



FINANCIAL SERVICES FEDERATION

16 August 2024

Reserve Bank of New Zealand

dta@rbnz.govt.nz

Dear Madam/Sir,

Re: Deposit Takers Core Standards

The Financial Services Federation (“FSF”) is grateful to the Reserve Bank of New Zealand (“RBNZ”) for the opportunity to respond on behalf of our members to the consultation on the Deposit Takers Core Standards (“the Consultation”).

By way of background, the FSF is the industry body representing the responsible and ethical finance, leasing, and credit-related insurance providers of New Zealand. We have over 90 members and affiliates providing these products to more than 1.7 million New Zealand consumers and businesses. Our affiliate members include internationally recognised legal and consulting partners. A list of our members is attached as Appendix A. Data relating to the extent to which FSF members (excluding Affiliate members) contribute to New Zealand consumers, society, and business is attached as Appendix B.

The FSF’s membership contains seven of New Zealand’s non-bank deposit takers (NBDTs) so the outcomes of this consultation will directly impact our membership. A list of these deposit takers can be found in Appendix A.

Introductory Comments

We would like to begin our consultation by thanking the RBNZ for the lengthy consultation period, particularly post extension. Particularly due to the importance of the consultation as well as the volume of material which is being consulted on. We also believe that the proposed standards are likely to have the effect of promoting the resilience of deposit takers through the capital and liquidity standards

To begin we would like to reemphasise the need for proportionality when seeking to apply the same standards to all deposit takers. There are vast differences in size, resources and capacity across the spectrum of deposit takers. Smaller deposit takers do not have the same resources and/or structure of the banks (as currently defined) but that does not necessarily make them higher risk.

We would also like to make some general comments about some issues surrounding the content of the consultation document. In particular the issue of the right of any deposit taker to refer to themselves as a ‘bank’ and the ability for any deposit taker to be granted access to the Exchange Settlement Account System (ESAS). As deposit takers will all be licensed in the same way and to

similar levels (scaled for size) it would be incorrect to draw distinctions between who is able to access these benefits.

Overall, a further submission point is that we are unhappy with where the risk weights have landed. 80% is much too high and may have the effect of reducing capital adequacy. The risk weights should be reduced to accurately reflect the probability of loss given default.

Consultation Questions

We have elected to only answer questions that directly relate to our membership.

1. What do you think the cumulative impact of the proposed standards will be on the relevant principles?

The main impact that we foresee as a result of the proposed standards is that the levies for the Depositor Compensation Scheme (DCS) will not be proportionate. All current NBDT's will be classified as group 3, this means that in proportion to their profits they will be paying a much higher percentage of levies than deposit takers that fall into the group 1 and 2 buckets.

We also note that the asset threshold will need to be adjusted periodically due to continued growth in balance sheets. It is likely that due to consolidations within the NBDT space some entities will already be getting close to that threshold. This will be necessary to avoid fiscal drag. Without this adjustment the small deposit takers will 'drift' into Group 2 over time, thereby eroding the benefits of the Group 3 arrangements, especially regarding capital and liquidity requirements.

It is also likely that we will begin to see deposit spread to maximise protection under the scheme. What that means will depend on consumer awareness of the protection and how they chose to behave. It is worth reiterating to the general public that for all deposit takers there will be no difference in risk for deposits up to 100k.

2. What do you think of the way we have taken into account the proportionality principle in developing the proposed standards?

We are not unhappy with the way that proportionality has been taken into account in developing these standards. While there is definite room for improvement in areas such as the calculation of levies for the DCS as discussed above it is still relatively proportionate in its approach.

3. What do you think the implications of the proposed standards will be on the deposit-taking sector comprising a diversity of institutions to provide access to financial products and services and on financial inclusion more generally? If possible, please provide specific feedback on how these requirements might impact the accessibility and affordability of financial services.

As noted above the proportionality principle, as applied by the RBNZ in the Consultation Paper, will help to some extent in promoting contestability and competitiveness in the deposit taking sector by taking account of the burden of regulatory requirements on small

deposit takers when compared to larger deposit takers. However, this benefit does not extend sufficiently to the disclosure requirements, or to the capital and liquidity requirements, which may have a material impact on NBDT compliance costs and will discourage the entrance of new deposit takers (further discussed below at question 5). Simplification of the proposed regulatory requirements (especially in relation to disclosure and liquidity) needs to be considered for Group 3 deposit takers.

