ERSTE GROUP

Position Paper
Erste Group Bank AG

Bank Legislative Affairs

Notes on the EBA discussion paper on retail subject to higher outflows

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Erste Group was founded in 1819 as the first Austrian savings bank ("Erste oesterreichische Spar-Casse"). In 1997, Erste Group went public with a strategy to expand its retail business into Central and Eastern Europe. Erste Group's customer base has grown through numerous acquisitions and organic growth from 600,000 to 16.6 million, of which 15.5 million clients live in the fastest growing economies of the European Union. These countries benefit from the stable EU regulatory framework. Having always focussed on retail and SME business, today Erste Group is one of the largest financial services providers in Central and Eastern Europe in terms of clients and total assets.

Please note that Erste Group does not want its comments to be published or disclosed.

Erste Group welcomes the opportunity to provide comments on the proposals put forward in the Consultation Paper.

1. The DP outlines possible **characteristics and features of retail deposits potentially prone to higher outflow rates than proposed in the LCR measure** by Basel Committee of Banking Supervision (BCBS 188 - December 2010, BCBS 238 – January 2013). In the May 2012 version of the CRR (Article 409 (3)), EBA was given the mandate to publish guidelines on the criteria to determine the conditions and product specifics under which higher outflow rates on retail deposits can be applied.

2. **EBA, unfortunately, does not provide any guidance on the definition of established retail relationships** (base criterion for „stable" retail deposits). Instead, it proposes **3 new higher outflow rates for specific retail deposits: 15%-20%-25%** (based on EBA's preceding survey of nationally competent authorities). The DP clearly goes against the most recent BCBS proposal (BCBS 238), in which retail deposits were on average given *lower* outflow rates (5% assumed outflow for stable retail deposits was reduced to 3%).

3. Selected **identified factors** of retail deposits prone to higher outflows:
    a. High value deposits (volumes above the deposit guarantee scheme)
    b. Term deposits and deposits with a period of notice
    c. FX deposits and deposits by non-residents
    d. Internet deposits or brokered deposits
    e. Rate-driven (campaign) deposits

    Two or more factors for a given deposit would mean that the higher outflow rates have to be applied in the LCR calculation.

4. Currently **we are not able to judge the exact extent of the impact** of introducing higher outflow rates for certain deposits, as we do not have information about the amounts in the entities that could be affected. The introduction of new outflow rates could mean **substantial additional cash outflows** (and therefore higher required buffer) **at all**.

5. The **definition of** the **factor sophisticated or high network individuals** as provided by the EBA paper **is unclear**.

6. From purely risk point of view the approach to apply **higher outflow rates** for high risk retail deposits is comprehensible. However, the proposed rates (up to 25%) are more than doubling the original rates (10% for less stable retail deposits). In fact a high risk retail deposit comes close to outflow rates of a corporate deposit (40% without deposit insurance). In general the proposed rates not only seem to be very high, but own data also show a much more differentiated picture. Therefore we would appreciate to go for more research espcially with more local/regional entities. The outcome can be used to create a more detailled model **instead of finding a „one-size-fits-all"** approach.

7. Specific **factors for SME** should be defined as well.

8. Beside the above mentioned facts we also want to highlight the effort already made so far to establish the **new LCR regime**. By raising these issues as proposed by the discussion papers the timeline for monitoring and instroduction of LCR regime seems to be very questionable. Especially necessary technical implemations already made would need a time schedule which would not be in line with the LCR starting point.

9. We want to underline that the **recent BCBS proposal on LCR** from January 2013 on retail outflows should thoroughly be taken into account also on Community level.

10. The proposal could mean that we have to allocate the respective ratios to the **single deposit level.** This would mean an enormous effort for the banks and very high cost burden. A single deposit view should therefore be avoided in any instance. We would propose a more **general appraoch**.