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Commerce Commission

By email to: [marketstudies@comcom.govt.nz](mailto:marketstudies@comcom.govt.nz)

## **SUBMISSION on the Market Study into personal banking services – Preliminary Issues Paper**

### **1. Introduction**

Thank you for the opportunity to make a submission on the ‘Market Study into Personal Banking Services’ Preliminary Issues Paper (the Paper). This submission is from Consumer NZ, an independent, non-profit organisation dedicated to championing and empowering consumers in Aotearoa. Consumer has a reputation for being fair, impartial and providing comprehensive consumer information and advice.

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### **2. General comments on the Paper**

Consumer welcomes the Commerce Commission’s (the Commission) market study into personal banking services. We are concerned about the low levels of competition in the banking sector and the impact this is having on consumers. We have also been calling for closer scrutiny of the banking sector for a number of years. We’re therefore pleased the Commission is undertaking a market study into personal banking services.

On a separate but aligned point, we are concerned there is not better support for independent consumer representation in the market study process. Market studies are important and significant pieces of work that take a huge amount of time and resource for all involved. As with previous market studies, non-governmental-organisations like Consumer will

provide input to the best of their ability, but this input will be necessarily limited by the resources available. Given the limits on our resource, this means the independent views of consumers may be underserved through our contribution.

The limits on our ability to contribute to the market study process in a way that would more fully represent the interests of consumers should not be interpreted as a lack of willingness on our part to participate, or to reflect a view that market study work is not a vital part of the competition and consumer protection regime in New Zealand. It is simply the reality that, as a not-for-profit, we do not have the funding support required to fully participate in the process.

As this market study and future studies roll out, we urge the Commission to consider how the imbalance of resources between organisations representing consumer interests and the sectors that are the subjects of market studies could distort the process. While the Commission does a good job at representing consumer interests generally, in the market study process it must remain independent to produce fair outcomes to all participants. It does not represent consumers in this process.

We believe the market study process would be more robust if funding was made available by the Commission (or MBIE) to independent consumer representatives like Consumer, to enable dedicated, independent, consumer-centric research and representation to enrich the process. As it stands, we feel there is a risk that consumers are under-represented in the process, not because the Commission is not listening, but because the resourcing to produce high-quality consumer-centric analysis is absent. We would be happy to discuss this with the Commission in more detail.

Finally, please note that any Consumer survey data included in this submission may not be publicly available so we do not want this information to be disclosed publicly without prior consultation.

### **3. Answers to specific questions**

Our answers to selected questions in the Paper are set out below.

***Question 1: Do you agree with our description of the structure of the personal banking sector? If not, please explain.***

Yes, we agree with the description of the structure of the personal banking sector.

***Question 2: Do you agree with our description of the regulatory environment for the personal banking sector? If not, please explain.***

Yes, we agree with the description of the regulatory environment for the personal banking sector.

***Question 7: Do you agree with our description of the digital innovation and digital disruption in New Zealand and overseas? If not, please explain.***

Yes, we agree the Commission's description of digital innovation and digital disruption in Aotearoa and overseas. See our answer to question 25 for further comments on innovation.

***Question 8: Do you agree with our initial choice of personal banking services to focus on? If so, why? If not, which services should we focus on, and why?***

Yes, we agree with the focus on personal banking services, although we note considerable commentary supporting a wider focus including business banking. We do see merit in a full sector study. However, in the interests of building an evidence base and completing a study in a manageable timeframe, we support the focus on personal banking at this stage. We note the Commission could recommend a wider study, if supported by evidence, at the outcome of the current study.

Although we support a focus on personal banking services as defined in the Paper, we consider credit cards should also be included as a focus area. Although personal credit card debt is not substantial, in aggregate, when compared to deposit accounts and home loans, consumer credit card use is widespread, making it an important part of the consumer banking experience.

We are concerned that credit card interest rates remained high in recent times, even when interest rates were at historic lows, which could indicate a lack of competition allowing high margins on credit cards. We are also concerned about the trend towards low cost Eftpos transactions being displaced by high-cost contactless debit and credit transactions. This results in a reduction in competition and millions of dollars being spent on unnecessary fees by merchants, which are ultimately passed on to consumers. If there are competition issues impacting consumers who use credit cards this study should consider them.

If credit cards are included within scope, we consider personal loans should also be included because of the similarities between the products.

