



**Bank of New Zealand's submission on the Commerce  
Commission's preliminary issues paper regarding the market study  
into personal banking services**

**7 September 2023**

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## **Part [1]: Introduction and summary**

### **(1 A) Introduction**

- 1.1 Bank of New Zealand ("**BNZ**") is pleased to provide a submission in response to the Commerce Commission's ("**Commission**") preliminary issues paper ("**PIP**") regarding the market study into personal banking services ("**Market Study**").
- 1.2 BNZ provides its submission as follows:
- (a) The summary in this Part [1] provides an overview of the key themes of BNZ's submission.
  - (b) The main body of this submission is broken into sections outlining key information in relation to the following:
    - (i) The competitive nature of the personal banking sector in New Zealand (Part [2]).
    - (ii) The key indicators that demonstrate that the New Zealand personal banking sector is delivering competitive outcomes for consumers (Part [3]).
    - (iii) While it is difficult to draw conclusions about competition based on profitability and returns assessments, the evidence does not suggest there is a lack of competition in the New Zealand personal banking sector (Part [4]).
    - (iv) The relevance of the regulatory environment to the Commission's Market Study (Part [5]).
    - (v) Evidence that the New Zealand personal banking sector caters for diverse population groups (Part [6]).
  - (c) **Appendix One** provides responses to the specific questions posed by the Commission's PIP.
- 1.3 In addition, **enclosed** with this submission is a report by Deloitte Access Economics that outlines its analysis of factors relevant to the Commission's Market Study.
- 1.4 BNZ looks forward to continuing to assist the Commission with its Market Study, and can provide further detail on any of the points covered in this submission.

### **(1 B) Summary**

- 1.5 We are Te Pēke o Aotearoa, the Bank of New Zealand. BNZ's purpose is to serve its customers brilliantly and help New Zealand's communities prosper. It is in this context BNZ welcomes the Commission's Market Study. BNZ is committed to working constructively with the Commission to grow its understanding of the sector, discuss the contributions that banks make to New Zealand society and, where there are areas that can be improved to enhance outcomes for consumers, to help find a way to achieve those improvements.
- 1.6 In relation to personal banking specifically, BNZ provides a suite of personal banking products, supported by [ ] frontline banking colleagues (this excludes BNZ's corporate and institutional

bankers). Customer accessibility is supported across 102 BNZ branches, 178 Smart ATM locations, and convenient on-line and digital services via website, internet banking and mobile apps. BNZ also has approximately [ ]<sup>1</sup> colleagues working in its customer connection hubs (call centres) who provide support and services to customers who choose to use that channel, and a number of other teams in BNZ's Customer Assist division who are dedicated to supporting customers who are experiencing financial or personal difficulty.

- 1.7 In BNZ's experience, the New Zealand personal banking sector delivers competitive outcomes that are in the interests of New Zealand consumers. In particular, BNZ considers that New Zealand consumers have access to world-leading personal banking services, including in terms of pricing, choice, innovation, accessibility, resilience, and service quality.
- 1.8 BNZ contributes to this by offering a range of competitively priced, and in many cases free, personal banking products and services supported by open and accessible banking options, and given BNZ's comparatively smaller position in personal banking relative to some larger banks, BNZ has a focused and active strategy to grow its market share and customer base. Providing high quality and efficient banking channels that are accessible and inclusive is critical to attracting and retaining customers.
- 1.9 BNZ competes in this space with a wide range of competitors. These competitors include larger banks (ANZ, Kiwibank, ASB, and Westpac), smaller banks (such as TSB, Heartland, SBS, Cooperative, and Rabobank), and non-bank competitors, such as credit unions, building societies, technology companies, speciality financial services companies, fintechs, fund managers, investment platforms, and other non-bank lenders (for example, First Credit Union, Nelson Building Society, Liberty Financial, Xceda Finance, Simplicity, Resimac, Pepper Money, Bluestone, Squirrel and Sharesies, amongst others). There is also the constant prospect of new entry (for example, Apple has recently launched a new savings product in the USA).
- 1.10 Given the relative size of New Zealand both in terms of population and geography, the number of different competitors of itself ensures customers can take advantage of a very competitive banking sector.
- 1.11 Accordingly, BNZ considers that consumers of personal banking products and services are well served by a competitive and innovative personal banking sector in New Zealand, with that competition supported by:
  - (a) **The decreasing commercial requirements for new entry.** While regulatory requirements are outside banks' and other providers' control, commercial requirements for entry are decreasing, including as a result of the development of APIs (and upcoming Open Banking reforms), the decreasing importance of a branch and physical footprint, new technology (including "off-the-shelf" banking software and cloud offerings), 365-day payments, and comprehensive credit reporting.
  - (b) **The ability of customers to switch providers, "multi-home", and use tools and assistance to enhance price discovery** and help them find the most competitive offerings, such as **online calculators**, **comparison websites**, and **the growing prominence of brokers.**
- 1.12 BNZ also considers there is a range of key indicators demonstrating that competition is delivering positive outcomes for consumers, including that:

