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Yale Program on Financial Stability

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New Zealand: Crown Retail Deposit Guarantee Scheme

Ezekiel Vergara

Yale Program on Financial Stability Case Study
July 15, 2022

Abstract

The collapse of Lehman Brothers in 2008 led to a global financial crisis. Leaders of the G-7 countries agreed on October 10, 2008, to five principles for addressing the crisis, including the need for sound deposit insurance. On October 12, Australia’s prime minister announced a deposit insurance program that his government had first publicly vetted in June. Anticipating Australia’s announcement, New Zealand’s prime minister announced its own deposit guarantee scheme on the same afternoon. The government launched the Crown Retail Deposit Guarantee Scheme (the Scheme) “to ensure ongoing retail depositor confidence in New Zealand’s financial system, given turbulence in the international financial system.” To do this, the Treasury said it would provide an unlimited guarantee of all retail deposits of eligible institutions; on October 22, it set a cap of 1 million New Zealand dollars (NZD; about USD 600,000) per depositor. Unlike Australia’s scheme and most other deposit schemes introduced during the Global Financial Crisis (GFC), New Zealand’s guarantee covered deposits in finance companies and holdings in some types of collective investment schemes. Unlike Australia’s program and most others, it was not mandatory; institutions could opt in, and all eligible institutions did so. The Scheme was intended to last two years, until October 12, 2010. However, the government ultimately extended the Scheme until December 31, 2011. When the Scheme was extended, fees shifted from a flat rate to risk-based rates. During its operation, nine nonbank financial institutions failed. The Scheme paid NZD 1.9 billion in claims. It ultimately paid out 100% of deposits to all depositors of failed institutions, despite the NZD 1 million cap, because of the administrative challenge of identifying depositors under the cap. The Scheme collected NZD 1.1 billion from receiverships and NZD 237 million in fees. New Zealand has not reinstated deposit insurance since the Scheme expired.

Keywords: account guarantees, Crown Retail Deposit Guarantee Scheme, Global Financial Crisis, New Zealand

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1 This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering account guarantee programs. Cases are available from the Journal of Financial Crises at https://elischolar.library.yale.edu/journal-of-financial-crisis/.

2 Research Associate, YPFS, Yale School of Management.
Overview

In 2008, following the failure of Lehman Brothers, the Global Financial Crisis (GFC) spread across the world. Leaders of the G-7 countries agreed on October 10, 2008, to five principles for addressing the crisis, including the need for sound deposit insurance (Group of Seven 2008). New Zealand, which had no deposit insurance at the time, announced a deposit insurance scheme on October 12, 2008 (Clark 2008). It sought to reassure depositors and avoid a flight of funds to Australia, whose government announced a similar scheme on the same afternoon (OAG 2011; Reserve Bank 2008d). New Zealand officials, however, misunderstood the terms of Australia’s guarantee. New Zealand authorities believed that Australia’s guarantee would cover nonbank financial institutions as a “full guarantee” (Dann 2018). The Australian guarantee did not cover these institutions.

The Treasury established the Crown Retail Deposit Guarantee Scheme (the Scheme) under the Public Finance Act of 1989 (Reserve Bank 2008d; Public Finance Act 1989, sec. 65ZD). The Scheme had to be rolled out quickly “to ensure ongoing retail depositor confidence in New Zealand’s financial system, given turbulence in the international financial system” (Treasury 2009a). To do this, the Treasury guaranteed all retail deposits of eligible institutions and holdings in some types of collective investment schemes (Reserve Bank 2008d). By doing so, the Treasury and the Reserve Bank hoped to forestall bank runs that would have increased “the difficulties faced by New Zealand financial institutions and the broader economy” (OAG 2011). The government originally said that the guarantee was unlimited, but

Key Terms

| Purpose: | To “ensure ongoing retail depositor confidence in New Zealand’s financial system, given turbulence in the international financial system” |
Operation: Oct. 12, 2008 |
| End Dates | Originally, Oct. 12, 2010; later extended to Dec. 31, 2011 |
| Eligible Institutions | New Zealand–registered banks and nonbank deposit-taking financial institutions |
| Eligible Account(s) | All deposits for registered banks and some types of collective investment scheme. For nonbank deposit-taking institutions, the Scheme covered only the deposits of New Zealand citizens and tax residents |
| Fees | Originally, 10 basis points on retail deposits over NZD 5 billion; later, fees were risk-based |
| Size of Guarantee | Originally unlimited, then set at NZD 1 million on Oct. 22, 2008; lowered in 2010 to NZD 500,000 for bank deposits and NZD 250,000 for others |
| Coverage | At its height, the Scheme covered NZD 133 billion of assets |
| Outcomes | Estimated NZD 1.9 billion in claims due to nine failed nonbank institutions; NZD 1.1 billion expected from receivership; NZD 237 million expected from fees |

(continued)
on October 22 announced a limit of 1 million New Zealand dollars (NZD; about USD 600,000) per depositor (Treasury 2008a).³

Eligible institutions needed to be New Zealand-registered banks and nonbank deposit-taking financial institutions, including building societies, credit unions, and deposit-taking finance companies (Reserve Bank 2008c). To be eligible for the Scheme, institutions needed to submit an application to the Treasury, which determined an institution’s eligibility (Reserve Bank 2008a; Reserve Bank 2009a; Reserve Bank 2009b; OAG 2011).

