Reserve Bank of New Zealand
Te Pūtea Matua

Prudential levy

Under the Reserve Bank of New Zealand Act 2021

11 August 2026

Consultation paper

Submission details

The Reserve Bank of New Zealand – Te Pūtea Matua invites submissions on this consultation paper by 16 October 2026. Please note the disclosure on the publications of submissions below.

Please address submissions and enquiries by email to: policy.consultation@rbnz.govt.nz

Publication of submissions

We will publish your submission on the Reserve Bank's website.

We will make all information in submissions public unless you indicate you would like all or part of your submission to remain confidential. If you would like part of your submission to remain confidential you should provide both a confidential and a public version of your submission. Apart from redactions of the information to be withheld (i.e., blacking out of text) the two versions should be identical. You should ensure that redacted information is not able to be recovered electronically from the document; the redacted version will be published as received.

If you want all or part of your submission to be treated as confidential, you should provide reasons why this information should be withheld if a request is made for it under the Official Information Act 1982 (**OIA**). These reasons should refer to the grounds for withholding information under the OIA. If an OIA request for redacted information is made, we will make our own assessment of what must be released taking your views into account.

We may also publish an anonymised summary of the submissions received in respect of this consultation paper.

Non-technical summary

The Government has agreed, in principle, to implement a prudential levy. The Reserve Bank of New Zealand (Reserve Bank) is carrying out this public consultation on behalf of the Minister of Finance. The consultation seeks feedback from stakeholders on the design of a levy. Following this consultation Cabinet will make final decisions on a levy regime.

The Reserve Bank funds our operations (including our prudential function) from our revenue. Under a five-year funding agreement (FYFA), the Minister agrees how much revenue may be applied to our expenses each year, and any surplus is distributed to the Crown in the form of an annual dividend. A prudential levy shifts the funding burden for our prudential function onto the financial institutions we regulate and supervise.

The Reserve Bank regulates and supervises deposit takers, insurers and financial market infrastructures (FMI). Financial institutions can create risks for society (negative externalities) and it is common for those institutions to pay for the costs of mitigating those risks through regulation and supervision. They also benefit from regulation and supervision, as it provides investors and borrowers with reassurance as to the soundness of the entity and can result in more investment and lower costs. On balance, we consider all relevant Reserve Bank costs should be paid for under a levy, rather than only a portion.

The relevant costs need to be carefully determined. Under the empowering legislation, only some work the Reserve Bank does can be paid for by a prudential levy. This is mostly undertaken by our Financial Stability Group, which carries out work to protect and promote the stability of New Zealand's financial system. The costs of the functions subject to the levy are currently about $70 million per annum (including shared services costs).

The Government proposes that everyone who is regulated and supervised by the Reserve Bank should contribute to the levy.

The Reserve Bank, with feedback from this consultation, must make recommendations on how to allocate the costs of prudential regulation between regulated entities. As it is difficult to precisely measure how much regulatory effort is allocated to each sector, and this varies over time, we propose adopting a proxy method based on how much frontline supervisory effort is applied to each sector. Using this percentage allocation the deposit taking sector pays 54% of the levy, insurers pay 39%, and FMI pay 7%. This reflects how many frontline supervisors currently work with those sectors.

We are seeking feedback on how to allocate Reserve Bank costs within each of the three sectors. We explain the unique features of each sector and propose various options that take these into account. We have analysed the options against the principles of effectiveness, efficiency, transparency, equity and simplicity.

The Government proposes that the levy apply from mid-2027. As there are incoming changes to the legislation that governs deposit takers, and some potential changes for insurers, we propose some temporary exemptions until these changes are in effect.

The levy will require regulations made by the Governor-General by Order-in-Council, on the recommendation of the Minister of Finance. The levy regulations will specify how the levy is calculated. We propose the levy will be calculated yearly in arrears and reviewed every five years, to align with our FYFA with the Minister. There is flexibility for an out-of-cycle review where the levy regulations need to be updated ahead of the next planned review.

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1 Introduction

1.1 Purpose of this consultation

The Reserve Bank of New Zealand – Te Pūtea Matua (**Reserve Bank**) is consulting on the proposed introduction of a prudential levy, made under the Reserve Bank of New Zealand Act 2021 (**RBNZ Act**).

The Reserve Bank is a full-service central bank. We issue notes and coins, manage foreign reserves, operate payments systems, provide market liquidity, and set and implement monetary policy (collectively referred to as the **central bank** function).

We also prudentially regulate and supervise deposit takers, insurers, and financial market infrastructures (**FMI**) (referred to as the **prudential function**). Broadly, prudential regulation involves determining the requirements financial institutions must meet, supervising against those requirements and taking appropriate action where those requirements have been contravened, for the purpose of protecting and promoting the stability of New Zealand's financial system.

A prudential levy would enable the Reserve Bank to recover the costs of the prudential function from regulated entities. The central bank function will not be funded by this levy.

The Government has made in-principle decisions to introduce a prudential levy applying to deposit takers, insurers and FMI in 2027.

The RBNZ Act requires industry consultation prior to implementing a prudential levy. The Reserve Bank and the Minister of Finance (**Minister**) have agreed the Reserve Bank will carry out the consultation on the Minister's behalf.

In preparing this consultation, we have engaged with The Treasury – Te Tai Ōhanga (**Treasury**). Treasury is the administrator of the RBNZ Act and will have responsibility for ensuring the regulations enabling the prudential levy are issued.

1.2 Structure of this consultation

We are consulting on the potential introduction of a prudential levy and, if introduced, how it could be implemented.

The structure of this document is as follows:

- The remainder of Chapter 1 provides background information on these proposals, including relevant legal provisions, cost recovery principles and current funding arrangements.
- Chapter 2 focuses on the rationale for introducing a prudential levy.
- Chapter 3 discusses how we propose to determine the costs for recovery.
- Chapter 4 covers who the levy would apply to, and how the recoverable costs should be allocated between sectors and regulated entities within those sectors.
- Chapter 5 outlines several administrative matters relevant to the levy's implementation.

In each chapter we outline the rationale for the proposals and alternative options we have considered that you may wish to provide feedback on.

1.3 Legislative provisions and cost recovery principles

The provisions in the RBNZ Act set out the framework for implementing a prudential levy. If the Minister decides to recommend a prudential levy, regulations made by Order in Council will be required. Regulations are a form of secondary legislation made by the Governor-General on the advice of the Executive Council.[1]

Furthermore, general cost recovery principles are relevant to the design of any levy. In considering the design of the prudential levy, we have had regard to the cost recovery guidelines and best practice outlined by the Treasury[2] and the Controller and Auditor-General.[3]

Legislative provisions

Sections 293 to 296 of the RBNZ Act[4] provide for the charging of a prudential levy. These sections are reproduced in full in Appendix B.

Section 293 requires regulated entities to pay a levy to the Reserve Bank, if they are included in a prescribed class of regulated entities.

Section 294 gives the Minister the power to recommend regulations providing for a levy, and outlines what those regulations may specify. It allows the Minister to determine whether relevant costs should be fully or partially covered by the levy. It also requires that the costs of collecting the levy be met out of the levy.

Section 295 contains other provisions relating to the levy. This includes permitting levy shortfalls to be recovered in certain circumstances, determining when levy collection can begin after levy regulations are made, and requires levy payments to be separately accounted for.

Section 296 specifies that consultation must occur with those liable to pay the levy or significantly affected by it, prior to the Minister recommending levy regulations. It also outlines what must be included in the consultation – specifically the portion of the costs of regulation and supervision that should be met by the levy and the amount of the levy or the method of calculating or ascertaining the amount.

Cost recovery principles

We have considered the following principles set out in Treasury's guidelines in designing the prudential levy:

- **Effectiveness**: Achieving the prudential levy's desired outcome of funding a fit for purpose prudential function.
- **Efficiency**: Allocating resource efficiently, ensuring costs are in proportion with benefits. This includes economic efficiency such as incentives to enter the market and to innovate and grow.
- **Transparency**: Outlining the Reserve Bank's costs and allocation of levy components clearly, to demonstrate reasonable cost recovery.

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1 Executive Council | Department of the Prime Minister and Cabinet (DPMC)
2 Guidelines for Setting Charges in the Public Sector - April 2017
3 Setting and administering fees and levies for cost recovery: Good practice guide
4 Reserve Bank of New Zealand Act 2021 | New Zealand Legislation

- **Equity**: Treating stakeholders fairly, with entities paying proportionately to the benefits they derive and the regulatory effort the Reserve Bank expends upon them.
- **Simplicity**: Ensuring the proposed levy is straightforward and understandable.

1.4 Existing Reserve Bank funding arrangements

The Reserve Bank generates revenue from the issuance of notes and coins (a process called seigniorage), fees and investment returns on our balance sheet. Our funding is based on a five-year agreement (**FYFA**) between the Reserve Bank and the Minister of Finance. This agreement states how much of our revenue we can retain to meet operating costs and capital expenditure. Any surplus is distributed to the Crown in the form of an annual dividend after taking into account the Reserve Bank's capital needs.[5]

The expenses that we incur in performing our prudential function are currently accounted for under this agreement. The introduction of a prudential levy will not increase the Reserve Bank's operating budget or the functions it undertakes. Rather, if our prudential function becomes funded by a levy it would cease to be accounted for under the FYFA. All else equal, this would increase the size of the dividend the Reserve Bank pays to the Crown.[6]

A prudential levy would effectively shift the burden of funding the costs of the Reserve Bank's prudential function to regulated entities.

As the central bank function will not be funded by this levy, it will continue to be funded through our revenue.

1.5 Feedback sought

We are interested in feedback on the proposals in this consultation document. In each chapter we ask specific consultation questions on the proposals. We have also grouped these questions at the end of this paper in Appendix A to help facilitate the preparation of submissions.

1.6 Next steps

The feedback received on this consultation will help the Minister to decide whether to recommend the Governor-General makes regulations providing for a prudential levy and will inform the content of those regulations. The Reserve Bank and the Treasury will also provide further advice to assist the Minister in making a decision. If the Government decides to proceed, the Treasury will then be responsible for progressing further work to make the necessary regulations. Further consultation on the draft regulations is not proposed.

Information about the proposed timeframe for introducing a prudential levy is found in Chapter 5.

[5] See our latest Five Year Funding Agreement.

[6] Under section 213 of the RBNZ Act the annual dividend paid to the Crown is determined by the Minister of Finance, having regard to a recommendation from the Reserve Bank, the principles set out in the statement of risk management, and any other relevant matters.

2 Scope of a prudential levy

2.1 Introduction

This chapter explains, and seeks feedback on, the conceptual rationale for introducing a levy and whether all of the legally recoverable costs relating to our prudential function should be met by a levy.

2.2 Rationale for introducing a prudential levy

Implementing a prudential levy would transfer the cost of funding the Reserve Bank's prudential function to the entities we regulate and supervise.[7] Due to the Reserve Bank's funding agreement, this will result in a fiscal benefit to the New Zealand Government that would allow it to spend those funds on other governmental priorities, or support fiscal consolidation.

There are two rationales that support cost recovery for a prudential levy.