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<sup>1</sup> This figure includes approximately [ ] small business hub bankers (so excluding those bankers, there are [ ] customer facing colleagues in BNZ's customer connection hubs).

- (a) **Bank fees are very low in New Zealand, and are decreasing further** (indeed RBNZ has noted that New Zealand banks' fee income is low by global standards). (See Subpart (3A)).
- (b) **Banks' interest margins are decreasing in New Zealand over time.** (See Subpart (3B)).
- (c) **Market concentration in the New Zealand banking sector is decreasing over time.** (See Subpart (3C)).
- (d) **Customer satisfaction levels are high.** (See Subpart (3D)).
- (e) **The sector has strong levels of innovation,** with innovation occurring across a range of fronts – including product design, pricing, communications, customer support, accessibility, digital capability, safety and security. Those innovations have been achieved while dealing with significant regulatory changes (that inevitably divert time and resource from innovation initiatives). (See Subpart (3E)).
- (f) **While it is difficult to draw conclusions about competition based on profitability and returns assessments, the evidence does not suggest there is a lack of competition in the New Zealand personal banking sector.** In particular:
  - (i) nominal profits (being the profits reported by the media) reflect **the significantly larger capital base of banks** compared to other businesses. (See Subpart (4B)).
  - (ii) returns on equity and assets:
    - (aa) are not high compared to other New Zealand businesses (KPMG has reported that "comparative to their size, **the profits made by the banking sector are in fact marginally lower in comparison to 50 of the largest listed companies in New Zealand**"). (See Subpart (4I)).
    - (bb) to the extent they are being compared to banks in other countries, they **reflect New Zealand specific factors that are unrelated to the extent of competition,** such as the efficiencies of members of the New Zealand banking sector, the higher risk-free rates in New Zealand, and the significant capital bases of New Zealand banks. (See Subpart (4F)).

1.13 Accordingly, in BNZ's experience, the New Zealand personal banking sector is delivering competitive outcomes and New Zealanders are well served by that competition and the role the sector plays for and in New Zealand.

## **Part [2]: The New Zealand personal banking sector is highly competitive**

2.1 In BNZ's experience the New Zealand banking sector, including in relation to personal banking products and services, is highly competitive. This is due to:

