

ECONOMY

Orr's resignation is time to secure banks with high capital buffers

By cherry-picking standards from Australia, Singapore, or the UK as convenient, politicians, pundits, and influencers risk undermining local regulatory effectiveness and the Reserve Bank's credibility



by **Martien Lubberink**

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'Situated far from major financial centres and lacking deep domestic deposit bases, New Zealand's banking system faces vulnerabilities very different from those of Basel member states.' Photo: Getty Images

Analysis: New Zealand's approach to setting bank capital requirements is facing renewed scrutiny, particularly after Adrian Orr's resignation as Reserve Bank Governor. Our regulatory thinking is too often outsourced, raising critical questions about whether internationally designed banking rules genuinely serve the unique needs of New Zealand's financial landscape.

Currently, New Zealand banking regulations draw heavily from the Basel Committee on Banking Supervision, an international body significantly influenced by major global economies, notably the United States and the European Union. [My recently published research demonstrates](#) that these Basel standards are neither neutral nor purely technical. Rather, they are inherently political, reflecting intensive lobbying by large banks and national governments to shape rules favourable to their domestic interests.

In my previous role as a bank regulator in the Netherlands, I witnessed firsthand how politically charged the Basel regulatory process can be. It was not uncommon to see representatives from Basel member states reading regulatory proposals directly from documents bearing the letterhead of major global banks, leaving little doubt about whose interests were being represented.

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However, this should not necessarily be viewed as scandalous. Indeed, regulators, politicians, banks, lobbyists, and financial journalists are well aware of this dynamic, and the Basel Committee's processes and outcomes are generally transparent.

Within regulatory circles, it's widely understood that Basel III rules were tailored to benefit specific banks. For instance, [Footnote 12 of the Basel III rules](#) directly advantaged banks with cooperative structures, such as Rabobank and Crédit Agricole.

Similarly revealing was the Basel Committee's 2010 decision to set the core capital ratio for banks at just 4.5 percent, only marginally higher than the 4 percent level in place before the global financial crisis. This modest increase appears more reflective of a political compromise intended to protect one or several member states and their major banks than a commitment to enhancing global financial stability. These examples underline why New Zealand's reliance on Basel standards warrants careful reconsideration.

Relying on global banking standards poses significant risks for New Zealand, given our distinctive financial environment. We have a small, concentrated banking sector dominated by Australian-owned banks, heavily reliant on lending to homeowners, farmers and the tourism industry. Because New Zealanders prefer investing in residential property over term deposits, our banks rely substantially on international funding. Situated far from major financial centres and lacking deep domestic deposit bases, New Zealand's banking system faces vulnerabilities very different from those of Basel member states. In this context, our focus should be on maintaining a stable, adequately profitable financial system tailored to local conditions.

Moreover, Basel rules are mindful of weaker financial systems to avoid leaving any member state behind. Yet New Zealand politicians frequently call for aligning our banking rules with international norms, citing the principle of

an international level playing field. During recent hearings of Parliament's Finance and Expenditure Committee, executives from ANZ and BNZ supported this view, advocating lower capital requirements by referencing international benchmarks to reduce costs and stimulate lending.

However, arguments for aligning with international standards overlook the reality that New Zealand is not a Basel Committee member, has no influence on these rules, and selectively applies only parts of them. By cherry-picking standards from Australia, Singapore, or the UK as convenient, politicians, pundits, and influencers risk undermining local regulatory effectiveness and the Reserve Bank's credibility. This selective and opportunistic adoption of standards designed for vastly different banking systems creates regulatory inconsistencies and potentially heightens risks for financial stability.

My research underscores the need for a more thoughtful, locally oriented approach. Instead of mimicking global standards that serve interests far removed from ours, New Zealand should commit to a regulatory approach firmly rooted in our distinct financial landscape. This approach should acknowledge that Basel's one-size-fits-all solution designed primarily with major European and US banks in mind, is ill-suited for our market.

Critically, as the Reserve Bank's credibility comes under scrutiny following Orr's resignation, politicians should support, rather than undermine, efforts to rebuild its regulatory authority. Finance minister Nicola Willis and associate finance minister David Seymour have argued for relaxing capital requirements, suggesting benefits such as lower loan costs and increased economic growth.

However, these potential short-term benefits risk compromising the long-term resilience of our banking system. Similarly, recent testimony from Big Four bank executives advocating lower capital standards reflects vested interests in immediate economic gains rather than sustained financial stability.

What New Zealand requires is neither additional political interference nor the continued selective importation of overseas standards. Investment in building robust domestic expertise is crucial. A credible and independent Reserve Bank, supported by politicians genuinely committed to regulatory autonomy, must develop evidence-based regulations specifically tailored to New Zealand's banking environment and resistant to external political pressures.

Ultimately, the debate over bank capital requirements transcends technical considerations. It represents an opportunity for New Zealand to reclaim control over its financial destiny. Genuine financial stability and public trust depend on independently established regulatory policies crafted by competent local experts who thoroughly understand New Zealand's distinct banking landscape.



Peter Davis

18/03/2025 at 9:34 pm

Who would have thought that politicians and bank CEOs would put short-term gains over longer-term stability? This is why we have an independent reserve bank I would have thought: to make those calls in favour of the long-term stability and effectiveness of the financial system over calculations vested on the horizon of the short-term.



Chris Robson

20/03/2025 at 10:04 am