

The Treasury

Reserve Bank Act Review - Deposit Takers Bill Information Release

April 2021

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Cabinet Economic Development Committee

Minute of Decision

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Reserve Bank Act Review - Deposit Takers Bill: Deposit Insurance (Paper 3)

Portfolio Finance

On 14 April 2021, the Cabinet Economic Development Committee (DEV):

Depositor insurance scheme

- 1 **noted** that on 19 June 2019, DEV agreed in principle to establish a depositor insurance scheme, with a coverage limit in the range of \$30,000 - \$50,000 [DEV-19-MIN-0161];
- 2 **noted** that on 11 December 2019, DEV agreed in principle, subject to further policy development, that:
 - 2.1 the deposit insurance scheme's objective should be to 'protect depositors from loss, and in so doing, contribute to financial stability';
 - 2.2 the maximum amount of coverage for a single depositor at a single institution will be \$50,000;
 - 2.3 membership of the scheme should be compulsory for all licensed deposit-taking institutions;
 - 2.4 the scheme will be fully funded by levies on member institutions;
 - 2.5 the government will provide a funding backstop to enhance the credibility of the scheme, with any funds provided ultimately recouped from member institutions;

[DEV-19-MIN-0346]

- 3 **noted** that the proposals outlined in the paper under DEV-21-SUB-0078 confirm or modify the in-principle decisions referred to above;
- 4 **confirmed** Cabinet's in-principle decision to establish a deposit insurance scheme;

Governance and decision-making

- 5 **agreed** that the statutory objective of the deposit insurance scheme will be along the lines of 'protecting depositors to the extent that they are covered by the deposit insurance scheme, and thereby contributing to financial stability';

- 6 **agreed** that there be a statutory purpose for the deposit insurance scheme along the lines of ‘to promptly reimburse eligible depositors in a liquidation’;
- 7 **agreed** that the deposit insurer will be responsible for carrying out the statutory purpose, and will have statutory duties along the following lines:
- 7.1 to release funds outside of a liquidation and payout, subject to safeguards that will be set out in legislation;
 - 7.2 to promote public awareness;
 - 7.3 to monitor risks to the deposit insurance scheme;
 - 7.4 to collect levies;
 - 7.5 to administer, operate and invest the deposit insurance fund;
- 8 **agreed** that the Reserve Bank will be the deposit insurer;
- 9 **agreed** that the proposed Deposit Takers Bill (the DTA) will allow the Reserve Bank to establish a subsidiary under its ownership and control for the purpose of operating and/or administering the deposit insurance scheme;
- 10 **agreed** that the permitted role of any subsidiary in the deposit insurance scheme is likely to include:
- 10.1 managing any funds to be used for the purpose of paying out eligible depositors;
 - 10.2 holding and enforcing rights of subrogation acquired as a result of deposit insurance pay outs;
 - 10.3 undertaking other duties relating to the deposit insurance scheme delegated to it by the Reserve Bank, such as making payment to eligible depositors;

Funding

- 11 **confirmed** Cabinet’s in-principle decision that the deposit insurance scheme will be fully funded by levies on member institutions (i.e. licensed deposit takers);
- 12 **agreed** that the DTA will require the Minister of Finance to publish a Statement of Funding Approach (funding strategy) for the deposit insurance scheme;
- 13 **agreed** that the funding strategy will include information along the following lines:
- 13.1 risks to the deposit insurance scheme;
 - 13.2 guidance for levy setting;
 - 13.3 guidance for the management of the deposit insurance fund;
 - 13.4 liquidity sources for the deposit insurance scheme;
 - 13.5 how the Minister intends to manage the Crown’s exposure under the scheme;
- 14 **agreed** that the funding strategy must be published at least every five years and, in setting the funding strategy, the Minister of Finance must consult the public and have regard to the advice of the Reserve Bank and the Treasury;

