

30 January 2026

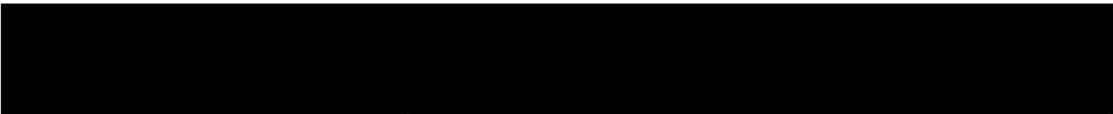
Reserve Bank of New Zealand  
2 The Terrace  
WELLINGTON 6140

By email: [dta@rbnz.govt.nz](mailto:dta@rbnz.govt.nz)

Kia ora,

**Submission of Heartland Group Holdings Limited and Heartland Bank Limited – Group Supervision Policy**

**1. Introduction**

- 1.1 Heartland Group Holdings Limited (HGH) and Heartland Bank Limited (HBL) (together, Heartland) welcome the Reserve Bank of New Zealand (RBNZ)'s consultation on a formal Group Supervision Policy as set out in Chapter 5 of the Deposit Takers Standards Tranche 1 consultation paper.
- 1.2 We are aware that the catalyst for this work was HBL's acquisition of Heartland Bank Australia Limited (HBAL), which meant that the RBNZ became home supervisor of an international banking group for the first time.
- 1.3 Heartland's view is that a formalised Group Supervision Policy is a positive step. A clear, principles-based framework for group supervision provides regulatory certainty, supports prudential soundness, and – where appropriate – ensures consistent treatment of group structures across the sector. It also supports the Deposit Takers Act 2023 (DTA) principle to ensure competition in the financial sector.
- 1.4 Heartland does, however, have feedback on the policy proposals. This feedback is set out below and is provided as a joint submission by HGH and HBL given its importance to the wider Heartland group.
- 1.5 Heartland's objective is to ensure that the RBNZ's framework for group supervision supports competition, is proportionate and commercially realistic so that regulated deposit takers – particularly those operating in specialised segments or with unique corporate structures – can compete effectively, deliver value to customers and shareholders, and operate sustainably.
- 1.6  HBL and HGH have a particular interest in this work, given HBL is the only New Zealand registered bank to own an Australian bank.

**2. Key Submissions**

- 2.1 In respect of the policy development process:
- i Heartland recommends that the RBNZ does not proceed directly from this consultation to policy decisions. A further consultation round is needed once all draft Standards have been released, enabling industry to review the full package of group supervision requirements in context.
  - ii 

2.2 In respect of the policy proposals:

*Restricted Activities*

- i Heartland submits strongly against embedding requirements for relevant deposit takers in a Restricted Activities Standard, where the deposit taker has a holding entity outside the scope of prudential regulation. As the RBNZ notes in the consultation paper, this is not a first-best approach and may present a barrier to innovation by licensed deposit takers – in Heartland’s view, this issue also extends to innovation and competitiveness of the wider group (referred to as Level 3) more broadly.
- ii Our view is that given idiosyncrasies in group structures, restricted activities are better dealt with through conditions of registration, not as a Standard. This would allow for a more bespoke approach, which the RBNZ is empowered to take under section 92(2) of the DTA.
- iii The Standard could still set out parameters for the RBNZ to decide on the terms of the conditions (for example, by specifying the matters that the Bank must have regard to, or be satisfied of, when deciding what condition is to apply), as is permitted by section 94(4)(b) of the DTA. Heartland will need the benefit of the draft Standard to provide more detailed submissions on this matter.