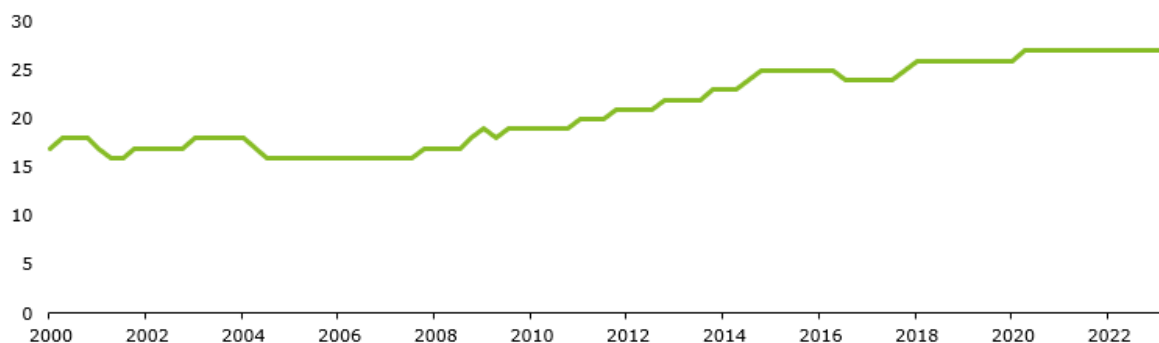
- (a) the diverse range of competitors (large and small, bank and non-bank);
- (b) the growth of smaller bank competitors, and increasing competition from non-bank competitors;
- (c) developments lowering the commercial requirements for new entry (including APIs, upcoming Open Banking reforms, the decreasing importance of physical footprint, technological developments (such as "off-the-shelf" bank software and cloud offerings), and 365-day payment processing);
- (d) consumers' ability to switch providers, and "multi-home" across banks;
- (e) many consumers being actively engaged in choosing their personal banking products;
- (f) the availability of online tools to facilitate price discovery and switching (such as online calculators and comparison websites);
- (g) the increased prominence of brokers, and their role in facilitating switching and driving competition; and
- (h) bundling not being a material feature of the sector, nor an impediment to switching.

2.2 Further details on the above are set out in this Part [2].

### **(2 A) There is active competition between traditional banks – both large and small**

2.3 Across the broader New Zealand banking sector there are 27 registered banks and 16 registered non-bank deposit takers, along with a number of fintech and other competitors. Growth in the number of registered banks over time is shown in **Figure 1** below.

**Figure 1 – Number of registered banks in New Zealand (as at the end of each quarter)**



Source: RBNZ

- 2.4 In relation to personal banking, BNZ competes on a daily basis with a wide range of key competitors operating different business models. That includes larger banks (ANZ, Kiwibank, ASB, and Westpac), smaller banks (such as TSB, Heartland, SBS, Cooperative, and Rabobank), and non-bank competitors, such as credit unions, building societies, technology companies, specialty financial services companies, fintechs, fund managers, investment platforms, and other non-bank lenders (for example, First Credit Union, Nelson Building Society, Simplicity, Liberty Financial, Xceda Finance, Resimac, Pepper Money, Bluestone, Squirrel and Sharesies, amongst others).
- 2.5 Even focusing just on the competition between BNZ and other traditional banks (such as ANZ, Kiwibank, ASB, Westpac, TSB, Heartland, SBS, Cooperative, and Rabobank), there are a significant number of different competitors in the sector.
- 2.6 While some public commentary has suggested some concerns exist regarding a lack of competition between the "[f]our major banks",<sup>2</sup> BNZ's experience is that the five larger banks (including Kiwibank) actively compete on an ongoing basis to win new customers, retain existing customers, and grow market share. Reflecting this:
- (a) there is also significant public commentary (by a number of different commentators, over a number of different years) referring to, for example, the "mortgage wars"<sup>3</sup> in New Zealand home lending;
  - (b) given its comparatively smaller position in personal banking, BNZ has a focused and active strategy to grow its market share and customer base by providing attractive products and services to New Zealand consumers. This strategy has been noted in announcements by National Australia Bank ("**NAB**") (BNZ's parent) to investors. This is shown in **Figure 2**; and
  - (c) Kiwibank has similarly announced that it is actively investing in further growing its personal banking presence<sup>4</sup> (announcing it had "invested \$225 million from the proceeds of the sale of the Kiwi Wealth KiwiSaver business into growing the bank's home loan business"),<sup>5</sup> and has stated that its "next major goal... would be 10%

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<sup>2</sup> (20 June 2023). Market study to investigate banking competition. Beehive. Retrieved from: <https://www.beehive.govt.nz/release/market-study-investigate-banking-competition>

<sup>3</sup> See for example:

