

16 August 2019

The Treasury & The Reserve Bank of New Zealand  
Wellington 6011

via email: [rbnzactreview@treasury.govt.nz](mailto:rbnzactreview@treasury.govt.nz)

## Review of the Reserve Bank Act – Phase 2

Thank you for the opportunity to submit regarding the combined Treasury and Reserve Bank consultation documents 'The role of the Reserve Bank and how it should be governed' and 'The Reserve Bank's role in financial policy: tools, powers and approach', dated June 2019.

Through our three membership brands, the Wellington Chamber of Commerce, Business Central and ExportNZ, our organisation represents around 3,000 businesses across the central and lower North Island. Our organisation is one of the four regional organisations that make up the Business New Zealand family and is also accredited through the New Zealand Chambers of Commerce network.

The Wellington Chamber of Commerce has been the voice of business in the Wellington region since 1856 and advocates policies that reflect the interest of Wellington's business community and the development of the Wellington economy as a whole.

Business Central represents employers and provides employment, health and safety, and human resources advice, and advocates policies that reflect the interest of the business community.

This submission covers only the main points of relevance to the broader business community. Our primary concern is with initiatives that will increase the cost of capital to businesses, and maintaining the integrity of New Zealand's financial system.

*In-principle decisions and follow-up questions on: The role of the Reserve Bank and how it should be governed*

We agree with the Minister of Finance's in-principle decision to keep responsibility for prudential regulation with the Reserve Bank. New Zealand's system does not have the size nor complexity requiring the splitting of prudential regulation from monetary policy setting.

We support the Minister's in-principle decision to give the Reserve Bank a single high-level objective to 'Protect and enhance the stability of New Zealand's financial system'. A sole objective is the simplest way of ensuring the Bank focuses on those factors it can control within its field of expertise. Climate change should not be addressed through additional Bank objectives – not because climate change is not important, but because it is primarily addressed through specific legislation.

In terms of monitoring the Reserve Bank's performance, we agree with the Minister's decision to make Treasury the monitoring agent, replacing the existing Reserve Bank Board. We hope this closer alignment extends to better coordination between the two entities making and reviewing policies that affect the New Zealand economy.

We disagree with the Minister's decision to pursue a deposit insurance scheme for New Zealand banks. The evidence points against his conclusion, and the paper itself notes that "the Independent Expert Advisory Panel ... asked for more information to assess the net benefits of depositor protection". Consumers will bear such insurance costs through reduced interest returns on their deposits in an already low interest rate environment. Also, some of the costs will be passed through to borrowers in the form of higher interest rates. The paper admits these "costs could be significant". Other policy changes, such as increasing banks' cost of capital through the Reserve Bank's capital review process, could compound upward pressure on interest rates. New Zealand already pays a premium for credit due to our relatively small size. Imposing compounding costs on top of that, even if each increment is viewed as insignificant, creates a cumulative cost born by the New Zealand economy through lower economic growth, impacting everyone's well-being.

#### *The Reserve Bank's role in financial policy: tools, powers, and approach*

The governance of macro-prudential decision-making on policies and tools requires a higher level of input and collaboration from the rest of government. While the Reserve Bank's independence on monetary policy settings is undisputed, this independence should not extend to tangential responsibilities such as macro-prudential settings. Such policies will have broad economic and societal trade-offs requiring examination and will interact with policy-making in other departments, requiring coordination. Examination and coordination can occur only if the Reserve Bank is obliged to participate as a regular policy-making government department, rather than leaning heavily on its independence, as it has historically. Referring to the paper's 'Figure 2B', we recommend moving the governance options to the right, at least to options 2 or 3.

We support broadening the suite of enforcement tools the Reserve Bank has available. The Bank would benefit from a continuum of enforcement tools to enable it to modify bank behaviour proportional to the outcomes sought – from encouragement through to criminal penalties. The market understands the FMA's broader suite of tools and they work well.

In times of financial stress or crisis management the use of the Reserve Bank's balance sheet should be signed off by the Minister of Finance. In these circumstances there is a significant fiscal risk to the Crown, and the responsible Minister should manage these. It blurs accountability and blunts responsibility should the Reserve Bank be able to make decisions alone that incur high costs to taxpayers. This problem is particularly acute when using "unconventional" monetary policy tools.

Coordination for financial sector regulation is required, as described above. There is a need for MoUs to build better understanding and sharing of information. However, we would caution against over-complicating matters, and suggest that the Minister of Finance could use MoUs to set expectations for agencies. For example, the Minister can request that agency CEOs ensure their organisational cultures emphasise collaboration and openness with other agencies.

Given the growing role, complexity, and responsibilities of the Reserve Bank, it would require additional funding to deliver on the expectations placed on it. The Minister of Finance should control and sign-off on this funding, in the same way for funding for other government departments.

Yours sincerely,

A handwritten signature in black ink, appearing to read "John Milford". The signature is fluid and cursive, with a prominent initial "J" and a long, sweeping underline.

**John Milford**  
Chief Executive  
Wellington Chamber of Commerce, Business Central