

## Australian government guarantees bank deposits and funding

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### Key Points

- In a welcome pre-emptive move designed to ward off further pressure on Australia's financial sector the government has announced three new measures to guarantee Australian Financial institutions.
- Under these measures, the government will guarantee all banking deposits for three years; will guarantee (for a fee) the wholesale (non-deposit) funding of financial institutions; and the AOFM will buy another \$4bn of RMBS.
- These measures aim to improve the availability of credit and cap the price of credit in Australia. But that is not to say that the supply and cost of funds will not fluctuate further from here.
- The policy announcement is very broad-brushed with very little detail. We understand the government and its advisers are still consulting to finalise the details. That being said the details are crucial and will be worked out over the course of this week within the global context. Indeed, the primary motivation for the PM measures to guarantee bank liabilities was to keep Australian arrangements in line with other countries.
- A list of institutions that are covered is listed in the Appendix to this note.
- This policy announcement looks like it will ultimately be part of a global move by Governments to provide short to medium-term guarantees to banks. The Australian government's policy announcement is consistent with the G-7 Finance Ministers and Central Bank Governors Plan of Action announced over the weekend. While announcements are being made on a country-by-country basis, they nevertheless should be seen as part of a global co-ordinated response to the global financial crisis.
- These moves are all designed to restore investor confidence in the banking system and promote the proper functioning of money and credit flows within the economy. While they are hugely welcome, the success of these schemes will ultimately lie with the investor response. The local stockmarket has responded favourably this morning with banking shares bouncing. Also, the spread between 3-month BBSW and OIS has narrowed considerably this morning to 95bps from 112bps on Friday.

### Another pre-emptive strike

In a pre-emptive move designed to ward off further pressure on Australia's financial sector the government has announced three new measures to guarantee Australian Financial institutions.

- **Guarantee on deposits.** The Australian government will immediately guarantee all deposits on Australian banks, building societies and credit unions and Australian subsidiaries of foreign-owned banks. Foreign branches of Australian deposit taking institutions are covered, but deposits with offshore subsidiaries are not. Foreign currency deposits are also covered by the guarantee as are deposits held in banks by superannuation funds. Moreover, the guarantee reaches beyond just retail deposits as

The Government's guarantee aims to ensure Australian banks are not disadvantaged in the current global environment

credit advanced by an entity to a deposit-taking institution is included in the guarantee. In contrast to similar guarantees announced offshore, there will be no limit on the value of deposits guaranteed. This guarantee will be in place for three years (and then reviewed). This will be legislated as part of the Financial Claims Scheme (which previously had proposed a retail deposit guarantee capped at \$20,000). Given that Australian banks remain in a healthy financial position the Government's guarantee does not reflect any problems in the banking system. Rather, with other countries government's guaranteeing bank deposits the risk would be a loss of deposits overseas if Australia did not follow suit.

- **Guarantee of wholesale funding for institutions.** The Australian government will, for a fee, guarantee wholesale funding of Australian incorporated banks and other authorised deposit-taking institutions (ADIs) (including credit unions, building societies). The guarantee will be enacted through a government facility in which the institution pays a fee for the credit enhancement. There are no details of the fee determination mechanism but surely less credit worthy institutions will pay more for the fee than higher rated entities. Presumably this guarantee will apply to all non-deposit liabilities of banks and ADIs, although the statement from the PM refers to term funding but also non-deposit liabilities). This facility will be in place until financial market conditions normalise (there is no definition of normal).
- **The Australian Office of Financial Management (AOFM) will buy another \$4bn of residential mortgage backed securities (RMBS).** This is in addition to the \$4bn of RMBS purchases announced last month. The aim of this policy is to stabilise the RMBS market and ensure continued access to funding for non-ADI lenders (ie. lenders who are not banks, building societies or credit unions).

Full access to global funds is crucial for the proper functioning of the local banking sector

Of these policies the guarantee of wholesale funding for institutions is the most important. These are all the non-deposits liabilities of ADI's. As similar guarantees had already been announced by European governments, the absence of this guarantee would have put local banks and ADIs at a significant disadvantage in attracting global wholesale funding.

