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# A Discussion of Claudia Buch's Lecture on "Banks' Profitability"

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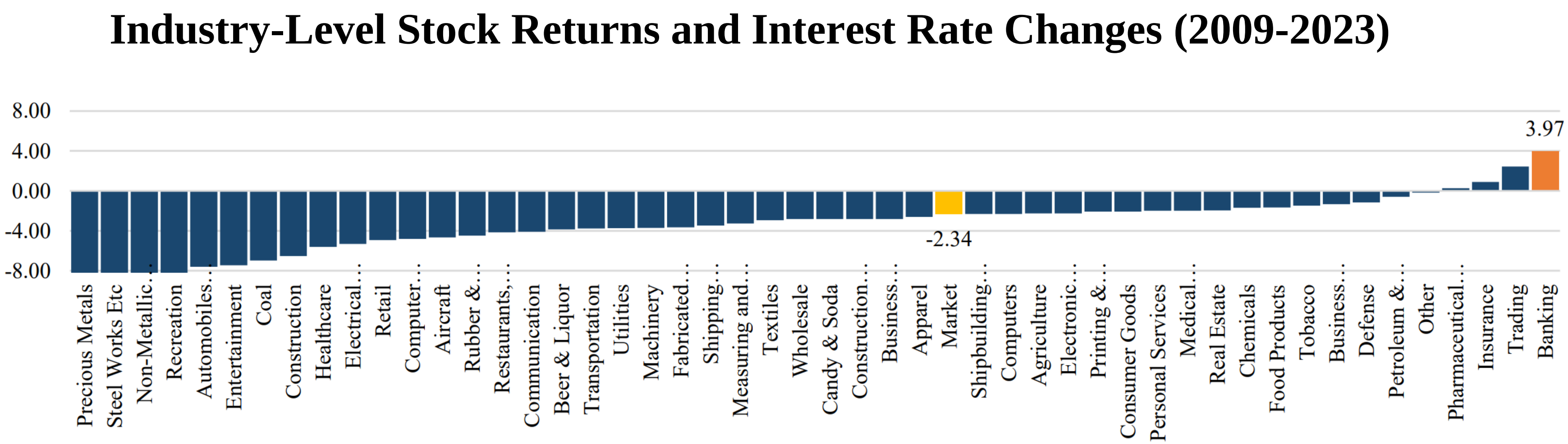
# Banks benefit from high-rates

## Fed's high-rates era handed $1tn windfall to US banks

Lenders charged more for loans but kept interest payments to savers down, FT analysis finds

# US banks’ stock returns and interest rates




Source: [Emin et al. (2024)]

