

Alan Bollard: After the National Bank acquisition - living with big Australian banks

An excerpt of an address by Dr Alan Bollard, Governor of the Reserve Bank of New Zealand, to the Australasian Institute of Banking and Finance, Auckland, 6 November 2003.

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Having a banking industry consisting mainly of banks with Australian parentage has many advantages for us. Despite our country's small size, our banking system benefits from the presence of strong, innovative, internationally-connected players that are from a highly-respected country and understand our preferred ways of banking. Of course, from time to time one hears complaints about "branch office" treatment of New Zealand borrowers, but overall on a day-to-day basis banks' customers in New Zealand do well out of the deal. Meantime, the Reserve Bank's main concern remains to regulate for the promotion of a sound and efficient New Zealand financial system, regardless of the fact of its Australian parentage.

The conditions we put on ANZ's acquisition of the National Bank do not signal any radical new approach to banking regulation. However, they do represent ongoing enhancements that we are very serious about and have been working on for some time. These are aimed at ensuring that local boards have effective operational reach over core assets and people, and that lines of responsibility and accountability are clear. We have been able to effect these conditions due to the new powers put in place by the [RBNZ Amendment Act](#) in August, and they provide an indication of the direction of our generic policy thinking on these matters.

The Reserve Bank's conditions associated with the acquisition were in four main areas. First, any transfers or outsourcing of the National Bank's core banking functionality, including by way of an operational merger, will require the Reserve Bank's further consent. Core functionality includes all management, operational capacity and systems necessary to operate the bank on a standalone basis in the event of failure of an outsourcing provider, including a parent bank. The intent of this requirement is to ensure that any outsourcing does not undermine the legal authority and practical ability of the directors or statutory manager of the National Bank to run the bank on a standalone basis if the need should arise. This doesn't necessarily mean that the core functionality must be in New Zealand - it means that legal and practical access to it in a crisis must be unimpeded.

The second area where we imposed conditions of consent strengthens the first. We require that the National Bank chief executive's employment contract be between that person and the board of the National Bank, and that any amendments to the National Bank's constitution have our consent. The intent of these measures is to ensure that there is coherence in the National Bank's local accountability arrangements and that the local board remains in a strong position to exercise independent and meaningful governance of the management of the National Bank, in the best interests of the National Bank, in good times and in bad. This requirement should be seen as a means of reinforcing our emphasis on the role of directors in overseeing a bank's operations, and our ability to manage a crisis involving the failure of any large bank in New Zealand.

Third, we require all prospective appointments of directors or senior executives to the ANZ or the National Bank to be advised to us and the appointments made only if we have no objection. This measure ensures that the appointment process is in line with our new obligation introduced by the RBNZ Amendment Act to have regard to the suitability for their positions of directors and senior managers of registered banks. Generally speaking we would be unlikely to object to an appointment unless there were strong reasons to believe the individual would be unsuitable for a position of responsibility over a registered bank.

Finally, we require that each registered bank in the ANZ Group maintain a level of capital in line with our current policy on capital adequacy for consolidated banking groups. This tightens up the capital adequacy rules a little in this case, to account for the fact that the ANZ Group now contains two systemically important registered banks. We regard it as important that each of these banks maintain adequate capital on a solo basis.

We took these steps in pursuit of our statutory obligations to promote the maintenance of a sound and efficient financial system in New Zealand, and to avoid significant damage to the financial system that could result from the failure of a registered bank. We don't think the conditions will make a great

difference to the current day-to-day running of the National Bank's operations under normal circumstances. However, we do see them as important in bolstering our ability to deal with a crisis situation involving the bank or the ANZ group. We sought to impose the conditions in a manner consistent with our general approach to banking regulation, which is not to get into the business of managing banks, but to put the onus for effective bank management on the shoulders of those best-placed to carry that task - the directors and senior executives of banks.

In giving consent, we recognised that, under certain circumstances, all our large banks being Australian-owned could increase our system's exposure to stress emanating from the Australian economy and financial system. We will be considering this further and have let it be known that we will take further measures to manage this risk if necessary.

As noted before, the conditions imposed on the ANZ's acquisition are a specific application of our current policy thinking around governance and crisis management, coloured by the additional considerations introduced by the RBNZ Amendment Act. This thinking is still developing, and relevant to all systemically important banks. Generic policies regarding these matters will be fleshed out as part of our broader financial stability work programme, and we will be consulting with banks on those generic policies in due course.