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# Deposit Guarantee Scheme: Questions and answers

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*The Deed of Guarantee is in draft and the terms subject to change up to the point of signing.*

*The information posted as Question and Answers is provided for general guidance only and cannot be relied on as definitive. In particular please note that the final terms of the Deed will prevail to govern any guarantee arrangement.*

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## **What is a deposit guarantee scheme?**

It is a facility where the Crown guarantees people who have deposits with institutions in the scheme. It covers all retail deposits of participating New Zealand-registered banks, and retail deposits by locals in non-bank deposit-taking entities. This would include building societies, credit unions and deposit-taking finance companies.

It only covers deposits and other debt securities.

## **What is “retail”?**

For the purposes of the Deposit Guarantee Scheme, retail deposits include deposits made by anyone other than financial institutions (eg banks and non-bank deposit-takers themselves).

## **What will it cost?**

The scheme will be free for institutions with total retail deposits under \$5 billion. A fee of ten basis points per annum will be charged on total deposits above \$5 billion. This means that a bank with \$20 billion in retail deposits would pay \$15 million in fees per annum.

There is no direct fee for individuals, but institutions will determine if and how the costs of the scheme are passed on.

## **How much is guaranteed?**

There is no limit to the amount that can be guaranteed for those who are eligible.

## **How long will the guarantee be for?**

Once an institution's application is accepted the deposit guarantee will be effective from 12 October 2008 and will last until 12 October 2010.

## **What is the cost to the Crown?**

This obviously depends on the degree (if any) to which it is drawn on (like any insurance scheme). Any guarantees will be recorded as unquantified, contingent liabilities of the Crown.

## **Why was the facility announced on 12 October 2008? What precipitated it?**

The government has moved this day to ensure ongoing depositor confidence in New Zealand given the international financial market turbulence. The New Zealand banking system remains sound. This move is to give further assurance to New Zealanders that their deposits are safe. It follows other measures that have been undertaken by the Reserve Bank in recent weeks to ensure the liquidity of the banking system.

## **Why has this been done without legislation?**

Parliament is not sitting, and therefore legislation can't be introduced. However, the Minister has powers under the Public Finance Act to act in this way.

## **Does this apply to non-banks / finance companies?**

Yes. All operating non-bank deposit takers (i.e. those that are not in breach of their trust deed) are eligible to apply for the deposit guarantee scheme. Customers should check with their institution to confirm whether they are going to seek cover.

It does not apply retrospectively to provide cover to those institutions currently in receivership operating under a moratorium arrangement, or those who have suspended repayments to investors.

## **What about non-residents?**

For branches of overseas banks and for non-bank deposit takers, deposits will only be guaranteed for people who are New Zealand tax residents or New Zealand citizens.

## **Is this scheme comparable with the facility announced in Australia recently? What about other jurisdictions?**

From what we've seen, the schemes are different – but both are aimed at encouraging confidence.

## **Is my institution guaranteed?**

We expect all institutions that meet the criteria will apply to be guaranteed.

Those institutions that are eligible are:

- a. all banks.
- b. other deposit takers who have not breached their trust deed.

We expect all eligible institutions will apply and will let its depositors know as soon as they are approved.

We will post a list of approved/guaranteed institutions on our website – updated daily.

There is a process to go through – speak to your institution in a few days.

## **Are cash PIEs guaranteed?**

Collective investment schemes (such as PIEs, unit trusts and superannuation schemes) will be able to claim on the guarantee provided:

- a. they invest exclusively in New Zealand government securities or debt securities issued by institutions covered by the Crown guarantee; and
- b. they do not increase their investments in guaranteed institutions that are not registered banks beyond the level that existed as at 12 October 2008.

## **Who will be covered by the guarantee?**

Applications are initially invited from businesses that meet all the following criteria:

- Issue debt securities to the public
- Are in the business of borrowing and lending, or providing financial services, or both
- Carry out a substantial portion of their business in New Zealand.
- Do not primarily provide financial services or lend to related parties and group members.

Applicants are advised to provide sufficient details of their business activities to enable an assessment of whether they qualify for the guarantee.

## **What deposits are covered by the guarantee?**

The guarantee would protect those who hold debt securities issued by businesses covered by the guarantee.

Debt security means any interest in or right to be paid money that is deposited with or lent to another person.

It includes deposits, term deposits, current accounts, bonds, bank bills and debentures.

It does not include interests in superannuation schemes, unit trusts, shares or similar instruments where the income from the investment is shared, except for cash PIEs.

Subordinated debt issued by banks or finance companies will not be covered by the guarantee (different rules may apply for building societies and credit unions). Subordinated debt refers to deposits or loans that are repayable after all other creditors of the bank or finance company have been repaid. It ranks behind other creditors in terms of distributions on insolvency (but ranks before distributions to shareholders).

## **Are deposits denominated in foreign currency covered?**

Retail deposits denominated in foreign currency of financial institutions which have a crown guarantee will be guaranteed in the same way as deposits denominated in New Zealand dollars. The amount guaranteed will be the foreign currency amount, not the New Zealand dollar equivalent amount at any point in time.

## Where can I go for more information?

Individual customers should talk with their banks or non-bank institutions. If you have any questions please call 0800 726 972.

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