- Banks’ stock returns **increase** with rates

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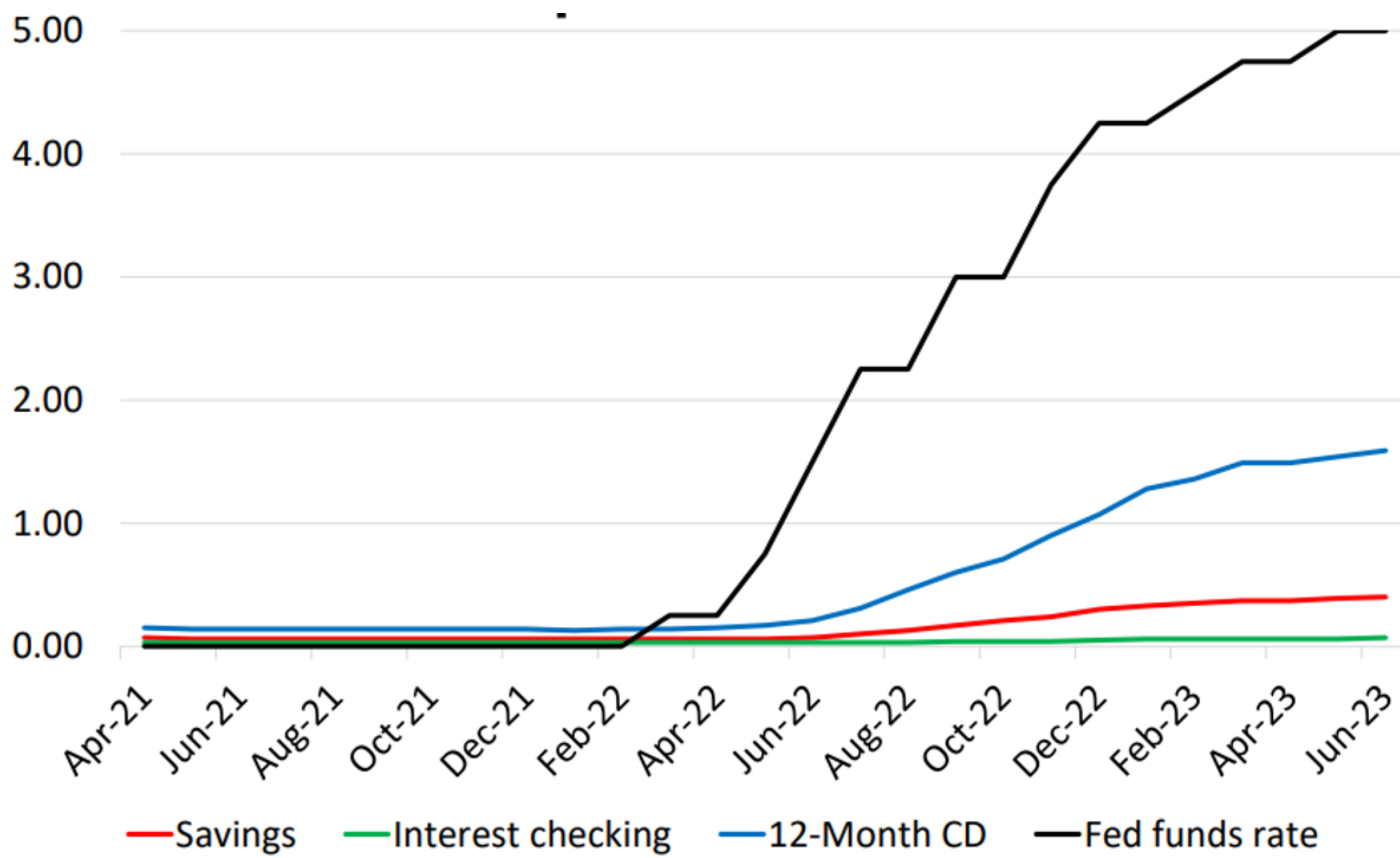
