

BANKING MARKET STUDY

Monopoly Watch NZ (MWNZ) is a NZ evidence based public policy analysis group which wishes to comment on Aotearoa New Zealand’s Banking market failure and highlight the clear and present pressure on the Commerce Commission in this study to publish some workable solutions which will fix this broken market

We want to promote a fundamental rethink on social banking. NZ capitalism needs to be saved not tinkered with.

We thank the Commerce Commission for engaging with Monopoly watch and setting such a high standard for analysis and enquiry.

During the market study enquiry substantial evidence will be submitted to prove that the current industry structure is not working for consumers and suppliers.

Monopoly Watch seeks to highlight

1. Evidence which illustrates the problem and related issues
2. Commentary on major league items subject to debate
3. Ideas to uniquely fix the industry currently in a dire position.

We thank the commission for its leadership and its Preliminary Issues Paper. We applaud its 32 questions. Monopoly Watch believes the primary focus must be how we fix this problem. That means examining:

- How Market Structure can be altered to give a better outcome for consumers,
- Tinkering and minor incremental reform will play into the hands of nasty oligopolists.

“In Economist terms why are kiwis worst off to the quantum of \$580,155.92 over their mortgage lifetimes, Because of excessive mortgage costs in NZ

WHAT IS THE PROBLEM :CHECKLIST

Problem	Comment	Evidence
<i>No innovation</i>	Its pathetic in NZ the repulsive response by banks to Ministers request for opening Banking API’s speaks for itself	OECD benchmark activity
<i>No Bespoke facilities</i>	The lack of bespoke services for Dementia , youth , Māori , Immigrants , SME , Start ups ,LBGTO, refugees ,South Africans , and other communities ,	OECD benchmark adaption of new tech to cater for groups
<i>No effective Passthrough Structure of interest rate rises and falls to customers</i>	<i>80% of mortgage book seems to be funded through deposits, when interest rates rise there is no effective passthrough pressure</i>	Spreads rise as OCR moves. if there was competition then there would be passthrough

<i>Pricing Is outrageous</i>	<i>Of course this is obfuscated by marketing , Denmark is our favourite</i>	<i>OECD benchmarks</i>
<i>Cost out as a consequence of the advanced use of the internet , is not shared with customers</i>	<i>Cost to income ratios have fallen as a consequence of new tech and reduction of branches and “hollowing out skills “</i> <i>If there was competition then some of this cost out would be shared with consumers not all of it with shareholders</i>	<i>There is no passthrough with cost outs</i>
<i>Over profitable mortgages have fuelled a real estate bubble , but distorted house hold asset allocation</i>	<i>Credit agencies , who always conduct benchmarking and independent stress testing worry about asset allocation mismatch on residential lending</i>	<i>Rating agencies , caveat all the NZ banks with major concern about over asset allocation</i>
<i>Service is disgraceful</i>	<i>Cost outs have removed service , (survey bank waiting times by over 65 yr olds)</i>	
<i>Massive Gender Imbalance in Pay</i>	<i>With respect, it looks like the senior executive don't have gender pay equity. Men were paid more as CEO's (Hiscox) , Executive pay is outrageously low for the improved profitability .</i> <i>It looks like the board “don't believe there is skill in running a dominant oligopoly utility style business “ (i.e. there unwillingness to pay their CEO correctly suggests they think all the ALPHA in their business is market structure and really it's a regulated utility</i>	<i>Benchmark figures suggest the CEO should be paid circa \$15m * not \$3m+ for that level of profitability.</i> <ul style="list-style-type: none">• <i>Based on ROI benchmarks</i>
<i>Politicisation of the banks with hiring of Politicians, cabinet members and lobbyists</i>	<i>Banking is regulated , it has NZ's best financed lobbyist group – its all about market structure</i>	<i>We need recommendations on stand down periods</i>
<i>Kiwi market structure disease</i>	<i>NZ has an innovation Disease , its called cosy market structure</i>	<i>There is no innovation relative to international benchmarks</i>

***There are plenty of economists in the ComCom To study Passthrough of moving deposit rates and floating mortgage rates*

