RETAIL BANKING MARKETS

MONITORING REPORT

2012

Introductory Note

Banco de Portugal

EUROSYSTEM

BANCO DE PORTUGAL

Av. Almirante Reis, 71

1150-012 Lisboa

www.bportugal.pt

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INTRODUCTORY NOTE

The **Retail Banking Markets Monitoring Report**, now published for the first time, provides an autonomous and detailed description of the recent developments of the savings products markets under Banco de Portugal's banking conduct supervision, including simple term deposits and structured deposits, as well as the markets for products under the mortgage credit and consumer credit legal frameworks.

Under the scope of its banking conduct supervision mandate, Banco de Portugal systematically monitors the structure and operating conditions of these markets, using data it collects in overseeing credit institutions' market conduct. The information is taken from the credit institutions' specific reports or their websites. The results of these analyses have been published in themed boxes in the Banking Conduct Supervision Reports describing the behaviour of the markets and products supervised.

The quality of this information and its importance for credit institutions, bank customers and the general public stand behind the decision to publish it autonomously from the Banking Conduct Supervision Reports. The publication of the Retail Banking Markets Monitoring Report also fulfils the objectives of providing financial information and literacy for market participants, helping those markets operate more transparently and efficiently.

Bank deposits, mortgage credit and consumer credit are products sold in the retail banking markets, being structural components of the credit institutions' balance sheet. The efficient functioning of these markets, through which bank customers invest their savings, make payments and take out credit, is key for financial stability and the development of economic activity.

For simple term deposits, analysis is based on the Standardised Information Sheets (SIS) provided by credit institutions on their websites. The SIS describe the characteristics and risks of a given deposit and have to be handed over to clients before they open simple deposits.

For structured deposits, the information is gathered from the Information Leaflet submitted by the institutions for evaluation by Banco de Portugal before these complex financial products are offered in the market (Notice of Banco de Portugal No 5/2009 of 20 August, issued following the publication of Decree-Law No 211-A/2008 of 3 November[1]). The institutions also submit information to Banco de Portugal on effective remuneration paid on the marketed structured deposits.

For mortgage credit, the analysis uses information yearly sent to Banco de Portugal by credit institutions. This type of reporting was introduced to fulfil the legal obligation assigned to Banco de Portugal to assess the impact of specific legislation on renegotiating mortgage credit contracts (Decree-Law No 171/2008 of 26 August).

1 Decree-Law No 211-A/2008 of 3 November reinforces the duties of information on complex financial products and establishes that advertising messages shall be approved by financial supervision authorities. Accordingly to this Decree-Law the structured deposits are complex financial products.

For consumer credit, the analysis uses the data reported monthly by the institutions to Banco de Portugal on all the contracts concluded. This information is sent following the legal provisions assigning Banco de Portugal the obligation to calculate the maximum rates applicable to consumer credit, based on average annual percentage rates of charge (APRC) in place in the market (Decree-Law No 133/2009 of 2 June).

This first Retail Banking Market Monitoring Report is structured into four chapters:

- Chapter I focuses on the simple term deposit market, describing the deposits offered, term, minimum amounts for opening deposits, conditions for early withdrawal, the timing of interest payment, the possibility of reinvesting interest, rates of interest and the existence of access conditions. It uses these features to analyse the market by deposit segment for regular savings investments, variable interest rate deposits and fixed interest rate deposits.
- Chapter II presents the structured deposit market, analysing it by deposit type, depositor type, currency, term, index markets and deposit institutions. It also presents the return paid on these deposits and compares it to that of the simple term deposits;
- Chapter III addresses the mortgage credit market, describing the contracts included in the mortgage credit legal framework and their developments, in terms of credit amounts provided, term, interest rate types, repayment schedule and arrears. Early repayment and contract renegotiations are also described;
- Chapter IV describes the consumer credit market, describing this market and its developments in terms of credit types, credit amounts provided, term, credit institution types and distribution channels. It also presents the performance of the maximum rates since these were introduced by the consumer credit legal framework.

KEY ASPECTS OF THE RETAIL BANKING MARKETS' RECENT PERFORMANCE

- Many of the simple term deposits offered by banks are fixed interest rate deposits, with a term of up to one year and allowing early withdrawal but with an interest penalty.

  For terms up to one year, it is common that interest is fully paid only at term, while for longer maturities interim payments are more usual. In 2012 over half the deposits allowed reinvestment of interest. On that year the number of fixed interest rate deposits offered by the institutions fell, affecting the longer maturity deposits the most. The share of deposits with low minimum opening amounts (up to 1000 EUR) increased, as did the percentage of deposits not allowing for early withdrawal, mainly in deposits with maturities up to one year. Between December 2011 and May 2013, the interest rates for simple term deposits declined, following the falls in the reference rates on the interbank market.

- The market for structured deposits recorded significant growth in 2012 and the first quarter of 2013 in terms of the number of products offered, amounts invested and depositors involved. The deposits offered were mainly indexed. They were mainly taken up by household customers. These deposits do not generally allow early withdrawal and typically have longer investment terms than simple deposits. The return of indexed deposits depends mainly on the performance of the stock market. Simple deposits comprised in the dual deposits which were due in 2012 paid the same or higher rate of interest than the simple term deposits offered by the same credit institution for the same term. By contrast, only one-third of the indexed deposits which were due in that year paid the same or higher rate of interest than that of the simple term deposits with the same term from the same credit institution.

- In 2012, the mortgage credit market recorded a falling in the level of contracts concluded and in the average contracted amounts, continuing the downward trend observed in 2011. These were mainly variable interest rate contracts repaid with constant capital and interest instalments. In 2012 average spreads increased again and the average term of contracts fell. Early repayment of mortgage credit fell versus 2011. In renegotiated contracts, the most frequently renegotiated conditions were the extension of the term and the capital repayment grace period.

- In 2012, the consumer credit market shrank sharply, even more so than in 2011. The reduction in the number of contracts concluded and the amount of credit provided was very significant and was accompanied by a fall in the average amount provided. The contraction affected all credit types and was accompanied by a rising in the average APRC, which inverted its trend from the fourth quarter of the year. Personal credit, despite the reduction in the number of contracts concluded and the amount provided, continued to be the segment with the greatest share of total credit provided. Car loans lost relative importance since 2010. For revolving credit, where credit cards prevail, the reduction in the number of contracts concluded and the credit provided was not so important. In 2012, the amount for revolving credit exceeded that for car loans.