In 2009, the Parliament passed the Crown Retail Deposit Guarantee Scheme Act of 2009 to extend the Scheme (CRDGS Act 2009, pt. 2). That legislation had three main functions. First, it extended the Scheme until December 31, 2011 (CRDGS Act 2009, pt. 2[6][1]). Second, it further specified which institutions were eligible for the Scheme and provided a new application (English 2009; OAG 2011). Third, it allowed the Treasury to alter fees from a flat rate to a risk-based rate (CRDGS Act 2009, pt. 2[6][2]; OAG 2011).

The Scheme covered all deposits for registered banks (Reserve Bank 2008c). For nonbank deposit-taking institutions, the Scheme only covered the deposits of New Zealand citizens and tax residents (Reserve Bank 2008c). The government originally said the guarantee would be unlimited; on October 22, it set a cap of NZD 1 million per person (OAG 2011; Reserve Bank 2008b). After October 12, 2010, the Scheme’s coverage was lowered to NZD 500,000 per person for bank accounts and NZD 250,000 for nonbank accounts (OAG 2011).

Originally, the Scheme was free for eligible institutions with total retail deposits under NZD 5 billion (Reserve Bank 2008d). For institutions with over NZD 5 billion of total retail deposits, the Treasury charged 10 basis points on an institution’s total retail deposits over NZD 5 billion (Reserve Bank 2008c). After October 12, 2010, fees for the Scheme became risk-based and differed depending on the type of institution that was insured (OAG 2011). The Treasury adopted risk-based fees because it believed that this would reduce market distortion, favor lower-risk institutions, and encourage institutions to opt out of the Scheme (OAG 2011; Treasury 2009c).

The government originally said the Scheme would last two years, until October 12, 2010 (Reserve Bank 2008d). However, in order to maintain public confidence, reduce market

³ On Oct. 15, 2008, USD 1 = NZD 1.67, per Yahoo Finance.
distortion, and manage costs, the Scheme was extended in 2009 (Treasury 2009b; English 2009; CRDGS Act 2009). The Scheme ended on December 31, 2011 (Treasury 2012). Figure 1 highlights features of the Scheme and their changes over time.
Figure 1: Comparing the Original, Revised, and Extended Phases of the Scheme

<table>
<thead>
<tr>
<th></th>
<th>Original Scheme</th>
<th>Revised Scheme</th>
<th>Extended Scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Guaranteed period</strong></td>
<td>12 October 2008 to 12 October 2010</td>
<td>1 January 2010 to 12 October 2010</td>
<td>12 October 2010 to 31 December 2011</td>
</tr>
<tr>
<td><strong>Institutions</strong></td>
<td>73</td>
<td>63</td>
<td>7</td>
</tr>
<tr>
<td><strong>Number of failures</strong></td>
<td>2</td>
<td>6**</td>
<td>1</td>
</tr>
<tr>
<td><strong>Guarantee</strong></td>
<td>Includes interest accrued after the failure date</td>
<td>Includes interest accrued after the failure date, but cap applies (claim forms must be submitted within adequate time)</td>
<td>Interest after the failure date is explicitly excluded and claim forms must be received within 180 days</td>
</tr>
<tr>
<td><strong>Excluded debt security</strong></td>
<td>N/A</td>
<td>Guarantee does not apply to Excluded Security (entity can offer non-guaranteed debt)</td>
<td>Guarantee does not apply to Excluded Security (entity can offer non-guaranteed debt)</td>
</tr>
<tr>
<td><strong>Liability cap</strong></td>
<td>$1 million</td>
<td>$1 million</td>
<td>$250,000 for NBDTs and $500,000 for banks</td>
</tr>
<tr>
<td><strong>Fees</strong></td>
<td>Charged if an institution had more than $5 billion in deposits</td>
<td>Same as for the original Scheme</td>
<td>Risk-based fees apply to all guaranteed debt (not just growth)</td>
</tr>
<tr>
<td><strong>Ratings requirement</strong></td>
<td>Minimum credit rating of BBB-</td>
<td>Same as for the original Scheme</td>
<td>Minimum credit rating of BB</td>
</tr>
<tr>
<td><strong>Supporting legislation</strong></td>
<td>Public Finance Act 1989</td>
<td>Public Finance Act 1989</td>
<td>Crown Retail Deposit Guarantee Scheme Act 2009</td>
</tr>
</tbody>
</table>
Note: All figures are in NZD.

* Number of institutions covered when the Scheme started.

** A large proportion of deposits in failed entities covered by the revised guarantee deed continued to be covered by the original guarantee deed (which was the deed in place when the deposit was made).

*Source: OAG 2011, 78-79.*

At its peak, the Scheme covered NZD 133 billion of deposits (Treasury 2011). A government report noted that this was two-thirds of New Zealand’s annual gross domestic product and nearly double the expenditures of New Zealand’s government (OAG 2011). During its operation, no banks failed, but nine finance companies failed (OAG 2011). Eight were covered by the original revised scheme and one (Equitable Mortgages) was covered by the Extended Scheme. Figure 2 illustrates the failures that occurred during the Scheme’s operation.
Figure 2: Institutions That Failed While Covered by the Crown Retail Deposit Guarantee Scheme

