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**Submission: 2025 Review of Key Capital Settings**

Dear Sir/Madam,

I write to provide feedback on the Reserve Bank's consultation paper on the 2025 Review of Key Capital Settings. As an academic researcher specializing in bank capital regulation and financial stability, I appreciate the opportunity to contribute to this important policy review.

My submission focuses primarily on methodological concerns regarding the international comparison analysis conducted by Oliver Wyman, which forms a cornerstone of the Reserve Bank's assessment that New Zealand banks may be overcapitalised relative to international peers.

**Executive Summary**

The Reserve Bank's consultation paper draws heavily on Oliver Wyman's finding that New Zealand banks' reported CET1 ratios would be around 780 basis points higher if calculated under a "direct" Basel III framework. This adjustment has been interpreted as evidence that New Zealand banks may be overcapitalised relative to international peers.

However, the analysis by Oliver Wyman contains two significant methodological limitations that bias the comparison:

1. The choice of comparator countries: five of the ten selected jurisdictions are European, even though Europe applies capital rules centrally through the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD). Treating these countries as independent comparators effectively counts one framework multiple times, skewing the results toward Europe's generally lower capital ratios.
2. The adjustment for size: New Zealand banks are small by international standards—ANZ New Zealand is smaller than mid-tier European banks such as Monte dei Paschi, while Kiwibank is comparable in scale to fintechs like Revolut. Small banks consistently report higher CET1

ratios, often around 20 percent, whereas global systemically important banks cluster closer to 12–14 percent. Oliver Wyman’s use of weighted averages effectively treats all banks in a country as one large institution, giving disproportionate weight to global mega-banks such as HSBC and Barclays. This systematically biases results downward.

When these methodological issues are corrected, New Zealand banks’ capital ratios appear proportionate to their scale. High ratios are a natural and prudent feature of small banks, not evidence of excessive capitalisation. This conclusion is especially relevant given New Zealand’s specific vulnerabilities: geographic isolation from financial centres, absence from the Basel Committee, and the lack of regional resolution mechanisms that exist in Europe. I elaborate on these structural vulnerabilities in a [Newsroom article](#), attached to this submission.

Accordingly, the case for reducing capital requirements should not rest on the Oliver Wyman analysis as it stands. A more robust benchmarking exercise would focus on resilient comparators (Australia, Canada, Hong Kong, Singapore), include host-country systems such as Poland and Chile, and benchmark banks according to size. Such an approach would provide a sounder basis for policy decisions on capital.

**Recommendation: Until a revised and methodologically sound comparison is completed, reductions in capital requirements should not proceed. Maintaining current capital settings is the more prudent course to safeguard financial stability and policy credibility, given New Zealand’s structural vulnerabilities and the limitations of the evidence currently presented.**

## **Response to Specific Questions**

### **Chapter 2: Context**

**Q6: Do you have any feedback on this analysis of how New Zealand deposit takers’ current and planned capital levels compare to other jurisdictions?**

The international comparison analysis by Oliver Wyman suffers from methodological deficiencies that undermine its conclusions.

### **Problem 1: Selection of Comparator Countries**

Of the ten comparator jurisdictions, five are European: Belgium, Ireland, Sweden, Norway, and the United Kingdom. From a banking regulatory perspective, Europe operates under a common legislative framework: capital requirements are set centrally through the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD), determined by the European Commission, European Parliament, and Council of the European Union. While there are differences across national banking systems, counting multiple EU jurisdictions separately risks overstating the influence of a single regulatory framework. This tilts the sample toward European banks’ typically lower capital ratios and creates the impression that New Zealand is significantly more capitalised by comparison.

Oliver Wyman’s choice of comparator countries may partly reflect considerations such as population size. However, this logic is not compelling in the context of capital regulation, which is determined by supranational rules in Europe. Since 2009, Europe has delegated capital-setting powers to the EU institutions, and non-EU jurisdictions such as the UK, Sweden, and Norway

broadly adopt these standards. It is therefore more appropriate to treat Europe as a single comparator bloc rather than as several separate cases.