- *Externality theory* argues that entities that create risks should pay to mitigate those risks.
- *Beneficiary theory* finds that those that benefit from regulation should pay for those benefits.

Externality theory

Financial institutions can create a 'negative externality' (or 'public bad') for society. Negative externalities in financial markets occur when financial institutions and other financial market participants engage in activities that impose costs on third parties – such as households, businesses and taxpayers. These costs stem from risk taking, and at the extreme, result in financial crises and significant disruption to economic growth and well-being. These risks are managed by prudential regulation and supervision, and these institutions bear some of the costs of this management. Mitigating these externalities benefits depositors and insurance policyholders (by virtue of a lower risk of losing funds) and the taxpayer (by virtue of reducing the probability of publicly funded 'bailouts').

Some of this negative externality is already being mitigated and funded by financial institutions.[8] However, the full cost of mitigation would also include the costs of the Reserve Bank fulfilling its functions under prudential legislation. This suggests there may be some residual negative externality that entities create for society that they are not currently paying for or internalising. A prudential levy could, depending on calibration, fully ensure the costs of managing financial system risks are covered by those who create the risk.

Beneficiary theory

Applying the Treasury's *Guidelines for Setting Charges in the Public Sector,*[9] requires us to consider who benefits from the goods and services (hereafter, goods) the Reserve Bank provides through its prudential function. In economic theory there are a number of different types of economic

[7] These entities, in turn, may then decide to pass on some or all of these costs to their customers. This consultation paper does not attempt to quantify the extent of any potential pass through, as this will largely reflect differences in the competitive dynamics that exist across the three sectors that will be subject to the levy.

[8] For example, from late 2026, deposit takers will pay the Depositor Compensation Scheme (**DCS**) levy, which funds the protection of up to $100,000 per depositor per institution in the event of deposit taker failure. This reduces the likelihood of contagion and bank runs, and therefore contributes to reducing the negative externality caused by these entities.

[9] Guidelines for Setting Charges in the Public Sector - April 2017

goods that deliver benefits, but the most important distinction for the purposes of this consultation is that between 'private' and 'public' goods.[10]

Private goods are those which are specific to the person or entity they are generated for. Other parties can be excluded from its benefits at a low cost (excludable), and the use by one person conflicts with use by another (rivalrous). There is a strong case for recovering the costs of a private good from those who benefit from it.

Public goods, on the other hand, are those which benefit many or all people. Excluding people from its benefits is either difficult or costly, and its use by one person does not detract from its use by another. There is a strong case for recovering the costs of a public good from the community as a whole via general taxation (or in the Reserve Bank's case, through the revenue we generate).

We consider that prudential regulation and supervision is a mixed good, with characteristics of both a private good and a public good.

Private benefit

Being licensed enables financial institutions to operate in an exclusive market and generate profit from this operation (licensing requirements create barriers to entry, resulting in market power for those who are licensed). It also affects their status when raising external funding – that is, they can borrow at lower interest rates as a result of the regulatory framework.[11] While FMI do not require a licence to carry on business, they may also benefit from being designated in a number of ways.[12] For example, in some cases it means that they benefit from legal protections around the finality of settlements carried out using the FMI.

Customers of financial institutions benefit from increased security of their assets (and FMI participants benefit from greater reliability in the systems they use to make payments, and buy and sell financial products). Some aspects of prudential supervision are excludable (e.g. licensing, which is targeted towards a specific firm and directly benefits only that firm if the licence application is successful[13]), and rivalrous (the Reserve Bank has limited resources, and time it spends supervising one entity is at the expense of time spent supervising other entities).

Public benefit

Successful delivery of the Reserve Bank's prudential mandate creates non-excludable and non-rivalrous benefits in the form of a resilient and stable financial system. This provides favourable preconditions for businesses and households to make long term savings, consumption and investment decisions, to take out insurance against adverse events, and to make payments and buy and sell financial products in a reliable and efficient manner. It also reduces the burden on the taxpayer that would otherwise be associated with potential public support for insolvent financial

[10] Other economic goods include 'club' and 'merit' goods – see the discussion in the Treasury Guidelines.

[11] For example, to the extent that prudential regulation and supervision support the soundness of regulated entities (relative to non-prudentially regulated entities), this lowers the level of risk premia that depositors and other investors demand compensation for. Depositor protection schemes like New Zealand's DCS are a good example. See Box C in our latest Financial Stability Report May 2026.

[12] FMI are designated when they are systemically important or opt into the regulatory framework (rather than requiring a licence or other form of approval to carry on their business).

[13] That said, licensing activity can provide private benefits for financial institutions already licensed and operating in a financial market. For example, unsuccessful licence applications entrench the advantage of incumbents by managing or reducing the level of competition in a market.

institutions, while reducing contagion risks that might negatively impact an otherwise solvent entity.

Consultation question

Q1	Is there anything we have not taken into account in considering the rationale for a prudential levy?

2.3 Portion of costs met by levy

The Minister may determine what portion of the Reserve Bank's levy-recoverable costs should be met by a levy.[14] We examine the arguments for full or partial cost recovery, which in part rests on what sort of 'good' (see chapter 2.2) prudential regulation and supervision is, together with several other considerations such as the practice in other jurisdictions.

A full cost recovery model implies that industry should pay *for all of the costs* the Reserve Bank incurs in performing its prudential function and exercising its powers under prudential legislation (see chapter 3). Whereas a partial cost recovery model splits this cost between industry and the New Zealand taxpayer.

Both rationales discussed above support industry cost recovery when applied to prudential regulation and supervision. Externality theory presents a case for full cost recovery, while beneficiary theory supports a case for partial cost recovery.

Externality theory

Applying the lens of externality theory suggests that entities that generate risks for society associated with providing financial services and products should bear the burden of managing those risks. While the Reserve Bank's prudential regulation and supervision activities impose compliance burden on regulated entities, this is unlikely to fully reflect the costs of managing these risks which includes most, if not all, the prudential costs incurred by the Reserve Bank. Notwithstanding this difficulty in determining how much of the total negative externality created by regulated entities is 'priced in' with respect to compliance costs, there is currently a significant level of un-priced costs that are not currently borne by financial institutions. A prudential levy essentially prices these remaining costs.

Beneficiary theory

For the reasons explained above, the delivery of the Reserve Bank's prudential mandate has both private and public benefits and therefore has characteristics of both a private and public good. As there is a mixed benefit there is a strong *prima facie* case for partial cost recovery.

However, separating out these benefits would be practically and conceptually challenging. It is not possible from an accounting perspective to itemise and isolate which costs are attributable to either good. For this reason, any private-public benefit split that could be put forward to support a partial cost recovery model would involve a substantial element of judgement and ultimately be somewhat arbitrary.

[14] See section 294(3)(a) of the RBNZ Act.

International precedent

Full cost recovery appears to be more consistent with international practice for prudential levies: other countries that charge similar levies, including Australia, the UK, Canada, and Ireland, use full or close to full cost recovery.

For example, the Australian Prudential Regulation Authority (APRA) is Australia's prudential regulator and is almost entirely industry funded for the costs it incurs regulating and supervising authorised deposit-taking institutions (ADIs), insurers, and superannuation funds.[15] Unlike the Reserve Bank, APRA does not prudentially regulate FMI. An industry levy, to meet the costs of regulation, was recommended by the Wallis Inquiry in 1997 that led to the creation of APRA.

In a review of the levy methodology carried out in 2019, the Australian Treasury acknowledged that while prudential regulation and supervision has a public good quality – and therefore could be funded more directly by government (e.g. through appropriations) – industry funding better balances alternative uses of government funds against the outcomes sought by prudential regulation.[16]

That said, there are domestic precedents in other regulatory regimes for partial cost recovery. For example, in the context of New Zealand's market conduct regime, the bulk of the Financial Markets Authority's (FMA) funding is recovered from industry through levies, with a smaller proportion funded by the Crown (around 16 percent from 2025/26). The Ministry of Justice's current proposal for cost recovery under New Zealand's anti-money laundering and countering the financing of terrorism (AML/CFT) regime is roughly split in half between industry-Crown funding, where it is proposed most of the industry funding will come from registered banks with assets over a certain threshold.

Maximising fiscal benefits

Collecting the full amount of the Reserve Bank's prudential costs would also maximise the fiscal benefit of a prudential levy regime since the largest proportion of costs that were previously funded by the Crown would ultimately be borne by industry. In line with the perspective of the Australian Treasury noted above, a full cost recovery model provides the most flexibility for Government in relation to the alternative use of public funds, relative to a partial recovery model.

We propose full cost recovery

Taking the insights from both externality and beneficiary theory together, on balance we are proposing that a prudential levy regime is based on full industry cost recovery.

This proposal reflects:

- The conceptual challenges in isolating public and private benefits that would be necessary to support a credible split between industry and taxpayer funding for the Reserve Bank's prudential activities.
- The simplicity of a full recovery model, versus the complexity and additional administrative costs of managing a split model.

[15] APRA receives a small amount of government funding through Appropriation Bills, typically only 3-6% of its total cost base.

[16] See Australian Government, Financial Institutions Supervisory Levies Methodology: Discussion Paper August 2019, page 2. The Australian Treasury also noted that industry cost recovery is important in supporting the operational independence of APRA, relative to a reliance on annual Government appropriations.

- International precedent for the design of prudential levy regimes.
- Maximising fiscal benefits.

Consultation question

Q2	Are there any reasons why you think full costs should not be recovered?

3 Determining Reserve Bank costs

This chapter details the activities undertaken by the Reserve Bank (and their associated costs) that are eligible for recovery under a prudential levy. While the Reserve Bank undertakes many functions (including our central bank function),[17] only the costs associated with our prudential function can be recovered by a prudential levy.

The level of resource the Reserve Bank has for its prudential function is out of scope for this consultation. However, we carefully manage our work programme and priorities to ensure we meet our mandate in a cost-effective way. We routinely take on board suggestions from stakeholders for additions to our work programme (e.g. further refinements to risk weights for securitisations, infrastructure, and reverse mortgage lending). We provide transparency for our work programme and priorities through our accountability documents, and our work with the Treasury as our monitor. In future, we are exploring publishing a more regular articulation of our prudential priorities. We are interested in feedback as to whether stakeholders would find this useful, or whether existing accountability documents are sufficient.

3.1 Legislative requirements

The levy is payable by a "prescribed class of regulated entities" (section 293(1)) and on the basis that they meet "a portion of the costs of the Bank in performing or exercising its functions and powers under prudential legislation" (section 294(3)).

Prescribed class of regulated entities – definition

Section 5 of the RBNZ Act defines a 'regulated entity' as meaning:

- a registered bank
- a licensed insurer
- a licensed NBDT
- an operator of a designated FMI.

Prudential legislation – definition

Section 5 of the RBNZ Act defines 'prudential legislation' as meaning:

- the Banking (Prudential Supervision) Act 1989 (BPSA)
- the Insurance (Prudential Supervision) Act 2010 (IPSA)
- the Non-bank Deposit Takers Act 2013 (NBDTA)
- the Financial Market Infrastructures Act 2021 (FMIA)
- the secondary legislation made under these Acts.

[17] Functions as set out in section 10 RBNZ Act.

