Reserve Bank of New Zealand
Te Pūtea Matua

Restrictions on use of the word ‘bank’

Under the Deposit Takers Act 2023

30 September 2025

CONSULTATION PAPER

Submission details

The Reserve Bank of New Zealand – Te Pūtea Matua invites submissions on this consultation paper by 5.00pm on 24 November 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. Please refer to our policies on how we store and may share your information – Reserve Bank website privacy policy and the Consultation privacy information. 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 would like 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 responses received in respect of this consultation paper.

Contents

1 Introduction

1.1 Purpose of this consultation

There are restrictions on the use of the words 'bank', 'banker' and 'banking' (**restricted words**) under our prudential legislation.

This consultation paper sets out who we propose should be able to use restricted words in their name or title once the Deposit Takers Act 2023 (**DTA**) is fully in force. The DTA gives the Reserve Bank of New Zealand (**Reserve Bank**) the power to authorise persons (or classes of persons) to use a restricted word in their name or title.

We are consulting on these proposals now with the aim of announcing final decisions in early 2026. This will ensure that entities have sufficient time to prepare for when these decisions will take effect in 2028. It will also ensure that our policy decisions on the use of the word 'bank' are aligned and sequenced with policy decisions on regulations under the DTA.

Proposals for a second tranche of DTA regulations have been released for consultation alongside this paper. These include proposed regulations that will affect the 'perimeter' of the DTA, which determines the types of entities that can become licensed deposit takers and therefore, subject to final policy decisions, potentially be authorised to use a restricted word in their name. These regulations are intended to come into force at the beginning of the DTA licensing period, currently expected on 1 June 2027. We encourage submitters to read and consider both consultation papers side by side, even if you only intend to submit on one.

1.2 Structure of this consultation paper

This paper contains two main proposals within the chapters listed below. We anticipate that the most significant aspects of these will be the proposal to extend the use of restricted words to all licensed deposit takers, and the interaction between this policy and the proposed regulatory perimeter of the DTA, which is discussed in the companion consultation paper on the second tranche of Deposit Takers regulations.

The structure of this document is as follows:

- The remainder of Chapter 1 provides background information on our current approach to restricted words and the differences between the relevant legislative provisions in the Banking (Prudential Supervision) Act 1989 (**BPSA**) and the DTA, which we expect will come into full effect on 1 December 2028.
- Chapter 2 focuses on our main proposal for the use of restricted words for firms with a place of business in New Zealand.
- Chapter 3 covers our proposal for the use of restricted words by overseas banks not licensed by the Reserve Bank that wish to undertake activities in New Zealand without a place of business in New Zealand.

In each chapter we assess our proposals and any alternative options against the most relevant policy considerations for each issue. Policy considerations are set out in section 1.8.

1.3 Why we have a restricted words policy

The purpose of our restricted words framework is to help the public identify which entities are subject to full prudential regulation and supervision, which in turn supports the public's understanding of the 'safety net' surrounding these entities. The term 'bank' therefore acts as a cachet that certain entities benefit from being allowed to use, and protecting this term supports public trust and confidence in these entities and the financial system.

Restricting the use of the word 'bank' is a standard feature of prudential regulation for deposit-taking activity internationally. The Basel Committee's Core Principle 4 (**BCP 4**) – Permissible activities – requires that the term 'bank' is clearly defined in laws or regulations, and that the use of this word and its derivatives is limited to licensed and supervised institutions "in all circumstances where the general public might otherwise be misled".

Broader regulatory environment

Restricting the use of the word 'bank' is one way that we can ensure that financial institutions are transparent with the public about whether they are prudentially regulated and supervised, but this is not the only safeguard against the use of the term.

The Financial Markets Conduct Act 2013, and New Zealand consumer law more broadly, prohibits businesses from making false, misleading or unsubstantiated statements generally. This prohibition would also apply to a business claiming to be a licensed deposit taker or a 'bank' in circumstances where it is not.

It is worth noting that the terms 'deposit taker' and 'licensed deposit taker' are not included in the DTA restricted words regime, but a person who carries on business as a 'deposit taker' or holds themselves out to be one without holding a licence may be committing an offence under sections 10-14 of the DTA once these provisions are in force.

1.4 New Zealand's prudential legislation

The Reserve Bank is responsible for prudentially regulating and supervising entities that engage in deposit-taking activity, as well as licensed insurers and financial market infrastructures (**FMIs**). Deposit takers are currently regulated under two different Acts:

- Credit unions, building societies and retail-funded finance companies are referred to as non-bank deposit takers (**NBDTs**) and are regulated under the Non-bank Deposit Takers Act 2013 (**NBDT Act**). This is an activity-based regime – if an entity meets the definition of an NBDT under the NBDT Act, it must be licensed otherwise it is committing an offence. NBDTs are not supervised by the Reserve Bank but are required to be supervised by an independent trustee.
- By contrast, the BPSA is an opt-in, 'named-based' regime. Any entity that becomes registered under the BPSA is referred to as a 'registered bank'. Under the BPSA the Reserve Bank is responsible for both regulating and supervising registered banks. The BPSA is effectively a higher regulatory bar for prospective deposit takers to meet, relative to the NBDT Act.

