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Amendments to the Crown Retail Deposit Guarantee Scheme

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Media statement

Amendments to the Crown Retail Deposit Guarantee Scheme

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Immediate Release

The Treasury
Reserve Bank of New Zealand

Amendments to the Crown Retail Deposit Guarantee Scheme

The Treasury and the Reserve Bank have today released amendments to the Crown Retail Deposit Guarantee Scheme announced on 12 October 2008.

Treasury Secretary John Whitehead and Reserve Bank Governor Alan Bollard said today: "The objective of the two year opt-in scheme is to ensure ongoing retail depositor confidence in New Zealand's financial system given the international financial market turbulence.

"The retail deposit guarantee scheme needs to engender confidence while continuing to ensure the efficient functioning of New Zealand financial markets.

"In pursuing this objective, a number of issues have arisen around pricing of the scheme and its coverage, and a number of technical changes (detailed below) are being announced today."

Scheme coverage

The issues relating to coverage of the scheme primarily relate to the boundary between what is retail and what is wholesale, as well as ensuring that the retail scheme continues to cover those it is primarily intended to cover (that is, retail depositors in what are essentially bank-like transactions and savings accounts).

Pricing

Refinements have been made to the scheme's pricing in order to mitigate the risk of material distortions to investor behaviour and incentives and choice among institutions over the life of the guarantee, while still ensuring that coverage remains affordable.

The following decisions have been made:

- A cap on the size of deposit that is covered by the guarantee of \$1 million per depositor per guaranteed institution

- Fees for the new business component of registered banks and non-bank deposit takers that are not already subject to a fee charge as follows:

For entities whose covered liabilities are under \$5 billion:

- 10 basis points per annum to institutions rated AA minus and above;
- 20 basis points per annum to institutions rated A+, A and A minus
- 50 basis points per annum to institutions rated BBB+, BBB and BBB minus; and
- 100 basis points per annum to institutions rated BB+ and BB.

These fees apply to the cumulative growth in the book since 12 October 2008 with an allowance of plus 10 percent per year on this amount. Growth will be measured, and charged for, monthly.

As announced last Wednesday, a fee of 300 basis points per annum will be charged monthly to non-bank deposit takers that are rated below BB or are unrated (on the cumulative growth in the book since 12 October 2008).

- As an incentive for institutions that are unrated as at 12 October 2008 to become rated BB and above, if a rating of BB and above is achieved during the term of the retail guarantee scheme, the institution will be eligible for a rebate to give an effective fee of 100bps for the period they were unrated.

In addition, it has been agreed that:

- Collective investment schemes eligible for coverage under the guarantee scheme will not be charged a fee as this would, in effect, result in double charging for these entities.
- As an additional means of managing the risks in the non-bank deposit taking sector, the Reserve Bank is investigating options that will, if feasible, bring forward prudential requirements that would impose a greater measure of prudential discipline on non-bank deposit takers.

- Deposits held by a provider of trustee or nominee services as a bare trustee on behalf of persons who themselves come within the ambit of the guarantee, will come within the scope of the guarantee and this will be clarified in the contractual agreements.

Process from here

While Treasury and the Reserve Bank are jointly responsible for the design of the deposit guarantee scheme, Treasury is responsible for the overall implementation. Mr Whitehead noted that: "The decisions announced today clearly have implications for our approval process." | These include:

- New specimen deeds are being developed now, and will be released on the Treasury website within the next few days.
- Work has commenced to process the applications we have already received. Where we need more information from applicants as result of today's announcement, we will contact them directly.

Treasury expects to be in a position to start announcing approved guarantees for banks from Tuesday 28 October (given that Monday is a public holiday) and non-banks after that. Approvals of Collective Investment Schemes are clearly dependent on the approvals of the institutions those schemes invest in, so those announcements will follow.

Mr Whitehead said that the Treasury is working quickly to ensure applications are assessed and decisions are made public as soon as possible.

Approved banks and non-bank deposit takers will be listed on the Treasury website at [<http://www.treasury.govt.nz/economy/guarantee/retail/approved>] along with a copy of the Crown Deed of Guarantee for each institution. Details of newly-approved institutions will be added to the website regularly.

Addition to the list of approved institutions will be based solely on the order in which Deeds of Guarantee are completed. As there are a large number of applications, it

may take several days for any particular application to be processed. Therefore, absence from the list of approved institutions will not necessarily be an indication that a bank or non-bank deposit taker has failed to apply for the deposit guarantee scheme or has had their application declined.

The names of applicants will not be released by the Treasury during the assessment process.

Policy guidelines

We have today posted policy guidelines on the Treasury website to assist potential applicants in determining whether to apply for coverage under the scheme:

[\[http://www.treasury.govt.nz/economy/guarantee/retail/policyguidelines\]](http://www.treasury.govt.nz/economy/guarantee/retail/policyguidelines)

Queries

Questions and Answers are available on the Treasury website:

[\[http://www.treasury.govt.nz/economy/guarantee/retail/qanda\]](http://www.treasury.govt.nz/economy/guarantee/retail/qanda)

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