



Stakeholder Submission to The Commerce Commission on Market Study into Personal Banking Services

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www.aera.nz

Aera is a financial technology platform that provides New Zealanders an alternative pathway to home ownership. Launched in 2023, Aera's Deposit Accelerator is a savings alternative that gives its users access to higher returning asset classes mostly used by the wealthy. Aera's Ownership Accelerator is a home ownership incubator where Aera co-invests with first home buyers to purchase a home, backed by competitive main bank lending.

We are partnering with financial advisors, banks and non-banks to ensure the best customer outcomes on their home ownership journey. We are uniquely placed in three things; as a bank introducer, a payment card account provider and co-ownership investor for first home buyers. Our users tell us they are currently underserved at both product and relationship levels with the main banks. Our place (with mortgage advisors we work with) to strengthen and support first home buyers on their home ownership journey.

Executive Summary

This response will cover Aera's view on the consumer banking industry across the following sub-headings:

- Open Banking
- Service and Experience vs Profitability over time
- Broker Closure Rates and Competitive Tendering
- Product Innovation/Sandbox

This response is not covering other well-known barriers to competition, such as fixed rate break costs, customer inertia and cashbacks (which is outside a fintech's wheelhouse).

The role of Banks in NZ

Banks do some things very well. They are also doing some things less well than they used to, or should be in the future.

Open Banking

Similar to unbundling exercises in other industries such as telecommunications and energy, we would like to see the control of customer data (including bank account number portability) given back to the customer. It is only when their data can freely migrate across different experiences can the customer choose the best service model for their needs.

This control needs to be customer led, but the infrastructure provided to new service models such as Aera needs to be transaction ready and fit for purpose. Access needs to cover the three tenants of open banking; being account information, transaction information and payment initiation.

Unlocking these composable building blocks creates customer choice, not just reducing onboarding friction for innovators but also between banks as it removes one of the biggest pain points for customers to switch, access to their old bank's data.

Technology platforms such as Aera are ready and willing to consume **production-grade** API access today. We have resorted to workarounds to give some of the promised functionality of open banking today, but this is not in the best interests of the customer. Not least because our use of these platforms compromise a bank's terms of use, and create an additional risk vector to the user through tokenising log-in credentials with a third party.

The slow action of banks in launching production grade APIs has, and is having a continued compounding negative effect on competition and innovation in the industry.

Service and Experience vs Profitability over time

Like many others, we note increasing profitability of the Australian owned banks at a time when their customers are struggling. We see increasing Net Interest Margin (NIM) and record profits **even** accounting for increased provisions for impairments and loan losses (not realised losses).

In the past, Banks in New Zealand had deep distribution channels across small regional towns and city suburbs alike. They were service driven entities where customers would receive personalised service and have their needs met. In an environment where service was high and customer needs were met, the generation of strong bank profits was reasonable. Over the last decade, 30% of bank branches closed [KPMG, 2010-2020 KPMG Financial Institutions Performance Surveys].

Common feedback we have with our users is that they struggle to find someone to talk to in the branches that continue to be open. The social contract to provide service to customers has now been broken.

We worry about the declining service levels nationwide at the same time the Australian banks have increased NIM and posted record profits. We believe that access to quality financial products and advice is imperative for New Zealand's communities to be successful. The retreat of banks from our communities has had a negative effect on many customer outcomes.

On balance, this declining service level creates an opportunity for financial and mortgage advisors to create their own experience models within an **open banking system**.

Broker Closure Rates and Competitive Tendering

Closure rates for Mortgage Advisors (brokers) are one tool that is currently being used by banks to monitor the loyalty, effectiveness and servicing need for their inbound broker channel. Very simply this is the bank's measure of how many applications are settled vs the number of applications received. We are concerned that this particular measure encourages Mortgage Advisors to only apply for a mortgage at one (or maybe two) banks which may be to the detriment of the customer.

Anecdotally, Mortgage Advisors are actively encouraged to maintain a certain closure rate with a lender, and non-performance of this metric could place their lender facility at risk.

We feel that this is contrary to the customers' view of a Mortgage Advisor's ability to 'shop around for the best deal' amongst all of the lenders in market. It is also a metric that may result in multiple poor customer outcomes where Mortgage Advisors are actively discouraged from requesting competitive tenders for their customers.

Aera is lucky to work with experienced, customer driven Mortgage Advisors who have the knowledge of each lender's appetite and approval process. Having a strong advisor community who can navigate this is an important way to creating better customer lending outcomes in the face of the current **closed home lending process**.

Product Innovation/Sandbox

The big four Aussie banks are undoubtedly at a huge advantage with economies of scale and both artificially created technical and financial moats. These moats, combined with customer inertia, are protecting their ongoing profit margins in New Zealand. There is room however for the New Zealand banks to increase their support and participation in local innovation for the benefit of New Zealanders.

It is not just the innovators and advisors that need to challenge the status quo. It is also the responsibility of the New Zealand banks to support consumer innovators in any way they can. New Zealand fintech's have a challenge in how we can scale our own balance sheets and create experiences that will ultimately create competition. With the support of the New Zealand ecosystem, Aera and other fintech's can provide safe, customer driven experiences that are true alternatives to the status quo.

This support looks like closer working relationships, and a sandbox environment where new products can be tested and monitored at an early stage. We believe there is an opportunity for New Zealand banks to collaborate with fintech's and to **do more** to encourage competition.

Conclusion

At Aera, our North Star is the feedback we receive from first home buying Kiwis.

They tell us that they need alternatives, they feel underserved and that traditional banking products do not suit their needs. We can help them, giving them control of how their data is used and consumed. This is not necessarily a technical issue but is a choice to be made by the industry. The small changes covered here will make a difference, encouraging experience-based innovators to step up where service has been lacking. This innovation will be for the benefit of all Kiwis.

Relevant Links

Market Study:

<https://comcom.govt.nz/about-us/our-role/competition-studies/market-study-into-personal-banking-services>

Statement of Process:

https://comcom.govt.nz/_data/assets/pdf_file/0029/319808/Market-study-into-personal-banking-services-Statement-of-Process-22-June-2023.pdf