



**Finance and Expenditure Committee (FEC)  
2018-19 Financial Review of the Reserve Bank of New Zealand**

**Governor's opening statement**

**Date: 19 February 2020**

Tēnā koutou katoa, welcome all.

It is a privilege to be here with you today to report on the Reserve Bank of New Zealand's achievements, challenges, and opportunities.

Our priorities in the recent (2018-19) June financial year involved a significant focus on building the foundations for change at the Bank.

Just like all other businesses, we are having to evolve to be able to meet new challenges, risks, and opportunities. These include, for example:

- our regulatory remit and evolving legislation,
- record low international inflation and interest rates,
- climate change awareness and action,
- changing societal expectations of business conduct and culture,
- technology developments, and
- skill and capability needs and location.

We are committed to navigating these challenges, and I thank my Board and colleagues for their dedication and assistance.

Let me take you through some of the highlights of the year:

### ***Monetary Policy Committee***

We have established a new framework for the way we run our monetary policy functions.

Amendments to the Reserve Bank of New Zealand Act, which came into effect on 1 April, gave responsibility for monetary policy decisions to the newly-established Monetary Policy Committee.

This framework has now been implemented and is working well, with six Official Cash Rate decisions by our new Monetary Policy Committee. The *Summary Record of Meeting* provides insights into how decisions are reached, and improves our stakeholders' understanding of each Committee member's contribution.

This delivers on our commitment to be more transparent and provide clearer communications.

We can report our *Monetary Policy Handbook* was recently awarded the 'Transparency Award' at the international Central Banking annual awards.

### ***Bank capital***

In December we concluded a two-year review of bank capital. Our decisions will make the banking system safer for all New Zealanders, and ensure bank owners have a meaningful stake in their businesses.

The changes will be implemented over seven years, giving plenty of time for banks to manage a smooth transition and minimise any adjustment costs.

Our decisions were shaped by valuable public and expert input and insight, received through an unprecedented number of submissions as well as public focus groups.

Three international experts also provided supportive perspectives on our proposals.

All of this material is public.

### ***Increased engagement and diversity***

We are very encouraged by the growing number of people who are engaging with the Bank and our work.

Last year we received thousands of submissions and feedback during two consultations on our proposed policies (bank capital and the Future of Cash). This engagement was unprecedented for the Bank.

And we have a growing number of people wanting to be part of our team.

We received more than 1300 applications for positions in the last financial year – including a growing number of applications from university students, and internal applicants keen to further progress their career with the Bank.

In January this year, we had more than 800 people apply to work with us - the highest number of job applications in a month in the Bank's history.

To further enhance our workforce and truly reflect our society, we are committed to gender equity and working towards more diversity at the Bank. We are witnessing

positive momentum on these goals also with, for example, more senior female employees at the Bank.

Our people capability and capacity continues to rise, as does our diversity and inclusion. These features appear to be self-reinforcing. Our employment success is occurring during a period of heightened competition in the labour market.

### ***Conduct and Culture***

Together with the Financial Markets Authority we reviewed the conduct and culture of New Zealand's banks and life insurers. The reviews found many areas of weakness that need to be addressed quickly, so that the reputation and the public's confidence is not irrevocably damaged. This work is ongoing and we are seeing progress in the sectors.

### ***Te Moni Anamata***

We have made good progress on our currency transformation work, aptly renamed Te Moni Anamata 'The Future of Cash'. The name change reflects the wide range of stakeholders we are co-designing this strategy with and for, and our awareness of the social impacts of our decisions in this area.

Recent consultation on the matter resulted in over 2000 pieces of feedback, which is by far the most successful engagement the Reserve Bank has had to date. We have confirmed our priors that we are heading into a 'less cash' future, not a 'cashless' future. We will soon make significant decisions on cash management and vaulting.

### ***Armistice Coin***

On currency - to commemorate the centenary of the Armistice that marked the end of World War I, we issued two million 50-cent coins into general circulation.

The coin's design recognised the immense sacrifice made by New Zealanders during the conflict, and so it was with pride that we recently accepted an award from the International Association of Currency Affairs (IACA) as winner of the Best Commemorative Coin and Best Public Education categories.

## ***Relationships***

We have been making significant progress in developing clear work relationships with our regulated entities, encapsulated in our “Relationship Charter” entered into with the New Zealand banks.

There is significant work ongoing, in particular as we assist Government on proposed legislative changes to the Reserve Bank Act - including governance, regulatory remit, policy enforcement and crisis management.

We also have significant ongoing work on our engagement approach, especially with the general public. In the coming year you will see us increase our presence and accessibility digitally.

