Discussion of "The Dynamics of Deposit Flightiness and its Impact on Financial Stability"

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Paper Overview

- **Main Focus:** Analysis of the variability in *aggregate* depositor flightiness over time and its effects on financial stability.
- **Key Point:**
  - Elevated deposit flightiness after the Covid 19-crisis.
  - **Why?** Aggregate depositor base become "flightier".
    - Investors who switched into deposits from outside during this periodm value deposit convenience (over returns) less.
    - Low-interest rate environment & QE (see e.g., Acharya and Rajan, 2022; Acharya et al., 2023) likely factors.

Key Contributions

Novel Insights

- Empirical documentation of time-varying deposit flightiness.
- Dynamic-model explaining changes in depositor composition.

Implications

- Links between QE and heightened bank run risks:
  - Risk of runs, triggered by a given $r \uparrow$, amplified when CB balance sheet is larger (i.e, preceded by QE).
- Importance of rate hike pacing for stability.

Strengths of the Paper

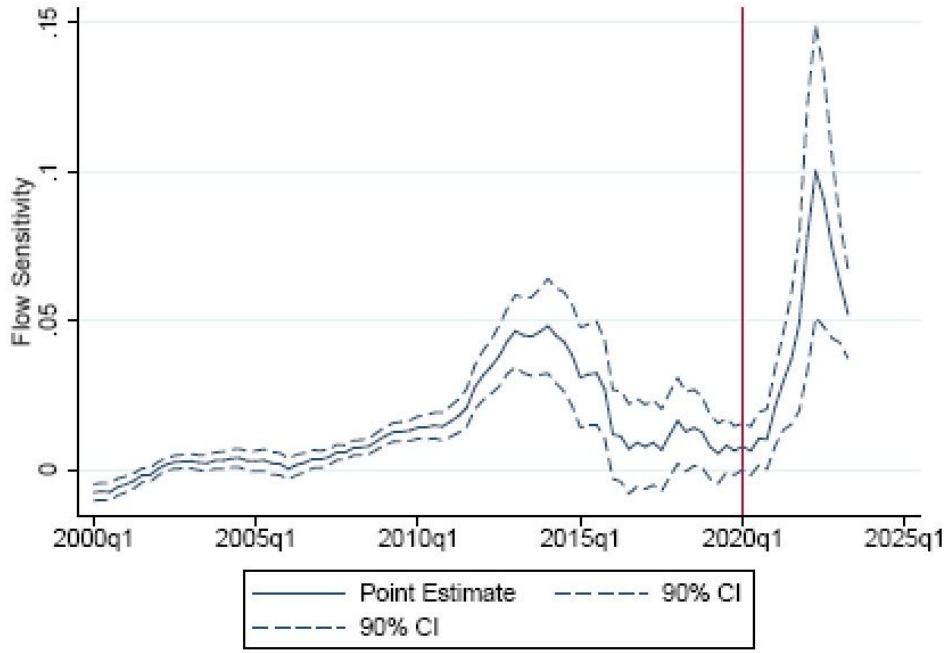
- **Reasonable and intuitive central thesis.**
- **Transaction-level data:** For each user, track movements of funds: 1) btwn banks, 2) btwn banks & investment accounts.
- **Innovative modeling:** Captures depositor heterogeneity and path-dependence in behavior.
- **Policy relevance:** Explores unconventional & conventional monetary policy interactions.

Road-map

- Highlight some novel & interesting results.
- Areas for further consideration: comments/suggestions.
- Also beyond this paper.

Highlights - 1

- Deposit flow sensitivity varies a lot over time.



