

Bank of New Zealand

Feedback to The Treasury on the Scope of Phase 2 of the Reserve Bank of New Zealand Act 1989 review

9 March 2018

1.0 INTRODUCTION

- 1.1 This submission has been prepared by Bank of New Zealand ('BNZ') in response to The Treasury's ('Treasury') request for feedback on the scope of phase 2 of the Reserve Bank Act 1989 review ('the Review').
- 1.2 BNZ welcomes this opportunity to provide feedback as part of this stage of the Review.

2.0 SUBMISSION

- 2.1 BNZ supports the Government's initiative to undertake the Review. This is particularly important in light of the evolving nature of banking and the Reserve Bank's ('RBNZ') corresponding prudential role since the enactment of the Reserve Bank of New Zealand Act 1989 ('RBNZ Act') nearly 30 years ago. As a rule, BNZ considers it good practice to review all regulatory frameworks from time to time to ensure they remain fit for purpose.
- 2.2 BNZ notes the evolution of phase 2 of the Review, which had an initial focus on the monetary policy framework, and submits that the scoping of the Review should carefully consider the broader outcomes for New Zealand, and bank customers. There are many aspects of the current RBNZ Act regime that BNZ considers are fit for purpose, and deliver the system resilience required to ensure long term sustainability, as well as proportionate outcomes in the context of a relatively vanilla banking environment and the needs of New Zealand bank customers.
- 2.3 BNZ notes the IMF's recent 2017 Financial Sector Assessment Programme (FSAP) report on the New Zealand financial system, and the associated findings. BNZ generally supports the FSAP findings, including the overall resilience of the banking system, which RBNZ can take credit for. BNZ also notes the IMF's recommendations that the RBNZ Act be reviewed to ensure it provides the legal certainty required in relation to aspects of RBNZ's prudential functions, including crisis management and macroprudential policy.
- 2.4 BNZ supports the FSAP findings in relation to the need for more detailed and coherent trans-Tasman crisis management planning between RBNZ and APRA, as well as an increase in resourcing required to enable RBNZ to more effectively develop and supervise its prudential framework. The crisis management framework and associated RBNZ powers contemplated under the RBNZ Act should be considered as part of the Review.
- 2.5 In relation to bank supervision, BNZ welcomes RBNZ's proposed increase in thematic reviews as an appropriate response in relation to supervision – BNZ views the supervisory pillar as an important source of strength in the '3 pillars' approach and one that warrants a commensurate level of resourcing.
- 2.6 At present, BNZ considers RBNZ is materially under-resourced in its prudential function. BNZ submits that these levels of resourcing have contributed to levels of conservatism in RBNZ's approach that flow through to impact bank customers. For instance, a conservative and simplified capital regime might make supervision easier in a lightly resourced environment, but it might also be expected to result in a higher cost of capital for banks, and therefore higher interest rates borne by customers. As

part of the review, BNZ suggests that the potential for part funding by industry should be considered, to help ensure adequate levels of funding are available and costs are reasonably borne by tax-payers and industry.

- 2.7 The governance arrangements contemplated under the RBNZ Act should be considered as part of the Review, and in particular, whether a slightly expanded role for the RBNZ Board, beyond being an advisory board, might be appropriate. This should also extend to Board composition.
- 2.8 The assessment of governance arrangements should be accompanied by a review of whether an elected representative, such as the Minister of Finance, should be able to provide formal policy statements for RBNZ's *consideration* in reforming or tuning its prudential framework. BNZ is however particularly mindful of the need for RBNZ to have appropriate levels of autonomy to discharge its prudential duties, given the highly technical nature of prudential supervision and potentially conflicting political and prudential outcomes, particularly in times of crisis.
- 2.9 BNZ submits that the current status of the Banking Supervision Handbook, and the related Conditions of Registration, should be included within the review – there is likely to be an opportunity for simplification that should benefit both RBNZ, industry, and ideally, bank customers.
- 2.10 BNZ would welcome the Review considering RBNZ's role in relation to the supervision of the insurance sector, as well as monitoring compliance with the anti-money laundering and countering financing of terrorism regime for banks. This should not be taken to mean BNZ considers RBNZ is not meeting required levels of supervision in relation to these matters, but rather, they seem to be an unusual adjunct to a core prudential banking capability.
- 2.11 Finally, BNZ submits that the Review must be mindful of the need to ensure the prudential framework is fit for purpose in the New Zealand context given the small size and relative lack of complexity. To this end, BNZ submits that the review should not consider matters such as the carving out separate a separate prudential regulator, from that in charge of monetary policy – such a construct would be disproportionately complex and most importantly, likely hinder effective crisis management.

3.0 CONCLUSION

- 3.1 BNZ appreciates the opportunity to provide this submission to Treasury, and supports the industry consultation as part of the Review.
- 3.2 BNZ submits that the RBNZ's prudential role has developed beyond that envisaged when the RBNZ Act was entered into force in 1989. As a result, the regime should be reviewed to ensure it appropriately provides for RBNZ's expanded role in defining and supervising the New Zealand prudential framework.
- 3.3 BNZ is willing to discuss the issues canvassed in the submission with Treasury, if that would be helpful. Should Treasury have any questions in relation to this submission, please contact: