

COFR Q3 RISK DASHBOARD

This is a subjective assessment – to give a holistic overview of the current risks and adequacy of all mitigating actions. Future actions are also highlighted. The aim is to facilitate CoFR discussion around overall adequacy of mitigating actions, timelines and future focus.

Risk Commentary – Regulatory risks have remained largely unchanged, but the heightened attention of the Australian Royal Commission could reduce confidence in New Zealand’s financial system and/or its regulation. On this basis, the Australian Royal Commission has been added as a standalone CoFR risk.

KEY

-  Initial risk rating – impact and likelihood before mitigants have been applied.
-  Residual risk rating – impact and likelihood after mitigants applied.

Financial Stability

Agriculture Debt



Lending to the dairy sector comprises around 10% of the banking system’s total lending. Credit growth to the dairy sector has picked up slightly in recent months but remains low, at around 1%.

- Dairy stresses were included in the 2017 bank stress test. The results are a useful input for banks’ consideration of their risk appetite.

Household indebtedness



Mortgages are the largest asset on the New Zealand banking system’s balance sheet. Credit growth and house price inflation have been fairly stable for the past year, but there are still concerns about the indebtedness of some households.

- RBNZ requires banks to hold capital against their mortgage exposures, to absorb potential losses in the event of mortgage defaults.
- RBNZ introduced loan-to-value ratio restrictions in 2013, which were eased in January 2018.

International macro-financial risks



The banking system has continued to reduce its reliance on short-term, offshore funding. But the challenge of this risk is that the banking system is unable to fully remove its reliance on offshore funding.

- RBNZ has begun its review of capital adequacy requirements, which may affect the banking systems resilience to international risks.

Regulatory Framework

Perimeter risk – Regulatory Gaps



A number of reviews of aspects of our financial system are underway that have the potential to reduce regulatory perimeter risks:

- Financial Services Legislation Amendment Bill
- Review of the Reserve Bank Act
- Review of insurance contract regulation
- Review of consumer credit regulation

Perimeter risk – FSPR abuse



Since 2014, the FMA have dealt with more than 1000 complaints about businesses and individuals registered on the FSPR.

- With a reduction in complaints, ongoing enforcement activity and further clarification of the legislation, we expect this risk to decrease overtime.
- However, we also expect the FSPR will continue to be a target for international firms and individuals seeking a degree of legitimacy.

Australian Royal Commission



Public trust has been significantly eroded in Australia. The onus is on the New Zealand finance sector to ensure a similar erosion does not occur here.

- FMA and RBNZ have requested information from the major New Zealand retail banks and life insurers on conduct and culture issues. A final report is planned to be delivered in November on the review of banks, with a report on life insurers by the end of the year.

Market Integrity

Financial Market Infrastructure



No current evidence of concerns around clearing and settlement systems. A new legislative regime for financial market infrastructures is being developed.

- FMA and RBNZ liaise on any issues arising in relation to clearing and settlement facilities.
- In conjunction with other agencies, RBNZ are working on a new regulatory framework for FMIs.

Financial Product Suitability



Inherent risk across financial services markets.

- FMA’s recent work in the insurance has identified a number of concerns including the prevalence of soft commissions, failure to recognise and manage conflicts of interest, poor record keeping, and a lack of independent processes to distinguish between new and replacement business.
- FMA is undertaking thematic work on bank incentive structures.

Wholesale Market Conduct



Failure to manage conduct risks by wholesale market participants may undermine confidence in markets.

- Preparations for upcoming Financial Action Task force evaluation of the effectiveness of New Zealand’s AML/CFT framework.
- Ongoing NZX and FMA market monitoring and engagement.