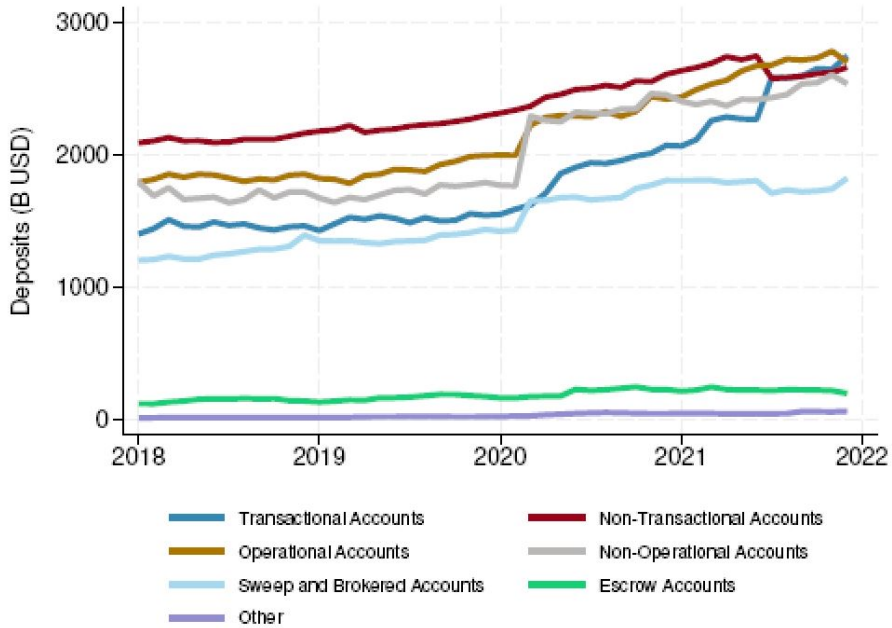
- Higher sensitivity **coincides** with r $\downarrow$, low-interest rate environment, QE, and increase in corporate deposits.

Highlights - 2

- **Not due** to switch away from **time deposits** to **savings accounts** (Supera, 2020): pattern holds within savings.
- **Not due** to variations the fraction of **uninsured deposits** in the banking system: time-series patterns do not fit.

Highlights - 3

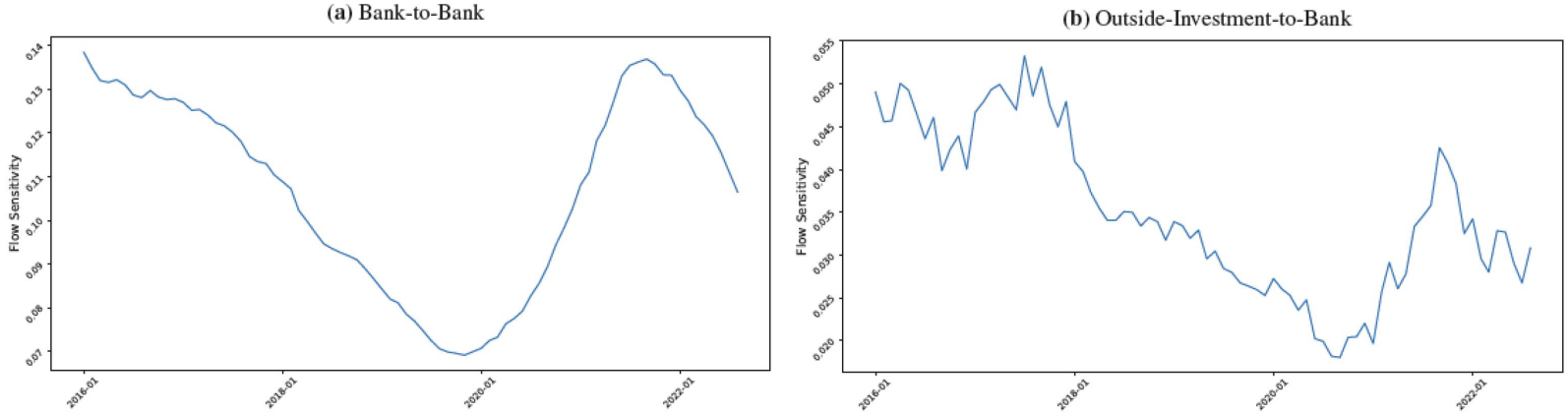
- Higher sensitivity does coincide with influx of "flightier" deposits into the banking sector.



- **Non-operational** accounts of NFCs are more volatile & the same holds for **transactional** accounts of retail depositors → purpose of account (not depositor) emerges as important here.(**More**)

Highlights - 4

- **Within depositor** analysis, shows deposits' sensitivity to FFR increases right after 2020 (i.e., influx of new deposits).



- Bank-to-bank & bank-to-investments flows co-move $\rightarrow$ same depositor who becomes flightier in moving between banks also flightier in moving in and out of the banking system. **(Novel)**
- Add: by type of depositor and by type of account.

