

Deposit Insurance in New Zealand?

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What I'll talk about

- The Davis Report
- What is special about the deposit New Zealand environment?
- Disclosure in New Zealand
- The New Zealand public's understanding of the risks

The Davis Report

Correctly described as “Study of Financial System Guarantees”

Focus much broader than just banks and other depository institutions

Focus on protecting retail depositors who might not be able to assess institution’s soundness

Makes no specific recommendations

The Davis Report

Identified Australia and New Zealand as only
OECD countries without deposit insurance

Issues not discussed included extent of
Australian ownership of New Zealand
banking system

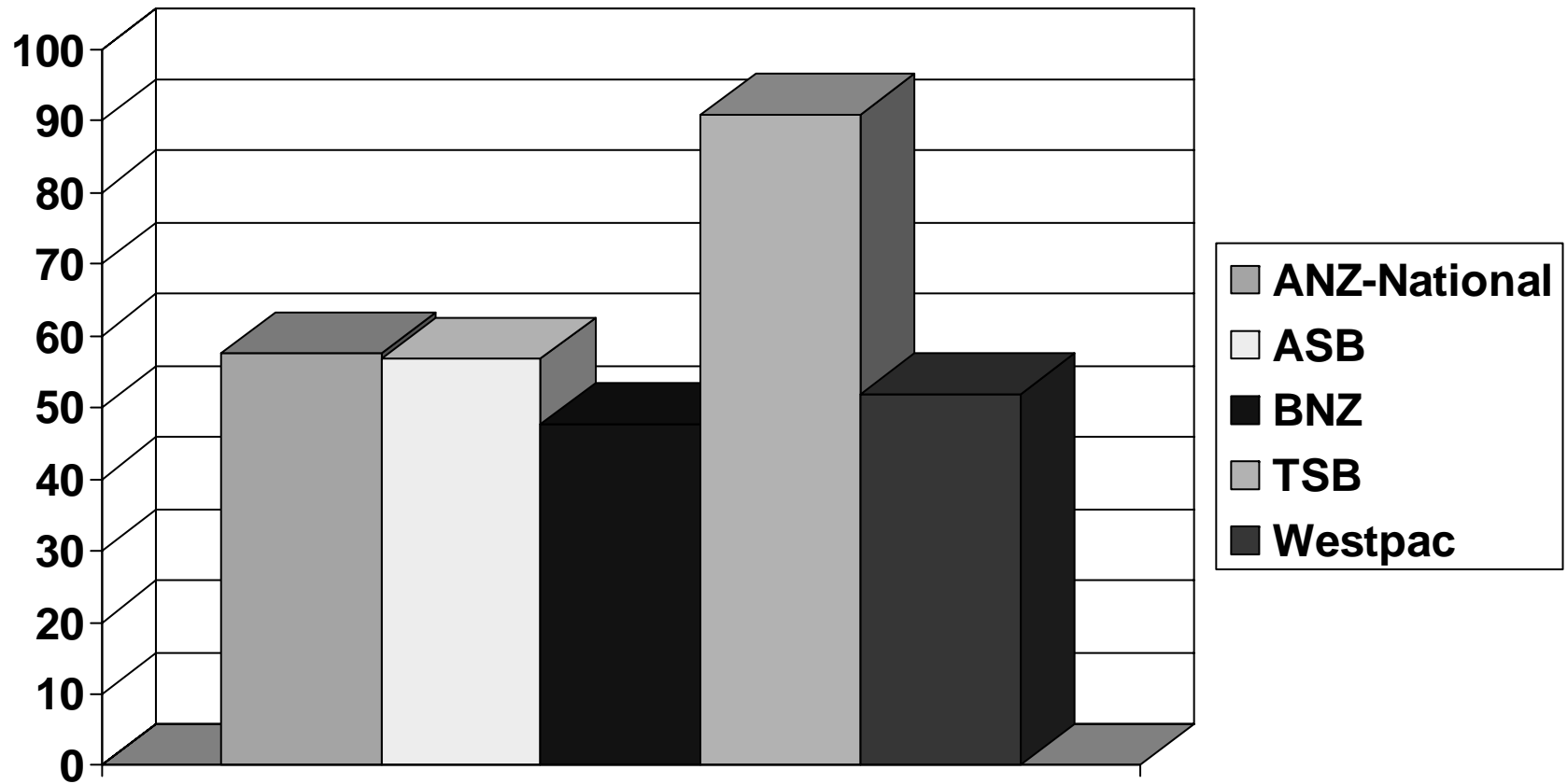
What is special about the New Zealand deposit environment?

