

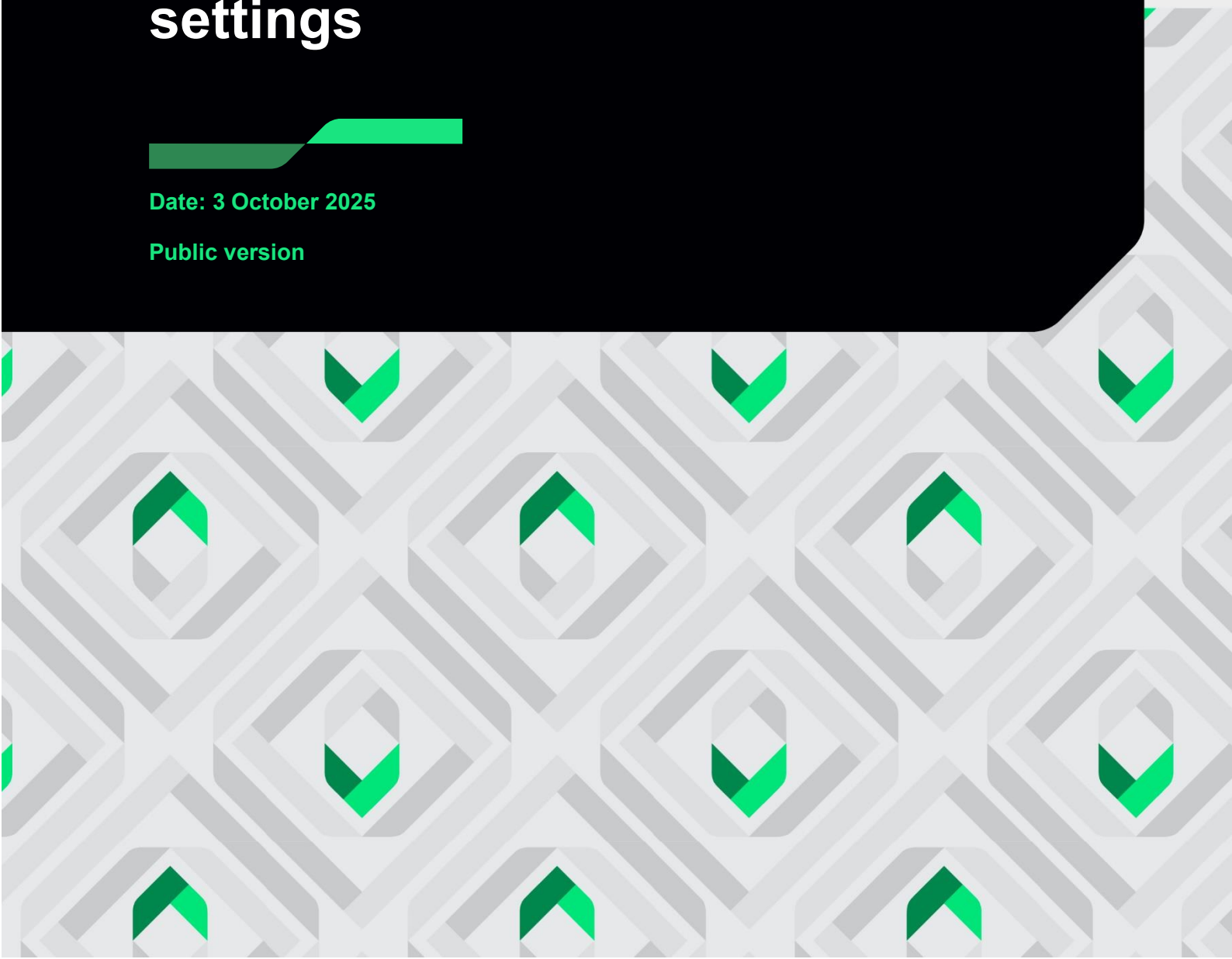


# **Submission to the Reserve Bank of New Zealand – Te Pūtea Matua on its 2025 Review of key capital settings**



**Date: 3 October 2025**

**Public version**



## **Kiwibank submission to the Reserve Bank of New Zealand – Te Pūtea Matua on its 2025 Review of key capital settings**

### **Executive summary**

1. Kiwibank welcomes the opportunity to provide feedback to the Reserve Bank of New Zealand – Te Pūtea Matua (**Reserve Bank**) on its 2025 Review of key capital settings consultation paper (**Consultation**).
2. Kiwibank exists to challenge the status quo and to disrupt the banking sector. This is how we deliver on our Purpose of Kiwi making Kiwi better off and is central to all we do. Throughout the Commerce Commission's market study into personal banking services (**Market Study**) and the Finance and Expenditure Committee's inquiry into banking competition (**Banking Inquiry**), Kiwibank has advocated for changes to the capital settings. Accordingly, we welcome the Reserve Bank's decision to conduct this review.
3. This is an opportunity to develop capital settings that better enable competition while continuing to support financial stability. That balance can be achieved by ensuring that the capital settings:
  - a) *Are not overly conservative*: As a challenger bank, Kiwibank needs to ensure it has sufficient capital to support its strong growth ambition. Excessive capital requirements create an unnecessary barrier to growth.
  - b) *Establish an even competitive playing field*: Capital settings should not give some banks a competitive advantage over others unless there are compelling financial stability benefits.
4. We broadly support the proposals set out in the Consultation, particularly the proposals to introduce more granular standardised risk weights and remove Additional Tier 1 (**AT1**) capital. These changes will help to mitigate some of the competitive advantages enjoyed by the banks that use internal ratings-based (**IRB**) models (**IRB Banks**), and to address capital constraints facing domestic banks.
5. However, the following further changes should be adopted to ensure the capital settings fully support a competitive banking industry (without imperilling stability):
  - a) **Better align standardised risk weights with Basel III**: Granular, accurate risk weights improve competition by ensuring banks that use standardised risk weights (**Standardised Banks**) are not required to hold conservatively large amounts of capital compared to IRB Banks for the same risk. New Zealand's standardised risk weights should not be more conservative than the Basel III risk weight equivalents, except where deviations are necessary to reflect something unique to the New Zealand context and justified by objective, quantitative analysis. Better alignment with Basel III also allows New Zealand banks the possibility to leverage global learning and innovation.
  - b) **Increase the output floor to 100%**: IRB modelling allows IRB Banks to adopt lower risk weights, meaning they may hold less capital for the same risk. To address this competitive advantage, the output floor should be increased to 100% (unless compelling financial stability benefits from IRB modelling can be demonstrated through an independent quantitative assessment).
  - c) **Adopt Option 1**: Option 2 would create a significant barrier for domestic banks to become Group 1 deposit takers, because any bank without an international parent is unlikely to be able to issue internal LAC. The capital requirements should account for the possibility that a domestic bank will become a Group 1 deposit taker in future.
  - d) **Recalibrate levy risk score calculation (Levy Calculation) for the Depositor Compensation Scheme (DCS)**: The Levy Calculation must accurately reflect

relative risk to ensure smaller players do not face an unnecessary competitive disadvantage. The Reserve Bank will need to adjust the capital adequacy risk indicator (**Capital Indicator**) for the Levy Calculation to reflect the proposed adjustments to the capital requirements. This also presents an opportunity for the Reserve Bank to update its methodology so that capital ratios are measured on a consistent, standardised basis for all banks for the purposes of the Levy Calculation.

6. Additionally, it is important that the transition to the new capital requirements is managed efficiently and with minimal disruption to the market. To achieve this:
  - a) changes to standardised risk weights should be made as soon as is practicable;
  - b) step ups to the capital requirements should be paused pending the outcome of the Consultation; and
  - c) outstanding externally issued AT1 instruments should qualify as Tier 1 capital until the first optional redemption date.
7. We expand on each of those submissions below. Our responses to the Consultation questions are set out in the Appendix.

