Discussion of “Do corporate depositors risk everything for nothing? The importance of deposit relationships, interest rates and bank risk” by Friedmann, Imbierowicz, Saunders and Steffen

Discussant: Egemen Eren (BIS)

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This paper

Motivation

- Relationship banking lit. has focused extensively on banks' lending choices. Deposits?

Research Questions

- How do corporate depositors choose which bank to deposit their funds into?
- Do relationships matter?

Hypothesis

- Comparable patterns in loan markets and deposit markets.
    - Interest rate, bank risk, bank-firm relationships matter.

Data

- 75,000 auctions in which banks bid for firm (EUR) deposits. 2005-2010. 192 firms and 61 banks in Europe.

This paper

Results

- Firms usually select the highest bidders.
- Measures of risk do not affect selection *over and above the highest bid*.
- Relationships matter in being selected, even when bank is not the highest bidder.

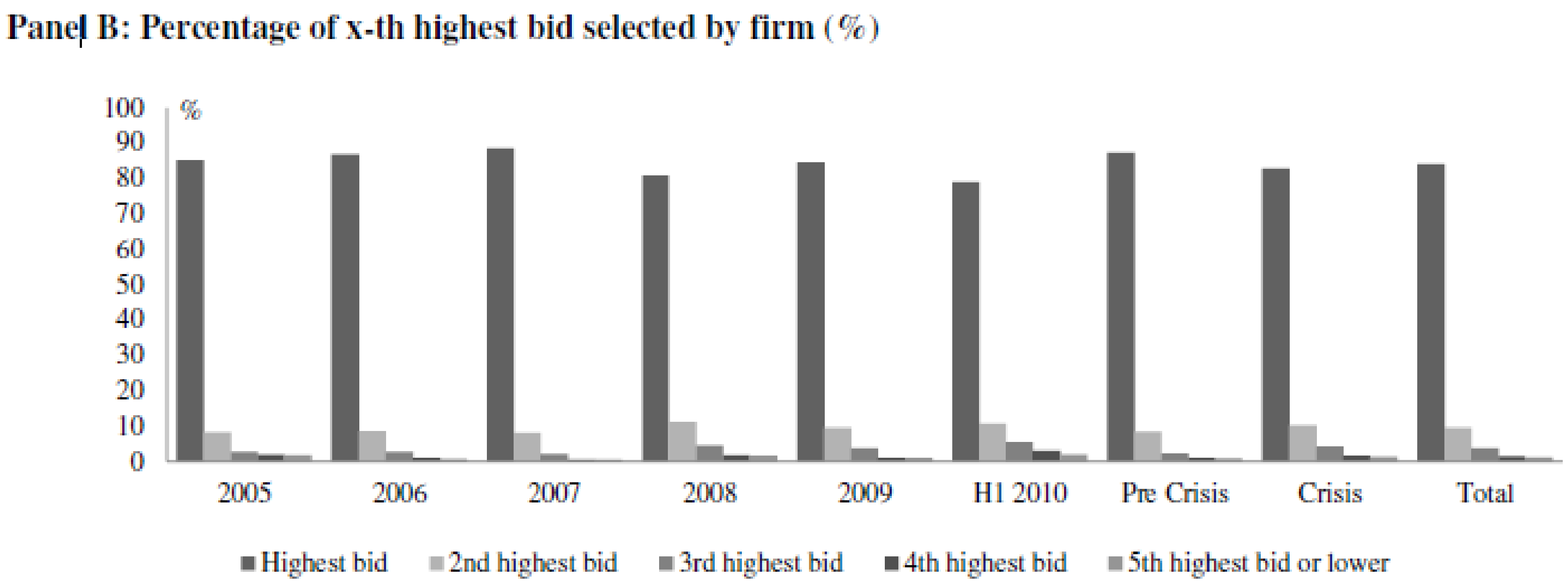
Contribution

- Deposits are important. Especially so after the implementation of LCR.
- At least for USD funding of foreign banks, the amount of MMF CP, CD funding is declining.
  - Replacement with corporate deposits.
  - This is very important for financial stability.
  - Corporate deposits are easily runnable compared to MMF funding.

Overall comments

- Great question, great data.
- The facts are fine.
- Room for improvement in interpretations.

This paper – 69 pages to make sure this picture is robust…



- This is already convincing. Much of the paper is on showing that this is robust.
- Once highest bid is controlled for bank risk does not matter.
  - They suggest: It must be that firms think of bailout.
- There are many other explanations that should be addressed.

Alternative hypotheses

- "…the **risk of losing €74 million** for a maximum **higher interest income of only €1,300,** that is, 0.18 bps, compared to the worst bid in the auction." Misleading. The probability of losing? Firms' outside option?

