

**Insurance Council of New Zealand**  
P.O. Box 474 Wellington 6140  
Level 2, 139 The Terrace

Tel 64 4 472 5230

email [icnz@icnz.org.nz](mailto:icnz@icnz.org.nz)

Fax 64 4 473 3011

[www.icnz.org.nz](http://www.icnz.org.nz)

16 August 2019

Phase 2 of the Reserve Bank Act Review  
The Treasury  
PO Box 3724  
Wellington 6140

Emailed to: [rbnzactreview@treasury.govt.nz](mailto:rbnzactreview@treasury.govt.nz)

## **ICNZ submission on Phase 2 of the Reserve Bank Act Review – 2<sup>nd</sup> round of consultation**

---

Thank you for the opportunity to submit on the second round of consultation of Phase 2 of the Reserve Bank Act Review. This submission responds to both consultation documents released in June 2019:

- **Consultation Document 2A** - In-principle decisions and follow-up questions on: The role of the Reserve Bank and how it should be governed.
- **Consultation Document 2B** - Safeguarding the future of our financial system: The Reserve Bank's role in financial policy: tools, powers, and approach.

ICNZ represents general insurers that insure about 95 percent of the New Zealand general insurance market, including about a trillion dollars' worth of New Zealand property and liabilities. ICNZ members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, marine and motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

Please contact Andrew Saunders ([andrew@icnz.org.nz](mailto:andrew@icnz.org.nz) or 04 914 2224) if you have any questions on our submission or require further information.

This submission is in two parts:

- Part 1 – Responses to questions in Consultation Document 2A
- Part 2 – Responses to questions in Consultation Document 2B

## Part 1 – Responses to questions in Consultation Document 2A

### Chapter 2: What financial policy objectives should the Reserve Bank have?

2.A *What other objectives should the Reserve Bank have?*

- *Which of the objectives discussed in Chapter 2 should feature in the Reserve Bank Act, and why?*
- *Are there any other objectives not covered in Chapter 2 that should be considered?*

When ICNZ submitted<sup>1</sup> on the first round of consultation for Phase 2 of the Reserve Bank Act Review in January we stated that we did not have strong views on how many high-level financial policy objectives the Reserve Bank should have, beyond ensuring these are consistent with its expected functions and in line with best practice regulatory principles. We also noted the *Insurance (Prudential Supervision) Act 2010* ('IPSA') has the same high-level objectives (soundness and efficiency) as the current *Reserve Bank of New Zealand Act 1989* ('the Act') and that these are supported by principles outlined in section 4 of IPSA, which include the sustainability of the insurance market, protection of policyholders in the event of financial distress for an insurer and the need to maintain competition within the insurance sector.

While we supported the retention in the Act of 'soundness' and 'efficiency' in our response to the first consultation, we are comfortable with these being replaced by 'financial stability' and recognise a corresponding change to IPSA may be required.

We support in concept the inclusion of further objectives below 'financial stability' in the Act, while emphasising the importance of careful consideration being given to what these are, and how they will interact with the 'principles' already included in IPSA.

We note the twenty-three specific objectives covering six elements of financial stability that are outlined on pages 20-26 of Consultation Document A. We also note the four bullet-pointed objectives included in the middle of the illustrative example of the Reserve Bank's full objective set outlined on page 36. We do not have any further objectives to suggest for consideration beyond those already covered in Chapter 2.

We support the inclusion of the four objectives set out in the middle of page 36 but consider that an additional objective related to regulatory efficiency along the lines of proposed objective B1 (Minimising the regulatory burden on firms and using regulatory resources cost effectively) should also be included. Inclusion of such an efficiency related objective is important to ensure balance is taken in the pursuit of the financial stability objective. This should in turn contribute to lessening the costs to customers of financial services in New Zealand and to encouraging the participation of firms in the domestic financial services sector.

While there are other specific objectives outlined on pages 20-26 that we also support in concept, we recognise that it may not be appropriate or necessary to include these in this part of the legislative framework. We do not specifically advocate any more of these should be included in the Act. A number of these objectives nonetheless can and should be pursued by the Reserve Bank in the undertaking of its functions (e.g. working with other agencies, acting transparently etc.).