### **The standardised risk weights should be further aligned with Basel III**

8. We broadly support the proposal to adopt more granular standardised risk weights, particularly for residential mortgage lending (**RML**) and corporate lending. Adopting more granular standardised risk weights is a critical step towards ensuring that the levels of capital held by Standardised Banks reflect the actual risks that they face. This helps to reduce (but does not eliminate) the competitive benefits enjoyed by the IRB Banks because they are able to adopt lower risk weights under the IRB modelling approach.
9. However, further changes are required to address the mismatch between risk weights and actual risk effectively. The Basel III risk weights represent an international benchmark. Accordingly, New Zealand should adopt the Basel III risk weights, except to the extent that deviations are necessary to reflect something unique to the New Zealand context and justified by objective, quantitative analysis. The analysis in respect of any deviations should be made public, for transparency and to enable feedback.
10. In particular, the risk weights for owner-occupied RML and corporate lending should be better aligned with Basel III. We expand on this below.

#### *Risk weights for owner-occupied RML*

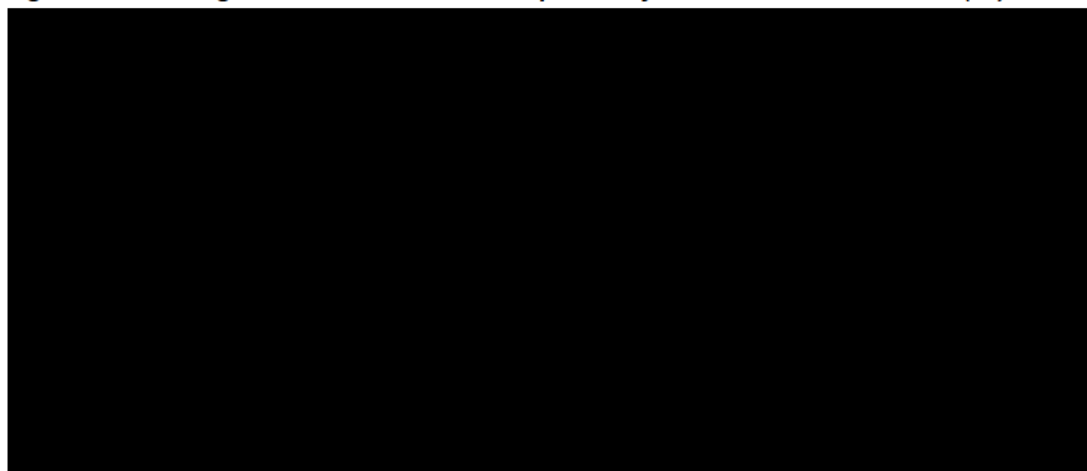
11. The Reserve Bank should align the risk weights for owner-occupied RML with the Basel III risk weight equivalents set out in Table 1 below, except where deviations can be justified. This would better reflect risk and international practice.

**Table 1: Standardised risk weights for owner-occupied RML (%)**

<b>LVR (%)</b>	<b>Current</b>	<b>Proposed</b>	<b>Basel III</b>
<b>&lt;50</b>	35	25	20
<b>50.01 – 60</b>	35	30	25
<b>60.01 – 70</b>	35	35	30
<b>70.01 – 80</b>	35	35	30
<b>80.01 – 90 (no LMI)</b>	50	50	40
<b>90.01 – 100 (no LMI)</b>	75	75	50
<b>&gt; 100 (no LMI)</b>	100	100	70

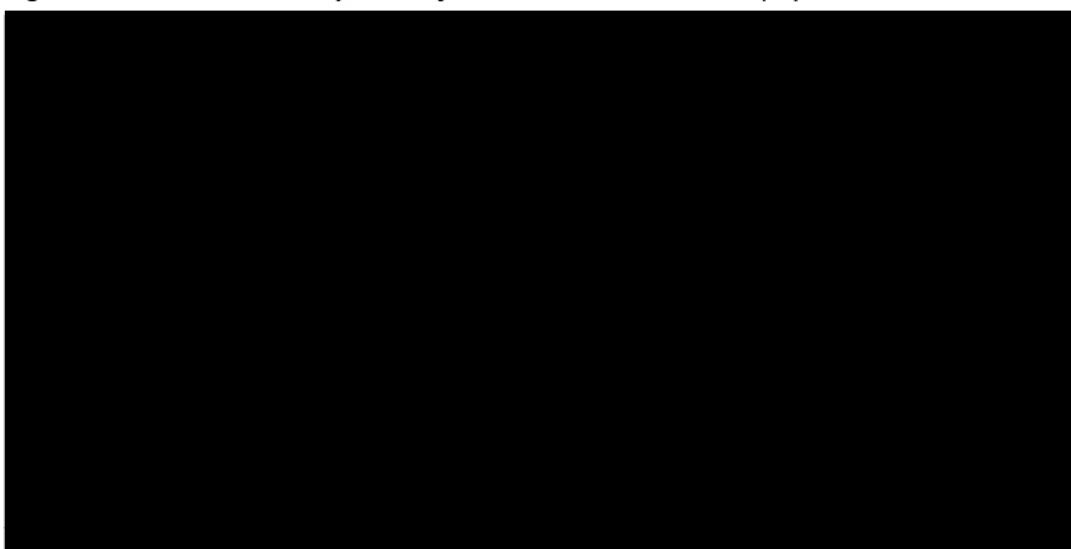
12. Alignment with the Basel III risk weights would also help to address a competitive advantage the proposed risk weights provide IRB Banks for all RML with a loan-to-value ratio (LVR) of 70 or below (**Low-LVR RML**).
13. For all Low-LVR RML, the proposed standardised risk weights are higher than the average IRB risk weights, as shown in Figure 18 in the Consultation and Figure 1 below. This gives the IRB Banks a significant competitive advantage for Low-LVR RML. For example, a 50-60% LVR loan at an IRB Bank would attract a 15% risk weight. Under the proposals, if the same loan were to transfer to a Standardised Bank its risk weight would double to 30%.

*Figure 1: Risk weights and Kiwibank's RML exposure by LVR band as at June 2024 (\$b)*



14. This is significant because a substantial portion of loans in the banking system are Low-LVR RML, as shown in Figure 1 and Figure 2. This means the largest competitive advantage granted to the IRB Banks under the proposal for RML applies to the majority of loans.

*Figure 2: Kiwibank's RML exposure by LVR band as at June 2024 (\$b)*



15. The basis for allowing an IRB Bank to hold half the capital that a Standardised Bank does for Low-LVR RML remains elusive – the same property is not twice as risky for Kiwibank as it is for an IRB Bank. Additionally, it seems counterintuitive to provide the greatest relative risk weighting advantage to IRB Banks for Low-LVR RML. Any risk measurement benefits are likely to be less impactful in the context of Low-LVR RML,

