

The Treasury

Reserve Bank Act Review Phase 2 Second Consultation Information Release

July 2019

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Public Attitudes to Bank Risk and Deposit Insurance

Research Report: FINAL December 2018



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 - d. Interest in the Reserve Bank Act Review
- ▄ **Demographics**

Research objectives and approach

- ✦ As part of the review of the Reserve Bank Act, a better understanding of public perceptions of Deposit Protection is required. This will test the validity of current policy assumptions and highlight the areas for future policy communications to focus on.
- ✦ The objectives of the research was to identify:
 - people's understanding of how depositors will be treated in New Zealand if their bank fails and the basis for that understanding
 - whether people placing deposits in banks actively think about bank risk
 - people's interest in or appetite for deposit insurance, especially if they would have to pay something for it
 - people's appetite for the 'depositor preference' option as an alternative to deposit insurance
 - people's self-described knowledge of the subject matter
 - the level of interest in other consultation topics to inform thinking about whether to conduct additional surveys on these topics next year.
- ✦ The online survey was conducted between 13 November and 19 November 2018. Research participants were sourced from the Research Now / SSI online panel. The sample size was n=1,008; and was weighted by age, gender and region (nested) to be representative of the general public of New Zealand). The average survey duration was 7.5 mins.
- ✦ Analysis notes:
 - The sample provides a margin of error of +/-3% on estimates of 50% at the 95% confidence level.
 - Percentages may not add up to 100% due to rounding.

Summary of key findings (1)

1. Reviewing bank risk is not a common undertaking for New Zealand bank customers. More are concerned with rates and charges or the security of their accounts as opposed to bank failure.

- ✦ While 60% of New Zealanders have changed banks or opened a new account in the last 10 years, reviewing the choice of bank is not a regular activity for most, only 13% do it once a year or more, 30% do it every one to five years, and a fifth never doing it.
- ✦ Only around a quarter (26%) are regularly reviewing the risk of their bank failing, with over 40% never doing this.
 - Those who actively review bank risk often are likely to be younger and have over \$50k in savings in a bank. They are more likely to have changed bank or opened a new account recently, and are more interested in the Reserve Bank Act Review.
- ✦ Primary concerns about bank risk relate to security/safety of money (not including bank failure), or fee and rates. With less than 10% mentioning bank failure as a concern.
 - When prompted, the risk of bank failure does rank in the top 2 most important factors when choosing a bank for over a third of New Zealanders (behind fees and charges), although a similar proportion also rate it as one of the least important factors.

2. Half of New Zealanders expect they would get at least some money back in the event of a bank failure.

- ✦ In the event of bank failure in New Zealand, half of New Zealanders believe they will get all or some of their money back, some assuming that banks are insured to cover this or that the government would provide assistance. Another quarter are unsure, with the remainder assuming they would get none back.

Summary of key findings (2)

3. Deposit Insurance is not familiar nor well understood.

- ✦ A fifth of New Zealanders have heard of deposit insurance, and 39% of those believe that New Zealand currently has deposit insurance.

4. Deposit insurance is seen to be a good idea though many remain unsure. Guaranteed protection is preferred over depositor protection or no protection.

- ✦ Over half (54%) believe it would be a good idea to implement deposit insurance in New Zealand, with almost a third being unsure.
 - Those who support this mostly do so because it would safeguard their money/assets.
 - Those who oppose (17%) do so mostly because of the cost to the customer and believing that it is not required given the stability of NZ banks.
- ✦ Given the option of partial protection, most (52%) support guaranteed protection, and some of those who had opposed or who weren't sure, opted for partial protection (22%).

5. Most New Zealanders express at least some interest in the Reserve Bank Act Review.

- ✦ For most, levels of interest don't vary across the topics presented, although there was slightly stronger interest in 'ensuring new non-traditional financial firms are covered by regulations' compared to other topics.



DETAILED FINDINGS

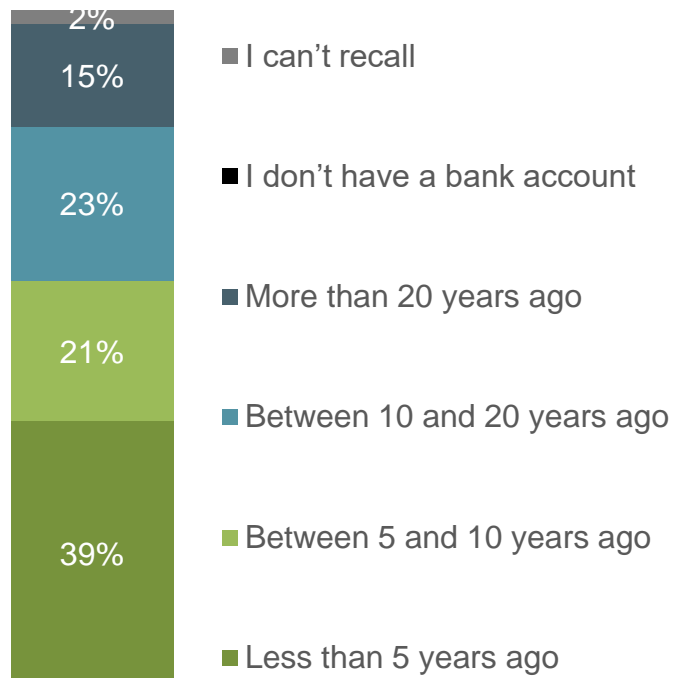


a. Banking activity and attitudes

60% of New Zealanders have opened a bank account in the last 10 years. Over half never or rarely review their choice of bank. Risk of bank failure is reviewed even less frequently, with three quarters of New Zealanders never or rarely do this.

