

August 2004

Chair  
CABINET POLICY COMMITTEE

## **Proposals for closer integration of trans-tasman banking regulation and supervision**

### ***Proposal***

1. This memorandum discusses recent proposals for closer integration in trans-Tasman banking regulation and supervision. It notes my intention to ask the Reserve Bank (RBNZ) to seek to strengthen arrangements for information sharing and for coordinating the management of a trans-Tasman bank failure or other banking crisis with its Australian banking supervision counterpart (the Australian Prudential Regulatory Authority or APRA) and the Reserve Bank of Australia (RBA). The memorandum also notes my intention to initiate a review by officials of some aspects of the New Zealand financial system, in order to determine whether further integration in the supervision of the trans-Tasman financial system, primarily in relation to banking and insurance, would be beneficial for New Zealand.

### ***Executive Summary***

2. Closer integration of banking supervision is a natural issue for early consideration in the context of the single economic market given the high degree of integration that already exists in the New Zealand and Australian banking systems. Work on this issue is being undertaken by the Australian and New Zealand authorities and in a paper submitted to me in early July, two models for closer integration of banking supervision were proposed: enhanced home-host supervision, which emphasised information sharing and coordination by the respective national authorities; and a model that envisaged APRA being the sole regulator and supervisor of Australian banks operating in New Zealand (the 'APRA-as-supervisor' model).

3. Both models are a step forward in the single economic market context. They seek to minimise the compliance costs associated with banks operating in two jurisdictions. However, they differ in their approach to crisis and failure management – an issue which is important to the ongoing stability of New Zealand's financial system.

4. Enhanced home-host supervision builds on an internationally-agreed model for the supervision of cross-border banks that is already operating in New Zealand. It aims to strengthen existing arrangements for addressing what I consider to be a key issue given the high degree of Australian ownership of New Zealand banks – coordination in

a crisis or failure situation involving a cross-border bank. It is also a robust foundation for closer integration in the future.

5. The APRA-as-supervisor model would be a more far-reaching model of regulatory integration. However, I consider that it poses a number of potential risks for New Zealand. Most notably, New Zealand would be foregoing decision rights over policy affecting its largest banking institutions (the main part of the financial system) and the management of these institutions in a failure situation, and APRA would have little accountability to the New Zealand authorities. There may also be implications for the location of bank functionality and decision-making capability as well as the tax base.

6. Bearing these considerations in mind, my preference is to implement the enhanced home-host model of supervision, but continue to scope out options for progressing integration further, where this would be beneficial to New Zealand. In my view, integration beyond enhanced home-host supervision would need to entail more genuinely mutual arrangements than the APRA-as-supervisor model, with New Zealand playing a more active role in policy and crisis management. Moreover, it would raise a number of fairly complex issues for both governments, some of which are broader than the financial system and generic to the development of the single economic market.

7. I would therefore like to ask the Treasury to form a working group with the RBNZ and the Ministry of Economic Development (MED) to review the regulation of the banking and insurance sectors and the contribution that these institutions make to growth and economic development. The review would also assess how the issues identified in the joint report could be addressed to achieve greater integration of the Australian and New Zealand financial systems, where this would be beneficial to New Zealand. The investigation would also extend to the insurance sector as insurance companies are also important to New Zealand's financial system and have some of the same characteristics that led us to consider integration of trans-Tasman banking regulation i.e., most of the major New Zealand insurance companies are Australian owned and, in their home country, regulated by APRA.

### ***Background***

8. Over recent years, the New Zealand banking system has been characterised by high profits, stable interest margins, improving operating efficiencies and a low incidence of credit losses. It is also characterised by a high level of foreign ownership. Over the last decade, foreign ownership has become amongst the highest in the world, with 98% of the assets of New Zealand banks now on the books of foreign-owned banks.

