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11 September 2011

New Permanent Financial Claims Scheme Cap to Protect 99 Per Cent of Australian Deposit Accounts in Full

Today I announce a new, permanent cap to be introduced from 1 February 2012 for the Financial Claims Scheme (FCS) of \$250,000 per person per institution to protect the savings held in around 99 per cent of Australian deposit accounts in full.

This measure, which requires the assent of the Governor-General, reflects the advice of the Council of Financial Regulators and follows wide consultation with industry and consumer groups, which has been taking place since May this year. Most submissions received supported the proposed changes.

It will ensure that we continue to have one of the most generous and secure deposit insurance schemes in the world, and builds on the Government's record of ensuring our financial system remains among the strongest in the world.

The Government will provide over four months' notice prior to the introduction of the new cap to allow sufficient time for institutions to communicate the changes to their depositors and transition to the new settings.

The FCS was developed over the period leading up to the global financial crisis by our financial regulators, but the Government accelerated its introduction to secure confidence after the severe

dislocation of global funding markets following the collapse of Lehman Brothers. The timely introduction of the FCS, combined with the wholesale bank guarantee, helped ensure the stability of our banking system at the height of the global financial crisis and maintained the continued flow of credit to households and business. Together with both fiscal and monetary policy stimulus, this action saw Australia as virtually the only developed country to avoid recession. At that time, the Government committed to review the settings of the FCS after three years.

The Council of Financial Regulators, whose members include the Governor of the Reserve Bank, the Secretary to the Treasury, and the Chairs of both APRA and ASIC, has advised that the cap should be set at a new, permanent level to reflect the almost unparalleled strength of the Australian banking system.

Australia's credit unions, building societies and banks are highly capitalised and have benefited from years of tough supervision by our world-class regulators. Our institutions are very soundly managed by international standards, having developed strong practices of responsible lending and risk management. They are very well funded for the period ahead, and have significantly reduced the amount of funds they borrow offshore as they move to more stable, longer-term funding.

Given the fundamental strength of our banking system, and its very sound positioning to meet new Basel III global regulatory reforms, our financial regulators have advised that it is now appropriate to adjust the settings of the FCS. The new cap will apply from 1 February 2012 subject to the continued advice of our financial regulators that this remains appropriate.

Existing term deposits continue to be covered at the current level from today until 31 December 2012, or until the deposit matures, whichever occurs sooner. This arrangement will apply to term deposits which existed on 10 September 2011. If such a term deposit matures before 1 February 2012 and is rolled over, then the new \$250,000 cap will apply from 1 February 2012. If such a term deposit matures after 1 February 2012 and is rolled over, then the new \$250,000 cap will apply from the rollover date.

The Government will also make legislative changes to the existing framework to improve the scheme's effectiveness. These changes will be progressed through amendments to legislation and include:

- removing coverage of foreign branches of Australian-incorporated credit unions, building societies and banks;
- enabling an additional payment option which allows APRA to transfer deposits to a new institution;
- establishing a 'look-through' mechanism for pooled trust accounts; and
- enabling the Treasurer to activate the scheme earlier than the point of winding up.

The Financial Claims Scheme applies to all authorised deposit-taking institutions – credit unions, building societies and banks – incorporated in Australia that take deposits. Additional information on the FCS can be found on the APRA website at <http://www.apra.gov.au> or through the APRA hotline on 1300 55 88 49.

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