<table>
<thead>
<tr>
<th>Institution</th>
<th>Date of failure</th>
<th>Amount paid* $million</th>
<th>No. of depositors</th>
<th>Months taken to complete payout</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mascot Finance Limited</td>
<td>2 March 2009</td>
<td>70.0</td>
<td>2,494</td>
<td>20</td>
</tr>
<tr>
<td>Strata Finance Limited**</td>
<td>23 April 2009</td>
<td>0.5</td>
<td>17</td>
<td>20</td>
</tr>
<tr>
<td>Vision Securities Limited</td>
<td>1 April 2010</td>
<td>30.0</td>
<td>967</td>
<td>8</td>
</tr>
<tr>
<td>Rockforte Finance Limited</td>
<td>10 May 2010</td>
<td>4.0</td>
<td>66</td>
<td>4</td>
</tr>
<tr>
<td>Viaduct Capital Limited</td>
<td>14 May 2010</td>
<td>7.6</td>
<td>88</td>
<td>4</td>
</tr>
<tr>
<td>Mutual Finance Limited</td>
<td>14 July 2010</td>
<td>9.2</td>
<td>329</td>
<td>2</td>
</tr>
<tr>
<td>Allied Nationwide Finance Limited</td>
<td>20 August 2010</td>
<td>131.0</td>
<td>4,094</td>
<td>3</td>
</tr>
<tr>
<td>South Canterbury Finance Limited</td>
<td>31 August 2010</td>
<td>1,580.3</td>
<td>30,404</td>
<td>0</td>
</tr>
<tr>
<td>Equitable Mortgages Limited</td>
<td>26 November 2010</td>
<td>140.2</td>
<td>3,852</td>
<td>Not applicable</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>1,972.8</strong></td>
<td><strong>42,311</strong></td>
<td></td>
</tr>
</tbody>
</table>

(a) All figures are in NZD.
(b) Original source was the New Zealand Treasury.
(c) As of June 30, 2011. The Treasury expects to pay out a further NZD 37.3 million.

* Includes interest payments after the institution failed and ineligible deposits. Note that some small payments remain outstanding because some deposits are yet to mature, and some depositors cannot be traced.

** Most eligible depositors were paid on June 4, 2009.


The Scheme was expected to pay NZD 1.9 billion in claims due to these failures, the largest being the failure of South Canterbury Finance Limited in August 2010 (OAG 2011). The failure of South Canterbury Finance prompted the Treasury to pay out all depositors with the finance company, regardless of their eligibility criteria (OAG 2011). The Treasury later extended its decision to pay out all previously ineligible depositors to all other guaranteed companies that failed (OAG 2011).
The Scheme expected to collect NZD 1.1 billion from all its receiverships and NZD 237 million in fees (Makhlouf 2010; OAG 2011).

**Summary Evaluation**

A report on the Scheme issued by New Zealand’s Auditor-General highlighted strengths and weaknesses of the Scheme. The Auditor-General underscored the Treasury’s regular communication about the Scheme, both with the public and with New Zealand’s government (OAG 2011). However, the Auditor-General found that the Treasury’s monitoring of participating institutions was imperfect and faced difficulties, including data inaccuracies and delays in receiving information. It criticized the five-month gap between the launch of the program and the first inspection of a covered institution. Still, the OAG said that the monitoring that the Treasury eventually implemented was, “for the most part, effective” (OAG 2011).

The Scheme faced several challenges. Foremost among these challenges was the speed with which the Scheme needed to be designed and implemented (OAG 2011). Because there was no deposit insurance scheme beforehand, the Treasury undertook a massive operation with limited time to consider the Scheme’s design (OAG 2011). This led to various problems, including limited planning for potential payouts of the guarantee (OAG 2011). Moreover, questions were left open, such as whether the Scheme would cover interest accrued on insured accounts (OAG 2011).

Another concern associated with the Scheme was market distortion (OAG 2011). The Auditor-General’s report found that because financial institutions were insured under the Scheme, these institutions experienced an influx of deposits, which increased the Scheme’s risk exposure (OAG 2011). This provided financial institutions with an incentive to “engage in higher-risk lending,” given that they were insured and received an influx of deposits (OAG 2011). Figure 3 illustrates these market distortions.
The Treasury attempted to reduce this exposure over time. Namely, the Treasury revised the Scheme under the Crown Retail Deposit Scheme Act, increasing fees and altering eligibility criteria, so as to facilitate an orderly exit from the Scheme and to reduce market distortion (OAG 2011).

In his report, the Auditor-General examined the Scheme’s first failure, that of Mascot Finance Limited (OAG 2011). The Auditor-General noted that neither the Reserve Bank nor the Treasury investigated information that could have affected Mascot Finance’s eligibility for the Scheme (OAG 2011). While not opposing Mascot Finance’s entry in the Scheme, the Auditor-General said that New Zealand authorities should have requested more information regarding Mascot Finance’s liquidity position, to confirm its ability to meet its then-upcoming debt obligations (OAG 2011). Following Mascot Finance’s failure, the Auditor-
General reported that the Treasury started to consider the riskiness of institutions, along with their creditworthiness and business practices (OAG 2011). This led authorities to reject several institutions from the Scheme (OAG 2011). The Auditor-General also noted that, following the Scheme’s first failure, the Treasury became more concerned with minimizing the Scheme’s cost, increasing the monitoring of individual institutions (OAG 2011).