Last time opened account

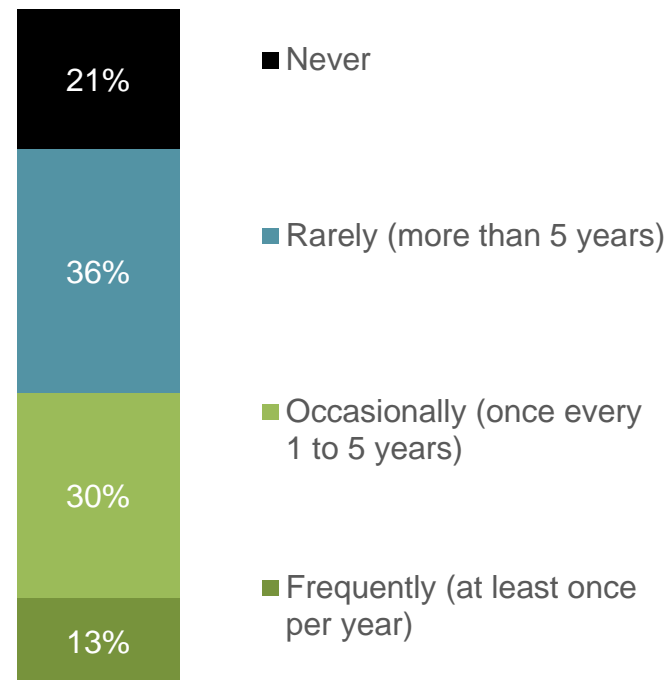
Q1. When was the last time you had to decide on which bank to open an account with? *



* For example, you may have changed banks or opened an account for the first time. (Please think about the most recent account you opened for the purposes of depositing some of your money into e.g. a savings or cheque account or a term deposit etc).

Frequency review bank choice

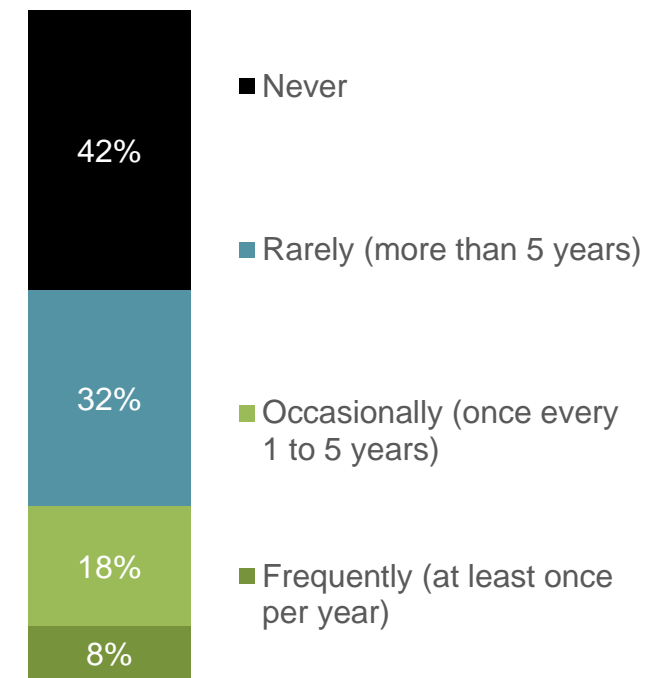
Q2. And how often do you review your choice of bank?



Sample size: n=1008

Frequency review bank risk

Q5. * How often do you review the risk that your bank might fail and be unable to return your deposits?

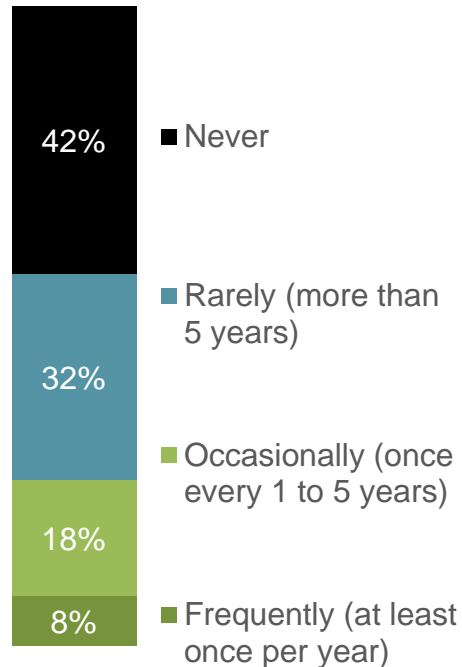


* Banks use deposits to lend money to other people. A bank can make a loss if bank loans are not paid back. Usually a bank can absorb some losses, but if the losses are widespread, a bank can fail, just like any other business.

Those who actively review bank risk often are likely to be younger and have over \$50k in savings in a bank. They are more likely to have changed bank or opened a new account recently, and are more interested in the Reserve Bank Act Review.

Frequency review bank risk

Q5. How often do you review the risk that your bank might fail and be unable to return your deposits?



