

Non-bank Deposit Takers Associations' submissions on the 2025 Review of key capital settings - Policy proposals for feedback

Submission to the RBNZ on the "2025 Review of key capital settings - Policy proposals for feedback"

INTRODUCTION

1. This submission is made by the Non-Bank Deposit Takers Association in response to the Reserve Bank of New Zealand's (the **RBNZ**) consultation paper, *2025 Review of key capital settings - Policy proposals for feedback* (the **Consultation Paper**).
2. Our submission focuses on five key areas of the Consultation Paper. Please see the below summary of our key submission points. We also set out in the annexure our responses to specific questions raised in the Consultation Paper.

Summary of key points

Our submissions are, in summary:

- (a) **(total capital ratio):**
 - (i) in our view, the Group Three total capital ratio should be reduced in recognition of the RBNZ's increased risk appetite and the desirability of taking a proportionate approach; and
 - (ii) the proposed ratios are more conservative than Australia and Basel III (the latter is notably designed for globally systemically important banks) and there is no clear rationale for exceeding Basel III standards for small, non-systemic deposit takers.
- (b) **(removal of AT1):** we do not oppose the removal of AT1, but suggest that it should be replaced with a greater emphasis on Tier Two than CET1.
- (c) **(minimum capital requirement)** we note the introduction of the minimum capital requirement for Group Three deposit takers, but we suggest a transition period for existing NBDTs that are currently below the minimum.
- (d) **(risk-weighted assets):** we support the introduction of more granular standardised risk weights across lending types, as this better reflects actual risk and promotes capital efficiency. However, we recommend adjustments to avoid unintended consequences and support financial inclusion.
- (e) **(transition timing)** we strongly support a short transition period for the new risk weightings, but the move to the new capital standards more broadly will require a longer transition and consideration of how the different elements of the capital settings will be transitioned in as a package.

DETAILED SUBMISSIONS

Total capital ratio – adjusting to RBNZ’s updated risk appetite and recognising proportionality

3. In making this submission, we note that the total capital ratio requirement for Group Three deposit takers is proposed to remain at 13 per cent.¹, being the proposed approach under the RBNZ’s “Deposit Takers Core Standards - Policy proposals” (the **May 2024 Capital Proposal**). In addition, the proportion of the total capital ratio that must comprise CET1 capital will increase. Therefore, the overall position for Group Three deposit takers has become more onerous.
4. The Consultation Paper proposes significant changes to the proposal for Group One and Group Two deposit takers from the May 2024 Capital Proposal. It notes that the RBNZ proposes changes to Group One and Group Two requirements on the basis that it has revisited its risk appetite following the passage of the new regulatory framework set out in the Deposit Takers Act 2023.
5. Despite revisiting its risk appetite, the RBNZ maintains that the Group Three proposal reflects the RBNZ’s view of what is a baseline minimum viable set of capital requirements. We are not clear on what basis the RBNZ determined this and note that, with the proposed total capital ratio requirement remaining the same,² the capital ratio requirements for Group Three will remain higher and more conservative than in Australia (particularly in respect of CET1)³ and under Basel III⁴. We would submit that, for Group Three deposit takers (being the smallest sized deposit takers and non-systematically important entities), there appears to be no reason to go beyond the Basel III capital standards.
6. In our view, the proposal for Group Three does not represent taking a proportionate approach across the three groups of deposit takers. As noted in the Consultation Paper, from a proportionality perspective, there would be a *smaller* difference between Group Two and Group Three deposit takers’ capital ratio requirements under the proposed approach (than would have resulted under the May 2024 Capital Proposal) and no difference in the case of unrated Group Three deposit takers. This is a disproportionate result to a review of the capital settings, particularly in light of the relative sizes between Group Two deposit takers and Group Three deposit takers and the corresponding risk they pose to the system.
7. Similarly, in terms of proportionality, when comparing to the Group Three to Group One, we need to take into account that Group One deposit takers also have the benefit of the IRB model when considering how the standards affect each group proportionately.