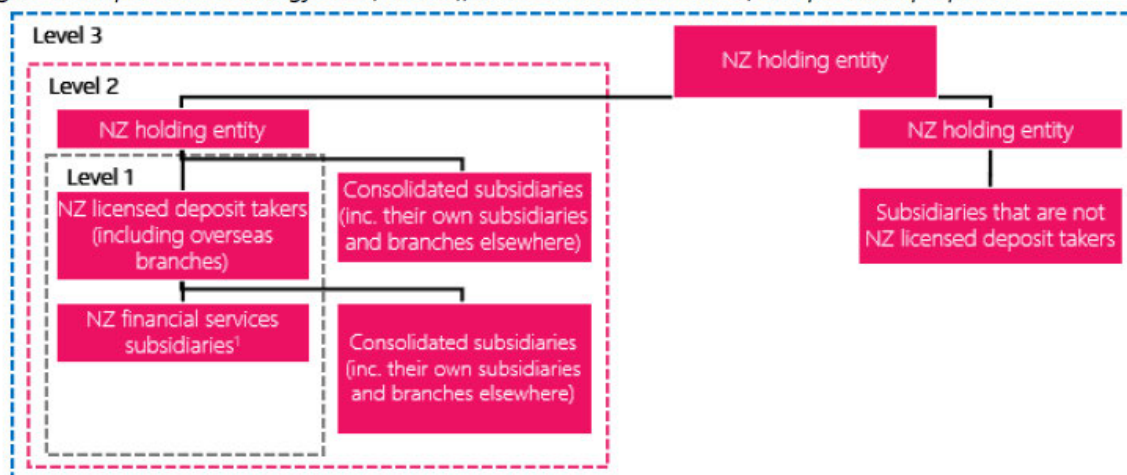
*Scope of Level 2 Group*

- iv Consistent with the Basel Core Principles for Effective Banking Supervision (April 2024) (BCPs), Heartland’s view is that the Level 2 group should not extend up beyond the immediate holding company of the licensed deposit taker. As such, we do not agree with the proposition in paragraph 162 of the policy proposals that more than one holding company may be captured in Level 2 and submit that this be revised.
- v Heartland’s view is that other parent entities (beyond the immediate holding company) and their affiliates within the wider group should fall within Level 3. While RBNZ should be able to access information about these other Level 3 entities, may need to be familiar with the activities of these other Level 3 entities, and should consider the risks these other Level 3 entities pose to Level 2, the RBNZ does not regulate them.

*Treatment of non-deposit taking lenders*

- vi Heartland submits that lenders should be able to be structured outside of the regulated banking group (i.e. as part of the Level 3 wider group) if they are not funded by retail deposits.
- vii Our interpretation is that this is consistent with the Figure 1 diagram, below, however the reference to “NZ financial services subsidiaries” within Level 1 and certain comments in relation to Level 1 in paragraph 162 of the consultation document could be read to suggest the contrary. We welcome the RBNZ’s confirmation on this point, noting Heartland’s submission above.

Figure 1. Proposed terminology to refer to different consolidation levels for supervision purposes

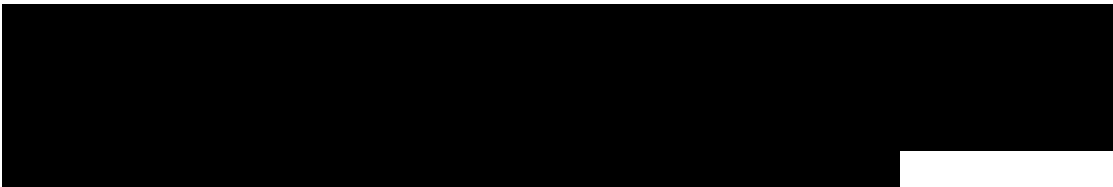


Note: These are subsidiaries determined by RBNZ to be part of Level 1 group supervision.