More troubling is the choice of specific comparators. Why compare New Zealand to Belgium, Ireland, and the UK—all countries with banks that experienced severe difficulties during the Global Financial Crisis? If we are benchmarking regulatory settings, we should restrict the comparison to countries that best weathered financial storms: Australia, Canada, Hong Kong, and Singapore. As Calomiris and Haber document in [Fragile by Design](#), these jurisdictions have a solid track record when it comes to financial stability.

The European country selection also appears arbitrary. Why not Poland or Chile, countries that—like New Zealand—host foreign-owned banks?

Perhaps most concerning, three of the five European countries are Basel Committee members. The Basel Committee sets minimum standards designed to accommodate the bespoke needs of its members—particularly European countries. This creates a “lowest common denominator” problem: Basel rules are calibrated to ensure no European country is left behind, inevitably making more conservatively capitalised systems like New Zealand appear overcapitalised by comparison.

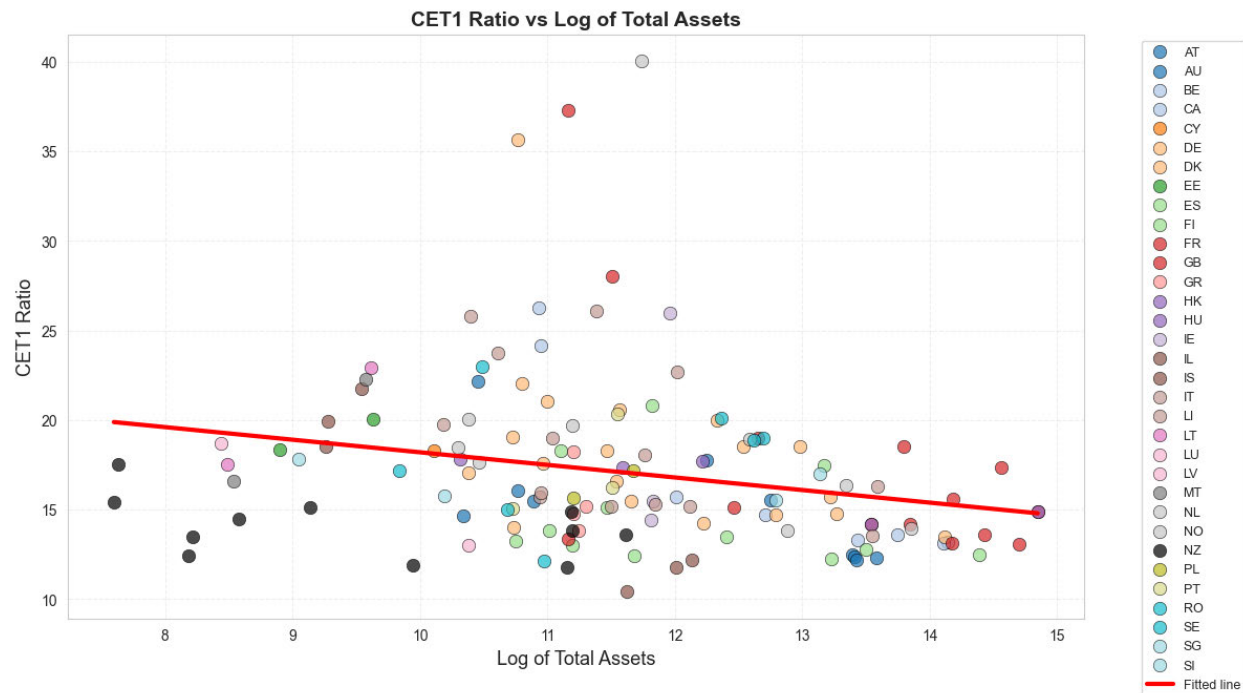
## **Problem 2: Inappropriate Size Adjustment**