AT1 removal – replacing AT1 with more Tier Two than CET1

8. Overall, we are comfortable with the proposed removal of AT1 capital instruments. However, we appreciate the flexibility offered by lower-cost AT1 capital instruments (compared to CET1) and, for mutuals, it offers a relatively well understood means of raising additional Tier 1 capital. Accordingly, the key concern for NBDTs is how the capital stack is adjusted to reflect the removal of AT1.
9. Our overarching position regarding the appropriate capital ratios for Group Three deposit takers will impact exact percentages, however, as a general proposition, our view is that AT1, if removed,

¹ Or 14 per cent. if the deposit taker does not have a credit rating.

² While we note that risk-weightings are changing and may, for some deposit takers, improve the deposit takers’ capital ratio positions on balance, this also needs to be considered in the context of that fact that these changes to risk-weighting will bring us closer in line with our international counterparts and we were starting from a very conservative position.

³ Being (currently) a minimum capital ratio of 8 per cent. (comprising of a minimum of 4.5 per cent. CET1, and a minimum of 6 per cent. tier one capital) plus a 2.5 per cent. conservation buffer (comprising of CET1) (and the countercyclical buffer).

⁴ Being a minimum capital ratio of 8 per cent. (comprising of a minimum of 4.5 per cent. CET1, and a minimum of 6 per cent. tier one capital) plus a 2.5 per cent. conservation buffer (comprising of CET1) (and any countercyclical buffer or loss absorbency requirements for systematically important banks).

should be replaced entirely or predominantly with Tier Two capital. The Consultation Paper proposes that the existing up to 2.5 per cent. of AT1 be replaced by:

- (a) increasing the minimum CET1 requirement to 6 per cent. (from 4.5 per cent); and
 - (b) increasing the possible required amount of Tier Two capital to 3 per cent. (from 2 per cent.).
10. Our view is that the replacement of AT1 ought to be done with a greater emphasis on Tier Two capital to balance the financial stability considerations with consideration of compliance costs and supporting mutual deposit takers to be able to grow. For example, AT1 could be replaced by:⁵
- (a) increasing the minimum CET1 requirement to 5 per cent. (from 4.5 per cent); and
 - (b) increasing the possible required amount of Tier Two capital to 4 per cent. (from 2 per cent.),
11. Because the RBNZ was comfortable with deposit takers relying on AT1 capital in their capital structures up to this point, we consider that the removal of AT1 should not lead to more onerous CET1 requirements and that it is appropriate for AT1 to be replaced (to a greater degree) by Tier Two capital. This is consistent with the position taken by APRA in its phase-out of AT1 (in respect of smaller deposit takers)⁶.

Minimum capital requirement – transition for existing small NBDTs

12. We note the RBNZ's decision to introduce a total minimum capital requirement of \$5,000,000 for Group Three deposit takers. A small number of existing NBDTs currently have less capital than the proposed \$5,000,000 capital requirement for Group Three deposit takers. Our view is that, although those NBDTs accept that they will need to meet the new minimum requirement, there should be an appropriate transition period for those existing NBDTs. This is to avoid any risks to these businesses associated with transition where it may otherwise be challenging to raise the necessary capital ahead of the application for relicensing.
13. We consider that such a transition period is appropriate, given those entities are already operating as an NBDT and will maintain the required capital ratio requirements for unrated Group 3 deposit takers as an appropriate short-term safeguard.

Risk-weighted assets

14. We support the introduction of more granular standardised risk weights across mortgage, corporate, and agricultural lending. A tiered approach better reflects the diversity of lending profiles and promotes capital efficiency while maintaining prudential standards. However, we note that the proposed risk weights remain more conservative than those under APRA and Basel III, particularly for low-LVR residential mortgage lending. We recommend setting risk weights for owner-occupied residential mortgages with LVRs below 50% to 20%, and introducing further granularity, such as a below-40% LVR bucket.
15. Additionally, the proposed changes may adversely affect NBDTs, particularly in the 60–70% LVR range, where risk weights are set to increase. We propose a 10% increment structure between 50% and 80% LVR to address this.
16. For past due loans, we support incorporating both Lenders Mortgage Insurance (LMI) and LVR into the risk weighting framework. Applying a flat 100% risk weight to all past due loans regardless of LVR or LMI status does not accurately reflect the underlying risk. For example, a past due loan with a 20% LVR and no LMI presents minimal risk of loss. We caution that the proposed changes could

⁵ If the RBNZ decides to proceed with an approach more aligned to Australia and Basel III, then this could follow the Australian decision for non-SFI ADIs, which is minimum capital of 4.5% CET1 and 3.5% Tier Two.