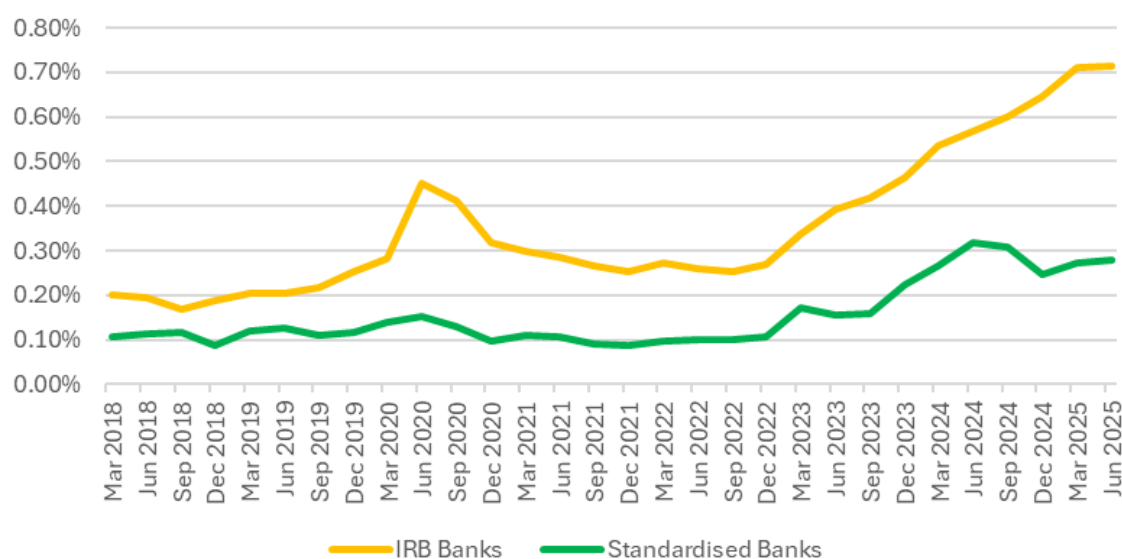
which will have a lower probability of default (**PD**) and loss given default (**LGD**). If IRB modelling provides valuable insights, they are more likely to be beneficial in the context of higher risk lending. If the Reserve Bank decides that some IRB risk weights should be lower to reflect any risk management benefits of IRB modelling, then it would be more logical for this to be applied to higher risk lending.

16. More detail on the specific changes we propose for owner occupied RML is set out below.

#### <50% and 50.01-60% LVR bands

17. The Reserve Bank is proposing new risk weight categories for owner-occupied RML in the <50 and 50.01-60% LVR bands. We support this change, which will better reflect risk and bring New Zealand's risk weights more in line with the Basel III risk weights. However, the proposed risk weights for the <50 and 50.01-60% LVR bands should be 20% and 25% (rather than 25% and 30%) respectively.
18. In the Consultation, the Reserve Bank indicates that it is not comfortable setting the risk weight for the <50% LVR band at 20%, because a 20% risk weight currently applies to Kāinga Whenua lending (which is underwritten by Kāinga Ora). We disagree with this approach. The Reserve Bank should use the Basel III risk weights as a starting point for assessing the risk of owner occupied RML with an LVR of <50%, rather than the existing risk weight for Kāinga Whenua lending.
19. The Reserve Bank does not provide any analysis to show why RML with an LVR of <50% would carry more risk in New Zealand than it does in other jurisdictions. To the contrary, non-performing loan statistics suggest that a lower risk weight would be appropriate.
20. A risk weight of 25% implies a PD of 3%, a risk weight of 20% implies a PD of closer to 2.1% and a risk weight of 15% implies a PD of 1.3% (in accordance with the formula and prescribed factors in BPR133 D6.2). Standardised Banks have reported peak non-performing loans (**NPL**) of just 0.3% for their entire mortgage portfolios (encompassing owner-occupied and investor RML across all LVR bands) over the last 7 years, as shown in Figure 3 below. This is ten times lower than the implied PD for a 25% risk weight, suggesting a 25% risk weight may be overly conservative.

**Figure 3: Housing loans – non-performing loans ratio**



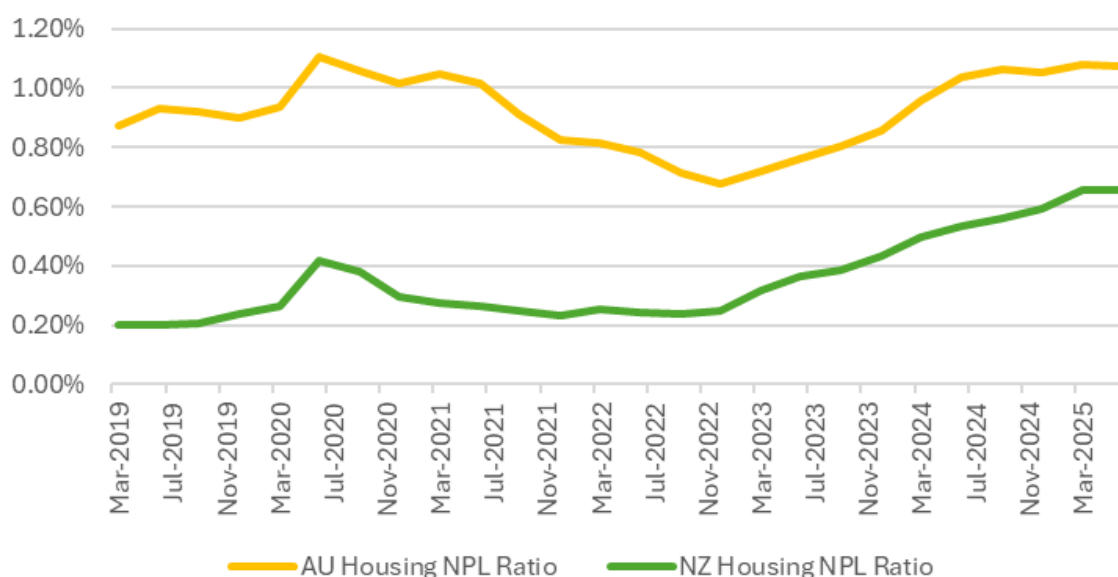
21. While we acknowledge that 7 years is a much shorter time horizon than is acceptable for IRB modelling purposes, this 10x PD/NPL ratio is significantly higher than the ratios currently reported by the IRB Banks over their entire mortgage books, as shown in Table 2 below.

**Table 2: PD/NPL for IRB Banks**

	Date	PD	NPL	PD/NPL
<b>ANZ</b>	Mar-25	1.91%	0.94%	2.0
<b>ASB</b>	Jun-25	2.87%	0.78%	3.7
<b>BNZ</b>	Mar-25	1.97%	0.30%	6.5
<b>WNZL</b>	Mar-25	1.82%	0.61%	3.0

22. As shown in Figure 4 below, in Australia banks have a higher percentage of NPL than banks in New Zealand. This suggests that New Zealand's risk weights should not be more conservative than Australia's. Australia adopts the 20% Basel III risk weight for owner-occupied RML in the <50 LVR band.

**Figure 4: NPL in New Zealand and Australia**



#### 60.01-80% LVR band

23. The Reserve Bank has not proposed to change the risk weight for owner occupied RML in the 60.01-80% LVR band, which is currently 35%. The risk weight for this LVR band should be aligned with the Basel III risk weights, or alternatively, the risk weights adopted by the Australian Prudential Regulation Authority (**APRA**).
24. The Basel III risk weight for this LVR band is 30%. However, we expect the Reserve Bank may be able to justify deviating from this, and instead adopt the approach taken by APRA. APRA has adopted more granular LVR bands – a 60.01-70% LVR band with a 30% risk weight and a 70.01-80% LVR band with a 35% risk weight. The outcomes of the Reserve Bank's 2021 and 2022 stress tests suggest this would better reflect risk by

providing more granularity to a wide LVR band that encompasses a large proportion of RML.<sup>1</sup>

25. If a single band is to be retained, then the much higher percentage of NPL in Australia compared to New Zealand (as shown in Figure 4 above) suggests that a 30% risk weight (which would align with Basel III) should be applied rather than a 35% risk weight (which would align with APRA's risk weight for the higher 70.01-80% LVR band).