***Question 13: What role do mortgage brokers or other intermediaries play in the market? What is the impact on competition?***

In an ideal world, mortgage brokers should put competitive pressure on banks and other lenders, leading to better deals for consumers. However, we have not seen any strong evidence that using a mortgage broker will ensure consumers get a better rate on their mortgage. We would like to see further analysis of this.

***Question 15: How well is competition for personal banking services working for different population groups in New Zealand? Why/why not? For example, how well is competition working for rural, Pacific, older or Māori populations?***

In our view, competition for personal banking services is not working well for any population groups in New Zealand.

***Profits***

According to the Reserve Bank of New Zealand (the Reserve Bank), the four large banks (ANZ, ASB, BNZ and Westpac) make up around 85% of the lending market and hold a 90% share of bank deposits. These banks have enjoyed consistently high profits over many years and their returns appear to have outperformed those of smaller banks, as well as those of many large banks in other jurisdictions.

Our most recent banking survey found 74% of respondents agreed the high level of bank profits shows they're charging too much.

Given the four largest banks are all Australian-owned, it is reasonable to expect them to be making similar profits on both sides of the Tasman. However, we are concerned they appear to be making more money from the average New Zealand customer than from the average Australian customer.

We have also heard some commentators say that New Zealanders are being charged a much higher margin on their mortgages than those in comparable countries so we would like to see an analysis of this by the Commission. If this is true, the additional sums that New Zealanders are paying for their mortgages over a 30-year term, could be significant.

***Deposit interest rates***

According to the Reserve Bank's February 2023 Monetary Policy Statement, deposit rate increases continue to lag behind the increases in wholesale

and mortgage rates.<sup>1</sup> This results in a further widening of bank margins between lending and deposit rates and means consumers miss out on savings.

Our most recent banking survey found 31% of people are dissatisfied with savings interest rates, 20% are neutral, 25% are somewhat satisfied and only 24% are very satisfied. We consider these issues need to be better understood through the market study process and, if banks are shown to have the ability to delay deposit rate increases in ways that are not seen in other comparable markets, the recommendations at the end of the market study should seek to address this.

As Reserve Bank governor Adrian Orr said recently, higher deposit rates are critical to encouraging savings to take inflation pressure out of the economy.<sup>2</sup>

Our latest Sentiment Tracker<sup>3</sup> found half the population is anxious about their level of savings or have none to speak of. This is the highest level of concern we've seen in two years. It's expected this situation will worsen with more than four in 10 New Zealanders anticipating their savings will decline in the coming year. It is therefore critical that New Zealanders have access to better deposit rates.

### *Our survey results*

Our survey results also show a range of issues in the banking sector including declining levels of customer satisfaction, problems customers are having with their banks, and declining trust. Overall customer satisfaction with banks has been declining since 2021. In fact, more people are satisfied with their Internet Service Providers (ISP), Kiwisaver providers and Energy companies than with their banks. See image 1 below.

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<sup>1</sup> <https://www.rbnz.govt.nz/hub/news/2023/02/reserve-bank-increases-the-official-cash-rate>

<sup>2</sup> <https://www.interest.co.nz/personal-finance/122811/how-are-nz-savers-faring-aussie-consumer-group-lobbies-banks-be-forced-pay#:~:text=%22Higher%20deposit%20rates%20are%20a,to%20inflation%2C%20which%20was%20unusual.>

<sup>3</sup> Our Sentiment Tracker data is collected quarterly and is based on a nationally representative sample of at least 1000 respondents. Results are weighted by age, gender and region based on Stats NZ 2018 Census data.