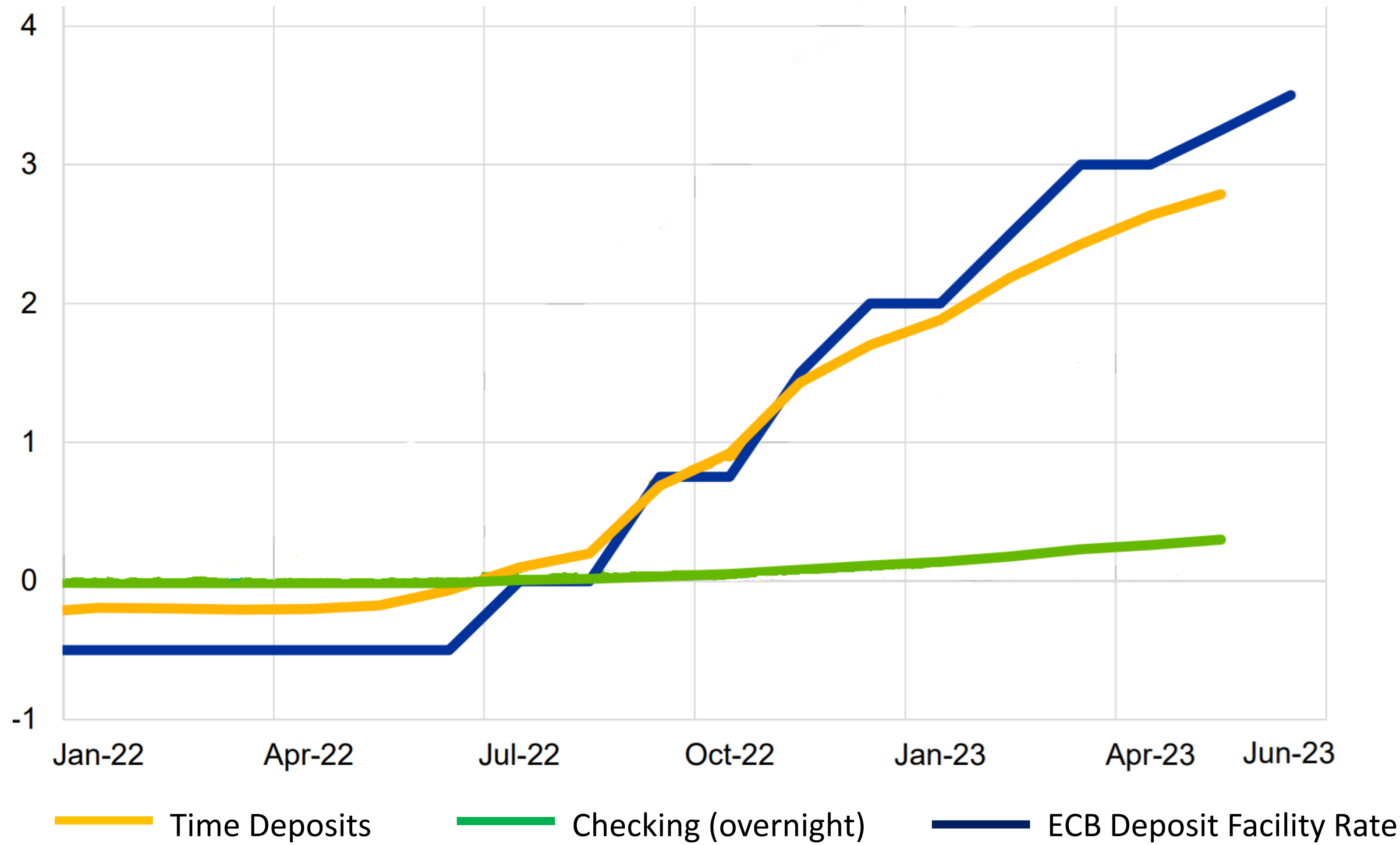
# Why?
## Because they keep deposit rates (expenses) low



