

Discussion of “Behaviour of banks during
the financial crisis” by J. Capel, R.
Heijmans and R. Heuver

Johannes Lindner, ECB
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The main elements of the paper (i)

Research questions:

Have payment system boundaries been reached?

Can changes in payment behaviour be found?

Indicators:

- Amount intraday credit
- Amount and type of collateral
- Central bank liquidity provision and deposit facility
- Intraday flow of transactions between participants
- Others

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The main elements of the paper (ii)

Intraday flow of transactions between participants

Assumptions:

- (i) Banks want to delay the sending of transactions; value of payments and ability to influence are highest for banks-to-bank payments (esp. money market)
- (ii) Lender has an interest to pay out loan later in the day due to counterparty risk; borrowers faces higher reputational costs when paying back loan later in the next day.

Timing of bank-to-bank payments: increased volatility

Unsecured overnight money market: money market has dropped; increased inter-day volatility of the rate; mixed trends on intraday timing

- Other indicator: banknotes transactions

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Discussion

Comments and suggestions:

- Role of the overnight money market for payment systems
- Link to literature on the micro-structure of the overnight money market (timing, price, volume and value)
- Behavioural hypotheses for testing (credit risk; liquidity risk; reputation; asymmetric information)
- Impact of institutional environment (automatic settlement; monetary policy implementation framework)
- Network topology of participants
- Limitations in the focus on national data

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