

16th March 2022

Mr David Hargraves
Manager, Policy Projects
Reserve Bank of New Zealand

By Email: dta@rbnz.govt.nz

By Copy: RBNZ Supervision Team

Dear David,

Deposit Takers Exposure Draft - Submission on matters relevant to RBNZ Regulated Finance Companies

We refer to the Submission dated 11th March 2022 from a group of non-bank deposit takers (“**NBDTS**”), delivered to you by Buddle Findlay (the “**NBDT Submission**”).

Xceda was a contributor to the Submission, and supports its contents. However we wished to reiterate our own position on certain key areas.

We have set out below certain areas we consider vital for the new framework, in the interests of creating a diversified NZ banking sector.

1. *Future as a Licensed Deposit Taker:*

- We reiterate Xceda’s firm intention to continue our participation within the “prudentially regulated tent” under the RBNZ licence regime as a licensed deposit taker (hereinafter referred to as “LDT”).
- We appreciate many finance companies have opted out, preferring lighter regulation and to be privately or warehouse funded. However, since our shareholder group acquired Asset Finance Limited (now Xceda Finance Limited) three years ago we have worked very hard to ensure we put in place the right compliance and governance structures, staffing and capital support to continue to grow our depositor base.
- Our shareholders are keen for us to grow to a much larger institution under our RBNZ licence, and are already making strategic plans to ensure the required levels of regulatory capital can be in place. However having clarity on the transition process and in particular the new capital regulations & standards for LDTs is imperative for Xceda to be able to raise capital from existing and new shareholders to allow for growth.

2. *Classification of Deposit Takers:*

- A key concern of ours was raised previously about being referred to as a “Finance Company”. We believe this has connotations to the “sins of the past” where unsupervised finance companies did not act appropriately, and should not reflect the behaviours of the remaining current seven FinCos which all have conducted themselves well under the current NBDT framework.
- Furthermore, we are concerned that the public is not made aware of the distinction between the NBDT Fincos (which are heavily regulated) and the non-regulated finance companies who are privately financed. We believe this distinction needs to be made so the public can have certainty as to the level of regulation for different institutions. We believe this will go a long

Xceda Finance Limited

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way to ensure the viability of the smaller LDTs, and avoid retail customers placing funds with unregulated finance companies in situations where they don't understand the difference.

- This also includes the distinction between RBNZ regulated deposit takers and FMA managed mortgage retail funds that do not carry the same prudential regulations. In particular; capital adequacy requirements, liquidity requirements, risk management programs & governance protocols that are in place for all NBDT Fincos.
- We have sought advice on the Australian Authorised Deposit-Taking (ADI) framework which advised that there is no restriction on Australian ADIs using the terms 'bank', 'banker' and 'banking' except for where APRA has made a determination under section 66AA of their Banking Act. Such a determination may be made where an ADI does not conduct "banking business" which we have been advised is defined as both the taking of deposits and lending of money. These are activities undertaken by all current LDTs. For these reasons we fully support all LDTs being able to refer to themselves as "Banks". This is analogous to the Australian regime where finance companies are defined as not being prudentially regulated and authorised deposit-takings institutions (ADIs) are able to be referred to as banks.

3. *Minimum Capital Requirements:*

- We strongly support the concept of minimum capital requirements for any new entrants into the LDT regime.
- In the NBDT Submission we referred to the Australian model where a minimum of \$15m of initial regulatory capital is required for new entrants, and then ongoing capital of \$10m for existing ADIs.
- Although Xceda is not quite at \$10m yet, our shareholders would support this and given our growth plans this is within our strategy in any event.
- We believe that using capital as a benchmark for determining the different classes of LDTs, rather than total assets, allows for the possibility of a more diversified banking sector while also considering risk due to the regulatory imposed capital adequacy requirements. A total assets metric could lead to LDTs being 100% weighted towards residential mortgages, depriving SMEs and other collateral holders from access to a broad range of RBNZ regulated institutions.

4. *Deposit Compensation Scheme*

- We support the participation of LDTs in the Deposit Compensation Scheme.
- In regards to the potential levy to be imposed, the NBDT Submission went into some detail about the potential risks to our viability if this levy is not constructed with proportionality. To create a levy payment system that does not allow the smaller LDTs to be economically viable is a danger to our existence, and to a diversified sector.
- For this reason we look forward to seeing the detail and how the levy is to be calculated and applied.

5. *ESAS Settlements*

- Allowing all LDTs with structural RBNZ support and access is also very critical.
- Providing all LDTs with the ability to hold exchange settlement accounts will allow us to broaden our product offering to the market, increasing competition and service offering to our customers.
- Furthermore, other structural mechanisms such as liquidity facilities as outlined in the NBDT Submission is supported by Xceda.

6. *Standards and Conditions*

- We support the overall position outlined in the NBDT Submission that the regs and standards must be proportionate.
- It is difficult to comment on any specifics at this stage until we see the details, but they must acknowledge that the smaller LDTs need an economic pathway to grow and offer market competition.

We thank you again and your team for the consultation during this process.

Yours sincerely,

A handwritten signature in dark ink, appearing to read "Daniel McGrath".

Daniel McGrath
Chief Executive Officer
Xceda Finance Limited