---

<sup>1</sup> Refer to [https://www.icnz.org.nz/fileadmin/user\\_upload/ICNZ\\_submission\\_on\\_Reserve\\_Bank\\_Act\\_Review\\_Phase\\_2\\_-\\_1st\\_consultation\\_-\\_250119.pdf](https://www.icnz.org.nz/fileadmin/user_upload/ICNZ_submission_on_Reserve_Bank_Act_Review_Phase_2_-_1st_consultation_-_250119.pdf)

2.B *Should the Reserve Bank be given a more explicit climate change objective? If so, what would be your preferred mechanism for achieving this?*

ICNZ supports the Reserve Bank having regard to the various potential impacts of climate change on the financial sector and note its increased activity in this area in the last year. We support the Reserve Bank considering climate change related matters under its financial stability mandate alongside other relevant issues and risks. It will be important the Reserve Bank's activities are integrated with and do not duplicate other government initiatives in this area (e.g. potential financial disclosure obligations that it was announced in August are being explored by MBIE and MfE). We note the role and activities of other prudential regulators (e.g. the Bank of England) in relation to climate change issues and support measures such as stress testing including climate change as relevant and appropriate.

We do agree with the concern that including an explicit statutory objective for climate change would result in an unbalanced framework given that there are many other risks facing the financial sector (e.g. changes in global economic conditions, potential impacts from natural disasters, cyber risks etc.) and that such other risks don't have specific statutory objectives. We don't consider setting out a whole series of risks/issues would be an appropriate approach and therefore don't support including an explicit statutory objective for climate change.

Separately to this ICNZ considers there is a need for an agreed lexicon for climate change exposures faced by financial services entities so as to enable better and more consistent identification, assessment and disclosure of issues and risks. This is something that the Reserve Bank may be able to contribute to the development of.

2.C *Where in the legislative hierarchy should any additional objectives sit – as 'secondary objectives', or as 'considerations' that the Reserve Bank must look at?*

ICNZ does not at this stage have a view on whether the additional objectives should sit as 'secondary objectives' or as 'considerations' in the Act. It is important however that whichever way this is done integrates sensibly with IPSA and the principles to be taken into account in achieving the purpose of IPSA.

2.D *How should the Reserve Bank's objectives be specified? Do you see a role for a 'financial policy remit'? If so, what should it include?*

We see a potential role for a financial policy remit. It would enable the elected Government's views on financial policy to be conveyed directly and transparently to the Reserve Bank. Development of such a financial policy remit should follow a normal policy process and include consultation.

2.E *What is your view on creating a new 'Deposit Takers Act' that combines material from the NBDT Act with the Reserve Bank Act's banking regulation material?*

No comments, not relevant to general insurers.

2.F *Looking at the example of the Reserve Bank's objective set, which elements do you support and which would you change, and why?*

As outlined above in our response to Question 2.A, we consider that an objective related to regulatory efficiency along the lines of proposed objective B1 (Minimising the regulatory burden on firms and using regulatory resources cost effectively) should also be included in the section on prudential regulation, supervision and enforcement outlined in the middle of page 36 of Consultation Document A.

### **Chapter 3: How should the Reserve Bank be governed?**

*3.A What factors are most important for achieving the establishment of an effective governance board with responsibility for all the Reserve Bank's decisions outside of monetary policy?*

As noted above and previously, ICNZ supports change to the governance of the Reserve Bank. Our overarching view is the most important features for achieving the establishment of an effective governance board are to ensure the appointment process provides appropriately skilled and unconflicted members and that the role of the governance board is appropriate and clearly defined. We make further comments on the structure and operation of the governance board in response to Questions 3.B – 3.F below.

Further to the introduction of the governance board, as raised in our submission on the first round of consultation in early 2019 we advocate for other enhancements to the framework administered by the Reserve Bank including increased transparency (e.g. disclosure of clear evidence-based decision making and cost-benefit analysis), introduction of merits review and appeal rights and independent reviews of the Reserve Bank's legislation (e.g. IPSA) and effectiveness.