A further point is that the proposed minimum capital amount for Group 3 deposit takers will reduce the contestability of the deposit taking sector by raising the entry hurdle for new entrants. Consideration must be given to dropping this proposal and, instead, the RBNZ could rely on requirements relating to governance, risk management capacity, capital and liquidity ratio requirements, and disclosure requirements to ensure that only financially sound and well managed entities can become deposit takers.

5. What do you think the cumulative impact of the proposed standards will be on competition? How do you think competition should be factored into our broader analysis of the principles?

There are many entry hurdles for potential new entrants into the market. This is an undesirable area to enter into due to the sheer amount of regulation and change. The proposed standards are also anticipated to encourage more consolidation in an already small market. Therefore, the result is likely to be a substantial lessening of competition in the market.

29. Do you agree with our proposal to set the minimum total capital for Group 3 deposit takers at 9% with a 4% prudential capital buffer, to align with the requirements for Group 1 and Group 2?

We submit that the proposal is acceptable regarding the minimum total capital and prudential buffer percentages. We do however submit that new entrants should be required to hold a higher level of capital.

30. Do you agree with our proposal that Group 3 deposit takers that are exempt from a credit rating should face an additional buffer of 1%?

We would like to note that the mere fact an entity does not have a risk rating does not automatically mean they are higher risk than an entity who has a credit rating as credit ratings are typically designed for large entities and do not accurately reflect the risk of smaller entities.

We also note that the proposed strengthened public disclosure requirements for deposit takers will enable depositors and other stakeholders to compare deposit takers across a range of financial and risk metrics. This would reduce the need for a mandatory credit rating requirement. Therefore, there is no need for an additional capital ratio buffer for deposit takers that are exempted from a credit rating, as they will be subject to broadly similar disclosure requirements as other deposit takers.

31. Do you support the introduction of a minimum capital requirement for Group 3 deposit takers?

We do support this proposal as it will increase the perception of the deposit takers. The proposal as it currently stands is looking at a minimum capital requirement of somewhere between \$5 million and \$10 million. We submit that we would like this to be at the higher end of the scale.

33. Do you support our proposed approach to calibrating the minimum capital requirements to ensure individual entity soundness?

See points above.

34. Do you have any feedback on the initial assessment of our estimated calibration range of \$5 million to \$10 million?

See above answer to question 31.

39. Do you agree with our proposed capital composition for Group 3 deposit takers?

We are accepting of the proposed capital composition for group 3 deposit takers.

40. Do you agree that simplifying the capital issuance process would be useful for Group 3 deposit takers?

See above.

41. Do you agree with our proposed approach to risk weighted assets for credit risk for Group 3 deposit takers?

Yes, we agree with this proposal.

42. Do you agree with our proposal to separate the operational risk calculation from the market risk capital calculation for Group 3 deposit takers?

We are accepting of this proposal.

43. Do you agree with our proposed approach to capital requirements for market risk for Group 3 deposit takers?

We are accepting of this proposal.

44. Do you agree with our proposed approach to capital requirements for operational risk for Group 3 deposit takers?

We are accepting of this proposal.

49. Do you agree with our proposed transition path for Group 3 capital requirements or are there alternatives that would better balance the factors discussed above?

We appreciate the need for a transition pathway and are grateful to RBNZ for looking to provide one for deposit takers. Particularly as until we understand how consumers will behave regarding the DCS there is going to be a lot of unpredictability in the sector.

On the face of it this transition pathway appears to be reasonable.

78. Do you agree with our proposed qualitative requirements for Group 3 deposit takers? If not, what changes would you propose to these requirements?

In terms of liquidity, we generally agree with these requirements that the RBNZ has outlined. These are broadly consistent with international requirements and should not constitute much of a change from their arrangements already in place.

79. What compliance costs do you think may result from the proposed qualitative requirements for Group 3 deposit takers?

See above.