As wholesale markets account for around one half of the Australian financial sector's funding, full access to this source of funds is crucial for the proper functioning of the local banking sector. It is hoped that a sovereign guarantee for wholesale bank funding will also help to cap the cost of such funding, but that is not to say that the price of credit will rise further from here.

As this guarantee for deposits and funding applies equally across the banks and ADIs a consequence of this policy is may be that the Australian finance sector will not experience the same degree of consolidation that is now occurring in the US and European banking sectors. Likewise, the government's increased purchase of RMBS aims to create a more "level playing field" between the major banks, ADIs and non-ADIs. It remains to be seen if these outcomes are achieved. Large financial healthy institutions should continue to have an advantage over smaller more risky operations, even if this is via the cost the Government charges for the various guarantees.

In the long run these policies will hopefully mean that credit conditions are not squeezed as tight as offshore.

In the long-run, it is hoped that this will mean that access to credit for households and businesses in Australia is not squeezed to the same extent that is now occurring offshore (ie. in the US the combination of soft demand and constrained supply saw household credit decline in August).

The Australian policy is consistent with the G-7 Finance Ministers and Central Bank Governors Plan of Action

## Part of a global response

The policy response to the global financial crisis has moved into the sovereign jurisdiction. Policies will therefore be announced on a government-by-government basis. But these policies should together be seen as part of a co-ordinated, global response to this crisis.

The Australian government's policy announcement is consistent with the G-7 Finance Ministers and Central Bank Governors Plan of Action announced over the weekend:

*The G-7 agrees today that the current situation calls for urgent and exceptional action. We commit to continue working together to stabilize financial markets and restore the flow of credit, to support global economic growth. We agree to:*

1. *Take decisive action and use all available tools to support systemically important financial institutions and prevent their failure.*
2. *Take all necessary steps to unfreeze credit and money markets and ensure that banks and other financial institutions have broad access to liquidity and funding.*
3. *Ensure that our banks and other major financial intermediaries, as needed, can raise capital from public as well as private sources, in sufficient amounts to re-establish confidence and permit them to continue lending to households and businesses.*
4. *Ensure that our respective national deposit insurance and guarantee programs are robust and consistent so that our retail depositors will continue to have confidence in the safety of their deposits.*
5. *Take action, where appropriate, to restart the secondary markets for mortgages and other securitized assets. Accurate valuation and transparent disclosure of assets and consistent implementation of high quality accounting standards are necessary.*

*The actions should be taken in ways that protect taxpayers and avoid potentially damaging effects on other countries. We will use macroeconomic policy tools as necessary and appropriate. We strongly support the IMF's critical role in assisting countries affected by this turmoil. We will accelerate full implementation of the Financial Stability Forum recommendations and we are committed to the pressing need for reform of the financial system. We will strengthen further our cooperation and work with others to accomplish this plan.*

Source: <http://www.ustreas.gov/press/releases/hp1195.htm>)

The Australian government announcement is also consistent with policy arrangements announced by the UK, Ireland and New Zealand.

### **UK Treasury – 8 October 2008**

*"...the Government will make available to eligible institutions for an interim period as agreed and on appropriate commercial terms, a Government guarantee of new short and medium term debt issuance to assist in refinancing maturing, wholesale funding obligations as they fall due. Subject to further discussion with eligible institutions, the proposal envisages the issue of senior unsecured debt instruments of varying terms of up to 36 months, in any of sterling, US dollars or Euros. The current expectation is that the guarantee would be issued out of a specifically designated Government-backed English incorporated company. The Government expects the take-up of the guarantee to be of the order of £250bn, and will keep this under review alongside ongoing monitoring of capital positions and lending volumes "*

Source: [http://www.hm-treasury.gov.uk/press\\_100\\_08.htm](http://www.hm-treasury.gov.uk/press_100_08.htm)

Similar policy arrangements have been announced by the UK, Ireland and New Zealand.

