# How to make retail banking integration happen

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# Deposits are very "sticky"

## Evidence from U.S. (fiscally and politically integrated market):

- Based on the data from 1994 to 2006, for any year*county, the average deposit market share change in a two year window period is -0.06 pp (standard deviation 2 pp)

- The FC was an important shock for reallocation of deposits toward healthier banks (Bord, Ivashina and Taliaferro, 2017)

  - Between 2006-2008, 2.5 pp gain in relative market share across counties

  - Between 2006 and 2015, financially healthy banks grew their aggregate market share by roughly 10 pp in areas previously dominated by banks hit by subprime crisis

- Very similar magnitudes are found in the context of 1970-1994 geographical deregulation of banking in the U.S.  (e.g., Berger, Kashyap and Scalise, 1995; Jayaratne and Strahan, 1997)

# Deposits are very "sticky" (2)

## Lessons from U.S.:

- Realistic expectations on evolution in deposits market share (especially since the starting point is not lack of competition in local markets, or lack of financial soundness)

- This is very important point to tackle  because significant changes in funding cost connect to

  - Banks in concentrated deposit markets pay about 50 bps less for their deposits (Berger and Hannan, 1989)

  - Between 1997 and 2008, the spread on deposits (vs. Feds fund) is large (2pp lower) and co-moves with the monetary policy, i.e., rate on deposits is essentially flat over time (Drechsler, Savo and Schnabl, 2017)

- European Deposit Insurance Scheme (EDIS) is a pivotal initiative to insure stability of market changes: A big fraction of deposit reallocation in the context of FC in the U.S. came from uninsured deposits (Bord, Ivashina and Taliaferro, 2017)

# What can speed up the process: Tech

Today, availability and quality of the digital banking experience is eroding deposit "stickiness"

- Primarily affects younger consumers, thus, competitive pressures are likely to increase over time

# What can speed up the process: Tech (2)

## On the credit side:

- The central challenge is scalability of information: savings and employment patterns, default aversion, need, and predisposition to take on bank debt, response to service quality, etc.

- Can a good model for assessing credit of a German consumer or entrepreneur be used in Spain?

  - If not, a bank needs to enter the market, ensure quality collection of information for a significant period of time before you can scale up