

The Treasury

Reserve Bank Act Review Phase 2 Submission Information Release

October 2019

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[1] 9(2)(a) - to protect the privacy of natural persons, including deceased people

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12 July 2019

Rt Hon J Ardern
Prime Minister
Parliament Buildings
Wellington 6011

Dear Prime Minister

Re: NZ Govt Proposed Deposit Protection Regime

I watched with considerable angst, the announcement that the Govt is committed to a “new” 2019 Deposit Protection Regime, and I am compelled to write as I want to seek an assurance please concerning the proposed scope and extent of the Government’s planned regulatory regime.

The position is that sadly New Zealand’s taxpayers were not so long ago, foisted with a similar regime. Under this arrangement what happened?

The **Crown Retail Deposit Guarantee Scheme** (CRDGS) was an opt-in [deposit insurance](#) scheme, established under the Public Finance Act 1989 in New Zealand during the [Great Recession](#), 2008 to 2011. Dr [Michael Cullen](#), Finance Minister at the time of the scheme's introduction said, "The deposit guarantee is designed to give assurance to New Zealand depositors. The New Zealand banking system remains sound. **We want to ensure that ordinary New Zealanders feel that their deposits are safe in the current uncertain international financial market conditions.**"¹ ##

Don’t the words have a familiar ring with those uttered by the Minister of Finance on 24 June 2019. Importantly, the Minister’s aim at the time seemed to be licenced Banks. But that’s not what eventuated and the outcome for the hapless taxpayers of New Zealand was a disaster:-

Nine finance companies out of the thirty accepted into the scheme collapsed. **This resulted in the Crown [bailing out](#) investors, paying \$2 billion** to more than 42,000 depositors. The three largest bailouts were of [South Canterbury Finance Limited](#), Allied Nationwide Finance Limited, Equitable Mortgages Limited. ##

Source: https://en.wikipedia.org/wiki/Crown_Retail_Deposit_Guarantee_Scheme

The disgrace of the CRDGS arrangement was of course that its scope was applied to Finance Companies which was, in my view a singular and gross failure on the part of the then Finance Minister of the day, the Rt Hon Dr M. Cullen. It was a significant failure because at the time: (a) internationally only licenced Bank deposits in other jurisdictions we being covered and (b) here in NZ Mum and Dad investors typically did not put their hard-earned surplus income into high interest earning Finance Companies. These institutions were seen as the place for risk takers and the ‘well healed’ and the premium interest rates paid by

these Finance Companies reflected that “risk” compared with Mum and Dad term deposit retail rates paid by NZ Banks at the time. Yet as we can see from history, the “risk” was passed to the Crown and Mum and Dad taxpayers were saddled with the cost of the bailouts!

As we look back in hindsight, the other perhaps more distasteful aspect of the 2011 debacle, was of course that the new incoming Key Government Administration could have acted for the greater good of all New Zealanders, but the Cabinet of the day opted not to rescind the Scheme. Why? Because, it would be fair to postulate, that all their cronies were likely those who would be most affected by the Finance Company failures.

It is incumbent on this Government please to spell out and be transparent as to the “new” Deposit Protection Regime policy, and be crystal clear that it applies to “retail” deposits only at ‘approved, registered, licenced New Zealand Banks’. Your assurance that this is, and will be the case, is sought please.

Many thanks for your help with this matter.

Yours faithfully

Philip D Mc Intyre

CC Hon G Robertson Minister of Finance

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22 August 2019

Hon Grant Robertson
Minister of Finance
Parliament Buildings
Wellington 6011

Dear Minister

Re: NZ Govt Proposed Deposit Protection Regime

You will recall I wrote to the Prime Minister, cc yourself, 12 July 2019 concerning the Government's proposal to re-introduce a Deposit Protection Regime, and my abiding concern as to the nature, scope and extent of such a Regime.

The position is that the Prime Minister's Office advised by letter on 22 July 2019 that this matter was being dealt with by you. Accordingly, as I have not had the courtesy of a response to date, I thought it prudent to seek an update please.

I am mindful that the Local Government Official Information and Meetings Act 1987 is relevant to the matter of timely action on the part of Officials. Specifically, S3, S5 and S13(1)(b), not that your Officials ought need reminding! However, as matters stand Officials are in breach and likely contempt of the law, and steps need to be taken promptly to remedy the matter please.

As I outlined in my earlier correspondence, the prospect of a "free for all" Deposit Protection Regime ought to be viewed as a critical risk for the Government and more importantly taxpayers of New Zealand. By way of example, when we look at the international scene, and at the disaster which has befallen Cypress, ongoing problems at Deutsche Bank, and more recently the 'freeze' on the UK based USD\$4.7bn Woodford Equity Income Fund, alarm bells should be 'shrilling' around Parliament! And in light of these experiences, Officials need to be constrained in their scope brief.

I would welcome please your assistance in seeking answers from Officials, and in reminding them of the need to be cognisant of their statutory OIA obligations.

Many thanks for your help with this matter.

Yours faithfully

Philip D McIntyre