EVIDENCE OF THE PROBLEM: CHECKLIST

Matter worthy of investigation in the Market study	Comment	Investment Signal to ComCom
Rating agency reports	These agencies concern themselves with financial safety , not competition, however they say competition is weak and market structure cosy	Don't listen to MWNZ ! – Look at rating agencies
House hold asset allocation comparisons	This is a problem as a consequence of mortgage profitability , Consult with NZ fund managers	
International NIM comparisons on mortgage books	The numbers speak for themselves	Don't listen to MWNZ look at benchmarks of REAL NIM
Actual model of Mortgage gouging of Kiwis – what it means to them	We urge the ComCom to publish its own vision of the counterfactual . Mortgage margin savings over a 30 Yr time period is a huge number	This is the most potent market study yet , as effective resolution will save consumers hundreds of thousands of dollars
What was the net effect of the 1988 Trustee Bank Restructuring act	We urge the Commission to visit history lesson on what went wrong to move NZ market structure from	A solution to the current market failure could be a repeal of this legislation
Requirement not to just fix open banking but also look at new entrants	Open banking is just pillow talk .. who cares , without transformational catalyst and real challenger banks , NZ will be stuck in the 1990s	
Penalties for the banks delaying introduction	We applaud the banks for gaming successive governments. Shareholders continue to laugh at screaming customers	There is no financial consequences for the banks delaying innovation and competition . this needs to be fixed
Assistance for the Aussie banks to go home to Australia	We urge the govt and MBIE officials to call the banks bluff and ask them to leave , or at least prepare to split	NZ consumers don't expect to be treated so poorly by vacuous childish threats to leave
Assistance to Consumer NZ to become an effective force in market studies after the board resigns	The Consumer NZ board shouldn't feel special that MWNZ has asked them to resign, reform and rebuild for 2030s we have also asked BRANZ board to resign , Transparency international board to resign and also Productivity Commission to resign . In Australia the banks cant get away with what they do in NZ because of effective state funded consumer advocacy groups . Consumer NZ analysts and executives are only able to do the work of 3 people each .	The ComCom can't do its job without effect consumer advocacy which matches the incumbent position
Scandinavian Market Structure	We urge the Commission to use the ANZ jet and visit Denmark, Sweden And Norway to	Planes go every 2 hours

	understand better benchmarks on banking competition	
The insult to Kiwis that Aussie banks more profitable in NZ than Aussie	Barnaby Joyce suggests NZ become the 7 th State	Banks have colonised NZ's banking system
Visit to Scandinavian competition agency	Inter face makes sense	MWNZ suggests guests to appear at conference as expert witness
Call with Margrethe Verstager	MWNZ suggests a visit would be useful	MWNZ to arrange if needed (or participation in the conference ?)
Senior executives pay	With respect to the individuals , it's a clear and present signal that the board of the ANZ and ASB are massively under paying their senior executives relative to the level of financial performance. Any other industry would pay circa \$15m- \$20 total comp for this fabulous level of profitability	An Economists insight into the low pay , suggests that the board doesn't believe innovation is important ,and the bank;s profitability is entirely a function of market structure .

COMMENTRY ON MAJOR LEAQUE ITEMS OF DEBATE

(Major criticisms from the Incumbents Oligopolists before they start complaining

Incumbent comment	
NZ will get a credit downgrade if you interfere in banking	The ComCom has a good history of ignoring silly comments , but its time the banks bluff was called and OECD or WB reports suggesting NZ will be downgraded unless the banks monopolies' / Oligopolies are fixed
We need safe banks	Of course we do , but the regulator does that , not the banks , who have an implied guarantee from the Govt . safe banks is not a licence to extort monopoly rents from consumers, there is no property right to a monopoly rent
We NZ banks are really good at what we do	If this is the case why are the senior executive so underpaid relative to their profit performance? The Senior executives would leave to go to other industries if they thought they would earn their profitability worth in them
Its the regulatory environment that has pushed up our costs	The red tape argument , is a tautology , as banks love the asymmetrical costs that regulation imposes . The ROI and NIM speak for themselves

SOLUTION CHECKLIST

Solution	Comment
A process to split existing banks	Market structure is not facilitating competition, ANZ , ASB and NAB have already warned their shareholders this may change . Such is the level of dominance , this split must be considered
Set up power switch equivalent for banks	Consumer NZ powerswitch is one entity which deserves attention in a banking review
Set up Open banking's	This is a given but can not be a solution in isolation
Set up new banks	This must be canvassed in the market study
Stop the financial incentives to delay consumer reform	Penalties to existing banks for misinformation and delays needs to be real

MWNZ applauds the perseverance and stamina of the ComCom team reading submissions.

We deliver a message of keep pushing, and delivering for kiwi consumers

Behavioural remedies will not fix structural problems.

Monopoly Watch is a New Zealand public policy group which studies and comments on competition issues in capital intensive utility and commodity industries in New Zealand. Monopoly Watch draws upon wide and varied experience from game theory economists and captains of industry to millennials, centennials or adjacent, workers, middle management, Māori, the LGTBQ community, consumers, and suppliers. It is well-established that for many decades New Zealand has had one of the weakest competition legal frameworks in the OECD.

It is the goal of Monopoly Watch to provide evidence-based third-party commentary and policy solutions to failing and distorted market structures to advance the public interests of all Kiwis.

Thank you for Considering the position of Monopoly Watch NZ

**Tex Edwards
Worker
MWNZ**