Recovering the Reserve Bank's costs under the DTA

Following the passage of the Deposit Takers Act (**DTA**) in 2023, the Reserve Bank has been preparing for when all the provisions of this legislation are brought into force, expected to be on 1 December 2028.[18] This work has included the development of new prudential standards, supervisory systems and processes, and enforcement and resolution frameworks. This work is undertaken in the ordinary course of business and is the type of cost we expect the levy to cover.

In order to include these costs in the prudential levy prior to the DTA coming into force on 1 December 2028, a legislative amendment would be required. The Treasury – as administrator of the RBNZ Act – is currently exploring legislative solutions to this issue in light of the Government's intention to introduce a levy regime next year.

By contrast, project implementation costs associated with the DTA are separate to our ordinary work. Some project costs are only incurred for specific purposes and specific lengths of time to implement the new legislation. These costs are provided for separately in the FYFA and will not be covered by the levy.

We have written this consultation document and presented figures for recoverable costs on the basis that a legislative amendment will be enacted before the levy regulations come into effect (this will be subject to the usual government and Parliamentary decision-making processes). Assuming the required changes are made, the total recoverable costs, sector splits and apportionment to individual entities outlined below all assume inclusion of relevant DTA-related costs.

3.2 Process for determining recoverable costs

We must determine which of the Reserve Bank's costs involve performing or exercising functions and powers under prudential legislation. These are eligible for cost recovery.

Our starting point is the cost of the functions undertaken by the Financial Stability Group (**FSG**), as accounted for under our FYFA. FSG contributes to the financial stability objective of protecting and promoting the stability of New Zealand's financial system. Most day-to-day functions of FSG relate to the development, supervision, monitoring and enforcement of prudential legislation. This supports the RBNZ Act's overarching statutory purpose of promoting the prosperity and well-being of New Zealanders and contributing to a sustainable and productive economy.

To calculate the levy-recoverable costs, certain FSG functions (and their associated indirect costs) will need to be excluded. Typically, these activities will be excluded because they are subject to a different cost-recovery framework (such as a fee or another levy) or because they do not relate to prudential legislation (for instance, they may instead relate to a function under the RBNZ Act).

Below we have outlined the departments within FSG and given examples of activities we consider would or would not be levy recoverable.

[18] Only limited portions of the DTA are currently in effect, mostly relating to the DCS under Part 6 of the Act. See the relevant commencement order: Deposit Takers Act Commencement Order 2025 | New Zealand Legislation.

Table 1: FSG activities expected to be included and excluded from the levy cost-base

FSG department	Activities included in the levy cost-base	Activities excluded from the levy cost-base
Management	• Leadership of FSG Group and departments.	• Contributions to accountability and transparency documents.[19] • Leadership support to non-FSG and non-recoverable functions.
Prudential Policy	• Prudential policy advice and research. • Advice on specific financial stability policy settings across regulated entities.	• Second-opinion review of RBNZ Act-related policy.[20] • Statement of Prudential Policy.
Prudential Supervision	• Supervision and oversight of licensed deposit takers and insurers. • Supervisory engagements with other regulators.	
Specialist Supervision	• Supervision of FMI. • Licensing and authorising of regulated entities. • Expert advice to frontline supervisors through Risk Specialists (including operational risk/resilience and actuarial advice). • Modernisation of supervisory frameworks and systems.	
Enforcement and Resolution	• Investigating non-compliance and taking enforcement action where appropriate. • Recovery of distressed entities. • Resolution of distressed entities.[21] • Recovery and resolution policy. • Enforcement systems and investigations.	• Depositor Compensation Scheme (DCS). • Resolution activity when funded by the DCS levy. • Court litigation costs.[22] • Enforcement action relating to the RBNZ Act.
Financial System Assessment	• Monitoring the financial system to identify and assess stability risks. • Thematic reviews. • Stress testing financial institutions. • Macroprudential calibration. • Internal ratings-based (IRB) approval.	• Financial Stability Reports. • Strategy and development for Te Ao Māori, financial inclusion and climate strategy. • South Pacific strategy and engagement.

[19] The RBNZ Act specifies several documents either prepared by the Reserve Bank or by the Minister with feedback from the Reserve Bank. These include the: Financial Policy Remit, Statement of Performance Expectations, FYFA, Statement of Intent and Annual Report.

[20] The Treasury leads on policy work related to the RBNZ Act as it is responsible for administering this Act. The Reserve Bank provides a second-opinion review given the policy directly involves Reserve Bank functions.

[21] Resolution of distressed entities may be removed from this list if the costs associated with this activity can be more appropriately recovered some other way (for example, under section 347 of the DTA which provides that the costs, changes, and expenses properly incurred by the Reserve Bank and resolution manager are payable out of the assets of the deposit taker in resolution in priority to all other claims).

[22] The Reserve Bank's litigation is (effectively) separately funded by the Crown and there can be unintended incentives and fairness issues if litigation costs are recovered via a levy.

FSG department	Activities included in the levy cost-base	Activities excluded from the levy cost-base
Cross-FSG exclusions[23]	• N/A.	• Project resources and costs relating to the implementation of the DTA. • Engagement with the Council of Financial Regulators. • Some collaboration and co-operation activities with other agencies (non-supervisory).[24] • Financial Sector Assessment Programme reviews conducted by the International Monetary Fund.[25] • Activities for which a fee is payable, such as a licensing fee. • Costs of administering the prudential levy regime that are not collection costs – such as reviewing levy methodology.

Each year the levy is payable, we will estimate how much time each department spends on levy recoverable activity. Some specific expenses within departments will be reviewed individually to determine whether they should be included, as they are tied to specific activities rather than general staffing costs. This includes the costs of consultants and contractors, hosting conferences and attending external engagements.

These activities reflect the relevant direct costs. We will then calculate indirect costs proportionate to each department's levy recoverable percentage, using the methodology described below.

3.3 Direct and indirect costs

We intend to apply a two-step process to determine the levy recoverable amount. The first step, as described above, involves determining the direct cost of eligible activities where costs are assigned directly to outputs and a clear relationship exists. The second step is indirect cost allocation, where shared costs are allocated using defined cost pools and allocation drivers.

Direct costs, including salaries and wages for staff undertaking prudential activities, will be directly attributed to the levy base. Salaries will be estimated using the midpoint of the relevant salary band within the applicable remuneration range, with an additional 4% applied to reflect KiwiSaver contributions.

Indirect costs, such as shared services and enabling functions (including Property, Technology, Finance, Data and Information, People and Culture, and other corporate overheads) have been grouped into cost pools and allocated to the levy base using appropriate consumption-based cost drivers.

Cost pools are based on similar functional characteristics and causal relationships to outputs. The method involves:

- Identifying activities with common cost behaviour and purpose.
- Grouping these activities into a single cost pool.

[23] These are activities that all departments contribute to, to varying degrees.
[24] For example, the Executives Meeting of East Asia-Pacific Central Banks (EMEAP).
[25] Financial Sector Assessment Programme - Reserve Bank of New Zealand - Te Pūtea Matua

- Ensuring each cost pool has a clear and consistent allocation basis.

This ensures that costs within each pool are allocated using a logically consistent driver.

Cost drivers are used to distribute indirect cost pools to outputs in a manner that reflects relative usage or benefit. Cost drivers are selected to ensure allocations are reasonable, supportable, and aligned to the underlying economics of service delivery. The method involves:

- Selecting allocation bases that best represent the consumption of services.
- Applying drivers consistently across reporting periods.
- Periodically reviewing drivers for continued relevance and accuracy.

Common drivers include:

- Full-Time Equivalent employees (FTEs).
- Operating expenditure.
- Usage or activity-based metrics.
- Project-related allocations through defined funding pools.

It is acknowledged that elements of indirect cost allocation, particularly those based on consumption rates, involve a degree of judgement to reflect relative usage or benefit. These assumptions are subject to annual internal review to ensure they remain appropriate, relevant, and are consistently applied across the departments/output classes.

This indirect cost attribution methodology is aligned with the Office of the Auditor-General guidance[26] on cost attribution and Treasury's Government Finance Profession policy guidance. We apply this same methodology when calculating the costs recoverable as part of the DCS levy.

3.4 Estimate used for this consultation

We have calculated the estimated recoverable costs as follows:

Table 2: Estimated levy recoverable costs, excluding GST ($m)

FY2027/28	FY2028/29	FY2029/30	Average	Total
68.1	69.5	70.9	**$70 million**	**$209 million**

Important: For the remainder of the calculations in this consultation paper, the average levy amount of **$70 million** has been used to represent the total levy payable. All calculations are indicative estimates only, provided for illustrative purposes. If the levy is implemented, each year's levy would be calculated based on the finalised methodology and actual data at the conclusion of a financial year. This means it will differ from the estimate provided above.

[26] https://ao.parliament.nz/2021/fees-and-levies/docs/fees-and-levies.pdf

Consultation questions

Q3	Is there any additional information we should add to our accountability documents to aid transparency?
Q4	Do you have any comments on how we will determine costs eligible for recovery?

4 Sector and sub-sector allocation

4.1 Introduction

This chapter proposes ways the levy costs could be allocated between the sectors the Reserve Bank prudentially regulates. It also details how costs could be split between entities within a sector.

Concurrent with this consultation, the Reserve Bank is undertaking significant legislative reforms to modernise our prudential framework, which in some cases results in changes to the entities within our regulatory perimeter and our responsibilities towards them:

- Once the relevant provisions of the DTA are in force, non-bank deposit takers (currently regulated by the Reserve Bank but supervised by licensed trustees) will become deposit takers regulated and supervised by the Reserve Bank.
- Proposals to amend the IPSA may result in overseas reinsurers and overseas captive insurers (currently regulated and supervised by the Reserve Bank) no longer being required to hold a licence, meaning they will be outside the Reserve Bank's regulatory perimeter.[27]
- Proposals to amend the IPSA may result in all insurers incorporated in New Zealand, regardless of where their policyholders are based, being required to obtain a licence (currently they are not required to be licensed). This is not expected to result in a significant number of new licences.

If approved, these changes are expected to take effect in late 2028. The levy proposals have been designed with this future state in mind, meaning for the analysis in the rest of this chapter, the groups above have been automatically included or excluded respectively. See chapter 5.2 for proposals relating to the transitional period between the levy's introduction and the proposed perimeter changes taking effect.

4.2 Who the levy would apply to

Section 293 of the RBNZ Act provides the Reserve Bank with the legal authority to charge a levy to prescribed classes of regulated entities.[28] This chapter discusses which sectors and subsectors we propose be prescribed in regulation, which determines who must pay some portion of the levy.

The amount, or method for determining the amount, that each entity must pay is discussed subsequently.

Exemptions for sectors

The Reserve Bank prudentially regulates three sectors: deposit takers, insurers, and FMI.

The Government has considered this issue and favours a consistent and equitable approach where the levy is payable by all three sectors. The Government considered whether the levy may impose a disproportionate compliance burden on a particular sector or its customers, to the extent that exempting that sector would be warranted. However, exempting a sector would result in either reducing the total levy, or requiring the remaining sectors to cover the Reserve Bank's costs relating to the non-paying sector (cross-subsidisation).

