

# The evolving Reserve Bank – the view from Tāne Māhuta

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## **Introduction**

Tēnā koutou katoa, welcome everyone.

I am privileged to have been in the Governor role for a little over a year to date. During that time we have evolved considerably, and will continue to do so in the years ahead.

Over the recent period we have committed to our vision to be ‘a great team and the best central bank’, and we have embedded our new Monetary Policy Committee and policy mandate. In addition, we have reorganised our operating structure, and have been investing in our people, our stakeholder relationships home and abroad, our supervision capability and activities, our digital capability, and our payment systems and the future of cash.

Change is now business as usual for the Reserve Bank and I sincerely thank my colleagues for managing through this period of renewal. There is of course more change to come.

Just over two weeks ago, the Prime Minister and the Minister of Finance made some important announcements about progress with the government’s review of our statutory framework for financial system regulation. They announced some in-principle decisions – including introducing a deposit insurance scheme – and set out further questions for a consultation, which is going on now.

So this is a good time to discuss the future of the Reserve Bank, and how the changes under consideration might promote the prosperity and wellbeing of New Zealanders and contribute to a sustainable and productive economy. Those phrases, by the way, are not my own. They come from the Reserve Bank Act and express the overarching purpose of the Reserve Bank’s many functions.

As the review progresses, we are thinking broadly about our role and functions. Geoff Bascand – the Deputy Governor – recently gave two speeches on our approach to financial stability<sup>1</sup> and the role that macroprudential policy plays in the management of financial stability<sup>2</sup>.

Our approach is evolving, becoming more intensive in terms of regulation, and more intrusive in terms of supervision, in order to better monitor the system, enhance its resilience, and manage the consequences of the distress or failure of individual institutions, if and when they occur. If you want to know more, I encourage you to look up these speeches on our website.

But my focus today is on some of the other changes currently under consideration as part of the review, how they will affect the way the Reserve Bank operates in the future, and how I want to take advantage of them to create a more transparent and far-sighted Reserve Bank.

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<sup>1</sup> Bascand G, (2019) ‘Renewing the RBNZ’s approach to financial stability’, speech delivered to 15th Financial Markets Law Conference in Auckland, 26 June, <https://www.rbnz.govt.nz/research-and-publications/speeches/2019/speech2019-06-26>

<sup>2</sup> Bascand G, (2019) ‘Macroprudential policy: past, present and future’, speech delivered to 54th University of Otago Foreign Policy School, Dunedin, 30 June, <https://www.rbnz.govt.nz/research-and-publications/speeches/2019/speech2019-06-30>

### ***The different views from Tāne Māhuta***

We use the Māori legend of Tāne Māhuta to tell the story of the Reserve Bank. Tāne Māhuta – the god of the forest and birds – separated the earth mother (Papatūānuku) and the sky father (Ranginui) so that the sun could shine in and life could flourish. Thereafter, Tāne Māhuta served as the kaitiaki (guardian) of the forest ecosystem – protecting it against threats, and enhancing the wellbeing of everyone within it.

The legend helps tell the story of the Reserve Bank – founded 85 years ago to give New Zealand the flexibility and benefits of its own currency, monetary policy and financial system. Since then the Reserve Bank has had the responsibility to act as one of the guardians of the system.

It is also a legend about growth. To retain our legitimacy as New Zealand’s central bank we have to evolve along with the economy, the financial system and society. This means working closely with stakeholders. It means an ongoing conversation with New Zealanders, speaking in terms that we all recognise, quite literally in some cases. We are developing our Te Ao Māori strategy in recognition of the increasingly important and diverse Māori economy.

But it is not only an inward looking view. We take an international view as well. We are placing greater focus on New Zealand’s bilateral and multilateral arrangements. We already have close relations with our neighbours in Australia but we are also helping to build capacity and capability in central banks throughout the South Pacific and East Asia.

It is also a forward looking view. We are developing a climate change strategy which recognises the role of the financial system in contributing to global action and dealing with the risks that climate change might pose.

This means looking at ourselves, how we are going to change and how the Reserve Bank will work differently.

### ***Our Statement of Intent and the longer term***

We set out our plans and commitments in our latest *Statement of Intent*<sup>3</sup>, which covers the years 2019-22. We published this on the same day the government set out the next stage of consultation on the operational part of our financial and prudential policy. And, since then we have published our own vision<sup>4</sup> that complements the government’s view.

We have taken a different approach with the *Statement of Intent* this year. It has always been an important communications tool, but we are trying harder to communicate with our stakeholders, not just meet the statutory requirements.

By the time we get to the end of the *Statement of Intent* period, we will be operating in a very different environment.

