Negative Interest Rates in Denmark

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Declining market rates

Note: The policy rate is the rate on certificates of deposit.
Source: Danmarks Nationalbank.
Deposit rates...

Note: Average rates in oktober 2020.
Source: Danmarks Nationalbank.
*) including Insurance and Pensions
**) Unincorporated business

Average deposit rate for households

Source: Danmarks Nationalbank.

...are now all negative
Share of deposits with negative rates

Source: Danmarks Nationalbank.
Growth in deposit lowered after introduction of negative rates...

Deposits fell after the announcement of negative interest rates

Index, time of announcement = 100

Announcement of negative rates

Other banks that had not announced negative rates

Banks that had announced negative rates

Number of months before and after announcement

Source: Danmarks Nationalbank

Total deposits have increased despite spread of negative rates in 2020

Bn. dkk

Overnight deposits
Deposits with binding
Pool arrangements

Deposits for Danish private customers

Source: Danmarks Nationalbank

...but total deposit in dkk are still growing, among other due to COVID-19
The zero lower bound

- The are no legal impediments for charging negative deposit rates in Denmark

- There is a lower bound on the deposit rate due to the existence of cash. The location of the boundary is yet unknown.

- The Danish central bank has publicly stated, that we are nowhere near that bound yet.

- General dissatisfaction with negative deposit rates.
Mortgage loans squeeze bank loans...

- Elevated prices on houses has led to lending from mortgages and replaced lending from banks

- Danish mortgage institutions almost immune to negative interest rate

Source: Reports to Danish FSA and Statistic Denmark

...but earnings are lower in mortgage lending
Core earnings in Danish banks

Note: Core earnings for Danish banks. Core earnings is earnings minus capital gains, impairments, and earnings from subsidiaries. Nordea’s Danish banking activities are included until 2017. Source: Reports to the FSA.
RoE falling since 2017...

...due to pressure on core earnings

Kilde: Indberetninger til Finanstilsynet
Note: Core earnings consists of net-interest income and fee income, less personnel and administration expenses, and other operational income and expenses. Note the transition to IFRS9 in end of 2018, which may have resultet in higher impairments
Business model canvas – Traditional Banking ...

Key Partners
- Data centers
- Acquisition of innovative players

Key Activities
Sale of financial services
- Loan
- Deposits

Value Proposition
"We service all your financial needs"

Customer Relationships
Build on needs and trust

Customer Segments
Household and firms

Key Resources
- (Legacy) Systems
- Regulatory expertise
- Trust?
- Customer base

Channels
- Branches
- ATM
- Call center
- Internet/mobile
- The digital aspect is build on top

Customer Relationships
Build on needs and trust

Cost Structure
Heavy infrastructure costs, physical presence

Revenue Streams
Under pressure - interest margins and fees

... challenged in the core engine
Bank’s business model

• The business model engine has three cylinders:

  1) Interest margin
     • Under pressure from the low interest environment

  2) Term-spread
     • The yield curve is flat

  3) Fees and commissions
     • Intensified competition
Key Partners - All of us
- Acquisition of innovative players

Key Activities
- Social and economic everyday activities

Key Resources
- Digital expertise, digital indigenous

Value Proposition
- Data, data, data
- "We serve your financial, social and everyday needs"
- Convenience

Customer Relationships
- An increasingly natural part of people's everyday lives

Customer Segments
- All of them

Channels
- Online (The Internet)

Network externalities

...more challenges ahead for banks!