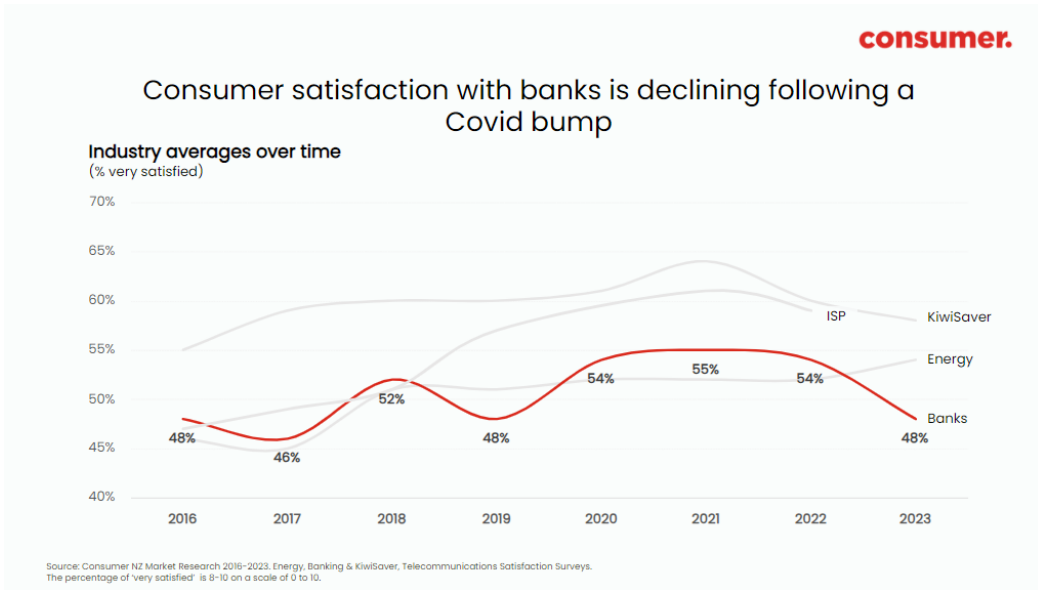


Image 1

We remain concerned the low levels of genuine competition also means banks can get away with providing poor customer service because they know their customers are unlikely to switch. Our 2023 banking survey found 1 in 7 customers have experienced a problem with their bank in the last 12 months. The most frequently reported problem was poor customer service. See image 2 below.

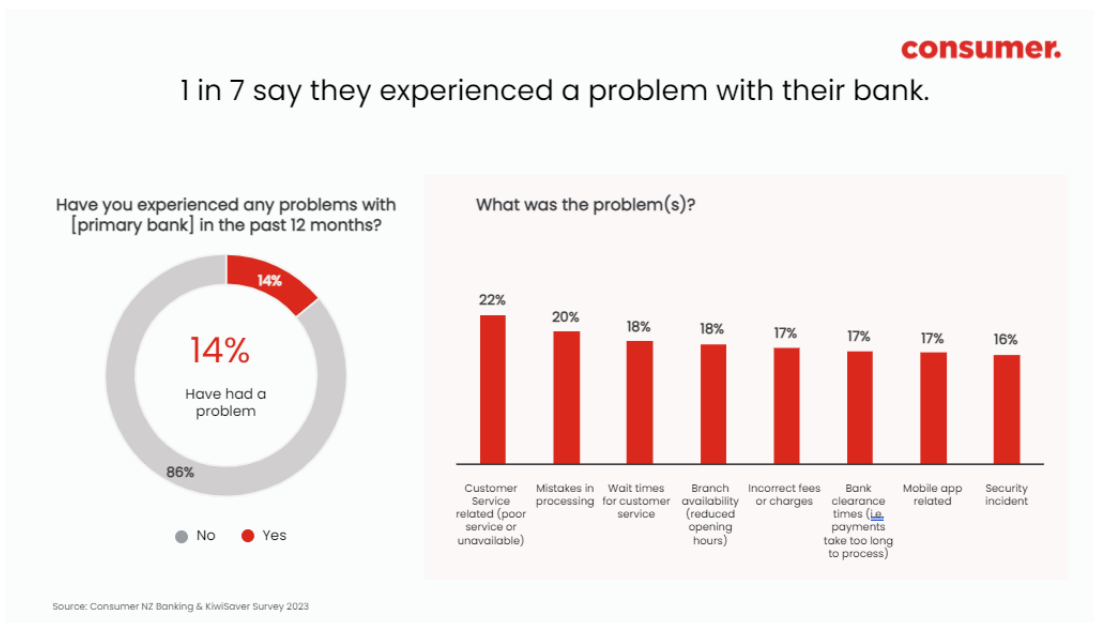
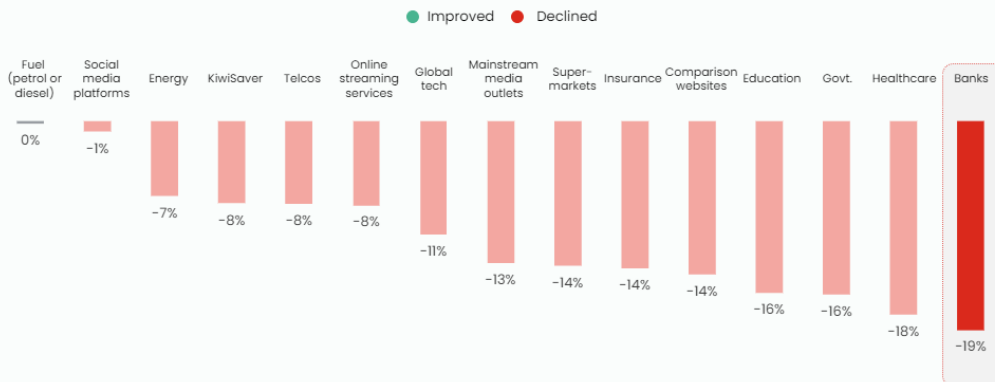