Frequency	Sample Size (n)	Key Findings
Never	n=405	<ul style="list-style-type: none"> More likely to be: 40-54yrs 35% vs 28%, have less than \$5k in savings in a bank 38% vs 29%, More likely to have changed bank or opened a new account over 10 yrs ago 49% vs 38% More likely to review bank choice rarely or never 79% vs 57% More likely to rate deposit fees/charges as the most important factor deciding on bank 40% vs 35% More likely to not know if deposit insurance is a good idea to implement in NZ 37% vs 29% More likely to be 'not at all interested' in all aspects of the Reserve Bank Act Review
Rarely	n=330	<ul style="list-style-type: none"> More likely to be: no demographic differences More likely to review bank choice occasionally or rarely once every year or less often 83% vs 67% More likely to rate 'having mortgage with the bank' as the most important factor deciding on bank 14% vs 11% More likely to think deposit insurance is a good idea to implement in NZ 59% vs 54%
Occasionally	n=191	<ul style="list-style-type: none"> More likely to be: 18-39 yrs old 49% vs 37%, from Central or East Auckland 21% vs 12%, have over \$50k in savings in a bank 39% vs 27%, Asian 20% vs 14%. More likely to have changed bank or opened a new account within the last 5 years 51% vs 39% More likely to review bank choice frequently or occasionally at least every 5 years 78% vs 43% More likely to rate chance of bank failure as the most important factor deciding on bank 33% vs 23% More likely to think deposit insurance is a good idea to implement in NZ 64% vs 54% More likely to be very interested in most aspects of the Reserve Bank Act Review
Frequently	n=82	<ul style="list-style-type: none"> More likely to be: 18-39 yrs old 51% vs 37%, Male 62% vs 48%, from Central or West Auckland 34% vs 15%, have over \$50k in savings in a bank 39% vs 27%, Asian 24% vs 14%. More likely to have changed bank or opened a new account within the last 5 years 56% vs 39% More likely to review bank choice frequently (at least once per year 56% vs 13% More likely to rate chance of bank failure as the most important factor deciding on bank 33% vs 23% More likely to think deposit insurance is a good idea to implement in NZ 67% vs 54% More likely to be very interested in most aspects of the Reserve Bank Act Review

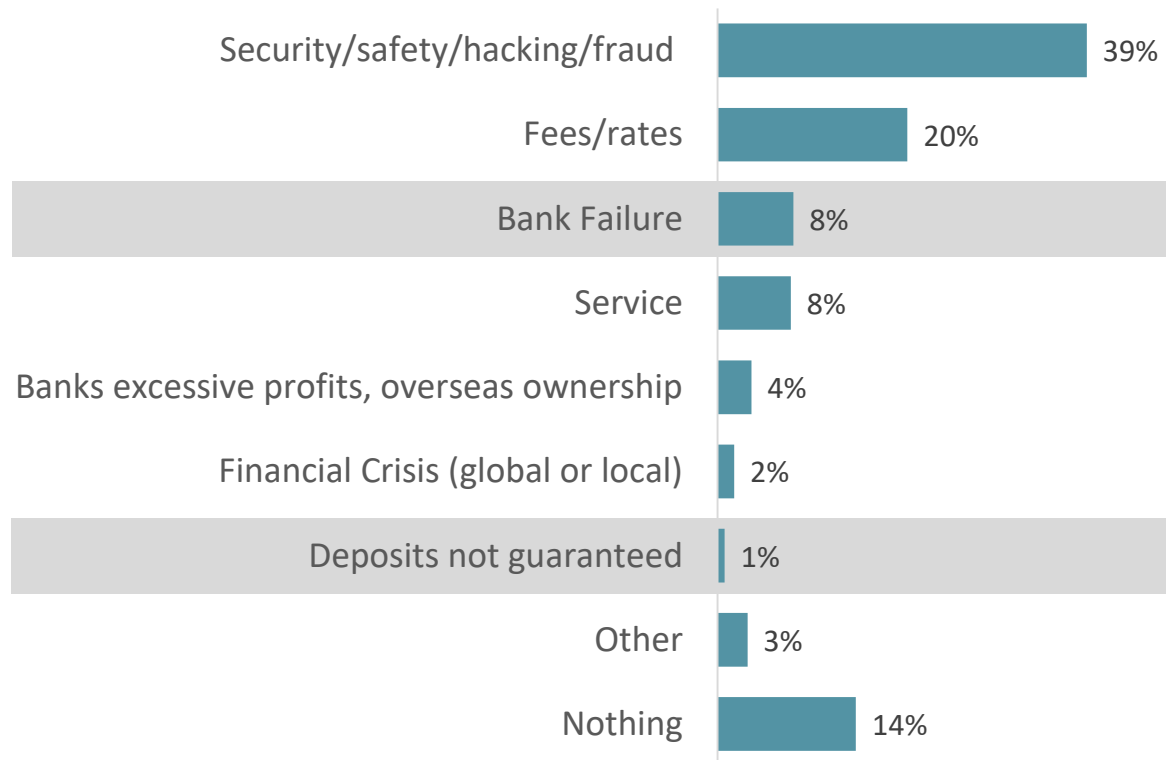
Sample size: n=1008

How to interpret profile differences: for example, **Never are more likely to be 40-54yrs 35% vs 28%**, means that within the *never review bank risk group* 35% are 40-54yrs compared to the population where 40-54 years make up only 28%. As such, this age group is over represented in the group that never review risk.