The BPSA was formerly named the Reserve Bank of New Zealand Act 1989 (**RBNZ Act 1989**). In 2017 the Government established a review of this Act with the aim of updating and modernising

the Reserve Bank's legislation. As a result, the Government decided to replace the RBNZ Act 1989 and the NBDT Act with two new pieces of legislation:

- The Reserve Bank of New Zealand Act 2021 (**RBNZ Act 2021**) is administered by the Treasury and sets out the Reserve Bank's high-level objectives, functions, powers, accountability and governance arrangements, and funding model.
- The DTA is administered by the Reserve Bank and creates a single, integrated regulatory regime for the prudential regulation and supervision of all deposit takers. It modernises our prudential framework to help ensure the safety and soundness of the financial system. It also introduces the Depositor Compensation Scheme (**DCS**).

The sections of the RBNZ Act 1989 that related to prudential regulation were retained and renamed as the BPSA to allow the current regulatory regime for banks to remain in place while the DTA is implemented in phases. The BPSA and NBDT Act will be repealed once the DTA has fully commenced; currently expected on 1 December 2028. The DTA's restricted words policy, located in Part 8 of the DTA, will commence on this date. The restricted words provisions in the DTA are similar to the corresponding BPSA provisions but have some key differences, which are explained later in this chapter.

Proportionality framework

As required under the DTA, we have developed a Proportionality Framework which sets out how the Reserve Bank takes into account the DTA's proportionality principle when developing standards for deposit takers under the Act.[1] Locally incorporated deposit takers will be divided into three groups for the purposes of developing standards, set out in Table 1. The Reserve Bank will adjust the strength and comprehensiveness of requirements to balance the costs and benefits of regulation when developing standards for each group. Deposit takers in Group 1 are likely to be subject to stronger and more comprehensive requirements than deposit takers in Groups 2 and 3.

Table 1: Three groups of locally incorporated deposit takers

Group	Description of deposit takers
Group 1	Deposit takers with total assets of NZ$100 billion or more. The deposit takers in Group 1 are recognised as 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 of less than NZ$2 billion.

[1] For details, refer to: Proportionality Framework for developing standards under the Deposit Takers Act

1.5 Current restricted words framework under the BPSA

By default, restricted words can be used in the name or title of the Reserve Bank and registered banks. All other persons are prohibited from using a restricted words in their name or title unless they are authorised by the Reserve Bank under section 65 or exempted under section 66.

The Reserve Bank can authorise any of the following persons to use a name or title that includes a restricted word:

- a person (or class of persons) licensed or registered as a bank in a country other than New Zealand (**overseas banks**)
- a person that is formed, incorporated or registered to represent the interests of any registered bank or any person connected with a registered bank
- an associated person of a registered bank
- a registered bank or an associated person of a registered bank that intends to use a name or title that includes a restricted word in respect of a managed investment scheme of which the registered bank or the associated person is a supervisor or a manager within the meaning of section 6(1) of the Financial Markets Conduct Act 2013
- a person that is not a financial institution, such as a food bank.

In general, we exercise powers under section 65 in situations where we believe there is a low risk of the public being misled by the use of the restricted word.

Authorisations are given by notice in writing (or in the Gazette, in the case of a class authorisation) and impose certain conditions depending on the type of authorisation. For example, overseas banks are limited to carrying on in New Zealand only those activities specified by the Reserve Bank in the authorisation. Chapter 3 provides further detail on our current policy approach for issuing restricted words authorisations.

Under section 66 of the BPSA, a person is exempt from the limit on the use of restricted words in name or title if the restricted word signifies a geographic place name or the name of a natural person *and* the name or title is not used in respect of a financial institution (or could not reasonably be mistaken for the name of a financial institution).

Under our current legislation, it is not possible for an NBDT, or any other financial service provider (**FSP**), to use a restricted word in its name or title unless the entity becomes a registered bank. However, these entities may use restricted words in advertisements if accompanied by a suitable disclaimer statement, as detailed in section 1.7.

1.6 Restricted words framework under the DTA

The DTA has a new restricted words framework, which allows the Reserve Bank to authorise the following persons, or classes of persons, to use the word 'bank' in their name or title, subject to any conditions it thinks fit: [2]

[2] Refer to section 428 and 429 of the DTA.

- a licensed deposit taker[3]
- a person licensed or registered as a bank in a country other than New Zealand
- an associated person of a licensed deposit taker
- a person that is, or intends to become, an FSP.

The restrictions on the use of the word 'bank' in name or title only apply to a person that is an FSP or directly or indirectly holds out that they are entitled, qualified, able, or willing to be in the business of providing a financial service to persons in New Zealand. This means that, under the DTA, a person that is not a financial institution will no longer be required to seek authorisation to use the word 'bank' in their name or title.

The key focus for this consultation is on the authorisations we may issue under sections 428 and 429 of the DTA. This new framework makes it possible to expand the use of the term 'bank' to deposit takers that are currently licensed as NBDTs, and other FSPs more broadly. We have carefully considered the merits of expanding the use of the word 'bank' to these groups and seek feedback on our analysis presented in this document.