⁶ Where the previous up to 1.5 per cent. of AT1 capital is being replaced entirely with an uplift to the allowed amount of tier two capital to meet the unchanged total capital requirement for smaller deposit takers.

disincentivise NBDTs from supporting customers through hardship, which is a key differentiator in their service model.

17. In agricultural lending, we recommend differentiated risk weights aligned with SME corporate exposures, proposing an 85% risk weighting for loans with LVRs between 50% and 70%, and 100% for those above 70%. This approach recognises the similar risk profiles and economic roles of agricultural and SME corporate lending. For commercial property lending, we support the creation of a separate risk weight category and recommend LVR-based granularity consistent with Basel III: 70% for LVRs below 60%, 90% for 60–80%, and 110% for above 80%.
18. Regarding personal lending, we see no justification for exceeding the standard 100% risk weight for unsecured loans. We recommend a 75% risk weight for secured personal lending, consistent with Basel III. Increasing risk weights could discourage regulated providers from offering personal loans, potentially pushing borrowers toward unregulated markets, as seen following the CCCFA changes in 2021. For institutions still holding personal loan books, the proposed increases would significantly reduce the capital uplift expected from transitioning out of the NBDT regime.
19. Overall, we support the move toward more granular risk weights to better align capital requirements with actual risk. However, we urge the Reserve Bank to consider the practical implications for NBDTs, as outlined in our response to consultations questions in the Annexure, to avoid unintended consequences for financial inclusion and customer support.

Transition timing

20. Overall, we are in favour of introducing the new risk weighted assets as soon as possible. The key driver of this is the fact that the risk weightings for products offered by some of our members that compete directly with the banks put those members at a distinct disadvantage and we support the reduction of these competitive disadvantages as early as possible.
21. However, the adoption of the new risk weightings will not result in increased ratios for all of our members. For those members, the new risk weightings represent an opportunity to enter new markets that are not commercially viable under the current settings.
22. We do not require a long lead in time to implement the new risk weightings and could do so with three months' notice. While we recognise that this transition will require time and effort from deposit takers, we are willing to prioritise the implementation of the new capital settings considering the benefits outlined above.
23. In respect of the costs of transition, our view is that this is not a pertinent factor in the decision as these costs would need to be incurred regardless and the timing of incurring these costs is not a material consideration for us.
24. However, we do not agree with the adoption of the new risk weighted assets being accompanied by an increase in minimum capital requirements. As noted above, not all of our members will have an uplift in their capital ratios as a result of the new risk weightings, in fact only about half of our members will see a material uplift. In addition, the proposed minimum capital ratio of 10% of risk weighted assets will result in the minimum being higher for a period than your proposed minimum capital ratio under the new standards (being 9%). At a maximum we believe the minimum ratio should be lifted to the proposed minimum under the new standards with the PCB being introduced under the new standards.
25. We further submit that, to the extent our minimum capital requirements are increased to align with the new standard, the capital stack should reflect the new standard as well. That is, if we need to hold additional capital early, we should have the opportunity to issue Tier 2 capital at that point to meet our capital requirements.
26. In short, because the change to risk weighted assets will not universally result in an increase in NBDT capital ratios, any broader adoption of the capital settings will require more lead in time and further consideration of the how any proposed increase fits into the overall transitional arrangements into the new regime. We also note that the NBDTs have no intention to reduce their total capital

amounts as a result of updated risk weightings, we would simply start to plan our affairs going forward on this basis, while positioning ourselves for compliance with the new regime.

Appendix – responses to specific Consultation Paper questions

- *Q1: Do you have any comments on the proposed assessment criteria?*

We have no specific comments on the proposed assessment criteria other than to re-iterate the importance of proportionality, and the RBNZ's proportionality framework, to us.

- *Q2: Do you have any comments on the appropriate risk appetite for New Zealand's capital settings?*

We acknowledge and agree with the RBNZ's higher risk appetite for capital settings, but do not think this is reflected in the proposal for Group Three deposit takers.