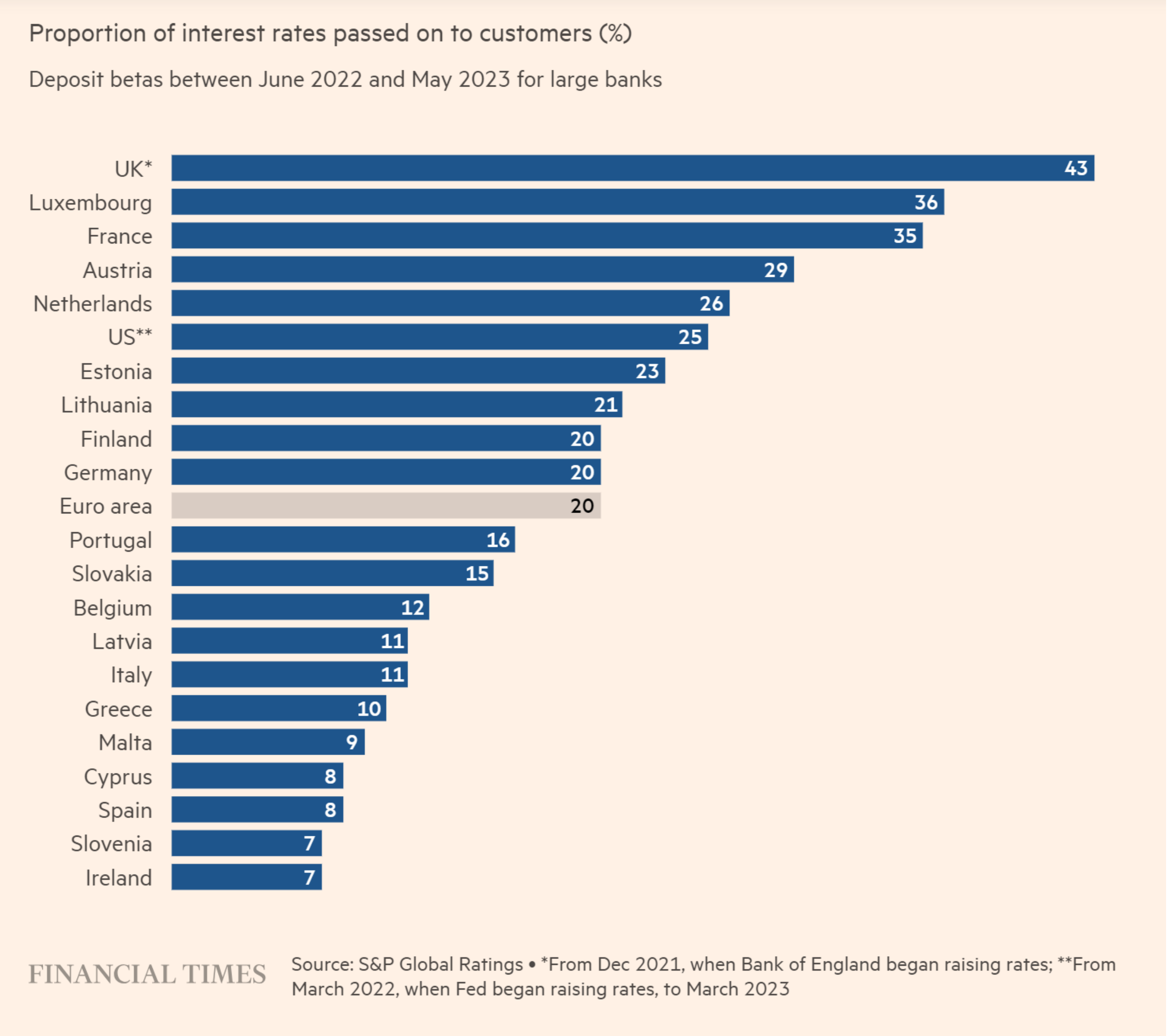

Source: [Schnabl (2023)]

# Similar story in the euro-area (less so for time deposits)




Source: [Lane (2023)]

# But lots of differences across countries…



# What's happening

- In a way, this is part of the normal banking business model
- Banks know that depositors "need" deposits for transactions and as a form of liquid wealth
- The fact that (large) banks pay no interest on deposit suggests they have **market power** over "**sleepy**" depositors
  - These depositors may be financially unsophisticated
- But are all depositors so sleepy?

# Competition from digital banking

- Recent evidence on US banks suggests the rise of a new banking model, due to technological advancements:

1. **High-rate banks** operate primarily online and attract less sticky depositors.

2. **Low-rate banks** operate large bank networks and retain relatively stickier (unsophisticated) depositors.

- Digital banking make depositors more alert allowing them to shift their deposits across bank accounts quickly

