

Banking on Inattention

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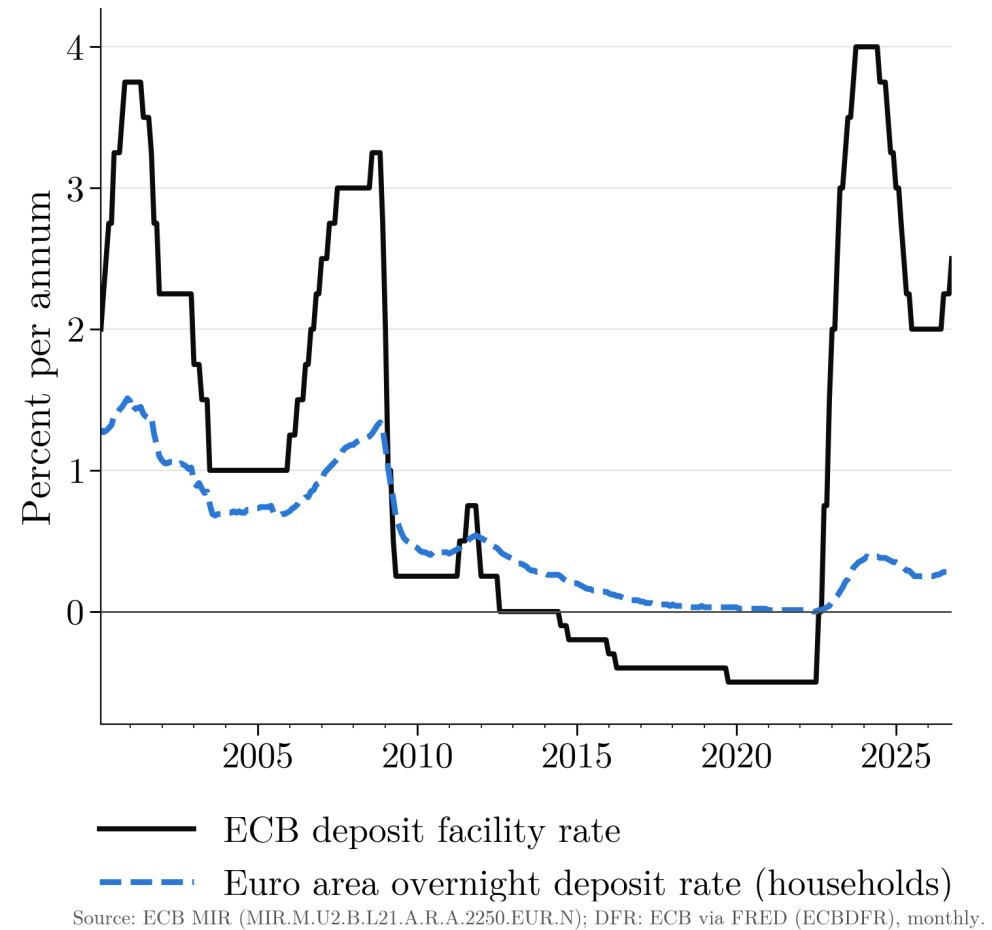
UW Foster

NYU Stern

ESRB's 10th Annual Conference, 2026

Deposits are the cornerstone of European bank funding

- ▶ Household and NFC deposits account for nearly half of EU/EEA bank liabilities.
(Source: EBA Risk Assessment Report, June 2026)
- ▶ Overnight deposits are remarkably cheap →
- ▶ Deposits are important for bank resilience:
 - financial stability
(Beck et. al. '24; Blickle-Li-Lu-Ma '26),
 - bank interest rate risk
(DeMarzo-Krishnamurthy-Nagel '25),
 - monetary transmission
(Drechsler-Savov-Schnabl '17).



What sustains such a large stock of cheap deposits? Why do banks pass through monetary policy incompletely? And is deposit funding stable over the monetary cycle?

Answer: banking on inattention

The stability and pricing of deposit funding start with depositor behavior:

- ▶ **Depositors do not continuously manage their accounts.**

Those who adjust less frequently also respond less to monetary-policy changes.

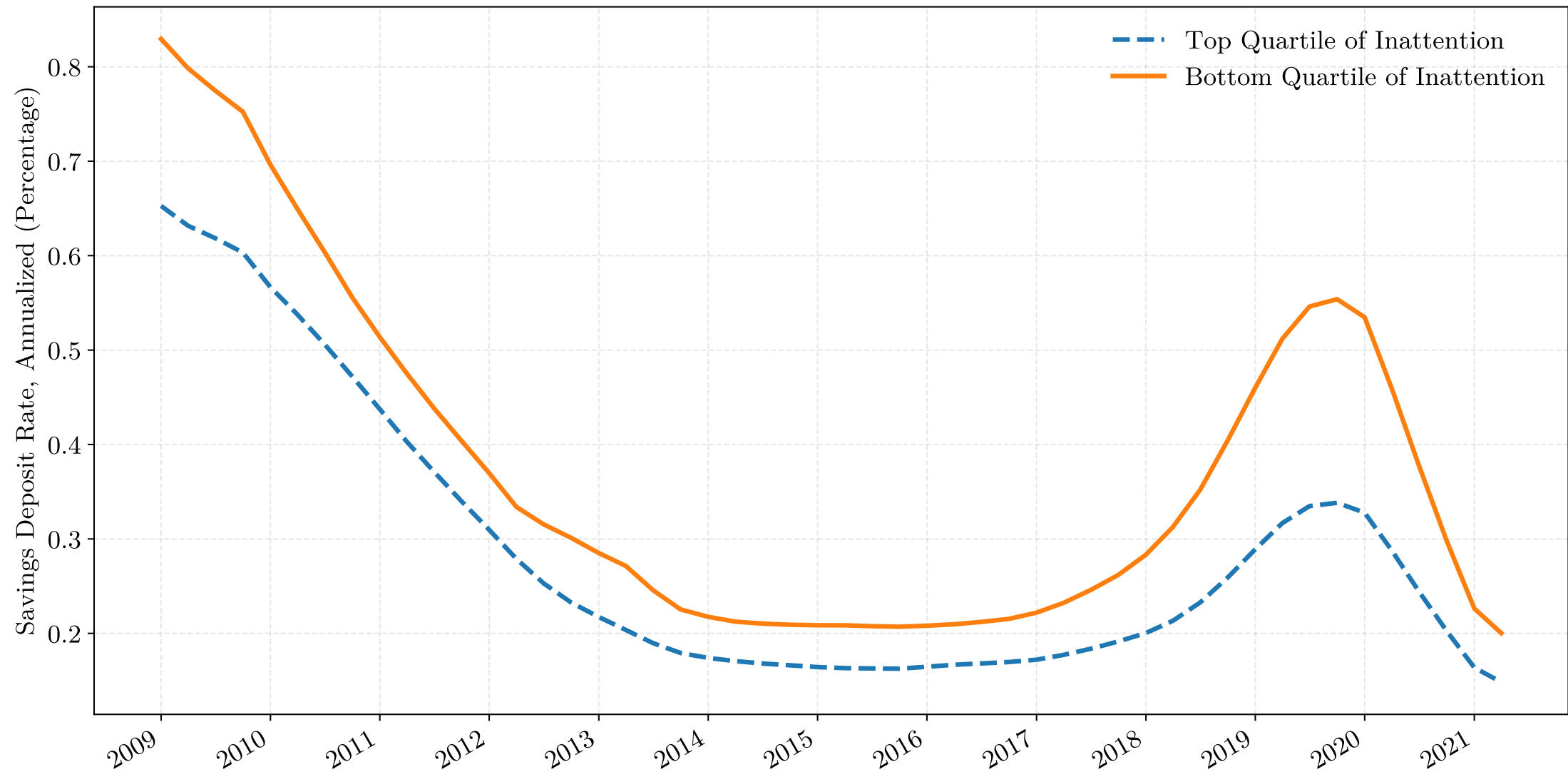
- ▶ **Bank optimization incorporates depositor behavior.** Banks price deposits facing an *intertemporal trade-off*: today's deposit spread vs. future deposits from inattentive depositors.



