



Reserve Bank
of New Zealand
Te Pūtea Matua

Deposit Takers Depositor Compensation Scheme Transitional Standard

Deposit Takers Standards Consultation

CONSULTATION
PAPER

6 December 2024



Submission details

The Reserve Bank of New Zealand – Te Pūtea Matua invites submissions on this consultation paper by 5.00pm on 7 February 2025. Please note the disclosure on the publications of submissions below.

Submissions and enquiries

You should make your submission online at <https://consultations.rbnz.govt.nz>

Email enquiries: dta@rbnz.govt.nz

Publication of submissions

We will publish your submission on the Reserve Bank's website.

We will make all information in submissions public unless you indicate you would like all or part of your submission to remain confidential. If you would like part of your submission to remain confidential you should provide both a confidential and a public version of your submission. Apart from redactions of the information to be withheld (i.e., blacking out of text) the two versions should be identical. You should ensure that redacted information is not able to be recovered electronically from the document; the redacted version will be published as received.

If you want all or part of your submission to be treated as confidential, you should provide reasons why this information should be withheld if a request is made for it under the Official Information Act 1982 (OIA). These reasons should refer to the grounds for withholding information under the OIA. If an OIA request for redacted information is made, we will make our own assessment of what must be released taking your views into account.

We may also publish an anonymised summary of the submissions received in respect of this consultation paper.

Non-technical summary

This consultation paper contains the policy proposals for the collection of depositor information in order to facilitate payout under the Depositor Compensation Scheme (**DCS**). The DCS, established under the Deposit Takers Act (**DTA**), will provide depositors with compensation of up to \$100,000 per eligible depositor, per institution in event of deposit taker failure.

We propose that depositors will need to have an account with an alternative deposit taker to receive compensation payments in relation to the failed deposit taker. The Reserve Bank will need a means for receiving depositors' contact and alternative account details. Our preferred option is that depositors would log in to their internet banking platform with the failed deposit taker and provide the details through a DCS depositor page.

We propose to issue a Depositor Compensation Scheme Transitional Standard (**DCS Transitional Standard**) to support DCS payout. This standard would require deposit takers to develop a DCS depositor page leveraging their existing internet banking platforms. The intention is that the page can be quickly activated in the event of failure.

The DCS Transitional Standard would exclude deposit takers from these requirements if they do not have an internet banking platform. It would also offer flexibility if deposit takers identify that they can collect alternative account details in a more effective or efficient manner.

Because of the short time for finalising and issuing the DCS Transitional Standard, an exposure draft is included with this consultation paper.

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1 Introduction

1.1 Purpose of the DCS Transitional standard

The DCS, established under the DTA, will provide depositors with compensation of up to \$100,000 per eligible depositor, per institution in event of deposit taker failure. We anticipate that the DCS will come into effect in mid-2025.

For the DCS to be effective, a credible payout mechanism needs to be in place from when the DCS comes into effect. We have identified that one potential payout mechanism is the deposit taker's internet banking platform, where the deposit taker can stand up a DCS depositor page for collecting depositor information (contact and alternative account details). Each deposit taker will need to preposition a DCS depositor page in order to collect depositor information, in the event of the deposit taker failing.

In this consultation paper we propose that a DCS Transitional Standard is issued before, and comes into force on, 1 July 2025. This standard will require deposit takers to undertake the necessary pre-positioning work to develop a DCS depositor page. We also propose that these interim requirements are incorporated into the DCS Core Standard which was the topic of consultation earlier this year¹. Accordingly, the pre-positioning requirements would apply on an ongoing basis once the transition to the new regulatory regime under the DTA is complete.

1.2 Current approach

The current prudential framework for deposit takers is set out in the Banking (Prudential Supervision) Act 1989 (**BPSA**) and the Non-bank Deposit takers Act 2013. This framework will be superseded and replaced by the one set out in the DTA. Since the DCS is not yet in force, deposit takers are not currently subject to any requirements to preposition for DCS payout.

Pre-positioning requirements do apply under the BPSA in relation to some aspects of resolution and crisis management, as set out in the *BS11 Outsourcing Policy* and *BS17 Open Bank Resolution (OBR) Pre-positioning Requirements Policy*.

