NEWS

Banks warn of rising costs from capital rules

Major banks have hit out at Reserve Bank plans to force lenders to hold more capital. Here's what ANZ, BNZ and ASB had to say in their submissions:

- Monday, July 1st 2019

Banks' submissions to the RBNZ plans were published today, more than six months after the central bank announced its proposal to shore up the financial system.

The RBNZ wants lenders to hold an extra 20% to 60% of capital. It plans to double minimum tier 1 capital from 8.5% to 16% for the big four, and to 15% for smaller lenders.

ANZ, BNZ, and ASB had not published their submissions to the central bank until now.

Their big four rival Westpac revealed its submission in May, warning the capital rules could increase Auckland mortgages by $6,000 per year.

While in a joint letter published the same month, Kiwibank, The Co-Operative Bank, SBS, and TSBsaid the rules could make the playing field more uneven for smaller banks.

Here's what ANZ, BNZ, and ASB said:

ANZ New Zealand

Sir John Key, chairman of ANZ New Zealand, said the bank "believes the current capital adequacy ratio requirements and voluntary capital buffers maintained by banks are appropriate for New Zealand".

In a letter Key said "additional conservatism is unnecessary" as the current system ensures "adequately conservative capital positions".

Key said the current rules were "unquestionably strong", putting NZ banks in the top quartile of international banks.

ANZ said the cost of the capital proposals could hit 20% of GDP, compared to Reserve Bank estimates of up to 12%.

The lender believes transitional impacts of the proposals could cause GDP to be 1%-3% lower over 10 years.

The bank stressed the rules could force "potential increases in loan pricing and reductions in loan capital" that would hit the farming and commercial sectors.

It added the rules would force a reallocation towards the residential housing sector, leaving ANZ more exposed to a "sharp correction".

ANZ called for an independent cost-benefit analysis on the capital rules.

BNZ

BNZ also hit out at the proposals, stating the rules are "significantly different to capital requirements in Australia".

The bank said it would need to raise more equity to comply with the capital rules. It said the "higher funding costs would be partly passed on to customers".

BNZ warns the rules risk exacerbating high borrowing costs, and weak investment, "increasing the cost of intermediation in the economy".

The lender also warned the rules could see customers pushed away to non-bank lenders. The bank said this would increase risks for borrowers.

"Any new lending by non-bank entrants may be less stable in times of stress and come with higher premiums and onerous covenants," BNZ said.

ASB

ASB chairman Gavin Walker and CEO Vittoria Shortt (pictured) said the bank "does not support the level and composition of the capital requirements".

The lender warned the rules risk "negatively impacting many New Zealanders and the broader economy", and could lead to "credit rationing" and "price increases for key consumer segments", such as lending for agriculture, first home buyers, and SMEs.

Like BNZ, ASB wants a full cost-benefit analysis of the rules. It believes the RBNZ has "overstated" the risk of another major crisis in the NZ banking system.

The bank suggested an alternative capital structure it believes will better help to reduce risks in the financial system. ASB's alternative structure would see it hold 2% less than the total proposed under the RBNZ proposals.