

# Renewing the RBNZ's approach to financial stability

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# Today

- Why financial stability is important
- The Reserve Bank's role
- The Reserve Bank's approach to financial stability and the outlook
- How the different parts of our financial stability regime fit together





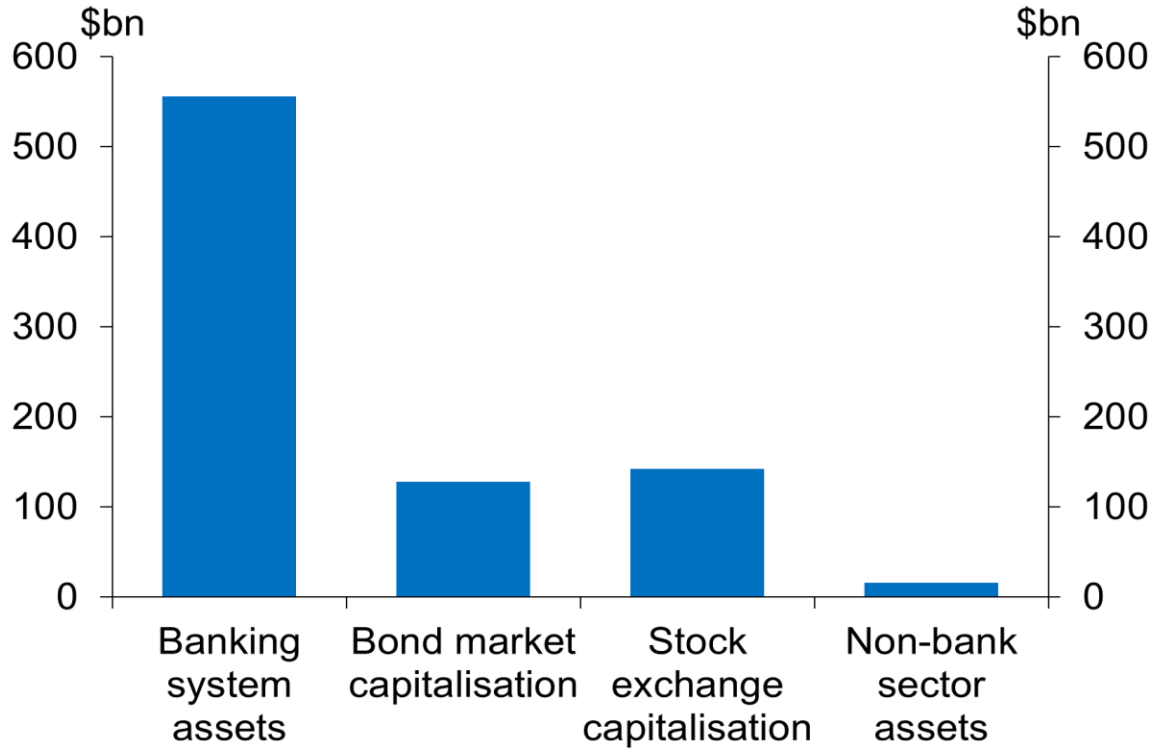
# Why we regulate and supervise

- Financial stability is important to all New Zealanders
  - Savings and investment
  - Payment systems
  - Insurance
- Risks
  - International and domestic
  - Structural and cyclical
  - Old and new
- Market failures
  - Information asymmetries
  - Moral hazard



# NZ's finance sector

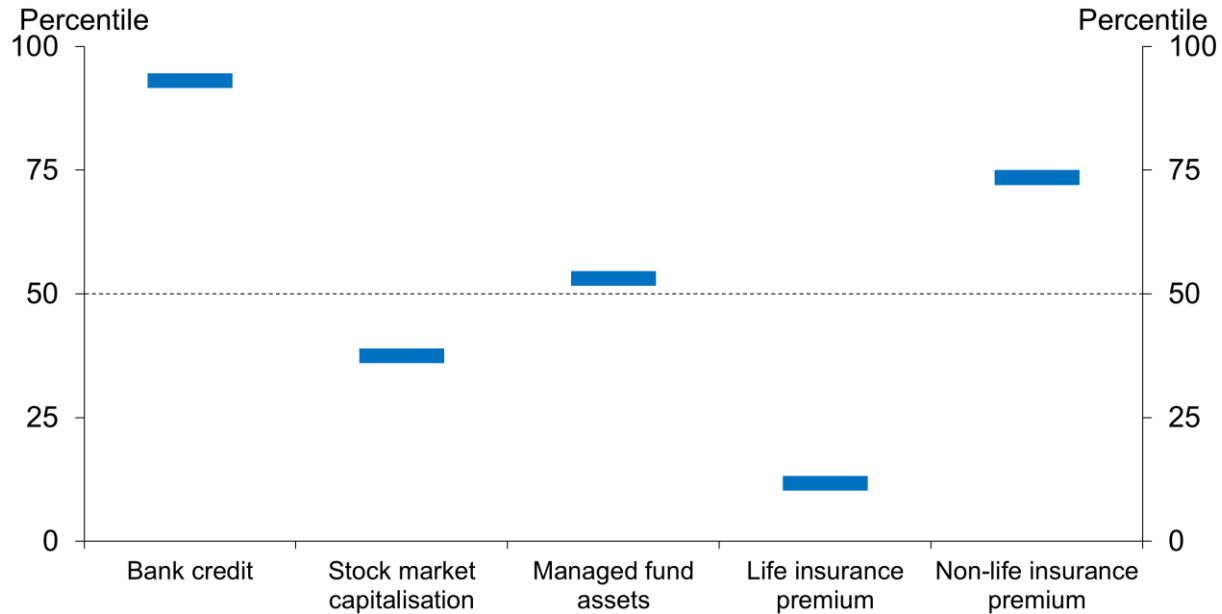
Size of financial sectors by total assets (March 2019)