New Zealand banks are tiny on the international stage. To illustrate the size differences between our banks and those populating the rest of the planet, I lined up 11 New Zealand banks with 109 banks from the European Banking Authority’s 2024 Transparency Exercise and Oliver Wyman’s sample banks. The results are revealing:

- ANZ New Zealand is smaller than mid-tier European banks like Monte dei Paschi
- HSBC is approximately 25 times larger than ANZ, our largest bank
- Kiwibank is roughly the same size as fintech newcomer Revolut
- Combined total assets of New Zealand’s big four banks are about half those of Rabobank Netherlands alone

Data from my sample confirms the well-documented negative relationship between bank size and capital ratios: smaller banks report CET1 ratios near 20 percent, while the largest banks cluster closer to 12–14 percent. These differences reflect real economic dynamics: large banks benefit from diversification, economies of scale, and implicit state support, while smaller banks maintain higher capital ratios as a prudent safeguard. Given their scale, it is natural for New Zealand banks to report higher CET1 ratios than global giants.

Oliver Wyman applies a weighted-average adjustment, pooling all capital and risk-weighted assets to derive a single CET1 ratio for each country. This effectively treats all banks as if they were one merged institution. Such an approach can be defensible when estimating the average capital ratio of an entire banking system, but it becomes problematic for cross-country benchmarking when bank-size distributions differ markedly. In the case of New Zealand, the largest bank is smaller than the smallest bank in the Oliver Wyman peer set, which makes weighted-average comparisons misleading.



Another way of framing the size issue: financial crises do not “adjust for size” the way Oliver Wyman does. The 2023 banking turmoil demonstrated that medium-sized institutions like Silicon Valley Bank can create systemic havoc. Size-based averaging obscures the reality that smaller banks can destabilise the entire financial system. This is the issue of correlations: in a crisis, many small banks start behaving as if they were one big bank, and they will move in a direction that negatively affects financial stability.

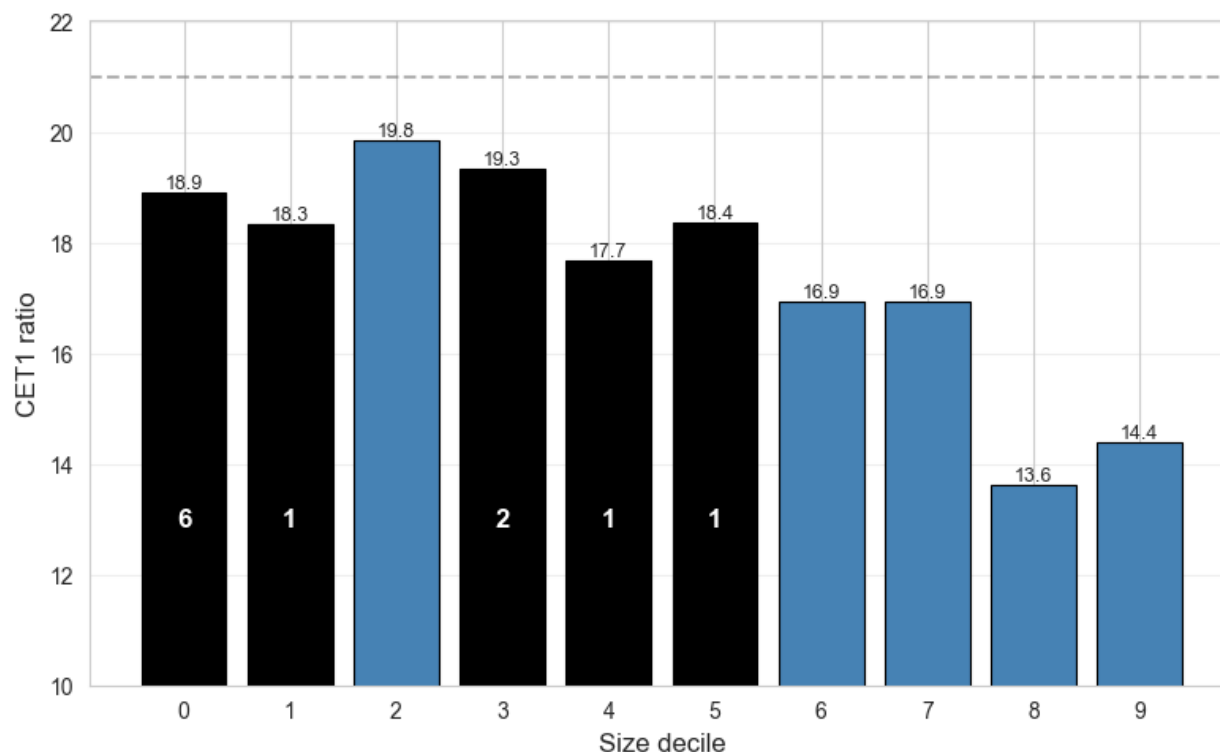
### What Happens When We Account for Size Properly?