Chapter 2: Context

N/A

Chapter 3: Capital stack options

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- *Q11: Do you have any feedback on the proposal for Group 3?*

In our view the proposal does not appear to reflect an increased risk appetite or proportionality between the three groups of deposit takers – particularly Groups Two and Three. The proposal for Group Two deposit takers has reduced capital requirements significantly, while they have increase for Group Three, remaining more conservative than the Australian (particularly in respect of CET1) and Basel III equivalent standards. We consider that this does not, for Group Three deposit takers, strike an appropriate balance between financial stability and imposing unnecessary compliance costs. We are also of the view that, to maintain proportionality with Group Two deposit takers, if group two capital settings are reducing, then Group Three capital settings should also correspondingly reduce unless there is a clear rational to counter this.

- *Q12: Do you have any alternative proposals?*

We propose adopting the approach announced in Australia for non-SFI ADIs, being a total capital ratio of 10.5% of risk weighted assets, made up of minimum capital of 4.5% CET1, 3.5% Tier 2 and a buffer of 2.5%.

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- *Q14: Do you agree with the proposal that the Counter-Cyclical Capital Buffer should not apply to Group 3 deposit takers?*

Yes, we agree that the counter-cyclical capital buffer should not apply to Group Three deposit takers. Group Three as a sector will not impact macro-prudential policy and therefore applying the counter-cyclical capital buffer would simply be creating unnecessary compliance costs.

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- *Q18: Do you have any feedback on the degree of proportionality across the proposed options and capital stacks?*

As above, we are of the view that, to maintain proportionality with Group Two deposit takers, if Group Two capital settings are reducing, then Group Three capital settings should also correspondingly reduce. It is not clear from the Consultation Paper how proportionality has been considered in reaching the proposal for Group Three.

- *Q19: Do you have any feedback on the implications for competition from our proposed options?*

The biggest win for Group Three deposit takers in terms of our ability to compete is to have the same standardised risk weightings as banks. If it costs us more to provide the same service, we are inherently at a competitive disadvantage. For that reason, we would like to see this disadvantage removed as soon as possible.

More broadly, our ability to have a meaningful impact on competition in the sector (which we acknowledge is only possible in the long-term) relies on our ability to grow and reach scale. The best way to support this is to ensure that regulation is truly proportionate taking into account the size and risk presented by Group Three deposit takers. We believe that the proposal could go further to achieve proportionality.

- *Q20: Do you have any feedback on our analysis of the options against the assessment criteria?*

The Consultation Paper provides limited information on what analysis went into determining the proposal for Group Three deposit takers and how the assessment criteria were taken into account. The Consultation Paper notes that the proposal represents what is, in the Reserve Bank's view, the minimum feasible buffer (being 4%) as it "would provide some time for recovery actions". It is not clear why it was determined that 4% was the minimum feasible number (and why New Zealand needs to be more conservative in this respect than its international counterparts) and how it considered the other assessment criteria, such as does not give an indication of how the assessment criteria, including proportionality, competition, fundings costs and international alignments, were applied to the analysis.

- *Q21: Do you have any feedback on our approach to the cost benefit analysis?*
- *Q22: Do you have any feedback about the results of the cost benefit analysis?*
- *Q23: Do you have any additional evidence that should be considered in the cost benefit analysis?*

In relation to the questions on cost benefit analysis, we appreciate that more focus has been given to the options for the larger deposit takers because they are likely to have a greater impact on costs and benefits in the short term. However, we urge the RBNZ to keep in mind not just the short-term financial costs and benefits, but the longer-term impact of capital settings on the shape of the sector. The calibration of the capital settings will impact our ability to grow, to raise additional capital and to expand into new lending segments, such as SME and agricultural lending.

While our impact may be small now, we contribute disproportionately to financial inclusion and providing services to niches not well served by the banks. If the settings enable growth and flexibility in our business models, these benefits will similarly grow over time.

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Chapter 4: Additional Tier 1

- *Q25: Do you agree with the proposal to remove Additional Tier 1 capital as a form of regulatory capital?*

We are not opposed to removing AT1 capital instruments. The key concerns for NBDTs in this respect, are what kind of capital will replace AT1 and the treatment of existing AT1 instruments during the transition.