# NZ's finance sector

Compared with OECD peers (percentile indicators relative to GDP)



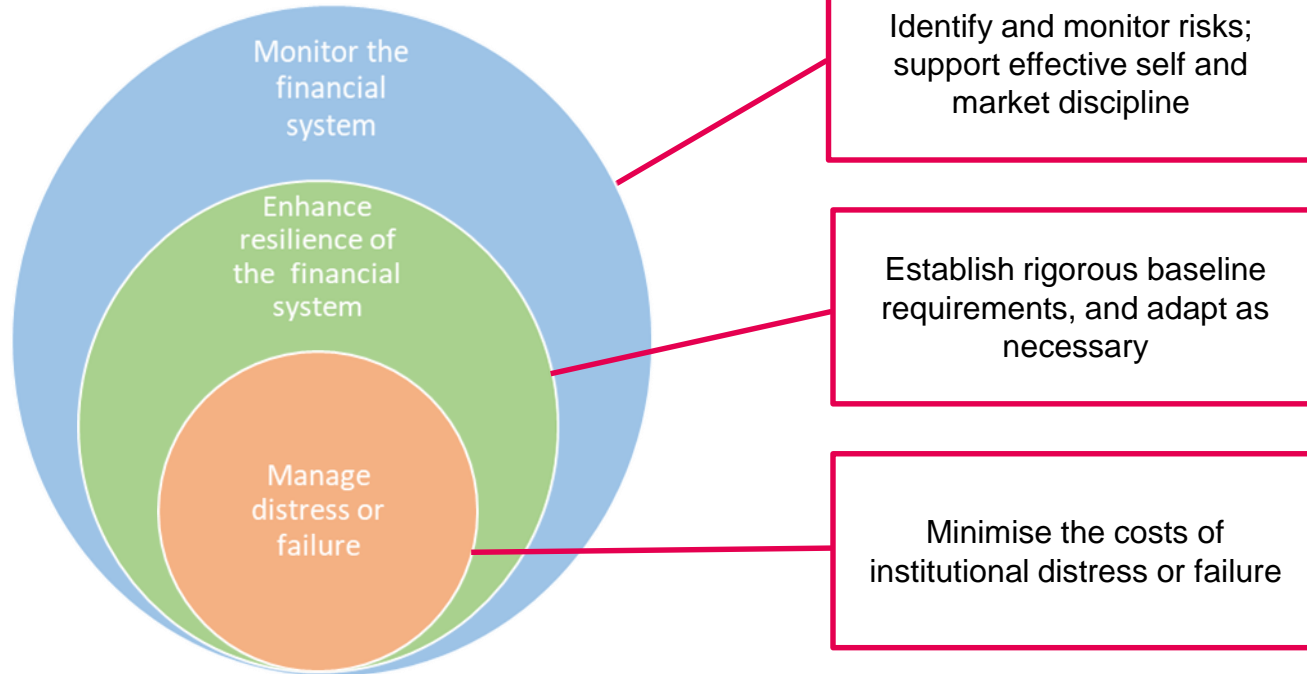
Source: The World Bank, Bank for International Settlements. Note: Data ranges from 2015 to 2018.



# Reserve Bank's role

- The Reserve Bank is a full service central bank
- With responsibility for financial stability
- We work with other agencies on cross-cutting issues
- FMA:
  - Joint-oversight of FMIs
  - Culture and Conduct review
  - NZX review 2029
- Council of Financial Regulators

# Maintaining financial stability





# Financial stability approach

- The three pillars remain relevant
  - Market discipline
  - Self discipline
  - Regulatory discipline
- Recalibrating regulatory discipline
  - We are reviewing key elements of the regulatory pillar
  - Our supervision is becoming more intensive
- Comprehensive
  - our tools and approaches are complementary



