RETAIL BANKING MARKETS MONITORING REPORT

2014

BANCO DE PORTUGAL
EUROSYSTEM

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Introductory note

The *Retail Banking Markets Monitoring Report* presents developments in the simple term deposit, structured deposit, mortgage credit and consumer credit markets.

The analysis in this report was based on information reported to Banco de Portugal by the credit institutions or gathered from their websites to assess compliance with rules and regulations and to ensure the transparency and rigour of the information in these markets.

This analysis, published annually (in Portuguese), supports Banco de Portugal in performing its regulatory and supervisory functions, at the same time providing a source of information for the credit institutions, bank customers and the general public.

This *Retail Banking Markets Monitoring Report* takes 2014 as a benchmark year and is structured into four chapters.

Chapter I analyses the simple term deposit market, describing the deposit accounts offered and their developments. The fixed-rate and variable-rate term deposit accounts are analysed, distinguishing also between the accounts designed for the general public and those with special conditions in terms of the target customer or purpose. The market is described through the data found on the Standardised Information Sheets (SIS) provided by the credit institutions on their websites. The SIS describes the characteristics of the deposit account offered and has to be handed over to the customer before the contract is concluded.

Chapter II addresses the structured deposit market, analysing the deposit accounts offered and the return paid on maturing deposits. The deposit accounts offered are analysed by account type and depositor type, term, currency, index market and depository institution.

The information analysed is gathered from the Prospectuses that the credit institutions submit for evaluation by Banco de Portugal before these accounts are offered[1] and from the reports submitted to Banco de Portugal by the same institutions on the deposit accounts created and the return paid on maturing deposits.

Chapter III presents the characteristics and developments of the mortgage credit contracts and related credit contracts in force. These credits are described in terms of credit amount provided, term, interest rate type and repayment schedule. This analysis uses information sent annually by the credit institutions to Banco de Portugal in compliance with the legal obligation to assess the impact of specific legislation on renegotiating mortgage credit contracts[2].

Chapter IV describes the consumer credit market, analysing the characteristics and developments of new contracts in terms of credit type, credit amount provided, term, interest rate type, credit institution type and distribution channel. Developments in the maximum rates applicable to consumer credit contracts are also presented. The analysis uses the data reported monthly to Banco de Portugal by the credit institutions on all the credit contracts concluded in the previous month. This information is requested from institutions to comply with the legal provision that entrusts Banco de Portugal with the responsibility for calculating the maximum annual percentage rates of charge in force in the market in each quarter[3].

Notes

1. In compliance with 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.

2. Decree-Law No 171/2008 of 26 August.

3. Decree-Law No 133/2009 of 2 June.

Executive summary

The analysis of the retail banking markets in 2014 shows the recovery of the mortgage and consumer credit markets, the strong growth of the structured deposit market and the fall in the simple term deposit market's rates of return.

The simple term deposit market remained mostly a fixed-interest rate market.

2014 was marked by the significant fall in rates of return applied by credit institutions, which in general fell even more sharply than the interbank money market rates (Euribor and swap rates). Only around 7 per cent of the fixed-rate term deposit accounts offered to the general public in 2014 had a rate of return over 2 per cent, compared to around 30 per cent in 2013. Average rates of return for deposit accounts designed for new customers or new amounts invested in the credit institution also fell. These rates remained above the average rates of return for the rest of the offering, although the spread between the two fell for maturities up to one year.

The decrease in the rates of return was also accompanied by an increased offering of deposit accounts over the shorter maturities, which generally have a lower rate of return. Around 85 per cent of the fixed-rate deposit accounts offered in 2014 had a term of up to and including one year, which is 2 percentage points more than in the previous year.

Most deposit accounts continued to allow early withdrawal of the funds invested, with only 12 per cent of them not allowing this, in line with the year before. However, take-up of this option penalised customers more, as the proportion of deposit accounts in which early withdrawal meant full penalisation of accrued and unpaid interest increased. In contrast, the proportion of deposit accounts with interim interest payments (monthly, quarterly, biannually) increased. The share of deposit accounts offering early interest payments which do not allow early withdrawal of funds invested also increased.