**Irish Government - 29 September 2008**

*“The guarantee is being provided at a charge to the institutions concerned and will be subject to specific terms and conditions so that the taxpayers’ interest can be protected. The guarantee will cover all existing aforementioned facilities with these institutions and any new such facilities issued from midnight on 29 September 2008, and will expire at midnight on 28 September 2010. “*

Source: <http://www.taoiseach.gov.ie/index.asp?locID=586&docID=4026>

**New Zealand – 12 October 2009**

*The Minister of Finance announced today that the Government has introduced an opt-in deposit guarantee scheme. The scheme covers deposits for New Zealand-registered banks and eligible non-bank deposit-takers (including banking societies, credit unions and finance companies)...Eligible financial institutions, will be New Zealand registered banks and non bank deposit-taking financial institutions, who are fully compliant with the requirements of their trust deeds...The guarantee will be offered for a term of two years...The government will charge a fee for any guarantee offered on amounts in excess of \$5 billion...For covered liabilities in excess of \$5 billion a fee of 10 basis points per anum will be charged for the guarantee. The fee will be charged on the basis of the total covered liabilities, in excess of \$5 billion of the institution.*

Source: RBNZ

## Appendix

The information is published at

<http://www.treasury.gov.au/documents/1424/HTML/docshell.asp?URL=default.htm>

### **Guarantee of wholesale funding**

In order to support confidence in funding markets and continued lending by Authorised Deposit-Taking Institutions (ADIs) to Australian corporations, businesses and households, the Government will offer a guarantee on debt securities issued by Australian owned banks, locally incorporated subsidiaries of foreign banks, credit unions and building societies.

### **Eligibility for the facility**

Eligible ADIs must apply to the Government for a guarantee to attach to new and existing issuances of debt securities. The guarantee will be extended on an issue by issue basis. Eligible securities will be restricted to securities issued by ADIs with a term of up to 60 months.

The facility will be restricted to senior unsecured debt instruments. Certificates of deposit and bank bills will be covered by this facility but not the broad deposit guarantee that the Government announced.

It is proposed that the facility apply to debt issuance in all major currencies including AUD, NZD, Euro, USD, Sterling, Yen and HKD.

### **Fees to be charged for the facility**

The Government will charge the issuing ADI a fee for the guarantee. The fee is currently being determined.

### **Restrictions on who can participate**

It is proposed that the guarantee be limited to securities issued by ADIs, as these are prudentially regulated by APRA. Non-ADI lenders would not be eligible to participate.

### **Guarantee of deposits**

The Government has guaranteed the deposits in Australian owned banks, locally incorporated subsidiaries of foreign banks, credit unions and building societies for a period of three years.

The following deposits are included in this guarantee:

- Conventional cheque accounts
- Conventional call accounts
- Conventional saving accounts
- Conventional term deposits
- Farm management deposits
- Cash management accounts
- Pass-book savings accounts
- Personal current account bearing interest electronic access (whether or not account also has cheque access)
- Personal current at call account bearing interest with cheque and high transaction capabilities
- Personal basic account

- Personal at call account, not earning interest, but with high transaction capabilities
- Pensioner deeming accounts
- At call cash management and savings account (earning high yield with limited transaction capability)
- Standard fixed rate term deposit
- Bonus incentive investment accounts
- Debit card accounts
- (Separate) mortgage offset accounts. Can be either 100 per cent or partial offset.
- Trustee accounts
- Other transaction accounts
- Retirement savings accounts (at call and term RSAs)
- First home savers accounts
- This is not an exhaustive list.

### **List of Eligible Institutions for the Guarantee of Wholesale Funding and the Guarantee of Deposits**

#### **Australian-owned banks**

- Adelaide Bank Limited
- AMP Bank Limited
- Australia and New Zealand Banking Group Limited
- Bank of Queensland Limited
- Bendigo and Adelaide Bank Limited
- Commonwealth Bank of Australia
- Commonwealth Development Bank of Australia Limited (a subsidiary of Commonwealth Bank of Australia)
- Elders Rural Bank Limited
- Macquarie Bank Limited
- Members Equity Bank Pty Limited
- National Australia Bank Limited
- St. George Bank Limited
- Suncorp-Metway Limited
- Westpac Banking Corporation