Rate hikes tilt this trade-off towards larger spreads today, esp. at more inattentive banks.

- ▶ **Aggregate implications:** monetary pass-through becomes state-dependent, and the same deposit franchise can switch from hedging to amplifying interest rate risk in banking.

Preview: banks price depositor inattention



Data source: Call Reports for U.S. commercial banks.

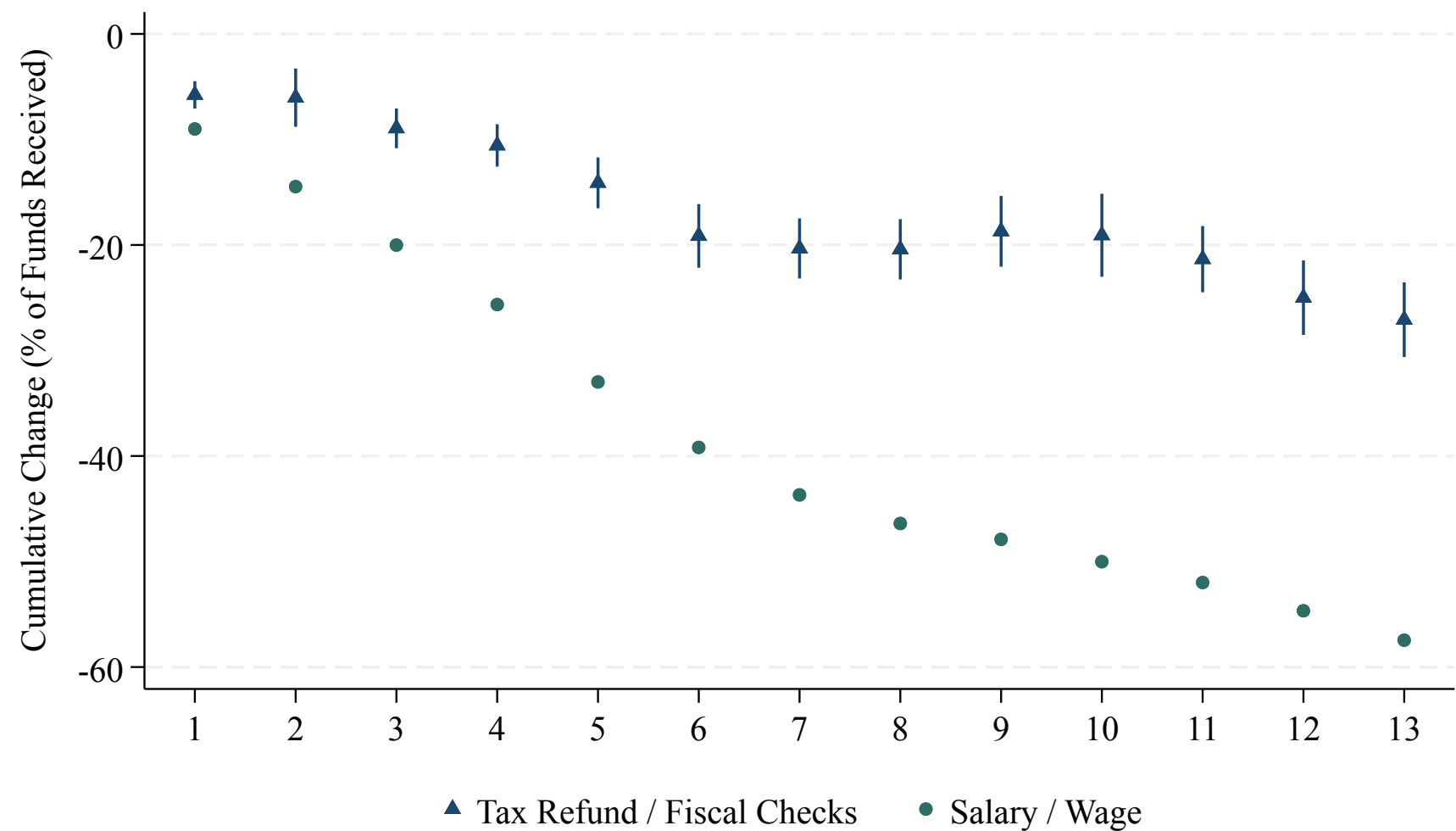
Depositor inattention

Data, evidence and measure

Learning depositor behavior from real-stake financial decisions

- ▶ Large scale observational data: transaction-level bank data for 26 million U.S. depositors.
- ▶ **Inattention:** Responses to routine tasks are fast; non-routine tasks require time and effort (Kahneman '03 & '11).
- Empirical design: inferring inattention from depositors' reactions to scheduled income (salary and social security) vs. unscheduled (tax refunds and fiscal checks).
 - **Full-attention frictionless benchmark:** once funds arrive in a low-interest transaction account, scheduled and unscheduled inflows should generate similar responses.
- ▶ **Inattentive depositors:** unscheduled income remains longer than scheduled income.
 - Inattention as attenuated responses (Gabaix '19). Microfoundations: adjustment costs (Duffie-Sun '90, Abel-Eberly-Panageas '07, '13), procrastination (Maxted-Laibson-Moll '25), uncertainty about optimal action (Enke et al. '24).

