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**Submission to the Finance and Expenditure Select Committee
on the
Reserve Bank of New Zealand Amendment Bill**

The National Council of Women of New Zealand (NCWNZ) is an umbrella organisation representing 38 nationally organised societies. It has 31 branches throughout the country attended by representatives of those societies and some 150 other societies. The Council's function is to serve women, the family and the community at local, national and international levels through research, study, discussion and action.

**PART 1
GENERAL COMMENT**

In a speech to the trans-Tasman Business Circle in Sydney (11 August 2004) the New Zealand Reserve Bank Governor, Dr Alan Bollard, stated that "...about 85% of New Zealand banks, measured by total assets, are now Australian owned." He pointed out that the two countries, New Zealand and Australia, share the same 'big four' banks but cautioned that "overseas ownership can be an undoubted strength, but also a potential risk" – that is, with so few systemic banks, a failure of any one of them would have major consequences, including a possible domino effect on other banks.

Now, two years later, there has been a very slight increase of market share by New Zealand domiciled banks as many people change their accounts to KiwiBank and others, but profits from the likes of home mortgage lending and public debt securities still mainly flow across the Tasman. Ironically Australia, along with several other countries, sees the systemic banks as "so central to their economy as to preclude them from being foreign controlled." (*Bollard 2004*)

With so few banks and only cosmetic competition amongst them, regulation is certainly necessary – but by whom – and who regulates the regulators? The Bill's reference to "prescribed Australian authorities" concerns NCWNZ members. It is assumed the main authority will be the Australian Prudential Regulation Authority, (APRA), which "was formed to develop policy options for closer integration of trans-Tasman banking regulation." (*RBNZ Annual Report 2003-2004*) It is felt that New Zealanders should be aware of those appointed to this authority to ensure that the interests of New Zealand are also taken into account.

Although both Finance Ministers, Dr Cullen and Mr Costello, appear keen to proceed with a single trans-Tasman banking regulator, NCWNZ notes the concerns expressed by the United States economist, Professor Edward Kane, recently a Fellow in Monetary and Financial Economics at the Reserve Bank and Victoria University. Professor Kane warns against the domination of a single regulator by Australian interests. "Historically there's a danger of regulators being captured by those they regulate," he said in a press interview early last year.¹

¹ *NZ has much to lose from single banking regulator: US Academic' – by Alan Bennett, NZPA. 8 March 2005*



More ominously: “It goes against the whole theory of government. It’s one thing to be a colony where someone has conquered you and you can’t do much about it – but to volunteer for colonial status strikes me as very odd.” Further he predicted possible scenario if, in a globalised system, our Australian ‘parents’ are taken over by bigger off-shore interests.

SPECIFIC COMMENTS

Section 6

Clause 68A Trans-Tasman co-operation

(1) **a & b:** Financial institutions depend for top credit-ratings on owning low-risk securities – a major criterion of ‘financial stability’. The insertion of Clause 68 A/1 (a & b) into the Act could prevent any move by the New Zealand government to improve our own financial stability by retaining more of our public debt securities on-shore, perhaps by encouraging our domestic institutions to take up more of them.

(3) It was felt that this clause could make it very difficult to enhance New Zealand’s goal of economic sustainability if “every prescribed Australian Authority” needs to be consulted.

(5) This clause gives the Governor-General the power to “...make regulations prescribing Australian financial authorities...” This will be on the advice of the Minister of Finance – which raises an interesting question. As co-signatories to the Policy Targets Agreement which gives top priority to New Zealand’s financial stability, how will the Minister and the Governor of the Reserve Bank choose when there are conflicts of interest? The general policy statement which introduces the Bill claims that the “...trans-Tasman obligations in the Bill are intended to be matched by equivalent changes to counterpart Australian legislation ...” but there is no such assurance in the amendments proposed.

Section 8

Clause 121A Statutory manager to avoid actions likely to have detrimental effect.

(4) This could be interpreted as a safeguard in that the RBNZ may opt out of the obligation to notify any prescribed Australian financial authority under certain circumstances, but NCWNZ notes again Professor Kane’s cautions about who or what may govern the regulators.

PART 2

NCWNZ members made a submission to the RBNZ in February 2004 expressing the overall opinion that the 5c coin should be retained in circulation. Now that this coin is being withdrawn, the need to amend the clauses in the Racing Act 2005 relating to rounding rules for the paying out of dividends is acknowledged. It is hoped, however, that note is also being made of the overall effect rounding will have on ordinary consumer transactions. This potential for rising costs is of much more concern to NCWNZ members than the Racing Act. Members will watch with great interest.

CONCLUSION

While aspects of trans-Tasman co-operation can be seen to be beneficial some members are concerned about the possibility of New Zealand’s sovereignty being subsumed by the larger nation, with a loss of financial integrity. The Bill as currently worded does not give confidence that reciprocal legislation will actually happen: i.e. that Australia’s legislators through its Authorities will not make decisions that could have a detrimental effect on the financial stability of New Zealand – and by whom and how will that be measured.

NCWNZ is pleased to be able to comment on this Bill but hopes much more information will be released to the public before any final decision is made.

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