In the absence of establishing a Financial Policy Committee, and we appreciate the reasons for why this is not being progressed, it will be necessary for the governance board to take a greater role in regard to financial policy. This will create a degree of asymmetry in its role given it won't be responsible for monetary policy.

*3.B What is the appropriate degree of delegation from the board to the Governor? Are there any decisions that should be reserved for the board?*

Our view is that in line with conventional best-practice approaches to governance, the governance board should take responsibility for matters such as approval of:

- organisational strategy
- significant changes in operations and organisation
- annual operating and capital expenditure budgets (and any material changes)
- significant capital projects
- key regulatory instruments (e.g. solvency standards)
- risk tolerance statements and frameworks for monitoring and managing risk
- policy for regulatory monitoring and enforcement
- organisational ethics, conduct and policies
- measuring performance

The Governor should have delegation for day-to-day management of the Reserve Bank and implementation of strategy in a manner broadly consistent with a Chief Executive.

We recognise an issue that requires careful consideration is how responsibility is taken for crisis management given the urgency and continuous activity that might be required, neither of which are well suited to board decision making. If this was fully delegated to the Governor then there would need to be clarity as to what role, if any, the governing board retained given the need for decisive and certain decision making in this context. This may require for instance some delegated responsibility for the Chairman to act with the Governor, or in such situations the board may need to meet more or less continuously through the crisis.

3.C *What approach should the Treasury adopt in monitoring the Reserve Bank? What should the Treasury's monitoring responsibilities be? Should the Treasury's monitoring responsibilities be different for the MPC?*

ICNZ supports the Treasury as monitor for the Reserve Bank given the adoption of the governance board model. Overall, we consider the Treasury's monitoring of the Reserve Bank should be consistent with standard approaches to monitoring across government. A specific agreement between the Reserve Bank and the Treasury on how monitoring takes place might be useful.

We recognise the unique structure and role of the Monetary Policy Committee ('MPC') is a complication in the context of monitoring and needs to be considered carefully, but we don't have particular views on how best to configure monitoring responsibilities in regard to it.

Regard also has to be had, at both an organisational and individual level, to ensuring the Treasury's monitoring of the Reserve Bank is sufficiently arms-length from policy interactions and its participation in the Council of Financial Regulators ('CoFR') to avoid blurring of responsibilities or conflicts of interest.

3.D *Do you think there is merit in reclassifying the Reserve Bank as an independent Crown entity?*

The Reserve Bank is a unique institution and it is important it retains its independence, however, we agree the extent of change being proposed makes it appropriate to rethink its legal form. We agree there are ambiguities in some elements of the relationship between it, the Minister and the Treasury and that these should be resolved.

We recognise there would be benefits to bringing the Reserve Bank within the Crown Entity framework, whilst also noting it can't follow a conventional Crown Entity model due to unique aspects associated with the MPC. If it is to be a Crown Entity, it would need to be an Independent Crown Entity.

3.E *For the new governance board:*

- *what should the split of executive and non-executive members be?*
- *what skills and expertise should non-executive members have? Is there merit in having representation from the FMA and/or the Treasury?*
- *how should members be appointed and removed? Should the board be able to appoint the Governor as CEO?*

At the highest level we consider the form of governance the board needs should flow from the role that it is expected to perform.

Unless a commissioner model is pursued, and we note this would be out of step with the MPC and conventional practice in the New Zealand public sector, then we consider that to exercise a governance function the governance board needs to have at minimum a majority (ideally a clear majority such as 5-3) of non-executive members and a non-executive chairman. We recognise that mixed executive/non-executive boards with a non-executive majority are common amongst central banks (e.g. Bank of England and Reserve Bank of Australia).