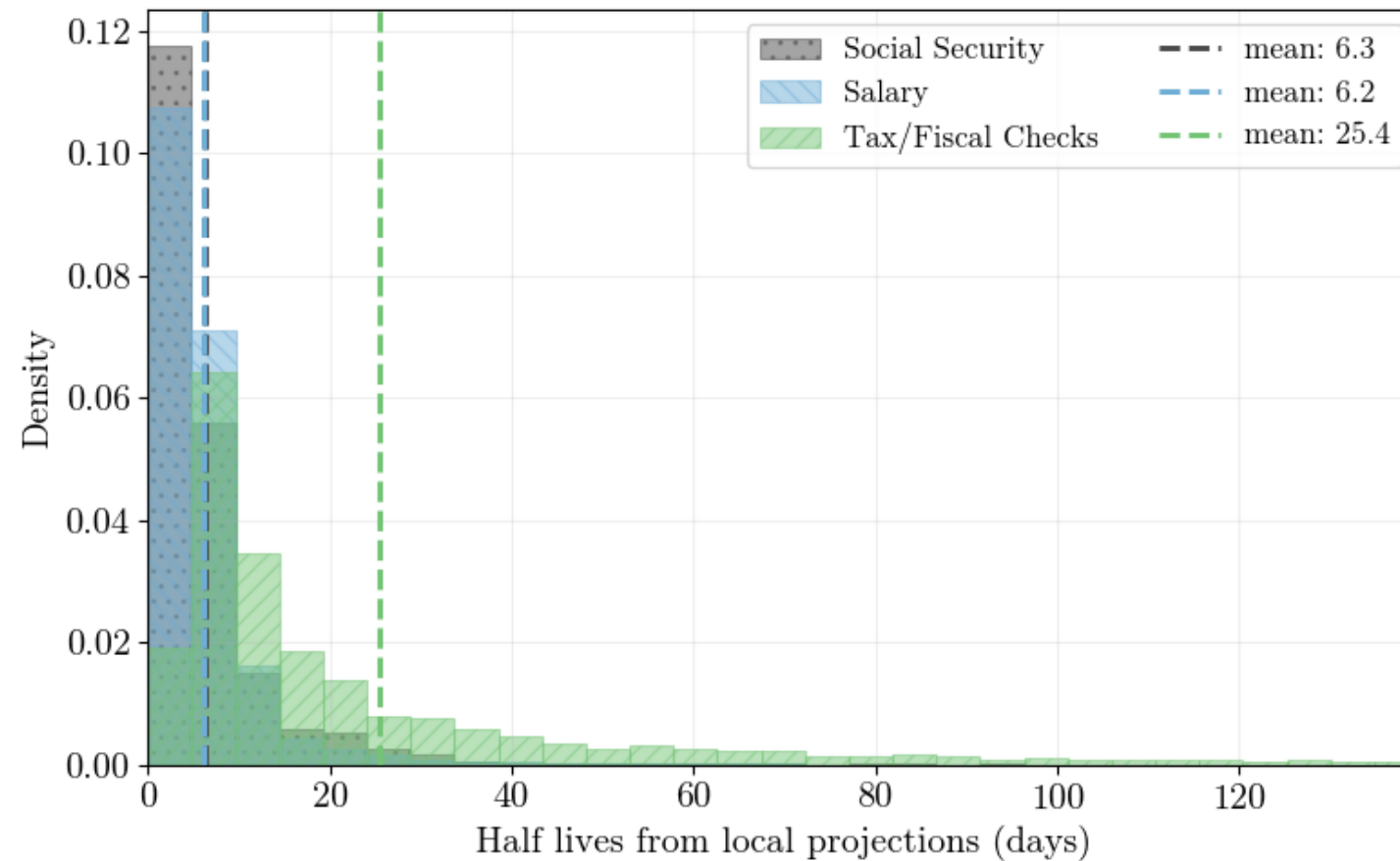
Unscheduled income stays longer in bank accounts



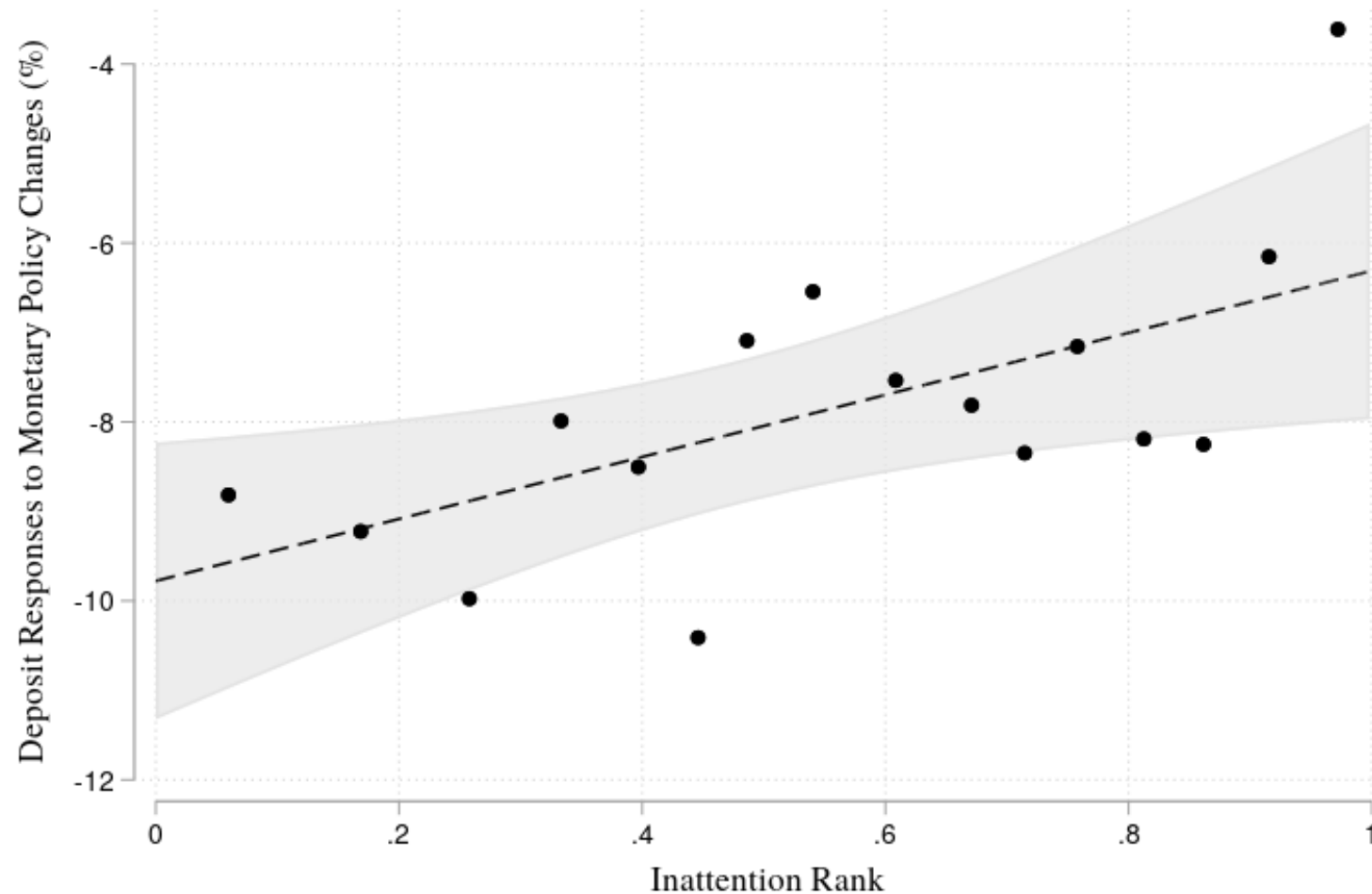
- ▶ Consumption responses
- ▶ Adjustment costs
- ▶ Prearranged transfers
- ▶ Local projections

A depositor-level measure of inattention

- ▶ Inattention: the difference in half-lives between unscheduled and scheduled income.
- ▶ Substantial heterogeneity in the half-lives of unscheduled income.