To illustrate the effect of Oliver Wyman’s methodology, I sorted my 120-bank sample by total assets and formed ten size-based groups (deciles). For each group, I calculated the average CET1 ratio excluding New Zealand banks. The results, shown in my blog post, are revealing: groups that would harbour New Zealand banks feature CET1 ratios around 19 percent.

For example, decile 3 includes Kutxabank, Banco de Crédito Social Cooperativo, and eleven other banks, with an average CET1 ratio of 19.3 percent. Based on size, ASB and Westpac would be part of that group. So for these two banks, 19.3 percent would be an appropriate benchmark capital ratio—not the 13.6 percent or 14.4 percent of the top deciles dominated by mega-banks.

Now, let us accept Oliver Wyman’s 780 basis point adjustment and the resulting adjusted CET1 ratio of 21 percent ( $13.20\% + 7.80\% = 21.0\%$ ) as a representative capital ratio for New Zealand banks under international standards. When compared against properly size-adjusted peer groups, most New Zealand banks’ capital ratios appear appropriate for institutions of their scale, rather than excessive outliers.

## Chapter 3: Capital Stack Options



### Q7-Q8: Feedback on Group 1 Options and Alternative Proposals

Before any policy adjustments are made, the Reserve Bank should commission a revised benchmarking exercise that (i) uses comparator countries with demonstrated resilience during crises (Australia, Canada, Hong Kong, Singapore), (ii) includes relevant host-country jurisdictions such as Poland and Chile, and (iii) benchmarks by bank size deciles rather than weighted averages. This would provide a sounder basis for assessing whether New Zealand banks are genuinely outliers.

### Q9-Q12: Feedback on Group 2 and Group 3 Proposals

The proposals for Group 2 and Group 3 also reflect the same flawed baseline assumption that New Zealand banks are overcapitalised. Any reductions should be reconsidered pending a methodologically sound international comparison.

### Q25-Q28: Transitional Arrangements for Additional Tier 1 Capital

The consultation proposes phasing out AT1 capital but leaves transitional arrangements undefined. The expectation that existing AT1 instruments could be reclassified as Tier 2 capital raises questions, given the limited market depth in New Zealand. Experience in other jurisdictions, such as Banco Popular in 2017, has shown that gone-concern capital can be poorly understood even in much larger systems. For New Zealand, the limited scale of the domestic market suggests that bail-inable or gone-concern instruments may be difficult to issue or mispriced. The Reserve Bank should therefore prioritise a gradual derecognition schedule for AT1, and, if Tier 2 or LAC instruments are retained, publish a clear term sheet to provide market certainty.

I would be pleased to discuss these concerns further or provide additional analysis drawing on

international comparisons and my research in bank capital regulation. I submit these comments to help ensure the robustness and credibility of New Zealand's capital framework.

Thank you for considering this submission.

Yours sincerely,

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Te Herenga Waka