

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

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Banks benefit from high-rates

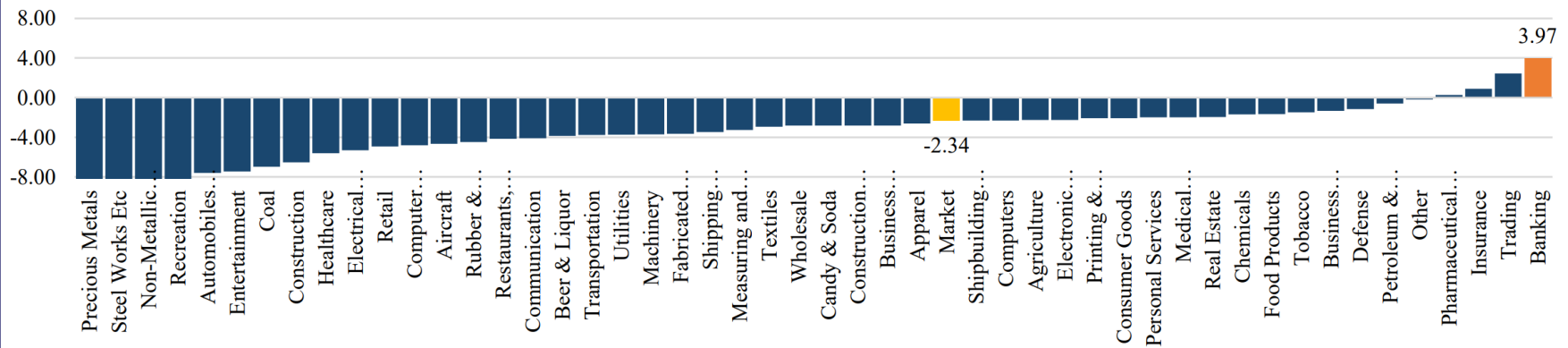
Fed's high-rates era handed \$1tn windfall to US banks

