Australian Citizens Party

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MEDIA RELEASE

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Why has New Zealand suddenly guaranteed bank deposits?

Australians and New Zealanders alike should be very concerned about what's happening in NZ's banks, which are owned by Australia's.

In a special episode of the *CEC Report*, Robert Barwick has interviewed real estate and financial expert Joe Wilkes, a veteran of the 2008 financial crisis in London now living in NZ, who is sounding the alarm about the NZ property market and banks. Click here to watch: What the hell is going on in Kiwi banks?

The New Zealand government has suddenly announced it will establish a guarantee for retail bank deposits, up to a limit of between NZ$30,000 and NZ$50,000. New Zealand has never had a deposit guarantee, except for a temporary one during the 2008 global financial crisis. The Reserve Bank of New Zealand (RBNZ) has always taken a hard line against a guarantee due to fears of "moral hazard"—that guaranteed banks would take more risks.

So why implement a guarantee now? Is it for the same reason the Reserve Bank of Australia slashed interest rates twice in two months to a new all-time low of 1 per cent? Is it an emergency response to a crisis they don't want to publicly acknowledge?

Bail-in capital of the world

The guarantee is especially significant, as NZ is the bail-in capital of the world. It has the most explicit bail-in scheme to confiscate deposits to prop up failing banks, called Open Bank Resolution (OBR).

The RBNZ prides itself on its hard-line insistence on strict "market" discipline for the banks. It justifies the OBR bail-in system, for instance, by defining a depositor not as someone who has entrusted their money to the bank for safekeeping, but as an "investor" who has "freely invested in a private institution and has enjoyed a return on that investment whilst accepting the risks associated with the investment".

This definition does not reflect how bank customers understand the relationship, which is one based on trust; moreover, it is a joke when assessing the "return" the "investors" have supposedly "enjoyed": miserly deposit interest rates in no way compensate for the risk of bail-in. Worse, most Kiwis have no idea that their deposits can be bailed in (just as they had no idea that their deposits weren't guaranteed), so how can they be expected to make a proper assessment of risk?

Unfortunately, Kiwis should not assume that the new guarantee will protect their deposits from bail-in. Unless it states so explicitly in legislation, the guarantee is only for paying out depositors when a bank fails, whereas bail-in is imposed *before* a bank fails.

Once-in-200-year event!

While the OBR bail-in system has been in place for several years, the RBNZ has also recently taken emergency measures to shore up the banks.

Earlier this year the RBNZ announced it wants the banks to dramatically increase their tier-1 capital—their buffer against losses—from 8.5 per cent, to 16 per cent. RBNZ governor Adrian Orr justified this steep increase by saying he wants the banks to be able to survive a once-in-200-year event.

The question is, just what sort of event does Orr anticipate?

The NZ banks and their Australian parents aren't happy. In a submission to RBNZ against the higher capital requirement, the NZ Banking Association (NZBA) decided to side with their depositors, and say that they shouldn't be required to have more capital for the same reason depositors shouldn't be bailed in—that the RBNZ is responsible for anticipating crises, and therefore should bail the banks out.

It's a bit rich that the banks are only defending their depositors against OBR bail-in now that they are being required to raise more capital. After all, OBR has been discussed since 2011 and has been in place for a number of years. Their argument against bail-in, however, is right.

Here's what the NZBA submitted, in the form of an analysis by the Sapere Research Group:

“We have some concerns that the OBR is being assumed to provide a ‘bail-in’, whereas it seems to us *highly unlikely* that any government would allow all depositors in a major bank to take a haircut. Depositors would have a right to argue that the Reserve Bank should have seen this coming and that as the government’s designated regulator of the banks, the government should take the hit rather than the depositors. *Depositors are poorly placed to monitor the performance of their banks in contrast to the regulators who have better information and a duty of care to the depositors*. Requiring banks to hold additional Tier 1 capital would seem unlikely to be the most efficient method for managing these risks.” (Emphasis added.)

While the specific argument against bail-in is spot on, using it to argue against more capital didn’t wash. At a press conference on 29 May, Governor Orr ridiculed this submission as “astounding” and reiterated RBNZ’s insistence on more capital. The bottom line for NZ depositors is: expect to be bailed in, because the NZ authorities are going to need all the money they can get to prop up their banks!

The “once-in-200-year” event that Orr fears could come from multiple sources, or a combination of all of them. New Zealand like Australia is at the mercy of the global financial system, which is threatened by the crisis in Deutsche Bank, the fallout from the US-China trade war, and the US$1.2 quadrillion global derivatives bubble. As of the last time NZ’s bank derivatives were reported, in 2015, the country’s exposure was NZ$2.77 trillion.

New Zealand’s banks are also at the mercy of their Australian parents, which are staring down the barrel of a collapsing housing bubble that will likely bankrupt them; in the event of a crisis in the Australian banks, they are able to raid their NZ subsidiaries for capital, which could trigger a NZ crisis.

And NZ is capable of causing its own crisis, which, as in Australia, is likely to come from the deflating housing bubble that is as big in NZ as in Australia. As Joe Wilkes has often reported on Martin North’s Digital Finance Analytics YouTube channel, Auckland and Wellington had some of the highest prices in the world, but are now falling, and many large developments have ground to a halt. This is as much a crisis for the over-exposed banks as the over-extended borrowers trapped in negative equity. And the signs are especially bad for the largest bank, ANZ, which has most fiercely resisted the higher capital requirements; like its Australian parent it is hiding its derivatives exposure, and has suddenly lost its chief executive in the sort of scandal that seems to happen when a bank is covering up deeper problems.

Like Australia, NZ needs bank reform, starting with a Glass-Steagall separation of deposit-taking banks from speculation. Kiwis should join the Australian campaign for bank separation and contact their NZ MPs to demand they scrap bail-in and instead adopt Glass-Steagall to make the banks safe.

Click here to watch: What the hell is going on in Kiwi banks?

Click here to sign the new petition to the Australian Parliament: Hands off our bank deposits—stop ‘bail-in’!

Click here for a free copy of the latest issue of the *Australian Alert Service*, also free for mailing to New Zealand.