9. Equally unusual is that the bulk of this exposure is to one country – Australia. Following ANZ's purchase of the National Bank, 85% of New Zealand banking assets are now Australian owned. The New Zealand assets of the ANZ, National Bank, BNZ, Westpac and ASB comprise 15% of the total global group assets of the Australian parents of these banks. This very high degree of foreign ownership has occurred despite Australia and New Zealand maintaining separate regulatory frameworks.

10. Banking supervision in New Zealand is conducted within the internationally-agreed framework for the supervision of cross-border banks. Under this framework, the home country is assigned responsibility for supervising the parent bank and the global

banking group. Host authorities in the countries that foreign banks operate in are responsible for supervising the operations of foreign banks in their country.

11. As a host-country regulator, New Zealand's less interventionist and non-prescriptive style of banking supervision interacts relatively well with Australia's home-country responsibilities. The New Zealand and Australian prudential regulations are generally well aligned and consistent with international standards. This helps to keep compliance costs low for banks operating in New Zealand.

12. However, tensions inevitably emerge when considering how to best protect national interests in a crisis or failure situation involving a cross-border bank – particularly one that is systemically important in both jurisdictions. Tensions may be particularly pronounced when a bank fails because in liquidation if depositors in one country receive more, then those in the other country must necessarily receive less. Similarly, if government support is considered appropriate, then questions of how to best share the fiscal costs of this support may be raised.

13. At present, crisis and failure management for trans-Tasman banks would be undertaken on a national basis, albeit, and ideally, with a high degree of coordination between the respective authorities. To bolster its capability in a failure situation, the RBNZ has a local incorporation policy. This requires systemically-important banks to be a company with their own shareholders' funds in New Zealand. The RBNZ is also in the process of developing an outsourcing policy, which will underpin the requirement for banks to maintain a New Zealand operating capability for critical functions.<sup>1</sup> Other countries have similar policies for foreign-owned banks. In some countries, including Australia, foreign ownership of systemically-important banks has not been permitted.

14. Another tension stems from concerns of Australian parent banks that the RBNZ's local incorporation and outsourcing policies restrict the ability of Australian banks to operate seamlessly and as a single entity across both countries. Views as to how much of an impediment these policies present to trans-Tasman banking integration differ between the Australian and New Zealand authorities.

15. Broader concerns regarding how well regulators would work together in a crisis situation also exist. If the Australian and New Zealand regulators take different positions in a crisis situation involving a trans-Tasman bank, that could potentially limit the effectiveness of the actions that each undertakes. In reality, the failure of a systemically-important bank operating in both countries is likely to impact on both countries.

16. These issues are not restricted to Australia and New Zealand. With greater globalisation of financial markets, cross-border banking is increasing worldwide. An increasing number of countries, particularly in Europe, are now grappling with issues that arise from regulating foreign-owned banks. Coordination in a crisis is therefore an issue that has yet to be resolved effectively internationally.

## **Regulatory Integration**

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<sup>1</sup> Standard and Poors have observed recently that these initiatives could well enhance the strength of the New Zealand banking sector and its ability to withstand a period of financial stress. (Standard and Poor's, 'Robust Local Operations and Strong Parents Fortify Credit Quality of New Zealand Banks Despite Profit Moderation,' July 2004)

17. The concept of a single market is about removing unnecessary regulatory impediments and promoting a seamless trans-Tasman business environment i.e., minimising obstructions and encouraging greater openness rather than adopting identical laws. It is also about enhancing regulatory effectiveness by insuring that domestic regulatory objectives are able to be achieved in relation to cross-border transactions. In banking, this means addressing the cross-border spillover effects that would result from the failure of a systemically important trans-Tasman bank as well as enabling banks to operate as seamlessly as possible across the two countries. To this end, the Australian Treasurer and I announced work on mutual recognition and harmonisation in prudential regulation of the Australian and New Zealand banking systems on 30 January 2004. The terms of reference for the joint report required consideration of options including:

- separate regulatory frameworks but greater coordination in crisis and failure management;
- mutual recognition of regulation and supervision and coordinated crisis and failure management; and
- harmonised rules for regulation and supervision for respective authorities and coordinated crisis and failure management.