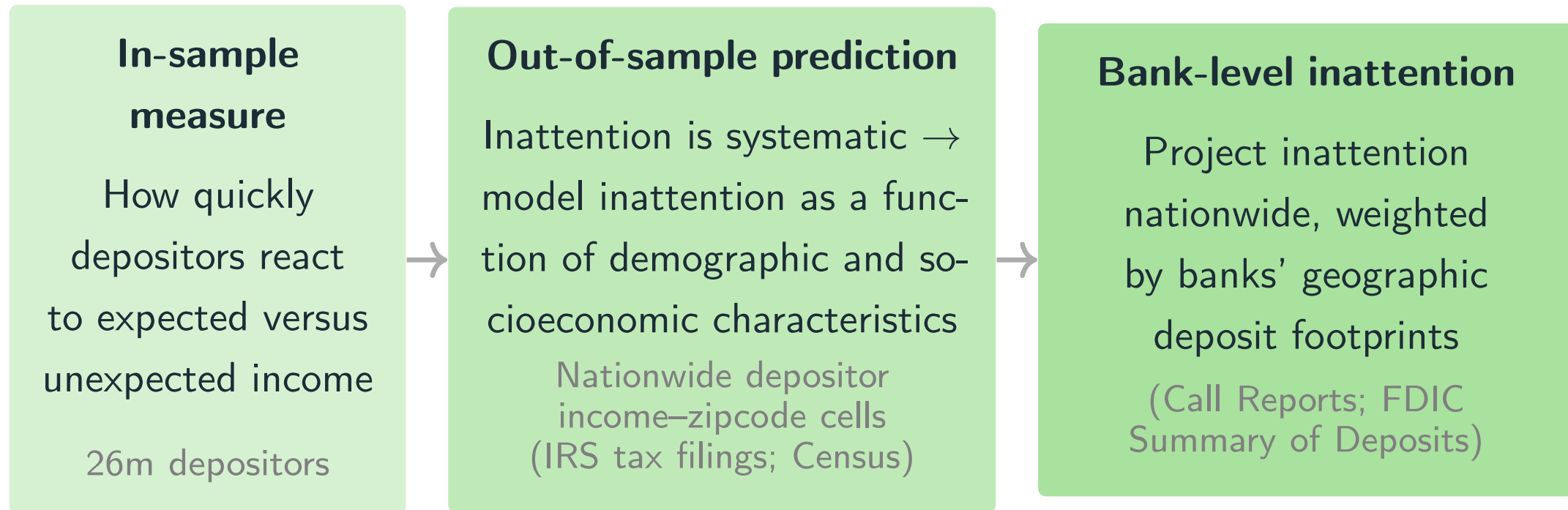
Inattention dampens depositors' reactions to rate hikes



Inattentive depositors respond less during the two weeks around FOMC rate-hike announcements.
... also less likely to cancel subscriptions when prices increase (DellaVigna–Malmendier '06, Einav–Klopack–Mahoney '25).

From depositors to bank-level inattention

Inattention is a systematic depositor characteristic that can be measured, predicted, and aggregated:



Banking on inattention

Mechanism, evidence and implications

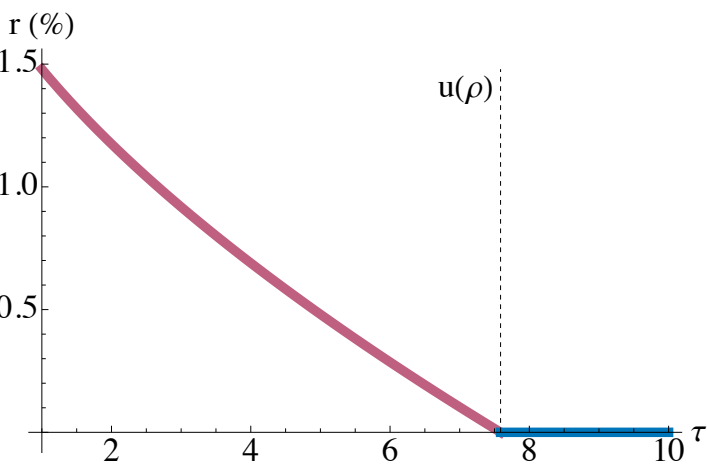
Depositor inattention creates market power in deposit pricing

Banks maximize the discounted profits from inattentive yet spread-sensitive depositors (*DFV*):

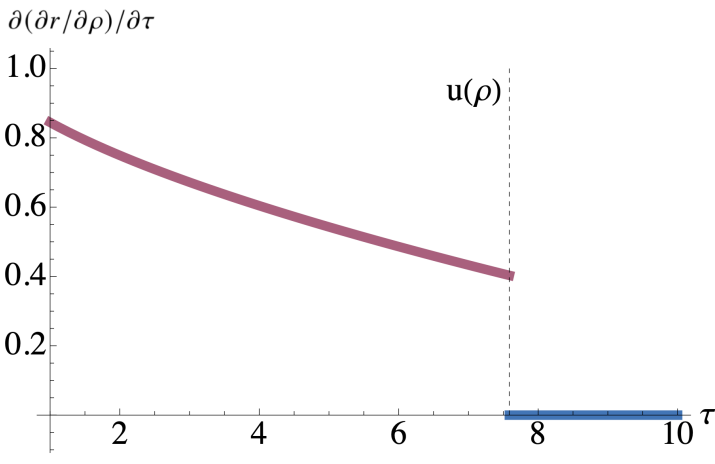
$$\text{per dollar deposit franchise value (DFV)} = \frac{\text{deposit spread}}{\underbrace{\text{spread-sensitive deposit runoff}}_{\text{dampened by inattention}} + \text{discount rate}}$$

More inattention → slower runoff → dynamic market power.