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- *Q28: Are there any additional factors that should be taken into account for Group 3 deposit takers?*

Our view is that the removal of AT1 should be replaced entirely/predominantly by Tier Two capital (rather than replaced with a majority of CET1 capital as proposed under the Consultation Paper).

Chapter 5: Standardised risk weights

- *Q29: Do you agree that the Reserve Bank should introduce more granular standardised risk weights for mortgage, corporate and agricultural lending?*

We support more granular risk weights. We believe a tiered approach acknowledges the diversity within the lending types and promotes capital efficiency and alignment between risk profiles, supporting financial inclusion and corporate and rural development without compromising prudential standards.

We do note however that the risk weighting for under 50% is still more conservative than APRA. We propose setting the risk weight for LVR below 50% to 20%. There is also an opportunity to introduce further granularity below 50% to reflect actual risk.

There is an anomaly for the NBDTs in the granularity as applied in the bucket 60% to 80%. Currently NBDTs are working on buckets <70% and <80%. This means there is likely to be an increase in risk weighted assets for Investment RML for LVR between 60% and 70%. This is contrary to the stated intention of the review. (This is also covered in Q30 below).

To resolve this, we would recommend using 10% increments between 50% and 80% LVR. The bucket between 60% and 70% should be risk weighted no higher than the currently applied level of 35%.

- *Q30: Do you have any comments on the proposed changes to standardised risk weights for mortgage, corporate and agricultural lending?*

Mortgage Risk Weights:

We note that the risk weights are still more conservative than APRA and Basel 3. For example, under 50% LVR is risk weighted at 20% under APRA (and Basel 3). The argument in the consultation document shows a reluctance to match the Kainga Ora 20% risk weighting as a rationale for a 25% risk weighting. Considering Kainga Ora loans are effectively guaranteed by government, there is an argument that these are currently rated too high at 20%.

Our recommendation is for Owner Occupied RML with LVR below 50% to drop to 20%. (The alternative is to develop more granularity and introduce a below 40% LVR bucket and risk weight this at 20%). More aligned to Kainga Ora backed lending.

There is an issue with the new granularity and the assumed impact on the NBDT sector (also covered in Q29 above). A high proportion of some NBDT's lending is in Investment RML between 60% and 70% LVR. For NBDTA's this is currently risk weighted at 35%. Under this proposal this will increase to 40%.

The proposal creates a scenario where some NBDTs will have higher capital allocations than is currently the case. If this goes ahead, it will be contrary to the assumptions on improved Capital Adequacy Ratios that is driving the increase in minimum CAR requirements for this sector.

Combining our feedback from Q29 and Q30 we recommend applying the following granularity and risk weightings:

RML – Owner/Occupied			RML – Investment		
	LMI	No LMI		LMI	No LMI
LVR <50%	20%	20%	LVR <50%	25%	25%
LVR >50% to 60%	25%	25%	LVR >50% to 60%	30%	30%
LVR >60% to 70%	30%	30%	LVR >60% to 70%*	35%	35%
LVR >70% to 80%	35%	35%	LVR >70% to 80%	40%	40%
LVR >80% to 90%	35%	50%	LVR >80% to 90%	50%	70%
LVR >90% to 100%	50%	75%	LVR >90% to 100%	75%	90%
LVR >100%	100%	100%	LVR >100%	100%	100%

	* Solves the transition issue for NBDTs for in the 60% to 70% bucket
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Past Due Risk Weights:

The capital review proposes applying risk weights against past due loans that move away from an LVR based risk weighting to one based on whether there is LMI or not.

We agree that LMI should be a factor as it mitigates the risk. Our view is this should also be combined with a reflection of the LVR of the loan. For example: A past due loan without LMI and with a 20% LVR has very low risk of generating a loss in the event of default and therefore there is no justification for applying 100% risk weighting for this loan.

Our recommendation is that past due should apply a risk weighting based on LMI and the LVR of the loan. For ease it may be beneficial to apply less granularity in the case of past due RMLs.

