

Kiwibank's Cross Submission on the responses to the Commerce Commission's Preliminary Issues Paper – 5 October 2023

Executive Summary

In response to the submissions on the Commerce Commission's Preliminary Issues Paper into Retail Banking in New Zealand (**Paper**), Kiwibank notes that the four largest domestic systemically important banks (**D-SIBs**) have:

- overstated the impact Kiwibank has on them from a competition perspective;¹
- not been sufficiently open to enhancing switching processes to encourage customers to switch;²
- insufficiently highlighted that the current regulatory ecosystem disproportionately impacts smaller banks.

To support Kiwibank's Cross Submission, we attach an Economic Report prepared by Link Economics (**Link**) (Appendix 1) analysing those issues in more detail.

Kiwibank's role in the market

Kiwibank is flattered that ANZ, ASB, BNZ and Westpac consider there to be five large banks in New Zealand. Kiwibank is proud of the growth it has achieved with more Kiwi choosing Kiwibank over time. However, there remains a significant difference in the size and scale of the D-SIBs compared with Kiwibank. Given the high level of market inertia, it will take quite some time for Kiwibank to be at the scale where it might be considered to have the same influence and risk profile as a D-SIB.

¹ Kiwibank is described as a large bank or it is asserted that there are five major banks (for example, ANZ Bank New Zealand Limited, *Market Study into Personal Banking Services, Preliminary Issues Paper, ANZ Bank New Zealand Limited Submission*, para 4, ASB Bank Limited, *ASB response to the Commerce Commission's Preliminary Issues paper for the market study into personal banking services (ASB Submission)*, para 1.1 and Bank of New Zealand, *Bank of New Zealand's submission on the Commerce Commission's preliminary issues paper regarding the market study into personal banking services*, para 1.9).

² See for example ASB Submission, para 7.5 and Westpac New Zealand Limited, *Market Study into Personal Banking Services, Westpac New Zealand Limited's Response to the Preliminary Issues Paper*, para 4.

As the RBNZ identified when categorising ANZ, ASB, BNZ and Westpac as D-SIBs, almost 90% of the total banking system assets in New Zealand are owned by the D-SIBs making it highly concentrated. While all banks, irrespective of size, are important, the RBNZ recognises that the failure of any of these four D-SIBs is likely to result in significant disruption to the New Zealand financial system and economy. At the time of creating the D-SIB framework, the RBNZ considered four main categories for evaluating systemic significance: size, interconnectedness, substitutability, and complexity. The total score across the banks using both an equal and unequal weighing across the measures was calculated as set out below:

Table 2 Total score for banks using different weighting methods

Banks (in order of total assets)	Equal Weighting	50% for Size and equal weighting for the other three categories
ANZ	35.50	34.21
BNZ	21.00	20.63
ASB	18.98	19.01
Westpac	14.45	15.59
Kiwibank	3.40	3.66

Kiwibank aspires to meet the threshold to be considered a D-SIB. And Kiwibank sees the opportunity the market study creates to improve competition in the banking industry and reduce market inertia. This will enable Kiwibank to grow faster to better challenge the market with the scale advantages that the D-SIBs have. The Link analysis demonstrates that the D-SIBs' submissions overstate Kiwibank's competitive constraint on them. Link's report finds that the D-SIBs only respond to each other. This is best illustrated through:

- the example where none of the D-SIBs responded to Kiwibank's sustained 1% reduction in its variable rate in 2020/2021; and
- regression analysis that shows that Kiwibank's home loan rates more generally do not have a statistically significant impact on the rates of ANZ, ASB or Westpac. Kiwibank's rates do have some impact on BNZ's rate, but this is limited compared with the more dominant effect on the rates of the other D-SIBs and the OCR. Further detail is set out in Link's report.

Additionally, ASB's statement that Kiwibank should have a lower cost of funds than the D-SIBs because it is government funded is incorrect.³ Although the Government provides Kiwibank's common equity, it does not provide funding. Like other banks, Kiwibank obtains funding from a range of sources including retail deposits and wholesale funding. Kiwibank's cost of wholesale funding is typically 10-15 basis points more expensive than the D-SIBs' cost of wholesale funding.

³ ASB Submission, para 9.13.

Switching

Switching is an area that Kiwibank considers could be significantly enhanced. Payments NZ set up the Easy Switch process over 10 years ago without any formal review over that time. While the D-SIBs have taken the view that the Easy Switch process is effective in New Zealand, it appears there may be a disconnect between this view and customer experience and perception. There were two submissions from members of the public on the difficulty of switching, and the statistics provided by Consumer NZ in its submission show that customer perception is that switching is difficult.⁴

An example of the potential difficulties is that the Easy Switch service in New Zealand does not switch all outward payments, any income payments, or provide payment redirection following a switch. This means customers can be left with having to manually switch payments themselves and face some payments failing, creating a poor customer outcome. There is also no payment switch guarantee, switching transparency across market or independent promotion of the switching service like the Current Account Switching Service (**CASS**) offers in the UK. CASS independently markets the switching service in the UK, including reporting on the volume of switching between banks, to address the customer perception issue that switching is difficult. In New Zealand, this independent marketing support for the switching service would be a big step forward in addressing switching perception issues that both BNZ and Consumer NZ identified as drivers for large inert customers bases concentrated across the four main banks.

Kiwibank considers this to be a relatively easy initiative the banks can support via an independent body to review the Easy Switch process with a view to making enhancements to the service in the way CASS has done in the UK off the back of a similar retail banking market study. In addition to CASS in the UK, Kiwibank also notes that the Dutch Payments Association also operates a similarly advanced switching service relative to the New Zealand process. Link Consulting examines issues relating to switching in section 3 of its report.

Financial Services Regulation

Regulation was a major theme running through the public submissions on the Paper. Submitters were mostly aligned on the detrimental impact that changes to financial services regulation and the way it has been implemented, especially the capital rules and CCCFA, are having on an innovative and competitive market. However, for non-D-SIBs to be truly competitive, the regulatory ecosystem also needs to be appropriately proportionate and at least have a neutral impact from a competition perspective. Link uses the example of the RBNZ's capital rules to show how historically those rules can lessen competition without necessarily furthering the underlying regulatory objective.⁵

⁴ Consumer NZ, *Submission on the Market Study into personal banking services – Preliminary Issues Paper*, page 8.

⁵ Link Economics, *The Nature of Competition for Personal Banking Services*, section 4.