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[27] See the consultation on amendments to the Insurance (Prudential Supervision) Act 2010.
[28] Section 293(1) of the RBNZ Act.

Cross-subsidisation is inconsistent with the design principles of equity amongst levy-payers and simplicity and should be avoided wherever possible.

Exemptions for subsectors

Within the deposit taking sector, we consider the levy should apply to all subsectors. We do not consider any exemptions are warranted for entities that were previously non-bank deposit takers, nor for any specific business models such as building societies, credit unions or finance companies.

Within the insurance sector, we consider the levy should apply to all subsectors. We do not consider exemptions are warranted depending on whether insurers offer general, health or life insurance.

Within the FMI sector, we consider the levy should apply to all operators (regardless of where they are based). This is notwithstanding the Reserve Bank operates two of five currently designated FMI, and the Reserve Bank and other Crown entities are participants in three of five.

If levies are imposed on FMI, it is likely that the operators will pass on costs to participants. The Reserve Bank and other Crown entities will therefore bear a portion of the levy costs, reducing the net fiscal savings from the levy. However, we do not consider this a sufficient reason to exempt entities from being levied, which itself would either result in a reduced fiscal benefit or cross-subsidisation. The operating structure does not lessen the supervisory resources focused on these FMI.

Minimum size threshold

Across all sectors and subsectors, we do not recommend a minimum size threshold below which entities are exempt from paying a levy. While costs that the Reserve Bank incurs for regulating and supervising smaller entities may be lower than for other entities, they are not zero and, in some cases, can actually be higher than larger entities. Minimum thresholds would result in larger entities cross-subsidising the cost of regulating and supervising smaller entities within a sector. We consider it is better to calibrate a proportionate levy through principled allocation between entities within a sector (which may take into account their size), rather than exempting certain entities entirely.

Entities exiting the market

We considered whether levies should continue, or cease, for a deposit taker that is in resolution, administration, receivership or insolvency and propose that they should cease. A levy portion would be calculated on a pro-rata basis for the days in the financial year that the entity was not in resolution. For any pro-rated levy collectable in this case, we propose that the Reserve Bank be ranked as a general unsecured creditor of the relevant entity.

Separately, we propose insurers in a solvent run-off should continue to be levied. An insurer in run-off has stopped writing new business but continues to manage existing claims until final settlement. Depending on the type of insurance offered, this process may take some time and the insurer remains licensed until the process is complete. It is also possible for an insurer to exit run-off and continue in business.

Consultation question

Q5	Do you agree that all sectors and subsectors prudentially regulated by the Reserve Bank should contribute to the levy?

4.3 Allocation between sectors

We outline how we propose the levy will be allocated between the prescribed sectors. Section 294 of the RBNZ Act allows the regulations to provide different levies for different classes of regulated entities.[29]

As the purpose of the levy is to recover the Reserve Bank's costs in performing or exercising its functions or powers under prudential legislation, apportioning the levy should reflect the level of regulatory effort the Reserve Bank expends on each sector under the relevant prudential legislation (and therefore the cost it incurs with respect to each sector). While regulatory effort can fluctuate over time, we recommend a simple approach reflecting long-term averages, which would give industry greater certainty and costs less to administer.

For the deposit taking and insurance sectors we propose determining the sectoral allocation based on the number of frontline supervisors per sector. Frontline supervisors reflect ongoing direct engagement with each sector, in line with our risk-based approach to supervision. This allocation can be extrapolated as an estimate for regulatory effort across all departments within FSG (explained in Table 1), who work flexibly across sectors as need arises.

FMI represent a unique case – as a highly specialised function, almost all work relating to FMI is conducted by the frontline supervisors with only a small amount undertaken by other FSG departments, thereby making the specific resource attributable to FMI more identifiable.

Using the methodology outlined above the proposed allocation between sectors is:

- Deposit takers: 54%
- Insurers: 39%
- FMI: 7%

Table 3: Indicative levy costs per sector, across three years ($m)

Sector	FY 27/28	FY 28/29	FY 29/30	Total (sector)
Deposit takers	36.8	37.5	38.3	**$113 million**
Insurers	26.6	27.1	27.7	**$81 million**
FMI	4.8	4.9	5.0	**$15 million**
Total (year)	**68.1**	**69.5**	**70.9**	**$209 million**

[29] Section 294(4)(f) of the RBNZ Act.

Introducing timesheets could allow for a more precise determination of regulatory effort spent on specific sectors, subsectors or entities. However, the Reserve Bank does not currently collect timesheets for work on our prudential function and does not support their introduction on the basis that this would likely produce only minor refinements but would significantly increase the Reserve Bank's costs. We do not consider this effort would be proportionate to the size and complexity of the costs to be recovered, nor would it be an efficient use of resources.

We will ensure there is clear accountability for the use of levy funded resources to demonstrate the levy is not funding other Reserve Bank activities that are covered by the FYFA or other funding sources.

Consultation question

Q6	Do you agree with our method of allocation between sectors?

4.4 Allocation between entities within a sector – background

Having determined the levy percentage each sector is proposed to pay, we must establish the contribution from each entity within that sector.[30] Broadly, we have considered options where entities within a sector all pay the same amount, or different proportionate amounts calibrated against another metric.

Size is often used as a simple proxy for 'systemic importance'. A risk-based prudential regulator will typically devote more of its regulatory time and effort to larger entities. Revisiting the rationales for imposing a prudential levy, we consider larger entities should contribute proportionately more towards the costs of regulating and supervising their sector due to:

- **Externality theory** – failure of larger entities imposes a greater level of risk to financial system stability (and therefore the New Zealand economy). Entities that impose this larger risk should contribute a greater amount, in proportion to their balance sheet, towards meeting the cost of reducing the risk to the financial system.
- **Beneficiary theory** – all entities that are subject to prudential regulation and supervision by the Reserve Bank benefit from a stable financial system and the market confidence that comes from regulation. However, due to their size, larger entities receive a greater benefit from a stable system and should therefore contribute a greater proportion towards the cost of maintaining this stability.

However, size alone can be an imperfect proxy. There will be occasions where a disproportionate amount of supervisory or enforcement effort is devoted to smaller entities. There is also a minimum regulatory effort that applies to all entities, no matter how small. Adjustments may be required to implement a more proportionate solution. We have also considered competitive effects.[31]

We have reviewed how other cost-recovery levies are imposed on similar institutions, both in New Zealand in the case of financial market conduct regulation, and internationally across other prudential regulators. A table summarising these approaches can be found in Appendix C.

[30] Section 294(4)(b) Reserve Bank of New Zealand Act 2021 | New Zealand Legislation

[31] Although not directly applicable to this consultation (given it does not relate to prudential policy development), our Competition Assessment Guidelines for Prudential Policy set out our general approach to competition considerations.

Options not explored

There are several options we have considered but not explored further in this consultation paper.

Timesheet-based options

As discussed above, we do not support apportionment methods that rely on the introduction of timesheets, as we consider the benefits of this approach (in terms of marginally improved accuracy) are outweighed by the costs (additional tracking and administration costs).[32] Timesheet-based options may also reduce the predictability of levies for entities each year.

Regressive or progressive rates

While we propose larger entities should pay a greater share of the levy, we intend for this to remain broadly proportionate to their size. We do not propose using a:

- Regressive rate – smaller entities would pay a higher rate than larger entities (based on the proposition that larger entities have a smaller chance of failure).
- Progressive rate – smaller entities would pay a lower rate than larger entities (based on the proposition that the failure of larger entities imposes a disproportionately greater cost on the financial system and economy, and that larger entities receive a disproportionately large benefit from a well-regulated financial system).

Progressive or regressive levy rates can be complex to administer. Determining the appropriate adjustment to levy rates based on the progressive or regressive factors may be arbitrary and conflicts with the principle of equity.

Data not already collected by the Reserve Bank

We propose to calibrate the levy based on data already available to the Reserve Bank. We do not support introducing new metrics or data collection from entities, on the basis that this may be costly, complex and would require significant effort to ensure data is calculated consistently.

Once the final design of the levy is determined, we intend to confirm with industry that data supplied to us through the relevant surveys can be used for the purposes of levy calculations.

Risk-based factors

We do not propose using risk-based factors in apportioning the levy, as it is not the mechanism to promote good risk taking. Risk-based financial metrics are designed with the specific purpose to inform capital requirements. Using them for the levy would add complexity and may disincentivise entities from offering diverse products and services, or services in a particular sector of the economy. Supervisory risk assessments are also considered inappropriate. They are intended to identify and assess the potential for, and impact of, risks to individual firms and to indicate areas of uplift or remediation that the Reserve Bank requires or suggests. As such, risks assessments are treated as private, dynamic and broad-scoped.

[32] See for instance APRA's levy components based on time recorded data, in tables 4.1 and 4.2: Cost recovery implementation statement 2025 | APRA

4.5 Allocation within the deposit taking sector

Using an estimated average of $70 million and a proposed allocation of 54% results in an indicative levy for the deposit taking sector of **$37.8 million** per annum. We have considered four options for how much each individual deposit taker should contribute.

For some options, we have used deposit takers' total assets for the twelve months ending March 2026.[33] We consider total assets (for financial reporting purposes) is the best balance sheet metric for deposit takers, as it acts as a proxy for size and is more stable than other metrics based on income. This is an internationally orthodox approach (see Appendix C). Total assets are also relevant to determining the locally incorporated deposit taking groups under the Reserve Bank's Proportionality Framework.[34]

Features of the deposit taking sector

There are currently 27 registered banks and 14 licensed non-bank deposit takers in New Zealand. Looking ahead to when the regulatory changes outlined in chapter 4.1 have taken effect, deposit takers will be grouped under the Proportionality Framework which sets out how we will take a proportionate approach to balance the costs and benefits of regulation for different types of deposit takers. For simplicity, if we assume no market entrants or exits, and all incumbent deposit takers meet the licensing requirements under the DTA, the sector breakdown would be as follows:

Table 4: Deposit taking sector breakdown (estimated post-2028).

Group	Number
Group 1 Locally incorporated deposit takers with total assets of NZ$100 billion or more.	4 entities
Group 2 Locally incorporated deposit takers with total assets of NZ$2 billion or more, but less than NZ$100 billion.	9 entities
Group 3 Locally incorporated deposit takers with total assets of less than NZ$2 billion.	16 entities
Branches Overseas licensed deposit takers.	12 entities

There is a wide size disparity within the deposit taking sector; the largest deposit taker currently holds total assets around $200 billion while the smallest hold around $15 million. The Reserve Bank is a risk-based supervisor and devotes different levels of regulatory effort commensurate with the different levels of risk entities pose to the financial system.

Branches are part of a legal entity incorporated overseas and are subject to regulation and supervision in their home jurisdiction. Going forward, branches will be restricted in the activities they can undertake and the maximum size they can grow to (before being required to incorporate locally).[35] In line with our risk-based supervision approach, this means less supervisory resource is applied to branches. In two options below, we have proposed different treatment for branches.

[33] Data taken from bank and NBDT financial reporting to the Reserve Bank.
[34] Proportionality Framework for developing standards under the Deposit Takers Act
[35] Review of policy for branches of overseas banks - Reserve Bank of New Zealand - Te Pūtea Matua

Option 1: flat dollar amount

This option would result in all 41 deposit takers equally dividing the deposit taking sector portion of the levy, resulting in a levy of $921,951 per entity.