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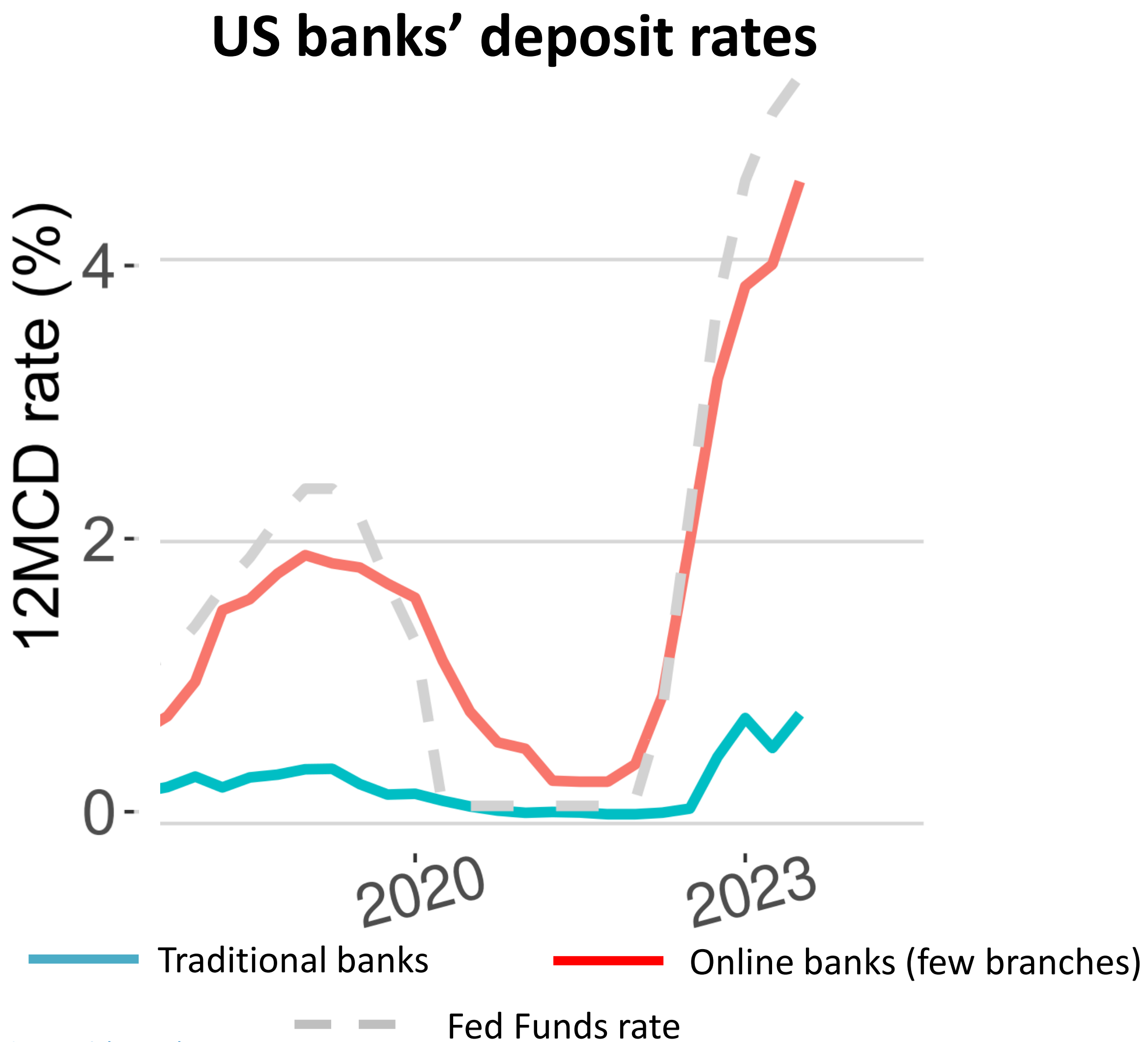
# Rise of a different kind of banking model




Source: [Kundu et al (2024)]

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# Digital banking in Europe

- **Digital competition** allows banks to easily go cross-border, in the spirit of the Banking Union

- Example: BBVA (Spanish bank) offered 4% interest on checking account in Italy from Sep2023, **fully online**
  - Raised €1.3 billion and over 100.000 new clients in 2 months

- The “sleepiness” may depend on the **initial level of interest rates**: depositors notice a change from 0% to 4%!

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# Conclusions

- Banks benefit from high-rates because they have market power over ‘‘sleepy’’, unsophisticated depositors

- Depositors may not be so sleepy after all, especially when the rates go up significantly and there are online offers

- **Digital technology** is a game changer: lower operational costs (branch network↓) allows to increase rates

- Implications for banking supervision:

1. High-rate banks maintain profitability by taking on **more credit risk**.
2. Digital technologies can **increase** the speed of bank runs!

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# Thank you!