#### **Building Societies**

- ABS Building Society Ltd
- B & E Ltd
- Greater Building Society Ltd
- Heritage Building Society Limited
- Home Building Society Ltd
- Hume Building Society Ltd
- IMB Ltd
- Lifepan Australia Building Society Limited
- Maitland Mutual Building Society Limited
- Newcastle Permanent Building Society Limited
- The Rock Building Society Limited
- Wide Bay Australia Ltd

#### **Credit Unions**

- Alliance One Credit Union Ltd
- AMP Credit Union Ltd
- Austral Credit Union Limited
- Australian Central Credit Union Ltd
- Australian Country Credit Union Ltd (trading as Reliance Credit Union)
- Australian Defence Credit Union Limited

- AWA Credit Union Limited
- Bananacoast Community Credit Union Ltd
- Bankstown City Credit Union Ltd
- Berrima District Credit Union Ltd
- Big Sky Credit Union Ltd
- Broadway Credit Union Ltd
- CAPE Credit Union Limited
- Capital Credit Union Ltd
- Capricornia Credit Union Ltd
- Central Murray Credit Union Limited
- Central West Credit Union Limited
- Circle Credit Co-operative Limited
- Coastline Credit Union Limited
- Collie Miners Credit Union Ltd
- Community Alliance Credit Union Limited
- Community CPS Australia Limited
- Community First Credit Union Limited
- Companion Credit Union Limited
- Comtax Credit Union Limited
- Country First Credit Union Ltd
- Credit Union Australia Ltd
- CSR and Rinker Employees Credit Union Limited
- Defence Force Credit Union Limited
- Dnister Ukrainian Credit Co-operative Limited
- Electricity Credit Union Ltd
- Encompass Credit Union Limited
- Esso Employees' Credit Union Ltd
- Eurobodalla Credit Union Ltd
- Family First Credit Union Limited
- Fire Brigades Employees' Credit Union Limited
- Fire Service Credit Union Limited
- Firefighters & Affiliates Credit Co-operative Limited
- First Choice Credit Union Ltd
- First Option Credit Union Limited
- Fitzroy & Carlton Community Credit Co-operative Limited
- Ford Co-operative Credit Society Limited
- Gateway Credit Union Ltd
- Geelong & District Credit Co-operative Society Limited
- GMH (Employees) Q.W.L. Credit Co-operative Limited
- Goldfields Credit Union Ltd
- Gosford City Credit Union Limited
- Goulburn Murray Credit Union Co-operative Limited
- H.M.C. Staff Credit Union Ltd
- Heritage Isle Credit Union Limited
- Holiday Coast Credit Union Ltd
- Horizon Credit Union Ltd
- Hunter Mutual Limited
- Hunter United Employees' Credit Union Limited
- Industries Mutual Credit Union Limited
- Intech Credit Union Limited
- Karpaty Ukrainian Credit Union Limited
- La Trobe Country Credit Co-operative Limited
- La Trobe University Credit Union Co-operative Limited
- Laboratories Credit Union Limited
- Latvian Australian Credit Co-operative Society Limited
- Lithuanian Co-operative Credit Society "Talka" Limited
- Lysaght Credit Union Ltd
- MacArthur Credit Union Ltd
- Macquarie Credit Union Limited
- Maleny and District Community Credit Union Limited
- Manly Warringah Credit Union Limited