Option 2: total asset bands

This option creates bands of total assets. Entities whose assets fall within the same band will all pay the same levy amount. The levy bands have been set with reference to the FMA's levy bands for registered banks and licensed NBDTs[36], which provides the benefit of consistency and familiarity for industry members. However, note this does not account for any differentiated treatment for branches.

The levy each band pays is derived from the collective assets of all entities within the band over the sector's total assets (to derive the band's market share), multiplied by the deposit taking portion of the levy. This number is then divided by the number of entities within each band.

The bands and market shares would be determined each year based on the total levy portion payable by the deposit taking sector and the latest twelve-month average of total assets.

Table 5: Levy bands.

Total assets band	Entities per band	Band's collective assets (as a % of total sector assets)	Payable levy per band member
Band 1: Exceeds $50 billion	4	80.52%	$7,609,522
Band 2: Exceeds $10bn but not $50bn	3	9.18%	$1,156,447
Band 3: Exceeds $2bn but not $10bn	16	9.76%	$230,506
Band 4: Exceeds $1bn but not $2bn	1	0.14%	$53,269
Band 5: Exceeds $500m but not $1bn	1	0.06%	$25,272
Band 6: Exceeds $40m but not $500m	14	0.33%	$8,904
Band 7: Does not exceed $40 million	2	0.003%	$638
Total	**41**	**100%**	**$37.8 million**

For completeness, we have not proposed fixed dollar amounts per band (without being derived from an underlying calculation based on total assets) as these would not total to our actual costs year on year.

We also considered bands based on the four proportionality groups set out in Table 4. However, while these are suitable for calibrating prudential requirements, we considered the four groups constituted too few bands, and too great a variance within bands (particularly Group 2) for averages within these bands to be considered equitable.

Option 3: rates based on total assets

This option sets rates for locally incorporated entities and branches. The rate multiplied by a deposit taker's average total assets for the financial year will determine the payable levy amount.

[36] See the class 2 and 2A bands in Financial Markets Authority (Levies) Regulations 2012 | New Zealand Legislation

This means the amount each deposit taker pays depends on their market share – their total assets compared to the total assets for the sector. The rate would be determined each year based on the total levy portion payable by the deposit taking sector, and the latest twelve-month assets data.

We have set a rate five times smaller for branches compared to locally incorporated deposit takers, to reflect the different regulatory effort explained above. This is consistent with APRA's approach, where foreign authorised deposit-taking institutions (ADIs) pay one-fifth the rate of other ADIs within the restricted levy component.[37]

Table 6: Option 3 levy rates.

Group	Levy rate
Locally incorporated deposit takers.	0.0052452%
Branches.	0.0010490%

For example, the levy for a locally incorporated entity with exactly $200 billion in assets would be calculated by multiplying $200 billion by 0.000052452, resulting in a levy of $10,490,308. Some more examples at different asset points have been given in the table below.

Table 7: Option 3 levy examples

Example entity	Payable levy
Locally incorporated with $200 billion in total assets.	$10,490,308
Locally incorporated with $100 billion in total assets.	$5,245,154
Locally incorporated with $10 billion in total assets.	$524,515
Locally incorporated with $2 billion in total assets.	$104,903
Locally incorporated with $500 million in total assets.	$26,226
Locally incorporated with $10 million in total assets.	$525
Branch with $5 billion in total assets.	$52,452

Option 4: hybrid model with two components

This option combines elements of the previous options by introducing two components: a fixed dollar amount and a flat rate. Size alone can be an imperfect proxy for regulatory effort, particularly for small entities where there is a minimum level of regulatory effort regardless of size. The fixed component acts as an effective minimum levy to address this.[38]

All locally incorporated deposit takers would pay the same fixed amount, to reflect a minimum level of regulatory effort. Branches would pay a fixed amount that is five times smaller than for locally incorporated deposit takers (reflecting a lower minimum regulatory effort).

[37] See section 3-2 in Australian Prudential Regulation Authority Supervisory Levies Determination 2025 - Federal Register of Legislation.

[38] We considered other ways to introduce a minimum levy, such as adjusting the amount payable under Option 3's rate up to a minimum value and then recalculating the amount payable by others not constrained by the minimum. Ultimately, we considered Option 4 was a better way to implement a minimum value. We also considered the same methodology with an imposed maximum value but chose not to proceed with this, given externalities and benefits continue to scale with size.

Table 8: Option 4 fixed component costs.

Deposit taker type	Number	Payable fixed component
Locally incorporated	29 entities	$50,000
Branch	12 entities	$10,000

We have had regard to APRA's minimum of AUD$22,500[39] although we consider a higher minimum is appropriate for the New Zealand context given APRA's ADI sector comprises more firms than our deposit taking sector. We have also had regard to competition considerations, ensuring the fixed components are not so large they create barriers to join or remain in the market, weighed against the minimum level of regulatory effort that goes into small entities.

To calculate the levy distribution, first the fixed component is calculated (and in the example above, would total $1.57 million). The remainder of the deposit taking sector's levy ($36.23 million) would then be distributed via the rate component as per Option 3 (with the exception that we have removed the differentiated rate for branches, having instead allocated a smaller fixed component). The relevant rate for this example is 0.0047593%.

For example, the levy for a locally incorporated entity with exactly $200 billion in assets would be $50,000 for the fixed component plus a rate component of $9,518,501 (derived by multiplying $200 billion by 0.000047593), resulting in a levy of $9,568,501. Some more examples at different asset points have been given in the table below.

Table 9: Option 4 levy examples.

Example entity	Fixed component	Rate component	Total levy payable
Locally incorporated with $200 billion in total assets.	$50,000	$9,518,501	$9,568,501
Locally incorporated with $100 billion in total assets.	$50,000	$4,759,250	$4,809,250
Locally incorporated with $10 billion in total assets.	$50,000	$475,925	$525,925
Locally incorporated with $2 billion in total assets.	$50,000	$95,185	$145,185
Locally incorporated with $500 million in total assets.	$50,000	$23,796	$73,796
Locally incorporated with $10 million in total assets.	$50,000	$476	$50,476
Branch with $5 billion in total assets.	$10,000	$237,963	$247,963

As a deposit taker's size changes, the ratio between the fixed component and rate component changes too. For the smallest entities, the fixed component would account for almost all their total payable levy. For large entities, the rate component is much larger than the fixed component.

Analysis

The options we have outlined are not exhaustive. The Reserve Bank considers industry feedback will be necessary to calibrate the levy in a fair way. At this stage we have aimed to present a range of options. That said, in general we consider Options 3 and 4 have greater strengths, with Option 4 being preferred.

[39] Cost recovery implementation statement 2025 | APRA

Table 10: Analysis against the cost-recovery principles.

Principles	Option 1 (Dollar amount)	Option 2 (Bands)	Option 3 (Rate)	Option 4 (Hybrid model)
Effectiveness	All equal given all models propose to recoup the same total levy amount.			
Efficiency	**- -** Heavily disincentivises market entrants, as a flat amount would be prohibitive on entering the market. Would likely result in market exits. However, incentivises growth as the levy amount does not change regardless of growth.	**-** Disincentivises growth nearing a band's edge, as a small change in size could have a material impact on the payable levy (cliff-edge effect).	**+ +** Levy amounts scale linearly with growth, causing no distortions at point of entry and beyond.	**+** There is a small disincentive to enter the market given the fixed cost is payable regardless of size. Otherwise, growth scales linearly.
Transparency	**+ +** The basis for the calculation is clear without any additional information provided by the Reserve Bank, given the only input is the number of market participants.	**-** The Reserve Bank would need to provide the following information so each entity can understand how their levy was calculated: • Sector-wide total assets. • Number of members within each band. • The band's collective total assets.	**-** The Reserve Bank would need to provide the following information so each entity can understand how their levy was calculated: • Sector-wide total assets. • Rate applying to branches. • Rate applying to locally incorporated deposit takers.	**-** The Reserve Bank would need to provide the following information so each entity can understand how their levy was calculated: • Sector-wide total assets. • Amount recovered by the fixed component (and remainder to be recovered by the rate component). • Rate applying to all deposit takers.
Equity	**- -** All entities pay the same amount, regardless of their size and our regulatory effort. There is no proportional recognition of the differing levels of externalities, benefits and supervisory effort applied to different entities.	**-** Entities within a band pay the same amount. While this has the benefit of treating similarly sized entities on a like-for-like basis, that is achieved by averaging their levy-payable amounts, resulting in cross-subsidisation within a band. The width of the bands determines the extent of the cross-subsidisation. More bands can reduce this variance but increases complexity.	**+** Levy amounts are purely proportionate to size, with no averaging between entities. This option places more focus on the pure externalities and benefits that scale with size, rather than size as a means to approximate regulatory effort.	**+ +** A fixed component in conjunction with a rate component results in a total levy amount that is more proportionate to regulatory effort than size alone. It imposes an effective minimum that addresses small outliers.

Principles	Option 1 (Dollar amount)	Option 2 (Bands)	Option 3 (Rate)	Option 4 (Hybrid model)
Simplicity	++ Does not require any industry data as a proxy for size, and is therefore sensitive to fewer inputs. Simple to calculate.	- Bands based off FMA bands creates consistency within the financial sector. However, these may not be suitable to this context and setting the bands in some other way may be considered arbitrary.	- Introduces complexity and a level of judgement in determining the different treatment for branches.	- Introduces complexity and a level of judgement in determining the fixed component sizes.
Overall	- - We do not consider this option workable on the grounds of economic efficiency, competition and equity. The cost would be prohibitive for many new and existing deposit takers. This option does not approximate regulatory effort in any regard.	- We do not consider this option workable primarily due to the cliff-edge effect. In some instances, a small amount of asset growth could result in a substantial levy increase, for instance moving from Band 7 to 6, or Band 2 to 1. Setting different (and more frequent) bands could mitigate this but introduces new challenges in justifying those thresholds.	+ We consider this option workable, although it suffers from the drawback that it uses size as a blunt proxy for regulatory effort and does not attempt to account for minimum regulatory effort.	++ We consider this option workable. Of the options presented, it is the Reserve Bank's preference. However, it introduces value judgements about the appropriate size of the fixed components.

Generally, we observe a trade-off between transparency and simplicity against efficiency and equity. We place a high weight on solutions that are more efficient and equitable, to avoid unfair results and market distortions. Option 4 best reflects our risk-based supervisory approach to protect and promote financial stability.

We consider options that are less transparent can be mitigated through the provision of additional information and clarity on the methodology used. Although the presented options range in simplicity, we do not consider any are too complex to administer nor create excessive costs in doing so.

Consultation questions

Q7 Which option do you prefer to apportion the levy between deposit takers?

Q8 Keeping our objectives in mind, are there any alternative approaches you think we should consider for the deposit taking sector?

4.6 Allocation within the insurance sector

Using an estimated average of $70 million and a proposed allocation of 39% results in an indicative levy for the insurance sector of **$27.3 million** per annum. We have considered four options for how much each individual insurer should contribute.

