

Submission

to the

Reserve Bank of New Zealand – Te
Pūtea Matua

on the

Policy proposal: *Product hierarchy
for the Depositor Compensation
Scheme*

28 March 2025



About NZBA

1. The New Zealand Banking Association – Te Rangapū Pēke (**NZBA**) is the voice of the banking industry. We work with our member banks on non-competitive issues to tell the industry's story and develop and promote policy outcomes that deliver for New Zealanders.

2. The following eighteen registered banks in New Zealand are members of NZBA:
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 - Heartland Bank Limited
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 - KB Kookmin Bank Auckland Branch
 - Kiwibank Limited
 - MUFG Bank Ltd
 - Rabobank New Zealand Limited
 - SBS Bank
 - TSB Bank Limited
 - Westpac New Zealand Limited

Contact details

3. If you would like to discuss any aspect of this submission, please contact:

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Introduction

4. NZBA welcomes the opportunity to provide feedback to the Reserve Bank – Te Pūtea Matua (**RBNZ**) on the Policy proposal: *Product hierarchy for the Depositor Compensation Scheme (Consultation)*. NZBA commends the work that has gone into developing the Consultation.
5. We are broadly supportive of the proposal to introduce a product hierarchy for DCS-protected deposits. However, we have set out below some concerns in relation to the application of the policy, as well as some of the detailed considerations in relation to the apportionment and prioritisation of certain product types.

Timing for the final product hierarchy policy

6. We understand that the RBNZ intends to publish a finalised DCS Product Hierarchy Policy (**Policy**) by June 2025. The timing for publishing the finalised Policy is tight and introduces implementation risks for deposit takers that have offshore reporting obligations they need to comply with, given the DCS comes into effect on 1 July 2025.
7. It could also be important from a customer perspective if there are any queries regarding what products are protected / unprotected where they hold more than \$100,000 with a deposit taker, since this will depend on how the RBNZ approaches apportionment.
8. We ask that the RBNZ publishes the final document as soon as possible after considering the Consultation feedback, and assume there is no legal implementation requirement in the Deposit Takers Act 2023 (**DTA**) for deposit takers requiring any pre-positioning or other preparation regarding the Policy by July 2025.

Application of the policy

9. NZBA is largely supportive of the proposed Policy overall and supports the RBNZ's proposal to apply this in liquidation and payout. We also agree with the proposal to prioritise transactional accounts over non-transactional accounts.
10. We agree with the RBNZ that a deposit hierarchy approach is preferable overall to a pro rata approach for the reasons RBNZ provide. It is also preferable to ad hoc arrangements which are unlikely to give consistent outcomes to depositors, and which we do not support.
11. Applying a hierarchy in a liquidation or DCS payout event should enable a consistent approach to the distribution of compensation before it is transferred into an alternative account, and determine the order for subrogation purposes, as the RBNZ explains.
12. We further support the proposed approach to achieve the hierarchy via guidance, which will be important to support customer confidence in the scheme. This will provide consistency in messaging to customers where they have products with



multiple deposit takers. It should also ensure consistency with any future regulatory or offshore reporting requirements involving protected / unprotected deposits.

13. For completeness, we note that the RBNZ has provided consistent messaging to industry that there is no change to existing OBR requirements for DCS 'go-live' in July 2025 and we therefore assume that the Policy does not require deposit takers to make any changes to existing OBR for July 2025. We would appreciate clarity from the RBNZ on this point.
14. We further assume that in an OBR scenario, an account would not end up with more than its original balance following application of the hierarchy and any subsequent DCS fund top-up, and would appreciate confirmation from the RBNZ of this assumption.
15. We do consider the same product hierarchy should also be used in determining which products are protected for the purpose of the Liquidity Standard under the DTA, given the current proposal to introduce a new bucket for 'protected deposits' as per the Core Standards Consultation Paper in August 2024. This reduces the need to have a separate product hierarchy for the purposes of the Liquidity Standard which will in turn will reduce compliance costs for deposit takers.

Apportionment and prioritisation of products

16. As noted above, NZBA generally supports the proposal to include two broad groups of deposits (transactional and non-transactional) in the Policy.
17. However, given the product hierarchy tiers are based on product features there are certain situations that the Policy does not consider. For example, the Policy does not consider situations where multiple term deposits are held, and the approach to apportioning compensation in these instances is unclear.
18. We consider that the RBNZ will need to clarify the approach to how products will be ranked within each tier in the Policy.
19. We also recommend that the definition of 'Tier 2' transactional deposits be carefully considered and made very clear and easy to interpret in the guidance to avoid any unnecessary confusion (i.e., only deposits with explicit access restrictions are included in this Tier and not those with 'bonus' or 'penalty' interest rate features).
20. In addition, NZBA agrees with the proposals:
 - 20.1. To prioritise principal over interest. For completeness, we do consider that normal 'business as usual' systems should be able to continue to operate as they currently do (e.g. by adding interest to an account at the end of a month).



- 20.2. That 'relevant arrangement' balances have a low ranking, and would recommend that the Guidance makes it clear that these accounts are ranked below Tier 3 deposits and accrued interest.
21. In respect of relevant arrangements, we also note that the consultation states at paragraph 34 that:
- [D]eposit takers are not required to hold the 'look-through' information on these accounts. Due to the nature of relevant arrangements, it is expected that calculation of the compensation entitlement for the underlying client (the ultimate DCS beneficiary) would be slower. This is because **the deposit taker does not normally have the data to identify the underlying client and will have to request further information from the service provider of the relevant arrangement** [emphasis added].*
22. The emphasised wording does not align with NZBA's understanding of the 'look through' approach. Previous communications from the RBNZ have indicated that in a DCS payout event, it is the account holder of the relevant arrangement that provides information on the underlying clients to the RBNZ. We consider that clauses 10 and 11 of the Deposit Takers Regulations 2025 support this view, requiring the relevant person to maintain records on the underlying clients or, in the absence of existing records, to notify the RBNZ about the interests of the underlying clients.