The Auditor-General’s 2011 report made four recommendations to improve future programs like the Scheme. First, the Auditor-General recommended that the Treasury should have a project planning framework which would guide individuals implementing the program (OAG 2011). Second, the Auditor-General suggested that the Treasury should have a framework to clearly document important design decisions, while also being adaptable to emerging risk (OAG 2011). Third, it suggested that the Treasury should conduct an internal review of the Scheme (OAG 2011). Fourth, the Auditor-General proposed that the Treasury and the Reserve Bank examine failed institutions and create a procedure to deal with such institutions (OAG 2011).
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP</strong> (SAAR, nominal GDP in LCU converted to USD)</td>
<td>$135.51 billion in 2008 $122.09 billion in 2009 $145.48 billion in 2010 $166.27 billion in 2011</td>
</tr>
<tr>
<td><strong>GDP per capita</strong> (SAAR, nominal GDP in LCU converted to USD)</td>
<td>$31,253 in 2008 $28,209 in 2009 $33,677 in 2010 $38,388 in 2011</td>
</tr>
<tr>
<td><strong>Size of banking system</strong></td>
<td>$195.93 billion in 2008 $183.86 billion in 2009 $223.25 billion in 2010 Data not available for 2011</td>
</tr>
<tr>
<td><strong>Size of banking system as a percentage of GDP</strong></td>
<td>144.59% in 2008 150.59% in 2009 153.46% in 2010 Data not available for 2011</td>
</tr>
<tr>
<td><strong>Size of banking system as a percentage of financial system</strong></td>
<td>100% in 2008–2010 Data not available for 2011</td>
</tr>
<tr>
<td><strong>Five-bank concentration of banking system</strong></td>
<td>94.77% in 2008 95.26% in 2009 94.14% in 2010 93.60% in 2011</td>
</tr>
<tr>
<td><strong>Foreign involvement in banking system</strong></td>
<td>96% in 2008 96% in 2009 95% in 2010 95% in 2011</td>
</tr>
<tr>
<td><strong>Government ownership of banking system</strong></td>
<td>Data not available for 2008–2011</td>
</tr>
<tr>
<td><strong>Existence of deposit insurance</strong></td>
<td>None (other than this program) in 2008–2011</td>
</tr>
</tbody>
</table>

Key Design Decisions

1. Purpose: The Crown Retail Deposit Guarantee Scheme (the Scheme) guaranteed all retail deposits and some managed funds to reassure depositors and to prevent an outflow of funds to Australia.

In the aftermath of the failure of Lehman Brothers, the G-7 countries agreed to maintain sound deposit insurance systems (Group of Seven 2008). At the time, New Zealand had no deposit insurance scheme (Clark 2008). However, when Australian authorities informed New Zealand that Australia would guarantee deposits, New Zealand officials on October 12, 2008, announced what they believed to be a similar scheme (OAG 2011; Reserve Bank 2008d). The Scheme was meant to reassure depositors and avoid a flight of funds to Australia (OAG 2011; Reserve Bank 2008d).

However, New Zealand officials misunderstood the terms of Australia’s guarantee. They believed that Australia’s guarantee would cover nonbank financial institutions as a “full guarantee” (Dann 2018). The Australian guarantee did not cover these institutions.

2. Part of a Package: New Zealand policymakers also implemented a Wholesale Funding Guarantee.

In addition to the Scheme, on November 1, 2008, the Treasury announced the Wholesale Funding Guarantee (Treasury 2010a). The Wholesale Funding Guarantee was a “facility [for] investment-grade financial institutions in New Zealand,” meant to help banks issue short-term debt on wholesale funding markets and preserve the domestic economy’s access to foreign credit (Cullen 2008; Fang 2020). This program was meant to facilitate access to international funding markets after similar guarantees were announced in other countries, including Australia (Cullen 2008; Treasury 2008b) (see Fang 2020). Australia and other countries had announced deposit insurance and wholesale funding guarantees at the same time.

3. Legal Authority: To establish the Scheme, New Zealand authorities utilized the Public Finance Act of 1989. Later, the legislature extended the Scheme with the Crown Retail Deposit Guarantee Scheme Act.

When the Scheme was established, Parliament was not sitting; the Minister of Finance, who heads the Department of the Treasury, was thus forced to act pursuant to his legal powers (Reserve Bank 2008b). As such, the Scheme was established pursuant to the Public Finance Act of 1989 (Reserve Bank 2008d; Public Finance Act 1989, sec. 65ZD). According to section 65ZD, the Minister of Finance can guarantee accounts if it is “necessary or expedient in the public interest to do so” (Public Finance Act 1989, sec. 65ZD). Later, the Parliament passed the Crown Retail Deposit Guarantee Scheme Act of 2009 to extend the Scheme until December 31, 2011, alter fees, and tighten eligibility criteria (CRDGS Act 2009, pt. 2[6][1]).
4. **Administration: The Treasury and the Reserve Bank drafted the Scheme. The Treasury administered the day-to-day operations of the Scheme.**

The Treasury and the Reserve Bank were both involved in designing the Scheme (OAG 2011). The Treasury, though, was responsible for administering the day-to-day operations of the Scheme, including monitoring accepted institutions (OAG 2011). Such monitoring, though, only began in March 2009 (OAG 2011).

To enroll in the Scheme, institutions needed to apply (OAG 2011). The Treasury would then determine whether an institution was eligible for the Scheme (OAG 2011). In cases where participating institutions were unable to fulfill redemptions, the Treasury executed the guarantee, acting as the institution’s insurer and receiver (Reserve Bank 2008c).

The Treasury contracted the Reserve Bank to monitor financial institutions and to advise the Treasury on whether certain institutions met the Scheme’s eligibility criteria (OAG 2011). The Treasury could appoint inspectors to validate monitoring information (OAG 2011).