### 3. General Feedback – Principles underlying the Group Supervision Policy

- 3.1 As noted above, Heartland supports a formalised approach to group supervision to provide certainty and an appropriate degree of consistency in regulation and supervision of group structures, while still allowing for flexibility to accommodate the idiosyncrasies of group structures which may emerge in the future and the maturity of regulation (prudential or otherwise) of other members of the group in addition to the New Zealand licensed deposit taker.
- 3.2 The RBNZ has already signalled its policy intent to regulate banking groups more consistently but lacks full statutory authority under the DTA, noting that legislative development of the DTA preceded HBL's acquisition of HBAL. Heartland supports legislative amendment, as anticipated under Step 2, and views this change as enabling rather than deregulatory – aligning statute with regulator intent.
- 3.3 However, to ensure that the Group Supervision Policy is commercially fit for purpose and does not unnecessarily penalise group structures that include regulated entities, Heartland submits that a flexible and risk-based approach must be adopted.
- 3.4 Group structures vary materially across the New Zealand financial sector and – we expect – will continue to evolve as new business models and providers enter the market (e.g. fintechs).
- 3.5 As such, a formal Group Supervision Policy should:
  - i Align New Zealand's approach with international practice where it is appropriate to do so,
  - ii Recognise the jurisdiction of incorporation of overseas subsidiaries and the calibre of offshore prudential supervision, and
  - iii Recognise the degree of regulation applicable to any non-bank lending entities within a wider group.
- 3.6 This approach would achieve the statutory purposes of the DTA – minimising unnecessary compliance costs and ensuring that the framework is proportionate, supports competition, is commercially pragmatic and remains future proof in an evolving banking sector.

### 4. Key Terminology and Definitions

- 4.1 Heartland has reviewed the key terminology and definitions alongside the Basel Core Principles for Effective Banking Supervision (April 2024) (BCPs) to consider the extent to which the policy proposals align with international practice. We have made references to relevant sections of the BCPs in our comments below.
- 4.2 We note the following elements of the BCPs:
- i The BCPs include within the definition of “banking group” the immediate holding company of a bank (refer para 10.1(3)), however, the BCPs also recognise the possibility of a wider group outside the “banking group” (refer para 02.7, 10.1(3) of the BCPs), with the prospect that the wider group is unregulated by the home supervisor.
  - ii The BCPs do not support regulation by the supervisor of the wider group outside of the “banking group”. Rather, the role of the supervisor is to supervise the banking group (BS Principle 12).
  - iii However, the BCPs do support the proposition that, in supervising the banking group, the supervisor:
    - a Should understand the activities of the wider group (para 40.28(1) and (5))
    - b Should consider the risks posed to the bank by that wider group (para 02.7, 40.19, 40.28(1) and (5))
    - c Should be able to access information about entities in that wider group, and review and determine what (if any) impact the activities of these entities may have on the safety and soundness of the bank (para 40.5(5), 40.24, 40.28(5))
    - d In the context of licensing, should assess the governance of the wider group (para 40.12)
    - e Should take appropriate supervisory action when risks arising from that wider group, in particular contagion and reputational risks, may jeopardise the safety and soundness of the bank (40.28(1) and (5))
- 4.3 In this context, Heartland submits – consistent with the BCPs – that the Level 2 group *not* extend up beyond the *immediate* holding company of the licensed deposit taker. We do not agree with the proposition in paragraph 162 of the policy proposals that more than one holding company may be captured in Level 2 and submit that this be revised.
- 4.4 
- 4.5 Heartland’s view is that other holding entities (beyond the immediate holding company) and their affiliates within the wider group should fall within Level 3. While RBNZ should be able to access information about these other Level 3 entities, may need to be familiar with the activities of these other Level 3 entities, and should consider the risks these other Level 3 entities pose to Level 2, the RBNZ does not regulate them.
- 4.6 Consistent with the BCPs, the policy proposals should allow for activity in the wider group, outside of the banking group. Our view is that this should include lending businesses that are not retail funded, however the RBNZ’s position is unclear on this point and clarification is requested as set out in paragraph 2.2(iv) above.