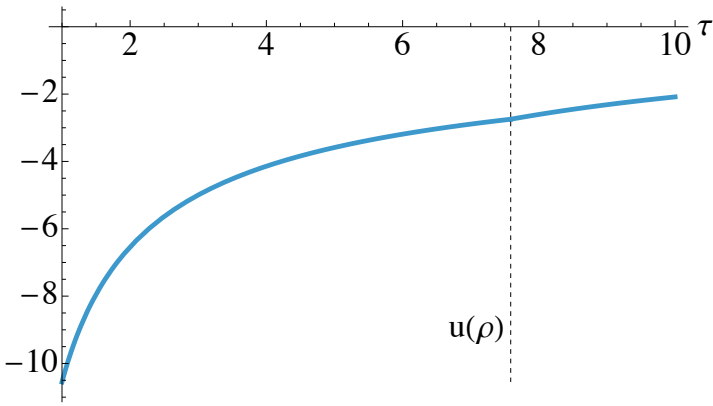
Predictions in the cross-section of banks: more inattention,



lower deposit rates,



lower pass-through,

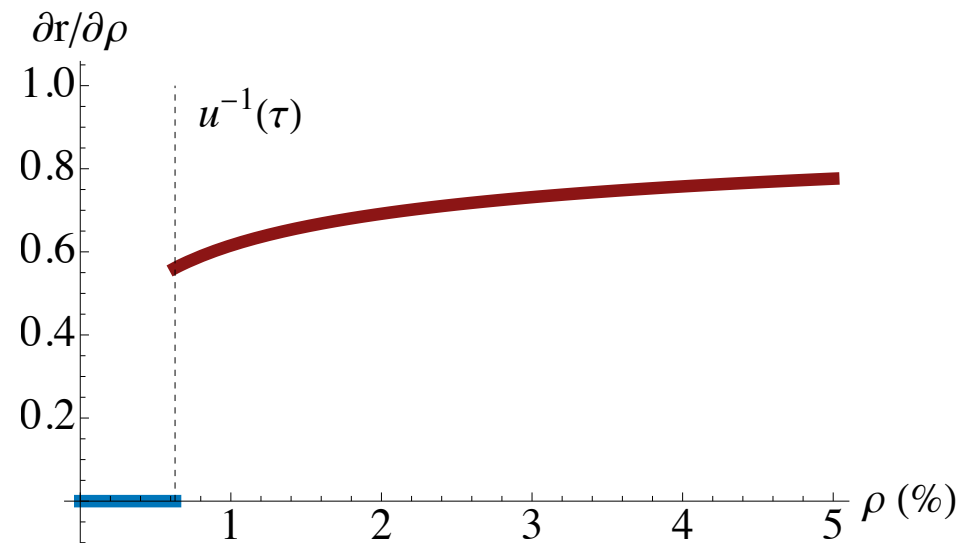


less spread-sensitive flows.

Monetary policy changes pass-through

$$\text{per dollar deposit franchise value} = \frac{\text{deposit spread}}{\text{spread-sensitive deposit runoff} + \text{discount rate}}$$

ECB hikes $\rightarrow$ future losses matter less $\rightarrow$ banks tolerate more runoff $\rightarrow$ incomplete pass-through.

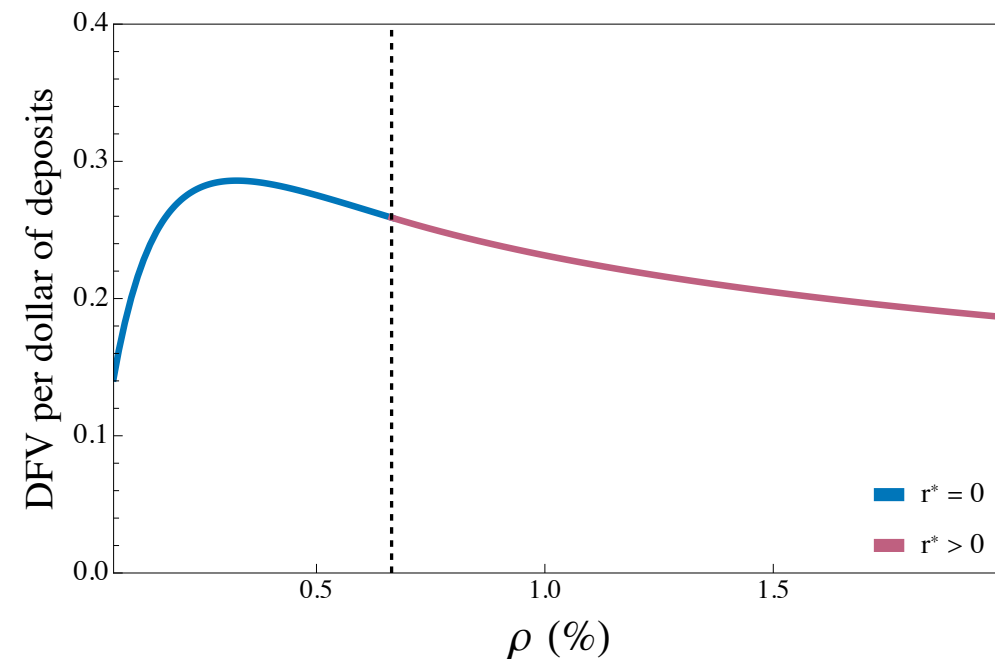


Monetary policy changes pass-through and deposit franchise value

$$\text{per dollar deposit franchise value} = \frac{\text{deposit spread}}{\text{spread-sensitive deposit runoff} + \text{discount rate}}$$

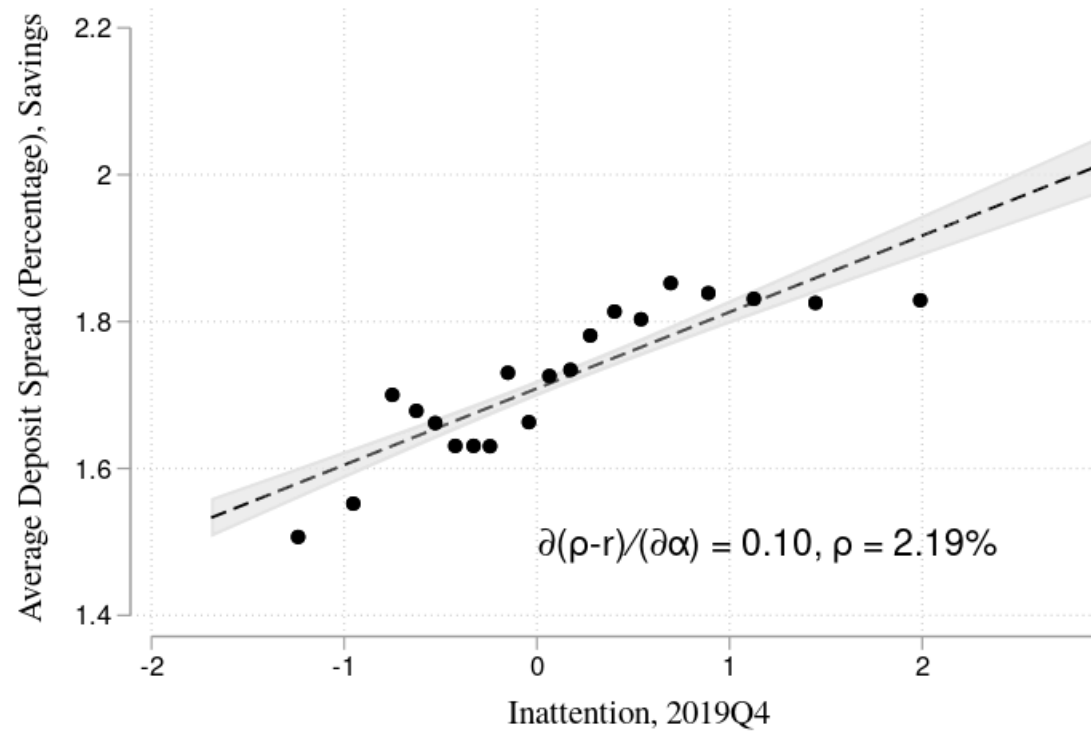
At low policy rates, banks optimally pay zero: hike directly widens spread $\rightarrow$ DFV rises.