For some options, we have used insurers' total gross New Zealand revenue for the twelve months ending December 2025.[40] We consider gross New Zealand insurance revenue (for financial reporting purposes) is a more helpful comparator than total assets. Revenue is a more stable metric and reasonably reflects differences in insurer scale and significance to the New Zealand market. By contrast, balance sheet metrics such as total assets are significantly more complex and volatile, and involve presentational choices around netting future outflows against future inflows. Insurers who have otherwise similar metrics may nonetheless have very different total assets, and in some cases total assets may be negative.

Features of the insurance sector

There are currently 81 licensed insurers in New Zealand.[41] Insurers can be grouped based on:

- The type of insurance offered (general, life and health insurance, with some insurers offering multiple types); or
- Whether the insurer is locally incorporated or an overseas insurer (i.e. a branch).

We considered whether we should distinguish between any subgroups in the levy options presented. We do not consider the type of insurance materially changes the benefits received, externalities created or supervisory costs for an insurer. Additionally (and unlike deposit takers), we consider there is less differentiation between locally incorporated insurers and overseas insurers, given overseas insurers undertake both commercial and retail business and there are no limits on size.

Looking ahead, if the proposed regulatory changes outlined in chapter 4.1 take effect, there are 8 overseas reinsurers or overseas captive insurers that we expect would no longer be within the regulatory perimeter and subject to a levy. For simplicity, if we also omit those with nearly completed run-offs and those in liquidation, and assume no market entrants, we anticipate the sector will comprise of 66 insurers.

There is a wide size disparity within the insurance sector; within the 66 insurers above, the largest insurer has gross revenue of around $4 billion while the smallest have less than $1 million. The Reserve Bank is a risk-based supervisor and devotes different levels of regulatory effort commensurate with the different levels of risk entities pose to the financial system.

Option 1: flat dollar amount

This option would result in all 66 insurers equally dividing the insurance sector portion of the levy, resulting in a levy of $413,636 per entity.

[40] Data taken from insurer financial reporting to the Reserve Bank.
[41] Register of licensed insurers - Reserve Bank of New Zealand - Te Pūtea Matua

Option 2: total revenue bands

This option creates bands of total revenue. Entities whose revenue falls within the same band will all pay the same levy amount. The levy bands have been set with reference to the FMA's levy bands for insurers[42], which provides the benefit of consistency and familiarity for industry members.

The levy each band pays is derived from the collective revenue of all entities within the band over the sector's total revenue, multiplied by the insurer sector portion of the levy. This number is then divided by the number of entities within each band. The bands and market shares would be determined each year based on the total levy portion payable by the insurance sector and the latest twelve-month average of total revenue.

Table 11: Levy bands.

Total revenue band	Entities per band	Band's collective revenue (as a % of total sector revenue)	Payable levy per band member
Band 1: Exceeds $1 billion	5	54.59%	$2,980,880
Band 2: Exceeds $500m but not $1bn	6	21.15%	$962,166
Band 3: Exceeds $250m but not $500m	6	13.01%	$591,894
Band 4: Exceeds $100m but not $250m	7	6.21%	$242,077
Band 5: Exceeds $50m but not $100m	8	2.76%	$94,195
Band 6: Exceeds $10m but not $50m	13	1.87%	$39,234
Band 7: Does not exceed $10 million	21	0.41%	$5,386
Total	**66**	**100%**	**$27.3 million**

For completeness, we have not proposed fixed dollar amounts per band (without being derived from an underlying calculation based on total revenue) as these would not total to our actual costs year on year.

Option 3: rates based on total revenue

This option sets a flat rate for all insurers. This rate, multiplied by an insurer's average total revenue across the financial year, will determine the payable levy amount. This means the amount each insurer pays depends on their market share – their total revenue compared to the total revenue for the sector.

The rate would be determined each year based on the total levy portion payable by the insurance sector, and the latest twelve-month revenue data.

Table 12: Option 3 levy rate.

Group	Levy rate
All insurer types.	0.14824%

[42] See the class 3 and 3A bands in Financial Markets Authority (Levies) Regulations 2012 | New Zealand Legislation

For example, the levy for an insurer with exactly $4 billion in revenue would be calculated by multiplying $4 billion by 0.0014824, resulting in a levy of $5,929,620. Some more examples at different asset points have been given in the table below.

Table 13: Option 3 levy examples.

Example entity	Payable levy
$4 billion gross NZ revenue.	$5,929,620
$1 billion gross NZ revenue.	$1,482,405
$500 million gross NZ revenue.	$741,203
$100 million gross NZ revenue.	$148,241
$10 million gross NZ revenue.	$14,824
$1 million gross NZ revenue.	$1,482

Option 4: hybrid model with two components

This option combines elements of the previous options by introducing two components: a fixed dollar amount and a flat rate. Size alone can be an imperfect proxy for regulatory effort, particularly for small entities where there is a minimum level of regulatory effort regardless of size. The fixed component acts as an effective minimum levy to address this.[43]

Under this option, all insurers would pay the same fixed amount. This would be reviewed in the event changes to IPSA are made.

Table 14: Option 4 fixed component costs.

Group	Number	Payable fixed component
All insurers	66 entities	**$30,000**

We have had regard to APRA's minimum of AUD$22,500.[44] We have also had regard to competition considerations, ensuring the fixed components are not so large they create barriers to join or remain in the market, weighed against the minimum level of regulatory effort that goes into small entities.

To calculate the levy distribution, first the fixed component is calculated (and in the example above, would total $1.98 million). The remainder of the insurance sector's levy ($25.32 million) would then be distributed via the rate component as per Option 3. The relevant rate for this example is 0.13749%.

For example, the levy for an insurer with exactly $4 billion in revenue would be $30,000 for the fixed component plus a rate component of $5,499,560 (derived by multiplying $4 billion by 0.0013749), resulting in a levy of $5,529,560. Some more examples at different asset points have been given in the table below.

[43] We considered other ways to introduce a minimum levy, such as adjusting the amount payable under Option 3's rate up to a minimum value and then recalculating the amount payable by others not constrained by the minimum. Ultimately, we considered Option 4 was a better way to implement a minimum value. We also considered the same methodology with an imposed maximum value but chose not to proceed with this, given externalities and benefits continue to scale with size.

[44] Cost recovery implementation statement 2025 | APRA

Table 15: Option 4 levy examples.

Example entity	Fixed component	Rate component	Total levy payable
$4 billion gross NZ revenue.	$30,000	$5,499,560	$5,529,560
$1 billion gross NZ revenue.	$30,000	$1,374,890	$1,404,890
$500 million gross NZ revenue.	$30,000	$687,445	$717,445
$100 million gross NZ revenue.	$30,000	$137,489	$167,489
$10 million gross NZ revenue.	$30,000	$13,749	$43,749
$1 million gross NZ revenue.	$30,000	$1,375	$31,375

As an insurer's revenue changes, the ratio between the fixed component and rate component changes too. For the smallest entities, the fixed component would account for almost all their total payable levy. For large entities, the rate component is much larger than the fixed component.

Analysis

The options we have outlined are not exhaustive. The Reserve Bank considers industry feedback will be necessary to calibrate the levy in a fair way. At this stage we have aimed to present a range of options. That said, in general we consider Options 3 and 4 have greater strengths, with Option 4 being preferred.

Table 16: analysis against the cost-recovery principles.

Principles	Option 1 (Dollar amount)	Option 2 (Bands)	Option 3 (Rate)	Option 4 (Rate with limits)
Effectiveness	All equal given all models propose to recoup the same total levy amount.			
Efficiency	**- -** Heavily disincentivises market entrants, as a flat amount would be prohibitive on entering the market. Would likely result in market exits. However, incentivises growth as the levy amount does not change regardless of growth.	**-** Disincentivises growth nearing a band's edge, as a small change in size could have a material impact on the payable levy (cliff-edge effect).	**+ +** Levy amounts scale linearly with growth, causing no distortions at point of entry and beyond.	**+** There is a small disincentive to enter the market given the fixed cost is payable regardless of size. Otherwise, growth scales linearly.
Transparency	**+ +** The basis for the calculation is clear without any additional information provided by the Reserve Bank, given the only input is the number of market participants.	**-** The Reserve Bank would need to provide the following information so each entity can understand how their levy was calculated: • Sector-wide total revenue. • Number of members within each band.	**+** The Reserve Bank would need to provide the following information so each entity can understand how their levy was calculated: • Sector-wide total revenue. • Rate applying to insurers.	**-** The Reserve Bank would need to provide the following information so each entity can understand how their levy was calculated: • Sector-wide total revenue. • Amount recovered by the fixed component (and

Principles	Option 1 (Dollar amount)	Option 2 (Bands)	Option 3 (Rate)	Option 4 (Rate with limits)
		• The band's collective total revenue.		remainder to be recovered by the rate component). • Rate applying to insurers.
Equity	- - All entities pay the same amount, regardless of their size and our regulatory effort. There is no proportional recognition of the differing levels of externalities, benefits and supervisory effort applied to different entities.	- Entities within a band pay the same amount. While this has the benefit of treating similarly sized entities on a like-for-like basis, that is achieved by averaging their levy-payable amounts, resulting in cross-subsidisation within a band. The width of the bands determines the extent of the cross-subsidisation. More bands can reduce this variance but increases complexity.	+ Levy amounts are purely proportionate to size, with no averaging between entities. This option places more focus on the pure externalities and benefits that scale with size, rather than size as a means to approximate regulatory effort.	+ + A fixed component in conjunction with a rate component results in a total levy amount that is more proportionate to regulatory effort than size alone. It imposes an effective minimum that addresses small outliers.
Simplicity	+ + Does not require any industry data as a proxy for size and is therefore sensitive to fewer inputs. Simple to calculate.	- Bands based off FMA bands creates consistency within the financial sector. However, these may not be suitable to this context and setting the bands in some other way may be considered arbitrary.	+ Simple to calculate based on total revenue data.	- Introduces complexity and a level of judgement in determining the fixed component size.
Overall	- - We do not consider this option workable on the grounds of economic efficiency, competition and equity. The cost would be prohibitive for many new and existing insurers. This option does not approximate regulatory effort in any regard.	- We do not consider this option workable primarily due to the cliff-edge effect. In some instances, a small amount of revenue growth could result in a substantial levy increase, for instance moving from Band 7 to 6, or Band 2 to 1. Setting different (and more frequent) bands could mitigate this but introduces new challenges in	+ We consider this option workable, although it suffers from the drawback that it uses size as a blunt proxy for regulatory effort and does not attempt to account for minimum regulatory effort.	+ + We consider this option workable. Of the options presented, it is the Reserve Bank's preference. However, it introduces value judgements about the appropriate size of the fixed component.

Principles	Option 1 (Dollar amount)	Option 2 (Bands)	Option 3 (Rate)	Option 4 (Rate with limits)
		justifying those thresholds.		

Generally, we observe a trade-off between transparency and simplicity against efficiency and equity. We place a high weight on solutions that are more efficient and equitable, to avoid unfair results and market distortions. Option 4 best reflects our risk-based supervisory approach to protect and promote financial stability.

We consider options that are less transparent can be mitigated through the provision of additional information and clarity on the methodology used. Although the presented options range in simplicity, we do not consider any are too complex to administer nor create excessive costs in doing so.