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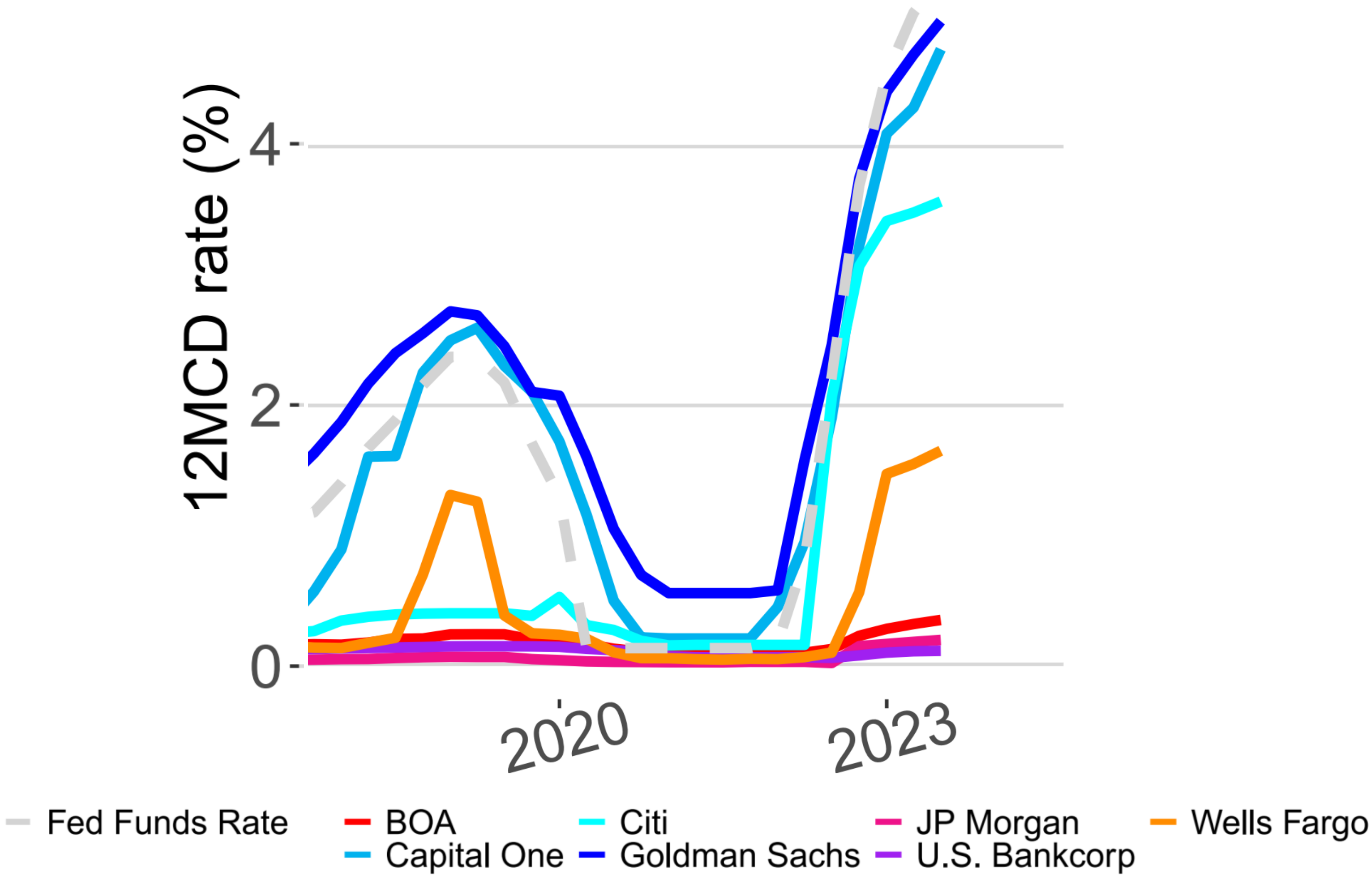
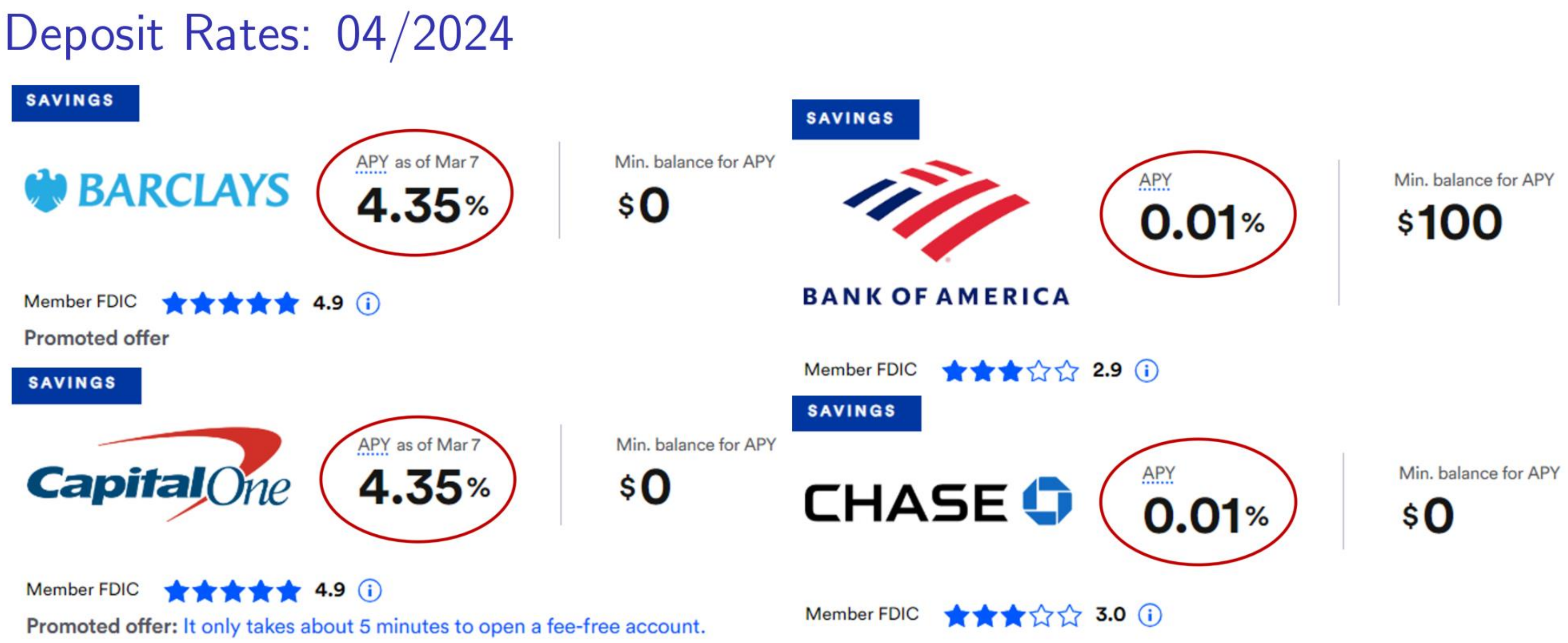
# Individual US banks' time deposit rates




