DEPOSIT SOLUTIONS

## PRESS RELEASE

# Negative Interest Rate Burden of Eurozone Banks Rises to Record High

- Eurozone banks paid over EUR 8.5 billion in negative deposit rates to the ECB in 2020.
- German and French banks shouldered over 60% of this burden.
- Since the introduction of negative deposit rates by the European Central Bank (ECB), total charges have reached EUR 34 billion.
- The ECB's TLTRO III program helped offset negative deposit rate charges in Southern Europe but barely compensated charges in Central European banking systems.

**Hamburg, 22 April 2021.** New research by German FinTech Deposit Solutions shows that eurozone banks paid a record EUR 8.5 billion in direct negative interest charges to the ECB in 2020, which is the largest amount on record.

Eurozone banks have paid EUR 34 billion in charges on their excess liquidity to the ECB since the introduction of negative deposit rates in 2014. However, this burden is unequally distributed across Europe. In 2020, German and French banks took on over 60% of the eurozone's charges, paying EUR 2.7 billion and EUR 2.5 billion respectively. Meanwhile, the Italian, Spanish, and Dutch banking systems paid EUR 1.5 billion in total, representing 17% of the eurozone's negative interest charges.

In 2019, eurozone banks received some relief from negative deposit rates when the ECB introduced a tiering system. However, the growth of customer deposits to EUR 585 billion in 2020 pushed banks' excess liquidity charges to an all-time high[1]. "In 2020, negative deposit rate charges in Germany corresponded to 17% of banks' pre-tax profits," explains **Dr. Tim Sievers, CEO and Founder of Deposit Solutions**.

### Southern European banks benefit disproportionately from TLTRO III

Since last year, the ECB's TLTRO III program allows banks to borrow money from the central bank at an interest rate of up to -1% upon meeting certain lending criteria. Deposit Solutions' study compared the negative deposit rate charges to the banks' negative interest expenses on TLTRO III.

According to the data, Greek, Italian, Spanish and Portuguese banks in particular have made use of TLTRO III – taking out ECB funding of up to 12% of their total assets. In Italy and Spain, the interest income generated for banks through TLTRO III is expected to have exceeded negative deposit rate charges paid to the ECB by EUR 1.6 billion and EUR 1 billion, respectively.

[1] Source: *2020 European Deposit Market Spotlight*, Deposit Solutions, 2021

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"The ECB's TLTRO III programme is primarily intended to incentivise bank lending. For banks in Southern Europe, the programme has also proven to be an effective measure to offset their negative deposit rate charges," says **Dr. Tim Sievers**. "However, the path taken by these banks is risky. An excessive reliance on TLTRO programmes makes banks' funding dependent on the central bank and exposes them to funding cliffs as TLTRO matures."

While banks from France and Germany have also made extensive use of ECB funding in 2020, their negative deposit rate charges still exceed TLTRO III interest income. Even in the best-case scenario, where the banking systems are expected to have secured the most income on their TLTRO III funding, French and German banks paid EUR 410 million and EUR 1 billion more in negative deposit rate charges to the ECB than the income they earned through TLTRO III from the ECB, respectively.

**Offering third-party deposits as a customer-friendly way to reduce negative interest burden**

The ECB's negative deposit rate remains a challenge for banks in Central Europe especially – and one that they will have to tackle on their own. "Over the past two years, the ECB has introduced various instruments to help alleviate banks' negative deposit rate burden," says **Dr. Tim Sievers**. "Neither the tiering introduced in 2019 nor TLTRO III loans, however, sufficiently compensates for the negative deposit rate burden on Central European banks. This makes it even more difficult for banks to offer their customers a solution for their savings needs."

A customer-friendly way for banks to both reduce excess liquidity and strengthen client relationships is to offer third-party deposit products to their customers. This is what the largest savings, cooperative, and retail banks in Germany like Deutsche Bank are already doing with the help of Deposit Solutions' open banking platform. "Banks that provide deposit products from third-party institutions can offer their customers an attractive alternative to zero or even negative rates, thus strengthening the customer relationship, while at the same time effectively reducing their negative interest burden at the ECB," says **Dr. Tim Sievers**. "These third-party institutions are often successful, specialised banks active in business areas without access to retail customers, such as factoring, leasing, commercial or mortgage banks. They can supplement their funding with stable customer deposits without having to build up their own retail business locally and are therefore able to offer a more attractive interest rate than many retail banks."

**-Ends-**

## About the research:

For the study "Give and Take: Negative Deposit Rate Charges in View of TLTRO III", Deposit Solutions calculated the negative interest burden of banks in the Eurozone and Switzerland based on aggregated central bank data as of 31 December 2020. For the calculation of TLTRO III interest income, the analysts extrapolated the average quarterly growth in eligible loans from 2020 to the end of 2021 in order to derive their further development and determine the interest rates applicable in 2020 ex post.

Please find the full study here: www.deposit-solutions.com/negativerates2021

## About Deposit Solutions:

Deposit Solutions is a globally recognized FinTech company and the Open Banking platform for deposits. Its proprietary Open Banking technology provides an infrastructure for the global USD 50 trillion deposit market that benefits banks and savers alike. Deposit Solutions is already connecting more than 200 banks from 20 countries on two continents. In addition, the company operates proprietary B2C Points-of-Sale (ZINSPILOT, Savedo, SaveBetter) that market selected deposit offers of its partners directly to savers in Europe and the USA. Founded in 2011 by Dr. Tim Sievers, the company is headquartered in Hamburg, has additional offices in Berlin, London, Zurich and New York. Deposit Solutions is backed by leading tech investors, such as e.ventures, Vitruvian Partners, Greycroft, FinLab, Kinnevik, Peter Thiel, Top Tier Capital Partners, Angel Investor Stefan Wiskemann as well as by Deutsche Bank AG. For further information please visit: www.deposit-solutions.com

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