## 5. Step 1 – Comments on Proposed Approach

- 5.1 Heartland notes that detailed requirements for group supervision will be proposed across nine DTA standards. These are standards on Capital, Liquidity, Reporting, Disclosure, Governance, Related Party, Risk Management, Operational Resilience and Restricted Activities.
- 5.2 Heartland intends to submit on the additional requirements under each of those standards as they are released for consultation. We reserve our position to submit further feedback when we see the detail of those proposals.
- 5.3 However, we provide some preliminary feedback based on the summary information in Table 1, as follows:
- i **Restricted Activities:** Notwithstanding that detailed proposals will be consulted on in the specific draft standard, as set out in paragraph 2.2i above, Heartland submits strongly against establishing a Restricted Activities standard under Step 1, with the following comments:
    - a **Standards lack flexibility:** Standards are inherently more generalised and more challenging to amend than conditions of licence, particularly as under the DTA, Standards will be secondary legislation issued under the authority of the Legislation Act 2019.
    - b **Conditions are more appropriate at this stage:** Given the diversity and idiosyncrasies of group structures, restricted activities are better addressed through licence conditions, at least until Step 2 is complete. This enables a more bespoke approach and aligns with the intent of section 92(1) of the DTA, which emphasises flexibility to take account of the circumstances of particular deposit takers.
    - c **The DTA explicitly allows this approach:** Section 92(2) of the DTA provides that a standard may allow requirements to be specified through licence conditions where the RBNZ has regard to, and is satisfied with, the matters in sections 92(3) and (4). We provide further comment on this in paragraph 2.2i above.
    - d **Scope should be limited to the immediate holding company:** We acknowledge that restricting the activities of a holding entity that owns only the licensed deposit taker is broadly analogous to the Basel approach to a regulated banking group (whereby the immediate holding company is included in the definition of the regulated banking group). Consistent with the BCPs, any such restrictions should apply only to the *immediate* holding company.
    - e **No requirement for a non-operating holding company (NOHC):** Heartland also seeks confirmation that the RBNZ does not intend to require the immediate holding company to be a NOHC. Our understanding is that this is an APRA-specific approach. In our view restricting activities (via a Standard or licence conditions) would be sufficient.
  - ii **Governance, Risk Management & Operational Resilience:**
    - a Heartland is concerned that the proposed approach in these areas will be highly duplicative and unnecessarily costly if it does not have regard to the strength of offshore prudential supervision that applies to the relevant subsidiary. In Heartland's case, APRA's governance and risk standards are comprehensive and sophisticated; requiring our Australian subsidiary to also be supervised against RBNZ requirements at Level 2 would impose material compliance costs without enhancing prudential outcomes. This would be inconsistent with the principles of the DTA to ensure

proportionality and avoid unnecessary compliance costs. This is again an example where flexibility should be applied in a Standard as permitted by section 92 of the DTA, in this case enabling the RBNZ to take into account the maturity of prudential regulation of the offshore subsidiary.

- b Within these Standards, we anticipate that the RBNZ will consider its position regarding shared resourcing models across groups. Heartland's view is that the RBNZ should allow flexibility for regulated entities to use shared resourcing models (including intra group outsourcing and cross entity shared services), where it is commercially efficient and proportionate to do so – provided accountability remains with the regulated entity.
  - iii **Capital:** Heartland expects to comment in detail on the draft Capital Standard when it is published for consultation. However, in the context of group supervision, we note that under current rules, capital issued in Australia by an Australian subsidiary of a New Zealand bank is not recognised at the consolidated banking group level in New Zealand. We have submitted on this lack of mutual recognition previously and request that it is addressed in the draft Capital Standard when considering capital treatment for groups.
  - iv **Depositor Compensation Scheme, Lending, Open Bank Resolution & Outsourcing:** Heartland supports the proposed approach to apply these standards at Level 1 only and has no further comments, subject to seeing the specific draft standards.
- 5.4 As discussed above, the approach outlined in paragraph 170 of the consultation appears overly generalised and should include some flexibility to consider the strength of prudential supervision of offshore subsidiaries and adjust group supervision requirements accordingly. That is, where regulatory arbitrage through lower-regulated, offshore jurisdictions is clearly not the objective.
- 5.5 To address this, Heartland recommends that RBNZ adopt an equivalence approach, under which subsidiaries operating in prescribed jurisdictions with comparable or higher prudential standards would be exempt from some or all Level 2 requirements. This approach would minimise unnecessary compliance costs while maintaining safeguards against genuine regulatory arbitrage. We note the Privacy Act concepts of "comparable safeguards" and "prescribed countries" introduced in relation to Information Privacy Principle 12 as examples of such an approach.
- 5.6 Overall, Heartland considers the current application of Level 1 and 2 requirements on HBL via its conditions of registration to be workable. If RBNZ intends to propose material changes to these requirements in the draft standards, Heartland requests prior bilateral engagement with the RBNZ before the draft standards are released for consultation.