Image 2

Our survey also shows trust has fallen across all sectors but trust in banks has experienced the largest drop of nearly 20%. See image 3 below.

Over the past year, trust has fallen across all sectors, but banks have experienced a sharper drop in trust.



Source: Consumer NZ Sentiment Tracker (April 2023)  
 Net Trust is the percentage trusted (6-10 out of 10) minus the percentage not trusted (0-4 out of 10), scored on a scale of 0 (Cannot be trusted at all) to 10 (Completely trust).  
 Note: Net results may be +/- 1 percentage point due to rounding. 'Airlines' was introduced after the April 2022 survey and not included in this chart.

Image 3

**Question 17: How does the regulatory environment impact on entry or expansion in the personal banking sector?**

We consider the regulatory environment makes entry and expansion difficult in the personal banking sector and perpetuates the status quo. However, we acknowledge many of the regulations have been enacted to address poor conduct by the sector, protect consumers and to ensure banks in New Zealand are stable and don't suffer a similar fate to the collapsed US Silicon Valley Bank and Signature Bank.

**Question 18: How do you expect proposed open banking reforms to affect conditions of entry and expansion in the personal banking sector? Please explain your reasoning.**

Overseas, many digital banks have established in markets with open banking and are out-performing traditional branch-based banks. In the United Kingdom (UK), for example, the top-rated banks in 2023 for customer satisfaction (according to the Competitions and Markets Authority) were Monzo, Starling Bank and First Direct. All three of these are digital or 'challenger' banks and have provided high levels of customer satisfaction. We also think the competitive threat they have introduced in those markets is likely to have incentivised the traditional banks to improve their service and offerings.

We hope the introduction of open banking will lower barriers to entry for new entrants here, however we note the protracted and tortuous history of attempts to get open banking off the ground in New Zealand and the lack

of progress to date. We are concerned the lack of progress on open banking and the eventual need for regulatory intervention could indicate the main banks have the ability to coordinate and act to frustrate and delay initiatives that would benefit consumers and promote competition. This should not be possible in a market functioning normally.

***Question 22: Please describe any factors that might prompt or hinder a consumer searching and/or switching to an alternative provider of personal banking services.***

There are a range of factors that might hinder a consumer searching and/or switching to an alternative provider of personal banking services.

In our most recent banking survey, we asked customers what factors are most likely to deter them from switching to another bank. The top five factors were: customers were satisfied with their current bank, lack of obvious benefit, lack of difference between banks, difficulty switching and the time it takes to switch.<sup>4</sup>

We also asked: "How easy do you think it is to switch banks?" Only 41% of respondents thought it was easy to switch banks, 32% thought it was difficult and 27% were neutral.

Only 4% had switched primary banks in the previous 12 months and 81% of people have been with their bank for 5 or more years.<sup>5</sup> Of those who had switched in the previous 12 months, 75% thought the switch was easy. Therefore, consumers who haven't switched perceive it is more difficult than those who have switched.

When asked why they switched, concern about security was the top reason for switching, followed by having a mortgage with another bank and poor customer service.<sup>6</sup>

We are concerned high profits, high levels of customer inertia, and low levels of satisfaction indicate current levels of competition are not producing good outcomes for consumers. We encourage the Commission

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<sup>4</sup> Our data contains more information on what factors deter customers from switching. Please contact us if you wish to access our full data set.

<sup>5</sup> Our data contains a more detailed breakdown of tenure. Please contact us if you wish to access our full data set.

<sup>6</sup> Our data contains more information on why people switched. Please contact us if you wish to access our full data set.



to investigate these issues as part of this market study, so that an evidence base can be established, and solutions proposed.