For example:

Past Due (RML – Owner/Occupied)			Past Due (RML – Investment)		
	LMI	No LMI		LMI	No LMI
LVR <50%	40%	50%	LVR <50%	50%	60%
LVR >50% to 80%	70%	80%	LVR >50% to 80%	70%	80%
LVR >80%	80%	100%	LVR >80%	95%	120%

We would also reference the potential impact for customers and members of the proposed change in approach. An increase to the risk weights for past due accounts could have the unintended consequences of changing deposit taker strategies for dealing with past due loans. For many NBDTs, supporting members/customers through hardship is a point of difference when compared to the market. The current risk weight settings for NBDTs support this approach. This proposed change may have the outcome of reducing the scope to provide this support.

If this change went ahead, it would further support the need to have appropriate proportionality in the capital adequacy ratio settings.

Example: Member with a home in Hawke's Bay with a 20% LVR, without LMI, is impacted by a major natural event that impacts their ability to service their loan (eg Cyclone Gabrielle) and they are >90 days past due. The NBDT would support the member with their situation for as long as it took and there is currently no risk weight/capital implications for the NBDT. This loan continues to be risk weighted based on the 20% LVR. Under the new proposal, this loan would be risk weighted at 100%. This difference is significant and disincentivises the support of that member through hardship beyond 90 days.

LMI

Also note there is an error in the consultation document on Page 72. The third bullet point currently reads as: "Past due owner-occupied RML with LMI remains at 100%, but past due investor RML with LMI increases from 100% to 120%"

This should read as "Past due owner-occupied RML without LMI remains at 100%, but past due investor RML without LMI increases from 100% to 120%"

Corporate Risk Weights:

We support the proposed approach to risk weightings for corporate lending. A number of our members have considered SME lending and have found it to be commercially unviable with the

existing risk weightings in the NBDT regime. The proposed risk weightings create business opportunities some of our members would intend to expand into these areas.

Agricultural Lending Risk Weights:

We propose that agricultural exposures be assigned differentiated risk weights to better reflect their risk profile and ensure consistency with SME corporate treatment.

Agricultural loans have risk characteristics aligned to SME corporates and we propose should carry a risk weight between 50% to 70% LVR of 85%, to be consistent with SME benchmarks, recognizing their comparable credit behavior and economic role.

Loans with higher risk indicators above 70% LVR should be recorded with a 100% risk weight, consistent with broader corporate exposures under Basel III.

This tiered approach acknowledges the diversity within agricultural lending while promoting capital efficiency and alignment with SME treatment. It also supports financial inclusion and rural development without compromising prudential standards.

- *Q31: For deposit takers: Can you quantify the overall and sectoral impact that the proposed changes to standardised risk weights for residential mortgage, corporate, and agricultural lending would have on your institution?*

For the NBDTs, the change from the risk weightings under the NBDT regulations to the current standardised risk weightings will be the most significant. For just under half our members, this change will be material (i.e. an increase in CAR of between 2% and 9%) for the remainder. About a third of our members will see no material change moving to the standardised risk weightings and the remaining few will see a moderate change i.e. between 0.5% and 1.9%).

The proposed changes to the standardised risk weightings will provide a moderate uplift in CAR (between 1% and 2%) for two of our members, but will not have a significant impact on the others.

Additional changes, which we have suggested in this submission – such as more granular risk weightings for commercial property lending and lower risk weights for personal lending would have a moderate to significant impact on about half of our members.

We will provide the RBNZ with more specific data in relation to each institution.

- *Q32: Would you expect more granular residential mortgage lending risk weights to lead to more differentiation in loan pricing to borrowers?*

Over time we would expect that the granularity would lead to pricing differentiation. This is already apparent in the market today with >80% lending and Kainga Ora home loans.

- *Q33: For deposit takers: Can you provide a lending breakdown for your institution by the following corporate sectors: rating, small and medium-sized enterprise retail, small and medium-sized enterprise corporate, and other unrated corporate?*

We will provide this information for each of our members separately to this submission.

- *Q34: Do you agree with creating a new standardised risk weight category for all unrated corporate commercial property lending?*

We support separating out Commercial Property lending. We would recommend that risk weights applied to Commercial Property lending should be aligned to the LVR based granularity that is consistent with the Basel 3 approach in the table below.

