



Reserve Bank
of New Zealand
Te Pūtea Matua

Executive summary: 2025 Review of key capital settings

25 August 2025

CONSULTATION
PAPER



Executive summary

Background

A stable financial system supports economic prosperity. Banking – or deposit taking as we refer to it in this Consultation Paper – is a large and leveraged sector that households and businesses must have confidence in to spend and invest. Periods of financial instability can cause direct costs and on-going scarring to the economy.

Capital requirements need to be set at the right level to balance the costs and benefits.

Capital requirements specify the minimum investment that owners of deposit takers must make in their business. Capital requirements that are too low risk deposit takers being unable to absorb unexpected losses when they arise and therefore failing – ultimately reducing the long-run prosperity and well-being of New Zealanders. Conversely, capital levels that are too high can reduce credit availability and increase costs unnecessarily.

In 2019, we completed a multi-year review of New Zealand’s capital framework (‘the 2019 Capital Review’). This resulted in the decision to significantly increase the quantity and improve the quality of capital that banks are required to operate with by 2028, to improve the resilience of the banking system.¹ At the time, we made the judgement that we should focus on simple, but conservative, capital requirements for deposit takers to support stability. We focused on capital settings that would provide enough capital in the system as whole to cover losses that might only occur very infrequently – for example once in every 200 years.

Six years on, we are in the process of moving to a new suite of prudential standards under the Deposit Takers Act 2023 (DTA).² As well as operating under this updated legislative framework, a new Financial Policy Remit (FPR) was issued in 2024, which places a greater focus on efficiency and competition.³ Further, submitters to recent inquiries have expressed concerns that our bank capital settings may be unreasonably conservative – undermining competition and development of the New Zealand economy. As a good financial system steward, it is important we consider recent developments and any new evidence presented as part of recent inquiries.

Therefore, earlier this year we announced a targeted review to test whether we have got our capital settings right.⁴ We want capital settings that support a stable financial system which enables a productive and sustainable economy and ultimately promote the prosperity and well-being of all New Zealanders.

Approach to this Review

Figure 1 below illustrates our analytical approach to this Review. First, we have considered changes to the context since the 2019 Capital Review. This is summarised in Chapter 2 of this Consultation Paper. Second, we have considered the appropriate *amount*, *form* and *distribution* of

1 Reserve Bank of New Zealand. (2025). *2017-2019 Capital Review*. <https://www.rbnz.govt.nz/regulation-and-supervision/oversight-of-banks/how-we-regulate-and-supervise-banks/our-policy-work-for-bank-oversight/capital-review>

2 Reserve Bank of New Zealand. (2025). *Deposit Takers Act*. <https://www.rbnz.govt.nz/regulation-and-supervision/deposit-takers-act>

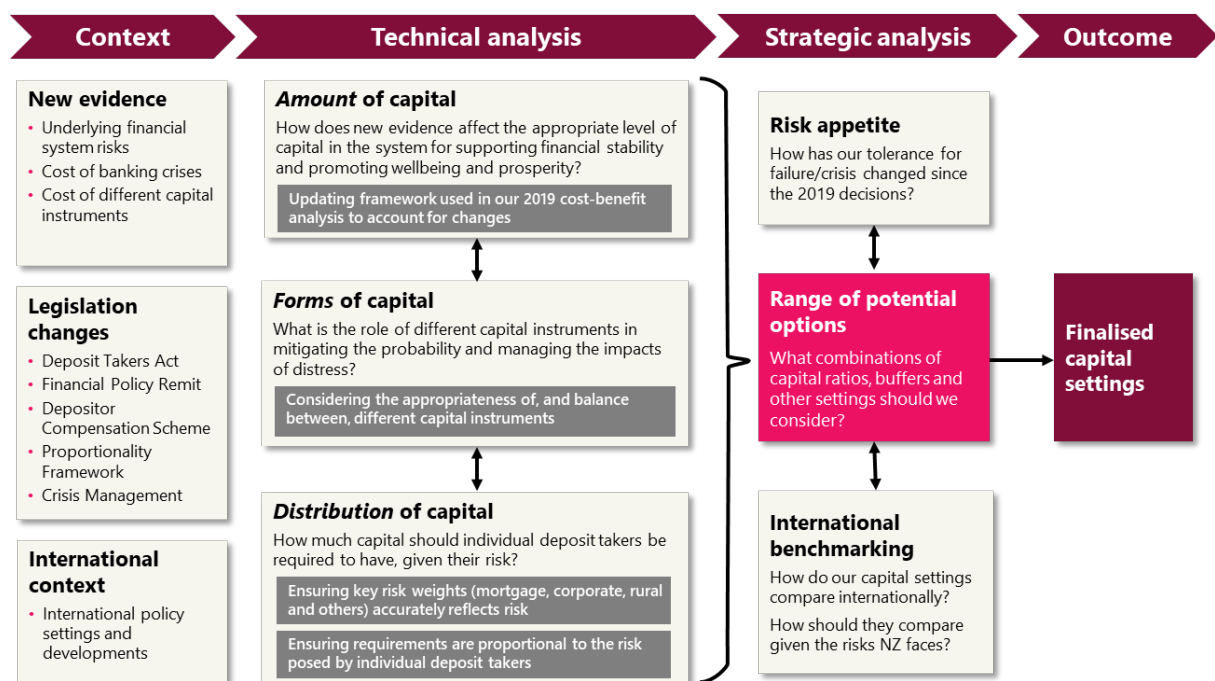
3 Reserve Bank of New Zealand. (2024). *Our Financial Policy Remit*. <https://www.rbnz.govt.nz/about-us/corporate-publications/our-financial-policy-remit>