Consultation questions

Q9 Which option do you prefer to apportion the levy between insurers?

Q10 Keeping our objectives in mind, are there any alternative approaches you think we should consider for the insurance sector?

4.7 Allocation within the FMI sector

Using an estimated average of $70 million and a proposed allocation of 7% results in an indicative levy for the FMI sector of **$4.9 million** per annum. We have considered two options for how much each individual FMI should contribute.

Features of the FMI sector

FMI are multilateral systems for clearing, settling and recording various payments and transactions. There are several types of FMI: payment systems, central securities depositories (**CSD**), securities settlement systems (**SSS**) and central counterparties (**CCP**). There are currently five designated FMI in New Zealand:[45]

Designated FMI	Operator	Supervisor	FMI type	Products
ESAS	RBNZ	RBNZ	Payment system	Payments
NZClear	RBNZ	RBNZ & FMA	CSD/SSS	Fixed interest securities and equity securities
NZCDC	NZX	RBNZ & FMA	CCP and CSD/SSS	NZX markets securities
ASXClear (Futures)	ASX	RBNZ & FMA	CCP	NZD interest rate futures and options traded on the

[45] In March 2026 the Reserve Bank closed a public consultation on a proposal to recommend that High Value Clearing System (HVCS) is designated. The Minister of Finance will decide, in due course, whether to designate HVCS as the sixth designated FMI.

Designated FMI	Operator	Supervisor	FMI type	Products
				ASX24 market and eligible OTC
CLS settlements	CLS	RBNZ	Payment system	Foreign exchange payment vs payment transactions

Payment systems are solely regulated by the Reserve Bank, while others are jointly regulated with the FMA. For the purposes of this levy, we are focusing solely on the Reserve Bank's regulatory resource, noting that this does not decrease for jointly regulated FMI as any efficiencies are already accounted for in our current supervisory resourcing.

ASX and CLS are designated as overseas equivalent under the overseas equivalence framework.[46] This framework means most standards do not apply to overseas equivalent FMI, provided certain conditions are met (which is the focus of our supervisory scrutiny), and the operator complies with equivalent regulation imposed by their home jurisdiction. Overseas FMI must be assessed against this framework rather than automatically qualifying because they are based overseas.

While there are five FMI designated, there are four FMI operators. Designations set the rules for how the FMI must operate and the purpose it serves in coordinating parties to ensure safe transactions. However, in a practical sense, designated FMI are the infrastructure systems put in place by individual operators. In some cases, those systems are so intertwined they receive one designation for multiple systems, while in other cases the systems are split out and designated separately.

We consider it is fair to charge a levy to FMI operators rather than to each designated FMI. Decisions about how many systems should be designated as a single FMI can be subject to judgement and practical considerations, rather than consistent conceptual coherence. Past designation decisions were not made with a levy regime in mind and entities may ask us to revisit these if a levy were imposed at the designation level. Imposing a levy at the designation level would negatively impact flexibility when designating future FMI.

Option 1: flat dollar amount

This option would result in all four FMI operators equally dividing the FMI sector portion of the levy, resulting in a levy of $1.23 million per operator.

Option 2: rates based on another metric or grouping

We explored whether there were any metrics that could be used to set levy rates (akin to assets for deposit takers and revenue for insurers). However, each type of FMI operates in very different ways. There is no shared metric that could reasonably be used to calibrate a levy rate. It is also not helpful to estimate the 'size' of an FMI (or its operator) without reference to a metric, as all designated FMI are systemically important in New Zealand.

We also considered whether there were any differentiating features that would justify different treatment.

[46] Guidance note for overseas FMI (equivalence framework).

The Reserve Bank both operates and supervises two FMI. However, these functions are carried out entirely separately, and the operating structure does not lessen the supervisory resources focused on these FMI. We do not consider any levy discount is warranted for the Reserve Bank due to being both an FMI operator and supervisor, and in fact, it is important that the FMI operator housed within the Reserve Bank is treated as if it were an independent arm's length party.

We considered whether the operators of the two FMI designated as overseas equivalent should be levied differently. Some other jurisdictions[47] apply a discount to levies on FMI that are based overseas, due to deference arrangements with the home jurisdiction. However, although we rely on home regulators, we dedicate resources to ensuring the overseas equivalent conditions continue to be met. We also face higher operational costs in supervising these overseas FMI. We do not consider any levy discount is warranted.

Analysis and preferred option

Our preferred option is **Option 1,** a flat dollar amount charged to all FMI operators. We consider it is pragmatic to distribute regulatory costs evenly across the regulated population because all FMI are considered systemically important. This option is simple to administer and equitable between entities. We do not consider any alternatives (as explored in Option 2) are workable or provide material benefits over Option 1, at the cost of much higher complexity. We have therefore not undertaken further analysis.

We will need to be mindful of whether these costs create a barrier to entry or disincentivise overseas entities from choosing to operate in New Zealand markets. However, we are also conscious operators will likely pass on costs to participants.

Consultation questions

Q11	Which option do you prefer to apportion the levy between FMI?
Q12	Keeping our objectives in mind, are there any alternative approaches you think we should consider for the FMI sector?

[47] The Bank of England's fees regime for UK financial market infrastructures | Bank of England

5 Administrative considerations

5.1 Introduction

This chapter outlines various practical matters that relate to how a prudential levy would be implemented.

5.2 Implementation timeframe and transitional arrangements

The Government has made an in-principle decision that if the prudential levy were to proceed, it would be implemented in 2027. The proposed timeframe would have regulations with an effective date around August 2027, and levies first collected for the financial year 2027-2028. Section 294(4)(h) allows the levy to apply to a financial year irrespective of the fact that the regulations may be made after that financial year has commenced.[48]

Implementation on this timeframe would mean the changes to our regulatory perimeter, as described in chapter 4.1, would not yet have taken effect. These changes are anticipated for late 2028. We must therefore consider transitional arrangements across the transitional period between July 2027 (the start of the financial year) and late 2028.

Non-bank deposit takers

NBDTs are not expected to be supervised by the Reserve Bank until late 2028 and are currently paying a fee for Trustee supervision. Charging NBDTs the full prudential levy ahead of late 2028 would result in double charging these entities for supervision, given the supervisory function will not yet have transferred to the Reserve Bank.

Although the Reserve Bank now has the resource in place to supervise the NBDT sector we propose an interim waiver for NBDTs, with no levy payable for the transitional period. Under this proposal the shortfall in the levy would be covered through the current funding model under the FYFA, rather than being distributed amongst other levy participants. Although this reduces the Crown dividend, it is more equitable and ensures that other deposit takers are not cross-subsidising these costs as we prepare for the NBDT transition.

We considered excluding only some portion of the levy cost for NBDTs across this transitional period, to recognise that NBDTs are prudentially regulated, if not supervised, by the Reserve Bank. However, estimating the divide between our regulatory and supervisory functions and the attendant benefits NBDTs receive adds significant complexity and would likely result in an arbitrary outcome for a relatively marginal change in the amount recovered. In the interests of simplicity, we propose a full exclusion across the transitional period.

Our proposed interim exclusion would be accomplished through section 294(4)(i) of the RBNZ Act, which allows the regulation to provide for waivers of the whole or part of a levy.

Overseas reinsurers and captive insurers

Overseas reinsurers and captive insurers are currently regulated and supervised by the Reserve Bank, but this is expected to cease in late 2028. There are no fairness concerns with levying these insurers for the transitional period as the Reserve Bank is incurring the costs of, and the insurer is

[48] Reserve Bank of New Zealand Act 2021 | New Zealand Legislation

receiving the benefit of, prudential regulation and supervision. However, if the proposed changes to IPSA occur, these entities would be paying the levy at most on two occasions: for FY2027-28, and for half of FY2028-29. Our analysis would need to be reconsidered if the proposed IPSA changes do not go ahead within the anticipated timeline, or the effect of the relevant provisions is amended as part of the legislative process.

From an administrative perspective, we do not think it is efficient for the Reserve Bank and these overseas entities to establish the procedures for paying this levy if it will not be on an ongoing basis. Particularly, we consider these groups of insurers have some unique features which affects how we regulate and supervise them. If they were to be levied, it might be appropriate to treat them differently to other insurers (for instance, as we have done for deposit-taking branches). We do not consider it is an efficient use of resources to develop a bespoke approach to levying these firms equitably for such a short period of time.

We propose an interim waiver for overseas reinsurers and captive insurers, with no levy payable for the transitional period (and beyond, subject to leaving the regulatory perimeter). Under this proposal the shortfall in the levy would be covered through the current funding model under the FYFA, rather than being distributed amongst other levy participants. Although this reduces the Crown dividend, it is a small change that is more equitable and ensures that other insurers are not cross-subsidising these costs temporarily.

Our proposed interim waiver would be accomplished through section 294(4)(i) of the RBNZ Act, which allows the regulation to provide for waivers of the whole or part of a levy.

5.3 Collection costs and GST

All levy amounts given in this consultation paper exclude Goods and Services Tax (GST) and collection costs. In line with section 5(6EC) of the Goods and Services Tax Act 1985, GST would be collected on top of the levy amount.[49]

Section 294(3)(b) of the RBNZ Act requires that the costs of collecting the levy money should be met fully out of the levy. At this time, we estimate administration will likely involve the costs associated with one to two additional roles, although this is subject to final design decisions.

5.4 Levy calculation and collection

Calculation in arrears

The Reserve Bank will be responsible for issuing the invoices and collecting the levy funds. We propose collecting the levy annually in arrears, following the end of the Reserve Bank's financial year (30 June), once the relevant data is available. Collection in arrears will allow for accurate levy calculation as the levy is highly sensitive to several inputs:

- Recoverable Reserve Bank costs.
- Industry membership (market entrants and exits).
- Industry data (total assets for deposit takers, and gross New Zealand total revenue for insurers).

[49] See Goods and Services Tax Act 1985 | New Zealand Legislation and the section "Legislative charges, fees and levies" on the IRD's webpage Special supplies.

If we were to levy in advance using forecasted information, even minor variations in these inputs would result in under- or over-collection each year, requiring reconciliation. By levying in arrears, we can ensure that we levy each entity an appropriate amount based on established costs. This means under- or over- collection should rarely occur. Levying in arrears is consistent with our approach to collecting the DCS levy.

Although the confirmed levy payments would be calculated in arrears, we could provide forecasted levy amounts following approval of the Reserve Bank's annual budget. This would provide levy-payers with an indicative levy benchmark for the year ahead. We do not consider more frequent forecasting would be efficient to implement.

Methodology specified in regulations

Given the levy's sensitivity to the inputs stated above, we propose to specify the methodology by which we calculate levy amounts or levy rates, rather than the values themselves. This supports calculation in arrears.

New market entrants

We propose new market entrants would be levied on a pro-rata basis based on the number of days within the financial year since they joined the market. This is consistent with the DCS levy.

Time bar for reassessment

If information comes to light that would impact the calculation of a levy that has been paid, we propose that the entity would be able to submit this information and receive a refund on the next levy paid (or, in the case of an underpayment, be liable for the shortfall from when the corrected information is disclosed to the Reserve Bank). We propose that this would be limited to within four years of the original levy payment, to increase the certainty in levies paid. This is consistent with the DCS levy.