1.7 Use of restricted words in advertising

There are separate rules for the use of restricted words in advertising. This paper is not consulting on any changes to the use of restricted words in advertising as these rules are set through the primary legislation. However, we have summarised these provisions for background information.

Under the BPSA, if a financial institution that is not a registered bank wishes to use a restricted word in an advertisement, the advertisement must contain a statement that the financial institution is not a registered bank, and the statement must be communicated in a way that ensures, as far as is reasonably practicable, that it attracts the attention of those the advertisement is directed to.

Under the DTA, the provisions relating to the use of restricted words in advertisements will apply to all FSPs that are not licensed deposit takers. The DTA requires that advertisements by these entities contain a statement that the FSP is not a licensed deposit taker and is not regulated or supervised by the Reserve Bank (or, if the entity is regulated or supervised by the Reserve Bank in some capacity, the statement must set this out). The statement must also be communicated in a way that ensures, as far as is reasonably practicable, that it attracts the attention of those the advertisement is directed to.

Under both the BPSA and the DTA, the Reserve Bank may give notice in writing to require a person who is contravening a restricted words provision to change their name or title, cease using a restricted word in an advertisement, or cease carrying on any activity using a name or title that includes a restricted word. A person commits an offence and may be subject to penalties if they do not comply with such a request (refer to BPSA section 66D, and DTA section 436).

[3] The ability for registered banks to use restricted words has effectively been grandparented under the DTA for registered banks that become licensed deposit takers – refer to clause 19 of Schedule 1.

1.8 Policy considerations

Reviewing our policy in advance of the DTA coming into force creates an opportunity to support improvements in the competitive landscape. However, any support that the prudential framework may offer to financial system competition and efficiency must be carefully balanced against the Reserve Bank's primary mandate of financial stability.

We have considered the DTA's purposes and principles in our analysis of preferred options. The purposes in section 3 of the DTA that are most relevant to the restricted words policy are the main financial stability purpose of the Act, and the additional purposes:

- promoting the safety and soundness of each deposit taker
- promoting public confidence in the financial system, and
- avoiding or mitigating risks to the stability of the financial system.

In achieving these purposes, section 4 of the DTA requires the Reserve Bank to take into account certain principles that are relevant to the performance or exercise of the functions, powers, and duties conferred or imposed on it. The following principles are most relevant to the restricted words policy:

- the desirability of taking a proportionate approach to regulation and supervision
- the desirability of consistency in the treatment of similar institutions
- the desirability of the deposit-taking sector comprising a diversity of institutions to provide access to financial products and services to a diverse range of New Zealanders
- the need to maintain competition within the deposit taking sector
- the need to avoid unnecessary compliance costs
- the desirability of maintaining awareness of, and responding to, guidance or standards of international organisations, and
- the desirability of ensuring that the following risks are managed:
    - risks to the stability of the financial system (including long-term risks)
    - risks from the financial system that may damage the broader economy.

Additionally, we have also considered whether the proposed options would assist the public in understanding which entities are covered by the Depositor Compensation Scheme (**DCS**).

Beyond the DTA's general purposes and principles and our additional policy objectives, we have been guided by both the Minister of Finance's December 2024 Financial Policy Remit (**FPR**) and 2025/26 Letter of Expectations for the Reserve Bank in the development of this policy.

We have also considered the submissions to, and recommendations of, the Commerce Commission's market study into personal banking services[4] and the Finance and Expenditure

[4] For more information, refer to the Commerce Commission website: Market study into personal banking services

Committee (**FEC**) Inquiry into banking competition.[5] Both the market study and the FEC inquiry made specific recommendations on expanding who can use the word 'bank' and the importance of this work in supporting competition.

1.9 Feedback sought

We are interested in stakeholder feedback on the proposals in this consultation document. In each chapter we ask specific consultation questions to seek views and identify any potential issues with our proposals. We have also grouped these questions at the end of this paper in Appendix A to help facilitate the preparation of submissions.

1.10 Next steps

The feedback received will help us develop a final policy position on the authorisations that will be made under the DTA. We expect to announce this in the first half of 2026, ahead of changes coming into effect on 1 December 2028.

Under the RBNZ Act 2021, the Reserve Bank is required to publish a Statement of Prudential Policy. Section 431 of the DTA specifically requires this statement to set out the Reserve Bank's policies in relation to minimum requirements for a deposit taker to be authorised to use a name or title that includes a restricted word. The Statement of Prudential Policy will be updated before final policy decisions come into effect.

[5] The final FEC report can be accessed on the Parliament website: Inquiry into banking competition

2 Use of the word 'bank' for firms with a place of business in New Zealand

2.1 Preferred option

As part of moving to a single regulatory regime under the DTA, we propose to authorise all licensed deposit takers to use restricted words in their name or title. If this proposal proceeds, deposit takers that are currently licensed as NBDTs under the NBDT Act and who are subsequently licenced under the DTA, will be able to rebrand as 'banks' if desired once the DTA is fully in force (expected 1 December 2028). Combined with DCS coverage, this will support a levelling of the competitive playing field for deposit takers of different sizes.