#### 80.01-90% and 90.01-100% LVR bands

26. The Reserve Bank has not proposed to change the risk weights for the 80.01-90% and 90.01-100% LVR bands, which are currently 50% and 75% respectively. The risk weights for these LVR bands should be aligned with the Basel III risk weights, which are 40% and 50% respectively.
27. The difference between the New Zealand risk weights and the Basel III risk weights is considerable. However, we are not aware of any analysis that suggests any circumstances unique to New Zealand that justify a higher risk weight.
28. For completeness, we note the APRA risk weights, which are 50% and 70% respectively, are higher than the Basel III risk weights. This reflects the high percentage of non-performing loans in Australia – a unique circumstance that does not apply in New Zealand.

#### *Risk weights for corporate lending*

29. We support the proposal to create new risk weight categories for SME retail and SME corporate, with risk weights of 75% and 85% respectively. The Reserve Bank should also take this opportunity to update the threshold for a SME to be considered corporate rather than retail, which has not been updated in nearly a decade, to better align with Basel III.
30. The current threshold is NZ\$1m. This threshold is low compared to the Basel III threshold, which is €1m (approximately NZ\$2m) and the APRA threshold, which is A\$1.5m (approximately NZ\$1.7m). A higher threshold would enhance capital efficiency in SME lending, increasing its availability within the broader economy. As SMEs play a significant role in driving economic growth in New Zealand, raising the threshold may encourage investment in this sector.

### **A 100% output floor would significantly improve competition**

31. More granular risk weights will help to reduce the competitive advantage enjoyed by the IRB Banks. However, the fairest position would be for all banks to use the same risk weights.
32. Allowing IRB Banks to use lower, modelled risk weights gives them a significant competitive advantage over Standardised Banks. Accordingly, any decision to allow IRB Banks to continue to use lower, modelled risk weights should be justified by some demonstrable and compelling financial stability benefits. We have not seen any evidence that IRB modelling provides financial stability benefits.

#### *IRB Banks have a significant competitive advantage*

33. As has been publicly traversed for some time, IRB Banks are able to hold less capital against their lending exposures than Standardised Banks. We estimate that the advantage for IRB Banks of using the IRB approach was worth approximately \$760m over the last year (see Table 3 below).

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<sup>1</sup> Disclosed in Tables 13 and 14 in the Consultation.

**Table 3: Total credit RWA of four largest banks under IRB and standardised approach (\$m)**

	IRB Approach				Standardised Approach			Difference	IRB/Std
	Modelled RWA	Floor	Std	Total	IRB Exposure*	Std	Total		
<b>ANZ</b>	76,368	7,755	4,879	<b>89,002</b>	98,968	4,879	<b>103,847</b>	14,845	85.7%
<b>ASB</b>	56,173	1,771	5,605	<b>63,549</b>	68,169	5,605	<b>73,774</b>	10,225	86.1%
<b>BNZ</b>	58,954	6,975	3,832	<b>69,761</b>	77,563	3,832	<b>81,395</b>	11,635	85.7%
<b>WNZL</b>	55,328	2,477	2,782	<b>60,587</b>	68,006	2,782	<b>70,788</b>	10,201	85.6%
<b>Total</b>	<b>246,823</b>	<b>18,977</b>	<b>17,098</b>	<b>282,898</b>	<b>312,706</b>	<b>17,098</b>	<b>329,804</b>	<b>46,906</b>	<b>85.8%</b>

\* IRB Exposure = (Modelled RWA + Floor) \* 85%

CET1 @ 13.5% 6,332

Required NPAT @ 12% 760

**Equivalent NPBT Opex 1,055**

34. This creates a material capital advantage for IRB Banks relative to smaller providers. Over the past 15 years, IRB Banks have been able to utilise this advantage to keep pace with unprecedented market growth. This has entrenched their scale advantages.
35. We acknowledge attempts to address this inequity through the introduction of the 1.2 scalar, the 85% output floor and the D-SIB buffer. We also acknowledge that more granular risk weights will help to reduce the gap between modelled risk weights and standardised risk weights. However, as long as the output floor is lower than 100%, IRB Banks may be able to adopt lower risk weights than Standardised Banks for the same risk for any given exposure.
36. Using the D-SIB buffer to equalise the capital requirements between Standardised Banks and IRB Banks is not an appropriate solution. The Basel Committee on Banking Supervision's (BCBS) intended purpose for the D-SIB buffer was to address the specific risk to an economy of a D-SIB failure. D-SIB failure poses a specific risk to the financial system, which should be paid for by the D-SIBs. If capital requirements are only equalised after the D-SIB buffer is applied, the risks associated with D-SIB failure are effectively paid for by all banks.
37. Additionally, if a Standardised Bank became a D-SIB, it would have higher risk weights and it would need to apply the D-SIB buffer. In these circumstances, the D-SIB buffer would continue to act as an "equaliser" for the IRB D-SIBs, while requiring the standardised D-SIB to hold a true additional buffer. This would put the standardised D-SIB at a significant competitive disadvantage. If the purpose of the buffer is to equalise capital requirements, it should be applied to IRB Banks rather than D-SIBs.
38. The Reserve Bank has commented that any bank can apply for IRB accreditation. However, in practice, there are very significant barriers to obtaining IRB accreditation for banks that cannot leverage the skills and expertise of their parent companies and do not have long, detailed data series from that parent.

*There is no evidence that IRB modelling generates financial stability benefits*

39. Any requirements allowing a sub-set of banks that already have significant market power to adopt lower risk weights should be underpinned by compelling, quantitative evidence that the requirements significantly improve financial stability. The Reserve Bank has previously stated that "an aim of the IRB approach is to improve banks' understanding and management of the credit risk".<sup>2</sup> However, we are not aware of any evidence that IRB modelling has risk management benefits that improve significant financial stability in practice.

<sup>2</sup> [Submission on Personal banking services market study: Draft report](#) at page 6.



40. To the contrary:

- a) The Reserve Bank's financial strength dashboard shows that the IRB Banks consistently incur significantly higher levels of non-performing home loans than the Standardised Banks. This suggests that IRB modelling is not leading to better risk management in practice.
- b) IRB modelling produces a wide range of risk weights for RML across the IRB Banks. The lowest IRB risk weight for RML (26.7%) is 25% lower than the highest (35.5%) (despite the LVR driven standardised risk weight outcomes for the same RML being very similar across those IRB Banks). RML is relatively homogenous, so the wide range of IRB risk weights raises questions about the accuracy (and therefore the risk management benefits) of IRB modelling.

**Table 4: Residential mortgage lending (\$m)**

	IRB Approach			Standardised Rules			Theoretical Floor Impact
	Exposure	RWA	RW	Exposure	RWA	RW	
<b>ANZ</b>	122,304	32,621	26.7%	117,096	45,713	39.0%	6,235
<b>ASB</b>	88,516	31,427	35.5%	84,407	32,765	38.8%	-
<b>BNZ</b>	65,388	21,918	33.5%	63,867	26,961	42.2%	999
<b>WNZL</b>	78,827	23,567	29.9%	75,610	29,279	38.7%	1,320
<b>Total</b>	<b>355,035</b>	<b>109,533</b>	<b>30.9%</b>	<b>340,980</b>	<b>134,718</b>	<b>39.5%</b>	<b>8,554</b>
<b>Kiwibank</b>				31,162	11,553	37.1%	

41. In its response to submissions on the proposed capital standard, the Reserve Bank sought to address observations that there is a lack of evidence that IRB Banks manage their risks better than other banks. The Reserve Bank made the following comments in respect of:<sup>3</sup>

- a) The IRB Banks' higher non-performing home loan statistics:

*"... risk weights and the share of 'troubled loans' at a given bank are not directly related... Differences in banks' decision making for a given lending class is driven by their risk appetite, views of the economic prospects of a sector, business strategy and growth plans."*

- b) The diversity of modelled risk weight outcomes:

*"Portfolio-level risk weights depend on banks' loan origination standards and target markets, in addition to modelling differences. For example, for residential mortgages, the distribution of LVRs and debt-to-income ratios may be quite different when comparing any two banks. IRB models are better able to measure credit risk. Therefore, IRB Banks may have a greater range of risk weight outcomes for what might appear to be homogenous portfolios owing to underlying credit risk differences."*

42. Publicly available information suggests it is unlikely the IRB Banks' higher non-performing home loan statistics and the diversity of modelled risk weight outcomes can be fully explained by the factors the Reserve Bank refers to. For example:

- a) Higher non-performing home loan statistics do not appear to be driven by higher risk appetite. The IRB Banks have a lower proportionate exposure to >80% LVR RML than the domestic banks. This suggests a lower, rather than higher, risk appetite.