Depending on the Commission's findings there could be a range of consumer-facing initiatives to promote switching. For example, in Australia, advocates have called for banks to switch customers to a better deposit interest rate if one is available to them at their current bank. In the UK, banks are required to display customer satisfaction ratings on their websites, apps and in branches. This requirement was introduced in the UK in 2018 after the Competition and Markets Authority and Financial Conduct Authority found just 3% of personal banking customers switched to a different bank each year. Requiring the display of this information is aimed at improving competition and providing consumers with better information.

In the UK, a new 'consumer duty' has also been introduced which requires institutions to ensure products are fit for purpose and offer fair value. We strongly support a similar duty being introduced in New Zealand to address the high fees and low returns that consumers are facing.

We'd also like to see banks being required to do more to prevent scams and to assist consumers who are scammed. We consider a lack of action to combat scams, such as introducing the ability to match bank account numbers with names (see our answer to question 26 below) and reimburse consumers for authorised push payment scams, like most major banks do in the UK, is a further indicator that banks are not under any competitive pressure to lift the quality of their customer service – even when faced with the devastating impact of scams on individual customers.<sup>7</sup>

***Question 23: What tools are available to help consumers search, compare, and switch providers of personal banking services?***

There are some comparison sites for personal banking services, such as [interest.co.nz](https://www.interest.co.nz) and [goodreturns.co.nz](https://www.goodreturns.co.nz). Banks also provide information on their websites for consumers. However, these sites don't necessarily make it easy to switch.

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<sup>7</sup> <https://www.consumer.org.nz/articles/scams-should-your-bank-be-liable-for-losses>

Also, there is no service (like Powerswitch for gas and electricity customers) that allows users to compare all the banks' offerings based on their usage of banking services and initiate a switch.

Unfortunately, the full range of rates on offer are not always visible to consumers on banks' websites, or elsewhere. For example, earlier this year, there were reports that BNZ was offering 4.99% one-year fixed-term home loans for new loans brought to it by mortgage brokers.<sup>8</sup> However, its advertised rate was 6.45%, and one-year fixed-rate home loans from the rival big banks ranged from 6.49% to 7.49%. Opaque discretionary pricing makes it difficult for consumers to search for home loans. In our view, banks should be required to advertise all the rates they have on offer to help consumers make informed decisions.

All the major banks have switching teams that move payments to a new bank and close off old accounts. However, the process of switching still takes 5 days, bank account numbers still need to be changed and incoming payments are not redirected. This is likely to contribute to the perception that switching is difficult.

According to our 2023 banking survey, when comparing banks, fees, interest rates, customer service, online security and online banking experience are the most important factors to consumers.<sup>9</sup>

***Question 25: Please describe the innovation you have observed in the personal banking sector in New Zealand over the past five years? Please describe and give examples.***

We have observed relatively low levels of innovation in the personal banking sector over the past five years. One recent example of innovation that has benefited consumers is the introduction of 365-day-a-year payments. However, this took years to introduce. Other innovation in the personal banking sector in New Zealand over the past five years has been minimal.

Although the payments industry first started working towards the introduction of open banking in 2017, we are still waiting for it to be implemented here. In 2019, the Minister of Commerce and Consumer

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<sup>8</sup> <https://www.stuff.co.nz/business/131300030/secret-mortgage-war-bnz-offers-499-oneyear-rate-to-new-customers>

<sup>9</sup> Our data contains a more detailed breakdown of what is important to consumers when comparing banks. Please contact us if you wish to access our full data set.

Affairs asked the banking industry to develop industry-led open banking initiatives and expressed concern at the slow progress. The Government then decided to introduce new legislation to bring about open banking through the introduction of a Consumer Data Right (CDR). The UK Government describes open banking as a “major success in securing positive outcomes for consumers and small businesses and improving competition in retail banking.”

The long delays in implementing open banking in New Zealand has meant fintechs such as Revolut, Zeal, Jude and Douugh have not yet been able to provide services in New Zealand. As a result, consumers in Aotearoa are missing out.

According to a 2022 FinTechNZ Report:

*“New Zealand’s financial environment is stable with four large Australian owned banks – ANZ, ASB, BNZ and Westpac. However, there are few new players like digital banks in existence. Despite the growth stats, the fintech market can be a difficult one to get started in. With 85 percent of the market, the big four banks control a lot of the infrastructure; in theory, freeing this up would help fintechs build services. Looking at the success of New Zealand’s leading fintech companies, some, such as Xero, have quickly moved to the export market to build on early successes. FinTechNZ’s survey on its member organisations found that 27 percent of our fintech companies export their services overseas, with the most common export countries being Australia, the United States (US), and the United Kingdom (UK).”<sup>10</sup>*

The lack of innovation that characterises the market for personal banking services in New Zealand is particularly concerning when the threat posed to bank customers by scamming is considered. The large New Zealand banks have fallen behind those in overseas jurisdictions, including their own parent companies in Australia. The slow response to a significant uptick in scammer activity in 2023 is seeing significant numbers of bank customers becoming scam victims and resulting in what should be seen as unacceptable personal and financial detriment to those victims.

