

New Zealand is Australia's back door for bail-in

By Robert Barwick

New Zealand's bail-in system, called Open Bank Resolution (OBR), is the most ruthless and blatant deposit-stealing scheme in the world. Moreover, the banks to which it applies—ANZ, Westpac, BNZ and ASB—are all subsidiaries of Australia's Big Four—BNZ is owned by NAB, and ASB by CBA. Australia's financial authorities claim no deposits will be bailed in here, when on the other side of the Tasman there is no deposit guarantee, depositors are called "investors", and all deposits in their Australian banks are on the chopping block.

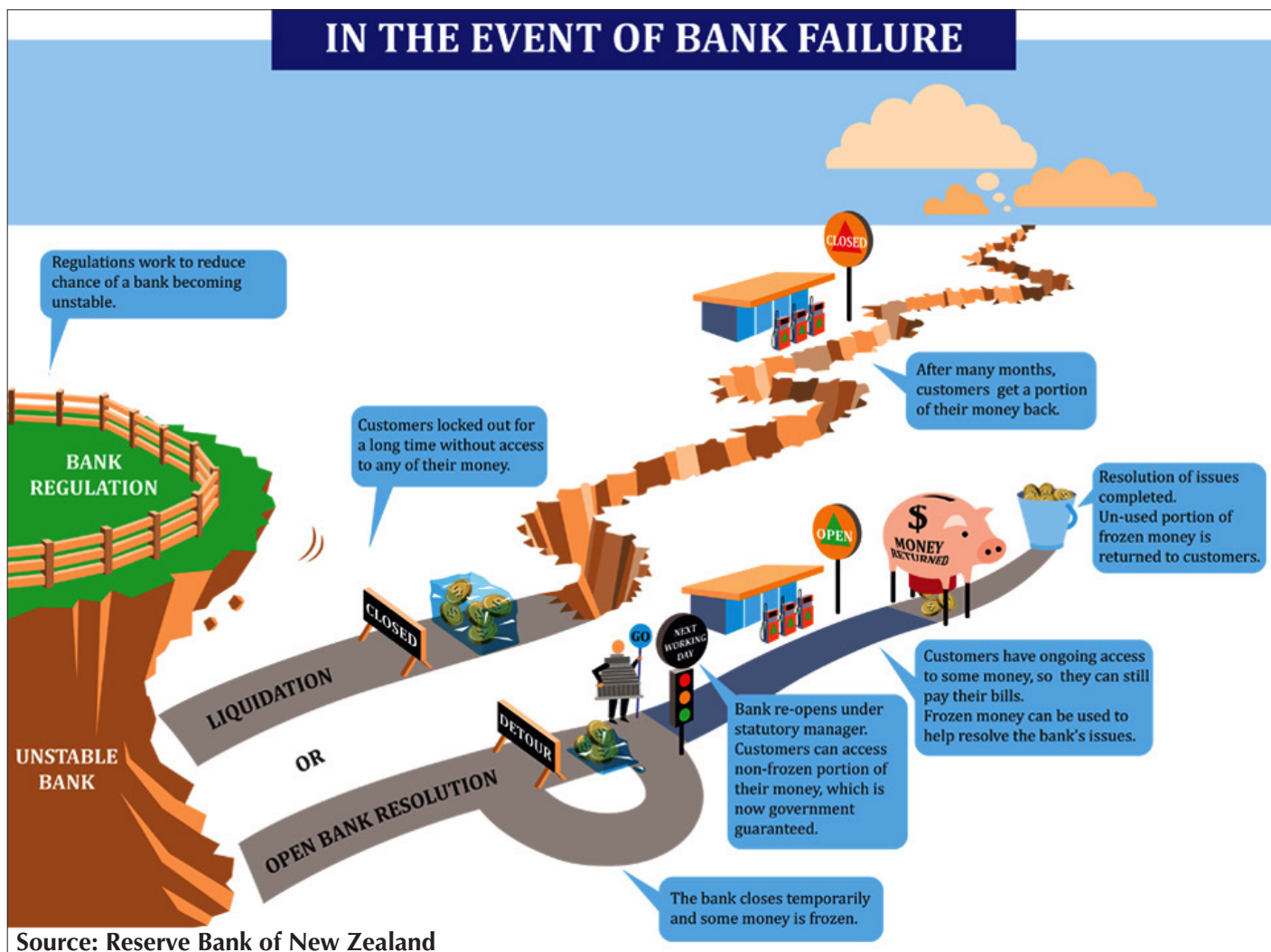
In the other jurisdictions where statutory bail-in is in force, the authorities are careful to stipulate that it only applies to "uninsured deposits", i.e. the portion of bank deposits not covered by a government guarantee. In the EU, that is €100,000; in the UK £75,000; and in the United States US\$100,000 (in Australia, which doesn't—yet—have statutory bail-in, but *does* have contractual bail-in, the deposit guarantee is \$250,000).