We are facing a backdrop of significant change – globally, culturally as an institution, and in the government’s and public’s expectations of us.

We are continuing to build our capability to respond to, influence and lead our rapidly changing environment.

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<sup>3</sup> [Reserve Bank Statement of Intent 2019-22](#)

<sup>4</sup> Our Vision, the future of the Reserve Bank of New Zealand

I have previously talked about our vision as being an island we are journeying towards. Our vision is to be a great team, and the best central bank. This involves our activities, our people and our stakeholders. With the government's latest consultation, the destination in terms of our activities is now looking a lot clearer.

### ***Review of the Reserve Bank Act***

I have already mentioned the review of the Reserve Bank Act which is currently under way. Phase 1 of the review focused on monetary policy. The outcome was a new objective to support maximum sustainable employment as well as achieving price stability. There is also a new Monetary Policy Committee<sup>5</sup>, which is now in place and delivering. The Committee has made two decisions on the Official Cash Rate so far.

There has been some talk in the context of these new arrangements that I am no longer the 'single decision maker.' In reality, whatever the legislation says, I probably never was. I always worked with others to make the final decision. This is now formalised and I value the insights that all members of the MPC bring to their important role.

That was Phase 1 of the review. Phase 2 is looking at the Reserve Bank's financial stability function. The process started last year and will run through until the middle of next year, when legislation is due to be introduced to the House. It will continue beyond that, as there will be more detail to work out and implementation to be planned.

After the first round of consultation, the government has made a series of in-principle decisions.

### ***We will continue to be a "full service" central bank***

The government has decided to keep responsibility for prudential regulation with the Reserve Bank. This makes sense given New Zealand's size. However, this regulatory model is not just about being cost-effective.

In our story of the Reserve Bank as the Tāne Māhuta of New Zealand's financial system, our money and foreign reserves are the sap, and our payment and settlement systems allow money to flow round the system, and support our regulated financial institutions – our grafted branches.

Keeping prudential regulation and supervision in the same institution as monetary policy, currency issuance, our payment and settlements systems and our markets functions, means we maximise the synergies between the different areas. As a full service central bank we can leverage our different tools and market functions and adapt our response as circumstances dictate.

We are reviewing the production and movement of our money through the 'Future of Cash' project<sup>6</sup> – Te Moni Anamata – to make sure that New Zealanders, the financial system and the Reserve Bank are ready and resilient to changing uses and demands for cash. We see a 'less cash' not 'cashless' society evolving rapidly. Why not cashless? There are many reasons, in particular financial inclusion and business continuity, that cash plays an important role in promoting.

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<sup>5</sup> [New RBNZ monetary policy committee remit reiterates focus on price stability and employment](#)

<sup>6</sup> [What's the future for cash in New Zealand?](#)

We are also renewing our payment and settlements systems to enhance their reliability and security and better meet our customers' needs. Banking the banks is a 24/7 task globally, and we must ensure the highest of operational standards.

We are already increasing our capability to deliver effective prudential supervision, as the IMF FSAP and Trowbridge report on CBL Insurance suggested we should. This means more skilled people on the ground. It also means building the right analytical frameworks, taking a more sceptical view, and being more willing to act. Banks and insurers can expect us to be more intrusive in our supervisory approach. This is already underway.

### ***We promote financial stability across our monetary and financial system***

The government has announced a new high level objective for the Reserve Bank – to maintain and enhance the stability of the financial system. 'Financial stability' has the advantage of clarity of purpose. It does not mean we abandon the principle of regulatory efficiency: as a good regulatory steward we consider the cost-benefit of all our policies. It also means we continue to promote a dynamic and efficient financial system.

Financial stability means that we have markets and participants that are able and willing to identify, price, allocate and manage risks appropriately.<sup>7</sup> Regulation and supervision have an important role to play where they cannot internalise the costs to society of their actions. This is the best way to achieve financial stability in the long run and to contribute to a sustainable and productive economy and the prosperity and wellbeing of New Zealanders.

### ***A new regime for deposit-takers***

The government has announced that there will be a new 'deposit takers' regime – combining the current separate regime for banks and non-bank deposit takers.

There will be a new deposit insurance scheme, with a proposed limit of between \$30-\$50,000 per customer, per institution. This will be an important element in the regulatory toolbox.

### ***Our governance will be modernised***

The government has also decided that our activities will be overseen by a new Board of Directors. This will be a corporate board, of the type many of you will be familiar with. It is a well tried model across the public and private sector.