We nonetheless consider it is most logical to start from the position that best practice governance would be for the governance board to be fully non-executive, which would align with the usual Crown entity model, rather than starting by considering how many non-executive members the governing

board should have, as is suggested at the top of page 61 of Consultation Document A. The addition of any executives, presumably starting with the Governor, should be based on clear evidence of the advantages of this approach. The primary benefit noted in Consultation Document A is that it could provide the governing board with greater confidence to take complex or difficult decisions. Whether this outweighs the complexities and blurring of governance and management responsibilities associated with this needs to be evaluated carefully. We are also mindful that at present only the Governor and Deputy-Governor are appointed through a statutory process (currently on the recommendation of the board in its present form), with other senior staff being conventional employees.

With regard to the skills and expertise that non-executive members should have. We agree non-executive members do not need to be subject matter experts but should have, at minimum experience of the financial sector and/or economics and it will be important that there is experience of the sectors being regulated (primarily banking and insurance). We note there will be an inherent tension, as is also faced by the FMA, that people with expertise and contemporary experience in the financial sector in New Zealand will probably have potential conflicts of interest that will need to be managed.

While we agree there could be value in a person being a non-executive director of both the FMA and Reserve Bank, we don't see this as essential as there are other ways for the two organisations to share information and would not want this to come at the expense of an individual's suitability. We do not consider a Treasury representative on the governance board would be appropriate (even as an observer) for the reasons outlined on page 63 of Discussion Document A. The Treasury should focus on undertaking its monitoring function in a conventional manner.

With regard to how members should be appointed and removed, we note the nominating committee model has potential merit but would add cost and complexity and would need to be transparent. We agree it makes sense to reconsider the MPC appointment process given the fundamental changes to the governance of the Reserve Bank that are planned.

*3.F Are there any aspects of the board's operation would benefit from legislative clarity or guidance?*

In terms of decision making by the governing board, we agree that as outlined on page 68 of Consultation Document A, voting by consensus is likely to be preferable and therefore a collegial approach to communications around the governance board is likely to be appropriate. We don't however see a need for these matters to be fully set out in legislation.

#### **Chapter 4: How should the regulatory perimeter be set?**

ICNZ does not have comments in regard to the regulatory perimeter issues being discussed in Chapter 4 in relation to banks and NBDTs.

We do however note that there are regulatory perimeter issues with insurance that need to be considered as part of the upcoming review of IPSA. Material insurance business is carried on outside of the scope of IPSA including types of contract that are currently deemed not to be insurance contracts under IPSA – including warranties, guarantees, and waivers and unlicensed (by the Reserve Bank) foreign insurance firms that insure New Zealand policyholders.

#### **Chapter 5: Should there be depositor protection in New Zealand?**

ICNZ has no specific comments to make on the proposed introduction of depositor protection in New Zealand or the proposed range for a protection limit. We do however note it is important that risks

of moral hazard are managed and recognition is had of the need to balance the protection of customers with the ongoing need to maintain the attractiveness of the regulatory environment, so as to continue to attract capital to New Zealand.

## **Part 2 – Responses to questions in Consultation Document 2B**

### **Chapter 1: What prudential regulatory tools and powers should the Reserve Bank have?**

We note that, as outlined in footnote 5 at the bottom of page 18, insurance is out of the scope of this chapter.

### **Chapter 2: What role should the Reserve Bank play in macro-prudential policy?**

ICNZ has no comments to make on the role the Reserve Bank should play in macro-prudential policy.

### **Chapter 3: How should the Reserve Bank supervise and enforce prudential regulation?**

While as stated on page 62 of Consultation Document B, the IPSA regime is out of the scope of this chapter, ICNZ has some observations to make in regard to the discussion and proposals in it. Firstly we note that the Reserve Bank has recently spoken publicly of its intention to revise its explicitly light handed approach to regulation and that it accepts the critical conclusions and recommendations of the recently released 'Independent Review for the RBNZ of the Supervision of CBL Insurance Ltd' undertaken by John Trowbridge and Mary Scholtens QC.

In moving to a more active regulatory approach we note that there are commonalities across the banking and insurance sectors but also key differences that need to be recognised. It is fundamental that any regulatory changes are subject to thorough consultation and that the appropriateness of any change is specifically considered in regard to each regulated sector separately.

