



21 February 2022

To

David Hargreaves
Reserve Bank of New Zealand

By Email

dta@rbnz.govt.nz

Dear David

This letter is written on behalf of CUBS New Zealand, an unincorporated association of deposit takers that are customer-owned or charitable in nature. We attach a joint initial submission made by us and the majority of the prudentially regulated finance companies on the Exposure Draft of the Deposit Takers Bill (**Bill**).

We would like to acknowledge the considerable mahi the Reserve Bank has put into both the consultation on and drafting of the Bill. We understand that it is an enormous task to create a once in a generation piece of legislation that has such significance to the New Zealand economy and New Zealanders. We hope that you understand that we have committed a substantial amount of time and resource trying to support your efforts, not just for our own benefit, but in the interests of NZ Inc.¹

In support of the joint submission, we would like to reiterate the value of creating a supporting regulatory environment in which the CUBS can thrive. We are strongly aligned with a number of the Reserve Bank's focus areas, including:

- financial inclusion due to our customer base, particularly that of credit unions who often end up with customers referred by budgeting services, and the care we provide to vulnerable clients;
- our strong presence in the regions, where the larger banks are pulling out, and the contributions we make to those communities; and
- your Te Ao Māori strategy, due to the strong alignment between the co-operative model and that of the Māori economy and the particular presence a number of CUBS have in the Māori economy. Many of our members have strong ties with iwi in their regions, either through joint venture initiatives or members of iwi in senior management.

We are a small segment of the financial sector now, but there is so much value to be gained from helping us grow in supporting Reserve Bank objectives relating to regional banking, the Māori economy and a

¹ Submission by Wairarapa Building Society on the first consultation paper dated 18 January 2019; initial submission by the non-bank deposit taker mutuals on the third consultation paper (including Project Mohua); letter to Daryl Collins regarding liquidity facilities and negative official cash rate from the non-bank deposit taker mutuals dated 12 May 2020; additional submission by the non-bank deposit taker mutuals on the third consultation paper.

more diverse and inclusive financial system. We were certainly encouraged by the words of the Governor at the Hui on between the Reserve Bank and the NBDTs on 3 February 2022.

We continue to have some concerns about the lack of understanding within the Reserve Bank regarding our sector and what we contribute – albeit perhaps understandably given our relatively small size. Although we provide similar services to banks our model relies heavily on our relationships and engagement with our customers and communities rather than solely on maximising profits through complex, but often standardised risk management frameworks. This approach provides much better outcomes for depositors and communities. We would not like to see our model impeded by over regulation when we believe we have so much to contribute, and our simple business models and mutual ownership mitigate much of the risk. We want to help you create a fit for purpose prudential framework that will further our shared objectives.

In addition to the points made in our shared submission, there are a number of matters relating to our mutual structure that need to be considered and, in many cases, addressed in the Bill. These include:

- the application of standards to our legal structures, including issues such as:
 - access to qualifying capital through mutual ordinary shares rather than solely relying on retained earnings;
 - related party exposures (we have no controlling shareholders or our shareholders are charities);
 - lending standards relating to loan concentration and risk exposure (given our models are based on geographical regions or through some other common bond and we should not be penalised for this); and
 - bail-in standards (given all mutual deposits are equity instruments and have the potential to operate as bail-in instruments);
- the exclusion of directors of a licenced depositor from coverage under the depositor compensation scheme (as directors of mutuals are required to be members and should not be penalised by our model);
- the blanket exclusion of institutions from the deposit compensation scheme, which is unfair for charitable institutions that act for the benefit disadvantaged communities and are required to hold surplus funds with a deposit taking institution;
- resolution in the context of the mutual structure and the complexity of applying the no creditor worse off principle for members who are depositors but also, in the case of building societies, entitled to a share of surpluses; and
- how clause 255(2)(b) which provides that member approval is not required for the sale or disposition in insolvency or where capital requirements are not met, will operate in the context of mutuality.

We look forward to working collaboratively with the Reserve Bank to create a new regime where the mutual economy can thrive.

Yours faithfully,

CUBS New Zealand