80. Do you agree that Group 3 deposits takers should be required to comply with a CFCR?

We are comfortable with this requirement in principle.

81. What are the implications of the different structures for the CFCR?

We submit that RBNZ should review the Australian Prudential Regulation Authorities (APRA) settings for their Liquidity Ratio Coverage. APRA allows some authorised deposit takers (ADIs), especially small ones, to comply with a simple liquid assets-to-liabilities ratio, instead of meeting the LCR. This has much lower compliance costs for small ADIs in Australia than does the LCR (equivalent to the CFCR). We submit that an approach such as this one would better reflect the principle of proportionality as outlined in the Act.

82. Is there a need for a cap on the amount of Kauri bonds and LGFA securities that Group 3 deposit takers may hold as liquid assets under the CFCR?

83. Do you agree that the minimum requirement under the CFCR should be 100%?

84. Do you prefer Option 1 or Option 2 for the treatment of deposit run-off rates?

The compliance costs associated with Option 1 are likely to be more than for Option 2, as option 2 is a simpler method of calculating deposit run-off rates. However, the two options will give rise to different liquidity ratio outcomes, and therefore liquid balance requirements, with attendant implications for the different costs of maintaining liquid balances under the two options.

As noted under question 80 an alternative that is to allow Group 3 deposit takers to simply comply with a minimum liquid assets-to-liabilities ratio, such as the APRA HQLA requirement, instead of complying with the CFCR. This would significantly lower compliance costs for NBDTs. This would be a more proportionate outcome.

85. What compliance costs do you think may result from Option 1 and Option 2 (including the costs of any necessary system builds)?

See above.

86. Are the potential size bands in Option 1 appropriate for measuring the potential deposit outflows of Group 3 deposit takers in a liquidity stress scenario?

See above.

87. Do you agree the CFCR should be applied for both 7-day and 30-day periods for Group 3 deposit takers that issue both demand and term deposits, and for only a 30-day period for Group 3 deposit takers that only issue term deposits?

We submit that this is a great start however 30 days is a relatively short period of time. Of the two options we indicate a strong preference for 30 days.

88. Do you agree that the CFCR should be met 'at all times' rather than just at the end of each business day? If Group 3 deposit takers were required to comply with the CFCR at all times, what are the expected costs and are there reasons why at all times 7 days a week is not appropriate (for example, if payments are not processed 7 days a week)?

We strongly disagree with this. The compliance costs are likely to be much greater if the CFCR must be met at all times rather than just as at end-of-day, given that an 'all times' requirement would suggest the need to calculate the CFCR on an intraday basis. This might require NBDTs to invest in additional IT systems and enhanced monitoring capacity to track intraday liquidity positions, which could prove costly. We submit that the CFCR should be applied on an end-of-day (business day) basis.

89. Do you have any views or suggestions on what further simplifications could be made to our proposed CFCR?

Its important to note that "at all times" is a massive burden to place on deposit takers. It is also important to note that in times of stress smaller players will have less options available to them then larger players. Due to this proportionality needs to play an important role in these decisions.

90. What would be the impact of the proposed treatment of term deposits on your business model, liquidity risk management, and profitability? Please quantify the impacts on profitability where possible.
91. What could mitigate the impacts of the proposed treatment of term deposits? For example, could Group 3 deposit takers hold (more) liquid assets such as NZGBs, Kauri bonds, and LGFAs?
92. Do you agree with our proposal not to apply a quantitative stable funding requirement on Group 3 deposit takers?

We support this proposal.

96. Do you agree with our preferred approach of disclosure requirements to identify protected deposits?

Yes, we agree with this approach.

97. Do you agree with our proposal to focus on the product disclosure approach?

Yes, we agree with this approach.

98. Do you agree with the proposal to require the use of a trademark in connection with DCS protected products, except for credit products?

We strongly agree with this proposal.

99. Is it practical to require deposit takers to make supporting information provided by the Reserve Bank available to depositors?

We submit that it is practical to require this.

100. Are there any issues with adopting the “advertising” definition in section 434(4) of the DTA for the purpose of the DCS disclosure standard?

We do not see any issues with this.