- Maritime, Mining & Power Credit Union Limited
- Maroondah Credit Union Ltd
- MECU Limited
- Melbourne University Credit Union Limited
- MemberFirst Credit Union Limited
- MyState Financial Credit Union of Tasmania Limited
- New England Credit Union Ltd
- Newcom Colliery Employees Credit Union Ltd
- Northern Inland Credit Union Limited
- Nova Credit Union Limited
- NSW Teachers Credit Union Ltd
- Old Gold Credit Union Co-operative Limited
- Orange Credit Union Limited
- Phoenix (N.S.W.) Credit Union Limited
- Plenty Credit Co-operative Limited
- Police & Nurses Credit Society Limited
- Police Association Credit Co-operative Limited
- Police Credit Union Limited
- Polish Community Credit Union Ltd
- Powerstate Credit Union Ltd
- Pulse Credit Union Limited
- Qantas Staff Credit Union Limited
- Queensland Country Credit Union Limited
- Queensland Police Credit Union Limited
- Queensland Professional Credit Union Ltd
- Queensland Teachers' Credit Union Limited
- Queenslanders Credit Union Limited
- Railways Credit Union Limited
- RegionalOne Credit Union Limited
- Resources Credit Union Limited
- R.T.A. Staff Credit Union Limited
- Satisfac Direct Credit Union Limited
- Savings and Loans Credit Union (S.A.) Ltd
- Select Credit Union Limited
- Service One Credit Union Limited
- SGE Credit Union Limited
- Shell Employees' Credit Union Limited
- South West Slopes Credit Union Ltd
- Southern Cross Credit Union Ltd
- South-West Credit Union Co-operative Limited
- St Mary's Swan Hill Co-operative Credit Society Limited
- StateWest Financial Services Limited
- Sutherland Credit Union Ltd
- Sutherland Shire Council Employees' Credit Union Ltd
- Sydney Credit Union Ltd
- Tartan Credit Union Ltd
- The Broken Hill Community Credit Union Ltd
- The Gympie Credit Union Ltd
- The Police Department Employees' Credit Union Limited
- The Summerland Credit Union Limited
- The TAFE and Community Credit Union Ltd
- The University Credit Society Limited
- Traditional Credit Union Limited
- TransComm Credit Co-operative Limited
- United Credit Union Limited
- Victoria Teachers Credit Union Limited
- Wagga Mutual Credit Union Ltd
- Warwick Credit Union Ltd
- WAW Credit Union Co-operative Limited
- Westax Credit Society Ltd
- Woolworths Employees' Credit Union Limited

- Wyong Council Credit Union Ltd

#### **Other ADIs**

- Cairns Penny Savings & Loans Limited
- Australian Settlements Limited
- Cuscal Limited
- Indue Ltd

#### **Foreign subsidiary banks**

- Arab Bank Australia Limited
- Bank of China (Australia) Limited
- Bank of Cyprus Australia Limited
- BankWest (the trading name of Bank of Western Australia Ltd, a foreign subsidiary bank following its sale to Bank of Scotland in December 1995)
- Citigroup Pty Limited
- HSBC Bank Australia Limited
- ING Bank (Australia) Limited
- Investec Bank (Australia) Limited
- Laiki Bank (Australia) Ltd
- Rabobank Australia Limited (a subsidiary of Rabobank Nederland from October 1994)

**These institutions below are authorised depository institutions but from our understanding are NOT included in guarantee scheme**

#### **Branches of Foreign Banks**

- ABN AMRO Bank N.V.
- Allied Irish Banks, Public Limited Company
- Bank of America, National Association
- Bank of China Limited
- Bank of Scotland plc
- Bank of Tokyo-Mitsubishi UFJ, Ltd
- Barclays Capital (the trading name of Barclays Bank plc)
- BNP Paribas
- 09 December 1992
- 18 September 1986
- Citibank, N.A.
- Credit Suisse
- Deutsche Bank Aktiengesellschaft
- Fortis Bank SA/NV
- HSBC Bank plc
- Industrial and Commercial Bank of China Limited
- ING Bank N.V.
- JPMorgan Chase Bank, National Association
- Mega International Commercial Bank Co., Ltd.
- Mizuho Corporate Bank, Ltd.
- Oversea-Chinese Banking Corporation Limited
- Rabobank Nederland (the trading name of Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A.)
- Royal Bank of Canada
- Société Générale
- Standard Bank Plc
- Standard Chartered Bank
- State Bank of India
- State Street Bank and Trust Company
- Sumitomo Mitsui Banking Corporation
- The Hongkong and Shanghai Banking Corporation Limited

- The Royal Bank of Scotland Plc
- The Toronto-Dominion Bank
- Taiwan Business Bank
- UBS AG
- United Overseas Bank Limited
- WestLB AG



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