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



US banks' stock returns and interest rates

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

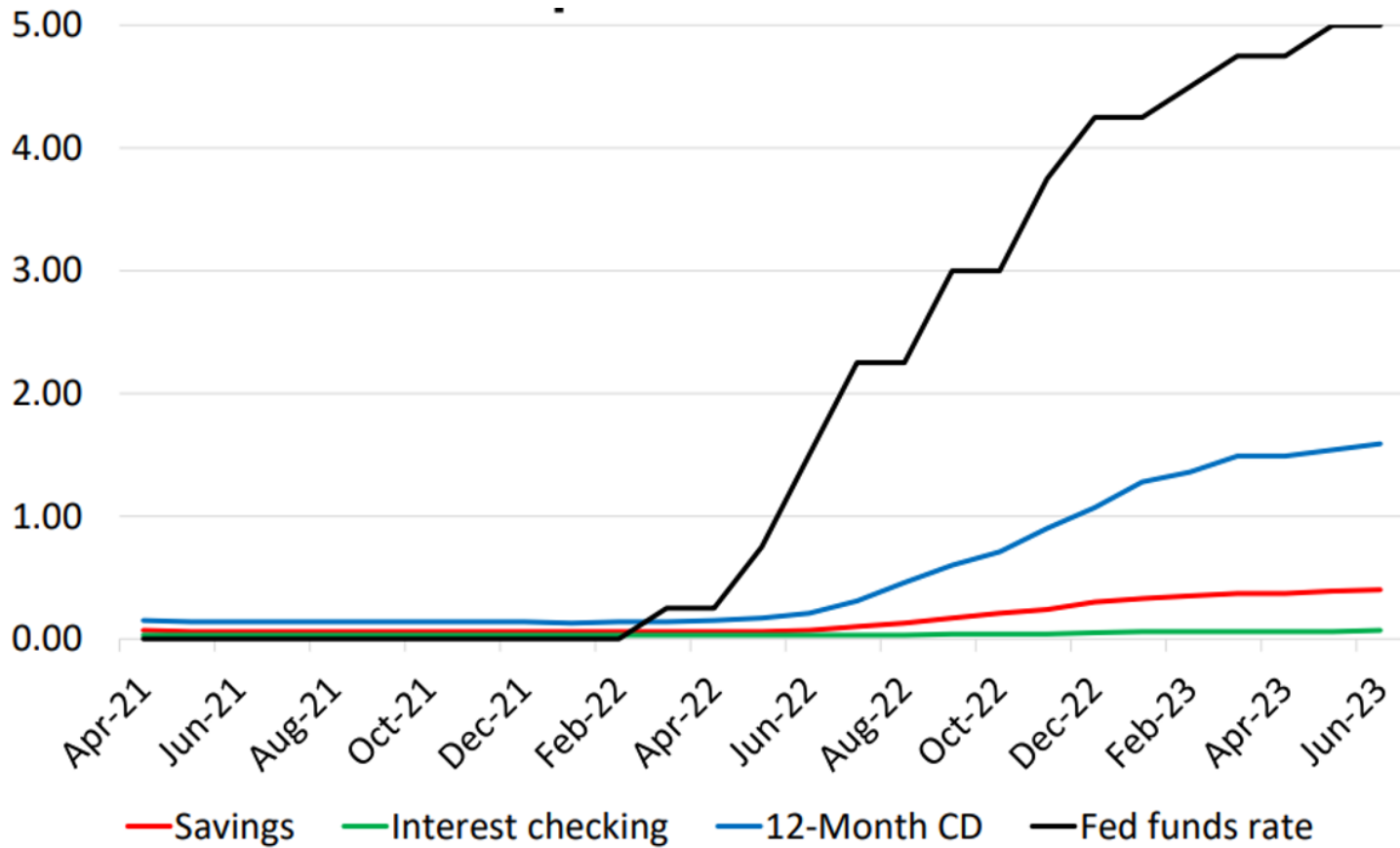


Source: [Emin et al. \(2024\)](#)