The most common top of mind concerns about banks relate to *Security/safety of money* (not including bank failure) and *fees/rates*. A small proportion (8%) mention *bank failure*, and 1% specifically mention *deposits not being guaranteed*.

Q3. And generally, when you think about banks and the risks of things going wrong, what things concern you the most?

Concerns about banks and risk



"Fraud and having unauthorized transactions on my account."

"Safety of my money. Reliability of the bank."

"Scammers getting access to your account. If they can or do it only takes a second for it to be cleaned out."

"Interest rates rising and higher fees."

"Fees and if fees and conditions with my bank account change, causing me a cost. I also think a lot about security and how private my personal and financial information is."

"Banks going bust and losing our savings."

"I change bank mostly about customer service they offer and bank fee and charges."

"Quality of service, security of on-line banking."

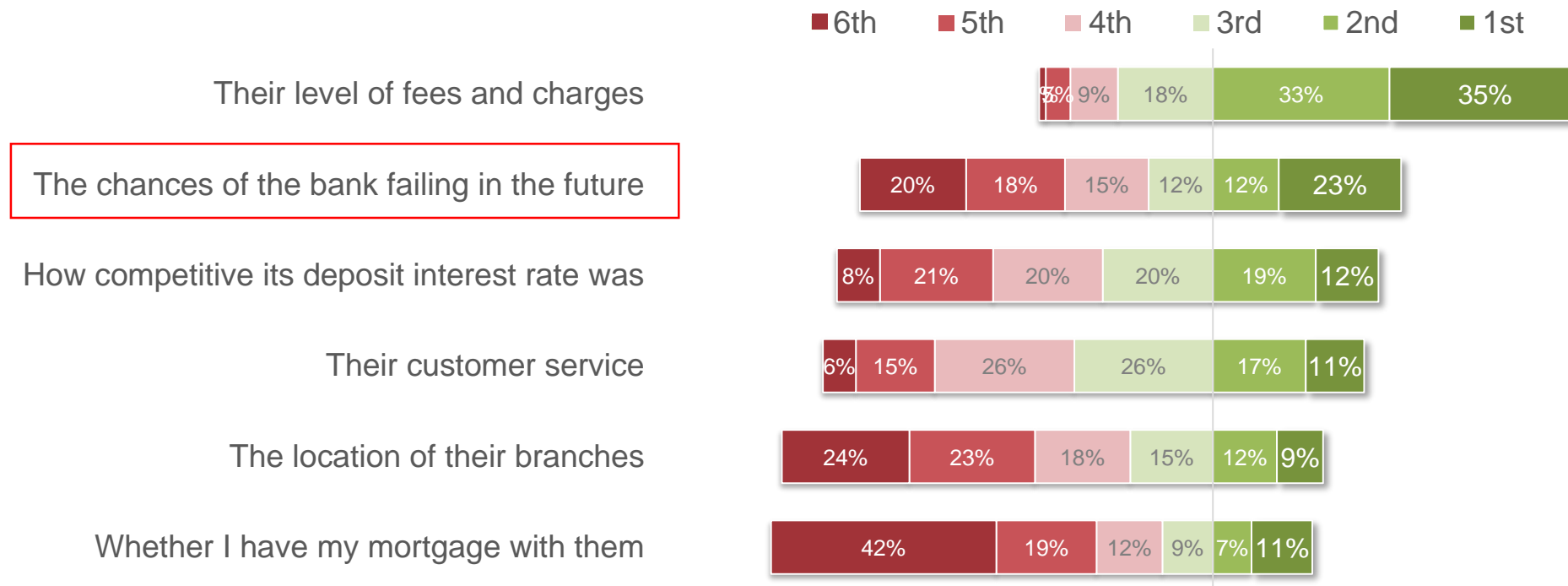
"There is no term deposit insurance in NZ. I worry a lot about if the bank I have accounts with is safe. It is a good option to move my money to AU since banks there have a state guarantee of 250k if a bank is down."

Sample size: n=1008

'Fees and charges' are one of the most important factors driving bank choice for over two thirds of New Zealanders. 'Bank failure' ranks high in importance for around a third, however a similar proportion rank bank failure in the bottom two.

Q4. If you needed to choose a new bank today to open an account with, how important would each of the following be in making that decision?

Rank: Importance when choosing a bank to open an account



Sample size: n=1008



b. Perceived impact of bank failure

Half of all New Zealanders believe they will get all or some money back if their bank fails; a quarter are not sure.

Q6. If a bank where you have deposited your money fails, what do you think would happen to your deposits?, Q7. Please explain why you think that.

What would happen to deposits if bank fails?

■ Don't know ■ I would get none of it back ■ I would get some of it back (I might lose some of it) ■ I would get it all back



Why do you think that?

"I have never thought about it, never really heard of this."

"I have no idea if my funds would be returned if a bank failed."

"Not sure. Never seen this happen to a bank."

"I do not have insurance to cover it. My choice of bank my responsibility."

"Gone is gone there is no insurance other than the government backing you up."

"The bigger depositors would get their money back."

"If the bank fails they basically have no money at that point so unless there was government intervention I can't see how I would get any of my money back."

"I assume the government guarantees a certain amount."

"I think banks are personally liable or that government would have to compensate."