At higher rates, banks balance spread against runoff: hike works via **discounting** $\rightarrow$ DFV falls.

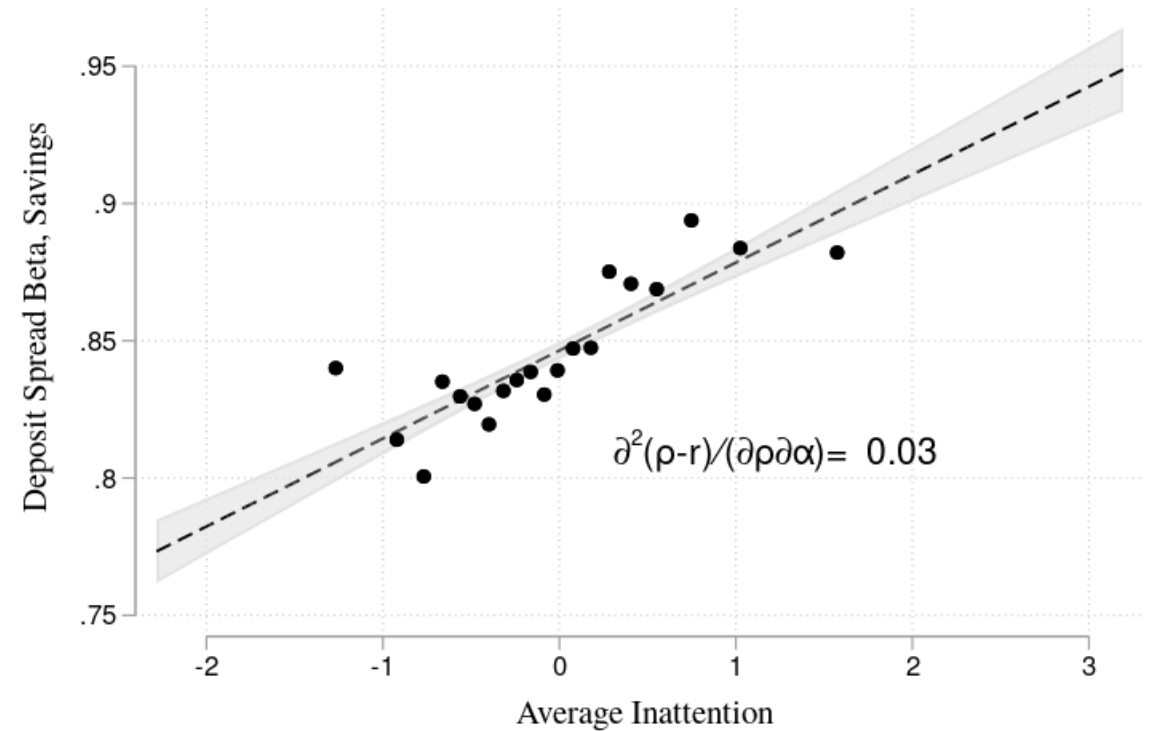


Cross-sectional evidence: deposit rates and pass-through

(a) Spread v. inattention



(b) Spread beta v. inattention

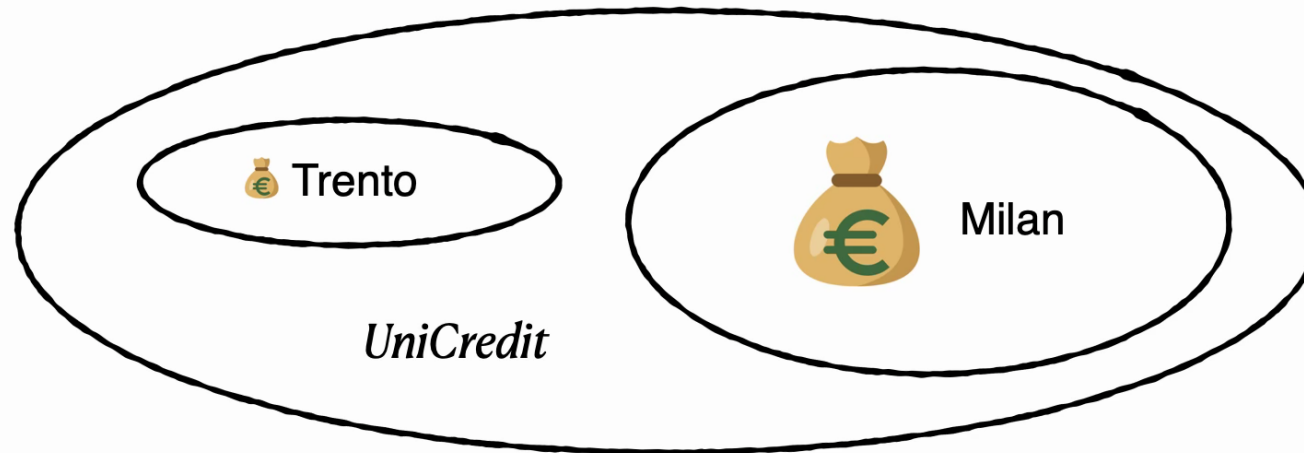


- More inattentive banks have larger spreads and higher spread betas.

Cross-sectional evidence: inattention attenuates deposit outflows

Banks with more inattentive depositor bases face less spread-sensitive outflows.

