PROFILE

ADRIAN ORR

Adrian Orr is the Governor of the Reserve Bank of New Zealand. He was appointed to the role in March 2018. He's also held some of New Zealand's most important economic management positions. Adrian is New Zealand born and bred, and primarily of Cook Island and Irish descent. He kindly shares his views on a range of topics including New Zealand's monetary policy, the importance of mentors and role models, and beach sculptures.

Prosperity, productivity, sustainability and well-being are all targeted outcomes of New Zealand's monetary policy. Are any of these goals more challenging than the others to achieve?

The business of central banking is evolving as circumstances change. Some of the change is favourable, some is confronting.

On the favourable side, we have low and stable inflation, low unemployment, and broad financial stability. This advantageous position must never be taken for granted. I thank all of the wise people – past and present – who have worked hard on creating the current environment.

On the challenging side, in addition to maintaining the status quo, we have new and significant long-term economic challenges among which central banks operate. For example, in the financial system alone, we must deal with global economic inter-dependence, dominant financial institutions, significant debt burdens, technological change that challenges employment and financial inclusion norms, climate change, and much more. The list is long, and the challenges have intergenerational implications.

The refreshed Reserve Bank Act and monetary policy practices, and the ongoing reviews of our legislation position us to adapt to these changes. The aim is to ensure that the Reserve Bank can continue to achieve its fundamental purpose, which is "to promote the prosperity and well-being of New Zealanders, and contribute to a sustainable and productive economy."

How important is improving financial literacy as a key factor in reducing poverty and inequality in New Zealand's economy?

Financial literacy and the ability to make informed judgements and decisions about money management are important for individuals, the financial system and the broader economy. Financial literacy means different things to different people. For some, it is a wide-ranging concept, incorporating an understanding of economics and how household decisions are affected by economic conditions and circumstances. For others, financial literacy means focusing quite narrowly on basic money management skills – budgets, savings, investments, insurance.

A consistent theme running through the various definitions of financial literacy involves an individual's ability to acquire essential knowledge and skills to make decisions with an awareness of the possible financial consequences. It encompasses being able to manage personal finances in changing circumstances.

These decisions range in complexity, but all require at least a basic level of financial literacy. In a world of escalating economic complexity, there is an increasing need for financial knowledge and at least basic financial skills.

The evidence suggests that many New Zealanders have limited financial literacy. The Commission for Financial Capability, the Retirement Commission and other government agencies are working to improve financial literacy levels. The private sector has also taken initiatives in this area. Work is underway to strengthen the regulation of financial advisers and to improve financial disclosure by issuers of securities to the public.

New Zealand has an increasingly diverse society, which also extends to attitudes to wealth and money. How does the Reserve Bank capture this diversity when considering monetary policy?

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A key focus since I have been in the role has been developing a new vision for the Bank: we want to be A Great Team, Best Central Bank. All of the activities work towards this goal. We must be an institution that New Zealanders are proud of and trust. To achieve this, we're focusing on building our capabilities, resources and diversity, and operating as a great team. An important focus for us is to be understood and accessible to the broad public of New Zealand, rather than a narrow section of financial markets. Our Te Ao Maori strategy and work with the central banks in the South Pacific are two examples of our current effort to encourage diversity and inclusion in our activities.

The new PTA that I signed last year with the Minister of Finance widened our monetary policy objectives to include both maintaining price stability and contributing to supporting maximum sustainable employment.

New legislation has given monetary policy decision-making to the Monetary Policy Committee — a group that includes Reserve Bank staff and external expert members. The Reserve Bank's Board now has a greater involvement in appointing and assessing the decision-makers, both individually and as a group.

This decision-making structure aims to embed diversity of thinking and transparency into the Bank for the future.

Before your current role, you were CEO, Guardians of New Zealand Superannuation. How is New Zealand placed to meet the financial needs of its ageing population?

It remains a real challenge for New Zealand – and all ageing populations – as to how best to ensure economic and societal inclusion for the elderly. As individuals in New Zealand, we have struggled to save for our future in a financial form. We have had a very 'she'll be right' attitude, and also an attitude that 'the government has it covered'. Likewise, the vehicles for saving have been limited and often skewed towards housing leverage. These assumptions and propositions are being challenged.

As an example, the NZ Super Fund – at its peak – will only cover at most around 15% of the future cost of providing NZ Superannuation. The rest will be borne by the taxpayer of the time. NZ Superannuation payments are also below what many people currently live on – it is set as a percentage of the median wage.

So the more people think about saving, the better. The best time to start was 30 years ago or today. The power of compounding interest rates are on your side as a saver and against you as a borrower.

At the RBNZ, our Act has been amended to address emerging monetary policy challenges, including that of our ageing population. To reinforce our societal legitimacy, the Reserve Bank Act now sets monetary policy with a dual mandate: to maintain price stability and support maximum sustainable employment. Labour market dynamics both within and across countries have changed significantly as a consequence of recent rapid globalisation, the impact of the GFC, and as ongoing technological developments have reshaped the needs of the workforce.

Likewise, concerns about income and wealth inequities, low productivity growth, and the impact of population ageing, all intersect at some level with the functioning of the labour market.

As a former Bank Economist, you've studied the impact of household indebtedness on social well-being. Is this something that still gives you concern in your current role?

Yes. Messages around household indebtedness have been a regular feature of our Financial Stability Report for some time. You may also be aware of the LVR restrictions we introduced in October 2013. A loan-to-value ratio (LVR) is a measure of how much a bank lends to a borrower, relative to the value of the borrower's property secured against the lending. LVRs help to improve the resilience of both households and banks.