<sup>3</sup> [Deposit Takers Core Standards – Summary of Submissions and Policy Decisions for the Capital Standard](#) at page 21, Table 2.3.

- b) The diversity of modelled risk weight outcomes appears too large to be explained by the variations expected to feature in RML portfolios. The key factors that contribute to modelled risk weights are LGD and PD. We believe it is likely that the diversity in risk weights is driven largely by differences in calculated PDs. This is because:
  - i) When the average risk weights for the IRB Banks are calculated in accordance with the standardised approach, there is far less diversity in risk weight outcomes - the lowest IRB risk weight for RML (38.7%%) is only 8% lower than the highest (42.2%).
  - ii) We understand that the LGD floors in BPR 133 are in practice the LGDs applied in the IRB risk weight models. These are specified by LVR banding. Given the standardised risk weight outcomes (which are also LVR driven) for the portfolios are similar, it is unlikely that the diversity in IRB risk weight outcomes is driven by LGD.

Accordingly, the diversity of modelled risk weight outcomes appears to be driven primarily by PDs. We think it is unlikely that the IRB Banks' residential mortgage lending practices vary enough to explain such a wide range of PDs. This calls into question the accuracy of the PD modelling being undertaken and its appropriateness as a basis for entities determining their capital requirements.

43. However, it is difficult to conduct a robust assessment of the value of IRB modelling in the absence of relevant, publicly available information. For example, it is not possible to effectively compare the PDs adopted by the IRB Banks because each bank discloses different PD bands in its disclosure statements. We submit that the required disclosures should be made with specified PD bandings, to enable comparisons of assessed portfolio risk. We note that reporting by uniform banding is already required for the IRB Bank capital satellite survey returns, so this should not be an additional burden for IRB Banks.

*Decisions about the use of IRB modelling should be based on robust, quantitative and public evidence*

44. Unless an objective, quantitative analysis demonstrates significant financial stability benefits, the significant competitive advantage IRB modelling grants to the four largest banks is unjustified. We expect the Reserve Bank has access to relevant, granular data, and assesses the value of IRB modelling on an ongoing basis. For transparency and to enable feedback, the Reserve Bank should make its assessments publicly available when it releases its decisions in respect of this capital review. In particular, the Reserve Bank should provide compelling, quantitative evidence that:
  - a) Portfolio risk insights can explain the IRB Banks' higher non-performing loan statistics and the diversity of modelled risk weight outcomes; and
  - b) IRB modelling insights result in financial stability benefits that justify the competitive advantage granted to the IRB Banks under each modelled exposure class.
45. The default position should be that a 100% output floor is applied. If an objective, quantitative analysis demonstrates significant financial stability benefits, the extent of the competitive advantage granted to the IRB Banks should be limited as much as possible, while still enabling those financial stability benefits.
46. This means IRB modelling should only apply to a given class of exposure if financial stability benefits have been demonstrated in relation to that particular exposure class. This would align with the approach taken by the Reserve Bank in the 2019 Capital Review in relation to IRB sovereign and bank credit risk modelling and operational risk modelling.

47. It also means that the difference in IRB risk weight outcomes and standardised risk weights should be limited. The Reserve Bank has commented that IRB modelling is “more resource intensive, with more data and credit risk modelling required, which makes it more costly to implement than the Standardised approach”.<sup>4</sup> The implication is that the financial benefits of using IRB modelling should incentivise its use in light of its costs. As noted above, the advantage for the IRB Banks of using the IRB approach was worth approximately \$760m in NPAT in the most recent year. The initial implementation costs will have been recovered some time ago, and the advantage bestowed on the IRB Banks far exceeds the ongoing costs. Accordingly, our view is that the extent of competitive advantage granted to the IRB Banks is greater than necessary to enable any financial stability benefits. This could be addressed by increasing the output floor.

### **Option 1 is preferable to Option 2**

48. Kiwibank supports Option 1, because Option 2:

- a) would create a significant barrier for any domestic bank to become a Group 1 deposit taker;
- b) would be less proportionate, because the D-SIB buffer is lower;
- c) presents a risk of higher returns being paid to offshore parent companies, and poses risks to New Zealand’s tax base; and
- d) may have limited crisis management benefits in practice.

49. The Consultation Paper notes that the Reserve Bank may reconsider LAC requirements for Group 2 deposit takers as part of the implementation of the crisis management framework. We submit that it would not be appropriate to reconsider the LAC requirements in isolation from the other elements of the capital settings. This could lead to an increase in overall capital requirements for Group 2 deposit takers without any corresponding increase in the requirements for Group 1 deposit takers.

*Option 2 would create a significant barrier for any domestic bank to become a Group 1 deposit taker*

50. Under Option 2, Group 1 deposit takers would be required to issue internal LAC. Due to their ownership structures, domestic banks are unlikely to be able to issue LAC or subordinated debt internally. Accordingly, Option 2 does not adequately account for the possibility that a domestic bank will become a Group 1 deposit taker.

51. For completeness, adjusting Option 2 to allow LAC to be issued externally (by the deposit taker itself or by a parent company) would not remove this barrier for domestic banks. For domestic banks, issuing external LAC would be expensive. By contrast, the Australian-owned banks would likely have the option of issuing LAC internally, without then issuing external LAC out of the parent company. If they did choose to issue LAC externally (or if the parent company issued LAC externally), they could do so at a much lower cost than the domestic banks. This is because the credit rating applied to the LAC would reflect the credit rating of the parent company, which in turn reflects the implicit support of the Australian government.

*Option 2 would be less proportionate, because the D-SIB buffer is lower*

52. Under Option 1, the D-SIB buffer would be 3%, while under Option 2 it would be 1%. Option 1 is more proportionate because a 3% D-SIB buffer more appropriately reflects the additional risk that D-SIBs pose to the financial system.

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<sup>4</sup> [Bulletin: How risk weights affect bank lending](#) at page 5.

53. An additional LAC requirement is not an appropriate substitute for the D-SIB buffer because:

- a) The BCBS' intended purpose for the D-SIB buffer is to increase the resilience of systemically important deposit takers as a going concern – meaning the higher loss absorbency requirement must be met with Common Equity Tier 1 (CET1) capital.
- b) The Reserve Bank currently takes the view that the D-SIB buffer helps to 'equalise' the competitive advantages enjoyed by IRB Banks because they can adopt lower risk weights than Standardised Banks. If the capital playing field is not evened by increasing the output floor to 100%, and the D-SIB buffer is reduced, this will exacerbate the competitive advantage enjoyed by the IRB Banks in respect of CET1 capital.

