



Australian Citizens Party

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MEDIA RELEASE

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NZ law will ‘bail in’ deposits ... in Australian banks!

The Australian government and major-party politicians have one response to concerns that bank deposits could be “bailed in”: don’t worry, you’re protected by the \$250,000 Financial Claims Scheme (FCS) deposit guarantee. If any Australians were assured by that, they will be shocked to learn of the deliberations of the New Zealand government about its plans for a statutory bail-in law, which make it clear that NZ deposits *will* be bailed in, and “insured” or guaranteed deposits are not automatically exempted. And here’s the kicker: NZ’s banks, which will have their deposits bailed in, are owned by Australia’s banks, which supposedly won’t. Who to believe?

NZ is in the process of overhauling its entire banking system, from the central bank down. That process is driven in part by rising concern about systemic bank risk, which has prompted the Reserve Bank of New Zealand (RBNZ) to demand the riskiest banks hold higher capital than other banks. The riskiest banks happen to be the Big Four Australian-owned banks, and the risks NZ is worried about happen to be from their Australian activities, i.e. their massive exposure to the Australian housing bubble, and their multi-trillion-dollar derivatives exposure. The RBNZ hopes that higher capital requirements will “ring fence” NZ from those Australian risks. This alone should make Australians ask: why is NZ acting on Australian banking risks that Australians aren’t being told about, and why aren’t we being told?

Bail-in

NZ’s financial risk-mitigation measures include tamping down house prices, by contrast to Australia which is doing everything possible to pump them up. Not everything NZ is doing is as sensible, however. In April, Finance Minister Grant Robertson announced NZ is planning to enact a new statutory bail-in law to protect its banking system, at the request of the International Monetary Fund.

The dangers of bail-in are both moral and practical. Its advocates argue that it guards against the “moral hazard” of bankers being reckless because they know they will be bailed out. That argument is perverse: bail-in actually puts the burden for bad banking practices, including reckless derivatives gambling, on the most innocent participants in the banking system, the depositors, the vast majority of whom are unsophisticated and deposit their savings in banks in trust. Bail-in was invented by charlatan investment bankers to avert the post-2008 financial crisis push to return to the US *Glass-Steagall Act*’s principle of bank separation. That law successfully protected the banking system and depositors for almost 70 years by putting the burden on bankers to not engage in bad behaviour, forbidding deposit-taking banks from having any connection to investment banking and speculation. In practical terms, bail-in undermines depositor confidence, which is the foundation of the banking system. This is evident [in Europe](#), where multiple bail-ins suffered in Spain and Italy have battered depositor confidence. But instead of ditching the system, the EU doubled down and enacted powers to pre-emptively freeze deposits at the first whiff of a crisis to avert inevitable bank runs by depositors scared of being bailed in.

RBNZ already has bail-in powers called Open Bank Resolution (OBR), which explicitly allows it to confiscate whatever bank deposits are necessary to keep a failing bank afloat. As it happened, RBNZ developed OBR even before the Financial Stability Board (FSB) at the Bank for International Settlements in Basel, Switzerland handed down its global bail-in policy in 2011. Although NZ’s OBR was compliant with the FSB’s bail-in framework, the IMF observed in its 2017 Financial System Stability Assessment of New Zealand that some form of deposit insurance may be required to mitigate against bank runs by depositors panicked about having their savings bailed in. NZ has reluctantly committed to a \$100,000 deposit insurance scheme by 2023, along with a dedicated statutory bail-in law that specifies what can be bailed in and what can’t.

Australians should pay attention to the way NZ is planning to deal with deposits. Despite its commitment to deposit insurance, the status of insured deposits in its bail-in system is ambiguous, to say the least. In a [Cabinet paper released in April](#), NZ Finance Minister Grant Robertson revealed the government’s deliberations:

“While the scope of bail-in is generally set broadly, insured depositors are often explicitly excluded (e.g. under the UK and European Union frameworks). However, those jurisdictions have adjusted their creditor hierarchy to provide a preferential status to insured deposits. *I am not proposing to adopt such an approach here.*” (Emphasis added.)

Robertson was no less ambiguous in this reassurance for depositors: “The appropriate treatment of insured deposits within this framework is still under consideration, but they will be protected by deposit insurance in any case”, he stated. And how will they be protected, exactly? Robertson said: “I will take further advice from officials and finalise how depositors are protected outside of liquidation and pay-out under delegated authority. This will involve decisions on the eligibility of insured deposits for bail-in and other matters....”

The fact that Robertson cannot simply rule out bail-in applying to insured deposits illustrates the dangerous uncertainty of the bail-in policy. He can't guarantee insured deposits because he doesn't know—bail-in is intended to save banks in a crisis, not people, and as the nature of the crisis can't be known in advance, authorities can't know in advance how much money they'll need to grab. (Under the EU bail-in law, authorities confiscate whatever deposits they deem necessary, and later reimburse the insured amount of €100,000, but while the bail-in takes seconds, the reimbursement can take years.)

Robertson's ambiguity also illustrates the hollowness of the repeated reassurances of the Australian government and politicians that Australia's \$250,000 FCS will protect Aussies from bail-in. Australian politicians claim that a bail-in would be unthinkable, but NZ proves that a) it won't be unthinkable; and b) that it applies to Australia's Big Four banks, which own NZ's big banks.

The good news for Kiwis who are concerned about bail-in is that they have an advantage over their Aussie cousins, which is that they have a public postal bank, Kiwibank, which is owned by the government and is therefore much safer for depositors than a commercial bank. It's a good reason Australia should also set up a public post office bank.

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