18. On 6 July 2004, I received a report entitled 'Development of a Framework for Closer Integration of Trans-Tasman Banking Regulation' that outlined the current state of play in the trans-Tasman banking market, two possible models for closer integration and a broad assessment of these options. The working party that compiled that report comprised officials from the Australian and New Zealand Treasuries, the Reserve Banks of Australia and New Zealand and the Australian Prudential Regulatory Authority (APRA).

19. The two models scoped in this report were:

- enhanced home-host supervision; and
- APRA as the supervisor of Australian-owned banks operating in New Zealand.

20. Both models seek to minimise the compliance costs associated with banks operating in two jurisdictions, albeit in a different manner. The key difference is in their approach to crisis and failure management. Under the enhanced home-host model, crisis and failure management would continue to be undertaken on a national basis. The policies associated with this, such as local incorporation and outsourcing restrictions (in both countries) and depositor preference in Australia,<sup>2</sup> would remain, but there would be greater emphasis on coordination and information sharing between the Australian and New Zealand regulators. Under the APRA-as-supervisor model, New Zealand would forego its ability to independently manage a crisis affecting its systemically-important banks and all associated policies that give effect to this.

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<sup>2</sup> If a bank fails, Australian depositors have priority over all other creditors to the proceeds from liquidation.

## **Comment**

### ***Enhanced home-host supervision***

21. The enhanced home-host model for trans-Tasman banking supervision aims to avoid unnecessary conflicts in the specification of regulation governing banking institutions. This would help to minimise compliance costs by enabling one set of information to meet the information requirements of both the RBNZ and APRA, as well as facilitate banks in the two jurisdictions running common information systems. The model also emphasises better information sharing and coordination to improve the crisis and failure management capacities of the relevant Australian and New Zealand authorities, and would bolster the ability of the RBNZ to effectively manage a crisis involving an Australian-owned bank.

22. Reflecting this, the key elements of enhanced home-host supervision are:

- reciprocal undertakings in relation to information sharing;
- adopting a consultative approach to the development of new regulations;
- aligning New Zealand policy with Australian policy where relevant; and
- forming arrangements and understandings for responding to crisis events.

23. In my view, enhanced home-host supervision would help to minimise the regulatory burden on Australian-owned banks in New Zealand as a result of having to meet New Zealand requirements, while maintaining a level playing field and sufficient control for New Zealand in a crisis situation. The enhancements to our current model of supervision are also consistent with the recommendations of the International Monetary Fund (IMF) in its recent Financial Sector Assessment Programme (FSAP). However, because under this model the RBNZ's local incorporation and outsourcing policies would remain, it does not address commercial concerns raised by Australian parent banks that maintaining standalone functionality for their New Zealand operations imposes unwarranted costs.

### ***APRA-as-supervisor model***

24. The APRA-as-supervisor model is a more far-reaching model of regulatory integration. It could result in further compliance cost savings for some banks, but these are likely to be modest and unlikely to be fully passed on to New Zealand customers. Under this approach, which would see APRA as the sole supervisor of Australian-owned banks in New Zealand, the RBNZ's local incorporation and outsourcing policies would likely be removed. The Australian authorities would determine the appropriate response to a crisis or failure situation involving the New Zealand banks that it supervises.

25. With a view to protecting New Zealand's interests, Australia has offered to:

- extend the depositor preference provisions of the Australian Banking Act to include New Zealand depositors of banks regulated by APRA;

- include New Zealand representation on the Australian Council of Financial Regulators<sup>3</sup>; and
  - require APRA report to relevant parliamentary committees in New Zealand.
26. I have some concerns with the APRA-as-supervisor model. These include:
- New Zealand foregoing decision rights over policy affecting its largest banking institutions and the management of these institutions in a crisis or failure situation;
  - a lack of real accountability of APRA to the New Zealand Government and Parliament and no power of direction for the Minister of Finance – a power that the Australian Treasurer has;
  - the potential for such a system to create a non-level playing field for the smaller New Zealand and other foreign-owned banks; and
  - potential risks for the depth of financial services in New Zealand and our tax base if the functionality, and hence income, of all our major banks could be shifted to Australia.

