[redacted]
26th November 2016

Prudential Supervision Department
Reserve Bank of New Zealand
PO Box 2498
Wellington 6140

RE: Submission on the Dashboard Approach to Quarterly Disclosure.

Dear Sir/Madam,

I am a depositor with accounts at several banks in New Zealand and one in Australia. I offer no expertise other than my observations as a depositor. I am also a business owner. I hold the degrees of Bachelor of Engineering (Electrical and Electronic) and Master of Business Administration (Technology).

As a depositor I consider that all three aspects of the prudential framework are functioning inadequately. In that context I would like to argue for vastly improved depositor awareness and bank disclosure as the only way to make even a slight dent in this problem.

I support the Dashboard as important way to allow curious depositors and journalists to find information. However impaired loan data is not enough to inform a depositor of the risks of investing in a bank, we also need to see the quality of the loan book in terms of loan to value and debt to income numbers.

In this context I have set out answers to the specific questions posed in the consultation document.

At the end of this submission I present my comments and observations pertaining to the three aspects of the prudential framework you have presented, being Market Discipline, Self-Discipline and Regulatory Discipline.

Yours Sincerely,

Aaron Taitoko

Responses to Consolidated Questions

1. ***Do you have any comments on the proposed content of the Dashboard? Is there any additional information you would like to see in the Dashboard? What would be the benefits of this information?***

As a depositor it is necessary to compare the risk in the loan portfolios and operations of the different banks. The proposed impaired assets reporting is insufficient. It ignores other loans in the portfolio that are poor quality but are currently still “performing”.

To evaluate the risk in loaning my deposits to a bank I need to see a breakdown of the bank’s loans in terms of the following information:

- asset classes, ie mortgages, autoloans, business overdrafts, business finance loans.
- Loan to value ratios for mortgages, (See Q3 below)
- Loan to value ratios for other lending.
- **Debt to income ratios** for mortgages. (Expanded below in Q3)
- Credit-worthiness ratios for other lending.

The benefit of the above is that depositors are able to make well-informed decisions, and banks will be incentivised to lend prudently, in terms of loan to value, and debt to income ratios.

I would prefer that the agency ratings are not included in the dashboard, because they may encourage curious depositors to look no further, simply by blindly trusting the ratings. Ratings agencies have shown during the GFC that they can be wrong and are subject to the same group-think as the rest of the finance industry.

If the agency ratings are to be included, there needs to be a clear warning that the ratings agencies have been completely wrong on several occasions overseas in recent history.

2. ***What would be the benefits and costs of including some sort of metric of large exposures in the Dashboard? Do you have any comments regarding the proposed metrics? Can you suggest another metric you think would better capture this information?***

The proposed metrics seem sensible. It is essential to have this reported given the risks mentioned in the consultation document.

3. ***Should LVR data be in the Dashboard?***

The LVR data must be included, preferably in the html section, but at minimum in the detailed section of the dashboard. I suggest this is shown as a tabular form, like the following example from a recent BNZ Disclosure Statement:

	Consolidated		
Dollars in Millions	On-balance Sheet Exposures at Default Unaudited 30/9/15	Off-balance Sheet Exposures at Default* Unaudited 30/9/15	Total Exposures at Default Unaudited 30/9/15
LVR Range			
0-59%	10,707	1,506	12,213
60-69%	6,373	633	7,006
70-79%	11,789	1,109	12,898
80-89%	1,594	60	1,654
Over 90%	1,372	278	1,650
Total exposures at default secured by residential mortgages	31,835	3,586	35,421

As a depositor this is essential information for evaluating a bank.

Similarly, **Debt to Income** ratios are essential. This ratio shows how prudently loans are made, and the likelihood of further impaired loans if changes in the economy occur. By simply reporting on this it allows media and depositor activism to keep lending sensible. The format should be tabulated like the above.

One benefit of reporting on this is it allows the Reserve Bank to exert market pressure on banks to impose sensible debt to income requirements, without actually having to directly impose these as rules.

There are several considerations for debt to income ratios:

Firstly mortgage loans made to owner-occupiers shall show the debt to income ratio as it is commonly understood. I believe that the income denominator should be adjusted down if the mortgage holder is nearing or past retirement age.

Secondly, mortgage loans made for investment properties should also be added, however the income reported should be the EBIT derived from the property alone. This might be expensive to implement, but this is exactly what I want the bank to check when they are loaning out my deposits.

Thirdly, debt to income ratios for other types of lending should be included also. For businesses their current ratio or similar could be used to show the credit-worthiness of the borrower. Please consider each type of loan along these lines. For very small loan classes there would be little point, but there needs to be enough measurements involved to show the credit-worthiness of the vast majority of the assets of the bank.

4. ***What are the marginal costs to banks associated with providing the information we propose to include in the Dashboard? Please include only the marginal costs, beyond the costs associated with producing the proposed private prudential reports covering these items.***

No comment.

