

# Crisis Management

12 September 2024 – Group 3

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1. Outsourcing standard
2. Pre-positioning for Open Bank Resolution standard
3. Crisis Management under the Deposit Takers Act 2023: Issues Paper





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# OUTSOURCING STANDARD

# Context (current policy)

- **Outsourcing arrangement** = when aspects of a deposit taker's business or functions are carried on by a person other than the deposit taker
- Current **outsourcing policy** set out in BS11
  - Applies to Large Banks (net liabilities >\$10 billion)
  - Key part of crisis preparedness framework (together with OBR)
  - Sets requirements to manage outsourced services in a way that **supports orderly resolution** and maintains **continuity of basic banking services**
- Policy **supports DTA purposes** of avoiding or mitigating risks to financial stability and risks that may damage the broader economy



# Policy proposals

## Minimal change approach

- In 2023, industry completed implementation of BS11 (updated in 2017).
- Carrying over the current requirements into an Outsourcing Standard meets the DTA's purposes.

## Minor technical changes

- **SBI365 updates** – replace 'business day' with 'calendar day'
- **Guidance** – incorporate informal guidance into a separate Guidance document and possibly the standard.
- Address DTA requirement to **specify matters we will have regard to when issuing approvals** (s91).



# Proportionality

- We propose to apply the Outsourcing Standard to Group 1 and 2 deposit takers who are **already required** to implement BS11, or **required to implement** BS11 before the standard comes into force.
- We do not propose to apply standard to rest of Group 2 at this stage, but will review whether it is appropriate to introduce any outsourcing requirements on Group 2:
  - as part of our work on potential **long-term standards for crisis preparedness**, and/or
  - via the **Operational Resilience Standard** (noting that this standard will not duplicate or change any requirements applying to deposit takers under the Outsourcing Standard)
- We do not propose to apply standard to Group 3





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# OPEN BANK RESOLUTION (OBR) STANDARD

# Current requirements (BS17)

1. Pre-position for OBR so a failed bank can reopen next day under statutory management – giving access to unfrozen portion of customer accounts
2. Have an implementation plan
3. Have a compendium of liabilities
4. Annual testing of the registered bank's OBR solution

OBR pre-positioning currently applies to locally incorporated banks with retail deposits > \$1bn, so covers Group 1 and the majority of Group 2 deposit takers





# Policy development approach

## DTA alignment

- In developing the proposed OBR standard, we have considered whether updates are needed in light of DTA purposes/principles – including the new crisis management framework in Part 7

## OBR/DCS Integration

- OBR functionality can assist with protecting depositors covered by the DCS – this requires updates to OBR to facilitate DCS integration
- In addition to protecting eligible depositors directly, the DTA allows DCS funds to support the resolution of a licensed deposit taker



# Proportionality

- Resolution of Group 1 and 2 deposit takers can be complex, given need to protect insured deposits, preserve systemically important activities and limit contagion
- We propose to apply the OBR Pre-positioning Standard to Group 1 and Group 2 deposit takers, rather than the current threshold of >\$1bn retail deposits
  - However, we are still considering whether OBR pre-positioning is necessary for all of Group 2 (given not all are currently in scope of BS17)
  - This will become clearer as we develop resolution plans for all entities (as required by DTA)
  - The standard will provide scope to vary or waive OBR pre-positioning requirements if we conclude they are not relevant to resolution for a given deposit taker
- We propose not to apply the standard to Group 3 deposit takers, but will carry over the ability for a deposit taker to 'opt in' to OBR if it wants to do so



# We plan to update OBR to incorporate protection provided by the Depositor Compensation Scheme

## *Experience of depositors during the OBR process (with DCS in effect)*

	Bank enters resolution	9am next day	Weeks/months thereafter
Current OBR strategy	<ul style="list-style-type: none"> <li>Bank closes</li> <li>No access to accounts</li> </ul>	<ul style="list-style-type: none"> <li>Bank reopens</li> <li>Access to "de-minimis" amount e.g. \$1,000 per transactional account</li> <li>Access to unfrozen portion of other balances (e.g. 90% after haircut)</li> </ul>	<ul style="list-style-type: none"> <li>Bank stays open</li> <li>Further unfreeze of frozen funds if appropriate</li> </ul>
OBR with DCS	<ul style="list-style-type: none"> <li>Bank closes</li> <li>No access to accounts</li> </ul>	<ul style="list-style-type: none"> <li>Bank reopens as normal</li> <li>Access to 100% of insured direct balances up to DCS limit (except look-through accounts)</li> <li>Access to unfrozen portion of other balances (e.g. 90% after haircut)</li> </ul>	<ul style="list-style-type: none"> <li>Bank stays open</li> <li>Unfreeze of DCS protected funds (e.g. look-through accounts)</li> <li>Further unfreeze of frozen funds if appropriate</li> </ul>