- ▶ Unobserved demand shocks shift both demand and rates – how to estimate spread sensitivity?
- ▶ → A leave-one-out (LOO) instrument:



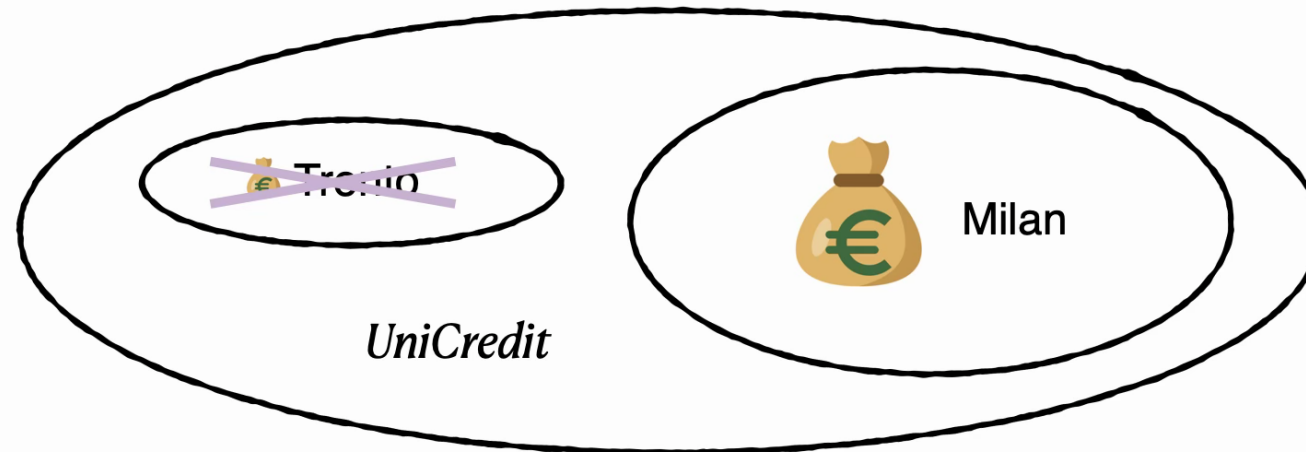
If UniCredit sets one retail rate using inattention from its entire depositor base, depositor inattention in Milan shifts the rate faced by Trento depositors:

$$r_{UniCredit,Trento} = r_{UniCredit} = f \left[\left(\text{€} \times \alpha_{Trento} + \text{€} \times \alpha_{Milano} \right) / \left(\text{€} + \text{€} \right) \right].$$

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deposit spread $\uparrow 1\%$: **+1 SD in inattention reduces outflow by $\approx 0.56\%$.**

Aggregate implications

I. Depositor inattention

Inattentive depositors do not manage accounts frequently;
Inattention dampens rate-sensitive deposit demand.

II. Banking on inattention

Banks with more inattentive deposit bases (i) set lower rates,
(ii) have lower monetary pass-through & (iii) experience less rate-sensitive deposit outflows.

III. Aggregate monetary pass-through and funding stability

Calibration of deposit decay, monetary pass-through and DFV using empirical estimates, along with a new explanation of asymmetric rate adjustments.

Calibrated model matches untargeted aggregate data moments

Policy rate $\approx 2.2\%$, calibrated runoff rate: $2.6^{-1} \cdot \left(0.0068 + \left(\frac{x}{0.048}\right)^{1.61}\right)$.

Untargeted moments, savings deposits	Data	Model
Annual deposit decay rate	5 ~ 10%	5.9%
Average deposit spread	1.62%	1.29%
Average pass-through	0.42	0.61
OLS coef., pass-through on policy rate	4.6*** (1.6)	7.5*** (2.1)

- Calibration of per-dollar DFV only uses cross-sectional empirical estimates, and matches aggregate levels of decay rate, spread and pass-through in data.
- Additionally: new results on state-dependent effects of monetary policy (Eichenbaum-Puglisi-Rebelo-Trabandt '25).

Deposit franchise value

- Savings deposits:
 1. DFV: $\approx 18\text{¢}/\$$ $\rightarrow$ \$1.8tn (end of 2022);
 2. Interest rate risk: policy rate $\uparrow$ by 1% in level, DFV $\downarrow$ by $2.8\text{¢}/\$$;
- Non-interest-bearing deposits: DFV $\approx 16\text{¢}/\$ \rightarrow$ \$0.8tn;
- **Total:** $\approx$ **\$2.6 trillion** in aggregate deposit franchise value. More applications in the paper:

- Cross section of banks;

- Impact of digital innovation;

- Fixed operating costs and the sign of DFV duration;

- Redistribution across demographic segments;

- Banks' willingness-to-pay for new deposits.

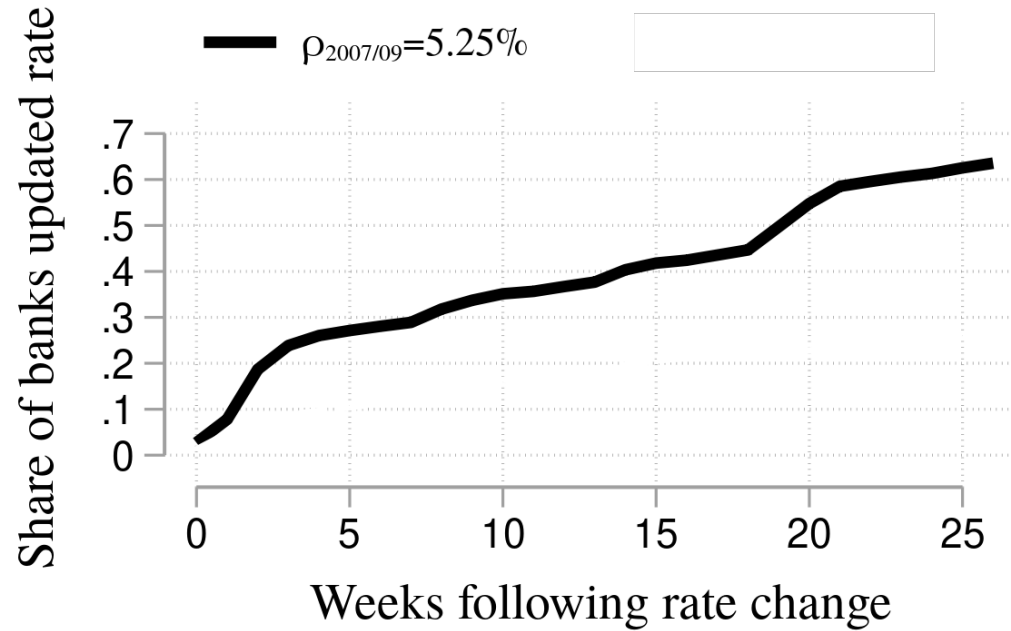
Digital innovation can erode deposit franchise value

Digital tools make it easier to notice spreads and move deposits (Buch, 2026) → less inattention.

