7 September 2023

Commerce Commission
Level 12, 55 Shortland Street
PO Box 105-222
Auckland 1143
Via email: marketstudies@comcom.govt.nz

To whom it may concern

Submission on the Commerce Commission's "Market study into personal banking services – Preliminary Issues paper"

1. Heartland Bank Limited (**Heartland**) welcomes the opportunity to respond to the Commerce Commission's banking market study preliminary issues paper (**PIP**).

2. Heartland is a registered New Zealand bank wholly-owned by NZX and ASX-listed Heartland Group Holdings Limited (**Heartland Group**). Heartland entered New Zealand's banking industry in late 2012, but Heartland's roots as a financial service provider stretch back to 1875.

3. Heartland focuses on market segments and consumers that are underserved or not served at all. Heartland is, for example, the country's leading reverse mortgage provider – an innovative product, not offered by many banks in New Zealand – that helps people over 60 to access equity in their homes to fund a more comfortable retirement.

4. Heartland also offers:
   a. retail savings and deposit accounts;
   b. home loans; and
   c. business, car and rural loans.

5. Heartland's 'best or only' strategy sets us apart from rivals. Heartland focuses on providing innovative banking and finance products, through scalable digital platforms which are the best or only of their kind in the market.[1] Heartland's commitment to delivering simple and efficient digital-based solutions reduces our customers' onboarding costs and makes it easier for them to access funds when they need them.

6. Within that strategy, Heartland and Heartland Group are focused on sustainable growth by advancing three core initiatives:
   a. offering frictionless service at the lowest cost;[2]
   b. expanding into and within Australia; and

[1] Heartland Home Loans, for example, launched in 2020 a digital self-service app for customers to apply and receive home loan approval without needing to make an appointment, visit a broker or arrange a house call. More detail on the initiative can be found here: https://www.heartland.co.nz/about-us/news/heartland-takes-the-lead-with-digital-home-loans-starting-from-1-99-p-a-1-year-fixed-rate
[2] Measured by superior CTI ratios.

c. growing business as usual products.

7. Heartland enjoys this challenge. We are pleased the Commission is looking at whether parts of New Zealand's banking industry can be improved to help smaller banks grow and succeed.

8. To that end, we expand below by:

a. supporting the Commission's market study scope; and

b. observing that there are elements of the banking industry which might be improved to give smaller banks more opportunities and, in turn, give New Zealanders more choice.

Market study scope

9. Heartland supports the Commission's focus on personal deposit/saving/transaction accounts and home loans (**Retail Products**).

10. In Heartland's experience, Retail Products are:

a. essential for all New Zealanders; and

b. challenging for small banks to offer given entry/expansion barriers.

Retail Products barriers for small banks

11. In Heartland's experience and notwithstanding consistent industry recognition,[3] small banks face the following barriers to offering competitive Retail Products:

a. Customer inertia. Many customers do not shop around for competitive rates or products. Heartland believes that inertia is, in part, because customers are unclear or uncertain about the bank switching process or it is too complicated or difficult for customers to do so.

b. Mortgage broker incentives. Mortgage brokers are a valuable and important part of the home loan industry. Mortgage brokers help ensure homeowners are aware of home loan options available to them, including from smaller banks like Heartland. But bank-to-broker mortgage incentive structures possibly distort that picture in favour of larger banks who have the scale to cover the initial cash outlay that is required when paying broker fees.

c. Home loan cashbacks. Some banks offer a cashback (with an associated clawback period) to attract and retain customers. These cashbacks can have a similar distorting impact to mortgage broker incentives due to also requiring an initial cash outlay which favours larger banks who have the scale to cover this outlay. In addition, cashbacks can also make it more difficult for customers to compare home loan offers between providers on a 'like-for-like' basis and the associated clawback period can also disincentivise customers to switch providers.

d. Certain regulatory regimes, like the CCCFA, are so complex and uncertain that lenders are forced to adopt conservative business approaches to ensure compliance; stifling innovation and dynamism in important banking product markets.

e. "Fixed" regulatory compliance costs are significant for smaller banks. Heartland, for

[3] Heartland Bank's products have been recognised as providing exceptional value for customers through Canstar New Zealand awards for Savings Bank of the Year and Outstanding Value Home Lender.

example, faces far greater costs (proportionally) to comply with prescriptive regimes like the CCCFA and RBNZ's prudential banking requirements than larger organisations with more resources.

f. Similarly banking policies can favour larger banks, entrenching their incumbent position and making it harder for smaller banks to make competitive inroads. Heartland observes, for example, that it was unable to access RBNZ's Funding for Lending Programme introduced during Covid-19 to "*lower the funding costs of banks and … increase lending*".

12. We would welcome the opportunity to meet with Commission staff to discuss these points and Heartland's experience. We look forward to hearing from you.

Kind regards,

[redacted]

Phoebe Gibbons
HEARTLAND GROUP | GENERAL COUNSEL
[redacted]