## 6. Step 2 – Future Legislative Framework

- 6.1 Implementing only Step 1 would mean that RBNZ could not directly regulate holding entities that are not licensed deposit takers.
- 6.2 [REDACTED]
- 6.3 Heartland recognises that Step 2 is outside the scope of the current consultation, but Heartland submits that the timing and scope of Step 2 legislative reform are critical to achieving the DTA's objectives.
- 6.4 To be effective, Heartland's view is that amendments to the DTA enabling Step 2 must be in force before 1 December 2028. [REDACTED]

- [REDACTED]
- 6.5 Providing the RBNZ statutory powers to supervise group structures is essential for:
- i maintaining diverse, competitive sector participation (a statutory DTA principle),
  - ii enabling RBNZ-supervised groups to adopt internationally common structures,
  - iii reducing reliance on bespoke conditions of registration, unless appropriately maintained where it is necessary to provide the flexibility to allow the requirements or other matters in standards to be set in a manner that takes into account the circumstances of particular deposit takers, and
  - iv ensuring New Zealand's approach aligns with international practice, where appropriate.

## 7. Clarifications Required

### *Definitions and comparability of levels of aggregation*

- 7.1 Heartland would like to confirm the RBNZ's intended Level 1 and 2 definitions. Our understanding is that these are consistent with current levels applied to Heartland – New Zealand Banking Group and Banking Group, respectively – but we request confirmation.
- 7.2 It would also be helpful to understand whether RBNZ's definitions are intended to be comparable to those of APRA.

## 8. Comments on Contagion and Regulatory Arbitrage Risk

- 8.1 Heartland would like to provide comments on the RBNZ's assessment of contagion and regulatory arbitrage risk, which are provided as context to the policy proposals:
- i Non-bank lenders are not "unregulated". Many non-bank lenders in New Zealand are subject to CCCFA obligations and soon, licensing and supervision by the Financial Markets Authority. They therefore do not represent the unchecked "shadow banking" risk described in the consultation material. Specialist motor lenders are an example.
  - ii [REDACTED] – many competitors operate under non-bank lending models without evidence of heightened contagion issues. [REDACTED]
  - iii Several New Zealand banks own finance companies within their wider corporate groups. Contagion risk in these structures is effectively managed under existing supervisory tools.
  - iv Listed-issuer obligations materially mitigate arbitrage risk. As an NZX/ASX dual-listed issuer, HGH is subject to governance and transparency obligations that are a significant deterrent to behaviours associated with regulatory arbitrage or opportunistic risk-shifting:
    - a Continuous disclosure obligations,
    - b Extensive reporting and market conduct regulation (FMCA), and
    - c Audit and assurance requirements.

## 9. Questions

- 9.1 [REDACTED]

9.2 If you have any questions or would like to discuss any aspect of this submission, please contact Heartland via [REDACTED]

Yours sincerely

[REDACTED]

9(2)(a)  
Chief Executive Officer  
Heartland Group Holdings Limited

[REDACTED]

9(2)(a)  
Chief Executive Officer  
Heartland Bank Limited