

Chief Executive Office

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15 August 2016

Grant Spencer  
Deputy Governor  
Reserve Bank of New Zealand  
2 The Terrace  
PO Box 2498  
**Wellington, 6140**

Dear Grant,

**BNZ's Response to the Reserve Bank's Consultation Paper: Revised policy for the review of the outsourcing policy for registered banks**

Please find attached BNZ's submission on the Reserve Bank's consultation paper.

As previously discussed, BNZ firmly believes that the policy needs to be a proportionate response to the risk it seeks to regulate, recognising that the regulatory environment for banks has been strengthened considerably since the GFC, and that significant benefits are derived by operating as part of a highly regulated banking group. This is addressed in the attached supporting paper by Mortlock Consulting Limited on the Government's contingent risks arising from banking system distress. This paper is in addition to the paper submitted with the Large Banks' submission referred to below. In BNZ's view, a more holistic approach to the resolution of a stressed bank is required, not just a requirement to have a pre-implemented separation plan that is embedded in a policy that covers outsourcing generally.

There needs to be an approach to bank resolution agreed on a trans-Tasman basis. This would include the continued supply of services by the Australian parent to its New Zealand subsidiary (at least for a reasonable transition period) in accordance with arms' length contractual agreements, and notwithstanding the appointment of a statutory manager of the subsidiary or the parent.

To help address this fundamental point, the Reserve Bank should reach a binding Memorandum of Agreement with APRA and the Treasuries of both countries in respect of the continued supply of services, supported by legislation on both sides of the Tasman to the extent required to provide certainty that the supply of services will not be disrupted by, or at the direction of, a regulator or statutory manager. While matters that go to the heart of crisis management such as funding and liquidity are legitimately a sovereign regulator's preserve, IT support services ought to be approached in a more pragmatic, cooperative and coordinated way. The principles established by the non-binding Memorandum of Cooperation between the Australian and New Zealand regulators and authorities signed in 2010 are a good starting point but something that provides greater certainty, specifically in respect of the continued supply of outsourced services, is a desirable component of a more robust crisis management regime.

Our compliance costs with the proposed policy would still be very high – in an order of magnitude of [REDACTED] with an increase in annual operating cost in the order of magnitude of [REDACTED]. We have been able to reduce our estimates because of the proposed changes made in the second consultation paper. However, they are still unacceptably disproportionate to the risk. I am advised that extending the time for transition to standalone capability, to say 12 months post separation, would further lower upfront compliance costs significantly. We have not undertaken any work to quantify what these additional savings might be as we still have to undertake the detailed planning involved. We will advise the Reserve Bank when we have a figure available. An extended transition period would reduce risk considerably. Transitioning data centres involves high operational risk. Allowing a transition period of 12 months would usually be considered normal.

I appreciate the effort that the Reserve Bank team has put in to the development of the policy and the way it has engaged with BNZ. However, BS 11 is an important policy that has the potential to have a significant impact on the Large Banks. The necessary time should be taken to get it right. In that regard it is noted that there are other activities under way that are likely to be relevant to the development of the policy. These include:

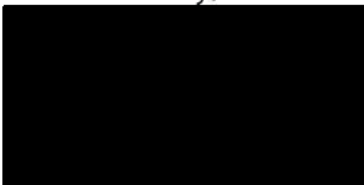
- The work currently being done to strengthen APRA’s crisis management toolkit as a result of the Financial System Inquiry report;
- The forthcoming IMF FSAP New Zealand review.

Our submission needs to be considered in conjunction with the joint submission made by ANZ, ASB, BNZ, and Westpac (Large Banks) and the paper by Mortlock Consulting Limited on international best practice on bank resolution and the treatment of critical shared services commissioned by the Large Banks to support their joint submission (which, as noted above, is a different paper from the one attached to BNZ’s submission). These observe that the Reserve Bank’s approach is out of alignment with international practice. I commend the joint submission and the Mortlock paper to you.

If there is anything further I can do to progress any trans-Tasman matters through our Group presence in Australia, please let me know.

I look forward to hearing from you.

Yours sincerely,



**Anthony Healy**  
Managing Director & CEO