As outlined above in our response to Question 2.B in Consultation Document A, ICNZ supports the Reserve Bank considering climate change issues when undertaking its supervisory functions and notes there is significant international practise for the Reserve Bank to draw on in developing its approach in this area.

### **Chapter 4: How should the Reserve Bank's balance sheet functions be formulated?**

ICNZ has no comments to make on how the Reserve Bank's balance sheet functions should be formulated.

### **Chapter 5: What features should New Zealand's bank crisis management regime have?**

ICNZ has no comments on the features that New Zealand's bank crisis management regime should have.

### **Chapter 6: How should the Reserve Bank coordinate with other agencies?**

6.A *What do you see as the main pros and cons of the existing coordination arrangements, and why?*

The existing bilateral coordination arrangements recognise the varying interactions and overlaps between the Reserve Bank and other relevant government entities (e.g. the Treasury, FMA, MBIE). These underpin information sharing and coordination and can be revised as necessary to reflect changing environments, regulatory frameworks and evolving relationships between the entities on

various topics. The CoFR has facilitated information sharing across the same four agencies since 2011 and we note the recent announcement on 14 August 2019 that the Commerce Commission has been added to the CoFR and that it has a new vision statement.

Whilst recognising the ICNZ and its members have limited visibility of the effectiveness of the existing coordination mechanisms, we consider the advantage of the existing coordination arrangements is an ability to undertake coordination in a bilateral or multilateral manner and with flexibility to evolve arrangements as required in response to a changing environment or regulatory frameworks. Coordination between the Reserve Bank and the Treasury in terms of managing the business cycle is for example very different from coordination between the Reserve Bank and the FMA on issues associated with a single regulated entity or between various agencies in regard to emerging issues such as fintech or cyber risks.

We note the three issues identified with regard to existing coordination arrangements (lack of incentives or culture of coordination, lack of resources and unclear roles and expectations regarding systems stewardship and coordination) and with the potential exception of resourcing, we are mindful addressing these issues does not require regulatory or structural change. We are also mindful that coordination must be linked to specific activities and responsibilities to avoid coordination blurring responsibilities between entities or creating wasted efforts by duplicating processes or involving entities in issues for which they have neither expertise and/or responsibility. There is also a risk that wrapping increasing formal structures around coordination simply leads to another level of reporting and discussion rather than actual coordination.

Separately to facilitating effective coordination between government entities, it is also important to continue to focus on ensuring that individual regulatory regimes are appropriately defined and integrated so that boundaries are as clear as possible and duplications are minimised. Coordination will always be important but should not be seen as a substitute for clear regulatory frameworks. Importantly, too broad a vision for the CoFR risks individual regulators losing sight of their specific legislated mandate or purpose.

*6.B What would you change about current arrangements, and why?*

ICNZ supports further development of current arrangements for coordination where the need for this is identified. Coordination approaches that could increase efficiency should always be considered, such as whether it would be appropriate to delegate a lead regulator for firms that are subject to dual regulation. We provide further comments on changing current arrangements in response to subsequent questions.

*6.C Which, if any, of the options above for enhancing support for status quo coordination arrangements do you consider would be desirable, and why?*

We agree it is important that regard is given to distinct areas of potential coordination such as policy and rulemaking, management of regulatory processes, supervision of firms subject to dual-regulation, investigations and enforcement, how to deal with unauthorised regulated activities, information sharing and confidentiality.



We have the following comments on the four potential enhancements outlined on pages 149-150 of Consultation Document B:

1) Introduce a high-level legislative coordination objective	Comments below in answer to Question 6.D.
2) Legislate coordination requirements for business cycle management	No comments – not directly relevant to general insurers.
3) Legislative harmonisation across the twin peaks	We support the idea of a mandatory MOU, noting this has the potential to require agencies to be clear on their individual roles, where coordination is required and how it will be undertaken.
4) Reallocation of policy development responsibilities	We do not consider that a reallocation of policy development responsibilities should be pursued at this stage.

