Banking Services Submission

My name is [redacted] and I live in Nelson, New Zealand. Now retired, I have been involved in several businesses and a range of charitable organisations for most of my life. I am still heavily involved in the charitable sector both in New Zealand and Overseas and still have a working relationship with most of the major banks in NZ.

For many years and certainly since the arrival of Covid-19, I have been concerned at the adverse and even punitive actions taken by the banking industry against it's customers, particularly in difficult conditions. Not only was LVR ratios enforced with associated penalties, lower LVR ratios were applied with even greater penalties. I have written to the current Finance Minister Grant Robertson on several occasions and to his credit he did reply on each occasion but effectively advising there was little he could do.

My main concern now is that the banking industry is enriching itself at the expense of young families struggling to pay the ever increasing interest on their mortgage. This very ably demonstrates that while the banking industry is very profitable, it is morally bankrupt.

I am sceptical that the Commerce Commission has the power to make any changes. I understand that the power for change in the Banking system rests with the Reserve Bank particularly in its administration of "The Reserve Bank of New Zealand Act 2021". While this Act ushered in a new governing board, because the Reserve Bank Governor holds a seat on the Board, it would be a very brave Board indeed that over-rules any recommendation from the Reserve Bank. Indeed, It seems that there has been little change in the Banking Industry activities since this new Act came into being.

However, I am proceeding on the basis that the Commerce Commission at least has the power to make recommendations.

Turning to the issues being considered by the Commerce Commission;

- The nature of competition in the sector;

I believe there is a serious lack of competition in the industry. When one bank increases its mortgage rates, the others follow suit and this smacks of morning coffees together at the local cafe. At a time when the OCR was falling, the banking industry was quick to comment that they do not raise much money from that source therefore their interest rates need to reflect the other sources. The ANZ for example, cited high deposits rates as an excuse in https://www.anz.co.nz/content/dam/anzconz/documents/economics-and-market-research/2019/ANZ-PropertyFocus-20191120.pdf Progressively the banks were forced to bring their rates down as a result of competition within the banking industry but it took time. Now at a time when the OCR is rising, banks are quick to increase their rates and even pre-emptively increase their rates ahead of OCR announcements. The low deposit rates do not appear in any commentaries justifying a rapid response to an increasing OCR. They are able to do this simply because they can. I believe that New Zealand needs more competition in the banking industry as a matter of urgency.

- Whether all Kiwis are well served by the sector,

I believe that Kiwi's are not at all served well by the banking industry who in turn have lost a "customer" focus in favour of a "profit" focus. But I am particularly concerned with the plight of three groups;

1. Young families - young families struggling to get on the property ladder, are now faced with high interest charges and therefore struggling to keep their home. This coupled with the follow on effects of reduced equity through an associated depressed housing market, puts those families in a very difficult situation. That the banking industry is enriching itself at the expense of young families is reprehensible.
2. Business - while many business are struggling to claw back their losses after the various Covid lockdowns, they are now hit with high interest rates. Indeed, I understand that some business owners are not even paying themselves

https://www.stuff.co.nz/business/prosper/132521789/new-data-shows-significant-signs-of-financial-stress-for-small-businesses

3. Pensioners - super-annuitants who have wisely invested in businesses to support their retirement years are finding that high interest costs are placing pressures on those business, reducing their profits and reducing their ability to pay dividends and the super-annuitants are struggling to survive on reduced income. In addition, those who have been unwise by relying on savings by leaving their money in the bank are finding that their returns are not increasing as they should in a higher interest rate environment as the banking industry makes use of a higher margin. Inflation is eroding the value of those investments almost on a daily basis.