5. ***Should we enable, or even require, qualitative explanations of any of the Dashboard figures, if material changes have taken place?***

I think provision for this should be made. It could be of benefit to all parties. One of the most important users of this information is the media. It would assist me as a depositor if journalists made enquiries to the banks for explanations about issues in the dashboard numbers. The qualitative section may be useful also for this.

6. ***Do you have any comments on the file types proposed for each type of user? Do you think a "database" approach would enhance accessibility of the information? Is there any other format that might enhance the accessibility of the data (for any profile of users)?***

I think the proposed file types are fine. Please put LVR and Loan to Income information on the html summary also. For depositors this is the critical at-a-glance information.

I would have little use for a database or API at this stage, but if journalists wanted this then I would support it.

7. ***What, beyond publication, should the Bank do to enhance understanding of the data it publishes? How valuable/what are the benefits of this work in terms of market discipline, or in other areas?***

For true market discipline, the explanation has to be understandable to a layman. For my own sake I would probably seek out the following for each:

- What is the effect of a high number and what is the effect of a low number. This helps to compare one bank against another.
- Benchmarks for the numbers (ie what is the mimimum level expected by the regulator).
- Examples from banks in other countries.
- Examples from other industries.
- Seek out what journalists and experts have to say after they engage with the data.

8. ***How much previous period data would you like to see in the Dashboard?***

Your current "three prior quarters, as well as the two prior years" makes sense.

9. ***Do you agree with our conclusion that all locally incorporated banks should be required to make disclosures on the Dashboard?***

Yes strongly agree.

10. Do you agree with the Dashboard being implemented through the Bank publishing information that is privately reported to it under sections 36 and 93? Do you consider that this will create adequate incentives to ensure the quality of the data?

I have no preference between the proposed options. I prefer rather that third party checks are made to ensure the quality of the data.

As a depositor I have little trust in bank-originated information on the dashboard, regardless of the incentives mentioned. It is important for me to be informed of the audit procedures that ensure the quality of the data.

I particularly mistrust the bank's opinion that their lending is prudent in each case. I need to have the LTV and debt to income values checked by an auditor at each and every dashboard update, since I have insufficient power to check this myself.

11. Do you have any comments on the options of the Reserve Bank transferring uploaded data across to the Dashboard, or the system automatically transferring uploaded data across to the Dashboard?

No comments.

12. Do you think that data should be posted on the Dashboard as soon as it is uploaded by individual banks, or that data on all banks should become available on the Dashboard at a set date at the end of each quarter?

As a depositor I am examining the data for evidence of prudent behaviour from the banks as a comparison. It seems to me that releasing data for all banks on the same day is therefore most useful.

13. Do you have any comments on the proposed mechanism for banks to correct data on the Dashboard?

The proposed mechanism is fine. I think the footnotes for each update is important.

14. Do you agree with the approach of using the definitions in statistical reporting on the Dashboard? If not, do you have a view on what approach should be taken to designing definitions for this purpose?

No comment.

15. What mechanism for ensuring the quality of the data do you prefer, what are the compliance costs associated with each option, and what

would be the implications of each option for how long after the end of each quarter the data could be published?

I assume that this question is directed at submitters. I repeat my earlier comment that, as a depositor, I would like these processes to be audited (Q10).

16. ***Do you agree with our approach to reconciling disclosure made in the Dashboard with full and half-year disclosure statements? Are there other aspects of this issue we should be considering?***

No comment.

17. ***Do you agree with the proposed content of the off-quarter DS under Option B?***

No comment.

18. ***Please give your views on what is a realistic publication deadline, both under the current proposal, and in the event that the s82 director sign-off requirement is removed at some point.***

No comment.

19. ***Please provide any comments on the proposed approach to ensuring timely disclosure of breaches by locally-incorporated banks.***

No comment.

20. ***If the Basel change is confirmed, do you have any concerns about this updating happening only six-monthly? Otherwise, which of the three options for off-quarter updating do you prefer and why? Can you suggest any other mechanism to achieve sufficiently timely publication of terms of new capital issues?***

No comment.

21. ***Please provide any comments on the proposed approach to ensuring timely disclosure of breaches by branches.***

No comment.

Comments Pertaining to Prudential Framework

Aspect #1, Market Discipline

There is little evidence to me that depositors are kept well informed, or that we are in a position make effective self-interested decisions to choose a prudent bank. The market discipline is not at work in a meaningful way in the banking industry. There are multiple problems. I wish it were easy for a layman like me to be able to provide references and evidence for the points I make below, however they are easily verified in any discussion I have had with fellow depositors.