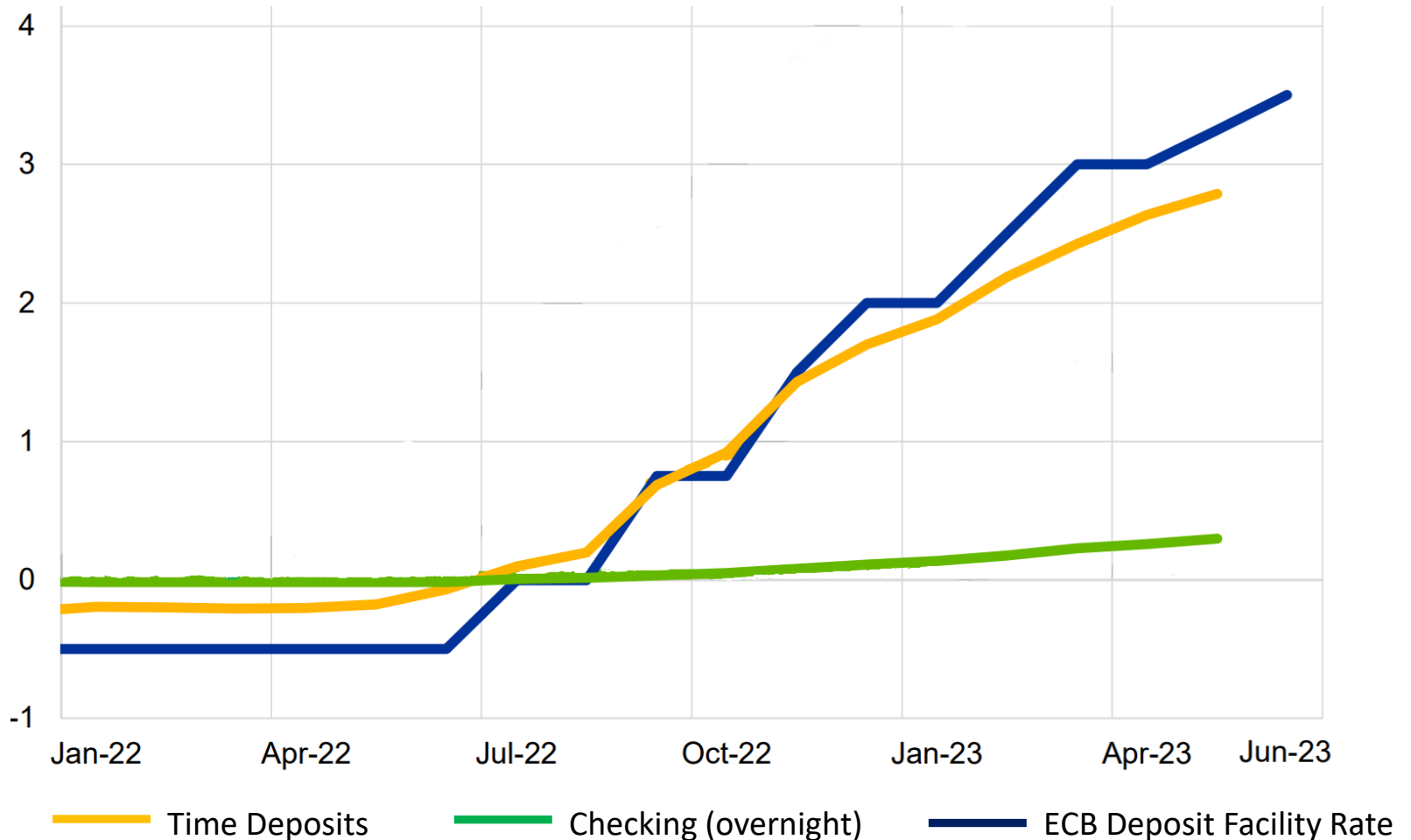
- Banks' stock returns **increase** with rates

Why?

Because they keep deposit