This policy will be administered by issuing a new class authorisation for all licensed deposit takers, including any new entrants that become licensed after the authorisation notice has been made. For the avoidance of doubt, this will include branches of overseas banks (note the term 'branch' is used in this paper to refer to an 'overseas licensed deposit taker' as defined in section 6 of the DTA). We do not consider that a class authorisation for licensed deposit takers would require any special conditions because there are more direct ways for us to impose such requirements; for example, through licence conditions.

We do not propose authorising any FSPs that are outside the regulatory perimeter of the DTA to use restricted words in their name or title. This includes financial technology firms (**fintechs**) that provide 'banking-like' products and services, to the extent that these entities remain outside the regulatory perimeter (as proposed in the consultation paper on the second tranche of Deposit Takers Regulations). If an FSP or fintech became a licensed deposit taker in future, it would be able to rebrand as a 'bank' under this proposal.

We may consider special exceptions to this in circumstances where the name or title of the FSP includes a restricted word in respect of a geographic place name or the name of a natural person; for example, 'Banks Peninsula Investments', and it is obvious to the public that the FSP is not a deposit taker.

2.2 Analysis

In our view, the shift to a single, integrated regulatory framework for deposit-taking activity justifies a consistent approach to the use of the term 'bank' for all licensed deposit takers. We consider that the benefits of allowing all deposit takers to rebrand as banks outweigh the risks once the full regulatory and supervisory powers under the DTA are available to us.

We considered options to authorise only some deposit takers that become licensed under the DTA (discussed further in section 2.3). However, if a subset of licensed deposit takers was excluded from using restricted words in name or title, this may mislead the public to believe that this group is being regulated and supervised in a materially different manner from 'banks', which will not be the case once the DTA is in force. The alternative options we considered are detailed later in this section.

Assessment against policy considerations

This proposal is consistent with our policy considerations, including the DTA purposes and principles. In particular:

- By clearly demarcating the prudential safety net that sits around deposit takers and signalling to the public that all deposit takers are regulated and supervised in a robust manner, these proposals contribute to the DTA's statutory purposes of promoting financial stability, the soundness of individual deposit takers, and public confidence in the financial system (including public confidence in the Reserve Bank's role as a prudential regulator).
- Authorising all licensed deposit takers provides consistency in the treatment of similar institutions, which in turn supports competition within the deposit-taking sector, while allowing smaller deposit takers to have the option to choose whether to rebrand as a 'bank' or not.
- Aligning the use of the word 'bank' with the regulatory perimeter of the DTA is consistent with the guidance or standards of international organisations and is similar to the approach taken by other jurisdictions, as discussed later in this section.
- Aligning the use of the word 'bank' with the scope of entities that can offer DCS-protected deposits supports the public's understanding of the coverage of the DCS.

The main risk associated with authorising all licensed deposit takers is that the cachet of the word 'bank' could be undermined by a failure of a smaller 'bank', which would impact trust and confidence in the regulatory framework for all deposit takers. Therefore, it is important to consider the extent to which failure of smaller deposit takers is mitigated by the regulatory and supervisory uplift expected under the DTA.

All locally-incorporated licensed deposit takers will be required to meet the DTA standards applicable to the size of their entity as outlined in the Proportionality Framework (refer to Table 1 in section 1.4). Branches will also be required to meet a subset of the DTA standards. The standards are being developed to reflect the need for minimum standards to support the safety and soundness of individual deposit takers. This approach is being taken to support public confidence in the financial system by minimising the significant harm that could arise in the case of failure of several deposit takers.

Supporting competitive improvements for NBDTs

We acknowledge that some licensed NBDTs would like to have the ability to use the word 'bank' in their name or title earlier than the full commencement date of the DTA, which is currently expected to be 1 December 2028. This is because some NBDTs could potentially realise competition benefits of the policy change sooner than 2028, especially now that the DCS has commenced.

We have considered both the policy merits and the practical feasibility of implementing this change earlier. However, our preferred option is not to extend the use of the term 'bank' to NBDTs until the DTA has fully commenced. This is because the restricted words provisions in the DTA were not drafted with early commencement in mind, and achieving early commencement would require complex amendments to primary legislation to allow for parts of the BPSA and NBDT Act to remain in force without being in direct conflict with the DTA. Given the length of time it would take for an amendment Bill to become law, we considered that the costs of early commencement outweighed the benefits to competition.

Further, from a policy perspective, we consider that allowing NBDTs to rebrand as 'banks' before 2028 could mislead the public to believe that NBDTs are now being prudentially regulated and supervised in a similar way to registered banks, when this will not be the case until the DTA has been fully implemented. This would also be contrary to BCP 4 as discussed in section 1.3.

NBDTs will still be able to benefit from the advertising provisions under the BPSA in the interim, and use these restricted words as appropriate, albeit with a suitable disclaimer.

Should this proposal be confirmed as our final policy, this will allow just over two years of lead-in time for NBDTs to undertake commercial steps to rebrand as 'banks' if they wish.

Use of the word 'bank' for fintechs and FSPs outside the DTA perimeter

Enabled by technological innovation and evolving customer preferences, fintechs are increasingly offering banking-like products and services without replicating the full infrastructure of a traditional deposit taker. We understand there is increased interest from certain types of fintechs in being able to use the word 'bank' in their name or title without becoming a licensed deposit taker, as this outcome is technically possible under the DTA.