5.5 Levy review frequency

As proposed above, each year the levy will be calculated based on actual costs, industry membership and industry data. However, the underpinning methodology for calculating the levy, specified in the regulations, could be reviewed on a different cadence. This includes changes to design parameters such as:

- The sectoral split of 54/39/7% for deposit takers, insurers and FMI.
- Exemptions or differentiated treatment between subsectors.
- The apportionment option selected for each sector.
- If bands are implemented, the values at which these are set.
- If fixed components are implemented, the values for these.

Once implemented, any changes to the prudential levy regulations would require public consultation.

Frequent reviews, such as annually, would be resource intensive for the Reserve Bank and Treasury, and for submitters engaging with yearly consultations. We consider less frequent reviews will still allow us to appropriately calibrate the levy. We propose the periodic review of levy settings should align with the FYFA process between the Reserve Bank and the Minister. This would allow both parties to take a holistic and integrated view of the Reserve Bank's funding requirements.

Although we propose five-yearly reviews as a minimum, we propose the regulations provide for flexibility to undertake an out-of-cycle review if there have been fundamental shifts in the external or regulatory environment. We will monitor the levy year-on-year to determine if such a review is warranted. Any out-of-cycle review that requires consultation would be well signalled to industry.

5.6 Relief arrangements

The regulations may also provide waivers, refunds and other such matters contained within section 294(4). We expect that it would be rare for this relief to be applied but consider it useful to have powers available to resolve issues if they arise. We propose that the Reserve Bank would be able to provide relief in exceptional circumstances, if it would be inequitable for an entity to pay a levy. This is consistent with the DCS levy.

Such circumstances could include:

- administrative or technological issues;
- small outstanding amounts that are uneconomic to collect;
- significant changes in circumstances;
- facilitating an orderly wind down of a business;
- refunding overpayments;
- unforeseen and exceptional circumstances such as natural disasters.

Relief could take a variety of forms depending on what is appropriate in the circumstances:

- Discounts – a reduction in the invoiced levy amount;
- Waivers – an exemption from needing to pay an invoiced levy;
- Refunds – a partial or full refund of a levy amount that has been paid;
- Instalment arrangements – an agreement that an amount can be paid in instalments.

Consultation questions

Q13	Do you support the implementation timeframe and resulting transitional arrangements?
Q14	Do you agree the levy regulations and calculation methodology should be reviewed every five years at a minimum, to align with the FYFA?
Q15	Are there any other administrative matters you wish to comment on?

Appendix A: Consolidated consultation questions

Scope of a prudential levy

Q1 Is there anything we have not taken into account in considering the rationale for a prudential levy?

Q2 Are there any reasons why you think full costs should not be recovered?

Determining Reserve Bank costs

Q3 Is there any additional information we should add to our accountability documents to aid transparency?

Q4 Do you have any comments on how we will determine costs eligible for recovery?

Sector and sub-sector allocation

Q5 Do you agree that all sectors and subsectors prudentially regulated by the Reserve Bank should contribute to the levy?

Q6 Do you agree with our method of allocation between sectors?

Q7 Which option do you prefer to apportion the levy between deposit takers?

Q8 Keeping our objectives in mind, are there any alternative approaches you think we should consider for the deposit taking sector?

Q9 Which option do you prefer to apportion the levy between insurers?

Q10 Keeping our objectives in mind, are there any alternative approaches you think we should consider for the insurance sector?

Q11 Which option do you prefer to apportion the levy between FMI?

Q12 Keeping our objectives in mind, are there any alternative approaches you think we should consider for the FMI sector?

Administrative considerations

Q13 Do you support the implementation timeframe and resulting transitional arrangements?

Q14 Do you agree the levy regulations and calculation methodology should be reviewed every five years at a minimum, to align with the FYFA?

Q15 Are there any other administrative matters you wish to comment on?

Appendix B: Excerpt from the Reserve Bank of New Zealand Act 2021

293 Regulated entities must pay levy to Bank

(1) Every person that is included in a prescribed class of regulated entities must pay to the Bank, or a prescribed person on behalf of the Bank, a levy prescribed by the regulations made under section 294.

(2) If a person is in 2 or more classes of regulated entity in respect of which different levies have been prescribed, the person must pay each of those levies (unless the regulations provide otherwise).

(3) The amount of any unpaid levy is recoverable in any court of competent jurisdiction as a debt due to the Bank.

Compare: 2011 No 5 s 68(1), (2), (7), (9)

294 Levy regulations

(1) The Governor-General may, by Order in Council, on the recommendation of the Minister, make regulations providing for the levies.

(2) Before making a recommendation under this section, the Minister must—

- (a) consult the Bank; and
- (b) comply with section 296.

(3) Levies must be prescribed on the basis that the following costs should be met fully out of the levies:

- (a) a portion of the costs of the Bank in performing or exercising its functions or powers under prudential legislation, where the size of the portion to be met by levies under this Act is determined by the Minister; and
- (b) the costs of collecting the levy money.

(4) The regulations may—

- (a) specify the class or classes of regulated entities that are required to pay a levy:
- (b) specify the amount of levies, or the method of calculating or ascertaining the amount of levies:
- (c) include in levies, or provide for the inclusion in levies of, any shortfall in recovering the actual costs:
- (d) refund, or provide for refunds of, any over-recovery of the actual costs:
- (e) provide for the payment and collection of levies:
- (f) provide different levies for different classes of regulated entities:
- (g) specify the financial year or part financial year to which a levy applies, and apply that levy to that financial year or part financial year and each subsequent financial year until the levy is revoked or replaced:
- (h) require payment of a levy for a financial year or part financial year, irrespective of the fact that the regulations may be made after that financial year has commenced:
- (i) provide for waivers or refunds of the whole or any part of a levy for any case or class of cases.

(5) Regulations made under this section are secondary legislation (*see* Part 3 of the Legislation Act 2019 for publication requirements).

Compare: 2011 No 5 s 68(3), (4), (6)

295 Other provisions relating to levy regulations

(1) Levies may be prescribed on the basis that any actual cost that could have been, but has not been, recovered as a levy shortfall for a year may be recovered (along with any financing charge) over any period of up to 5 years.

(2) A levy for a financial year that starts after the Bank begins to carry out any additional function under any prudential legislation may recover the costs of performing that additional function, irrespective of the fact that the regulations may be made and come into effect after the start of the financial year.

(3) The Bank, or any other person prescribed for the purposes of this subsection, must ensure that each levy payment is separately accounted for.

Compare: 2011 No 5 s 68(5), (8), (10)

296 Consultation about proposed levy regulations

(1) The Minister must, before making a recommendation under section 294, ensure that the following are consulted:

- (a) the persons or organisations that the Minister considers are able to represent the views of those regulated entities that are liable to pay a levy under section 293; and
- (b) any other representatives of persons who the Minister believes are significantly affected by a levy.

(2) The consultation must include consultation relating to—

- (a) the portion of the costs referred to in section 294(3)(a) that should be met by the levies; and
- (b) the amount of levies or method of calculating or ascertaining the amount of levies.

(3) The Bank may carry out the consultation on the Minister's behalf if the Minister and the Bank agree to the Bank acting under this subsection.

(4) A failure to comply with this section does not affect the validity of any regulations made under section 294.

Appendix C: Comparative levy examples

Table 17: Examples of cost-recovery levies

Agency	Approach to cost-recovery levies
Financial Markets Authority (FMA)[50]	The FMA is partially funded by an industry levy, with the framework set out in the Financial Markets Authority (Levies) Regulations 2012. The levy is structured so that a financial market participant must pay a levy for every 'class' the market participant falls within – a participant may fall within one or more levy classes.[51] The regulations contain 16 classes defined in relation to a specific financial market activity with some classes split into sub-classes to recognise the variations in size, nature or activities of different participants within a class. Each class is linked to a leviable event, such as annual confirmation on the Financial Services Providers Register, lodgement of specified documents, or being issued with an invoice by the FMA. The different classes of financial markets participants pay different tiered amounts calibrated in a number of different ways depending on the participant, for example total assets, funds under management or annual gross premium revenue. The levy settings have been developed having regard to the following objectives: a. The cost of the levy for market participants is consistent with the benefits they receive from a well-regulated financial market; b. The levy will not discourage some classes of entity from supplying financial products or services; c. The levy does not unduly burden smaller market participants; and d. The levy is practical in respect of its implementation, collection and also avoids large over or under-collection.
Australian Prudential Regulation Authority (APRA)[52]	The APRA levy regime is designed to fully recover the costs of regulating and supervising each sector, while minimising cross-subsidisation. The distribution of the levy is mostly based on the idea of trying to match the actual cost of supervision to the payable levy (using an internal time-management system), but allocating costs not attributed to a specific entity using benefit/externality theory. With exceptions for health insurers and non-operating holding companies,[53] the approach for most entities APRA regulates is based on: a. A '**restricted levy**' component reflecting cost of supervision-based rationale. Structured as % rate on assets subject to minimum and maximum amounts.

[50] Levies and waivers | Financial Markets Authority
[51] For a full description of the classes see Schedule 2 in the Financial Markets Authority (Levies) Regulations 2012.
[52] Industry fees and levies | APRA
[53] The methodology for levying health insurers is based on a fixed price levy structured per policyholder. Authorised non-operating holding companies are charged a flat rate levy dollar amount.

Agency	Approach to cost-recovery levies
	b. An '**unrestricted levy**' component based on 'system impact' (the idea that failure of a larger institution would have a higher impact on the financial system). Structured as a % rate on assets with no minimum or maximum amount. For deposit takers there are different levy parameters (the rate for restricted and unrestricted components) for locally incorporated and branches.
UK Prudential Regulatory Authority (PRA)[54]	The PRA recovers the cost of its annual funding requirement through the imposition of fees (effectively a levy) on the entities it regulates and supervises. The general approach for the PRA cost-recovery is to have larger firms contribute a greater proportion of PRA's funding, given the larger firms could potentially cause the greatest harm to the stability of the UK financial system. The way this is put into effect is to have levy bands (called tariff bands) for deposit takers based on the size of entity, with a higher levy rate for the larger deposit takers. In contrast, the PRA uses a flat levy rate for insurers and other industries, as well as a flat fee for one specific industry block (Society of Lloyd's).
Central Bank of Ireland[55]	The levy used to recover the cost of financial regulation and supervision by the Central Bank of Ireland is calculated differently for each of the industry categories the central bank supervises. Some examples of how the levy for different industries is calculated is set out below. a. Irish authorised credit institutions are levied based on their share of total assets held by all entities in the category, as well as their share of total risk exposure for all entities in the category. Entities in that category are also subject to a minimum levy amount. b. Credit institutions authorised in another EEA State (e.g. another European bank with a branch in Ireland) are subject to a flat levy. c. Insurers authorised in Ireland are subject to a flat levy based on their 'impact category' such that high impact insurers face a higher levy relative to lower impact insurers.

[54] CP8/25 – Regulated fees and levies: Rates proposals for 2025/26 | Bank of England
[55] Funding Strategy and Guide to the 2025 Industry Funding Regulations