rates (expenses) low



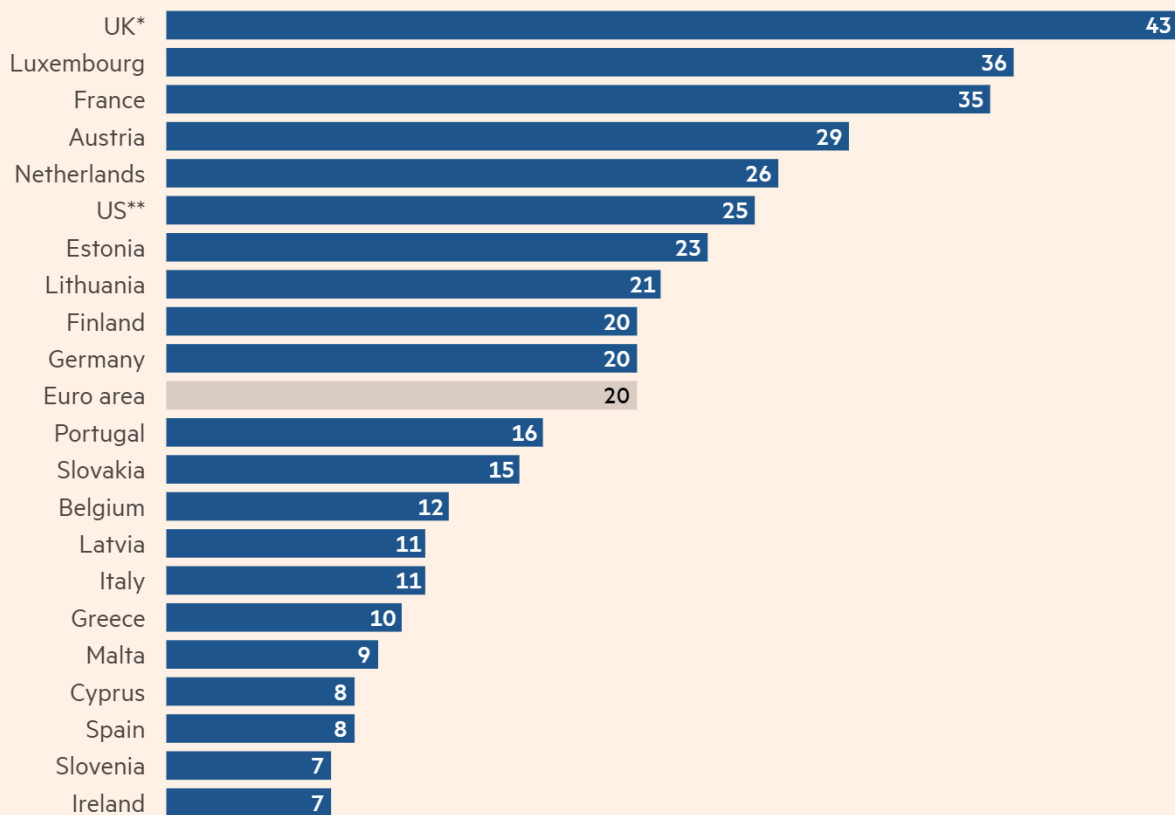
Similar story in the euro-area (less so for time deposits)