1.3 Proposed policy development approach

We have discussed payout approaches with the deposit taking sector to determine the most appropriate payout mechanism. We consider that requiring each deposit taker to have a prepositioned DCS depositor page would enable the verification of depositors and enable depositors to securely provide contact and alternate account details. We would then use this information to process compensation payments.

Our policy development approach has been informed by these operational requirements to facilitate a payout, and by international approaches (particularly equivalent approaches in Australia).

¹ Reserve Bank of New Zealand, Deposit Takers Core Standards consultation paper (<https://consultations.rbnz.govt.nz/dta-and-dcs/deposit-takers-core-standards/>)

We have organised the policy proposals using the DTA Proportionality Framework,² which splits deposit takers into 3 groups:

- **Group 1** – deposit takers with total assets of NZ\$100 billion or more. This group comprises the domestic systemically important banks (**D-SIBs**).
- **Group 2** – deposit takers with total assets of NZ\$2 billion or more, but less than NZ\$100 billion.
- **Group 3** – deposit takers with total assets less than NZ\$2 billion.

Given the short time available before the planned issuance of the DCS Transitional Standard, we have included an exposure draft of the standard for feedback.

² Accessible at: <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/dta-and-dcs/the-proportionality-framework-under-the-dta.pdf>

2 Proposed approach for Group 1 deposit takers

2.1 Prepositioned website requirements

Our preferred option is that each deposit taker is required to preposition a DCS depositor page that can be activated in a DCS payout event, unless the deposit taker is excluded (see section 2.2 below). This page would sit within the deposit taker's existing internet banking functionality and be accessible by depositors using their existing internet banking credentials.

The DCS depositor page would collect the account details for an account with another New Zealand deposit taker into which the depositor's DCS entitlement can be paid. Ideally, the DCS depositor page would also allow for the depositor to verify their contact details (such as their email address and phone number), so that we can contact them if further information is required or if there are issues with making the payment.

We seek feedback on whether requirements for deposit takers to pre-position a DCS depositor page can be met in time for DCS go-live on 1 July 2025, or whether these requirements should only apply as part of the Core DCS Standard from the end of the licensing period in mid-2028. Our initial understanding is that this development work will generally not require much resource and is relatively simple for deposit takers to complete quickly.

We propose that the DCS Transitional Standard set out development requirements for the DCS depositor page, but that the DCS depositor page only be activated (i.e. made readily accessible to the public) in the event of the deposit taker failing. We propose that the standard will allow for the activation of the DCS depositor page in the event that the Reserve Bank issues a "specified event notice" to that deposit taker³ and that we determine activation is necessary for a DCS payout.

It is important that depositor information is securely captured by the DCS depositor page and transmitted to the Reserve Bank so that payout can occur. We expect that the information collected through the page would be connected to the records of the deposit taker, given it will be collected within that depositor's internet banking log-in. We note that no specific data formatting requirements will apply before the Single Depositor View file requirements apply from mid-2028.

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|-----------|--|
| Q1 | Do you agree with the proposed requirement that deposit takers develop a prepositioned DCS depositor page? |
| Q2 | Can the functionality to confirm the depositor's alternate account and contact details be delivered by July 2025 or is more time required? |
| Q3 | Do you have any comment on transmitting depositor information to the Reserve Bank in a DCS payout event? |

³ Section 194 of the DTA.

2.2 Exclusions

We propose that the requirements to have a prepositioned DCS depositor page would not apply to a deposit taker if it already collects the alternative account information for all of their depositors. We are aware that most finance companies currently only offering term deposit products already routinely collect alternative account information for their depositors, so there is no advantage to requiring the separate development of a DCS depositor page.

We also note that these firms do not currently offer internet banking, so it may be disproportionate to require them to undertake this development.

While this group currently only includes Group 3 deposit takers, we propose that this exclusion is available to all deposit takers that meet these requirements.

Q4 Do you agree with our proposed exclusion for deposit takers who already have alternative account information for all of their depositors?

2.3 Alternative solutions

We also note that deposit takers may be able to develop an alternative solution for collecting depositor information which is more appropriate or effective. We do not wish to discourage such solutions and propose that the DCS Transitional Standard allows for the Reserve Bank to approve an alternative solution.