Commercial Property (CRE20 Standardised Approach: individual exposures s20.87)	
LVR Band	Risk Weight
LVR <60%	70%
LVR >60% to 80%	90%
LVR >80%	110%

- *Q35: For deposit takers: Can you quantify the impact that a 100% risk weight under the standardised approach on all unrated commercial property lending would have on your institution?*

For just over one third of our members, more granulised risk weightings for commercial property lending would have a moderate to significant impact on our CAR.

- *Q36: Do you have any comments on increasing risk weights for personal lending?*

The proposed Capital Review applies a standard model range between 0% (no risk) and 100% (riskiest). We see no justification for applying a different approach for Personal Lending. The maximum risk weight for unsecured personal lending should be 100%.

We do acknowledge that secured personal lending would have a lower risk profile. We therefore recommend aligning to the Basel 3 guidance and applying 75% risk weight for secured Personal Lending. (We note Basel 3, CRE20 Standardised Approach: individual exposures – Sections 20.63 to 20.68).

We would also provide feedback on the potential unintended consequences of increasing the risk weights for Personal Lending: The recent example is the lived experience when changes were made to the CCCFA in 2021. The amended CCCFA regulation made it too complex and unprofitable for regulated providers to provide personal lending solutions and New Zealanders were 'forced' towards the unregulated market. Increasing risk weights has a high chance of disincentivising licensed deposit takers from providing this product and 'forcing' customers towards unlicensed and unregulated providers.

- *Q37: For deposit takers: Can you quantify the impact that a 100% risk weight on secured personal lending and a 150% risk weight on unsecured personal lending would have on your institution?*

For our members that still have significant personal loan books, this would be significant and would materially reduce (ie by more than 1%) the uplift we would see from transitioning out of the NBDT regulations.

For completeness, we also note that a number of our members have exited personal loans or are in the process of winding down our personal loan books because of the cost of capital means they are not profitable. If the risk weightings were reduced more in line with actual risk, some members may look to expand their personal loan books again.

- *Q38: For deposit takers: Can you provide a lending breakdown for your institution for the following sectors: commercial property (investment, development, and a loan-to-value ratio breakdown within these categories), and personal lending (secured, unsecured, credit card and other)?*

Each of our members will provide this information directly to the RBNZ.

- *Q39: Do you think the proposed standardised risk weights more closely align with the actual risk of the underlying lending? If not, where do you think the biggest discrepancies are?*

We have provided feedback specifically on those items that we think should be changed to more accurately reflect risk. As a general submission, we support more granular risk weightings which better reflect risk and enhance capital efficiency without detracting from prudent risk management.

- *Q40: For deposit takers: Is there a desired lead-in time to adopt the proposed standardised risk weight categories and updated minimum capital ratio? What are the expected costs (and their magnitude) to systems and processes of the proposed standardised risk weight categories?*

We would need [insert] to transition our systems to the new risk weightings and the cost is not in our view relevant to consideration of timing. We do not support increasing the minimum capital ratio above what it will be under the new standards and any increase should be considered in the context of the broader transition to the new standards.

...

- *Q42: Do you think the proposed approach to standardised risk weights aligns with the main purpose of the Deposit Takers Act 2023 (section 3(1)) and the additional purposes (section 3(2))?*

We do not think the proposed changes will introduce any material additional risk into the system or the Group Three sector. We note that the suggested approach remains conservative by international standards. However, we think that the changes to the SME and agricultural lending risk weights support the purpose of supporting a sustainable and productive economy by calibrating more accurately to risk to ensure financial stability but without unduly slowing down lending activity.

We also note section 3(2)(c) of the Act which states that a purpose of the Act is "to the extent not inconsistent with [the financial stability objective], to support New Zealanders having reasonable access to financial products and services provided by the deposit-taking sector. In our submission we have outlined the areas where we think adjustments can be made to enhance access to lending without compromising the prudential standards.

We also note that determining the capital settings for implementation under the Act is an exercise of the RBNZ's powers that are subject to section 4 of the Act. Particularly in relation to Group Three deposit takers, we believe more weight can be given to proportionality, competition (with a longer-term focus), avoiding unnecessary compliance costs and promoting a diverse range of financial institutions that will support access to financial services.