The Treasury

Reserve Bank Act Review Phase 2 Submission Information Release

October 2019

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[1] 9(2)(a) - to protect the privacy of natural persons, including deceased people

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29 August 2019

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Submission: Reserve Bank Act Review Phase 2 consultations 2A and 2B

This submission is from the Financial Services Council of New Zealand Incorporated (**FSC**).

The FSC is a non-profit member organisation and the voice of the Financial Services sector in New Zealand. Our 35 members comprise 95% of the life insurance market in New Zealand, and manage funds of more than $47.5bn. Members include the major insurers in life, disability and income insurance, fund managers, KiwiSaver, professional services and technology providers to the Financial Services sector.

Our submission has been developed through consultation with FSC members, and represents the views of our members and our industry. We acknowledge the time and input of our members in contributing to this submission.

The FSC's guiding vision is to be the voice of New Zealand's financial services industry and we strongly support initiatives that are designed to deliver:

1. Strong and sustainable consumer outcomes;
2. Sustainability of the financial services sector; and
3. Increasing professionalism and trust of the industry.

We support the review of the Reserve Bank Act, noting that the Bank's role and how it is governed is critical to ensuring a high-functioning, resilient, and efficient financial system. Our responses to the consultation questions are attached.

I can be contacted on [1] to discuss any element of our submission.

Yours sincerely

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RESPONSES TO THE CONSULTATION QUESTIONS

Consultation document 2A: The role of RBNZ and how it should be governed

We comment on two chapters (2 and 3) – see below.

We note the in principle decision set out in chapter 1 to retain prudential regulation within RBNZ. We make no comment in respect of the banking regulatory perimeter (chapter 4) or bank depositor protection (chapter 5).

Chapter 2: Objectives

2.A: Our members support RBNZ having a single overarching objective that applies to all its regulatory activities and stakeholders.

In addition, we support the legislation having a few key secondary objectives, particularly ones that counter-balance the primary objective, such as a "micro-prudential" objective (see next paragraph) and an efficiency ("minimise the costs/burden of regulation") objective. We recommend against primary legislation containing a long list of secondary objectives or duplicating purposes shared with other agencies (eg FMA) and covered by sectoral legislation (eg IPSA).

A "micro-prudential" objective would help foster a regulatory framework that supports the resilience of a broad range of individual firms and diverse business models, in addition to RBNZ's focus on overall systemic priorities. At a practical level, it should encourage a flexible and innovative approach to the supervision of firms.

2.B: Our members support RBNZ actively considering climate change as a core and significant ongoing part of its overarching objective to protect and enhance the stability of the financial system. However, for three reasons we would prefer RBNZ's climate change obligations to be conferred less formally than via primary legislation.

First, climate change is one of several, important, high-level considerations for RBNZ. If one is listed, they all should be, and that list should be dynamic (ie not contained in primary legislation) so that it can be updated in future.

Second, climate change initiatives and thinking are developing rapidly: its science and impact on society (including financial services) is fast evolving. By locking a climate change objective into primary legislation, there is a risk that the wording will soon become out-of-date and inappropriately limited.

Third, for continuity, efficiency and optimal coordination, climate change initiatives should be informed by the bodies tasked to advise Government on that topic, rather than by multiple, potentially competing approaches. We would therefore prefer RBNZ's role in climate change initiatives to be strongly supportive of broader Government objectives, not leading or duplicative.

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2.C: Our members support there being periodically updated statements of expectation (or equivalent) to supplement the objectives in the legislation. As noted above, secondary objectives in the legislation should be limited to a few high-level, enduring objectives only, particularly those that help to counter-balance the overarching financial stability objective. Although the use of statements of expectation would heighten RBNZ's susceptibility to political interference, we consider that the core legislated objectives and existing political and regulatory checks and balances should sufficiently mitigate that risk.

2.D: Our members support the concept of periodically updated requirements, using financial policy remits or statements of expectation. We are particularly supportive of statements of expectation being used to encourage information sharing and cooperation between regulators.

2.F: Given the decision (which we support) to retain prudential supervision within RBNZ, the objective set would benefit from including more specific reference to (i) the micro-prudential role and (ii) avoiding unnecessary compliance costs.

We note that the dot points in the prudential section on page 36 are worded as part-definitions of the overarching obligation (by use of the words "including by") which may inadvertently modify or limit the breadth of that obligation.

Chapter 3: Governance

3.A: Our members support the in-principle decision to move away from a single decision-maker model to ensure appropriate checks and balances, including to balance competing macro and micro prudential priorities.

3.B: We consider the role of the Governor to be analogous to that of a CEO – the Governor would have broad delegated authority for management and operational matters, with oversight of the Board.

There should be sufficient delegation to ensure that prudential regulatory activities are responsive and timely.

3.C: Our members support Treasury acting as an assessor of the RBNZ's performance, replacing the existing Board as monitoring agent.

The detailed monitoring of RBNZ's prudential supervision of firms is less suited to a board monitoring observer model, particularly given the dynamic nature of that work.

3.D: Our members support replacing RBNZ's monitoring relationship with a more typical crown entity structure with an independent supervisory body.

3.E: We stress the importance of insurance expertise at all levels, including on the new governance board. The dynamics and challenges of insurance are different from those of the banking sector. It is imperative that RBNZ has sufficient specialist insurance expertise at all levels, including on the governance board, to oversee the industry appropriately.

3.F: To the extent that the board is administering sectoral legislation (eg IPSA), there should be clarification that it must have board capabilities commensurate with the regulatory needs of that legislation.

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Consultation document 2B: RBNZ's role in financial policy (tools, powers & approach)

We comment on Part C (chapters 6 and 7) – see below.

We make no comment in respect of financial system resilience (Part A: chapters 1-3) or banking financial stress (Part B).

Chapter 6: Coordination

Our members support greater co-ordination and co-operation between RBNZ and other agencies including co-ordination with overseas regulators. More streamlined coordination that avoids duplication of engagement with offshore and domestic regulators would be beneficial. If increased coordination is to be promoted through statements of expectation, a framework supported by appropriate resourcing and clear roles and expectations regarding system stewardship and coordination is critical.

Chapter 7: Funding

Our members support an appropriately funded regulator. It is important that any model selected for industry funding be widely consulted on and fairly weighted between sectors within financial services to reflect their respective prudential regulatory needs. The model should also have regard to industry's current funding contributions. For example, insurers already pay substantial FMA levies. Increased regulatory costs will ultimately be borne by the customer and affect the affordability of insurance.