- 15 **agreed** that levies for the deposit insurance scheme will be set by regulations made by Order in Council on the advice of the Minister of Finance and, in giving that advice, the Minister must follow the funding strategy and have regard to published advice of the Reserve Bank;
- 16 **agreed** that in setting the funding strategy and levies for the deposit insurance scheme, the Minister of Finance will be required to take into account certain considerations;
- 17 **agreed** that the considerations referred to in paragraph 16 above will include matters along the following lines:
- 17.1 the deposit insurance scheme should be funded by industry over time;
- 17.2 the financial position of the Crown;
- 17.3 that the levies reflect the amount of claims made or likely to be made by a licensed deposit taker or a class of licensed deposit taker;
- 17.4 the stability of licensed deposit takers or a class of licensed deposit takers;
- 17.5 the desirability of consistency and predictability in levies;
- 18 **agreed** that the DTA will establish a deposit insurance fund that will capture levies collected from licensed deposit takers;
- 19 **agreed** that the Reserve Bank will administer, operate and invest the deposit insurance fund consistently with the funding strategy;
- 20 **agreed** that if the balance of the deposit insurance fund is not sufficient to meet deposit insurance scheme payment obligations, the Crown will provide the required funding to the deposit insurer to satisfy those deposit insurance scheme payment obligations;
- 21 **agreed** that shortfalls in funding can be recovered through future levies;
- 22 **noted** that the Reserve Bank has agreed to provide liquidity to the Crown to support a rapid payout of deposit insurance to eligible depositors, in certain circumstances, and that this role will be prepositioned ahead of the implementation of the deposit insurance scheme;
- 23 **noted** that the policy intention of paragraph 22 above is that any risk arising from liquidity provided by the Reserve Bank to the Crown under the arrangements noted directly above, will be borne by the Crown;
- 24 **agreed** that the funds of the deposit insurance scheme may be released by the Reserve Bank for the purpose of protecting insured depositors in resolution (outside of a liquidation and payout), subject to safeguards that will be set out in legislation;
- 25 **agreed** that safeguards will provide that the overall contribution of the deposit insurance scheme is expected to be no more than it would otherwise have expected to incur in a liquidation and payout of insured depositors, net of expected recoveries;
- 26 **agreed** that there will be other safeguards for the release of funds of the deposit insurance scheme (outside liquidation and payout), with decisions to be made under delegated authority;

Scope of coverage

- 27 **noted** that the Reserve Bank and the Treasury provided advice to the Minister of Finance in December 2020 on the coverage limit in response to stakeholder feedback, and that the Minister agreed to recommend to Cabinet that this be increased from \$50,000 to \$100,000 per eligible depositor, per licensed deposit taker;
- 28 **agreed** that the deposit insurance coverage limit for the deposit insurance scheme be set at \$100,000 per eligible depositor, per licensed deposit taker;
- 29 **agreed** that membership of the scheme will be compulsory for all licensed deposit takers;
- 30 **agreed** that changes to the deposit insurance coverage limit will require parliamentary approval;
- 31 **agreed** that the eligible products covered by the scheme will be transactional, savings and term deposits currently offered by registered banks, and the equivalent products offered by non-bank deposit takers;
- 32 **agreed** that the DTA will provide for regulations to be made by Order in Council on the advice of the Minister of Finance to add eligible products for deposit insurance that are of the same or substantially similar economic substance as those specified in the DTA;
- 33 **agreed** that deposits held by financial institutions, related parties of scheme members, large non-financial corporates, government bodies and foreign currency deposits be excluded from coverage by the scheme, and that this exclusion will be set out in the DTA;
- 34 **agreed** that a person's share of jointly held eligible products should count towards that person's individual claim on the deposit insurance scheme (up to the \$100,000 limit for each individual depositor), and that this should be in the DTA;
- 35 **agreed** that regulations to deal with how eligibility applies to other types of ownership structures (e.g. trusts and partnerships) may be made by Order in Council on the advice of the Minister of Finance;
- 36 **agreed** that there will be restrictions applying to all financial service providers around the use of the word 'deposit' and substantially similar terms to ensure confident and informed participation of business, investors and consumers when dealing with products offered by deposit takers;
- 37 **agreed** that consequential amendments to the Financial Markets Conduct Act 2013 and Regulations, including disclosure requirements, be made (under delegated authority or subsequently) where required as a result of the deposit insurance proposals, and that these will be developed ahead of the implementation of the deposit insurance scheme;
- 38 **agreed** that the DTA will provide when eligible depositors become entitled to a payout from the deposit insurance scheme, and that the policy intent is that the latest this will occur is the time a licensed deposit taker is placed into liquidation;
- 39 **agreed** that the DTA provide that the deposit insurer will have a right of subrogation to the extent of any payout to an eligible depositor, and that these provisions will be based on similar provisions contained in the Crown Retail Deposit Guarantee Scheme Act 2009;

- 40 **agreed** that the Insurance (Prudential Supervision Act) 2010 will not regulate (or impose licensing requirements on) the deposit insurance scheme, the Crown, the Treasury, the Reserve Bank as deposit insurer, or any Reserve Bank subsidiary established for the purposes of operating/administering the scheme;

Next steps

- 41 **invited** the Minister of Finance to report back to DEV on the first funding strategy to be published under the DTA, prior to the funding strategy being published.

Janine Harvey
Committee Secretary

Present:

Hon Grant Robertson (Chair)
Hon Dr Megan Woods
Hon Carmel Sepuloni
Hon David Parker
Hon Nanaia Mahuta
Hon Poto Williams
Hon Damien O'Connor
Hon Stuart Nash
Hon Willie Jackson
Hon Michael Wood
Hon Dr David Clark
Hon Phil Twyford
Rino Tirikatene, MP
Dr Deborah Russell, MP

Officials present from:

Office of the Prime Minister
Officials Committee for DEV

Hard-copy distribution:

Minister of Finance