- (12 November 2018). BNZ unveils two year 3.99% home loan rate from November 13 as mortgage wars intensify. Interest.co.nz. Retrieved from: <https://www.interest.co.nz/news/96835/bnz-unveils-two-year-399-home-loan-rate-november-13-mortgage-wars-intensify>
- (22 May 2020). Mortgage wars continue: ASB, Kiwibank takes lead. Stuff. Retrieved from: <https://www.stuff.co.nz/business/300018370/mortgage-wars-continue-asb-takes-lead>
- (20 January 2021). Mortgage wars: ANZ matches record-low Westpac interest rate. NZ Herald. Retrieved from: <https://www.nzherald.co.nz/business/mortgage-wars-anz-matches-record-low-westpac-interest-rate/SRV6LBVCJ4BWQ4TSNLTRE6QUVY/>
- (10 July 2022). Mortgage wars: Banks offering incentives as market cools. 1 News. Retrieved from: <https://www.1news.co.nz/2022/07/10/mortgage-wars-banks-offering-incentives-as-market-cools/>
- (3 March 2023). Mortgage interest rate war erupts between banks struggling to hit home loan targets. Newshub. Retrieved from: <https://www.newshub.co.nz/home/money/2023/03/mortgage-interest-rate-war-erupts-between-banks-struggling-to-hit-home-loan-targets.html>

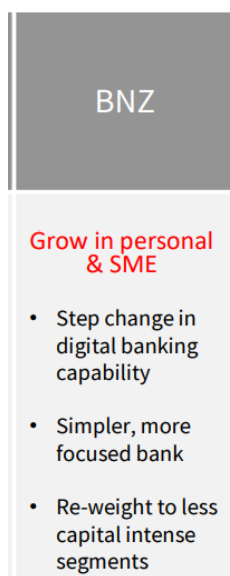
<sup>4</sup> (1 August 2023). Kiwi Group Capital invests \$225 million into Kiwibank to accelerate growth. Kiwibank. Retrieved from: [https://www.kiwibank.co.nz/about-us/news-and-updates/media-releases/kiwi-group-capital-invests-225-million-into-kiwibank-to-accelerate-growth/#:~:text=Kiwi%20Group%20Capital%20invests%20%24225%20million%20into%20Kiwibank%20to%20accelerate%20growth,-01%2F08%2F2023&text=Kiwi%20Group%20Capital%20\(KGC\)%20today,largest%20New%20Zealand%20Downed%20bank.](https://www.kiwibank.co.nz/about-us/news-and-updates/media-releases/kiwi-group-capital-invests-225-million-into-kiwibank-to-accelerate-growth/#:~:text=Kiwi%20Group%20Capital%20invests%20%24225%20million%20into%20Kiwibank%20to%20accelerate%20growth,-01%2F08%2F2023&text=Kiwi%20Group%20Capital%20(KGC)%20today,largest%20New%20Zealand%20Downed%20bank.)

<sup>5</sup> (1 August 2023). Kiwibank owner to invest \$225m in growing bank's home loan business. Stuff. Retrieved from: <https://www.stuff.co.nz/business/132655523/kiwibank-owner-to-invest-225m-in-growing-banks-home-loan-business>