*6.D Do you think that a high-level coordination objective would be an appropriate way to ensure that the Reserve Bank is coordinating with non-financial sector agencies (for example on climate change)?*

While recognising the importance of coordination we do not see the need for a high-level coordination objective. We also note that as suggested it would only address coordination between the Reserve Bank and FMA and not relationships with other government entities (e.g. Commerce Commission, the Treasury and MBIE) and that there is a risk that in specifying an objective in legislation it becomes overly specific and inflexible.

*6.E Which is your preferred option for the structure of CoFR and why?*

Before commenting on the proposals here we note the functioning and structure of the CoFR is a wider issue than the Reserve Bank and the Act as it involves a range of agencies (both regulatory and policy agencies). We also note the recent announcement on 14 August 2019 that the Commerce Commission has been added to the CoFR and that it has a new vision statement.

With reference to the three options outlined on pages 151-155 of Consultation Document B, we support Option 1 (status quo enhancements) at this time. Option 1 is flexible and informal and so can be adaptive and responsive and we also note the Australian Council of Financial Regulators (CFR) remains non-statutory despite a longer history (established in 1998). We consider there is insufficient justification and a lack of clear purpose for formalising the CoFR to the extent envisaged by either Option 2 (increased structure and formality for coordination) and particularly Option 3 (establishing a legislative body for financial sector coordination).

Any further legislative or organisational formalisation of the CoFR should in any case only follow a wider policy and consultation process. The issues extend beyond the Reserve Bank and it would require a clear purpose and benefits to offset the costs, complexity and risks associated with it. We also note that attempting to do this on top of all the other organisational and regulatory changes going on at present would be a further challenge and distraction for agencies. It could also further increase pressure on available human resources at the same as many financial services entities and regulators are looking to increase their resourcing of compliance and oversight functions.

6.F *Do you agree with the analysis of the pros and cons of the different options?*

With regard to Option 3, as well as the cons already listed it should be explicitly stated that creating a stand-alone entity with responsibilities would bring material costs. We also question how it is envisaged such an entity would be expected to adjust the regulatory perimeter given this is often specified in legislation.

6.G *Are there any other specific coordination mechanisms, bodies, or transparency requirements that the Review should consider?*

No further comments.

## **Chapter 7: How should the Reserve Bank be funded and resourced?**

7.A *Do you agree with the potential issues identified in the current funding model? Are there any additional issues with the current funding model?*

We generally agree with the issues identified in regard to the current approach to funding and that there is both limited transparency and seemingly a lack of flexibility. With regard to the five specific issues identified on pages 163-165 of Consultation Document B:

- Potential issue 1 (The agreement format) – We agree the five-year agreement format combined with the way it is applied (e.g. continual underspending) and interpreted as a binding ceiling has and continues to limit the flexibility of the Reserve Bank in carrying out its functions.
- Potential issue 2 (Flexible on paper, but not in practice) – We agree the rigid approach to funding has various issues and has meant that important work such as the review of IPSA ends up being deferred due to other more immediate priorities.
- Potential issue 3 (A lack of transparency) – We agree there is a relative lack of transparency in regard to the way the Reserve Bank publishes information on its funding compared with other government agencies.
- Potential issue 4 (Accountability arrangements have not delivered the desired outcomes) – As identified in our previous submission<sup>2</sup> in January we consider the current accountability arrangements have clear weaknesses and we support changes to the governance of the Reserve Bank.
- Potential issue 5 (The funding source is simple, but may not align with where benefits fall) – We recognise that currently the costs of prudential regulation are effectively met by taxpayers rather than by those firms subject to prudential regulation and their customers. There is nonetheless a very large degree of alignment between taxpayers and the customers of banks and insurers as virtually all taxpayers (whether individual or corporate) will be customers of banks and/or insurers.