It's not just social well-being from household debt that concerns me. You will have heard about our recent consultation on bank capital levels. The proposals aim to make bank failures less likely, ensure that bank shareholders have a meaningful interest in their Bank's business, and can absorb a greater share of any loss if they occur.

Most New Zealanders won't recall – but we've experienced two banking crises in our modern economic history, and of course a wide variety of finance company failures and near misses. There have also been more than 140 banking crises around the world since the 1970s.

During the recent Global Financial Crisis in the early-2000s, the NZ Government was forced to provide a circa $130bn bank underwrite for our private sector banking system. The RBNZ lowered interest rates by 575 basis points and had to buy over $8bn of mortgage debt (virtually sight unseen) off the private banks to provide the liquidity to survive. The NZ banking sector did not 'sail through' as many bankers have claimed over recent years.

The social and economic costs of these failures are severe, in terms of unemployment, health and the quality of life. We don't want that here, so we are proposing to make New Zealand's banks safer by requiring them to use more of their own money to manage through good times and bad. More shareholder equity reduces the costs and risks for depositors and taxpayers, should something go wrong. Any changes – which we will make decisions on later this year – will go a long way to improving well-being for New Zealanders now – and many generations into the future.

Your academic background strongly aligns to the Government's economic and social goals. How important is that background in your current role when considering monetary policy?

The recent amendment to the Reserve Bank's legislation sets up a Monetary Policy Committee consisting of members internal and external to the Bank that is responsible for a new dual mandate of keeping consumer price inflation low and stable and supporting maximum sustainable employment.

A committee structure will add further rigour to monetary policy decisions, drawing on the diverse views and perspectives of its members.

The Committee's deliberation process will ensure that all decisions benefit from a diverse range of views, and offer greater transparency and accountability to monetary policy decision-making.

Every one of our seven committee members brings their own background, experience, values and wisdom to the table every time we sit down to figure out the most appropriate policy stance.

Reflecting on your Cook Islands heritage and New Zealand's close relationship with its Pacific Island neighbours, can New Zealand do more in terms of leading Pacific economic development?

We are renewing our international engagement strategy to provide further focus to New Zealand's bilateral and multilateral engagements, including in the South Pacific. We are working on our contribution to building capacity and capability in Central Banks through our region. Financial inclusion is a crucial driver for our work, and we remain focused on the impacts of our policies on the more vulnerable sections of our society and in our region.

The Central Bank Governors of the South Pacific region met towards the end of last year in Samoa on the occasion of the 33rd Pacific Central Bank Governors' meeting. The meeting's theme was 'Strengthening Collaboration', intending to promote the prosperity and economic welfare of our member nations.

At the meeting, we agreed to leverage information technology to deepen and enhance the efficiency of our financial systems - to best support economic development and inclusion in our regions and to lead the development of a regional 'know your customer' facility and associated regionally-linked payment and settlement arrangements.

Leadership from the Governors is necessary to bring a timely solution to a critical component of regional infrastructure. We will be coordinating relevant international agencies, and private sector banks and service providers, to partner in this important initiative.

In your career, you've held New Zealand's highest-profile roles in business and finance. When time permits, what do you enjoy doing most?

I enjoy spending time with whanau. I fish, paddleboard/surf, grow veggies and practise the art of collecting assortments off the beach and recreating them. No, that's not my foot. I enjoy giving back where I can do, and I support and am involved in mentoring and community organisations.

I'm a board member of the Nikau Foundation, which is a community foundation that invests donations, gifts and handover trusts and then makes grants from the income to a wide range of charitable purposes in the region in perpetuity.

I'm also working on developing a 'Fale Malae'/Pacific island building in central Wellington, with strong support from the Council, Victoria University of Wellington and the broader community. A place of regional significance for all Pasifika people to feel pride and others to share knowledge and pride.

And I help my pal – kind of – with a Maori eco-tourism venture in the central North Island "Kai Waho". This is a Tuwharetoa land block where we are bringing the korero back to life – sharing outdoor experiences in paradise. So, I feel rich, if not wealthy.

Having lost your father at an early age, who were your most influential role models who encouraged or influenced you to pursue your career in business and finance?

My Mum is my fiercest critic and most ardent supporter. She is inspirational in bringing up the 3 Orr boys and surviving her own personal battles which we all have. My two brothers keep a healthy level of competitive ribbing alive also. However, the choice of economics was mine.

In terms of employment, Alan Bollard has set me straight on several occasions, and Sir John Anderson was a great role model in leadership – never commanding, just questioning. And I was helped enormously as a youngster by Hendon Gillies, my kaumatua in Taupo, employing me in his retail shop and keeping me flush when needed. But, it is my wife, Sue, and our three kids that keep me focussed and enthused.

You've undertaken two of the key roles in our economy's management. What is your vision for New Zealand society by the middle of the current century, 2050?

As is the case for most humans, I strive in business every day to achieve economic growth – or financial security and wealth. I also aspire to use this wealth in a pleasant, sustainable, natural environment that we can call home.

I also aspire to live and bring our family up in a safe place, of social cohesion, being accepted and appreciated. And, I want to live in a place where everyone can participate despite our differences, a 'diversification dividend' not cost.

New Zealand is the best-positioned country in the world to achieve this; economic, environmental, social, and cultural sustainability. The rest of the world know this – but we have the advantage. And they want us to succeed as a global role model.

Adrian Orr
Governor of the Reserve Bank of New Zealand