

# Slow Transfers, Alert Depositors: How Payments Drive Deposit Dynamics

Xu Lu<sup>†</sup>

Yang Song<sup>‡</sup>

Yao Zeng<sup>§</sup>

## Abstract

Are depositors sleepy? Questioning the traditional wisdom of inactive depositors, we propose a *precautionary transfer motive* where depositors with higher payment/transfer frictions are more attuned to interest rate risk, actively shifting their deposits between accounts. Such alertness is especially pronounced if depositors also face floating-rate liabilities and during rate hikes. From data spanning over a million depositors, we offer fresh perspectives on frictions depositors encounter, and document empirical evidence supporting the precautionary transfer motive. When bond market volatility increases by one standard deviation, a depositor experiencing an extra 1-day transfer delay sees a \$377 increase in shifting his deposits across bank accounts; additionally, depositors with higher frictions earn less interest when market rates are high, but more during periods of interest rate uncertainty. Our observations bear significant policy implications regarding the impact of depositor behavior on bank funding costs and risks, particularly during periods of monetary tightening.

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<sup>†</sup> Foster School of Business, University of Washington. E-mail: xulu@uw.edu

<sup>‡</sup> Foster School of Business, University of Washington. E-mail: songy18@uw.edu

<sup>§</sup> Wharton School, University of Pennsylvania. E-mail: yaozeng@wharton.upenn.edu