



FINANCIAL SERVICES FEDERATION

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RBNZ Regulatory Stocktake

The Financial Services Federation (“FSF”) is grateful for the opportunity to comment on the terms of reference for the stocktake of the prudential requirements relating to banks and NBDTs currently being undertaken by the Reserve Bank of New Zealand (“RBNZ”).

By way of background, the FSF is the industry body for the responsible and ethical finance and leasing providers of New Zealand. The FSF has over forty members and associates providing first-class financing, leasing, investment, banking and insurance products and services to over 1 million New Zealand consumers and businesses. The FSF’s affiliate members include internationally recognised legal and consulting partners. A list of our members is attached as Appendix A.

The comments provided in this response are relative to NBDTs only as the FSF membership does not include any registered banks.

The FSF would firstly like to point out that, whilst our overall membership is growing, the number of NBDT members and indeed NBDTs in the New Zealand market is decreasing – to the point where it is of concern to the FSF that options for investors and therefore the availability of appropriate levels of diversification are being continually reduced. It could be said that the objective of the prudential regime for NBDTs to promote the maintenance of a sound and efficient financial system is not being achieved if investors are unable to access a sufficiently wide range of deposit opportunities to allow them to sufficiently diversify their portfolios to guard against risk.

The FSF has no comment to make on either the objectives of the project or on its scope in terms of which institutions and which areas of regulation are in or out of scope. The FSF is also fully supportive of the stated outcome to determine changes if required to cut or simplify requirements, to make them more efficient or to improve their user-friendliness.

Having said that, the FSF would caution against change just for the sake of achieving these objectives that does not significantly improve the outcomes for both NBDTs and consumers. The prudential regime requirements have now had some time to bed in and the process of obtaining an NBDT licence is underway, and NBDT members report that they are now comfortable working within these requirements and would be reluctant to have to deal with much in the way of change at this stage.

In terms of any changes which might present the requirements in a different way to improve their user-friendliness, one point FSF NBDT members would make is that whilst they have come to grips with concepts such as risk-weighted capital requirements, liquidity ratios etc, the investing public by and large has not. So whilst the gathering and consideration of this information is important to both the NBDT and the RBNZ, the FSF believes that education is required before it could be considered “user-friendly” to the investing public.

The FSF is unable to think of anything that could be added or substituted to the current prudential requirements that might improve consistency, clarity or efficiency.

The process for developing prudential regulation requirements seems to the FSF to be robust and on that basis has nothing to add other than to say that consultation and communication with stakeholders is the most important piece from the point of view of FSF’s NBDT members.

FSF's NBDT members report that they are happy with the current levels of communication between themselves and the RBNZ. They report that, apart from issues with regard to the licensing process direct contact between themselves and the RBNZ is minimal as the role of the Trustee is to be the conduit for communication and this is as it should be. It is the impression of FSF's NBDT members that the RBNZ and Trustees are meeting regularly.

The FSF agrees that the outcomes described in the terms of reference are fundamental to maintaining New Zealand financial system soundness and fully supports the RBNZ's endeavours to achieve these outcomes. What the FSF would say, however, is that these outcomes are being achieved already through the prudential regime that is currently in place and the licensing process all NBDTs are currently going through. Ongoing requirements of holding a license will ensure such matters as assurance of the competence and probity of directors, controllers and senior management of regulated firms is assessed by the RBNZ whenever any holder of these roles changes. On this basis, the FSF does not believe that any further measures are required to be put in place beyond those that already exist to ensure the objectives of the regulatory stocktake project are achieved.

Indeed the FSF would go so far as to say that anything that added any further cost to the already highly burdensome impost NBDTs have incurred to ensure they meet their current compliance obligations would be strongly opposed by the FSF. As previously stated, many entities that previously provided deposit opportunities to New Zealand investors now no longer do so directly because of the cost to comply with the NBDT prudential and compliance regime. There are others who are still raising deposits but who are actively considering ceasing such retail funding because the costs of compliance are so high. The FSF believes that this is contrary to the RBNZ's and the Financial Markets Authority's vision of promoting fair, efficient and transparent financial markets in New Zealand.

With regard to the consultation on the project, the FSF once again records its appreciation of the opportunity afforded to provide feedback. The FSF is not aware however of the make up of the expert group of external stakeholders mentioned in the terms of reference and would sincerely hope that this group includes representatives of at least one NBDT.

The indicative timeline provided in the terms of reference appear reasonable to FSF's NBDT members. The proposed industry workshops, discussions with NBDTs and industry bodies ensures that a high level of consultation is maintained and the FSF is also pleased to note that the conclusions of the stocktake will be finalised by September 2015 with any changes as a result to be implemented by October or later that year. This appears to be a fairly generous timeframe which is particularly necessary when NBDTs currently have many other compliance and regulatory obligations to manage simultaneously – not least of which will be the implications of the Responsible Lending Code which will be released in about March or April of next year with a timeframe of 6 June 2015 by which any changes as a result of this will have to be implemented.

If the FSF can be of any further assistance with regard to the regulatory stocktake project, please do not hesitate to be in contact.



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EXECUTIVE DIRECTOR

A National Federation of Financial Institutions

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APPENDIX A
Membership List as at 1 October 2014

Debt Issuers - (NBDT) Non-Bank Deposit Takers	Vehicle Lenders	Finance Company Diversified Lenders	Credit Reporting	Insurance	Affiliate Members
<p><u>Rated</u></p> <ul style="list-style-type: none"> • Asset Finance (B) • Avanti Finance (BB) • Fisher & Paykel Finance (BB+) • Medical Securities (BBB+) <p><u>Non-Rated</u></p> <ul style="list-style-type: none"> • Mutual Credit Finance • Prometheus Finance 	<ul style="list-style-type: none"> • Aqua Group Ltd • BMW Financial Services • Branded Financial Services • Community Financial Services Limited • European Financial Services • Fleet Partners NZ Ltd • Mercedes-Benz Financial Services • Motor Trade Finances • Nissan Financial Services NZ Pty Ltd • ORIX NZ • SG Fleet • Toyota Finance NZ • Yamaha Motor Finance 	<ul style="list-style-type: none"> • Advaro Ltd • Centracorp Finance 2000 • Dorchester Finance • Finance Now • Future Finance • GE Capital • Home Direct • Instant Finance • John Deere Financial • Oxford Finance Ltd • DTR Thorn Rentals • South Pacific Loans • The Warehouse Financial Services Group 	<ul style="list-style-type: none"> • VEDA Advantage <p><u>Debt Collection Agency</u></p> <ul style="list-style-type: none"> • Baycorp (NZ) 	<ul style="list-style-type: none"> • Autosure • Protecta Insurance • Provident Insurance Corporation Ltd <p><u>Associate Members</u></p> <ul style="list-style-type: none"> • Southsure Assurance 	<ul style="list-style-type: none"> • American Express International (NZ) Ltd • Buddle Findlay • Chapman Tripp • Deloitte • Ernst & Young • Finzsoft • KPMG • PriceWaterhouseCoopers • SimpsonWestern

Total: 47 Members