But lots of differences across countries...

Proportion of interest rates passed on to customers (%)

Deposit betas between June 2022 and May 2023 for large banks



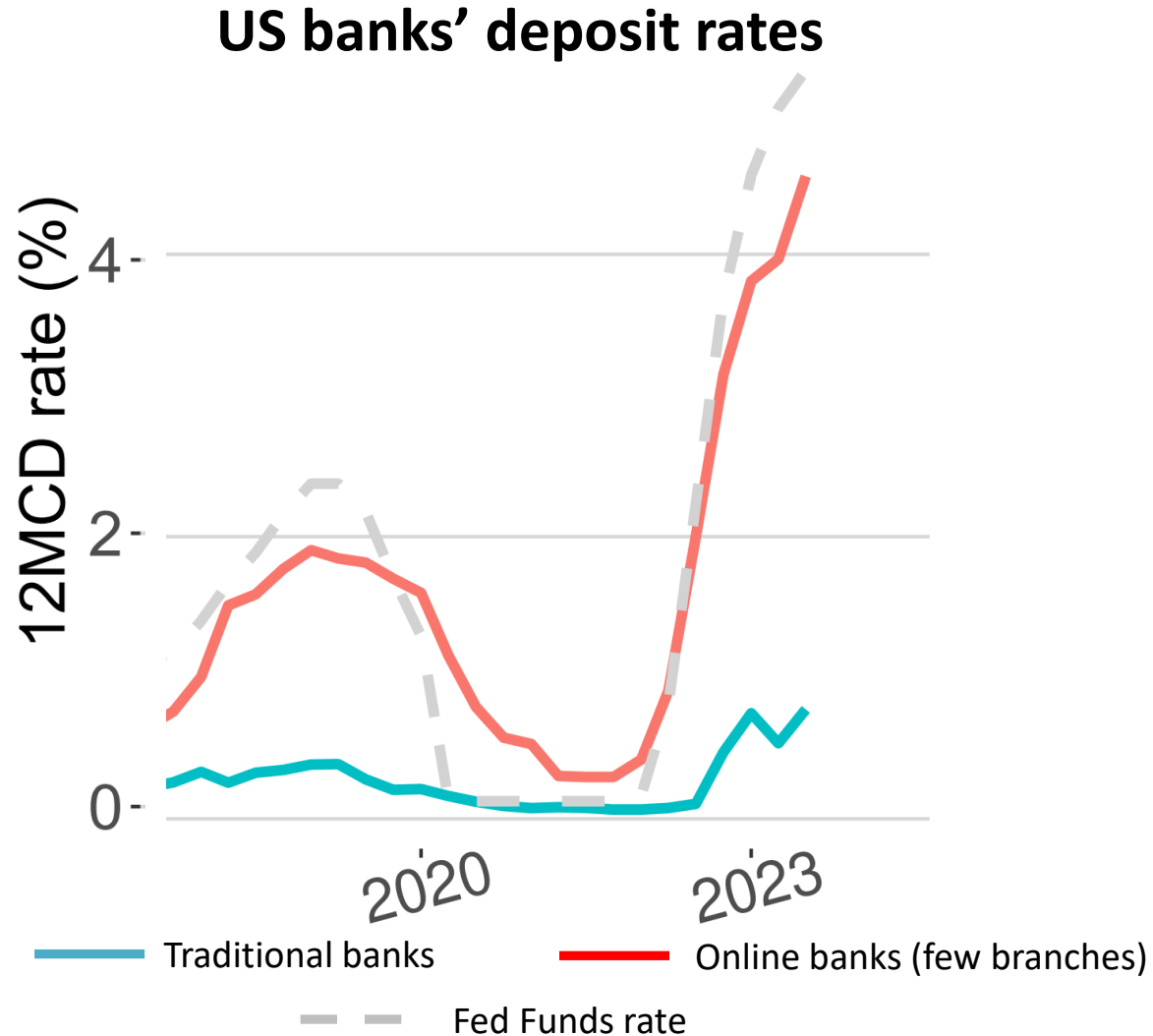
What's happening

- 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

Rise of a different kind of banking model



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

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%!