"I imagine they will have more than zero available so I might get some but not all of it."

"If a bank failed there would be so many affected that it wouldn't be able to reimburse everyone."

"Because it's my money not the banks."

"It's a bank and it's their job."

"If it did though unlikely, the government would possibly / likely bail them out."

"I would hope to get it all back as the bank should have insurance for this sort of thing. It's actually never crossed my mind that I could lose all my money that's in a bank account."

Sample size: n=1008

Of those who think they would get at least some money back, over a third (36%) expect it to happen quickly (at most within a few days).

Q6. If a bank where you have deposited your money fails, what do you think would happen to your deposits?, Q8. If you think you'll get some money back, how long do you think it would take?

What would happen to deposits if bank fails?

■ Don't know ■ I would get none of it back ■ I would get some of it back (I might lose some of it) ■ I would get it all back



Sample size: n=1008

How long before to get money back?

■ Don't know ■ A long time, perhaps months or years ■ A few days ■ Straight away – there would be no waiting



Sample size: n=508

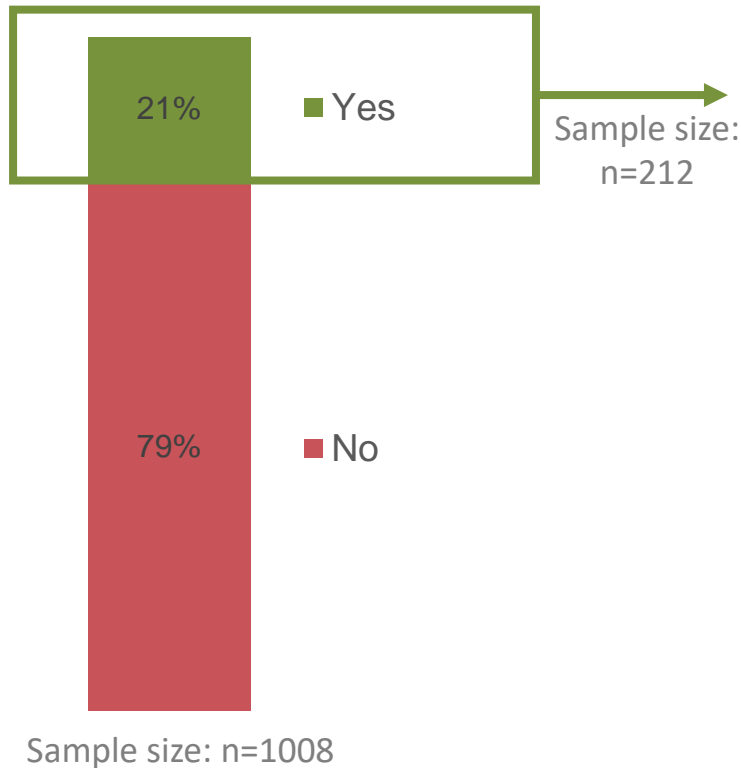


c. Awareness and attitudes to deposit insurance

Deposit insurance is an unfamiliar topic: One in five have heard of it and of these, two thirds claim any understanding of it. Of those that have heard of it, 39% believe deposit insurance exists (that is, 8% of NZ'ers have heard of it and falsely believe NZ has a deposit insurance in place).

Q9. Have you heard of deposit insurance or a deposit guarantee?, Q10. How would you describe your level of understanding of deposit insurance or a deposit guarantee?, Q11. How would you describe what a deposit insurance or deposit guarantee actually is? Q12. Do you believe that New Zealand currently has deposit insurance or a deposit guarantee?

Heard of deposit insurance?



Level of understanding



How would you describe what it is?

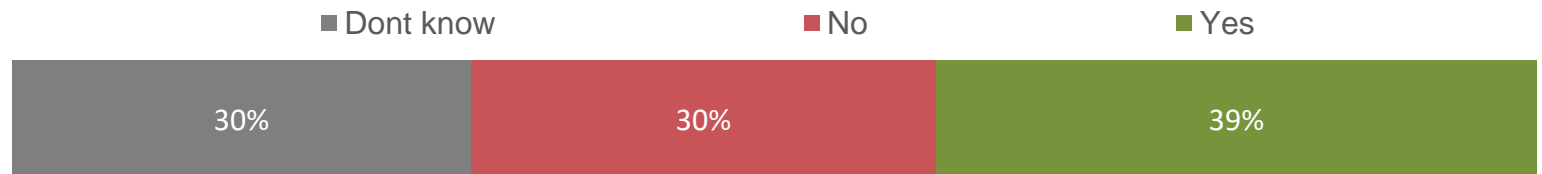
"Insurance that would cover your original deposit."

"You'll get all the money back if you have insurance on your deposit."

"It insures you against losing the money you've deposited and you are guaranteed of getting most if not it all back."

"A majority of bank deposits will be repaid."

Does New Zealand currently have deposit insurance/guarantee?



When presented with an explanation of deposit insurance, 54% of NZ'ers agree that it's a good idea for New Zealand, with almost a third unsure.

Q13. Does putting in place deposit insurance seem like a good idea for New Zealand?