We propose that the process for this is that:

1. The deposit taker develops and submits a proposal to the Reserve Bank.
2. The Reserve Bank approves the proposed solution if it would still enable the deposit taker to collect depositors' alternative account details.
3. If the alternative solution is approved, similar obligations to activate the solution in the event of a failure apply.

We note that given the proposed timing of the issuance of the DCS Transitional Standard, it is unlikely that deposit takers could develop and obtain approval of an alternative solution before the commencement of the standard. However, we consider that this flexibility is important to ensuring that in the longer term the standard applies appropriately.

Q5 Do you have any comment on our proposal to allow for alternative solutions to be developed by deposit takers?

2.4 Exposure draft

Given the short timeframes for developing and issuing the DCS Transitional Standard we have prepared and attached an exposure draft of the standard, consistent with the proposals in this consultation paper. We invite feedback on any aspect of this draft.

Q6

Do you have any comment on the attached exposure draft of the DCS Transitional Standard?

3 Proposed approach for Group 2 deposit takers

We propose that the approach for Group 2 deposit takers is the same as the approach for Group 1 deposit takers. The DCS will apply to all deposit takers equally, so it is desirable that the same requirements apply in respect of payout pre-positioning. Consistent requirements will simplify communications with depositors and the systems and processes required for a payout to occur.

Q7

Do you agree with the same approach being taken for Group 1 and Group 2 deposit takers?

4 Proposed approach for Group 3 deposit takers

In general, we propose that the same approach is taken to Group 3 deposit takers as for Group 1 and Group 2. However, we note that excluded deposit takers are likely to be finance companies who only offer term deposits, which are currently only Group 3 deposit takers (as noted above). Therefore, we expect that the requirements will apply differently for a significant number of Group 3 deposit takers.

Q8

Do you agree with the same approach being taken for Group 3 deposit takers as for other deposit takers?

5 Conclusion

Efficient and accurate payout of compensation is essential to the functioning and credibility of the DCS. To enable this to occur, we have identified that we will need to collect depositors' contact and alternative account details. One option is to collect this information through a DCS depositor page sitting within the failed deposit taker's internet banking platform. This DCS depositor page needs to be developed before any failure, so that it may be quickly activated.

To require this development, we propose a DCS Transitional Standard which sets out:

- What information the DCS depositor page collects
- When the DCS depositor page must be activated
- How information collected is to be stored and transferred
- Which deposit takers are not required to pre-position a DCS depositor page
- How deposit takers can obtain approval from the Reserve Bank for an alternative solution to the DCS depositor page.

We have also included an exposure draft of this standard for comment by deposit takers.

Appendix A: Glossary

BPSA means the Banking (Prudential Supervision) Act 1989.

Core DCS Standard means the Depositor Compensation Scheme Standard to be issued under the DTA, which will set out the proposed approach for DCS disclosure and Single Depositor View requirements.

DCS means the Depositor Compensation Scheme established under the DTA.

DCS depositor page means software that provides a means for depositors and authorised persons to provide depositor information to the deposit taker.

DCS Transitional Standard means the draft Deposit Takers (Depositor Compensation Scheme Transitional Provisions) Standard 2025 to be made under the DTA.

D-SIBs means the domestic systemically important banks.

DTA means the Deposit Takers Act 2023.

Appendix B: Consolidated questions

- Q1** Do you agree with the proposed requirement that deposit takers develop a prepositioned DCS depositor page?
- Q2** Can the functionality to confirm the depositor's alternate account and contact details be delivered by July 2025 or is more time required?
- Q3** Do you have any comment on transmitting depositor information to the Reserve Bank in a DCS payout event?
- Q4** Do you agree with our proposed exclusion for deposit takers who already have alternative account information for all of their depositors?
- Q5** Do you have any comment on our proposal to allow for alternative solutions to be developed by deposit takers?
- Q6** Do you have any comment on the attached exposure draft for the DCS Transitional Standard?
- Q7** Do you agree with the same approach being taken for Group 1 and Group 2 deposit takers?
- Q8** Do you agree with the same approach being taken for Group 3 deposit takers as for other deposit takers?