*Option 2 presents a risk of higher returns being paid to offshore parent companies, and poses risks to New Zealand's tax base*

54. The Consultation assumes that the cost of LAC will be the same as the current cost of subordinated debt. However, current subordinated debt pricing is based on investors having the option to exit their exposure to a bank at the first optional redemption date (typically 5 years). The restriction to internal issuance creates a requirement for an ongoing exposure to the subsidiary bank. Parent companies may seek compensation for this loss of optionality – viewing the internal LAC as having equity characteristics in substance (if not legal form).

55. Additionally, the introduction of LAC as legal form debt issued by a non-resident parent would increase interest deductions for tax purposes, resulting in an erosion of the New Zealand tax base when compared to funding through CET1 capital. The non-commercial features of LAC are likely to result in unusually high pricing of the instrument, payable by the New Zealand subsidiary banks. This outcome is contradictory to the tax policy intent behind the restricted transfer pricing rules introduced in 2018 and could provide an avenue for foreign-owned banks to shift profits out of New Zealand. Furthermore, existing safeguard rules such as the thin capitalisation and restricted transfer pricing rules may not operate effectively in the context of the LAC due to the unusual features.

56. LAC and subordinated debt will comprise at least \$20b of permanent loss absorbing capital. The pricing that the Australian banks attached to their internally issued contingent convertible AT1 instruments in the 2010s was much higher than that paid on externally issued instruments,<sup>5</sup> illustrating that the risk of this behaviour is not just theoretical. The increase in returns being paid to offshore parent companies and the reduction in tax revenue in New Zealand would be substantial.

*Option 2 may have limited crisis management benefits in practice*

57. The current Group 1 deposit takers operate in global markets, are reliant on offshore funding, and have credit ratings that are heavily influenced by the position of their Australian parents. Accordingly, where a New Zealand subsidiary of an Australian bank is in crisis, it is highly likely that the Australian bank will also be impacted. This means LAC may not provide the desired competition benefits in practice.

## **The DCS Levy Calculation must be adjusted**

58. The Reserve Bank will need to adjust the Capital Indicator for the Levy Calculation to reflect any adjustments to the capital requirements. This also presents an opportunity for the Reserve Bank to update its methodology so that capital ratios for all banks are

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<sup>5</sup> For example: ANZ paid a spread above wholesale of 3.5% on its March 2015 external issuance with a 5-year call date but paid a spread of 6.29% on a June 2016 internal issuance with a 10-year call date.

measured on a consistent, standardised basis for all banks for the purposes of the Levy Calculation. This will address a significant competitive advantage granted to the four largest banks under the current methodology.

59. The Levy Calculation includes a Capital Indicator that is calibrated on total capital ratios within a range of 9% to 18%. 18% attracts a risk score of 0 for the Capital Indicator. This reflects that the total capital requirement for D-SIBs will be 18% by 2028, if the changes from the 2019 Capital Review are fully implemented.
60. If the Levy Calculation is left unchanged, the lower capital requirements could result in the following Capital Indicator scores where a deposit taker meets its minimum capital requirements:

**Table 5: DCS risk scores under different capital requirement options**

	2028		Option 1		Option 2	
	Group 1	Group 2	Group 1	Group 2	Group 1	Group 2
<b>Total Capital Ratio</b>	18	16	17	14	15	14
<b>DCS Risk Score</b>	0	7.8	3.9	15.6	11.7	15.6

61. Deposit takers seeking to fall within risk category one must have a total risk score of 25 or less. If the proposals in this Consultation are implemented and the Capital Indicator is not updated, the Capital Indicator will consume more than half of a Group 2 deposit taker's "budget" even though they are meeting their capital requirements. This would effectively preclude any Group 2 bank from falling within risk category one. This will mean Group 2 banks are required to contribute a proportionately higher levy, putting them at a competitive disadvantage to Group 1 banks. Accordingly, the Reserve Bank should recalibrate the Capital Indicator to reflect the outcomes of this Consultation.
62. This also presents an opportunity to update the method of calculating the levy to address an unjustified competitive advantage provided to the IRB Banks. As canvassed in paragraphs 31 to 47 above, the IRB methodology allows the IRB Banks to use lower risk weights than Standardised Banks for key exposures. As a result, for the same amount of capital against the same exposure, the D-SIBs report a higher capital ratio. This means the Capital Indicator treats IRB Banks as 'safer' than Standardised Banks when the underlying risk exposure and the amount of loss absorbing capital held is the same.
63. To enable an apples-with-apples comparison, the Capital Indicator should be based on the standardised capital ratios for all banks. The implementation of dual reporting by the IRB Banks makes this feasible. Additionally, the standardised capital ratios for IRB Banks should be reported in the Bank Financial Strength Dashboard for transparency.
64. The Reserve Bank should consult on the proposed recalibration of the Levy Calculation for transparency and to enable feedback.

### **The transition must be managed efficiently, with minimal disruption**

65. The transition to the new capital requirements should be managed efficiently to realise competition benefits as soon as possible. It should also be carried out in a way that minimises disruption to the market. To achieve this, changes to standardised risk weights should be made as soon practicable, step ups to the capital requirements should be paused pending the outcome of the Consultation and outstanding externally issued AT1 instruments should qualify as Tier 1 capital until the first optional redemption date.

*Standardised risk weight changes should be made as soon practicable*

66. Changes to make the standardised risk weights more granular, aligned with Basel III and reflective of risk and to increase the output floor to 100% should be made as soon as practicable. These changes will have significant competitive benefits, and they are

designed to better reflect risk, rather than reflecting a change in risk appetite. Accordingly, we emphasise that there is no need to wait until the Deposit Takers Act 2023 (DTA) is implemented to progress these changes. A decision to proceed with these changes should be made as soon as possible, and 3-6 months would be an appropriate timeframe for implementation once a decision is made.

*Steps ups to the capital requirements should be paused*

67. The scheduled step ups to the capital requirements should be paused now. The next step up, which is scheduled in July 2026, would increase the Tier 1 capital requirement for Group 2 deposit takers to a level that is higher than the Tier 1 requirement proposed in the Consultation. It would be highly inefficient for deposit takers to increase their capital in July 2026, and then decrease it again when the outcomes of the Consultation are finalised. We anticipate that new transition arrangements will be adopted in due course.

*Outstanding externally issued AT1 instruments should qualify as Tier 1 capital until the first optional redemption date*

68. We note that Reserve Bank wishes to “minimise disruption as much as possible to both holders and issuers of AT1 instruments”. To achieve this, outstanding externally issued AT1 instruments should qualify as Tier 1 capital until the first optional redemption date.
69. We expect that a decision to remove AT1 capital will trigger a ‘Regulatory Event’ under outstanding externally issued AT1 instruments (regardless of any transitional arrangements), giving issuers the option to redeem them. AT1 instruments are a more expensive form of funding than Tier 2 subordinated debt. Accordingly, if AT1 instruments only qualify as Tier 2 capital, it is likely issuers will seek to redeem them, causing disruption.
70. Recognising AT1 instruments as Tier 1 capital until the first option redemption date will reduce the incentive for early redemption without disproportionately compromising financial stability. If this approach were adopted, we anticipate that by 2028, when the DTA standards come into force, outstanding externally issued AT1 instruments will constitute less than 1% of each bank’s capital stack. The remaining instruments would reach their first optional redemption dates between mid-2028 and mid-2030. Accordingly, all banks would be required to meet their entire Tier 1 capital requirements with CET1 capital by 2030.

## Appendix: Responses to Consultation Questions

### Chapter 1: Introduction

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

We suggest the following changes:

- **Financial stability criteria:** Add a new criterion setting out that capital requirements should accurately reflect risk. This would reflect the principle in section 4(g) of the DTA (the desirability of deposit takers effectively managing their capital, liquidity, and risk). It would also enable the Reserve Bank to balance this principle against criteria that might conflict with it, such as the simplicity/achievability criterion.
- **Funding costs:** Amend this criterion to require the Reserve Bank to also consider the amount of lending and associated returns that proposed capital settings support. Focussing on funding costs can obscure true impacts, because a small impact on funding costs can mask a large impact on profitability from changes in lending exposures once leverage is factored in. Considering the amount of lending and associated returns that proposed capital settings support provides a better picture of the practical impact.