4 Reserve Bank of New Zealand. (2025). *2025 Review of key capital settings: Terms of Reference*. <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/banks/capital-review/2025/2025-review-of-key-capital-settings-terms-of-reference.pdf>

capital for New Zealand. This covers a range of interrelated topics that we cover throughout the remainder of this Consultation Paper, including:

- **Updated cost benefit analysis:** This is largely to inform the *amount* of capital that would be appropriate for New Zealand, and is covered in Chapter 3 and Annex E. Given the targeted nature of the Review – to avoid unnecessary delays to the implementation of the DTA – we have built on the analysis conducted in 2019 and are seeking feedback on that analysis through this consultation.
- **The role of Loss-Absorbing Capacity (LAC):** This informs the appropriate *form* of capital for the largest deposit takers and is closely related to our future approach to crisis management. It is covered in Chapter 3.
- **Applying proportionality:** This informs the *distribution* of capital in the system. We summarise our proposed options across different groups of deposit takers in Chapter 3.
- **The role of Additional Tier 1 (AT1) capital:** This informs the appropriate *form* of capital and is covered in Chapter 4.
- **Reviewing key risk weights:** This informs the *distribution* of capital in the system. It is covered in Chapter 5.

Figure 1: Analytical approach to the Review of key capital settings



Proposals in this Consultation Paper

This Consultation Paper seeks feedback on options calibrated to a higher risk appetite than in 2019. Under the Reserve Bank of New Zealand Act 2021, the Reserve Bank now has a Board which is responsible for determining the risk appetite for various regulatory outcomes – including capital settings. A key reason for the change in risk appetite is that under the DTA (once fully implemented) we will have more comprehensive tools for supervision and crisis management.

We have moved away from a “1-in-X year event” basis for our risk appetite and instead have focused on benchmarking against a range of comparator countries. We commissioned an independent external study to compare our capital settings with other countries – given the complexities in comparing different rules – to help assess how conservative we are in relative terms. This found that current levels of Tier 1 capital in New Zealand are likely one of the highest among our comparator countries. However, it also found New Zealand has lower Total Loss-Absorbing Capacity (TLAC) than many comparator countries.

In this Consultation Paper, we propose two specific changes to our capital framework which should improve the efficiency of our settings.

- **We propose simplifying the capital stack by removing AT1 capital,** which industry has previously raised concerns about (see Chapter 4).
- **We propose introducing more granular standardised risk weights,** including lower risk weights in some areas, to better align requirements with actual risk. This includes new risk weight categories for agricultural lending (see Table 1 below and Chapter 5). This change reduces the amount of capital that deposit takers are required to hold by around 5% across the system.

Table 1: Proposed changes for standardised risk weights

Type of lending	Current standardised risk weight (%)	Proposed standardised risk weight (%)
Owner-occupier residential mortgage lending (RML) with loan-to-value ratio (LVR) ≤50	35	25
Owner-occupier RML with LVR 50.01 – 60	35	30
Investor RML with LVR ≤50	40	30
Investor RML with LVR 50.01 – 60	40	35
Small and medium enterprise (SME) retail	100	75
SME corporate	100	80
Agriculture with LVR ≤30	100	50
Agriculture with LVR 30.01 – 50	100	75
Community housing providers / housing co-operatives	New standardised category with the same risk weights as investor RML. IRB accredited deposit takers would be required to use the new standardised category.	

We also set out two options for capital ratio requirements (see Table 2 below). They promote financial system stability and the safety and soundness of individual deposit takers but are likely to reduce the cost of regulation compared to the 2019 framework. The options take different approaches to the form of capital, with Option 2 introducing LAC for Group 1 deposit takers.