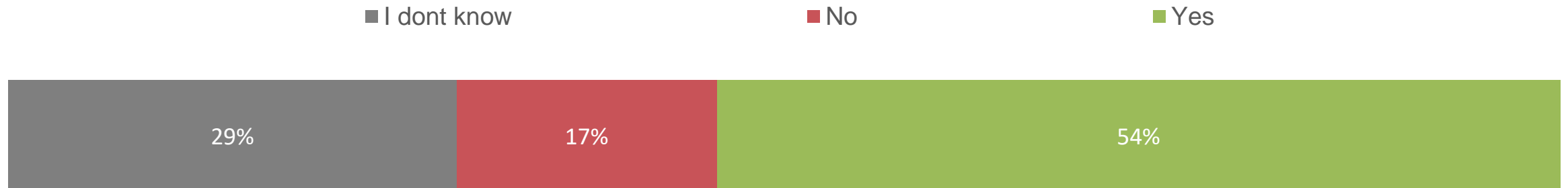
The following explanation was provided:

Almost all advanced countries guarantee (or insure) deposits up to a limit so that, if a bank fails, deposits are promptly repaid (up to the guarantee limit). Deposit insurance has costs. In many countries that have deposit insurance, banks have to pay levies to fund the insurance costs. Banks might pass these levies on to depositors through reduced interest rates or in bank fees.

Deposit insurance can give depositors confidence that their money is safe if their bank gets in trouble.

New Zealand doesn't have deposit insurance.

Is this a good idea for New Zealand?



Sample size: n=1008

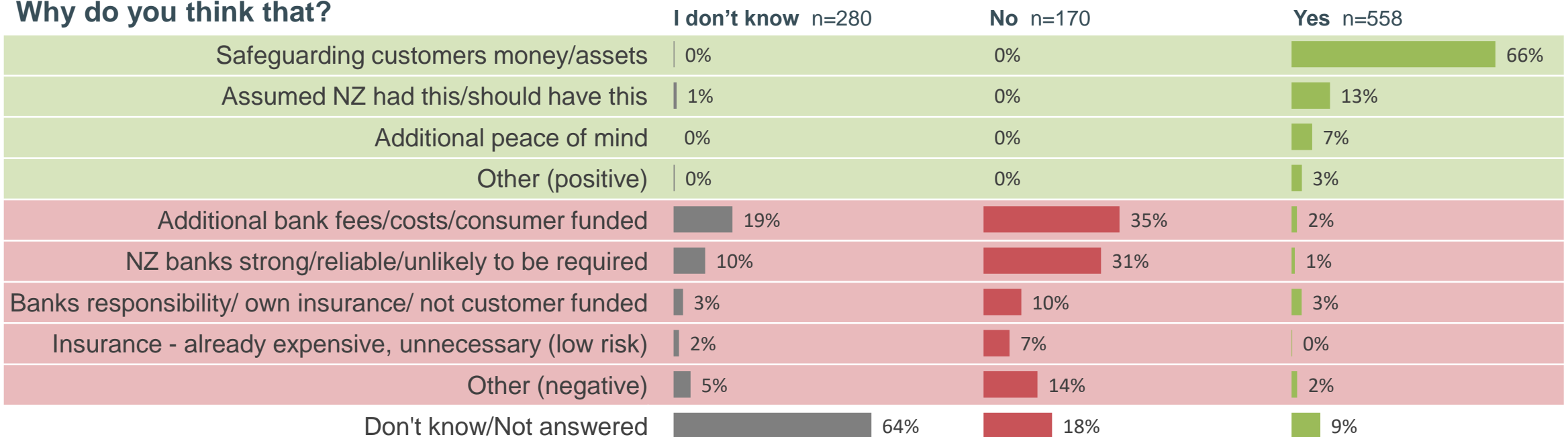
Additional costs/fees to customers is the main reason people do not think deposit insurance is a good idea. Another key reason is believing NZ banks are strong and do not require insurance.

Q13. Does putting in place deposit insurance seem like a good idea for New Zealand?, Q14. Why do you think that?

Is this a good idea for New Zealand?



Why do you think that?



When presented with alternative options for protection (none, partial, guaranteed) over half opted for guaranteed protection.

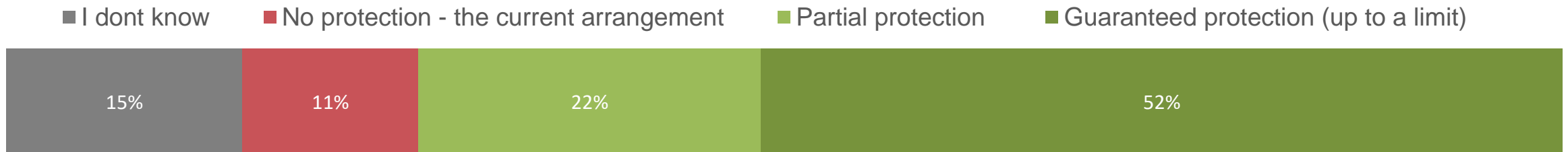
Q15. What would be your preferred approach?

The following explanation was provided:

Another approach is to make it more likely, but not guaranteed, that depositors will get their money back. This method works by putting ordinary depositors near the front of the queue of people waiting to get their money back if a bank fails. If the bank has enough money, then being near the front of the queue means it is more likely that depositors will get their money back – but it is not guaranteed. Also, sometimes it can take a long time for the money to be paid back.

What would be your preferred approach?

Preferred approach



Sample size: n=1008



d. Interest in the Reserve Bank Act Review

Most New Zealanders do indicate at least some interest in elements of the Reserve Bank Act review.