27. My main concern is that relinquishing control over crisis and failure management of New Zealand banks is unlikely to be in New Zealand's best interests. Although cross-border spillovers in a crisis situation are likely to be high due to the reputational effects of a major banking failure, there may be some instances when New Zealand and Australian interests diverge. This may occur if, for example: an economic shock places stress on the financial system in one country but not the other; or for political or commercial reasons a regulator places higher priority on restoring the Australian operations of a failed bank at the expense of the New Zealand operations.

28. As prompt action is critical in a failure situation, any such delays could have serious consequences for the stability of New Zealand's banking system. Moreover, if the APRA-as-supervisor failure management regime is perceived as inadequately protecting the interests of stakeholders in New Zealand banks, this could undermine confidence in our financial system and, ultimately, our economy.

29. Overall, the possible efficiency gains of this model (largely resulting from the removal of the RBNZ's local incorporation and outsourcing policies) seem insufficient to compensate for the potential risks that this model could pose to the stability of New Zealand's financial system.

### ***Next Steps***

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<sup>3</sup> The Council of Financial Regulators is a co-ordinating body for Australia's main financial regulatory agencies: the RBA, APRA and the Australian Securities and Investment Commission (ASIC). Its role is to contribute to the efficiency and effectiveness of financial regulation by providing a high level forum for co-operation and collaboration among its members.

30. Bearing these considerations in mind, I think that the enhanced home-host model is the preferred first step for closer integration of banking supervision between Australia and New Zealand. The model holds benefits for both New Zealand and Australia that should be relatively straight forward to secure. Moreover, it provides a robust foundation for achieving further integration in trans-Tasman banking supervision in the future.

31. The key steps in implementing this model are for the RBNZ to:

- consider where common specifications of prudential rules can be achieved (probably based on Australian specifications) to keep compliance costs to a minimum;
- consider how to make better use of APRA bank inspections in New Zealand to maximise the effectiveness of supervision;
- seek further development of coordinated crisis management procedures and protocols; and
- seek stronger protocols with APRA on information exchange and supervisory cooperation.

32. I would like to progress integration in trans-Tasman banking supervision further if we determine that this would be in the best interests of New Zealand. However, in my view, this integration would likely to entail more genuinely mutual arrangements than proposed by the APRA-as-supervisor model, with New Zealand paying a larger and more active role in supervision policy and crisis management. Furthermore, proceeding down this route would entail much wider issues for both the Australian and New Zealand governments, some of which go beyond the banking system, and which need to be addressed before deciding whether further integration is desirable. I believe that it is necessary for this work to be progressed separately, rather than by a further trans-Tasman working group.

### ***Review process***

33. I would like the Treasury to form a working group with the RBNZ and the Ministry of Economic Development (MED) to review the regulation of New Zealand's banking and insurance sectors and the contribution that these institutions make to growth and economic development. This would be undertaken in parallel to implementing the enhanced home-host model for supervision. The ultimate aim of this review would be to form a view on how the issues identified in the joint report on trans-Tasman banking integration could be addressed or managed so as to achieve greater integration of financial markets and their regulation where that is beneficial to New Zealand. This review would include consideration of:

- all associated institutional, legal, tax and sovereign crisis management implications; and