Areas for further consideration - 1

- How much of this is specific to this unique period?
- Even if unique to this period, still important.
- Would be useful to extend Call Report data analysis to earlier periods with large variations in aggregate volume of deposits.
- Exogenous deposit shocks used in the literature (e.g., Gilje, Loutskina, Strahan (2016, JF) unlikely to be helpful here.

Areas for further consideration - 2

MP Implications:

- Reducing the size of the CB balance sheet before embarking on rate hikes may alleviate stability risks.
- Smaller steps of rate hikes also mitigates run risk.

But...

- These may not always be feasible or desirable.
- Timing of inflationary shock may not allow.
- CB mandate(s).

Risk Management Perspective: Useful to use your model/data to evaluate what banks can do to mitigate higher flight risk?

Areas for further consideration - 3

Model:

- **Investors:**
  - Heterogeneous in the value they place in the convenience of deposits relative to the interest rate.
    - Convenience value $\downarrow \rightarrow$ interest rate sensitivity $\uparrow$
  - Face exogenous & homogeneous switching costs.
- **Banks:**
  - Choose the **deposit rate** to maximize the value of equity, taking into account the likelihood of outflows.
  - Set the interest rate higher to moderate (manage) outflows & avoid costly liquidation.
  - Constrained by the fundamental value of the bank's assets.
  - Costly liquidation region gives rise to strategic complementarity among investors and leads to the potential of runs.

Areas for further consideration - 4

Real-world factors not captured by the model:

Deposit Insurance

- Deposit insurance is notably missing from the model.
- I agree variation in fraction of insured deposits is unlikely to be driving the time-series increase in rate sensitivity shown in the paper.
- But likely to affect the estimates of the counterfactual exercises.

Other levers?

- Increase switching costs (e.g., time restrictions, redemption fees, bundling). Reduce inflows, not only outflows.
- Banks' endogenously increase their liquid assets as depositor base becomes flightier (see, e.g., Carletti et al. (2024). Fig.

Areas for further consideration - 5

Deposit Runs Literature:

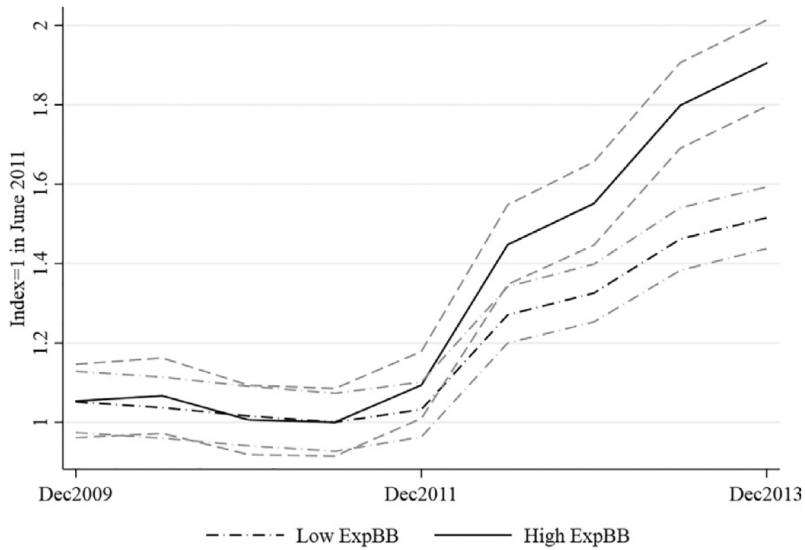
- Stopping runs with higher deposit rates is very costly (e.g., Artavanis, Paravisini, Robles-Garcia, Seru, Tsoustoura, 2022).
- Loan linkages mitigate runs due to panics, not fundamentals (e.g., Iyer and Puri, 2012; Iyer, Puri, and Ryan, 2016).
- These draw on episodes where deposit safety in question.
- Would be helpful to know if these insights extend here.

Overall

- This is an interesting paper.
- Provides several novel results that very clearly policy relevant.
- Fun read (to me)!
- Thank you for your attention.

Carletti, De Marco, Ioannidou, and Sette (2021, JFE)

- Banks' endogenously increase their liquidity ratios as share of their deposit funding increases.



- See also Kashyap, Rajan, and Stein (2002, JF). Back