Even though the simple fixed-rate deposit market is typically oriented towards the general public, credit institutions continued to offer a significant number of deposit accounts to specific customer groups (e.g. emigrants, the young and the elderly), customers who have other banking products or services with the same credit institution (i.e. cross-selling) or with a specific purpose (e.g. retirement, housing and home-owner associations). Despite the share of these kinds of deposit accounts having globally stabilised since 2013, the share of deposit accounts targeting emigrants, the elderly and customers who have other products with the credit institution increased.

The structured deposit market returned to significant growth in 2014, in terms of number of deposit accounts offered, number of customers and the total amount deposited.

The total amount deposited in structured deposit accounts reached EUR 7.2 billion at the end of 2014, 77 per cent above the level recorded in the same period a year earlier. For the period under review, 214 structured deposit accounts were offered (65 more than in 2013) by 12 credit institutions (one more than in 2013), attracting around EUR 4.46 billion (80 per cent more than in 2013).

The increase in these products' offering was driven only by the strong growth in index-linked deposit accounts. The number of dual deposit accounts offered fell.

203 index-linked deposit accounts were offered, 49 per cent more than in 2013. With interest rates applied by credit institutions falling for simple term deposit accounts, demand for index-linked deposit accounts grew significantly, with the amounts deposited in these accounts growing 81 per cent and the number of depositors increasing 63 per cent versus 2013. During 2014, around EUR 4.405 billion was invested in index-linked deposit accounts by around 273,000 depositors. The equity market continued to be the predominant index for these deposit accounts, used by 155 of the index-linked accounts offered.

Eleven dual deposit accounts were offered, two less than in 2013, by the same three credit institutions. However, demand for these types of deposit accounts, resulting from the combination of two or more (simple or index-linked) accounts, increased, with the amounts invested and the number of depositors growing 29 per cent and 30 per cent respectively versus 2013. In 2014, around EUR 54 million was invested in dual deposit accounts by around 4,000 depositors.

The behaviour of deposit numbers and amounts invested in 2014 led to an increase in the average amount invested per deposit, both in index-linked and dual deposit accounts. The average amount invested per depositor also increased in the case of index-linked deposit accounts but fell in the case of dual deposit accounts.

Over this period, the range of terms for structured deposit accounts lengthened also. Accounts were offered with terms between four and five years, which had not been observed in the previous two years.

As a result of the behaviour of their respective indexes, the rate of return paid on the 107 index-linked deposit accounts maturing in 2014 matched the minimum rates given in their respective Prospectuses in 51 cases, 12 of which advertised a rate of zero. The maximum possible return advertised in their Prospectuses was paid in 26 of the index-linked deposit accounts maturing in this period. The return paid by 51 of the 107 maturing index-linked deposit accounts was higher than the interest rate of the simple deposit accounts with the same term from the same credit institution. In 52 cases it was lower and in the other four it was the same.

Most of the index-linked deposit accounts maturing in 2014 had one-year terms, with returns varying between a minimum of 0 per cent and a maximum of around 12 per cent registered in one of the accounts.

During this year, nine index-linked components of dual deposit accounts matured also, with maturities between one and three years, which paid a gross annual nominal rate of interest (GANR) with a minimum of zero over a two-year term, and a maximum of around 12 per cent over a three-year term. Of the nine index-linked components maturing, six paid a GANR above the rate of return for the simple deposit accounts at the same credit institution for the same term, and three paid less than the return for comparable simple deposit accounts.

The **mortgage credit market** in 2014 continued the recovery trend that began the year before, with the number of new contracts concluded and the amount of credit provided increasing 8 per cent and 15.3 per cent respectively.

In 2014, 29,095 mortgage credit contracts were concluded, involving credit totalling EUR 2.4 billion. However, this growth was insufficient to offset the reimbursements and repayments of the period, for which reason the credit institutions' overall mortgage credit portfolio value fell again, reaching an outstanding balance of EUR 93.585 billion at the end of 2014.

