



Patron – Lyn Provost CNZM
P O Box 10123
The Terrace
Wellington 6143
www.transparency.org.nz

Review of the Reserve Bank Act Phase 2: *Safeguarding the future of our financial system: the role of the Reserve Bank and how it should be governed.*

Submission, Transparency International New Zealand (TINZ)

Transparency International New Zealand (TINZ) welcomes the opportunity to make a submission as part of Phase 2 of the review of the Reserve Bank of New Zealand Act 1989.

In preparing this submission TINZ has consulted with its Board and selected Members with Delegated Authority (MDA) who have specific experience in this topic. Leading contributors are Sarah Mead, Member with delegated authority for environmental matters; and Julie Haggie, Chief Executive Officer.

To be consistent with our values and transparency itself, we note that Suzanne Snively, TINZ Chair also chairs the panel reviewing the Reserve Bank Act. Suzanne has not been involved in the writing of this submission, although she has recommended that TINZ prepare a response.

About Transparency International (TINZ)

TINZ is a chapter of [Transparency International](#), the global civil society organisation against corruption. TINZ is a not-for-profit incorporated society with charitable status; non-political and non-partisan. TINZ is a caretaker of New Zealand's high trust, high integrity society. Its reports, assessment documents and facilitation of discussions have positively impacted New Zealand's approaches towards corruption prevention and open government.

The respect given to TINZ is driven from documents such as [Integrity Plus 2013 New Zealand National Integrity System Assessment \(NIS\)](#) and subsequent updates in 2015 and 2018 towards a 2nd edition, as well as the [Corruption Perceptions Index](#) produced by the global body. TINZ has also worked with central government agencies on initiatives to strengthen understanding on a broad range of issues around transparency, open government, and integrity systems. This includes innovative Public Sector CEO Leadership Integrity Forums, jointly hosted with the Office of the Auditor General. As resources allow, TINZ will extend these initiatives to local government and business.

TINZ actively brings critical and constructive voices to the table wherever anti-corruption expertise, advocacy and action are needed, and has played a key role in efforts to promote integrity and transparency and to resist and expose corruption. The portfolio of Transparency International is wide and its approaches are focused on detecting and preventing corruption. The large network of committed stakeholders places the international body and the New Zealand chapter in the privileged position of being able to continue fighting against corruption even within a global socio-political context that is ever more challenging.

TINZ response to Consultation questions

What objectives should the Reserve Bank have?

TINZ's [mission](#) is to foster a New Zealand culture where transparency, integrity, good governance and ethical standards and practices are the core values of all New Zealanders. Our values are: trust, transparency, respect, integrity, courage, cultural and social responsibility, and environmental sustainability. A well-functioning central bank with an appropriate mandate that covers the above values is central to achieving TINZ's mission for the future of New Zealand.

Climate Change:

- a. The Reserve Bank of New Zealand, as the central bank, is responsible for “promoting the maintenance of a sound and efficient financial system” ([Reserve Bank of New Zealand Act 1989](#), section 1A(1)(b)). Without proposing a specific amendment to the dual objectives of the Bank, TINZ submits that any amendment must be sufficiently broad to enable the Reserve Bank to take into account environmental sustainability when discharging its responsibilities — including the impact of climate change on the future stability of New Zealand's financial system.
- b. New Zealand's economy relies on the sustainable management of the natural environment. Climate change in particular presents unprecedented risks to the New Zealand economy and will have profound impacts on the lives of New Zealanders. Any amendments to the Reserve Bank Act must therefore ensure that the Bank is able to take into account risks of an environmental nature, such as climate change, in carrying out its role. For this, the Bank must be able to gather information and undertake analysis in a transparent and open manner.
- c. More generally, TINZ supports the [Reserve Bank Climate Change Strategy](#), and welcomes the Bank's membership in the [Network for Greening the Financial System \(NGFS\)](#). We reiterate the preliminary findings in the [NGFS First Progress Report](#) (October 2018) that “climate-related risks are a source of financial risk and fall within the supervisory and financial stability mandates of Central Banks and Supervisors”; and that “authorities and financial institutions need to develop some new analytical and supervisory approaches based on forward looking scenario analysis”.
- d. Finally, to encourage open and well-informed decision-making by the Reserve Bank, TINZ proposes the establishment of a process of annual NGO dialogues, as conducted by the Dutch Central Bank (De Nederlandsche Bank, DNB). Since 2016 the DNB has engaged in annual dialogue meetings with Dutch NGOs. The meetings offer the opportunity for the Bank to share and discuss research that it is working on that might be of interest to NGOs, and for NGOs to share and discuss their concerns and priorities in working with the financial sector. Among the topics discussed to date include the consequences of eventual shock transitions in the field of energy policies for the stability of the financial system. TINZ would strongly encourage the Review to consider the possibility of establishing a similar system of consultation for the Reserve Bank.