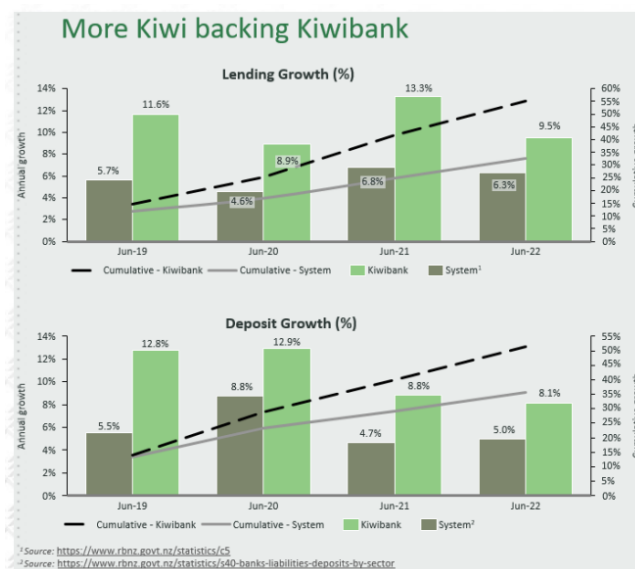


[market share]"<sup>6</sup> Reflecting that growth focus, Kiwibank has announced that "the bank grew its home lending book by \$0.6b (1.5 x the banking system) during the first half [of FY23], as Kiwibank continued to deepen its relationship with advisers and grow the expertise of its own home loan specialist team."<sup>7</sup> See also at **Figure 3** below.

**Figure 2 – Extract from NAB Investor Presentation (9 November 2022)<sup>8</sup>**



**Figure 3 – Kiwibank growth in lending and deposits over time<sup>9</sup>**



<sup>6</sup> (24 February 2023). CEO Steve Jurkovich suggests mortgage brokers could one day originate 85% of Kiwibank's home loans. Interest.co.nz. Retrieved from: <https://www.interest.co.nz/banking/120048/ceo-steve-jurkovich-suggests-mortgage-brokers-could-one-day-originate-85-kiwibanks>

<sup>7</sup> (23 February 2023). Kiwibank half-year results for the six months to 31 December 2022. Kiwibank. Retrieved from: <https://www.kiwibank.co.nz/about-us/news-and-updates/media-releases/2023-02-23-kiwibank-half-year-results/> [Emphasis added]

<sup>8</sup> (9 November 2022). Full Year Results 2022 – Investor Presentation. NAB. Retrieved from: <https://www.nab.com.au/content/dam/nab/documents/reports/corporate/2022-full-year-investor-presentation.pdf>

<sup>9</sup> (30 June 2022). Kiwibank Full Year Results. Kiwibank. Retrieved from: [https://media.kiwibank.co.nz/media/documents/Kiwibank\\_Full\\_Year\\_Results\\_2022.pdf](https://media.kiwibank.co.nz/media/documents/Kiwibank_Full_Year_Results_2022.pdf)

2.7 Previous reviews of the sector have confirmed the intensity of this competition. For example, Treasury's 2013 "Competition in the New Zealand Banking Sector" concluded that there is:<sup>10</sup>

reasonably intense competition between four major banks for market share in retail banking and mortgage markets. Kiwibank and TSB also competing aggressively to gain scale in these markets.

2.8 BNZ competes vigorously with these other banks across a range of price and non-price elements, including:

- (a) interest rates (BNZ's rates are regularly reviewed to ensure BNZ remains relevant and competitive for customers);
- (b) fees (many of BNZ's personal banking products are fee free, including BNZ's everyday transactional YouMoney account and Rapid Save savings account products carrying no monthly account fees);
- (c) service (including customer service and response times);
- (d) trust and security (including customers' perception of BNZ's ability to keep their funds secure, or protect against fraud, errors and scams);
- (e) rewards (for example, BNZ offers Flybuys and Rewards on certain home loans);
- (f) digital capabilities, technology and innovation (including tools to support customers' budgeting and saving goals);
- (g) accessibility (including accessibility of branches and ATMs, digital channels, such as mobile apps and internet banking); and
- (h) offering interoperability with other ancillary personal banking services (for example, through API development to connect with other providers, interoperability with Google Pay and Apple Pay).