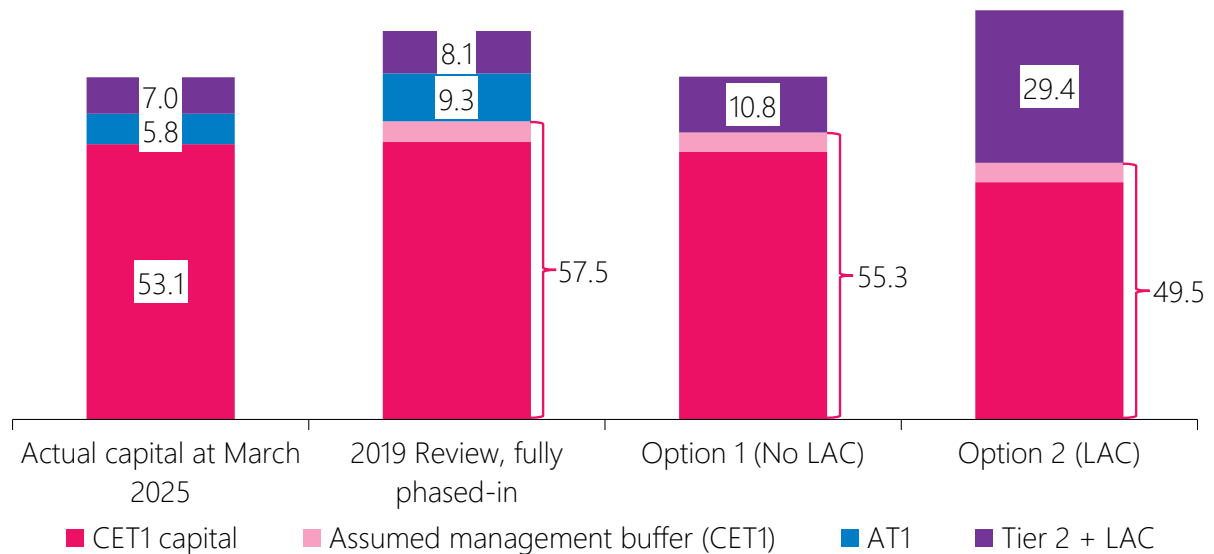
Table 2: Summary of current and proposed capital ratios (% of RWA)

		2019 Capital Review (once fully phased-in) and proposed DTA standard			2025 Capital Review consultation options			
		Group 1	Group 2	Group 3	Group 1, Option 1	Group 1, Option 2	Group 2	Group 3
Minimum Common Equity Tier 1 (CET1) capital		4.5	4.5	4.5	6	6	6	6
Minimum Tier 1 capital		7	7	7	6	6	6	6
Minimum Total capital		9	9	9	9	9	9	9
Internal Loss-Absorbing Capacity (LAC)		-	-	-	-	6	-	-
Prudential Capital Buffer (all CET1)		9	7	4*	8	6	5	4*
Totals	CET1	13.5	11.5	8.5	14	12	11	10
	Tier 1	16	14	11	14	12	11	10
	Total + LAC	18	16	13	17	21	14	13

*Note: We are proposing that an additional PCB of 1% would apply to Group 3 deposit takers without a credit rating.

Taken together, our proposals materially reduce capital requirements relative to prior decisions made in 2019. Combining the changes to both capital ratios and risk weights, Option 1 reduces total required capital by 12% relative to the fully phased-in 2019 Capital Review outcomes (see Figure 2 below). While Option 2 increases the amount of TLAC, the amount of CET1 required is around 10% lower than in Option 1. Both options are expected to result in lower average funding costs for deposit takers than under the 2019 Capital Review outcomes.

Figure 2: Summary impact on system level of bank capital (all locally incorporated deposit takers) (\$bn)



Source: RBNZ estimates.

The consultation does not set out a preferred option – and we are open to receiving feedback on alternative options. At this stage of the Review, we are seeking stakeholder feedback on these options and our preliminary analysis of their costs and benefits – and we are open to views that suggest adjusting these options.

While we recognise the influence our capital rules can have on economic output and competition, we want to be clear that even material changes to capital settings, such as those covered in this Consultation Paper, are not expected to translate into significant changes for the economy. While capital requirements can impact economic output and competition, there are other, more influential drivers. We anticipate the changes we are consulting on will have only minor impacts on economic activity and the attractiveness of the New Zealand market to new entrants. However, proposals to introduce more proportionality into capital requirements by reducing requirements for smaller deposit takers by more than larger deposit takers could have some impact on competition between existing players.

Next steps

Following this consultation, we will review all the feedback provided and aim to reach final decisions by the end of the year. We have engaged three independent experts – Thorsten Beck, Elena Carletti and Sir John Vickers – to challenge our analysis and to strengthen our final decision-making process. The experts will produce independent reports of their assessment of our revised capital settings for deposit takers. These reports will be published on our website once the Review has concluded.