Christian Hawkesby: Finance and Expenditure Committee - inquiry into banking competition

Introductory remarks by Mr Christian Hawkesby, Acting Governor of the Reserve Bank of New Zealand, at the Finance and Expenditure Select Committee (FEC) Inquiry into banking competition, Auckland, 31 March 2025.

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Tn koutou katoa,

I'm Christian Hawkesby, Acting Governor. I'm here today with Reserve Bank Chair Neil Quigley, Director Prudential Policy Jess Rowe, and Financial Stability Adviser Charles Lilly.

I'd like to begin by acknowledging our Governor, Adrian Orr, who over 7 years would have attended FEC hearings more than 50 times and always been engaging. We are looking forward to continuing that relationship.

We've been following the banking competition inquiry with great interest. We are a learning institution, and conscious that our policies need to reflect sound judgement, based on evidence and robust analysis.

The Reserve Bank has three core objectives: price stability, financial stability and central banking. Competition is important across all these objectives.

We care about competition because it promotes efficiency, productivity and, importantly, innovation in the financial services sector. However, it is not our role to promote individual institutions or entrants. Rather, as a central bank we provide the infrastructure (payment systems, settlement accounts) that the financial sector needs to operate. As a regulator, we ensure that our prudential settings are risk-based, not deterring efficient entrants or creating subsidies to low quality institutions.

We have never had more focus on competition across our functions, including addressing the recommendations of the Commerce Commission's market study.

Across our central banking functions, this includes broadening access to our interbank payments system though our ESAS Access Review; our Digital Cash proposal, to support innovation; and in our Cash Trials project to support access to rural banking services.

For our prudential settings, we have introduced a proportionality framework that includes graduated capital requirements, and we are reviewing risk weights for Standardised Banks, minimum capital for new entrants, and widening the use of the term 'bank' for deposit takers. More broadly, our work on Mori access to capital and access to basic bank accounts are designed to prompt innovation, efficiency, and access.

Advancing competition and innovation in the financial sector, is a team effort across government agencies, regulators and the industry itself.

As outlined in our submissions to the Commerce Commission's market study and this inquiry, in our view some of the greatest gains to be made are through advancing open banking, customer data rights, digital identity, and the retail payments infrastructure to deliver an eco-system where competition can flourish.

Speaker: Neil Quigley

The Reserve Bank set capital ratios following a review and consultation that ran from 2017-2019.

Capital is the buffer that allows a bank to absorb losses while still being able to pay its depositors and other creditors in full. We have heard the claims that our bank capital regime is unreasonably conservative, and that it is undermining competition and growth in the New Zealand economy. We think that at least some of those claims are incorrect, but ultimately all of the claims can be tested empirically.

At present our banking system is profitable and not capital constrained, so lending could be increased if there was demand. Of course, there may be some individual borrowers who would like a larger loan and/or at a lower rate, but that is an individual commercial bank assessment rather than being driven by system-wide capital constraints.

The Reserve Bank board has agreed to an evidence-based framework for a review of our capital regime utilising international experts and assessing it against the regimes in other countries.

This international view is important as a robust capital regime is critical to maintaining international confidence in our financial system. This was highlighted just two weeks ago with the visit of the IMF who said the primary objective of prudential regulation should be to safeguard financial stability, calibrated to New Zealand's unique risks.

Speaker: Christian Hawkesby

We are happy to take questions.