5. **Governance: The Reserve Bank aided the Treasury with prudential monitoring. The Auditor-General later audited the Scheme.**

In 2011, the Office of the Auditor-General conducted an evaluation of the Scheme, pursuant to section 16 of the Public Audit Act of 2001 (OAG 2011; Public Audit Act 2001). The Office of the Auditor-General reported that the Scheme had achieved its goal—no banks failed—but faced several challenges (OAG 2011). As such, the Auditor-General provided the Treasury and the Reserve Bank with policy recommendations (OAG 2011). See the Evaluation section for a discussion of the Auditor-General’s report.

6. **Communication: The Treasury asserted that the Scheme was meant to reassure depositors during a time of economic uncertainty.**

Leading up to October 12, 2008, New Zealand officials had been in communication with their Australian counterparts, discussing whether guarantee schemes would be required in each jurisdiction (OAG 2011). On October 12, 2008, Australian officials informed those in New Zealand that a deposit insurance scheme would be announced (OAG 2011). This prompted the New Zealand Treasury, on October 12, 2008, to announce the Scheme (Reserve Bank 2008d).

The Scheme was meant “to ensure ongoing retail depositor confidence in New Zealand’s financial system, given turbulence in the international financial system” (Treasury 2009a). The Auditor-General underscored the Treasury’s “adequate and timely” communication about the Scheme, both with the public and with New Zealand’s government (OAG 2011). The Auditor-General commended how updates to the Scheme were made available on the Treasury’s website and how information was communicated to Parliament (OAG 2011).
7. Size of Guarantees: The government first announced unlimited coverage, but two weeks later set a cap of NZD 1 million; it lowered the cap in 2010.

In its October 12, 2008, announcement, the government said that it would provide unlimited coverage to depositors. On October 22, 2008, it announced a cap of NZD 1 million per person in line with a cap of AUD 1 million that it expected the Australian Government to announce; two days later, the Australians did set a cap, but they also continued to offer unlimited deposit coverage for a fee (Reserve Bank 2008b; OAG 2011; Treasury 2008a).

On October 12, 2010, the government lowered the cap to NZD 500,000 for bank accounts and NZD 250,000 for nonbank accounts (OAG 2011).

8. Source(s) and Size of Funding: The Scheme was funded through fees charged to eligible institutions, with the Treasury responsible for any losses in excess of the fees.

The Scheme was funded by fees charged to participating institutions (Reserve Bank 2008b). The Scheme collected NZD 237 million in fees (OAG 2011). The Scheme, though, was forced to pay NZD 1.9 billion in claims, which was covered by the Treasury (OAG 2011; Makhlouf 2010). The Scheme expected to collect NZD 1.1 billion from receiverships. To cover the expected loss, the Treasury set aside NZD 831 million in its fiscal budget for the year ended June 30, 2009 (Treasury 2009d). The Scheme had collected NZD 237 million in fees as of June 30, 2010 (Makhlouf 2010; OAG 2011). The Scheme was not intended to minimize the Crown's liabilities (OAG 2011).

9. Eligible Institutions: At first, all New Zealand-registered banks and nonbank deposit-taking financial institutions could apply to the Scheme. In 2009, the government added a BB minimum credit rating.

Only deposit-taking institutions were eligible for the Scheme (Reserve Bank 2008d). Eligible institutions needed to be New Zealand-registered banks and nonbank deposit-taking financial institutions, which were fully compliant with the requirements of their trust deeds (Reserve Bank 2008c). This included finance companies or companies that are oftentimes involved in diverse forms of lending such as “motor vehicle and vendor finance, property development, and commercial and consumer finance” (OAG 2011). Nonbank deposit-taking institutions were also subject to a different regulatory and supervisory framework, when compared to banks (OAG 2011). Nine eligible institutions failed under the Scheme, all of them finance companies (OAG 2011). The Crown Retail Deposit Scheme Act of 2009 further specified the criteria for eligible institutions (English 2009).

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4 “Trust deeds” refers to the fact that New Zealand's regulatory framework was based primarily on “a trustee supervisory model under which an NBDT appoints a trustee corporation or person approved for the purpose” (OAG 2011). According to this model, the nonbank deposit-taking institutions (NBDTs) would agree to a trust deed, which set out requirements that the institution needed to meet (OAG 2011). The trustee was meant to supervise and enforce the institution's compliance with the terms of the trust deed (OAG 2011). The trustee could also place the institution into receivership if this was a term of the trust deed (OAG 2011).
The Scheme had different eligibility criteria for different types of institutions. It had five different guarantee deeds: for registered banks; building societies and credit unions; and three separate nonbank deposit-taking company guarantee deeds covering finance companies, cash collective investment schemes, and unit trust collective investment schemes (OAG 2011; Reserve Bank 2009a; Reserve Bank 2009b).

To participate in the Scheme, institutions were required to submit an application (OAG 2011). The application included a profile of an institution’s financial services, the value of outstanding debt securities, and copies of the institution’s latest annual report, prospectus, and investment statement (Treasury 2010b). The Treasury would then determine whether an institution was eligible for the Scheme (OAG 2011). The application process led to some confusion, as institutions were unclear about “other factors,” which the Treasury considered in their decision to extend the guarantee (OAG 2011).

The Crown Retail Deposit Guarantee Scheme Act of 2009 further clarified the eligibility criteria for the Scheme, while also extending the Scheme and altering its fees (CRDGS Act 2009, pt. 2[5][1-3]; English 2009). Notably, the Act allowed the Minister of Finance to specify eligibility criteria, like compliance with trust deeds and meeting the Reserve Bank’s prudential requirements (OAG 2011). Collective investment schemes were no longer eligible. The criteria also required eligible institutions to have a credit rating of BB or better.