Otherwise, we support the proposed assessment criteria.

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

We support the proposal to move away from a 1-in-200 year risk tolerance, and instead assess risk with reference to the purposes and principles of the DTA, the Proportionality Framework and the Financial Policy Remit. We agree that the Reserve Bank should consider the broader supervisory and crisis management context and the capital requirements in comparable jurisdictions when setting its risk appetite. We also agree that these factors support adopting a higher risk appetite than the one adopted during the 2019 Capital Review.

### Chapter 2: Context

*Q3: Do you have any feedback on our assessment of the impacts of legislative and policy changes since 2019?*

We believe the assessment understates the continued impacts over time of:

- *Credit Contracts and Consumer Finance Act 2003:* While many of the stricter rules implemented in 2021 have since been unwound, affordability assessments are still more comprehensive than they were 2019. This reduces the risk of customers entering into loans they are unable to afford and so are likely to default on.
- *LVR restrictions on loss rates in mortgage portfolios:* As a result of these restrictions, the high levels of high-LVR lending originated before 2013 are trending downwards over time. This reduces the LGD should customers default.

*Q4: Do you have any feedback on our assessment of the new evidence since 2019?*

The Consultation describes the Reserve Bank's regulatory settings as "small pieces of the competition puzzle." We disagree with this characterisation. We acknowledge that multi-faceted solutions are needed to improve competition. However, as a challenger bank, our

perspective is that appropriate changes to the capital settings would significantly strengthen our ability to compete with larger banks. These changes are summarised in paragraph 5 and expanded on in the remainder of our submission.

The Consultation notes that, in feedback received in the course of the Market Study and the Banking Inquiry, standardised deposit takers supported lower and more granular risk weights and the removal of AT1 capital instruments, which are matters addressed in the Consultation. We highlight that standardised deposit takers also advocated for a 100% output floor, which the Consultation does not address. This is a significant omission. The output floor is a key competition issue and should be addressed in this review. Please see paragraphs 31 to 47 for more details.

*Q5: Is there other new evidence not discussed in this section that we should be considering?*

No.

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

Oliver Wyman's independent report highlights that New Zealand's risk weights are very high compared to comparable jurisdictions. New Zealand's loss experiences and legislative framework support a less conservative approach that better aligns with the Basel III risk weights.

Adopting a less conservative approach would aid New Zealand's economic recovery. In addition, it would better enable New Zealand banks to demonstrate their strength to international investors - the current, conservative risk weights mean New Zealand banks are holding much more capital than their total capital ratios suggest.

### **Chapter 3: Capital stack options**

*Q7: Do you have any feedback on the two high-level options for Group 1?*

We support Option 1, because Option 2:

- would create a significant barrier for any domestic bank to become a Group 1 deposit taker;
- would be less proportionate, because the D-SIB buffer is lower;
- presents a risk of higher returns being paid to offshore parent companies, and poses risks to New Zealand's tax base; and
- may have limited crisis management benefits in practice.

Please see paragraphs 48 to 57 for more details.

*Q8: Do you have any alternative proposals?*

No.

*Q9: Do you have any feedback on the proposal for Group 2?*

We support the proposal for Group 2.



Q10: Do you have any alternative proposals?

No.

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

Not applicable.

Q12: Do you have any alternative proposals?

Not applicable.

Q13: Do you agree with the proposal of a 1% Counter-Cyclical Capital Buffer for Group 1 and 2 deposit takers under the options proposed?

A Counter-Cyclical Capital Buffer (CCyB) of at least 2% is required to provide the level of flexibility necessary to enable banks to resume lending after absorbing the levels of losses from a stress event that would lead to the CCyB being reduced.

Accordingly, we recommend that the Prudential Capital Buffer is made up of a CCyB of 2% (rather than 1%), a conservation buffer of 3% (rather than 4%) and a D-SIB buffer.

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

Not applicable.

Q15: Do you have any feedback on our analysis of the proposed options against the criteria?

Our feedback on the analysis of the proposed options against certain criteria is set out below. Table 8 in the Consultation is reproduced here for ease of reference.

↑↑ Substantially stronger than status quo (2028 outcomes)		↑ Somewhat stronger than status quo (2028 outcomes)		↔ Neutral		↓↓ Substantially weaker than status quo (2028 outcomes)		↓ Somewhat weaker than status quo (2028 outcomes)	
Financial stability criteria				Other criteria					
		Going concern loss absorbency	Crisis management	Proportionality	Competition	Simplicity/achievability	Funding costs (green means lower)	International alignment	
No LAC	Option 1	↓	↔	↑	↔	↑	↔	↑	
LAC	Option 2	↓↓	↑	↔	↔	↓	↑↑	↑↑	

**Crisis Management:** Option 2 may have limited crisis management benefits in practice. The current Group 1 deposit takers operate in global markets, are reliant on offshore funding, and have credit ratings that are heavily influenced by the position of their Australian parents. Accordingly, where a New Zealand subsidiary of an Australian bank is in crisis, it is highly likely that the Australian bank will also be impacted.

**Proportionality:** Under Option 1, the increase in the D-SIB buffer from 2% to 3% would improve proportionality. In contrast, under Option 2 the reduction of the D-SIB buffer would reduce proportionality. We note that an additional LAC requirement is not an appropriate substitute for the D-SIB buffer – see paragraph 53 for more details.

**Competition:**

- Under Option 1, the increase in the D-SIB buffer from 2% to 3% would improve competition, provided the 85% output floor is retained, or preferably, increased.
- Under Option 2, reducing the D-SIB buffer to 1% while retaining the IRB modelling output floor at 85% will result in D-SIB banks holding proportionately less capital against the same exposures than they did previously (if the 85% floor + 2% D-SIB buffer currently equalise the capital held against equivalent exposures).
- Neither option addresses the key competition issue, which is the competitive advantage granted to the four largest banks through the IRB system. This should be addressed by setting the output floor to 100%. See paragraphs 31 to 47 for more details.

**Funding costs:**

- The analysis is focused on the cost of funding under the various capital stack options. However, due to the leverage inherent in banking, capital is always a very small portion of the cost of funding. This means significant changes in capital may only have a small impact on the cost of funding (as was argued by the Reserve Bank in the 2019 Capital Review). An alternative approach to assess the competitive implications of capital settings is to model the amount of lending and the associated returns that a given amount of capital can support. This provides a more complete picture of the impact.
- The assessment of the impact of Options 1 and 2 on funding costs appears to be carried out at a system level. Accordingly, it better reflects the impact on funding costs of the Group 1 deposit takers than the impact on the funding costs of Group 2 and 3 deposit takers. We note that for Option 2 in particular, Group 2 and 3 deposit takers would not experience the same funding cost benefits as the Group 1 deposit takers.
- Internal LAC is likely to have a higher cost than the Consultation assumes. See paragraph 54 for more details.

*Q16: Do you think it would be preferable from a crisis management perspective to maintain a higher Prudential Capital Buffer or have a lower Prudential Capital Buffer and Loss-Absorbing Capacity for Group 1?*

Please see our response to question 15.

*Q17: If you consider that one option is preferable, what are the reasons why?*

Please see our response to question 15.

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

Please see our response to question 15.

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

Please see our response to question 15.

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

Please see our response to question 15.