We are also deepening and formalising our relationships with our regulator and policy colleagues – in particular through our role with the Council of Financial Regulators members, and with central banks in the South Pacific and Asia regions.

On the latter, we are joint-leading with the Reserve Bank of Australia a multi-agency effort to improve on remittance capability and cost effectiveness between South Pacific nations.

## ***Te Ao Māori Strategy***

We have also made good progress on our Te Ao Māori strategy, with many of our staff increasing their confidence in te reo and tikanga.

In addition, those working in the core functions in the Bank are deepening their understanding of the touchpoints in our economy, and the wider financial system for Māori. This includes work with our cash provision, labour market dynamics, and financial stability and inclusion.

We also proudly continue to use the Tāne Mahuta narrative as a way of explaining the role and purpose of the Bank to a broader public.

It is critical for our legitimacy and reputation that a wide range of New Zealanders are interested in, and can understand, our activities.

## ***Challenges***

The year has not been without its challenges. The resilience and strength of our people was put to the test during the almost eight months we spent out of our Wellington building to allow for asbestos remediation. Our business continuity capability was put to a real-time test. And, we've returned with a deeper understanding and appreciation of flexible and collaborative working.

This work was unplanned and costly, but also unavoidable.

## ***Global environment***

We have also been operating policy during a period of weakening global growth and heightened global uncertainty. It is pleasing how resilient the New Zealand economy has been, and the position we are currently in.

On monetary policy, we are in a good position. We are at the mid-point of our inflation target and employment is at, or slightly above, our estimates of maximum sustainable employment.

Our Official Cash Rate is at 1.0%, above many OECD countries that are at zero or negative official interest rates. We are also well advanced on understanding how we would meet our monetary policy mandate should we approach zero interest rates. We will be publishing work on these alternative monetary policy approaches in coming weeks even if we don't expect to be using them. It is best to be prepared.

## ***Trade Valuation Solution***

We have also learnt lessons from the write off of an IT project that failed to deliver what we needed. The Trade Valuation Solution project was a multiyear technology project designed to enhance the management of the Bank's assets and liabilities.

Following the decision to halt the project we commissioned an Independent Quality Assurance New Zealand report.

The key lessons were we needed better due diligence on our needs and suppliers capabilities before committing to a specific solution. We also needed appropriate

resourcing of the procurement and contract management function at the Bank. These lessons have been acted on.

### ***Payments System Replacement***

In a major, multi-year project, the Bank has been undertaking replacement of its critical payments and settlement systems (known as ESAS and NZ Clear). The new systems are due to go live on Monday. I am pleased to say that the project has successfully met all of its planning and deployment requirements, including an independent readiness assessment, and been accepted ready for 'Go-Live'.

### ***CBL Liquidation***

Following the liquidation of CBL in November 2018, we commissioned John Trowbridge and Mary Scholtens QC to undertake an independent assessment into the Bank's supervision of the company.

The review had a particular focus on our supervision of CBL and the effectiveness of the broader regulatory framework. The finding's over-arching theme is that the Bank should in future act more decisively on warning signs and concerns, and be less accepting of assertions made by supervised entities and their advisers.

We have publicly accepted the findings and committed to adopting all the recommendations, which are mainly across supervision and policy.

### ***Increased operational costs***

Overall the Bank's operational costs rose by \$9.3m over the financial year. The contributing factors included:

- Relocation costs of moving to temporary premises due to asbestos remediation work.
- Loss of rental income and expenses associated with remediating the presence of asbestos in our Wellington building.
- Costs incurred on the review of our supervision of CBL insurance and the commencement of our IT transformation programme.

- Trade Valuation Solution write-off.
- Associated costs for the review of the Bank (phase 1 and phase 2) and implementation of the Bank's revised mandate.
- Increase in staff numbers to start addressing some of the recommendations out of the International Monetary Fund's Financial Sector Assessment Report.

None of these costs were planned for or could have been foreseen when we entered into the funding agreement four years earlier.

However, the Bank is still on target with our current funding agreement, due to:

- better performance by NZClear
- slower than expected issuance of series 7 banknotes
- capitalisation of costs relating to major projects.

### ***Conclusion***

I want to say that I am proud to have a capable and supportive leadership team, and Board. Together I am confident we will achieve our mission.

Our people have worked tirelessly to embed and implement the changes we've made so far – changes which are necessary, timely, appropriately ambitious, and challenging.

We all have a strong belief in the long-term benefit of our work for all New Zealanders, and I am confident we will succeed.

Thank you