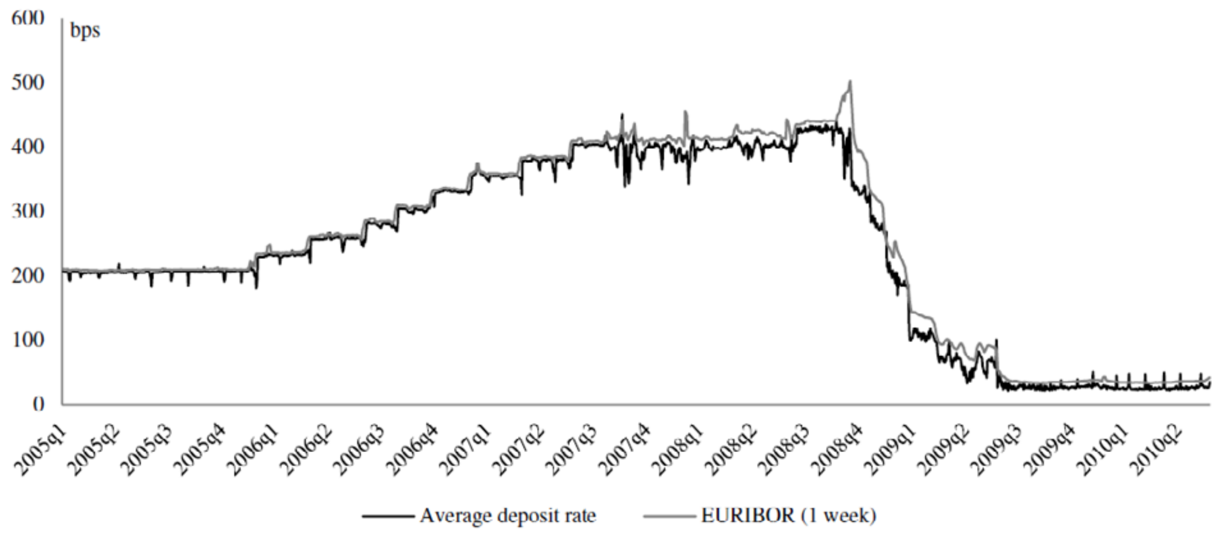
- Alternative 1: Firms are actually hedged/compensated for this risk.
  - First: you do not observe if the firm is hedged.
  - Second: The right comparison is between the bid of the best quality bidder and the bid of the worst quality bidder.
    - If compensation (0.18 bps) is more, than they are compensated.

  - Much of bank risk is accounted for in the highest bid itself.

  - Bank-time fixed effects also absorb (almost all) the variation. You do not give a chance for bank risk to be significant.

Comparison with EURIBOR

Figure 2
Deposit Rate and EURIBOR
The figure shows the average deposit rate on the platform using all bank bids together with the 1-week EURIBOR on a daily basis from January 2005 to June 2010.



- But comparison as is, is apples versus oranges. Compare same maturity.
- If deposit rates lie above EURIBOR, then they are compensated for risk.
- If deposit rates lie below EURIBOR, then there is something wrong:
  - We need to understand what this market is really doing.
  - Market/Bargaining structure, outside options, repeated interactions of firms and banks.

Understanding this market better is key – Bargaining, outside options etc.

- Deposits have lower seniority to short-term interbank markets.
  - But they pay less? How can this be?
  - Who are these banks? (Who are these firms?) Why do they bid in this market?
  - Is there a pecking order of funding for banks? Where is this market in the pecking order?
  - What determines the banks' bid? Interactions with other markets?
  - Are these banks largely wholesale funded? Deposit funded? Cross-section of banks.
  - Why do banks seem to have a better deal? What is the outside option of firms?

- Alternative hypothesis 2:
  - Firms have very bad outside options. Banks have high bargaining power.
  - That's why firms choose the highest bidder.

- Alternative hypothesis 3:
  - Two-way relationships. Deposit relationship and unobserved lending relationship go together. We do not know firms, but at least this should be acknowledged.

- For relationships and bargaining etc.: take a look at Chernenko and Sunderam (2014), Han and Nikolaou (2017), Aldasoro, Ehlers and Eren (2018).

Bailout and relationships – If you want to push the bailout story:

- News about bailouts on Financial Times:
  - subsequent reaction of bank bids & firm selections.
  - Look at days before and after examples of this sort:

> Italy's finance minister has said a "solution" to rescue two struggling banks in the north-east Veneto region — Banca Popolare di Vicenza and Veneto Banca — is close and talks with EU authorities are "encouraging".

- Did anybody actually lose something? Close to losing (Koudijs and Voth 2017)?
  - That can help make a point as an event study.

- Extend the sample to include the Eurozone crisis.
  - This is important for bailout and relationships (Chernenko and Sunderam 2014).

Other comments

- Can you rule out firms communicate offers to banks? Messaging?
  - On average 3.3 bidders.
- NPL/Total Loans higher predicts execution. Firms actively look for risky banks?
- EURIBOR comparison: winsorize at 15th and 85th percentile? Why?
  - Composition of banks in EURIBOR panel versus here?
- Even with so many fixed effects, R^2 is low. Why?
- At least one probit regression somewhere would be good to have.

- Table 11: highest bid selected, works only with fixed effects. Any intuition why?
- Log(rank)?

Further suggestions

- Eurozone crisis can be included?
  - Would give a good test of relationships and bailouts.
- Dollar deposits? GFC, Eurozone, US MMF reform – dollar stress:
  - Foreign banks resorted a lot to corporate deposits (EUR in Eurozone, USD in MMF ref.).
  - Such data could be useful in understanding dollar funding of foreign banks.

Conclusion

- Question, data, facts: good.
- I strongly recommend the authors to go deeper into interpretations, alternative stories.