- Most depositors believe that deposits in the bank are entirely safe, and/or are government guaranteed. They are correct insofar as this is how it should be, at least for on-call money.
- Most depositors are unaware that the OBR regime exists. Fewer still will understand the benefits of the regime to the financial system as well as the risks to individual depositors.
- Very few depositors are confident enough to make enquiries about what the bank is investing term-money in. Thus they unable to evaluate whether investing their deposits in a bank represent value in terms of risk vs reward.
- In the case of some depositors, they will realise that the underlying use of their deposits is for collateral-backed loans to a diversified group of borrowers, mostly mortgage holders. But the consequence of fractional reserve banking is that their deposits are effectively loaned many times over to borrowers, increasing the risks of their investment every time. This is little-understood.
- Banks have become more complicated and depositors have little chance of understanding how capital requirements are funded, how risk is managed, what derivative exposures exist, what the risks of inter-bank exposures are and what the overall bank leverage level exists.
- None of the banks in New Zealand have been significantly more prudent than any other (at least we cannot detect a difference with the data available now). Thus depositors have no real choice with which to exert their market power to choose. The only alternative is cash under the mattress.
- Banks do not educate customers. I present the following based on recent dealings with multiple banks:
    - Banks will open new on-call accounts without informing customers that their funds are not kept in the vault and are at-risk.
    - Banks do not inform customers about the OBR system. In my experience many frontline workers at the bank are unaware of the OBR system in any detail.

    - Banks provide savings accounts and term investments without providing any information to customers about what the bank uses the funds for.
- Banks have no incentive to increase customer knowledge about the above. They profit from depositor ignorance. If customers knew the truth they may be more demanding, or may seek products elsewhere that better match their risk appetite.
- Ratings agencies have lost their credibility due to their incorrect ratings for institutions and instruments that failed in the GFC. I have little faith in ratings agencies. I would prefer that the agency ratings are not included in the dashboard, because they may encourage curious depositors to look no further, simply by blindly trusting the ratings agencies.
- New Zealand's media report upon the above issues from time to time, however their subscriber base is probably made up of far more borrowers than depositors. Borrowing is more of a juicy story because it contains multiple elements of asset price booms and busts, speculation, risk taking etc. News of interest to depositors probably generates far less interest, despite the efforts of journalists to bring important issues out in the media.

Aspect #2, Self-Discipline

In my view the finance and banking industry has increased in size and importance in the last 30 years without providing a commensurate increase in benefit to consumers or businesses. The biggest benefits have been to asset speculators and the staff and shareholders of the finance industry.

Banks have taken ever-increasing risks after the deregulation era. To chase market share they have pushed the risk boundaries to their absolute regulatory limit. In my view the banks seem to have convinced themselves that there is no risk in an asset bubble.

Banking executive incentives are often linked to share price and market share for the current financial year. This inherently makes executives think in the short-term. The long term risks in asset bubbles cause little management concern, particularly when counterbalanced against the opportunity to boost market share, make short term profits and maximise today's share price.

In summary, as a depositor I have no faith that the banks have the self-discipline to operate in a way that ensures that the risks of their operation are within a tolerable range for a well-informed depositor.

Aspect #3, Regulatory Discipline

3.1 Capital Ratio

Like most depositors I have few credentials to dictate what a good level of capital ratio should be for a Bank. We leave this to the experts at our national regulator. However I will offer the following observations:

- The Basel III requirements for approximately 10% capital ratio seems ridiculously low. The Basel accord that this is derived from is suspect. A number of banks in Europe, that are basically insolvent, comply with the Basel requirements. I suspect vested-interest interference in the Basel process.
- It strikes me as ridiculous that we treat mortgage seekers with scepticism when they only have 5% to 10% equity for buying a home, however banks are allowed to do exactly the same, and they expose the economy to far higher risks if they are struggling financially.
- I consider that the equity funding in a bank should be far higher, in the region of 30% to truly withstand market volatility and be worthy of the trust that depositors place in them. This must start being phased in soon over a period of many years to minimise disruption. This is purely a financing decision (equity vs debt), therefore this has no long term negative effect on the economy other than for the bank's owners.

3.2 Open Bank Resolution

The OBR regime makes a lot of sense to me, but only if every depositor understands clearly what will happen if their bank runs into solvency problems. If depositors are well informed then the OBR can truly be a clear, open and honest way to plan for banking solvency problems, far more honest than an unplanned bail-in or bail-out.

3.3 Recommendations for Bank Regulation

1. I recommend that on-call deposits should be held in a full-reserve banking system. They should therefore bear no interest and have monthly account fees. This will be far more honest because it will match what depositors now believe is being done with their money. There can also be no chance of a run on the bank.
2. I recommend that term deposits should not be called deposits. They should be called term investments. Deposits imply that the money is held in the vault.
3. When investing in term investments, all customers must be shown the underlying use of the funds. This information shall be made available as a single click from the customer's internet banking account.
4. Savings accounts should be called on-call investments. It must be made very clear to the depositor that this money is at-risk and that the funds can be drawn upon only at the discretion of the bank. The Banks should be required to regularly remind depositors that there is no guarantee that they will be allowed to withdraw these funds when they need them. I think that this should be shown clearly in all interactions that the customer has with their account, e.g. online banking. I see this as a consumer education process, similar to tobacco package labelling.