102. Do you agree with the proposal not to impose requirements for disclosure in sales conversations?

We submit that we support the approach outlined by RBNZ and urge the RBNZ not to impose complications in the disclosure arrangements, such as not requiring disclosure of DCS matters in sale conversations or other restrictions.

104. Are there any products offered by Group 3 deposit takers that are designed differently from bank deposits, that could require a different treatment under the DCS disclosure standard?

We have no comment on this question.

105. Do you have any comments on the proposed list of variables required for the SDV file?

We note there is a high cost in terms of system change to enable single depositor view (SDV) as is required by the proposed core standards. It may be necessary to impose a simplified version of the SDV data requirements to ensure deposit takers with limited resources are able to comply.

106. Do you have any comments on the proposed fields for the variables, especially where they may be currently held as a string rather than individual fields? Would this requirement have any significant negative implementation or data quality impact?

See above.

108. Do you agree that the option of combination deposit taker and regulator testing is appropriate? If not, which option would you prefer?

We are comfortable with this proposal, and we note it is in line with international principles and practices.

Disclosure Requirements for Group 3

The proposed disclosure requirements will have considerable costs for NBDTs as they are much more comprehensive than the existing NBDT disclosure requirements. Option C is likely to have the least negative effect in this regard, it would also be more in line with the proportionality and compliance costs principles.

We also note it would be preferable to provide this information annually rather than quarterly.

Please do not hesitate to reach out if you wish for us to speak further on any of the points made in this submission.

Yours sincerely,



Katie Rawlinson
Legal and Policy Manager
Financial Services Federation

Appendix A



FSF Membership List as at August 2024

Non-Bank Deposit Takers, Specialist Housing/Property Lenders, Credit-related Insurance Providers	Vehicle Lenders Finance Companies/Diversified Lenders	Finance Companies/ Diversified Lenders contd.	Finance Companies/ Diversified Lenders, Insurance Premium Funders	Affiliate Members	Affiliate Members contd., Leasing Providers and Social Impact Lenders
Finance Direct Limited ➤ Lending Crowd General Finance (BB) Gold Band Finance (B+) ➤ Loan Co Mutual Credit Finance (B) <u>Credit Unions/Building Societies</u> First Credit Union (BB) Nelson Building Society (BB+) Police and Families Credit Union (BB+) <u>Specialist Housing/Property Lenders</u> Basecorp Finance Limited First Mortgage Managers Ltd. Liberty Financial Limited Pepper NZ Limited Resimac NZ Limited <u>Credit-related Insurance Providers</u> Protecta Insurance Provident Insurance Corporation Ltd	Auto Finance Direct Limited BMW Financial Services ➤ Mini ➤ Alphera Financial Services Community Financial Services Go Car Finance Ltd Honda Financial Services Kubota New Zealand Ltd Mercedes-Benz Financial Motor Trade Finance Nissan Financial Services NZ Ltd ➤ Mitsubishi Motors Financial Services ➤ Skyline Car Finance Onyx Finance Limited Scania Finance NZ Limited Toyota Finance NZ ➤ Mazda Finance Yamaha Motor Finance <u>Finance Companies/Diversified Lenders</u> AfterPay Avanti Finance ➤ Branded Financial Basalt Group	Blackbird Finance Caterpillar Financial Services NZ Ltd Centracorp Finance 2000 DebtManagers Finance Now ➤ The Warehouse Financial Services ➤ SBS Insurance Future Finance Geneva Finance Harmony Humm Group Instant Finance ➤ Fair City ➤ My Finance John Deere Financial Latitude Financial Lifestyle Money NZ Ltd Limelight Group Mainland Finance Limited Metro Finance Nectar NZ Limited NZ Finance Ltd	Personal Loan Corporation Pioneer Finance Prospa NZ Ltd Speirs Finance Group (L & F) ➤ Speirs Finance ➤ Speirs Corporate & Leasing ➤ Yoogo Fleet Turners Automotive Group ➤ Autosure ➤ East Coast Credit ➤ Oxford Finance UDC Finance Limited Yes Finance Limited Zip Co NZ Finance Limited <u>Insurance Premium Funders</u> Arteva Funding NZ Ltd Elantis Premium Funding NZ Ltd Financial Synergy Limited Hunter Premium Funding IQumulate Premium Funding Rothbury Instalment Services	Alfa Financial Software NZ Limited American Express AML Solutions Limited Buddle Findlay Chapman Tripp Credisense Ltd Deloitte EY FinTech NZ Finzsoft Happy Prime Limited KPMG Loansmart Ltd LexisNexis Match me Money Ltd Motor Trade Association Odessa Technology Inc. One Partner Limited PWC Sense Partners Simpson Western Summer Lawyers	<u>Credit Reporting, Debt Collection Agencies.</u> Centrix Credit Corp ➤ Baycorp ➤ Collection House Debtworks (NZ) Limited Equifax Gravity Credit Management Limited IDCARE Ltd Illion Quadrant Group (NZ) Ltd Recoveries Corp NZ Ltd <u>Leasing Providers</u> Custom Fleet Euro Rate Leasing Limited Fleet Partners NZ Ltd ORIX New Zealand SG Fleet <u>Social Impact Lenders</u> Money Sweetspot Ltd. Total 99 members