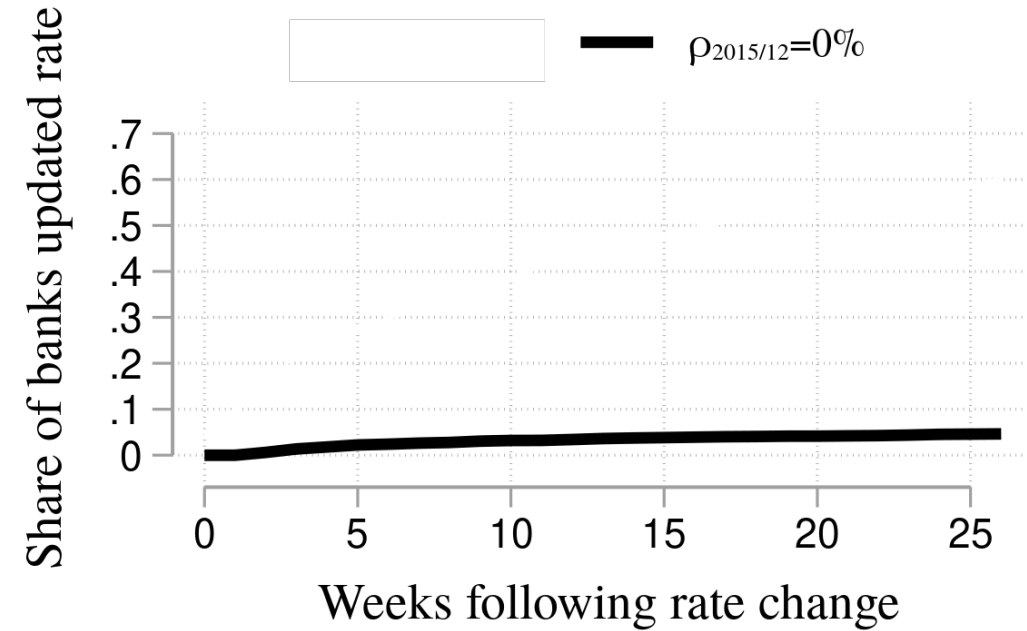
Deposit franchise value is sensitive to changes in depositor inattention:

- ▶ 10% less inattention → DFV falls by 6.6% (savings) and 8.4% (non-interest-bearing deposits).
- ▶ w/ 2019Q4 U.S. deposit levels and policy rate of 2.2%: **aggregate DFV falls by $\approx$ \$186bn.**
- ▶ Agentic finance can push this further: if software automatically reallocates deposits, inattention and DFV may shrink substantially.

“Asymmetry” in short-run adjustments



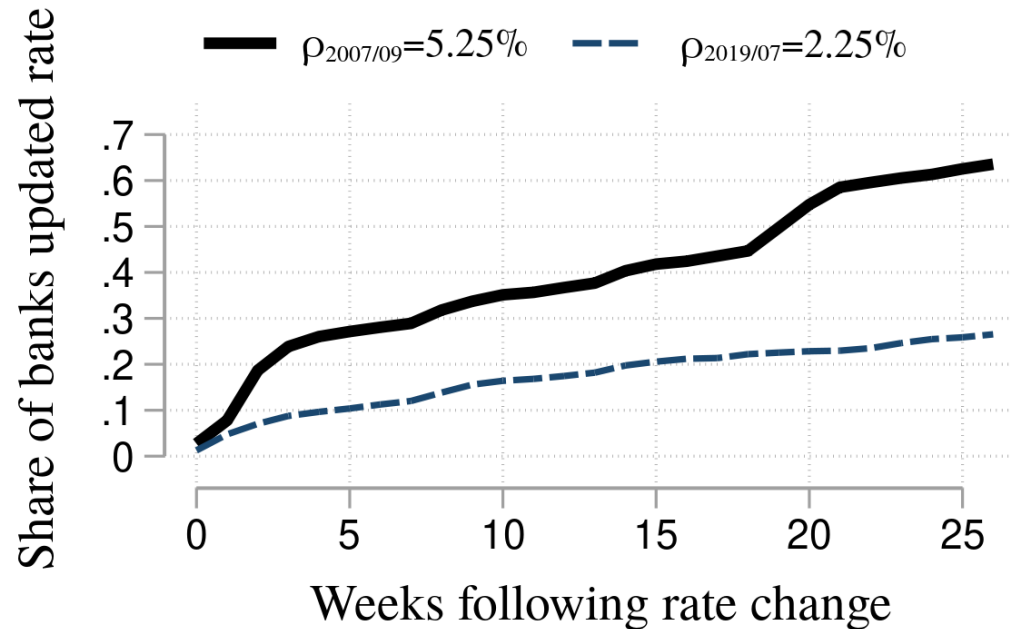
(a) Rate cuts



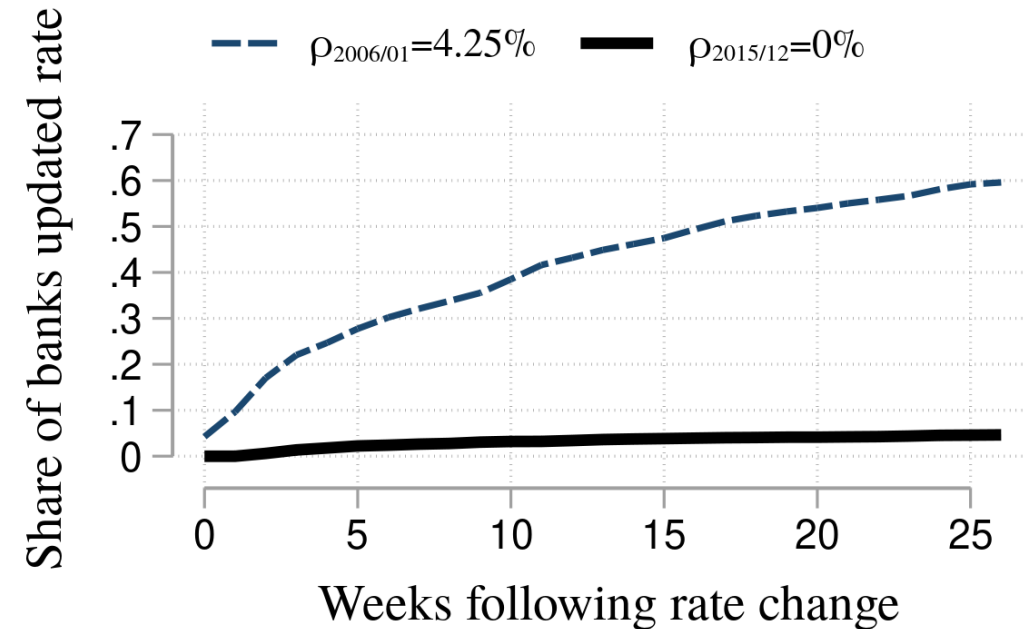
(b) Rate hikes

(Source: weekly U.S. commercial bank deposit rates from RateWatch.)

“Asymmetry” in short-run adjustments



(a) Rate cuts



(b) Rate hikes

(Source: weekly U.S. commercial bank deposit rates from RateWatch.)

- When the level of the policy rate is higher, banks adjust more quickly.
- ... It appears asymmetric because rate cuts tend to occur when the policy rate is high.

Depositor inattention shapes bank funding resilience



I. Depositor inattention

New evidence and a portable measure of depositor inattention.

II. Banks price depositor inattention

More inattention → lower rates, lower pass-through, less rate-sensitive flows.

III. Policy implications

Monetary pass-through and banks' interest rate risk vary over the monetary cycle.

**Monetary pass-through and deposit runoff rates are not structural constants:
they vary with depositor inattention and the monetary state.**