Banks in New Zealand have not seen fit to follow other jurisdictions, notably the UK, and introduce an industry code to reimburse scam victims beyond

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<sup>10</sup> [https://fintechnz.org.nz/wp-content/uploads/sites/5/2022/03/FinTechNZ-Report-2022\\_digital\\_03.22.pdf](https://fintechnz.org.nz/wp-content/uploads/sites/5/2022/03/FinTechNZ-Report-2022_digital_03.22.pdf)

unauthorised fraud. We see this as an indicator that banks do not see the need to compete on security innovation, even though this is a highly rated factor for consumers switching.

***Question 26: How does innovation in the personal banking sector in New Zealand compare to overseas markets? Please describe and give examples.***

Overseas markets that have adopted open banking have seen high levels of innovation. However, the same cannot be said for New Zealand.

Other examples of how New Zealand is lagging behind the rest of the world include:

- *Real-time payments:* We have read reports that we are one of only two OECD countries that doesn't yet have real-time payments. The Reserve Bank and the Council of Financial Regulators have both criticised New Zealand's banking and payments industries for taking too long to provide real-time payments. According to Karen Silk, the RBNZ Assistant Governor, "[r]eal-time payment capability is a prominent example of so-far missed developments that has put New Zealand payments behind on the global stage."<sup>11</sup> We agree.
- *Name and account matching:* New Zealand has not yet adopted technology that matches bank account names and numbers before money is transferred. Dutch banks introduced a name check service in 2017 which led to an 81% drop in reported fraud and scams and a 67% reduction in misdirected payments.<sup>12</sup> Name matching was also implemented in the UK in 2020 to help prevent fraudulent and mistaken payments. It is reported to have resulted in a 35% drop in mistaken or fraudulent payments.<sup>13</sup> Given the increasing number of scams in New Zealand, we think it is critical that banks act quickly to introduce name matching.
- *Least cost routing:* In Australia, the major banks all offer "least cost routing" to merchants. This means that when a customer uses a

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<sup>11</sup> <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/publications/information-releases/2023/letter-to-payments-nz-on-nzs-need-for-real-time-payments-10-july-2023.pdf>

<sup>12</sup> <https://surepay.nl/en/news/iban-name-check-launched-for-payments-between-france-and-the-netherlands/> and <https://www.ukfinance.org.uk/news-and-insight/blogs/confirmation-payee-journey-so-far>

<sup>13</sup> <https://www.afr.com/politics/federal/accc-calls-for-banks-to-name-check-transfers-to-cut-fraud-20220711-p5b13r>

contactless payment method, the cheapest payment method is automatically selected, thereby saving money for the merchant, and ultimately the consumer. This is not available in New Zealand. Instead, payments are automatically routed through the highest-cost payment method and merchants are charged extra for this.<sup>14</sup> Merchants then pass on these costs to consumers in the form of higher prices or payment surcharges.

- *Other products and services:* Other products and services that are available to consumers overseas but not yet in New Zealand include payment for public transport using contactless bank cards (rather than requiring separate travel cards) and 'smart rings' that can be worn on your fingers and used to pay for goods and services.

***Question 29: What are the most significant impediments to innovation in the personal banking sector in New Zealand? Please describe and give examples.***

In our view, the lack of competition and barriers to entry, low switching rates and long delays in adopting open banking are the most significant impediments to innovation in the personal banking sector in New Zealand.

If New Zealand had open banking, genuine competition and higher switching rates banks would have a lot more incentive to innovate. For example, they would be incentivised to offer better scam protections to consumers, to introduce real time processing and offer more personalised experiences, such as apps to help loan customers repay their loans faster. However, in the current market, there is very little incentive for them to offer services beyond what they are currently offering.

Thank you for the opportunity to provide comment. We look forward to participating further in the process.

*ENDS*

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<sup>14</sup><https://www.ausbanking.org.au/leastcostrouting/>