rather unlikely. One further possible indicator which, however, might be difficult to ascertain and could thus potentially incur greater complexity - would be the principal banker function. We are also of the opinion that the assessment of a stable customer relationship should be determined on the basis of harmonised criteria per customer, i.e. it should be assessed for each and any deposit in a uniform manner.

Along with the three criteria specified, factors such as the reputation and the existence of members’ capital contributions should also apply. However, we also understand that only criteria which can genuinely be quantified and that can be framed into system-side queries (e.g. the presence of members’ capital contributions, minimum duration of the customer relationship of at least 2 years and use as a payroll account) should be taken into account.

Furthermore, banks should be allowed to prove to the supervisor the existence of an “established relationship” also by other ways than those proposed by the EBA. One example would be that the equity based participation by the client in a bank’s operating business (for instance in the form of bonds such as profit participation rights, junior loans) can be seen as an expression of a high degree of confidence and close relationship between the customer and the bank.

Lastly, concerning the ‘minimum duration’ of a contractual relationship we consider that it should be set up in at least 1 year. This relates especially to ‘financially sophisticated individuals’ and ‘high net worth individuals’ as they are more likely to consider the creditworthiness of an institution when making withdrawals regardless of the length or depth of relationship.

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

**Comment**: The ESBG considers that transactions (such as salary, mortgage payments, credit card payments, any other comparable periodical income and transactions, etc.) which are regularly credited and debited to an account significantly decrease the probability of a withdrawal or closing of such account thus making this type of account a ‘transactional account’.

Nevertheless, we also consider that accounts should be identified as a “transactional account” already in the presence of one of the two criteria proposed. The EBA consider that both criteria the account has to be the client’s transactional account and that the customer’s ongoing payment transactions are handled through this account have to apply to consider a bank account as ‘transactional’. In our view, this rule does not accurately reflect the banking market’s evolution in recent years since nowadays clients generally tend to have several accounts which they use for handling their ongoing payment transactions; yet, they only tend to have one single payroll account.

**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*?

**Comment**: For identifying ‘established business relationships’ the EBA has suggested the criterion that the customer shall have a minimum number of active products with the institution. The intensity of the institution – client relationship is hardly uniform across various markets. However, in our view, whereas such a correlation is possible indeed, the number of active products does not necessarily imply higher stability of the customer relationship. For instance, a customer maintaining a current account who has been a single product user for several years has an established relationship with the bank making higher outflows under stress scenarios unlikely. In this regard, the correlation pointed out (number of client’s products and “established business relationships”) is highly customer specific; hence, this correlation is not fit to be used as a defining element. In light of the technical implementation in terms of IT, on the whole, we see the use of two or more active accounts as an appropriate criterion.

Therefore, we consider that the following indicators should generally point to ‘actively managed accounts/relationships’:

* The client has a ‘bundle’ of products (e.g. savings, transactional account, mortgage, credit cards, etc.)
* Client has a history of inflows/outflows to/from its savings/transaction account

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

**Comment**: In our view, deposits between € 100.000 (or the maximum amount specified by the local DGS) and € 1 million should be seen as high, and deposits above € 1 million should be considered as very high. For the purpose of measuring the value of a client’s deposit, we are of the opinion that all the client’s deposit accounts with the institution (or group) should be taken into account.

Furthermore, as a special type of deposit guarantee, we suggest recognising institutional protection schemes as well. Institutional protection schemes are an important, additional factor which guarantees the security of customer deposits. Consequently, this should also be taken into account as an alternative criterion with regard to outflows in the case of particularly high exposures (> € 500.000).

Lastly, we would like to express our difficulties in understanding the different treatment applied to counterparty risk, which has a privileged treatment with regards to the stricter treatment applied to retail positions for liquidity purposes.

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

**Comment**: Concerning the proposed criteria, although we see it as logical, it also is very complex and somewhat ambiguous. The concept of an ‘average rate for similar products offered by peers’ is a very hard one to define and can be subject to multiple interpretations. This weak definition could lead to heterogeneous measurement practices across markets and institutions, which is not consistent with a level playing field approach. Therefore, we are in favour of considering and testing simpler criteria such as a fixed threshold or a threshold that depends on official rates plus a fixed spread.