# Regulatory toolkit

	Purpose	Relevant tools	Impact on financial system resilience	Impact on wider economy	
Crisis Prevention	<i>Macprudential policy</i> Reduce risk that the financial system amplifies a severe economic downturn	Borrower restrictions (LVRs)	Reduced losses in a severe economic downturn	More resilient households and banks reduce potential severity of an economic downturn	Supervision, oversight and disclosure
		Capital and liquidity instruments (CCyB/SCR)		Lowens incentives on banks to deleverage in a downturn; supports higher credit supply and economic activity	
Crisis Management	<i>Prudential policy</i> Maintain baseline resilience of the financial system	Capital buffers	Banks remain solvent through the economic cycle	Maintains market confidence and lowers risk of sudden increases in funding costs for households, businesses and the economy	
		Liquidity policy			
		Governance and local incorporation			
	Manage and limit impact of distress or failure	Collateral standards	Banks remain functioning parts of financial system	Maintains availability of credit and banking services necessary for economic activity	
		Outsourcing			
		Open Bank Resolution			
		Minimum capital	Losses absorbed first by shareholders	Mitigates costs for creditors <sup>1</sup> and taxpayers	

<sup>1</sup> The government has announced its 'in-principle' decision to introduce deposit insurance.

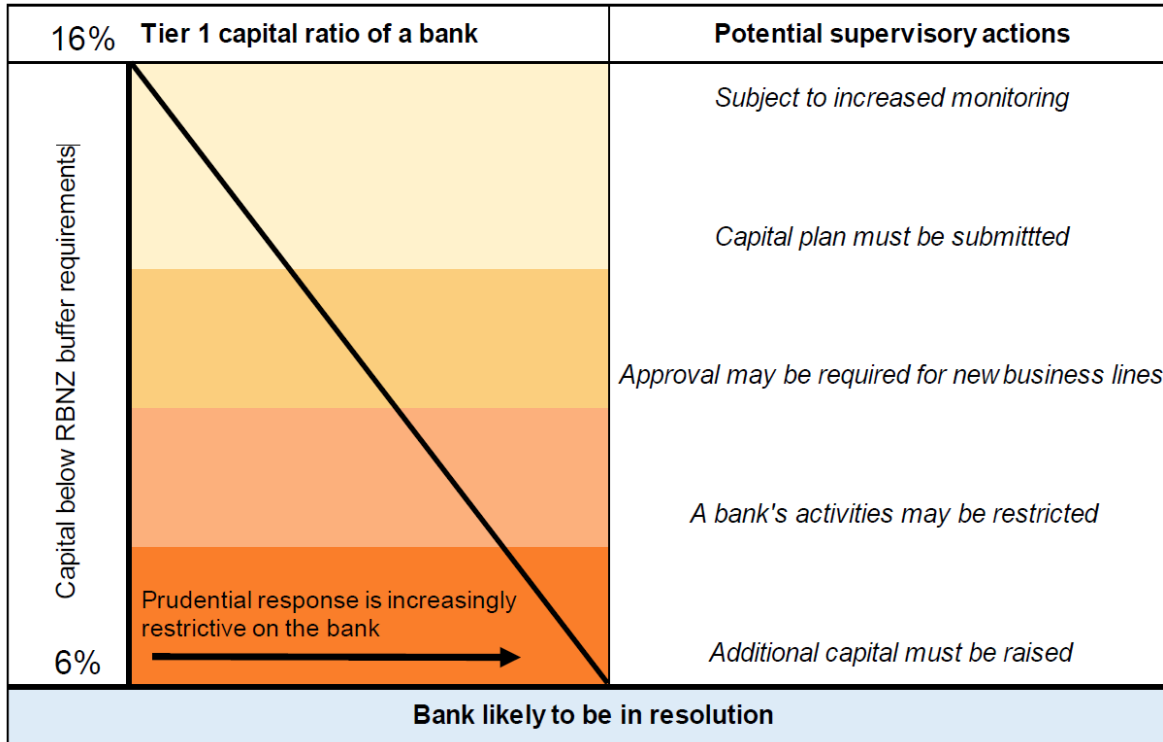


# Supervision – increased vigilance

- Supervision is complementary to regulatory discipline
  - Key role in monitoring, enhancing, managing
  - Verifying and enforcing requirements
- Continue to intensify approach based on our experience and publicly identified need
  - IMF FSAP review, government risk appetite
  - Attestations review
  - Shortcomings in governance and risk management
- We continue to boost our supervisory capability



# Escalating approach - example





# Modernising the framework

- Vision of ‘Great team, best central bank’
- Increasing our capability
- Phase 2 of the RBNZ Act review

*New purpose: “to promote the prosperity and wellbeing of the people of New Zealand, and to contribute to a sustainable and productive economy”*



# Phase 2

The government has announced 'in principle' decisions:

- Financial stability objective
  - Clarity of prudential purpose
  - Sub-objectives and efficiency
- Governance board
  - Transparency and strategic direction
  - Accountability
- ADI perimeter
- Deposit insurance



# Key messages

- The Reserve Bank's approach to financial stability is:
  - Being recalibrated, in both rules and enforcement
  - Comprehensive, our tools and approaches are complementary
- Regulated entities can expect us to be less risk tolerant
  - Our regulation is becoming more robust
  - Our supervision is becoming more intrusive
- We are increasing our capability to deliver our vision and to modernise the Reserve Bank in line with the government's Phase 2 decisions