Source: [Kundu et al (2024)]()

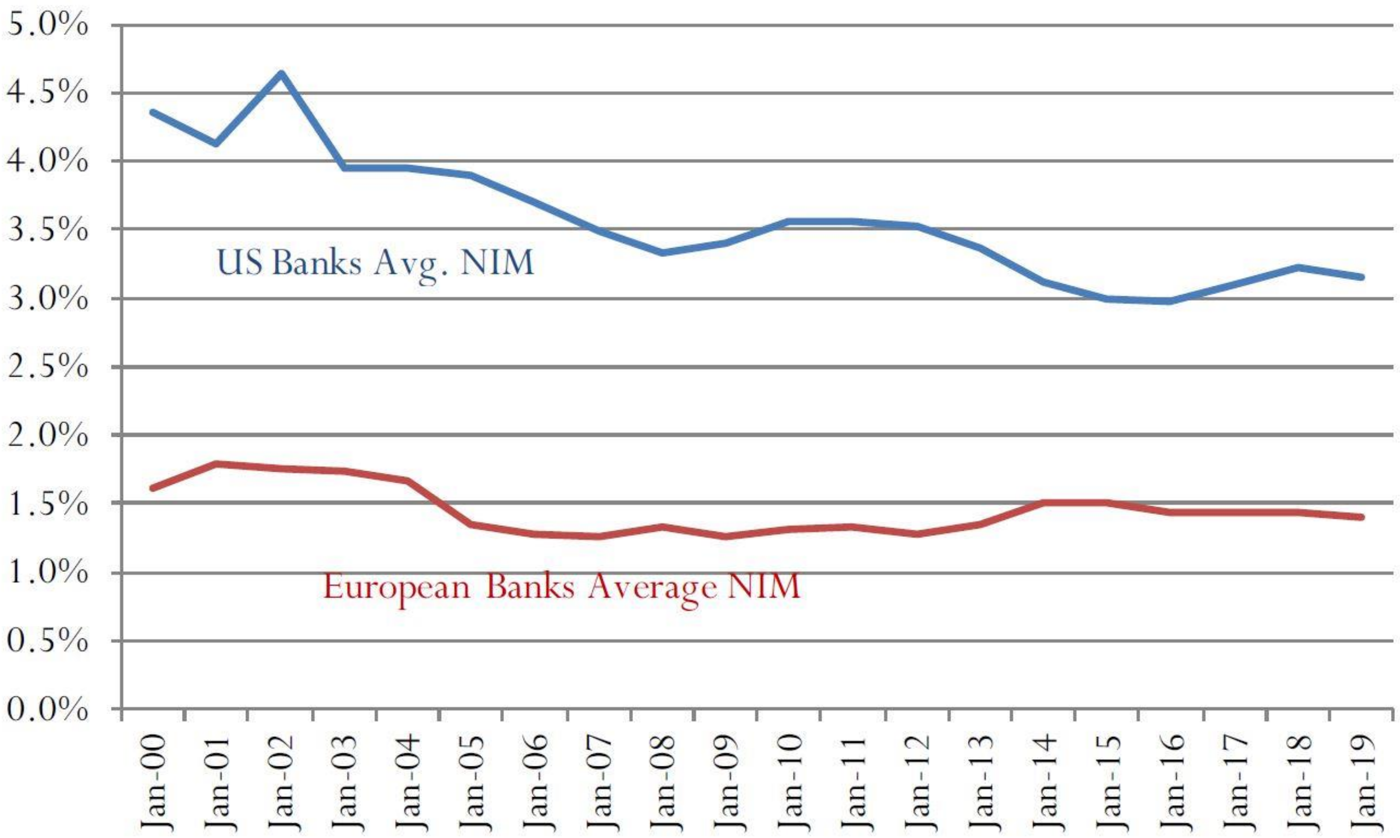
# Example of different rates across US banks