Conclusions

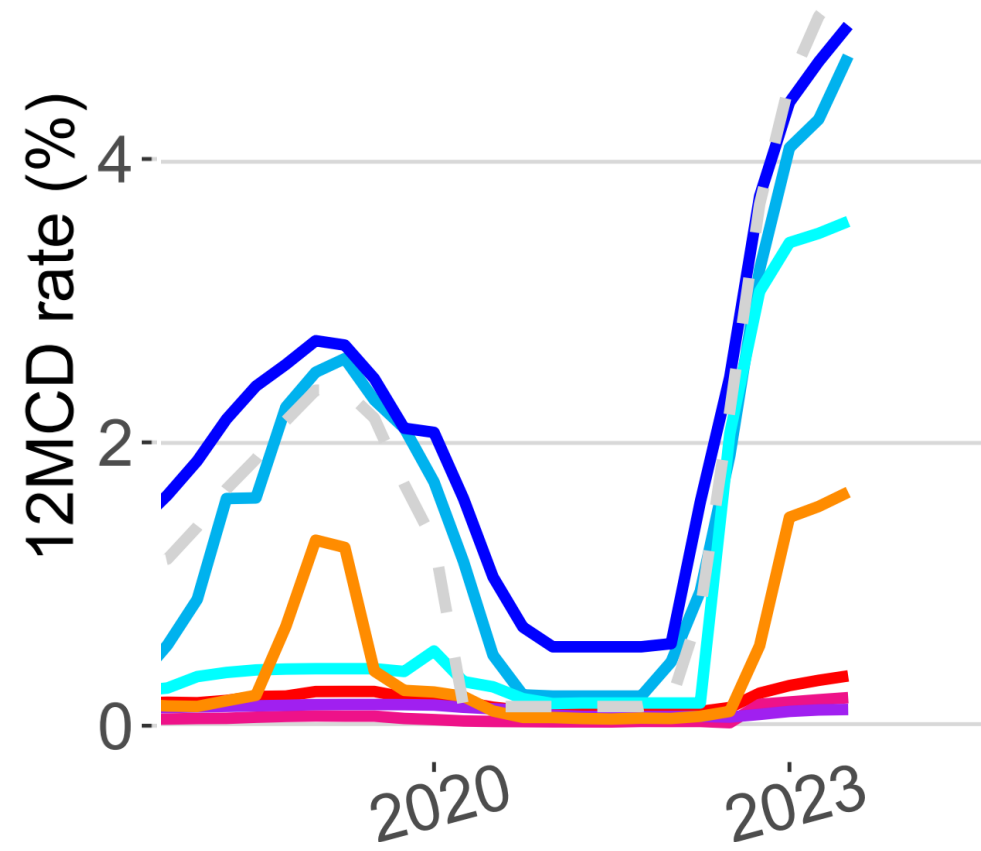
- Banks benefit from high-rates because they have market power over “sleepy”, unsophisticated depositors
- Depositors may not be so sleepy after all, especially when the rates go up significantly and there are online offers
- **Digital technology** is a game changer: lower operational costs (branch network↓) 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!

