Retail Banking Markets Monitoring Report

2016

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Executive summary

The *Retail Banking Markets Monitoring Report 2016* characterises and presents developments in the markets of simple term deposits, index-linked and dual deposits, mortgage credit and consumer credit. This report aims to put into perspective the regulatory and oversight measures of Banco de Portugal in the exercise of its banking conduct supervision. The analysis is based on data reported by credit institutions to Banco de Portugal or collected from their websites.

The analysis of the market of simple term deposits[1] includes deposits available to the general public and deposits with special conditions of access, entered into either through traditional or digital channels. In December 2016 all simple term deposits being traded were remunerated at a fixed interest rate and the remuneration rates on deposits continued to decline in most maturities under review. At the end of the year, 90 per cent of deposits available to the general public had a gross nominal annual rate below 1 per cent (86 per cent at the end of 2015) and 72 per cent had a gross nominal annual rate below 0.5 per cent (57 per cent in December 2015).

This downward trend was also observed in deposits exclusively targeted at new customers or new amounts invested in the institution. However, on average, these deposits had a remuneration rate above that of the other products on offer for all maturities under review.

At the end of 2016, simple term deposits offered by institutions were less differentiated. Institutions have been providing deposits that are less diverse in terms of maturity, remuneration rate, minimum opening amount and other conditions of access.

Simple term deposits available to the general public traded at the end of 2016 continued to focus on shorter maturities, of up to one year. These deposits corresponded to 83.5 per cent of simple term deposits for the general public, a share similar to that of 2015.

Deposits traded in December 2016 were less stringent regarding minimum opening amounts. These also enabled the early withdrawal of funds with partial interest penalisation more frequently. At the end of 2016, around 57 per cent of deposits available to the general public had a minimum opening amount of up to €500 (47 per cent in 2015) and 42.2 per cent enabled the early withdrawal of funds with partial interest penalisation (33.8 per cent in 2015).

As regards deposits available to the general public traded at the end of 2016, interest payment at maturity continued to be predominant (79.8 per cent). This share was even higher in deposits with short maturities (84.3 per cent of deposits with maturities of up to one year).

Credit institutions continued to provide simple term deposits with special conditions, targeting specific customer groups (young people, emigrants, pensioners and senior citizens), customers holding other products in the credit institution (product bundling) or with a specific purpose (housing and home-owner associations). At the end of 2016, these deposits accounted for 29.7 per cent of the total on offer by credit institutions, compared with around one third in 2015.

In December 2016 the most relevant category was deposits targeted at young people, corresponding to 29 per cent of deposits with special conditions, followed by deposits associated with product bundling (18 per cent) and emigrant deposits (17 per cent).

As regards deposits with special conditions, the number of deposits offered by institutions declined at the end of 2016 for most categories with special conditions. This decline was particularly marked in deposits associated with product bundling and deposits for pensioners (regulated by a specific regime) and emigrants. In all categories, around three quarters of deposits with special conditions had a remuneration rate below the average gross nominal annual rate of deposits available to the general public.

At the end of 2016 there were 67 deposits traded exclusively through digital channels, corresponding to 19.9 per cent of traded deposits. Institutions are providing these deposits – which may only be opened on the institution's website or through an APP – due to the growing use of digital channels by bank customers and to seize the opportunity of ensuring customer loyalty, attracting new customers and optimising their branch network and number of staff.[2]

Deposits traded exclusively through digital channels had shorter maturities, less stringent minimum opening amounts and enabled the early withdrawal of funds more frequently than the other products on offer. However, these allowed customers to increase invested amounts and renew deposits less frequently. On average, these deposits paid a remuneration rate below that of the other products offered to the general public in all maturities.

In 2016 the market for index-linked and dual deposits[3] reversed the upward trend observed since 2012, both in terms of deposits traded by credit institutions, and the number of depositors and invested amounts. In 2016, 179 index-linked and dual deposits were traded (a decline of 22.5 per cent from 2015) by 11 credit institutions (five less than in 2015). In 2016 around €3,143.5 million was invested in index-linked and dual deposits by around 183,000 depositors,[4] corresponding to declines of 42.9 per cent and 42.5 per cent, compared with 2015 respectively. At the end of the year, the total amount invested in this type of deposit stood at €8,865.7 million, compared with €10,402.3 million, at the end of 2015 (14.8 per cent less). These developments resulted in a decrease in the relative share of index-linked and dual deposits in the total amount invested by private bank customers in time deposits (from 10.2 per cent in 2015 to 9.2 per cent in 2016).