At its peak, the Scheme covered 96 institutions (OAG 2011). Sixty of these were nonbank deposit-taking institutions, 12 were banks, and 24 were collective investment schemes (OAG 2011). Figure 4 summarizes the number of institutions who applied over the Scheme’s lifetime and whether they were approved, rejected, or withdrawn.

**Figure 4: Institution Type and Their Acceptance Status over the Lifetime of the Scheme**

<table>
<thead>
<tr>
<th></th>
<th>Banks</th>
<th>Nonbank deposit taking institutions</th>
<th>Collective investment schemes</th>
<th>All institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applications accepted</td>
<td>12</td>
<td>60</td>
<td>24</td>
<td>96</td>
</tr>
<tr>
<td>Applications rejected</td>
<td>0</td>
<td>Not available</td>
<td>Not available</td>
<td>15</td>
</tr>
<tr>
<td>Applications withdrawn</td>
<td>0</td>
<td>Not available</td>
<td>Not available</td>
<td>31</td>
</tr>
<tr>
<td>Total applications</td>
<td>12</td>
<td>85</td>
<td>45</td>
<td>142</td>
</tr>
</tbody>
</table>

*Source: OAG 2011, 56.*
Those who opted out of the Scheme when it was extended no longer had coverage after October 12, 2010 (OAG 2011). When the Scheme was extended with legislation, only eight institutions—all nonbank deposit-taking institutions—participated in the Scheme, with other institutions opting out (OAG 2011). The Auditor-General suggested that institutions opted out because of the Scheme’s costs, because such institutions were doing well, or because they no longer met the revised criteria, particularly the minimum BB credit rating (OAG 2011). Figure 5 showcases which institutions participated in the Extended Scheme, along with their outcomes.

Figure 5: Institutions Approved to Join the Extended Scheme

<table>
<thead>
<tr>
<th>Institution</th>
<th>Date extended deed signed</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Canterbury Finance Limited</td>
<td>1 April 2010</td>
<td>Did not make it into the Extended Scheme. Receiver appointed on 31 August 2010.</td>
</tr>
<tr>
<td>Canterbury Building Society</td>
<td>28 May 2010</td>
<td>Merged into Combined Building Society, which was covered by the Extended Scheme from 5 January 2011 (now Heartland Building Society).</td>
</tr>
<tr>
<td>MARAC Finance Limited</td>
<td>11 March 2010</td>
<td></td>
</tr>
<tr>
<td>Southern Cross Building Society</td>
<td>28 May 2010</td>
<td></td>
</tr>
<tr>
<td>PGG Wrightson Finance Limited</td>
<td>1 April 2010</td>
<td>The guarantee was withdrawn on 1 September 2011 after completion of arrangements for acquisition of PGG Wrightson Finance Limited by Heartland Building Society.</td>
</tr>
<tr>
<td>Fisher &amp; Paykel Finance Limited</td>
<td>17 May 2010</td>
<td></td>
</tr>
<tr>
<td>Wairarapa Building Society</td>
<td>28 May 2010</td>
<td></td>
</tr>
</tbody>
</table>

Note: The NBDTs still covered by the Extended Scheme after the failures, mergers, and name changes are shown in bold type.

Source: OAG 2011, 85.
10. Eligible Accounts: The Treasury covered all deposits for registered banks. For nonbank deposit-taking institutions, the Scheme only covered the deposits of New Zealand citizens and tax residents.

The Scheme covered all deposits for registered banks (Reserve Bank 2008c). For nonbank deposit-taking institutions, the Scheme only covered the deposits of New Zealand citizens and tax residents (Reserve Bank 2008c). The Treasury decided to insure nonbanks because they believed that excluding nonbanks would prompt depositors to migrate their funds to banks (OAG 2011). The Treasury held that this migration might cause a failure in nonbank deposit-taking institutions (OAG 2011). To abate this fear, the Scheme covered nonbank deposit-taking institutions that were viewed as riskier (OAG 2011). Moreover, the Scheme covered interest accrued on insured accounts for failures that occurred prior to October 12, 2010 (OAG 2011). At first, the Scheme also covered collective investment schemes, or investment products where a manager invests money on behalf of many investors (OAG 2011).

11. Fees: Participating institutions were initially charged a flat rate of 10 basis points on total retail deposits over NZD 5 billion until a risk-based rate, which varied according to the type of institution, was adopted on October 12, 2010.

From October 12, 2008, to October 12, 2010, the Scheme was free for eligible institutions with total retail deposits under NZD 5 billion (Reserve Bank 2008d). For institutions with over NZD 5 billion of total retail deposits, the Treasury charged 10 basis points on an institution’s total retail deposits over NZD 5 billion (Reserve Bank 2008c). After October 12, 2010, fees for the Scheme became risk-based, depending on factors like an institution’s outstanding debt securities, prospectus, investment statement, and compliance with prudential requirements (OAG 2011). Fees also differed depending on the type of institution that was insured, with nonbank deposit-taking institutions paying a higher fee to reflect their riskiness and to reduce market distortion (OAG 2011). The Treasury adopted risk-based fees because it believed that this would reduce market distortion, favor lower-risk institutions, and encourage institutions to opt out of the Scheme (OAG 2011). For more details on these fees, see Appendix 1.