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

**Comment**: With regards to the criteria to identify risk factors, the “residency factor” is not necessarily an indicator of higher withdrawal rates. Indeed, there is no evidence that shows a correlation between them. EU and non-EU residency does not necessarily mean that deposits are likely to be withdrawn. During the ‘Cyprus crisis’, depositors from inside and outside the EU were equally eager to withdraw their deposits. In a market wide or institution specific stress situation, deposit outflow is highly dependent on a client’s confidence; hence, institution related characteristics, such as the business model, credit rating, local or regional significance, should have more weight on deposit outflow than residence.

Furthermore, the EBA has proposed that banks differentiate between deposits denominated in foreign currencies and deposits denominated in local currencies on the one hand as well as resident and non-resident deposits. For reasons related to the overall nomenclature, we have major concerns over an inclusion of these two criteria and perceive a need for further discussion. After all, customer behaviour and consequently higher outflows not only depend on a single stress scenario in the country where the credit institution is based, but also the contrary: customer behaviour very much depends on the situation in the country of origin.

Indeed, it is more likely than not that in the event of a revaluation of the foreign currency – i.e. if there was a “domestic currency stress” – there will be higher inflows. The same would apply should an emerging crisis be taking place in the non-domestic banking market. In this sense the most recent experience has shown that this involves very complex interactions. The generic definition of both criteria as risk factors does not reflect this complexity in an adequate manner. Due to the proportion of these deposits the question is whether the meaningfulness of the LCR for the purposes of liquidity management would significantly increase if these factors were included.

We would like also to express our disagreement concerning the inclusion of the reference to banks which conduct its customer transactions exclusively over the internet as one example for a bank which, due to higher risk distribution channels, should define higher outflow rates for its retail deposits. Firstly, compared to other business models, this approach would result in a wholesale discrimination against a certain business model in the absence of any valid statistical basis for this assertion. All the more, during the last financial crisis, in the retail banking area internet banks were able to post considerable inflows. Hence, with regard to internet banks, there are no behaviour signs indicating any particular risk aversion from the customer’s side. Instead, factors such as the amount of the local deposit guarantee scheme and the country where the bank is domiciled have a decisive influence on customer behaviour.

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

**Comment**: As to the cost and benefit impact of the proposals, the implementation of the proposed systems and indicators will require significant efforts and business model changes. We consider that the cost-benefit ratio for the additional measuring of higher outflow rates cannot be estimated in a serious manner at this stage. But it should be recognised that initial costs as well as running costs are substantial and that any regulatory condition should be defined while considering this aspect. Additionally, we would like to explicitly state our disagreement with the EBA’s view that the proposed further differentiation of the outflow rates can significantly increase the meaningfulness of the LCR ratio whilst incurring but moderate costs.

Concerning the criteria for assessing a cost-benefit study there are a number of factors, as expressed above, which are partly correlated with each other. This will most likely lead to a clear increase in the complexity of the calculation meaning that the costs for preparing and controlling this ratio will also increase. Therefore, a further algorithm with a multi-tier calculation method becomes necessary for deriving the respective outflow rates.

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

**Comment**: With regards to the additional evidence or data that would further inform the analysis of the likely cost-benefit impact of the proposal, it is extremely difficult to estimate the costs of implementing these proposals at this stage. However, any simplification of the factors and removal of highly correlated factors will at least keep costs at bay, especially, in the case of multinational institutions where there is a great variety of regulation, diversity of IT systems, and where client related information is not always at hand. To track and apply these complex factors, institutions need to build reliable time series which is very difficult to do in the short term. Regulators should focus on simpler factors and defined conditions as currently many institutions do not have time series required to analyse proposed factors. Also, it should be noted that there is a compounded complexity when the value of deposits are paired with product specific features such as step up rate, early withdrawal penalties, etc that make the application of outflow rates on the aggregated deposit value unclear.

**About WSBI-ESBG (European Savings and retail Banking Group)**

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

WSBI-ESBG (European Savings and retail Banking 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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Published by the WSBI-ESBG, August 2012