Retail deposit market dominated by small group of large banks

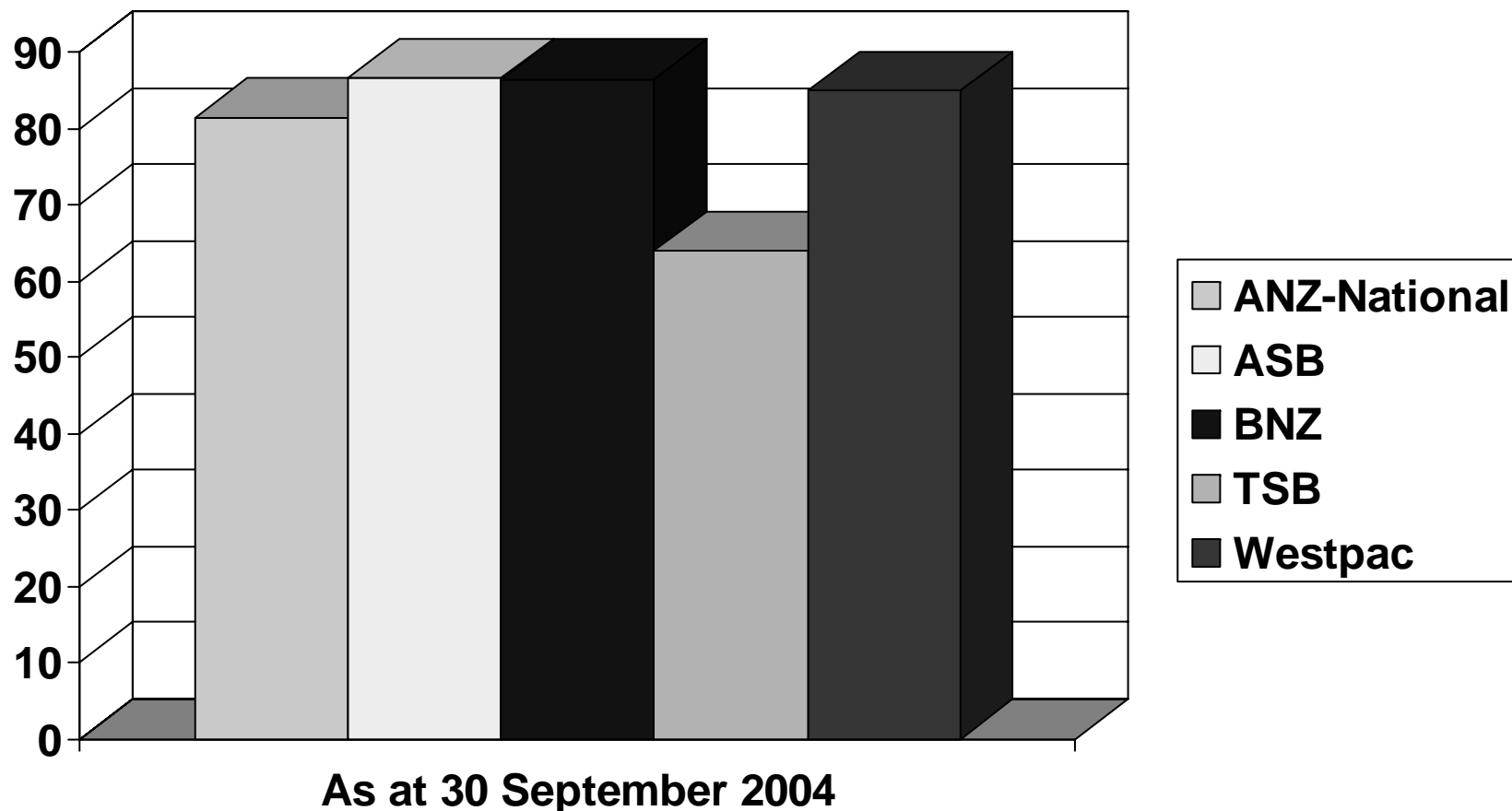
Significant reliance on/utilisation of wholesale funding, including inter-group funding from off-shore parent banks

Relatively limited liquidity buffer

Percentage of liabilities plus equity identifiable as retail deposits – major retail banks



Percentage of (net) loans to total assets – major retail banks



Let us simulate bank failure in New Zealand conditions

Suppose a bank had assets of \$40 billion, which suggests deposits of \$20 billion

US figures suggest that, if a failure occurred, loss might be \$12 billion

Who would bear this loss?

How might the loss be financed?

The New Zealand disclosure regime

Disclosure regime is supposed to provide tools for the depositors to protect themselves

But in practice, market discipline is probably going to be exercised most effectively through the interbank market

The New Zealand public's understanding of the risks

Do New Zealand depositors understand that their deposits are not insured?

Can market discipline be exercised, or do depositors just assume that their deposits are guaranteed?

Exploratory survey has produced some not altogether reassuring results

Survey results

55% thought that the bank guaranteed that their deposits were safe, and 32% did not know

18% thought that the government guaranteed bank deposits, 23% thought not, and 59% did not know

50% did not know if the Reserve Bank had a function of protecting depositors in case of a bank failure

Survey results (continued)

70% of respondents did not know if the government insured deposits through the Reserve Bank

81% of respondents believed that the government was either not very clear or extremely unclear in informing the public on how safe their deposits were

Summary and conclusion

Is there a need for much greater clarity in respect of non-insurance of deposits?

Is a bank creditor recapitalisation plan the answer?

If deposit insurance is a good idea, why has the market not caused banks to provide it (as used to happen in the USA)?