- whether including some non-bank financial institutions, and in particular insurance companies, into the regulatory structure would be beneficial for New Zealand.
34. The outcome of this review process would include recommendations on:
- how regulation can best support the contribution of financial institutions to growth while maintaining system stability; and
  - whether different institutional arrangements, including domestic or trans-Tasman alternatives, could improve the contribution of financial institutions to growth in New Zealand while maintaining system stability
35. Extension of the review process to cover insurance as well as banking is logical. Insurance companies are important to New Zealand's financial system. Moreover, most of the major insurance companies are Australian owned and regulated in their home country by APRA, which is also the case for the major New Zealand banks. The key difference is that currently prudential supervision of insurance companies in New Zealand is minimal. However, the Law Commission is reviewing the Life Insurance Act 1908, and the extent of regulation of New Zealand's insurance markets more generally will come under scrutiny over the next few years, as we consider whether there is a case for moving closer to international and Australian norms.
36. The review would draw on existing work, including the FSAP review of New Zealand produced by the IMF and the Law Commission's Review. Issues relating to other non-bank financial institutions and the wider financial system would be identified where relevant, but ultimately may need to be dealt with in a separate process. For example, separate work has already been proposed on the regulation of financial intermediaries and of credit unions.
37. The review would be undertaken by a working group resourced by the Treasury, RBNZ and MED. The working group would report to a steering committee, comprising senior officials from the Treasury, RBNZ and MED and chaired by the Treasury. A terms of reference for the review has been attached to this memorandum in appendix one. The working group would maintain regular contact with other relevant departments, such as the Inland Revenue Department (IRD), on issues that are also pertinent for them.
38. I have discussed, in broad terms, this proposal with the Australian Treasurer. While reiterating his desire to make greater progress on this issue, he has agreed that this is a sensible approach to take.
39. A key milestone for this process would be my meeting with Mr Costello on trans-Tasman issues scheduled for February 2005. I plan to direct the working group to report back to me at that time with a clear steer on the desirability of integration beyond that envisaged by enhanced home-host supervision and, if desirable, some proposals for how this could be achieved. Banking and insurance could then be considered alongside a number of other priorities in the single economic market context, such as accounting standards, securities and insolvency law, business law coordination and competition policy. Some of the banking and insurance work is likely to have significant cross over with other issues being addressed in the context of the wider single

economic market agenda.

### ***Financial Implications***

40. There are no direct financial implications of the proposals made in this memorandum.

### ***Legislative Implications***

41. Implementing the enhanced home-host model for supervision will require no legislative changes.

42. If a decision is eventually made to proceed down a more far-reaching route for integration, this could have a significant impact on a much wider set of financial sector regulation, including the Reserve Bank Act, disclosure rules, insurance law, corporations law, financial reporting, accounting standards, insolvency laws and potentially tax legislation. Due consideration would also need to be given to whether such arrangements would have implications for our other international obligations.

### ***Human Rights Implications***

43. This proposal has no New Zealand Bill of Rights Act 1990 or Human Rights Act 1993 implications.

### ***Regulatory Impact and Compliance Cost Statement***

44. A regulatory impact and compliance cost statement is not required.

### ***Consultation***

45. The RBNZ, MED, the IRD, and the Ministry of Foreign Affairs and Trade have been consulted on this memorandum and agree with its recommendations.

46. A wider public consultation process is not presently scheduled. However, given the interest that this work holds for New Zealand's business community, wider consultation may be sought on the final recommendations.

### ***Recommendations***

(a) **note** that the report entitled 'A Framework for Closer Integration of Trans-Tasman Banking Regulation' outlined two models for the supervision of trans-Tasman banks:

- Enhanced home-host supervision, consistent with the internationally agreed model for the supervision of cross border banks; and
- APRA as the sole supervisor of the operations of Australian banks in both Australia and New Zealand.

- (b) **note** that enhanced home-host supervision is the preferred model as this would offer potentially significant improvements in crisis management and is a robust foundation for greater integration in the future, if this is to be pursued.
- (c) **note** that the APRA-as-supervisor model proposed by the Australian authorities is unlikely to adequately protect New Zealand's interests.
- (d) **note** that alternative models of integration are possible, but these would need to take the form of more mutual arrangements than proposed by the APRA-as-supervisor model and would provide New Zealand with a more active role in supervision policy and crisis management.
- (e) **invite** the RBNZ to develop the enhanced home-host model for supervision.
- (f) **direct** the Treasury to form a working group with the RBNZ and MED to develop recommendations for how the issues identified in the early-July joint report could be addressed to achieve greater integration of the New Zealand and Australian financial systems and their regulation.