*Q21: Do you have any feedback on our approach to the cost benefit analysis?*

A cost benefit analysis of this nature (dealing with events with a remote probability of occurrence) is inherently uncertain and the range of reasonable assumptions can produce a wide range of outcomes. Accordingly, we agree that while a cost benefit analysis can be helpful to inform an analysis, its importance should not be overweighted.

*Q22: Do you have any feedback about the results of the cost benefit analysis?*

The 'total net benefits' compared to the 2019 Capital Review outcomes (-0.09% and +0.2% of GDP) appear negligible and well within the bounds of modelling error.

Additionally, we note that a decrease in capital due to the implementation of more granular risk weights that better reflect risk would not represent an increase in risk. Instead, it represents a more efficient allocation of capital, which would have a net positive effect.

We would be interested to see what the outcome of the cost benefit analysis would be if the Reserve Bank adopted the full Basel III standardised risk weight granularity under 85% and 100% output floors.

*Q23: Do you have any additional evidence that should be considered in the cost benefit analysis?*

No.

*Q24: Do you have any comments about the way that Loss-Absorbing Capacity has been incorporated into the approach?*

Internal LAC is likely to have a higher cost than the Consultation assumes. See paragraph 54 for more details.

## **Chapter 4: Additional Tier 1**

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

Yes.

*Q26: Are there any other factors that you think we should take into account in making this decision?*

We agree with the summary of the challenges for New Zealand deposit takers issuing AT1 set out on pages 66 and 67 of the Consultation.

In addition to the factors specified in the Consultation, we also note that the legal form of AT1 inhibits demand from professional investors. While perpetual preference shares (PPS) have high yield debt instrument characteristics, their legal form (equity) makes them ineligible for inclusion under most debt portfolio investment mandates. Conversely, the limited nature of their returns makes them unattractive for equity investors. Accordingly, professional investors are largely absent from the domestic PPS market. We are aware that some domestic professional investors buy offshore AT1 instruments issued as legal form debt as it complies with their investment mandates.

*Q27: Do you have any views on the most appropriate transitional arrangements, including how Additional Tier 1 capital instruments should be recognised after any possible removal?*

AT1 should qualify as Tier 1 capital until the first optional redemption date. Please see paragraphs 68 to 70.

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

Not applicable.

## **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?*

Yes.

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

The Reserve Bank should make further changes to better align with the Basel III risk weights. Please see paragraphs 8 to 30 for more details.

*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?*

Provided separately.

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

A review of bank websites in Australia shows that most adopt loan pricing differentiations that align with the risk weighting buckets.

Even if advertised rates didn't change, risk weights are a key element of ROE pricing models and would facilitate off card discounting for low-LVR lending.

*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?*

Provided separately.

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

Yes, but the risk weights for commercial property should be based on the LVR categories recommended under Basel III. This would enable more granular risk weights that better reflect risk.

*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?*

There would be no impact – unrated commercial property lending is currently categorised as unrated corporate lending, meaning it already has a risk weight of 100%.

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

No.

*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?*

Provided separately.

*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)?*

Provided separately.

*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?*

Yes, but further changes are required to better align with the Basel III risk weights. Please see paragraphs 8 to 30 for more details.

*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?*

Changes to the standardised risk weight categories should be finalised and implemented as soon as possible. Once the proposals are finalised, 3-6 months would be an appropriate lead time for implementation. This will allow for the necessary updates to models, documentation, validation and revisions to our obligation registers.

To facilitate efficient implementation, we suggest that the definition of SME corporate should be based on exposure, rather than annual revenue. Under Basel III, the definition of SME corporate is based on annual revenue. However, while Kiwibank collects this information, assessing and verifying it so that it can be used for risk weighting purposes may delay implementation and would be an ongoing burden. In light of this, adopting a definition based on exposure would be a more proportionate approach.

See paragraphs 67 to 70 for our comments on how the changes to the capital stack should be phased in.

*Q41: Is there anything else you think we should consider when contemplating changes to standardised risk weights or analysing their impacts?*

A 100% output floor should be applied to IRB modelled risk weights. See paragraphs 31 to 47.

*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))?*

As noted above, a decrease in capital due to the implementation of more granular risk weights that better reflect risk would not represent an increase in risk. Instead, it represents a more efficient allocation of capital, which would have a net positive effect. Accordingly, the proposed approach to risk weights is not contrary to the additional purpose of the DTA to promote the safety and soundness of each deposit taker.

*Q43: Do you agree with the proposed approach for risk weights on lending for Community Housing Providers and housing co-operatives? Will this approach accurately reflect the risk of that lending?*

Yes.

*Q44: Do you think the proposed approach for risk weights on lending for Community Housing Providers and housing co-operatives aligns with the main purpose of the Deposit Takers Act 2023 (section 3(1)) and the additional purposes (section 3(2))?*

Yes.

*Q45: How has the Māori Land Court whenua Māori practice note altered borrowing and lending decisions?*

The Māori Land Court Practice Note for Lending on Whenua Māori is a clear and helpful guide. However, given it outlines existing requirements, it has not altered Kiwibank's borrowing and lending decisions.

*Q46: For deposit takers: How do you treat lending where whenua Māori is the security? Does this affect your assessment of risk?*

Kiwibank treats whenua Māori offered as security in the same way we treat general title under our credit policy.

*Q47: Does lending secured by whenua Māori have different risk characteristics than other lending, and if so, how should this be incorporated into prudential requirements? Is this relevant for residential mortgage lending, and/or other forms of lending?*

Lending under the Kāinga Whenua scheme is low risk. Accordingly, we support retaining the existing risk weights for this lending, which are lower than the residential mortgage lending risk weights.

*Q48: Will lending secured by whenua Māori benefit from the other changes proposed in this Review?*

Lending secured by whenua Māori may benefit from other changes proposed in this Consultation where it falls within risk weight categories that are made more granular. However, we do not anticipate that the changes will create any benefits that are specific to lending secured by whenua Māori.

*Q49: Are there other aspects of the prudential framework that could be addressed to more accurately align risk weights with actual risk for lending secured by whenua Māori?*

We have previously submitted that lending under the Kāinga Whenua scheme is lower risk. The Reserve Bank subsequently adopted lower risk weights for that lending. We support the continuation of those lower risk weights.

*Q50: What are the barriers to borrowing lending when whenua Māori is used as security?*

Barriers to borrowing where whenua Māori is offered as security include:

- Typically a number of owners, trustees or committee members will need to provide consent to grant security over whenua Māori. In some cases, not all relevant parties want to provide the whenua as security. Where this is the case, the Kāinga Whenua scheme may provide another avenue for lending.
- Enhanced customer due diligence (**ECDD**) is currently mandatory for all trusts, including Māori land trusts. This creates a significant administrative burden. The administration and oversight of Māori land trusts by the Māori Land Court reduces some of the risks associated with other 'regular' trusts, and the current ECDD requirements are challenging and not fit for purpose for Māori land trusts. Accordingly, Kiwibank supports to the proposed changes to the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 that would address this issue.

*Q51: For deposit takers: Do you participate in the whenua Māori Lenders Mortgage Insurance underwriting programme run by Kāinga Ora?*

Yes.

*Q52: Do you support excluding lending for property development from the proposed approach to risk weights for lending to Community Housing Providers and housing co-operatives?*

Yes, we support this on the basis that once the development is complete, the lower risk weight can be applied.

*Q53: Are the risks during the property development and construction phase different from providing accommodation in finished dwellings?*

Yes.

*Q54: Do you support excluding lending to third-party providers (who intend to lease to Community Housing Providers or housing co-operatives) from the proposed approach to risk weights for lending to Community Housing Providers and housing co-operatives?*

No comment.

*Q55: Are the risks of lending by third-party borrowers different from lending directly to Community Housing Providers?*

No comment.