FINANCIAL SERVICES FEDERATION (FSF)

THE NON-BANK FINANCE INDUSTRY SECTOR - 2024



49%

NON-BANK

BANK

of personal consumer loans are financed by the **non-bank sector** represented by FSF members.

*Setting industry standards for responsible lending,
promoting compliance and consumer awareness.*

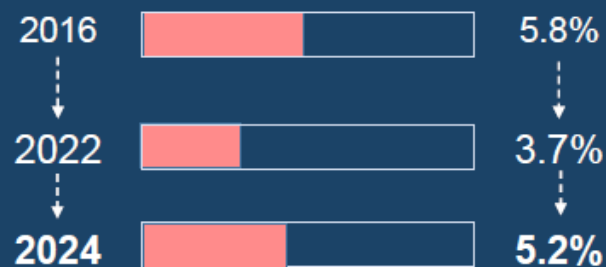
Only **6** dispute resolution complaints
upheld or partially upheld from
1 April 2023 to 31 March 2024

Percent of Loan Requests Approved

48%



Percent of Loan Book in Arrears



KEY FACTS: THE NON-BANK FINANCE INDUSTRY SECTOR

FSF Members (as at 31 Mar 2024)

Number of Members	97
Number of Employees	3,353
Applications Processed	1,102,266
Loan Requests Approved	527,382
Percent of Loan Book in Arrears	5.2%
Loan Disputes Upheld	6

Bank Sector (as at 31 Mar 2024)

Value of Mortgage Loans	\$352B
Value of Consumer Loans	\$7.7B
Value of Business Loans	\$125B

Non-Bank Sector Share (as at 31 Mar 2024)

% of Total Mortgage Loans	0.3%
% of Total Consumer Loans	48.5%
% of Total Business Loans	8.7%

Insurance Credit Related (as at 31 Mar 2024)

Number of Employees	250
Number of Policies	300,209
Gross Claims (annual)	\$22.1M

Consumer Loans (as at 31 Mar 2024)

Total Value of Loans	\$8.2B
Number of Customers	1,537,502
Number of Loans	1,735,718
Average Loan Size	\$4,746

Total Value of Loans:

Mortgage	\$979M
Vehicle Loan	\$4,036M
Unsecured	\$2,129M
Other Security	\$361M
Lease Finance	\$733M

Average Value of Loan:

Mortgage	\$134,675
Vehicle Loan	\$13,337
Unsecured	\$1,588
Other Security	\$4,245

Business Loans (as at 31 Mar 2024)

Total Value of Loans	\$11.9B
Number of Customers	131,161
Number of Loans	202,921
Average Loan Size	\$58,894

Total Value of Loans:

Mortgage	\$4,092M
Vehicle Loan	\$2,989M
Unsecured	\$262M
Other Security	\$2,846M
Lease Finance	\$1,763M

Average Value of Loan:

Mortgage	\$766,527
Vehicle Loan	\$37,362
Unsecured	\$48,107
Other Security	\$54,724
Lease Finance	\$29,308