The Board will set the strategic direction and risk appetite for the Reserve Bank. Like any board, it will be responsible for the Reserve Bank's decisions and actions, but will delegate the exercise of many of its functions and powers to the Governor and the management team, and empower them to manage the Reserve Bank. The new governance Board could also take on the responsibility of overseeing our spending decisions and exercising appropriate accountability for our activities and our use of public resources.

### ***Our people***

Being a great team, best central bank, involves building the capability of the people in our team – the caretakers or kaitiaki of the financial system. This involves sourcing an increasingly diverse workforce, giving staff the skills and tools they need, and building our

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<sup>7</sup> Orr A, (2006) 'Towards a framework for promoting financial stability in New Zealand', speech presented to the Institution of Professional Engineers New Zealand, March 22, <https://www.rbnz.govt.nz/research-and-publications/speeches/2006/speech2006-03-22>

leadership capability framework. Our challenge is to attract, retain and motivate people to lead the Reserve Bank in a fulfilling career.

Our Te Ao Māori strategy is a critical part of accepting diversity and inclusion. So is upgrading our data management systems and strengthening our digital security. All these elements will make us a constructive, future-focused employer, and support us in delivering our objectives successfully.

### ***We will build and improve our relationships with our stakeholders***

The final part of our strategy is building our relationships with stakeholders. We want to continue to foster co-operation, transparency and mutual trust among our domestic co-regulators, wider stakeholders and global peers.

We are a member of the Council of Financial Regulators. We work with the Financial Markets Authority (FMA), The Treasury, MBIE and more recently, the Commerce Commission to ensure that we identify system-wide risks and issues, and that we manage and address them in a timely manner. We have recently committed to a joint vision for our collective.

Recent examples have been working with the FMA on the conduct and culture reviews of banks and life insurers; working on capital markets developments with NZX and MBIE; sharing performance and culture efforts with the Treasury; and working with the Productivity Commission on financial stability and dynamic efficient markets.

We have close relationships with our Australian counterparts, both bilaterally with APRA and the RBA and more broadly through the Trans-Tasman Council on Banking Supervision, the TTBC, which also includes the Australian Treasury and ASIC.

We also aspire to build the best regulator/regulated supervisory relationships in accordance with the commitments we have made in our relationship charter.

We work hard to understand the impacts of our actions and decisions on the range of stakeholders we serve.

We also want to make sure that our stakeholders understand what we do, have trust in our work and have confidence in our decision making. We are seeking to be transparent, open, consultative and respectful in our engagements with all stakeholders.

### ***...including the Minister of Finance***

Of course, as I have already recognised, our key stakeholder is the Minister of Finance. To get the best out of that relationship, we need to continue to understand government priorities and our contribution to the broader economic wellbeing of New Zealanders. But we also want the Minister to understand and support our objectives, respect the Reserve Bank for its advice, and hold us to account for our performance. Our role is to make sure the Minister has the information he needs to do that. This is also means working closely with the Treasury who will be acting as monitor on the Minister's behalf.

### ***Conclusion***

The view from Tāne Māhuta is of a garden that continues to grow and evolve. We have to adapt and evolve with it – in terms of our inclusiveness, our commitment to fostering honest, professional and constructive relationships with our stakeholders, in identifying emerging risks like climate change, and working with our international partners.

At the same time, the government is modernising our legislative framework. Our new financial stability objective gives clarity to our prudential purpose: a dynamic and efficient financial system that contributes to a sustainable and productive economy and promotes the prosperity and wellbeing of New Zealanders.

The creation of a new governance Board will increase transparency and accountability. It will also increase the diversity of thought that goes into our decisions. The Board will delegate responsibility to the Governor and management, establish the framework of expenditure and investment delegations to management and hold management to account for achieving the vision.

As Governor and Chief Executive, I will certainly feel the difference – being answerable directly to a Board with the formal responsibility for all the work of the Reserve Bank, except the decisions of the Monetary Policy Committee.

Our staff can be proud to be part of the best team, in a great central bank. A Reserve Bank that recognises their experience and backgrounds, supports them in developing their skills, and encourages them to work together to build strong and respected relationships with our stakeholders.

I hope stakeholders like you will also notice the difference. The new governance Board will be clear about what the organisation is trying to achieve. Importantly this means setting the strategic direction and risk appetite of the Reserve Bank across all our functions.

As mentioned earlier, our regulated population can expect us to be more intensive in our regulation and more intrusive in our supervision.

I have been happy to outline this vision for the Reserve Bank this morning.

Please share yours too. The latest consultation is now open until 16 August 2019. It sets out more questions about the tools and powers we have to do our job. I encourage you all to review the material on the Treasury website and make contributions based on your own experience.