Treaty of Waitangi

- a. A review of the objectives of the Bank is also an opportunity to consider the application of the principles of partnership, participation and protection (that underpin the relationship between the Government and Māori under the Treaty of Waitangi) to monetary policy and regulation. The Reserve Bank is ideally placed to engage in this dialogue. It is disappointing that this is not featured in the consultation documents.
- b. Areas for discussion should be prompted by Māori leadership, but could include, for example:

- Enhancing the Māori economy
- Improving financial literacy
- Improving understanding of the Treaty relationship by financial institutions operating in New Zealand which are owned offshore.
- Partnership on significant decisions.
- Support for research into the impact of monetary policy decisions on Māori
- Promoting improved cultural literacy of financial institutions

Which financial firms should the Reserve Bank regulate?

Over time the many players in the New Zealand financial arena have grown opportunities for banking, wealth products, payment mechanisms, KiwiSaver and insurance products and services. The regulatory response to this growth of has been reactive. This can also be explained by the number of new players using disruptive technology. Whilst there has been substantial risk identification and management around banks and insurance companies due to their size and risk profile, outsourcing of licensing and product oversight has resulted in unevenness in regulatory oversight, and has reduced transparency for consumers. There is a need for one oversight body.

Transparency International does not have the expertise to comment on best models. We suggest a broader review of New Zealand's financial markets, focusing on gaps, inefficiencies, innovation and oversight, consumer protection and emerging technologies and payment systems.

Should there be depositor protection in New Zealand?

- TINZ supports the introduction of depositor protection insurance, which would bring NZ in line with its OECD counterparts. We note the International Monetary Fund has [made this recommendation](#).
- We note the International Monetary Fund has said introducing deposit insurance would strengthen New Zealand's financial safety net and complement the Reserve Bank's Open Bank Resolution framework. Its existence could reduce the risk of a single failure triggering consumer loss of confidence in the markets.
- We put a case for greater transparency, accountability and stewardship in several areas related to depositor protection:
 - a) Where the deposit protection insurance cost is transferred to depositors, this should be clearly and simply explained to consumers, with reasons.
 - b) Where protection insurance is transferred to depositors, there should be transparency in relation to the amount they pay per year relative to the protection target of the fund and the time span. Depositors should be easily able to access comparable information.
 - c) If any limits on protection are proposed clients should be clearly informed. This information should be standardised, through oversight from an appropriate authority.
 - d) Where a receiver of deposits is not required to hold depositor protection insurance, this should be clearly explained, including identifying risks to the depositor of lack of protection insurance.
 - e) Where deposit protection insurance is in place, investment agencies should have specific integrity systems in place to protect against complacent consumer behaviour or aggressive and highly risky lending behaviour. There should be transparent reporting to highlight both risky and complacent behaviours of consumers and investment agencies. Some overarching power should be able to sanction or administer controls where risky behaviour is identified.
 - f) Consumers should have clear, simple and precise information on the time they will have to wait if there is failure and on intervention planning if there is failure. This will support consumer confidence.

- g) Where there is failure there should be prompt and specific communication to all affected consumers to alert them of their right to claim against the insurance.
- h) If consumers are able to maximise their protection by dividing their savings between different institutions this should be clearly and simply explained.
- i) In the case of takeovers and mergers, consumers should have clear and simple explanations on the impact of these changes on their protection, their right to change investment provider and links to sources of advice.
- j) Depositors and lending institutions should be able to loan money from the crown in order to cover a shortfall in the event of a systemic failure, or if the failure happens before the fund gains scale (so long as the fund has acted responsibly).
- k) Where customers are placing deposits for purely transactional reasons rather than to earn interest there should be appropriate insurance arrangements in place.
- l) Compensation should not be able to be offset against illiquid assets (mortgages)
- m) We query whether the proposal should be restricted only to banks and ask what behaviours and consequences this may generate in terms of the proportion of more risky lending.

Should prudential regulation remain with the Reserve Bank?

- TINZ supports the maintenance of prudential regulation by the Reserve Bank because its track record is very good. This is not our specific area of expertise, and so we note the comments and recommendations of the International Monetary Fund in 2017 in relation to oversight, scope of regulation and power to act.

How should the Reserve Bank be governed?

- If the Reserve Bank is to have increased responsibility and regulation, and as our markets deepen and mature, it is appropriate for the Governance of this regulator to adopt a Board model than a single person. It is equally important, however, to have open communication between the public and governance of the Reserve Bank. Any governance model should have inbuilt expectations of open communication and transparency on monetary policy and regulation.
- Earlier in this submission we have recommended more direct engagement and leadership by the Reserve Bank with the Treaty of Waitangi. We suggest therefore that there should be targeted research and consultation with Māori about their expectations of partnership, participation and protection in relation to monetary policy and regulation, including governance of the Reserve Bank.

Thank you for the opportunity to consult on this matter.

Our contact for this submission is:

Julie Haggie

Chief Executive Officer

Julie.haggie@tinz.org.nz

0274 989 126

Transparency International Vision

A world with trusted integrity systems in which government, politics, business, civil society and the daily lives of people are free of corruption