Pills

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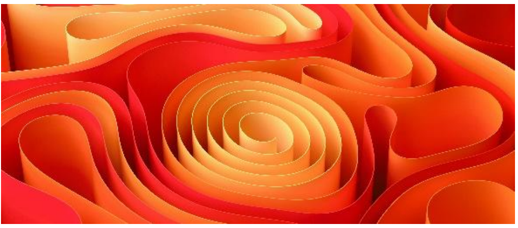

TOPICS:

IRRBB & Liquidity risk

SOURCE

European Central Bank

ECB: Banking on Assumptions? How Banks Model Deposit Maturities

- This ECB working paper investigates **how euro area significant institutions (SIs) model the behavioural maturity of non-maturing deposits (NMDs)**, which, despite having no contractual maturity, are allocated across maturity buckets based on internal assumptions of deposit stickiness. **Using confidential supervisory data** from 67 euro area banks between 2019Q2 and 2023Q3, the study assesses the validity of these behavioural assumptions and their responsiveness to changing interest rate environments.
- **Key findings** reveal that only 20% of NMDs are treated as having zero maturity, while roughly 10% are assigned maturities beyond seven years, indicating that banks often perceive NMDs as stable. Banks with higher shares of volatile, uninsured, or digitalised deposits tend to assume shorter maturities, suggesting modelling practices reflect actual risk characteristics rather than risk understatement or "window-dressing". The study finds no evidence that banks with more sensitive or unstable deposits assign inappropriately long maturities to mask risks.
- However, during the ECB's recent monetary policy tightening (beginning mid-2022), banks did **not materially adjust their NMD assumptions**. Even institutions with demonstrably more sensitive or flight-prone deposit bases failed to shorten assumed maturities or update internal models. This suggests either underestimation of deposit volatility in high-rate environments or inertia in recalibrating models, both of which carry implications for financial stability.
- The research also highlights **the influence of digitalisation**: banks with a higher share of digitally originated deposits tend to assign shorter maturities, acknowledging their increased rate sensitivity and mobility. Nonetheless, behavioural maturity assumptions increased slightly post-tightening, likely due to the outflow of short-term deposits while longer-term deposits remained.
- Overall, while banks' modelling reflects deposit characteristics under stable conditions, their limited responsiveness during periods of rapid monetary change underscores **the need for more agile, risk-sensitive modelling**. The findings have critical implications for supervisory frameworks addressing interest rate risk in the banking book (IRRBB), liquidity risk, and the impact of digital banking trends on deposit stability.