In practice, this guarantee is virtually worthless, because it is proven that in a general banking crisis there is scant possibility that most governments will be able to honour these guarantees. Australia's bank regulator APRA acknowledged in 2009 that the Financial Claims Scheme guarantee won't

cover the deposits of a Big Four bank (which hold 80 per cent of all deposits). In December the Italian government couldn't honour the €100,000 deposit guarantee when four small banks collapsed, and had to get some large banks to put up the money. The UK in January slashed its deposit guarantee from £85,000 to £75,000, and the Mont Pelerin Society front think tank co-founded by Margaret Thatcher, the Centre for Policy Studies, called for the guarantee to be scrapped altogether.

Which brings us to New Zealand, the Mont Pelerin Society paradise, which since the time of Finance Minister Roger Douglas in the early 1980s has been an experimental laboratory for the Thatcherite policies of financial deregulation, privatisation, union busting, budget austerity, free trade and an "independent" central bank; assuming Douglas came up with these policies himself, parochial Kiwis called it Rogeronomics. True to form, New Zealand has also pioneered bail-in, about which it is remarkably open, or rather, blatant. New Zealand's Reserve Bank (RBNZ) doesn't even attempt to disguise its intention to seize whatever deposits it deems necessary to prop up banks. In fact, it illustrates its OBR bail-in policy in full colour on its website (below). The illustration

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states that at the end of OBR the “un-used portion of frozen money will be returned to customers”, but it doesn’t reassure customers it won’t use all of it. All that’s missing from this illustration is images of dead sheep piled at the bottom of the cliff and the odd sheep who has made it to the end of the OBR path, completely fleeced!

To underscore how ruthless OBR is, not only is there no guarantee of deposits, but note how RBNZ classifies ordinary savers—who since primary school have been taught to put their money into a bank *for safekeeping*—as “investors”, in this excerpt from its 2011 “Primer on Open Bank Resolution”: “Unsecured creditors include a wide range of individuals and entities. At one end of the spectrum, there are large international financial institutions that invest in debt issued by the bank (commonly referred to as wholesale funding). *At the other end of the spectrum, are customers with*

cheque and savings accounts, and term deposits. Whilst there are differences between different classes of unsecured creditors, they all have the same legal claim on the bank. *Each has freely invested in a private institution and has enjoyed a return on that investment whilst accepting the risks associated with the investment.*”

This might come as a shock to Kiwis, but it should equally shock Australians. To restate, the NZ deposits that are all marked to be bailed in are in the same banks that hold 80 per cent of Australian deposits. Moreover, the bail-in bonds that Australia’s banks are issuing are being sold in both Australia and New Zealand (see last week’s AAS) and are claims on both the Australian parent and NZ subsidiary of the bank. Also, all of Australia’s major “friends” have depositor bail-in—the USA, UK, Canada, and NZ, which is the worst. This all points to one conclusion: it is naïve in the extreme to accept APRA’s claim that Australian deposits won’t be bailed in.