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Phase 2 of the Reserve Bank Act Review
The Treasury
Wellington

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Submission on Phase 2 of the Reserve Bank Act Review

The Institute of Directors (IoD) appreciates the opportunity to comment on the [consultation document](#) on safeguarding the future of our financial system. This is the first of three rounds of consultation (in Phase 2) and it focuses on the Reserve Bank's role in financial policy and how it should be governed. There have only been limited revisions to the governance and accountability framework of the Reserve Bank since the Reserve Bank of New Zealand Act 1989 was passed 30 years ago. Given the changes in the Reserve Bank since that time and global developments in banking, it is timely that the governance and accountability framework is reviewed.

The IoD's submission focuses on how the Reserve Bank should be governed. Notwithstanding our comments here, the IoD may make further and broader comment as the review progresses.

About the Institute of Directors

The IoD is a non-partisan voluntary membership organisation committed to driving excellence in governance. We represent a diverse membership of over 9,000 members drawn from listed issuers, large private organisations, small and medium enterprises, state sector organisations, not-for-profits and charities.

Our Chartered Membership pathway aims to raise the bar for director professionalism in New Zealand, including through continuing professional development to support good corporate governance.

Background

The Reserve Bank is an important economic institution in New Zealand and it performs a number of vital roles in the financial ecosystem.

Two-phase review

A two-phase review of the Reserve Bank of New Zealand Act 1989 began in 2018 to ensure that New Zealand's monetary policy and financial regulation frameworks are fit for purpose.

Phase 1 is nearly complete with the passing of the Reserve Bank of New Zealand (Monetary Policy) Amendment Bill last year. Relevant to this submission, the Bill:

- establishes a statutory monetary policy committee (MPC) for decision making (consisting of internal and external members of the Reserve Bank and the Governor and Deputy Governor)
- makes the Reserve Bank board responsible for monitoring the committee's performance and individual members of the committee.

Phase 2 is focused on the Reserve Bank's role in financial policy and how the Bank should be governed. There are five key parts:

- What high-level financial policy objectives should the Reserve Bank have?
- How should the Reserve Bank's regulatory perimeter be set?
- Should there be depositor protection?

- Should prudential regulation and supervision be separated from the Reserve Bank?
- How should the Reserve Bank be governed?

Reserve Bank's governance arrangements

The Reserve Bank's an instrument of the Crown and has its own unique legal structure in the state sector. The Reserve Bank board is essentially a supervisory board and it does not have the usual governance responsibilities and decision making functions, such as appointing and managing the CEO (the Governor). Governance arrangements include:

- the Reserve Bank's governing body is the Governor rather than the board (ie it is a single decision maker governance model). The Governor also runs the organisation.
- the Reserve Bank board is the principal monitoring agent of the Governor, who is also a member of the board
- The Reserve Bank board makes recommendations to the Minister on persons to be appointed to key positions in the Reserve Bank
- The Reserve Bank board *will have new responsibilities* in relation to the MPC established under Phase 1 of the Reserve Bank Act Review.

How should the Reserve Bank be governed?

The consultation document discusses the following features of the Reserve Bank's structure:

- **the governing body:** whether the Reserve Bank should be led by a single decision maker or a board
- **a financial policy committee:** whether a new statutory committee (like the MPC) should be created to make decisions on financial policy.

The Reserve Bank currently uses a number of internal (non-statutory) committees to advise the Governor on financial policy.

IoD comments

The consultation document sets out pros and cons of single decision makers and board governance models. These models are also evaluated in the New Zealand Initiative's report on Who Guards the Guards? Regulatory Governance in New Zealand (2018) and the Productivity Commission's report on Regulatory Institutions and Practices (2014). Having regard to good governance principles and the context of the Reserve Bank, we consider a board model would be a more effective governance model than the single decision maker model. The benefits of boards are well known including strategic leadership, oversight, and robust decision making utilising the diverse strengths, expertise and perspective of board members.

If a governing board is established, it is essential that the board's roles and responsibilities are clearly defined. For example will it be responsible for overseeing the long-term success of the Reserve Bank and charged with its direction and holding the Governor to account for organisational performance?

The board's function will also depend on whether a statutory financial policy committee for decision making is established. If this committee is established, it should be balanced with appointments of people from outside of the Reserve Bank. External members can bring objective and independent judgment and specific expertise and experience.

Irrespective of whether the financial policy decision making function sits with the board, it will be critical that the board consists of highly capable and professional directors with the right mix of knowledge, skills and experience. The board would need considerable banking and insurance industry experience and the skills demanded by a regulator. Board composition is a major consideration for the effectiveness and performance of boards.

The director appointment process is a key part of ensuring a balanced board. There needs to be a transparent and robust appointment (and reappointment) process based on high quality analysis of the knowledge, skills and experience the board requires now and in the future. The board chair should have a core role in this process.

Conclusion

The IoD supports a shift away from the Reserve Bank single decision maker model to a governing board. It is essential that there is a balanced board (and financial policy committee if it is established) of highly capable and professional directors with the right mix of knowledge, skills and experience. It is also critical that there is a transparent and robust appointment (and reappointment) process based on high quality analysis.

We appreciate the opportunity to comment on behalf of our members and would be happy to discuss this submission with you.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Felicity Caird', written in a cursive style.

Felicity Caird
**General Manager, Governance Leadership Centre
Institute of Directors**