Source: [Kundu et al (2024)]

# In the background…
## Profitability gap between US and EU banks

Chart 5: Average Net Interest Income (NIM) – Europe vs US




Source: Bloomberg

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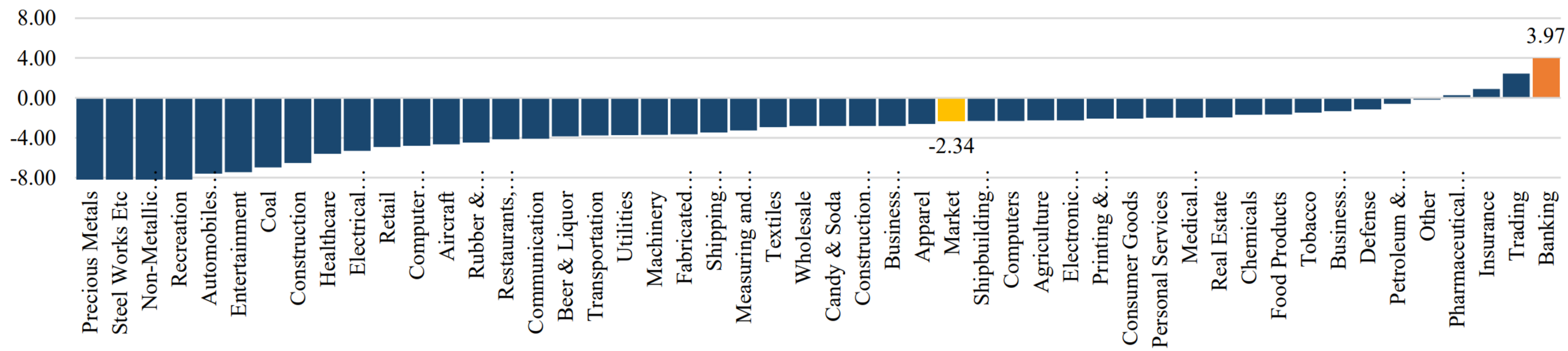
# US banks’ stock returns and interest rates

**Industry-Level Stock Returns and Interest Rate Changes (2009-2023)**




Source: [Emin et al. (2024)]

- Banks’ stock returns **increase** with rates

- Interestingly, this is the case only **after the Global Financial Crisis** (2009-2023), not before (in 1994-2007**-4.34**)
- The initial level of rates matters too