The average value of new mortgage credit contracts increased to EUR 82,136, above that of 2013 (by 6.8 per cent). The average term for new mortgage credit contracts increased also, from 29.5 years in 2013 to 30.6 years in 2014, bucking the falling trend of previous years.

The mortgage credit market is mainly variable-rate, a feature which became more marked in 2014. Around 90 per cent of the contracts concluded in this period had a variable interest rate, compared to 87 per cent in the previous year, with 6-month and 3-month Euribor continuing to be the most used indexes. Of the variable-rate mortgage credit contracts concluded, 64.4 per cent were indexed to 6-month Euribor and 31 per cent to 3-month Euribor. The average spreads offered by the credit institutions were around 300 and 400 basis points respectively for mortgage credit and related credit contracts, similar values to those of 2013.

In 2014, 76,700 early repayments were made on mortgage and related credit contracts. The number of early repayments continued its downward trend, 10.4 per cent less than the year before, despite the amount repaid increasing 1.9 per cent. Of the roughly 66,200 early repayments on mortgage credit contracts, half were full early repayments, while for related credit contracts, around 72 per cent of the roughly 10,500 early repayments were for the full amount.

The number of mortgage credit contract and related credit contract renegotiations fell in 2014. 52,178 renegotiations took place, 20.8 per cent fewer than in 2013, with an average renegotiated sum of EUR 74,200 for mortgage credit and EUR 34,215 for related credit. Of the mortgage credit contracts that were renegotiated, around 17 per cent were already in default at the time of the renegotiation, while in the case of related credit this percentage is slightly higher, at 24 per cent. These percentages are similar to those of 2013. As in previous years, the conditions renegotiated the most continued to be the introduction or increase of a grace period and the increase of the contract's term, either on its own or in conjunction with other conditions with financial effects. These renegotiations may be linked to the prevention or management of arrears, in which these kinds of contractual changes are often agreed.

In the consumer credit market, the amount of credit provided also continued the growth that began in 2013. Despite the slight fall in the number of contracts concluded (0.2 per cent fewer), the total amount of credit provided grew 11.4 per cent in 2014, having already grown 14.8 per cent in the year before. During 2014, on average 104,072 contracts were concluded a month, corresponding to an average monthly amount of credit provided of about EUR 344 million. This level of conclusion, despite being higher than those of 2012 and 2013, was still lower than that of 2011..

The increase in consumer credit in 2014 was driven mainly by car loans, which grew 33.2 per cent year-on-year, followed by personal credit, which increased by 10.7 per cent. Revolving credit fell 7.8 per cent. In car loans, the most significant increases came in the financing of purchases of new cars.

In 2014, the proportion of the amount of credit provided by the institutions specialising in the consumer credit market increased (from 40.7 per cent to 45.8 per cent), at the expense of the generalist institutions. The importance of the contracts concluded through point of sale, i.e. the commercial establishment where the purchase of the good is made, increased in 2014 (from 31.9 per cent to 36.3 per cent) at the expense of contracts concluded directly in the credit institutions. The contracts concluded through point of sale are mainly by institutions with specialised activity, for which reason this increase is linked to the greater relative importance that these institutions acquired in the consumer credit market in 2014.

The increased importance of the institutions with specialised activity offering credit through point of sale was due mainly to the growth in car loans, a credit segment in which these institutions and this distribution channel predominate.

However, in personal and revolving credit, the downward trend in the importance of point of sale in the institutions with specialised activity was confirmed in 2014, with the percentage of the amount placed through this distribution channel seeing a reduction, with the corresponding increase in contracts concluded directly in the institution. In these kinds of institution, which do not have branches, direct conclusion of contracts is by means of distance communication like telephone, internet or mail.

The increase in consumer credit provided in 2014 was accompanied by a fall in the cost of credit. This was reflected across the three credit types, although the fall was particularly pronounced in revolving credit, with the average annual percentage rate of charge falling around 3 percentage points since the end of 2013. In personal credit and car loans the rates of charge fell 0.9 and 0.6 percentage points respectively.

This evolution took place amid falling interbank reference rates and restricted the behaviour of the maximum rates in most of the consumer credit segments and subsegments, which showed a reduction over the year, although less pronounced than in 2013.