Q16. There is currently a consultation process being undertaken as part of the Review of the Reserve Bank Act. Depositor protection along with a number of other topics is being considered. Please indicate your level of interest in these topics.

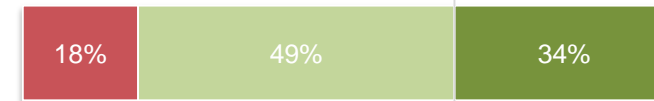
Level of interest in topics

■ Not interested at all ■ Somewhat interested ■ Very interested

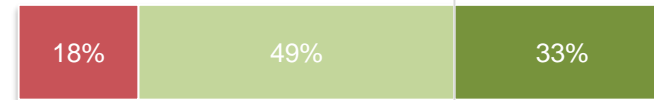
Should we ensure that new, non-traditional financial firms are covered by regulations?



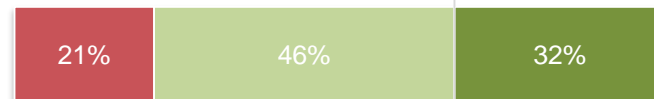
Who should make the Reserve Bank's decisions (a single decision-maker or a group)?



What objectives should the Reserve Bank have?



Should prudential regulation of financial firms remain with the Reserve Bank?



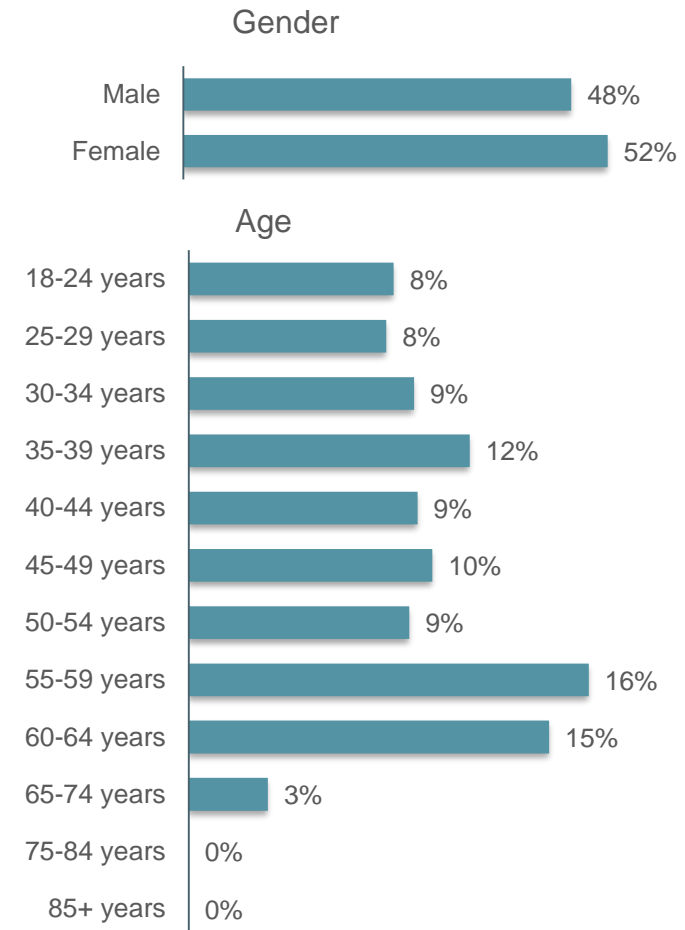
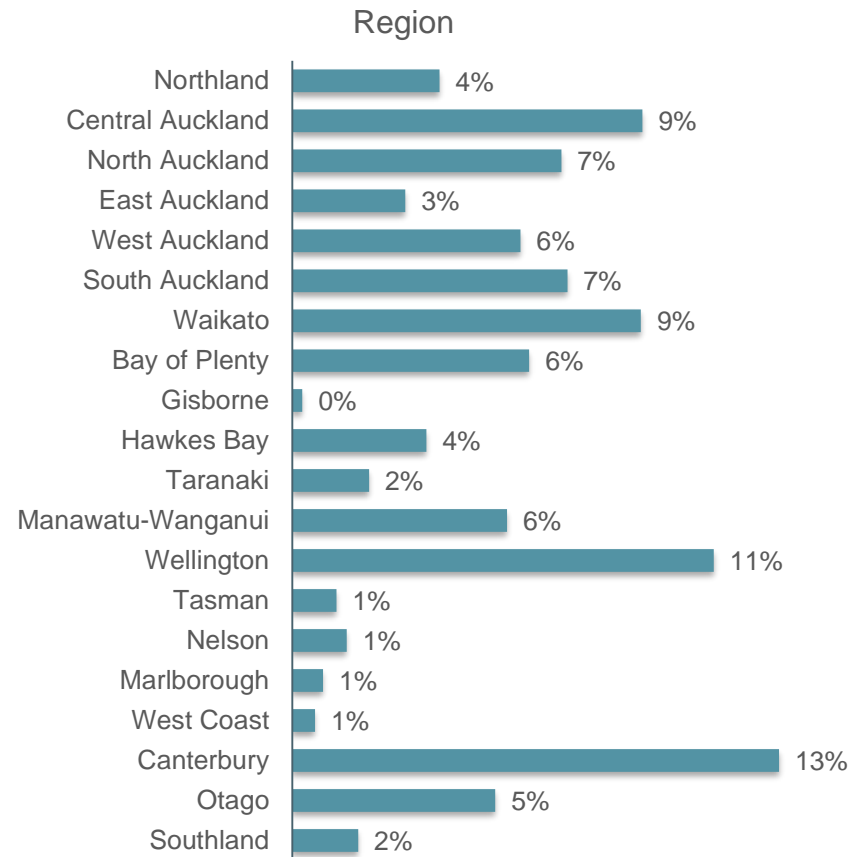
Sample size: n=1008