The declines seen in 2016, compared with 2015, resulted from developments in index-linked deposits, given that dual deposits increased. 161 index-linked deposits were traded (25.1 per cent less than in 2015), corresponding to €2,975.7 million invested by around 173,000 depositors (45.3 per cent and 45.2 per cent less, respectively, compared with 2015). In turn, 18 dual deposits[5] were traded, two more than in 2015.In 2016 around 11,000 depositors invested €167.8 million in this type of deposit, corresponding to very considerable increases from 2015, when 3,900 depositors invested €73.4 million.

The stock market continued to be the most frequently used index in opened index-linked deposits and index-linked components of dual deposits, although their relative share declined from the previous year (67.1 per cent of deposits traded in 2016, compared with 72.3 per cent in 2015).

In 2016 the average amount per depositor was higher in index-linked deposits than in dual deposits. However, while the average amount per depositor stabilised in index-linked deposits, in dual deposits the figure for 2016 corresponded to a decline of 17 per cent from 2015.

In 2016 the number of longer-term index-linked and dual deposits (of over three years) declined substantially, while deposits with intermediate maturities (one to three years) increased. This came about following the guidelines issued by Banco de Portugal to credit institutions, which, in the current historically low interest rate environment, does not deem adequate for banks to trade index-linked and dual deposits with no possibility of early withdrawal for periods of over two years.

In 2016, 214 index-linked and dual deposits matured, of which 187 index-linked deposits and 27 components (17 simple and ten index-linked) of 26 dual deposits.

Of all index-linked deposits maturing in 2016, 28.4 per cent paid a remuneration rate exceeding that of simple deposits for the same maturity and 54.8 per cent paid a higher rate than the interbank market benchmark rate, as at the date the deposit was made. Furthermore, of the 197 index-linked deposits maturing in 2016, 144 paid the minimum remuneration rate advertised in the information leaflet, of which 63 had zero gross nominal annual rate. Conversely, 17 maturing index-linked deposits paid the maximum gross nominal annual rate advertised in the information leaflet.

In 2016 the mortgage credit market[6] grew substantially in terms of number of new contracts and amount of credit granted compared with 2015, although less than in that year. In 2016, 57,912 mortgage credit contracts were entered into and credit to the amount of €5.5 billion was granted, corresponding to 34.2 per cent and 39.6 per cent increases from the previous year. Despite a rise in the number of contracts, early repayments and maturing deposits in 2016 exceeded the amount of credit granted in new contracts, resulting in a decline in the overall amount of the portfolio at the end of the year (€88.4 billion, compared with €90.5 billion in 2015).

The average amount of new mortgage credit contracts in 2016 increased to €94,224 (€90,616 in 2015), with an increase in the average maturity agreed, to 32.8 years (32.1 years in 2015).

Most mortgage credit contracts in 2016 were associated with a variable interest rate (83.4 per cent), although the relative importance of this type of interest rate has declined (89.5 per cent in 2015). In turn, there was an increase in the share of contracts with a mixed interest rate (11.7 per cent, compared with 8 per cent in 2015) and a fixed interest rate[7] (4.9 per cent, compared with 2.5 per cent in 2015).

In 2016 most contracts were index-linked to the 12-month Euribor, unlike 2015, when the six-month rate was the most frequently used index. In 2016, 85.3 per cent of new variable-rate contracts were index-linked to the 12-month Euribor, compared to only 25 per cent in 2015.

The average spread in variable-rate mortgage credit contracts continued to follow the downward path that started in 2015, to stand at levels close to those seen in 2011. Mortgage credit contracts index-linked to the three-, six- and 12-month Euribor had an average spread of 198 basis points, 33 basis points less than in 2015.

In 2016, 85,040 early total or partial repayments were made in mortgage credit contracts, to a total amount of €3.2 billion, which corresponds to 28.1 and 45.4 per cent increases, respectively, from 2015. The rise in the amount repaid was seen across total and partial repayments. However, the increase in the number of repayments was exclusively due to total early repayments, given that the number of partial early repayments declined between 2015 and 2016. In 2016, approximately 68 per cent of early repayments in mortgage credit contracts corresponded to total early repayments (compared with 58 per cent in 2015).

The number of renegotiated mortgage credit contracts rose in 2016 (6.9 per cent more than in 2015), reversing the reduction seen in 2015 from the previous year (by 18.6 per cent). In 2016 there were 31,007 renegotiations, relating to 28,209 contracts, with an average amount of €78,636 per renegotiation.