7.B *How should the Reserve Bank report its funding and spending? Do you have any comments on the transparency of, or accountability for, the Reserve Bank's funding and spending, including the possible channels to strengthen arrangements?*

We support all three of the proposed channels outlined on page 166 of Consultation Document B for strengthening arrangements in relation to how the Reserve Bank reports its funding and spending:

- imposing additional legislative reporting requirements;

---

<sup>2</sup> Refer to [https://www.icnz.org.nz/fileadmin/user\\_upload/ICNZ\\_submission\\_on\\_Reserve\\_Bank\\_Act\\_Review\\_Phase\\_2\\_-\\_1st\\_consultation\\_-\\_250119.pdf](https://www.icnz.org.nz/fileadmin/user_upload/ICNZ_submission_on_Reserve_Bank_Act_Review_Phase_2_-_1st_consultation_-_250119.pdf)

- enabling the Auditor-General to conduct performance audits and inquire into the Reserve Bank's use of resources; and
- clarifying the monitoring agent's (the Treasury) role and expectations.

7.C *Given the in-principle decisions to change the Reserve Bank's governance framework as outlined in Consultation Document 2A, what role should the Minister have in the Reserve Bank's funding model? Should it be different for prudential and non-prudential functions?*

In regard to funding its prudential functions we consider it would be appropriate for the Government, in the form of the Minister, to have a say in funding allocated. If the funding was to be sourced by an industry levy then there should be consultation and a requirement for ministerial approval.

In regard to non-prudential functions there is a different need to protect the Reserve Bank's operational independence with regard to funding, and in that context a requirement to consult or agree with the Minister (i.e. the status quo) looks appropriate.

7.D *Should the Reserve Bank continue to be fully funded from revenue (seigniorage and investment income) and fees, or should other funding sources be considered? In particular, should the Reserve Bank have the option to introduce an industry levy to fund the Reserve Bank's prudential supervisory function?*

We note that if an industry levy was to be introduced to fund some or all of the Reserve Bank's prudential supervisory function, then these additional costs to industry would come in addition to already planned increases in the FMA levy in relation to the introduction of the financial advice regime and any further increases in FMA levies that might be associated with an expanded conduct remit. We note such additional regulatory costs all increase the costs of providing insurance in New Zealand and are ultimately reflected in the prices charged to consumers and businesses.

Any introduction of industry levies should follow a thorough policy process and involve consultation. Should the Government decide to introduce levies to fund some of the Reserve Bank's activities then it would as indicated in Consultation Document B be appropriate that regulated industries have a voice in the funding process, as generally occurs where levies exist to fund regulators in other areas, and that funding levels and allocation are subject to consultation and are adequately transparent.

7.E *Do you have any comments on the illustrative options in Figure 7C and Table 7B? Are there other options, combinations, or additional design features that should be considered?*

We agree there are conceptual differences between the Reserve Bank's prudential and non-prudential functions and that the pros and cons of various options and combinations are well covered in Figure 7C and Table 7B.

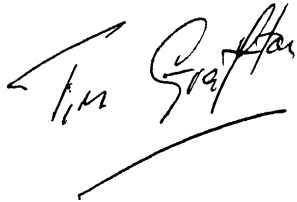
The prudential functions are a largely conventional regulatory role and we consider the need for ministerial independence on how this is undertaken is not fundamentally different to many other regulatory roles across government.

Collecting any prudential related levy that was introduced on an ex-ante basis like most other regulated levies seems logical and the Reserve Bank should be responsible for managing its annual budget as all other entities are. The use of a memorandum account for managing (presumably modest) under or over collection on a year to year basis would be appropriate.

## Conclusion

Thank you again for the opportunity to submit on this consultation. If you have any questions, please contact our Regulatory Affairs Manager on (04) 914 2224 or by emailing [andrew@icnz.org.nz](mailto:andrew@icnz.org.nz).

Yours sincerely,

Handwritten signature of Tim Grafton in black ink, featuring a stylized 'T' and 'G'.

**Tim Grafton**  
Chief Executive

Handwritten signature of Andrew Saunders in black ink, with 'AB' followed by 'Saunders'.

**Andrew Saunders**  
Regulatory Affairs Manager