It is important that the public are not misled as to which firms are prudentially regulated and supervised (and covered by the DCS) and which firms are not. Therefore, our position is that FSPs, including fintechs, should only be authorised to use restricted words if they become licensed deposit takers. In our view, it would not be consistent with international best practice and the purposes and principles of the DTA to authorise firms that are outside our prudential perimeter to rebrand as 'banks' (particularly if they are not licensed or registered as a bank in any other country).

The question of whether these newer types of business models should be captured in the regulatory perimeter of the DTA is discussed separately in the consultation paper on the second tranche of Deposit Takers Regulations. We will actively monitor developments in the fintech industry and in certain circumstances we may require particular types of fintechs to become licensed deposit takers in the future. As noted above, if a fintech became a licensed deposit taker, they would be able to rebrand as a 'bank' under this proposal.

We do not consider that being unable to use the word 'bank' is, in and of itself, an impediment to fintechs competing in the market for 'banking' products and other financial services. For many of these firms, not being a traditional bank is a key selling point that helps to differentiate their product offering. However, if a fintech did wish to call itself a 'bank' and offer a full range of banking products and services, it would need to become a licensed deposit taker and therefore become subject to prudential regulation and supervision.

International approaches

This section provides a brief summary of the restricted words provisions in Australia, Canada and the UK. None of these jurisdictions permit non-prudentially regulated financial institutions to use the word 'bank' in their name or title. This is consistent with the Basel Committee's Core Principle 4. As mentioned earlier, BCP 4 requires that the term 'bank' is clearly defined in laws or regulations, and that the use of this word and its derivatives is limited to licensed and supervised institutions "in all circumstances where the general public might otherwise be misled".

Australia

Our most comparable prudential regulator, the Australian Prudential Regulation Authority (**APRA**), has powers under the Banking Act 1959 to authorise the use of restricted words by financial businesses. Under this Act, authorised deposit-taking institutions (**ADIs**), which consist of banks, credit unions and building societies, are permitted to use restricted words and expressions without requiring APRA's written permission. However, non-ADIs such as finance companies require written consent, which APRA will only grant if they feel "very rare and unusual circumstances" apply.

Canada

Only federally and provincially regulated banks are permitted to use the word 'bank', 'banker' and 'banking' in their name or title in Canada. Non-bank entities, including credit unions, trust and loan companies and other financial institutions are not permitted to use 'bank' terms in their name or title. However, as of 2018, prudentially regulated non-bank deposit-taking institutions are permitted to use 'bank' terms to indicate or describe their activities and services, subject to meeting certain disclosure requirements. These entities are covered by either provincial or federal depositor insurance.

United Kingdom (UK)

In the UK, a 'bank' is defined as a firm that carries on the regulated activity of accepting deposits and is a credit institution, but is not a credit union, friendly society or a building society. Apart from banks, the only other firms that have permission to accept deposits in the UK are credit unions, friendly societies and building societies. These deposit takers are prudentially regulated and are able to offer eligible deposits for the purposes of the UK's Financial Services Compensation Scheme (FSCS) but are not permitted to use 'bank' in their name or title.

2.3 Alternative options

As mentioned in section 2.2, we considered several other options for authorising the use of the word 'bank' for particular subsets of the licensed deposit taker cohort (in addition to considering the merits of expanding permitted use to FSPs outside the deposit taking perimeter). The main alternatives we considered are summarised below:

- Option 1: Maintaining our status quo protections on the use of the word 'bank' (to the extent that these can be translated across to the DTA using Groups 1 and 2 under the Proportionality Framework as a proxy for the concept of a 'registered bank').
- Option 2: Authorising all deposit takers that offer transactional services to use the word 'bank' in their name or title.

Option 1: Approximated status quo

Under this option, we would exclude all Group 3 deposit takers (as defined in the Proportionality Framework) from using restricted words under the DTA, except for two Group 3 deposit takers that are currently registered banks as they will have the grandparented ability to continue to use the term (under clause 19 of Schedule 1). In line with our current treatment of registered banks, this option would allow Group 1 and 2 deposit takers and all branches of overseas banks to use the word 'bank' in their name. However, new entrants that become locally incorporated would

only be allowed to use the word 'bank' in their name once they are large enough to be Group 2 deposit takers.

This option is not preferred for the reasons set out below:

- Prudential requirements for Group 3 deposit takers have been calibrated with the purpose of not creating a marked difference in the way these firms are regulated and supervised relative to Group 1 and 2 deposit takers. This option would therefore be disproportionately restrictive and would reinforce the current competitive disadvantage that the NBDT sector faces.
- Preventing locally-incorporated deposit takers from using restricted words until they reach a certain scale would make it more difficult for new entrants to compete with incumbents and would run counter to supporting a more competitive and efficient financial system.
- It would likely result in arbitrary and/or unfair outcomes and perverse incentives – for example, it is unclear how we should treat a deposit taker that shifts from Group 2 to Group 3 (which may happen from time to time in either direction).

Option 2: Authorising 'transactional' deposit takers only

This option assumes that there is some minimum level of 'banking products and services' that a deposit taker is required to provide before it can call itself a 'bank'. Under this option, most (but not all) credit unions and building societies would be able to use restricted words, but finance companies would not. We note that while finance companies do not currently offer transaction accounts, this may change over time.