# Technical amendments

Proposed Change	Comment
OBR-DCS integration	<ul style="list-style-type: none"><li>• Expanding requirements in part C3, BS17 to include the capability to identify insured/uninsured balances</li><li>• Amending requirements in part C5 to include capability to unfreeze insured balances</li><li>• Expanding requirements in Part C7 to include capability to release frozen funds at customer account level</li><li>• Removing requirement in C4 to apply the <i>de-minimis</i></li></ul>
SBI365	Shift from 'business day' to 'calendar day', e.g. re-opening of deposit taker the next calendar day after failure
Treatment of non-deposit liabilities	Amending requirements in part C2.5 of BS17 to include capability to apply variable unfreeze for non-deposit liabilities where warranted
Updating the compendium of liabilities, implementation plan and requiring a new reporting capability	Consequential amendments to reflect other changes





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# **CRISIS MANAGEMENT UNDER THE DEPOSIT TAKERS ACT 2023: ISSUES PAPER**

# Purpose

The purpose of this presentation is to discuss with you:

1. Background and context for crisis management
2. Crisis management under the Deposit Takers Act
3. The Issues Paper
4. Timetable and next steps



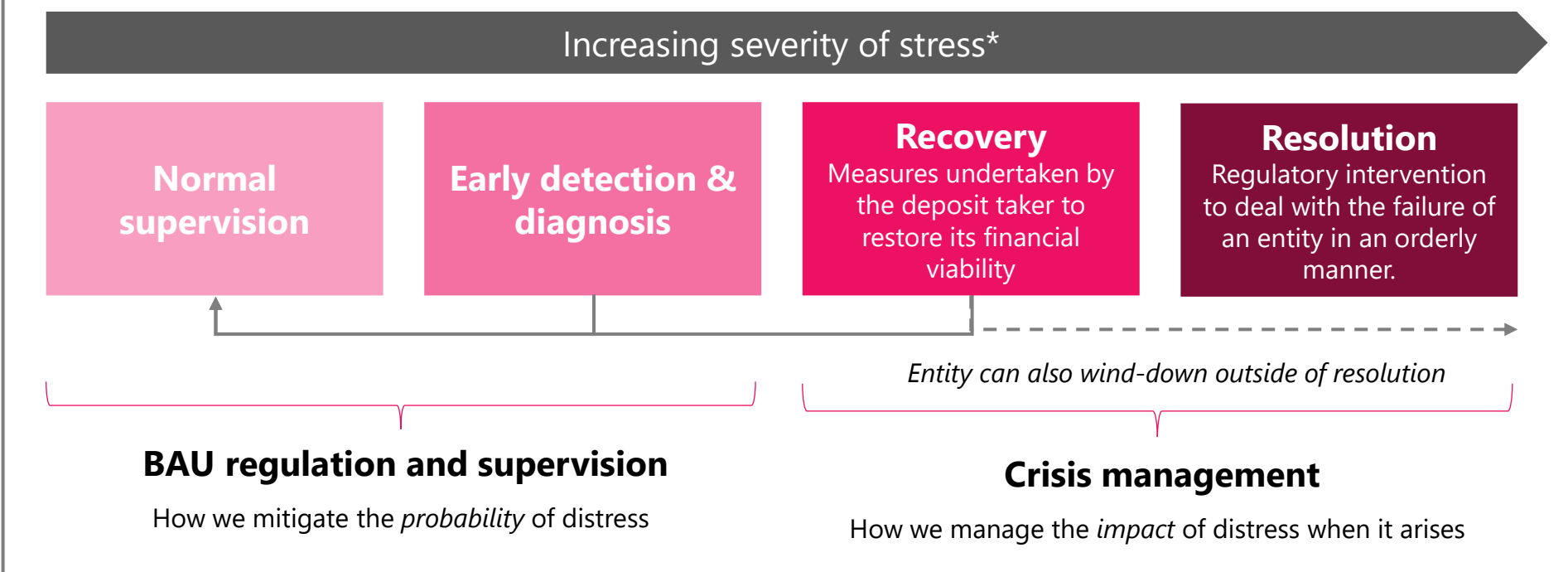
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# Background and context

# What is crisis management?

**Crisis management** in this context refers to the responses of the Reserve Bank, deposit takers and other relevant stakeholders to the financial distress or failure of one or more deposit takers.

## How crisis management fits into our prudential framework



\* NB: distress may arise rapidly in which case we could skip certain stages of this continuum.





# Why does crisis management matter?

## ***A sound crisis management framework protects financial stability and the prosperity of NZers***

The distress of a deposit taker can have **serious impacts** on depositors, investors, the financial system, and the wider economy. These impacts can include:



Loss of access to banking services and credit (both for private individuals and businesses)



Financial losses to depositors/ investors and potentially taxpayers



A loss of depositor/investor confidence and potential contagion to other financial institutions



Flow-on impacts for the real economy

Our crisis management framework reduces these impacts by establishing and testing the necessary powers, regulations, policies, tools, strategies and processes to enable the Reserve Bank and deposit takers to respond effectively to financial distress and other difficulties.