It is unsurprising that Consumer NZ in 2021 found that a very high one in five people have had a problem with their bank <https://www.stuff.co.nz/business/125451427/consumer-nz-nearly-one-in-five-had-a-problem-with-their-bank-in-past-year, and that *"... only one third of people "strongly agreed" that banks could be trusted ..."*

Fast forward 12 months to 2022 and again unsurprisingly, Consumer NZ found that only 60% of consumers were very satisfied with their bank https://www.consumer.org.nz/articles/bank-satisfaction-survey-2022 meaning that now two in five people have a problem with their bank. That same report goes on to state *"Of the seven banks in our survey, **Westpac** was bottom for overall satisfaction. It scored significantly below average, on 54%. Of Westpac customers who said they'd experienced a problem in the past 12 months, 67% said the problem was poor customer service. The biggest player, **ANZ**, was near the bottom of the satisfaction table this year at 56%, a marked decrease from last year (65%)*."

We are fast coming to the stage where three in five people have a problem with their bank if we are not there already.

It should be patently obvious that the larger the bank, the less likely they are to be liked. Surely the solution is in more and smaller banks.

- The ease of entry and expansion and the impact of legislative and regulatory frameworks;

Not being a banker, I am unable to comment on this but I suspect that the regulatory framework is overly constrained and should be relaxed a little to allow new entrants. I would submit that the legislation is probably not overly prescriptive but instead, I expect that the regulations arising from the legislation would be more prescriptive.

- How easy it is for Kiwis to swap providers and the degree to which the tying and bundling of services may limit switching;

In my experience, changing banks is possible and in fact I have changed in recent years. But it is a horrendous process. One wonders whether it is worthwhile given the same punitive actions are across all the major trading banks. I have moved to one of the smaller community banks and this has worked well. But they still have to bank with one of the major banks (commonly Westpac it seems) and this is a problem because the customer is still stuck with the Westpac processes.

- How innovative the sector is, particularly in comparison to overseas markets, and whether there are barriers to innovation here;

I believe that the AML laws are used as an excuse to stifle innovation. In particular overseas payments are now very slow and some banks are worse than others. AML laws are useful but there needs to be a threshold where these are applied. It is up to each bank to interpret and apply the AML laws as they see fit and many areas differ from bank to bank. But the lack on innovation makes it very difficult to conduct business in these fast moving times and even more difficult to open a new account at any bank.

- <u>Whether bank profits are consistently high and if so, whether the intensity of competition be ruled out as a contributing factor.</u>

Banking profitability reports from KPMG, https://kpmg.com/nz/en/home/insights/2016/02/financial-institution-performance-survey.html show;

Quarter ending	**Profit**
March 2023	$1.54b (Provisioning increase $2.97b - $2.69b = $0.28b)
Dec 2022	$1.77b
Sept 2022	$1.77b
June 2022	$1.73b
March 2022	$1.74b
Dec 2021	$1.61b
Sept 2021	$1.56b est
June 2021	$1,451.9m
March 2021	$1,642.9m
Dec 2020	$1,361.2m
Sept 2020	$1,007.5m
June 2020	$776.9m
March 2020	$895.6m

Banking profits have doubled in the two years from March 2020 to March 2022 over the Covid-19 lockdown period although in the 12 months since then, appear reasonably static. Some of these changes will reflect the ebb and flow of provisioning but it seems fair to conclude that the banking industry has been at least largely unaffected by Covid-19 and at most, hugely profitable. Indeed in the KPMG March 2020 report, it was stated that *"... the true economic impact of the crisis will reveal itself over the next 3-4 quarters."* Those 3-4 quarters have shown that life for the banking industry has gone very well indeed, and

It should be noted that provisioning does not reflect a cash loss but instead appears on the Statement of Financial Position. Surprisingly, there is currently $2.97b on the books as provisioning presumably yet to be taxed.

It has been noted that the Reserve Bank data which showed that the big banks had a five-year average return on equity was more than twice that of the smaller banks https://www.stuff.co.nz/business/money/300947843/banks-cashing-in-commerce-commission-highlights-profit-concerns. The reason for this I believe falls squarely at the feet of the Reserve Bank itself through its OCR manipulation.

I submit that while the level of banking profits as a concern, an even greater concern is the rapid rate of increase in profits over the recent 2-3 years more so during a particularly difficult time in the history of New Zealand. I believe that such profit increases in this environment particularly at the expense of ordinary New Zealanders are obscene.

Clearly, the industry by its very actions is screaming for more competition.