Of all mortgage credit contracts renegotiated in 2016, 11 per cent were in default at the renegotiation date, i.e. less than in 2015 (18.3 per cent). In 2016, renegotiations mostly focused on changes to the maturity date, the type of interest rate and the introduction/change of the grace period for the principal. Changes to the type of interest rate (mostly, from a variable rate to fixed rate) are, for the first time, among the three most commonly renegotiated terms.

In 2016 the amount of credit granted in the consumer credit market[8] continued to follow the upward trend observed since 2013. In 2016, on average, €497.4 million was granted each month, corresponding to a 17.5 per cent increase from 2015, and reinforced the 23 and 11.5 per cent increases in 2015 and 2014, respectively. Following these developments, the amount of credit granted in 2016 exceeded the 2010 value, prior to the contraction in the consumer credit market.

The number of contracts entered into in 2016 was similar to that in 2010. In 2016, on average, 119,537 new consumer credit contracts were concluded each month, which corresponded to a 6.5 per cent increase from 2015, slightly below the 7.8 per cent rise in that year, but above growth in 2014 (when the number of contracts remained virtually unchanged).

In 2016 growth in the number of new contracts was below that in the amount of credit granted, which led to an increase in the average amount per contract, from €3,800 in 2015 to €4,200 in 2016.

The amount of credit granted rose in the three consumer credit segments. Similarly to the two previous years, the increase in car loans continued to be substantial (27.1 per cent), followed by personal credit (16.1 per cent). The increase in the amount of credit granted was lowest in the revolving credit segment (3.6 per cent from 2015).

In 2016 most credit (52.7 per cent) was granted by specialised institutions, unlike 2015, when it was evenly distributed among both types of institutions. In 2014 specialised institutions accounted for less than half of credit granted (45.8 per cent).

In 2016 most credit was granted directly at the credit institution's premises (59.4 per cent), although the importance of points-of-sale also rose (40.6 per cent in 2016). The increase in the relative importance of points-of-sale for new contracts is consistent with the greater importance of specialised institutions, which use this type of service more frequently.

The increase in credit granted was accompanied by a decline in the cost of credit. The average annual percentage rate of charge (APRC) fell by 0.6 percentage points between the last quarter of 2015 and the last quarter of 2016. This decline was broadly based across the three credit segments, but the decline in the APRC on revolving credit was particularly substantial (1.4 p.p. decline). Over that period, personal credit and car loans fell by 0.4 and 0.1 percentage points respectively. These reductions were smaller than those seen between the fourth quarter of 2014 and the fourth quarter of 2015 across all three types of credit.

In line with a decrease in the average APRC, the maximum rates applicable to new consumer credit contracts declined between the last quarter of 2015 and the last quarter of 2016.

In the fourth quarter of 2016, maximum rates ranged between 5.6 per cent in personal credit for education, health, renewable energy and leased equipment and 17.3 per cent in revolving credit.

Notes

1.The analysis carried out in this chapter is based on data collected through Standardised Information Sheets provided by credit institutions on their websites. A Standardised Information Sheet is a document containing pre-contractual information, which must be provided to the customer before entering into a contract for a simple term deposit and details the specific characteristics of each deposit.

2.According to the brochure *Comercialização de produtos e serviços bancários nos canais digitais em Portugal* (Trading banking products and services through digital channels in Portugal), which provides an analysis of the results of the questionnaire to financial institutions in 2016.

3.Data analysed in this chapter was collected from leaflets that credit institutions submitted to Banco de Portugal for assessment before trading index-linked and dual deposits (in accordance with Notice of Banco de Portugal No 5/2009 of 20 August 2009, issued after the publication of Decree-Law No 211-A/2008 of 3 November 2008) and from reporting by credit institutions to Banco de Portugal on opened deposits and remuneration rates on maturing deposits.

4.The number of depositors corresponds to the number of index-linked and dual deposits subscribed. The same customer may subscribe several deposits.

5.Dual deposits are a combination of two or more deposits (simple or index-linked).

6.Information for 2016 was reported by credit institutions pursuant to Instruction of Banco de Portugal No 19/2016.

7. Fixed rate contracts are loans whose interest rate remains unchanged for the period of time established in the contract. The fixed rate period may be shorter than the total loan maturity.

8.The analysis of this market is based on data reported each month by credit institutions to Banco de Portugal regarding all consumer credit contracts entered into in the previous month. This information must be provided by institutions pursuant to the legal provision that puts on Banco de Portugal the obligation to calculate the maximum annual percentage rates of charge for each quarter (Decree-Law No 133/2009 of 2 June 2009).