Thank you!

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Individual US banks' time deposit rates




- Fed Funds Rate
- BOA
- Capital One
- Citi
- Goldman Sachs
- JP Morgan
- U.S. Bankcorp
- Wells Fargo

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

Example of different rates across US banks

Deposit Rates: 04/2024


SAVINGS



APY as of Mar 7
4.35%

Member FDIC ★★★★★ 4.9 ⓘ
Promoted offer


SAVINGS



APY as of Mar 7
4.35%

Member FDIC ★★★★★ 4.9 ⓘ
Promoted offer: It only takes about 5 minutes to open a fee-free account.

SAVINGS



Min. balance for APY
\$0


APY
0.01%

Min. balance for APY
\$100

BANK OF AMERICA

Member FDIC ★★★★★ 2.9 ⓘ

SAVINGS



Min. balance for APY
\$0

APY
0.01%

Min. balance for APY
\$0

CHASE

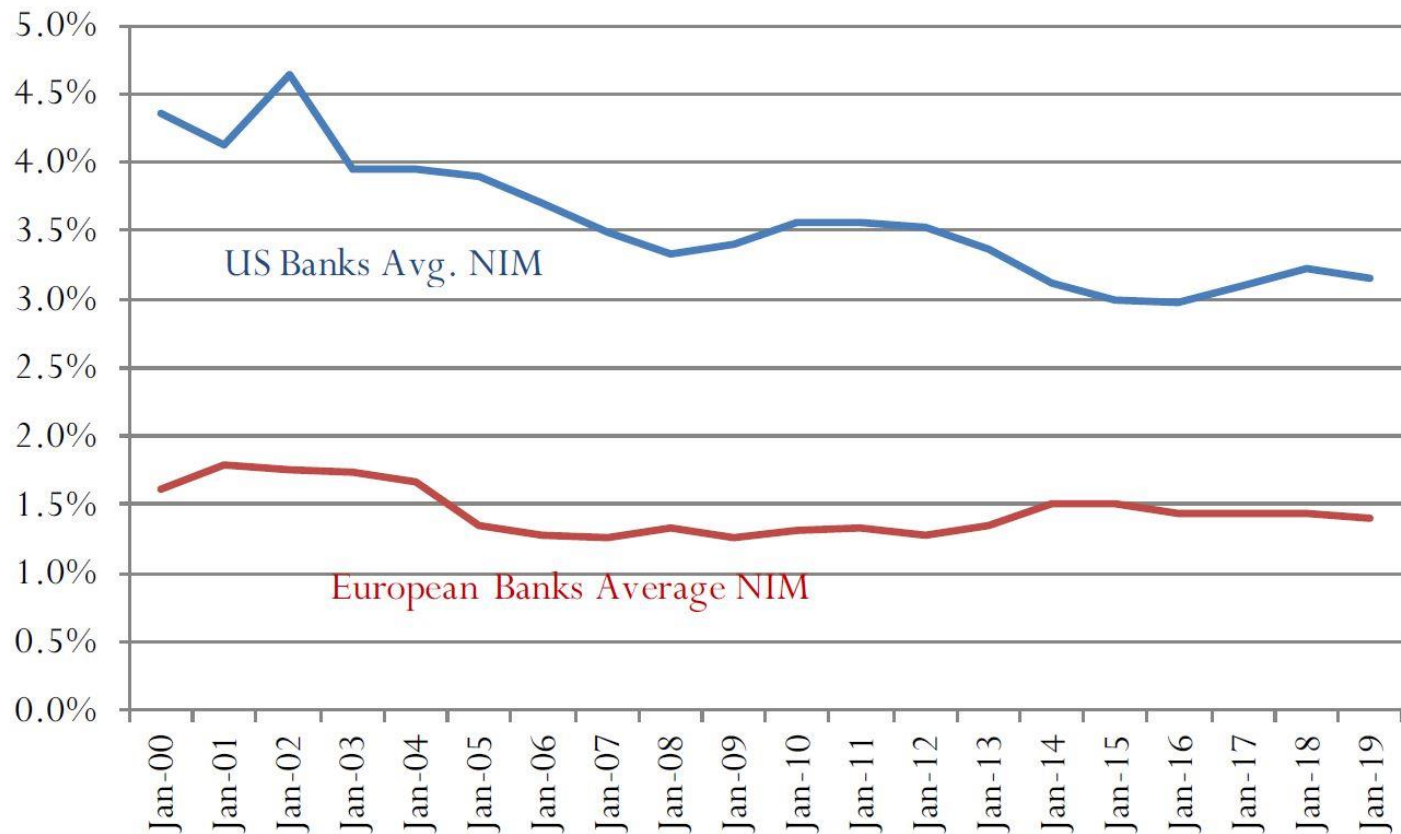
Member FDIC ★★★★★ 3.0 ⓘ

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

In the background...

Profitability gap between US and EU banks

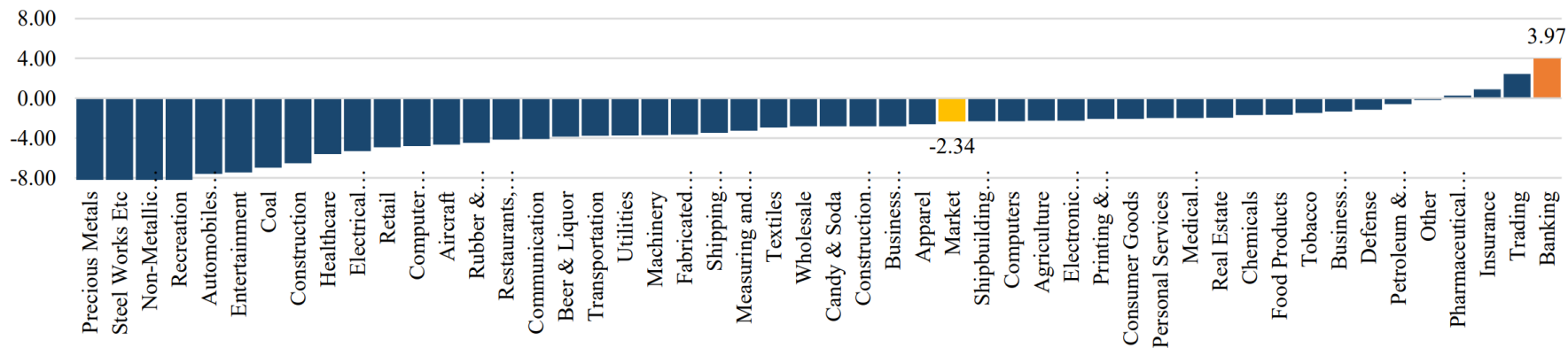
Chart 5: Average Net Interest Income (NIM) – Europe vs US



Source: Bloomberg

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