This option would improve the competitive landscape relative to the status quo and would clearly distinguish the subset of deposit takers that offer transactional accounts. However, this option is not preferred for the reasons set out below:

- The exclusion of deposit takers that do not offer transaction accounts is arbitrary and has no link to the legal definition of a deposit taker under the DTA, so it would be complex to develop and implement criteria for assessing whether an entity is offering 'transactional accounts'.
- Unless a specific carve-out was provided for branches of overseas banks, this option would likely create equivalence issues in situations where new entrant branches are able to use restricted words in other countries but not in New Zealand. However, allowing branches to use restricted words would introduce a new inconsistency with other deposit takers that do not offer transactional accounts (for example, finance companies), which could be seen as arbitrary and unfair.
- There would be inconsistencies between the treatment of incumbent registered banks (including branches), non-bank deposit takers and new entrants that do not offer transactional accounts due to grandparenting provisions.

2.4 Consultation questions

Q1	Do you agree with our proposal to authorise all licensed deposit takers to use the word 'bank' in their name or title?
Q2	Are there any reasons why certain types of licensed deposit takers should not be permitted to use the word 'bank' in their name or title?
Q3	Aside from the situation where a restricted word is part of a geographic place name or the name of a natural person, are there any other circumstances under which a financial services provider should be authorised to use a restricted word in its name or title without the requirement to become a licensed deposit taker?

3 Use of the word 'bank' in New Zealand for overseas banks not licensed by the Reserve Bank

3.1 Background

Under the BPSA and the DTA, the Reserve Bank can authorise the use of restricted words by banks that are licensed or registered overseas but not in New Zealand. To avoid confusion with other defined terms in the DTA such as 'overseas deposit taker', we refer to these entities throughout this consultation paper as 'overseas banks'.

There are four different operating models for overseas banks to undertake activities in New Zealand, as set out in Table 2. In general, the broader the customer base, the more prudential requirements and safeguards we impose.

Table 2: Policy settings under the four operating models for overseas banks

Operating model	Required to be licensed	Allowable customer profiles	Maximum balance sheet size	Prudential requirements
Overseas bank authorised by the Reserve Bank to use restricted words	No	Wholesale customers only	Monitored by regular reporting – no hard threshold	No place of business in New Zealand
Standalone branch	Yes	Wholesale clients only (including turnover or assets >$5 million)	NZ$15 billion in total assets	No New Zealand capital or quantitative liquidity requirements; some Standards may apply (e.g. disclosure, governance)
Dual-operating branch	Yes (separate licences required)	Large corporate and institutional clients only: turnover >$50 million, or total assets >$75 million, or assets under management >$1 billion (for funds management)	NZ$15 billion in total assets	As above, plus additional risk mitigants (e.g. 1:1 ratio).
Locally-incorporated subsidiary (standalone or dual-operating)	Yes	All customer profiles	Unlimited	Varying according to total assets, as described in the Proportionality Framework

The boundary between overseas banks required to license under the DTA (i.e., as a branch, a locally incorporated subsidiary, or both) and overseas banks permitted to rely on the class authorisation is considered separately in the consultation paper on the second tranche of Deposit Takers regulations. This is because any decisions we make about authorising specific overseas banks to use restricted words must be informed by the DTA's regulatory perimeter and how this is calibrated for overseas banks. This chapter therefore considers what our approach should be for allowing the use of restricted words by overseas banks that are not licensed under the DTA, taking the proposed regulatory perimeter of the DTA as given.

Our current approach for authorising overseas banks to use restricted words

Our current policy under BPSA is to authorise overseas banks that wish to undertake limited activities in New Zealand using a restricted word in their name or title. These banks must not have a physical presence in New Zealand and must be prudentially regulated and supervised by their 'home' regulator, but can remain outside our prudential perimeter if certain conditions of their authorisations are met. This keeps barriers to entry into the New Zealand market for these overseas banks very low, improving the range of financial products and services available to the New Zealand market, thereby supporting financial system competition and efficiency.

This policy is primarily administered through a class authorisation, which permits only prescribed forms of wholesale activity in New Zealand. There are currently 25 overseas banks relying on this notice, which was issued in 2019.[6]

The activities that are permitted under the current class authorisation are:

- wholesale banking activities
- wholesale lending activities
- financial advisory services for wholesale customers
- involvement in capital market issuances and capital market activities, provided that selling efforts are not directed at retail customers in New Zealand
- acting in roles supporting capital market issuances, such as a trustee, security trustee, registrar, paying agent, offshore listing agent, or clearing system custodian in relation to any capital markets issuance
- investing or trading in any New Zealand financial products on an overseas bank's own account
- acting in wholesale foreign exchange and derivatives markets, including transactions relating to emission units, and
- acting in roles supporting the derivatives markets for wholesale customers, such as a custodian, a clearing participant or a prime broker, including managing incidental cash accounts.