The Treasury also reserved the right to impose a “new business” fee (OAG 2011). This was a risk-based fee, determined by an institution’s credit rating, that applied to institutions whose balances grew by more than 10% per year (OAG 2011; Treasury 2008a).

On October 22, 2008, the Treasury announced a 300-basis-point fee paid by nonbank deposit-taking institutions that were rated below a BB or were unrated (Treasury 2008a). As an incentive to increase their credit rating, institutions that achieved a BB rating or above during the duration of the Scheme would be eligible for a rebate, which would give an effective fee of 100 basis points for the period that an institution was below a BB (Treasury 2008a).

12. Process for Exercising Guarantee: If a participating institution failed, the Treasury would cover all eligible deposit liabilities. Then, the Treasury would liquidate the
The Treasury ultimately decided to pay out ineligible depositors as well.

If an institution were to fail, the Treasury was required to inform the Minister of Finance and his press secretary, who would communicate the failure to Parliament and to any members of Parliament whose constituency was concentrated in the failed institution (OAG 2011).

In the case where a participating institution failed, the Treasury would pay out the institution’s deposit liabilities, including interest accrued on insured accounts (Reserve Bank 2008c; OAG 2011). Then, the Treasury would liquidate the institution’s assets, with proceeds from the Treasury’s receivership reimbursing the Scheme (Makhlouf 2010; OAG 2011). The Treasury also had the power to withdraw its guarantee at any time (OAG 2011). The Treasury withdrew its guarantee three times. One of these institutions, Viaduct Capital, later failed. In that case, the Treasury initially paid deposits made prior to the withdrawal of the guarantee (OAG 2011).

New Zealand’s Auditor-General report found that the Treasury was largely unprepared to exercise the guarantee—only planning for the payout process a week before the Scheme’s first failure (OAG 2011). This unpreparedness, though, allowed the Treasury to establish a “robust and scalable” payout system (OAG 2011). Ultimately, this led the Treasury to adopt an outsourcing arrangement to process claims (OAG 2011). The Treasury maintained oversight over the outsourced payment-processing system (OAG 2011).

The Treasury could only execute the Scheme once an institution failed, not if the Treasury suspected that an institution would fail (OAG 2011). The Treasury believed that executing the Scheme once an institution failed was “more desirable and less costly than intervening before a failure” (OAG 2011).

This was the case with South Canterbury Finance, the largest institution to fail under the Scheme (OAG 2011). The Treasury, in this case, had ample warning about South Canterbury’s impending failure, leading the Treasury to examine different payout methods (OAG 2011). In the case of South Canterbury Finance, the Treasury paid all depositors, regardless of eligibility criteria, due to the administrative task of determining eligibility for such a large institution and concerns about the interest that would accrue as payments were processed. The Treasury also paid other creditors of South Canterbury Finance whose claims ranked higher than depositors (OAG 2011).

Ultimately, the decision to pay out all depositors, even ineligible depositors, was also extended to institutions that had failed prior to South Canterbury Finance (OAG 2011).

**13. Other Restrictions on Eligible Institutions or Accounts:** Scheme participants were subject to increased monitoring. The Treasury imposed additional restrictions on nonbanks, including restrictions on distributions to shareholders.

Through the Scheme, the Treasury had expanded powers, including the ability to request information from participating institutions and to withdraw its guarantee (OAG 2011).
The government imposed additional restrictions on nonbank deposit-takers participating in the guarantee, including restrictions on distributions to shareholders; assurance that their business dealings were on arm's-length terms; and the government’s ability to appoint an inspector (Treasury 2009d).

14. Duration: The Scheme was initially meant to last until October 12, 2010, but was ultimately extended until December 31, 2011.

Originally, the Scheme was intended to last two years, until October 12, 2010—a period during which the government planned to “see how well international financial markets [stabilized]” (Reserve Bank 2008d). However, in order to maintain public confidence in the New Zealand banking and financial system, to minimize market distortions, and to minimize costs, the Scheme was extended in 2009 (Treasury 2009b; CRDGS Act 2009, pt. 2[6][1]). The Scheme was then scheduled to end on December 31, 2011 (CRDGS Act 2009, pt. 2[6][1]). Many institutions opted out of the Scheme because of its costs, because such institutions were doing well, or because they no longer met the revised criteria, particularly the minimum BB credit rating (OAG 2011). Only eight institutions participated in the Extended Scheme (OAG 2011). The Scheme ended as scheduled on December 31, 2011 (Treasury 2012).

As of mid-2022, New Zealand was working to create a standing deposit insurance scheme, which would guarantee NZD 100,000, or 93% of depositors (Robertson 2021). New Zealand authorities hoped to have the scheme operational in 2023 (Robertson 2021).
References and Key Program Documents

Documents cited in the text are introduced with a parenthetical author-date citation. Documents that are relevant to this case but have not been cited in text do not include this parenthetical reference.

