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Capital Review Submission

The Reserve Bank of New Zealand – Te Pūtea Matua Wellington 6140

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Unity submission – RBNZ 2025 Review of key capital settings

Thank you for the opportunity to make a submission on the RBNZ 2025 Review of key capital settings released on 25 August 2025

Please find below Unity Credit Union's general feedback and responses to specific questions raised in the review.

Also please note that we have also contributed to the joint submission from the Non-Bank Deposit Takers Association (NBDTA).

For Unity's submission we have focused on the areas of particular interest and impact for Unity. This mainly repeats or amplifies the feedback provided in the NBDTA submission.

Areas that are not covered below in our submission, are already covered sufficiently in the NBDTA submission or have no relevance to Unity.

Summary Feedback

Capital Ratio:

Unity supports the overall intentions of the review to increase the risk appetite compared to the previously proposed Capital standard under the Deposit Takers Act (DTA).

Unity does not support the proposed approach to reduce the requirements for Group One and Group Two entities while leaving Group Three entities unchanged.

Under the core standards proposal there was clear delineation between the different Groups. This reflected the intention of the DTA to apply proportionality.

The updated Capital Review has significantly undermined that proportionality, especially between Group 2 and Group 3 requirements.

Unity supports a reduction in Capital Adequacy ratio for Group 3 as per the NBDTA submission. As an alternative, there should be at least the same reduction for Group 3 as provided to Group 2 to retain the same proportional approach as outlined in the DTA Core Standards consultation.

Transition:

Unity supports the adoption of the new Risk Weightings as soon as possible.

The RBNZ acknowledges in this proposal (and the previous Core Standards proposal) that the current approach is unfair to have different risk weightings applied for the same asset risk for the NBDTs.

We believe that it is not appropriate to delay addressing this uncompetitive position until 1 December 2028.

Unity would be able to transition to the new risk weighting approach within 3 months if required.

Unity does not support the rationale for any early adoption of the new risk weightings to be aligned with an introduction of a minimum capital ratio requirement of 10%. Transitioning from a current minimum of 8% to a temporary minimum of 10% and then back to 9% from 1 December 2028 is adding complexity and more change. This is not warranted for the materiality of the risk to financial stability considering the size of any NBDTs impacted by this change.

Risk Weighting:

Our views on the proposals for the new risk weightings is covered in more detail in our response to questions below. In summary:

- Unity supports the increased granularity for Residential Mortgages, albeit we recommend further granularity.
- Unity believes the risk weightings are still too conservative when compared to Basel 3 and APRA.
- Unity does not support the proposed change risk weightings for past due residential mortgages.
- Unity does not support the commentary that the risk weighting for unsecured Personal Lending should be increased to 150%.

Responses to specific Consultation Paper questions:

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

Unity would like to note that this Capital Review seems to have taken a step backwards regarding the important consideration of proportionality. The proposal reduces the capital ratio for Group One and Group Two while not reducing Group 3. This undermines the previous clear delineation that aligned to a proportional approach.

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 3: Capital stack options

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 Three capital settings remains more conservative than the Australian (particularly in respect of CET1) and Basel III equivalent, and 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 rationale 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%

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 CCyB would simply be creating unnecessary compliance costs.

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 considered. 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.

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 the more focus has been given to the options of the larger entities 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.

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 do note however that the risk weighting for under 50% is still more conservative than APRA. There is also an opportunity to introduce further granularity below 50% and risk weight at 20%

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 NBDT'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%	40%	40%	LVR >70% to 80%	40%	40%
LVR >80% to 90%	50%	70%	LVR >80% to 90%	50%	70%
LVR >90% to 100%	75%	90%	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		

Past Due Risk Weights:

The capital review proposes applying risk weights against past due loans moves 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%

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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 settings. (as covered in section xx above).

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 be risk weighted based on the 20% LVR. Under the new proposal, this loan would be 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%"

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 Unity the proposed changes have a 0.43% improvement in CAR based on a \$5.3m reduction in RWA for these categories.

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?*

Not applicable to Unity

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

Not applicable to Unity

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?*

Not applicable to Unity

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.

There is also a further complication of splitting the risk weight for secured and unsecured personal lending. Currently the NBDT regulations open up the possibility of different interpretations on the classification of ‘secured’ lending. The value and nature of the ‘security’ can be treated differently depending on the NBDT interpretation of the regulations. The current banking regulations avoid that issue by treating them the same. If there was a proposal to differentiate between secured and unsecured personal lending, there would need to be clear rules for defining a personal loan as ‘secured’.

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?*

The impact for Unity would be a 1.08% reduction in Capital Adequacy Ratio compared to the risk weightings previously proposed for the Capital Standard under the DTA.

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)?*

Personal Lending:	Secured	\$10.5m
	Unsecured	\$34.5m

Unity has no exposure to commercial property or credit cards.

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?*

Unity does not have sufficient data to judge where the actual risk may lie.

Other feedback:

There appears to be an anomaly in the risk weighted treatment for long term (>90 days) Rating 2 for Banks and Rating 2 for Lending to other counterparties. Banks is 50% and Other Counterparties is 35%. We believe these should both be 35%.

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 3 months to transition our systems to the new risk weightings and the cost is not in our view relevant to consideration of timing. We will need to incur these costs anyway at some stage.

We do not support increasing the minimum capital ratio to 10% for the interim period until 1 December 2028. Transitioning from a current minimum of 8% to a temporary minimum of 10% and then back to 9% from 1 December 2028 is adding complexity and more change. This is not warranted for the materiality of the risk to financial stability considering the size of any NBDTs impacted by this change.

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

The RBNZ should carefully consider any unintended consequences of any of these proposed changes. The RBNZ should ask and analyse what the rationale commercial response is going to be if these changes were implemented. Similar to the examples we have used above regarding past due RML risk weightings and the discussion on personal lending.

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))*

Unity believes a number of the proposed changes do align to the main purpose of the DTA.

We would particularly call out the higher risk appetite with the lowering of capital requirements and the reduction in risk weighting for Corporate and Agricultural lending as a positive change to support the 'productive economy'.

We would however caution that the observed backward step in relation to proportionality risks the potential to be contrary to section 3(2c) of the act: *"...to support New Zealanders having reasonable access to financial products and services provided by the deposit-taking sector"*.

Without appropriate proportionality, Group Three deposit takers have a risk that they cannot reach the levels close to that required by the Group 2 providers. This could see a reduction in participants in this sector who are currently playing a very important role in financial inclusion.

There is also the observation that the proposed approach also undermines a number of the principles under the act as outlined in section 4 of the DTA. Namely, proportionality, competition, diversity and inclusion.