[6] Overseas banks authorised to use restricted words are listed on this Reserve Bank webpage: Restrictions on use of the word 'bank' - Reserve Bank of New Zealand - Te Pūtea Matua

If an eligible overseas bank (defined as an overseas bank that does not have a place of business in New Zealand) wishes to rely on the class authorisation, it is required to meet the following conditions:

- notify the Reserve Bank, before relying on the authorisation, that it intends to carry on activities using a name or title that includes a restricted word on the basis of the authorisation
- maintain an authorised agent in New Zealand for the purpose of accepting service of documents
- submit to the Reserve Bank any information requested regarding its authorised activities, and
- carry on in New Zealand only those activities that are specified in the class authorisation notice.

A small number of overseas banks also operate under bespoke individual authorisations for limited retail activities such as remittances that are not covered by the class authorisation.[7] An overseas bank seeking an individual authorisation is required to make an application to the Reserve Bank setting out, amongst other things, the nature and scale of activities it proposes to carry on in New Zealand.

Prior to 2019, the Reserve Bank issued letters of non-objection to overseas banks using restricted words in New Zealand, rather than issuing formal authorisations to these banks. This is a legacy approach that we intend to phase out in the transition to the DTA.

We note that an overseas bank that is not "carrying on any activity directly or indirectly in New Zealand (whether through an agent or otherwise)" would not be in breach of the limit on the use of restricted words. The Reserve Bank has published a guidance note for overseas banks that considers where the threshold is for carrying on activities in New Zealand, which determines whether the restricted words limitations apply.[8] For overseas banks that are captured by the 'carrying on activities' test, we have published a separate guidance note setting out our approach to assessing applications for authorisation under the BPSA.[9]

3.2 Preferred option

Our proposal is to carry over the existing policy approach to authorising overseas banks by issuing new authorisations under the DTA with broadly the same conditions and scopes. Where required, we may make minor changes to the authorisations to ensure consistency with the DTA or Deposit Takers Standards (e.g., for defined terms in the class authorisation such as 'wholesale customer').

We would like to seek feedback from submitters on whether any other wholesale activities should be permitted under the class authorisation for overseas banks, or whether the current scope of prescribed wholesale activities remains appropriate. However, our view is that the scope of

[7] Note that under the DTA any overseas bank undertaking retail borrowing and lending will be required to be locally incorporated, in line with decisions arising from the Branch Policy Review.
[8] Guidance note for overseas banks on limitations on the use of restricted words
[9] Reserve Bank's approach to section 65 authorisations for overseas banks

wholesale activities permitted under the class authorisation should not be broader than what is permitted under the Branch Standard. Note that we will be consulting on an exposure draft of this standard in late October.

3.3 Analysis

Our general expectation is that an overseas bank wanting to carry on activity in New Zealand should apply to become a licensed deposit taker in New Zealand (either as a locally-incorporated subsidiary, a branch, or both). This is because we have limited tools to mitigate risks to financial stability arising from financial institutions that are outside our perimeter, as our regulatory powers can largely be applied to licensed deposit takers only.

However, we recognise that there may be some niche banking products and services that overseas banks can offer to New Zealand customers that licensed deposit takers do not currently offer, the provision of which could support competition within New Zealand's financial services sector. Not allowing these overseas banks to use restricted words in New Zealand could in practice be prohibitive to many of them operating here.

Notwithstanding our general view that only financial institutions that are prudentially regulated and supervised in New Zealand should be able to use the word 'bank' in their name or title, we believe an exception for authorised overseas banks is appropriate because:

- The risks to financial stability associated with these overseas banks are very low due to both their small scale in New Zealand and the conditions of their authorisations, particularly the prohibition from engaging in any retail borrowing and lending and the requirement to not have a physical presence in New Zealand.
- An overseas bank carrying on limited wholesale business in New Zealand using the word 'bank' in its name or title is unlikely to mislead the public to believe that it is prudentially regulated and supervised in New Zealand.
- Overseas banks that have the scale to offer niche products and services may bring efficiency benefits, including increased competition and choice for New Zealand wholesale customers.
- It is consistent with the DTA principles of taking a proportionate approach to regulation and supervision, and avoiding unnecessary compliance costs, to permit certain levels and types of activities under the lighter-touch regulatory requirements of a restricted words authorisation.
- An overseas bank must be prudentially regulated and supervised in another jurisdiction if it is to rely on a restricted words authorisation in New Zealand.

Further analysis of the appropriate regulatory perimeter for overseas banks operating in New Zealand is considered in the consultation paper on the second tranche of Deposit Takers regulations.

Australian approach

APRA takes a similar approach to the Reserve Bank in that it allows some foreign banks that are not licensed as ADIs to use restricted words while conducting limited business in Australia.[10] These foreign banks are subject to a number of conditions, including that:

- they do not maintain an office or permanent staff in Australia, including staff employed by an entity within the banking group that conducts non-banking business on its behalf in Australia;
- they do not solicit business from retail customers in Australia
- all business contracts and arrangements are transacted offshore
- they do not engage in advertising, or use bank staff to physically solicit business in Australia, and
- any in-person meetings with clients and potential clients in Australia are for the limited purpose of arranging or executing documentation in relation to the business of those clients.

If these conditions are fully met, APRA considers that the activities of a foreign bank would not be in breach of the restricted words provisions in Australia, meaning that no exemption is required. However, APRA does not allow foreign banks to use the word 'bank' in Australia without being licensed if they have registered as a foreign company under Australia's Corporations Act 2001.