Crisis management also helps to support a dynamic and competitive deposit taking sector, by ensuring that distressed entities can either be restructured and continue to operate, or can exit the sector in a timely and orderly way.



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# Crisis management under the Deposit Takers Act 2023

# Key changes under the Deposit Takers Act 2023

***The Act enhances and modernises our statutory crisis management regime in line with overseas practice***

	Existing regime (BPSA)	Deposit Takers Act (DTA)
Scope of entities	<ul style="list-style-type: none"> <li>Banks</li> <li>Non-bank deposit takers covered by NBDT Act*</li> </ul>	<ul style="list-style-type: none"> <li>Banks</li> <li>Non-bank deposit takers</li> </ul>
RBNZ responsibilities	<p><i>In business-as-usual:</i></p> <ul style="list-style-type: none"> <li>No explicit responsibilities</li> </ul> <p><i>In crisis:</i></p> <ul style="list-style-type: none"> <li>Reserve Bank can recommend appointment of a "statutory manager"</li> <li>Statutory manager holds resolution powers</li> </ul>	<p><i>In business-as-usual:</i></p> <ul style="list-style-type: none"> <li>Resolution plan for each entity</li> <li>"Statement of Approach to Resolution"</li> </ul> <p><i>In crisis:</i></p> <ul style="list-style-type: none"> <li>Reserve Bank is "resolution authority"</li> <li>Reserve Bank holds key resolution powers</li> <li>Reserve Bank supervises a "resolution manager"</li> </ul>
Statutory purposes	<ul style="list-style-type: none"> <li>Avoid significant damage to the financial system</li> </ul>	<ul style="list-style-type: none"> <li>Avoid significant damage to the financial system, and other related purposes (e.g. dealing with a deposit taker in resolution in an orderly manner)</li> </ul>
Creditor safeguards	<ul style="list-style-type: none"> <li>No explicit compensation available</li> </ul>	<ul style="list-style-type: none"> <li>DCS protection for eligible depositors up to \$100k per deposit taker</li> <li>No-creditor-worse-off (NCWO) safeguard</li> </ul>

\* NB: For NBDTs, we have a power to give directions under the NBDT Act 2013, but we do not have direct resolution powers.



# Depositor Compensation Scheme

- Wind down and payout
- Use of the fund to support a resolution measure
- Interface with OBR and other aspects of crisis management



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# The Issues Paper

# Purpose and content

- The Issues Paper aims to seek feedback on our initial direction of travel in operationalising the crisis management framework in the DTA.
- It is the first in a series of consultations on crisis management issues that will inform our approach.
- It discusses:
  - Dealing with distressed deposit takers;
  - Updates to our existing resolution toolkit;
  - Bail-in; and
  - Preparations in a business-as-usual environment.



# Overview of the Issues Paper



## Phased approach

- BAU
- Recovery
- Resolution



## Existing resolution tools

- How our existing resolution tools work



## Bail-in

- A bail-in tool for reducing reliance on public money
- A potential bail-in standard for funding



## New crisis preparedness requirements

- Recovery and exit planning (all licensed deposit takers)
- Resolvability



# Phased approach

- Business-as-usual – Normal supervision undertaken and planning for recovery or orderly exit
- Recovery - Activation of recovery plans and the use of Reserve Bank powers such as information gathering
- Resolution - Formal use of resolution powers.





# Existing resolution tools



# Overview of bail-in

- Recapitalising a failed deposit taker by writing down, or converting into ordinary shares, selected capital instruments and liabilities of a deposit taker in resolution.
- Mechanisms to deliver bail-in or bail-in type outcomes:
  - Contractual
  - Structural
  - Statutory
- We are due to report back to the Minister of Finance on the need for a statutory bail-in power by mid-2025.



# Statutory bail-in

- We are at an early stage of our analysis and do not currently have a view on the appropriateness of a statutory bail-in power.
- We are not proposing to reopen decisions made as part of the capital review.
- Some of the issues we are considering include:
  - Funding to deliver bail-in (including total loss absorbing capacity (TLAC))
  - Costs and benefits of different bail-in mechanisms
  - The potential role of statutory bail-in powers
  - Some of the more detailed design features of statutory bail-in powers.



# New preparedness requirements

- Potential requirements could include:
  - Recovery and exit planning (for all deposit takers)
  - Pre-positioning for resolvability (for certain deposit takers)
  - Information provision to support our development and implementation of resolution plans (for all deposit takers).
- These requirements would be additional to OBR and Outsourcing
- We are also enhancing our own preparedness as the resolution authority.



# Indicative timeline



# THANK YOU

If you have any questions about this presentation please email [dta@rbnz.govt.nz](mailto:dta@rbnz.govt.nz)