- (g) **agree** to the terms of reference for this review, attached in appendix one.
- (h) **direct** the working group to report back to me on progress made on this review prior to my scheduled meeting with Mr Costello on single economic market issues in February 2005.

Hon Dr Michael Cullen  
MINISTER OF FINANCE

## **APPENDIX ONE**

### **TERMS OF REFERENCE FOR A REVIEW OF THE PERFORMANCE AND REGULATION OF MAJOR FINANCIAL INSTITUTIONS IN NEW ZEALAND**

#### ***Background***

In early July, a report was submitted to the Minister of Finance entitled 'Development of a Framework for Closer Integration in Banking Supervision.' This report was jointly prepared by the New Zealand and Australian Treasuries, the Reserve Banks of New Zealand and Australia, and the Australian Prudential Regulatory Authority (APRA).

In addition to canvassing two options for closer trans-Tasman bank regulatory integration, the report identified a number of issues that need to be addressed in order to determine the most appropriate level and form of trans-Tasman bank regulatory integration for New Zealand.

These issues included:

- the appropriate balance of policy objectives for prudential supervision;
- the need to maintain New Zealand influence over prudential policy development;
- the need to maintain the appropriate New Zealand capacity to manage a banking crisis;
- the contestability and competitive neutrality in New Zealand's banking system;
- tax and fiscal burden sharing considerations; and
- the impact of closer integration of banking regulation on wider legislation, institutions and financial activities.

Some of these issues are generic to the broader issue of the development of the single economic market.

In June 2004, the IMF also released its Financial Sector Assessment Programme (FSAP) review for New Zealand. This contained an evaluation of New Zealand's financial system, an assessment of our level of compliance with international best practices and some policy recommendations.

#### ***Objectives & Scope***

To this end, the New Zealand Treasury, the Reserve Bank (RBNZ) and the Ministry of Economic Development (MED) will form a working group to jointly review the regulation of New Zealand's major financial institutions and the contribution that these institutions make to growth and economic development.

The outcome of this review process will include recommendations on:

- how regulation can best support the contribution of financial institutions to growth while maintaining system stability; and
- whether different institutional arrangements, including domestic or trans-Tasman alternatives, could improve the contribution of financial institutions to growth in New Zealand while maintaining system stability

The main focus of this review will be the banking and insurance sectors. However, issues relating to other non-bank financial institutions (NBFIs) and the wider financial system including capital markets will be identified where relevant. These issues may need to be addressed in a separate process.

The review will draw on existing work, including the FSAP review produced by the IMF and the Law Commission's review of the Life Insurance Act 1908.

### ***Project Governance***

The review will be undertaken by a working group resourced by the Treasury, MED and RBNZ.

The working group will report to a steering committee, comprising senior officials from the Treasury, RBNZ and MED and chaired by the Treasury.

### ***Specifics***

#### ***1. Assessment of the Performance of New Zealand's Financial System***

##### **How well is the financial system performing in delivering financial services that support growth and economic development in New Zealand?**

Officials will assess the contribution of New Zealand's financial system to growth against a number of criteria listed below, with particular focus on the contribution of the banking and insurance sectors.

This assessment will draw on work to hand. Where relevant, comparisons will be made with the performance of the financial system in other countries (including Australia) and the recommendations made by the IMF.

Consideration will also be given to the factors that are likely to drive change in New Zealand's financial system over time and the implications that these may have on the performance of the banking and insurance sectors.

These assessments will be made against the following criteria:

- **Provision of financial services** - the contribution of New Zealand's financial system to growth will be assessed against the depth and breadth of financial services provided. The allocative, dynamic and productive efficiency of the sector will be assessed. In addition, the working group will consider the importance of maintaining local decision-making capacity and knowledge in New Zealand for the provision of financial services to the New Zealand

economy.