Consent is required for a foreign bank to use the word 'bank' in its name in connection with maintaining a 'representative office' in Australia. There are currently 17 foreign bank representative offices that have been approved by APRA to operate in Australia.[11]

The concept of a 'representative office' does not exist in New Zealand and, as part of developing proposals on the DTA regulatory perimeter, we have considered the merits of adopting a similar approach to APRA. This is discussed in the separate consultation paper on the second tranche of Deposit Takers Regulations.

The different categories of overseas banks operating in Australia are summarised in Table 3.

[10] For more information on APRA's approach to allowing foreign banks not licensed by APRA as an ADI to conduct business in Australia, refer to the following letter on the APRA website: Operation of Foreign Banks in Australia (2013 letter)

[11] Further information on the requirements for representative offices can be found on the APRA website: Foreign bank representative offices (not authorised deposit-taking institutions) | APRA

Table 3: Policy settings for overseas banks operating in Australia

Type of institution	Regulated as an ADI	Allowed to use 'bank' name
Foreign banks (with no physical presence in Australia)	No	Yes – activities not in scope of restriction if conditions explained above are met
Representative office of a foreign bank	No – but subject to minimum entry standards and annual fees to cover APRA's monitoring costs	Yes – must seek APRA's consent to use the word 'bank' in its name, in addition to seeking consent to establish a representative office
Branches of foreign banks	Yes	Yes (automatic)
Foreign subsidiary banks	Yes	Yes (automatic)

3.4 Alternative options

In developing our proposal to retain the status quo approach for authorising overseas banks to use restricted words, we considered a number of alternative options. These include:

- **Introducing a total assets threshold as a condition of restricted words authorisations for overseas banks.** If an overseas bank was in breach of this threshold, it would no longer be able to rely on the authorisation and would need to decrease its assets or become licensed to continue operating in New Zealand. This option was disregarded because any threshold that has the effect of requiring an overseas bank to become licensed should be set as part of the DTA's regulatory perimeter, rather than through the restricted words framework. This option is therefore considered in the consultation paper on the second tranche of Deposit Takers Regulations.
- **Allowing limited retail activities under the class authorisation for overseas banks** (which currently only permits wholesale activities); for example, remittances could be added to the scope of the permitted activities. This would slightly reduce barriers to entry, therefore encouraging competition. However, we do not support this option for consistency with the outcomes of the Branch Policy Review. Our new branch policy is that all branches in New Zealand will be restricted to engaging in wholesale business, meaning they cannot take retail deposits or offer products or services to New Zealand retail customers.[12] Given this, our view is that individual authorisation applications for limited retail activities such as remittances should continue to be assessed on a case-by-case basis.
- **Discontinuing the use of authorisations for any overseas banks that are outside the regulatory perimeter of the DTA.** To strengthen the 'cachet' of the word 'bank', we considered whether the restricted words framework would be clearer, simpler and easier for the public to understand if only entities that are licensed and supervised by the Reserve Bank (including branches) could use the word 'bank' in their name or title. Under this option the

[12] For information about the branch policy review, see: Review of policy for branches of overseas banks - Reserve Bank of New Zealand - Te Pūtea Matua

current authorisations would be revoked when the BPSA is repealed and we would not issue any new authorisations for overseas banks under the DTA. This would be more restrictive than our current settings for overseas banks and would increase barriers to entry. It would also be inconsistent with APRA's approach. We do not think there is a strong case to tighten these settings and did not explore this option further.

3.5 Consultation questions

Q4	Do you agree with our proposal to retain the current authorisations approach for overseas banks undertaking limited activities in New Zealand using a restricted word in their name or title?
Q5	Are there any other wholesale activities that should be included in the scope of the class authorisation for overseas banks?
Q6	Are there any other conditions we should impose on a new class authorisation for overseas banks, or any changes we should make to the conditions that we currently impose in this authorisation?
Q7	Do you have any feedback about our approach to individual authorisations?

Appendix A: Consolidated Consultation Questions

All questions posed for consultation throughout this document are consolidated below.

Use of the word 'bank' for firms with a place of business in New Zealand

Q1 Do you agree with our proposal to authorise all licensed deposit takers to use the word 'bank' in their name or title?

Q2 Are there any reasons why certain types of licensed deposit takers should not be permitted to use the word 'bank' in their name or title?

Q3 Aside from the situation where a restricted word is part of a geographic place name or the name of a natural person, are there any other circumstances under which a financial services provider should be authorised to use a restricted word in its name or title without the requirement to become a licensed deposit taker?

Use of the word 'bank' in New Zealand for overseas banks not licensed by the Reserve Bank

Q4 Do you agree with our proposal to retain the current authorisations approach for overseas banks undertaking limited activities in New Zealand using a restricted word in their name or title?

Q5 Are there any other wholesale activities that should be included in the scope of the class authorisation for overseas banks?

Q6 Are there any other conditions we should impose on a new class authorisation for overseas banks, or any changes we should make to the conditions that we currently impose in this authorisation?

Q7 Do you have any feedback about our approach to individual authorisations?