Demographics

Demographics (1)

D3. Which region of New Zealand do you live in?; D2. Are you;; D1. Which of the following age groups do you belong to:

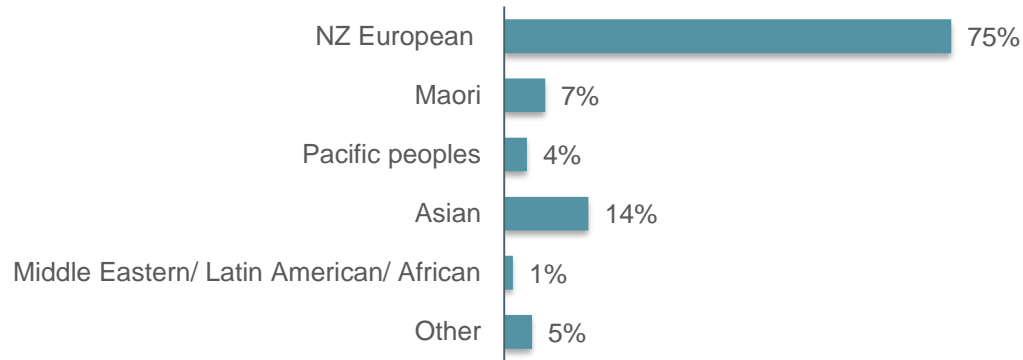


Sample size: n=1008

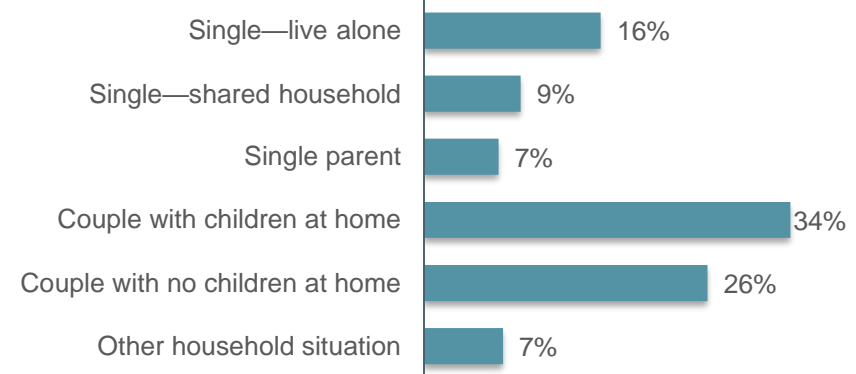
Demographics (2)

D6. Which ethnic group/s do you belong to? ; D7. Which best describes your employment status? D5. Which type of household situation best applies to you?; D4. Which best matches an estimate of all savings and deposits you hold with a bank in New Zealand?

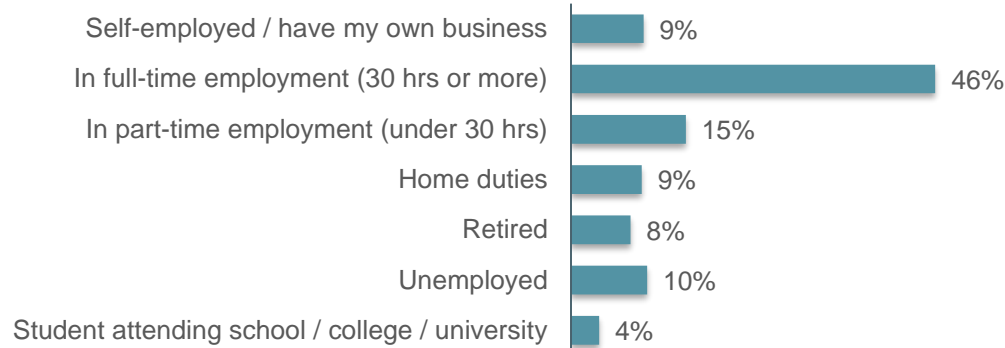
Ethnicity



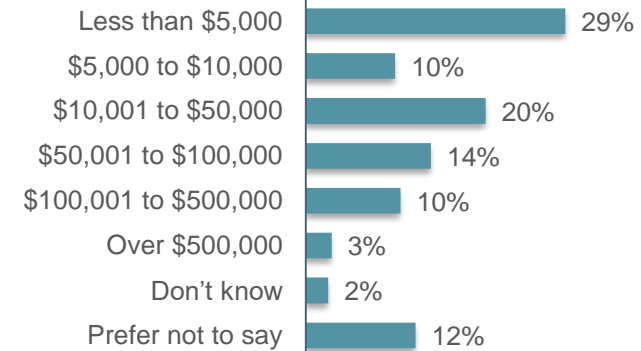
Household situation



Employment status



Estimated savings and deposits in bank



Sample size: n=1008



THE TREASURY

Kaitohutohu Kaupapa Rawa