Program Summaries

*Speech by New Zealand’s Prime Minister regarding the deposit insurance scheme.*
https://ypfs.som.yale.edu/library/document/labour-party-campaign-launch-speech

*Notice of amendments to the Crown Retail Deposit Guarantee Scheme announced on October 12, 2008.*
https://ypfs.som.yale.edu/library/document/amendments-crown-retail-deposit-guarantee-scheme

*Information release including documents and announcements pertaining to New Zealand’s Crown Retail Deposit Guarantee Scheme and Wholesale Funding Guarantee Facility.*

*Information release including documents and announcements pertaining to New Zealand’s Wholesale Funding Guarantee Facility Guarantees.*
https://ypfs.som.yale.edu/library/document/wholesale-funding-guarantee-facility-guarantees

*Information release with documents and announcements pertaining to the Crown Retail Deposit Guarantee Scheme.*
https://ypfs.som.yale.edu/library/document/retail-deposit-guarantee-scheme

Implementation Documents

*Notice released by the Treasury specifying the eligibility criteria for the Crown Retail Deposit Scheme’s extension.*


_Deed that participating institutions were required to sign, so as to be insured under the Crown Retail Deposit Guarantee Scheme._

https://ypfs.som.yale.edu/library/document/crown-deed-guarantee


_Website answering questions about New Zealand’s Crown Retail Deposit Guarantee Scheme._

https://ypfs.som.yale.edu/library/document/deposit-guarantee-scheme-questions-and-answers


_Webpage announcing the operational details of the Crown Retail Deposit Guarantee Scheme._

https://ypfs.som.yale.edu/library/document/operational-details


_Deed that nonbank deposit takers were required to sign, so as to be insured under the extended Crown Retail Deposit Guarantee Scheme._


_Deed that registered banks were required to sign, so as to be insured under the extended Crown Retail Deposit Guarantee Scheme._

https://ypfs.som.yale.edu/library/document/crown-deed-guarantee-registered-banks


_Information release providing details about the Wholesale Guarantee Facility._

https://ypfs.som.yale.edu/library/operational-guidelines-new-zealand-wholesale-funding-guarantee-facility


_Policy guidelines explaining the discretion granted to the Secretary to the Treasury by the Minister of Finance regarding the management and administration of the Crown’s Retail Deposit Guarantee Scheme._


Legal/Regulatory Guidance


Media Stories


Press Releases/Announcements


(Makhlouf 2010) Makhlouf, Gabriel. 2010. “A Guaranteed Reality Check.” New Zealand Department of the Treasury. Statement released by then-Acting Secretary to the Treasury, examining the Crown Retail
Deposit Guarantee Scheme in the wake of South Canterbury Finance’s failure.
https://ypfs.som.yale.edu/library/document/guaranteed-reality-check

Press release detailing the announcement of the Crown Retail Deposit Guarantee Scheme.
https://ypfs.som.yale.edu/library/document/deposit-guarantee-scheme-introduced

Release announcing a new, standing deposit guarantee system in New Zealand.

Press release explaining that the Crown Retail Deposit Guarantee Scheme would end on December 31, 2011.
https://ypfs.som.yale.edu/library/document/extended-deposit-guarantee-scheme-end

Reports/Assessments

Government report examining the Crown Retail Deposit Guarantee Scheme and its outcomes.

Report examining the then-potential regulatory impacts of extending the Crown Retail Deposit Guarantee Scheme.
https://ypfs.som.yale.edu/library/document/regulatory-impact-statement-extending-retail-deposit-guarantee-scheme

New Zealand’s financial statements, including money set aside for its guarantee program.

Key Academic Papers

Case study examining New Zealand’s Wholesale Funding Guarantee.
https://ypfs.som.yale.edu/node/4720
Appendix

Figure 1: Fees Charged for the Original, Revised, and Extended Phases of the Scheme

<table>
<thead>
<tr>
<th>Guaranteed deposits of more than $5 billion</th>
<th>Original Scheme and Revised Scheme</th>
<th>Extended Scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly fees on cumulative growth in guaranteed amount from 12 October 2008 (growth above an allowance of 10% each year on this amount). Fees as per table below.</td>
<td>Monthly fees on full guaranteed amount. Fees as per table below.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Guaranteed deposits of less than $5 billion</th>
<th>Original Scheme and Revised Scheme</th>
<th>Extended Scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual fees of 10 basis points per annum on amount over $5 billion.</td>
<td>Monthly fees on full guaranteed amount. Fees as per table below.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Credit rating</th>
<th>All institutions with guaranteed deposits of less than $5 billion (basis points)</th>
<th>Finance companies (basis points)</th>
<th>Banks, credit unions, building societies, PSIS (basis points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AA and above</td>
<td>10</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>AA-</td>
<td>10</td>
<td>20</td>
<td>15</td>
</tr>
<tr>
<td>A+</td>
<td>20</td>
<td>25</td>
<td>20</td>
</tr>
<tr>
<td>A</td>
<td>20</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>A-</td>
<td>20</td>
<td>40</td>
<td>20</td>
</tr>
<tr>
<td>BBB+</td>
<td>50</td>
<td>60</td>
<td>25</td>
</tr>
<tr>
<td>BBB</td>
<td>50</td>
<td>80</td>
<td>30</td>
</tr>
<tr>
<td>BBB-</td>
<td>50</td>
<td>100</td>
<td>40</td>
</tr>
<tr>
<td>BB+</td>
<td>100</td>
<td>120</td>
<td>50</td>
</tr>
<tr>
<td>BB</td>
<td>100</td>
<td>150</td>
<td>60</td>
</tr>
<tr>
<td>Below BB or Unrated</td>
<td>300</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

(a) All figures are in NZD.

(b) A basis point is one hundredth of a percentage point (0.01%). This means that a bank with an A+ credit rating and NZD 7 billion in deposits guaranteed under the original Scheme would pay fees of 0.1% of NZD 2 billion each year, or NZD 2 million.

Source: OAG 2011, 82.