- **Stability** – an assessment will be made as to how well New Zealand's major financial institutions contribute to the stability of the wider financial system, including in the face of financial or economic stress that originates in New Zealand or abroad. This assessment will take into account expected future trends.
- **Reputation and confidence** - The international reputation of New Zealand's financial system will be considered. This reputation is affected by perceptions of the quality and cost of financial services, the risk of investing, and the return to capital. These perceptions will be shaped by the New Zealand's adherence to international standards and codes, credit ratings and other external evaluations. Recent FSAP findings will prove instructive in this area. Given its systemic importance, the conduct of institutions and regulators in New Zealand's banking sector will play a major role in influencing external perceptions of the health of our wider financial system.

## **2. Policy Implications for Banking and Insurance**

### **A Regulatory Effectiveness**

**How well does the regulation of banking and insurance companies in New Zealand contribute to the delivery of the desired outcomes that have been identified above? What changes, if any, may be warranted to improve the effectiveness and efficiency of regulation in delivering on these outcomes?**

Evaluating the contribution of regulation to the desired outcomes in one includes considering whether it:

- fosters an appropriate level of competition, innovation and neutrality across the financial system;
- does not impede the development of a seamless trans-Tasman market for the provision of financial services;
- provides the right incentives for institutions to act prudently of their own accord;
- allows economies of scale and scope to be captured;
- minimises the regulatory costs on banks and insurance companies (compliance and operational);
- provides an appropriate degree of protection for depositors, investors, and consumers of financial services;
- is consistent with and supportive of tax policy as it applies to banks and insurance companies;
- ensures adequate legal and operational capacity to manage a financial crisis; and

- supports New Zealand's international financial reputation.

The regulatory arrangements to be assessed include the rules and standards that are applied, and the monitoring and enforcement of those standards. Taking account of the assessments in section 1, the review will recommend whether any changes should be made to the prudential regulation of banks and insurance companies to maximise the future contribution of the financial system to growth while maintaining system stability.

## ***B Domestic Institutional Arrangements***

### **Would different institutional arrangements for the regulation of banking and insurance contribute to a better outcome for New Zealand in terms of the provision of financial services and the stability of the wider financial system?**

Officials will assess whether the regulation governing banks and insurance companies in particular could be re-organised in a manner that would improve the provision of financial services in New Zealand and/or the stability of the wider financial system. This will include consideration, as appropriate, of:

- whether regulation should be organised by functions (e.g., stability, consumer/investor protection) or by institution (e.g., banks, life insurance, general insurance); and
- the desirability of alternative approaches to the way in which regulation of our major financial institutions is organised, including an umbrella approach similar to the institutional arrangements already in place in Australia.

## ***C Regulatory Control in a Trans-Tasman Context***

### **Could the provision of financial services or regulation in New Zealand be enhanced through a joint trans-Tasman approach?**

Officials will assess whether alternative trans-Tasman institutional arrangements could improve the contribution of the New Zealand financial system to growth, while maintaining system stability. This assessment will be largely made across the range of criteria outlined in section 2A, and will include the competition, consumer protection, legal, tax revenue, and fiscal implications of such an approach.

This assessment will require identifying inter alia:

- the costs and benefits of foregoing some decision rights over prudential regulation and supervision; and
- the costs and benefits of foregoing some decision rights over crisis and failure management.

Officials will also consider what governance, legal, operational and accountability arrangements would be necessary for a joint trans-Tasman regulatory institution to at least meet New Zealand's requirements, if not be superior to alternative domestic arrangements.

## ***Timing***

A working group progress report will be delivered to the Minister of Finance prior to his next scheduled meeting with the Australian Treasurer on single economic market issues in early February 2005. The working group will maintain regular communication with the Minister's office as these recommendations develop. Final recommendations will be completed by the end of 2005 Q2.