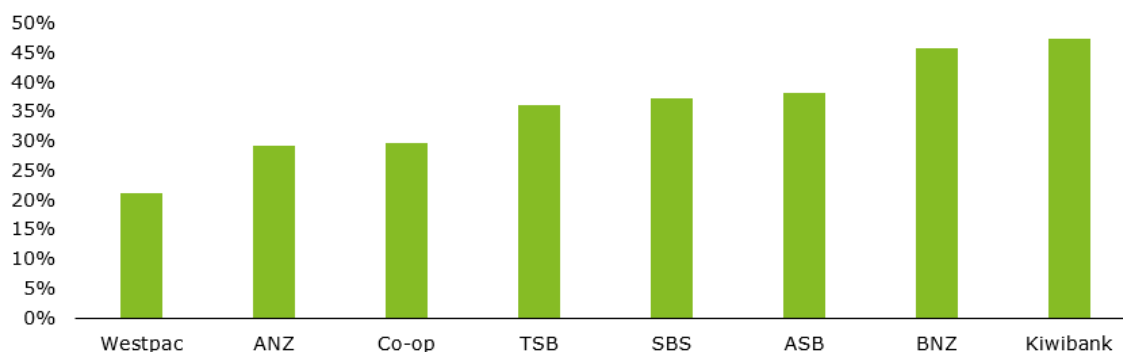
**(2 B) Smaller banks are competing vigorously, and some are growing faster than larger banks**

2.9 The extent of competition is also reflected in the expansion of smaller bank competitors. There is a range of smaller competitors that are actively competing for market share, and achieving growth – often at a faster rate than a number of the larger banks. This is illustrated in **Figure 4** and **Figure 5**.

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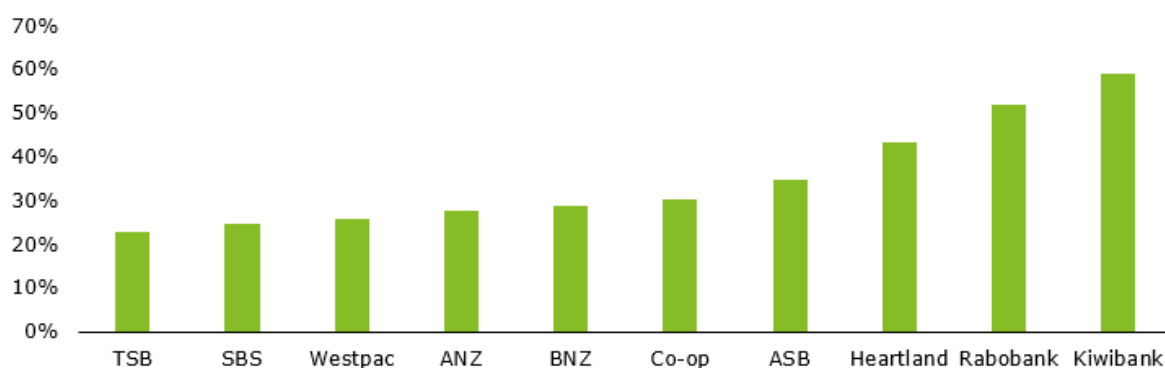
<sup>10</sup> (6 September 2013). Treasury Report: Competition in the New Zealand Banking Sector. Treasury. Retrieved from: <https://www.treasury.govt.nz/sites/default/files/2017-11/oia-20150371.pdf>

**Figure 4 – Percent change in value of residential mortgages (June 2023 versus June 2018) <sup>11</sup>**



Source: Deloitte Access Economics based on RBNZ data

**Figure 5 - Percent change in value of deposits (June 2023 versus June 2018)**



Source: : Deloitte Access Economics based on RBNZ data RBNZ. Note that this includes deposits from both personal and non-personal banking products)

2.10 Reflecting the strong growth of a number of these challenger and smaller bank competitors:

- (a) TSB, has recently announced that its "strong" growth in residential lending "outperformed the market at **1.6x system growth**."<sup>12</sup>
- (b) Cooperative Bank, announced in November 2022 that it was achieving "strong" growth "with our mortgage balances growing **above market** at 5.3%,"<sup>13</sup> and continuing that more recently in August 2023 with "8% growth in mortgages, 5% growth in customer deposits."<sup>14</sup>

<sup>11</sup> Note that Heartland has been excluded from this chart given it is understood it only substantively re-entered offering conventional residential mortgages in 2020.

<sup>12</sup> (21 June 2023). TSB year confirms it's on the right track for future growth. TSB. Retrieved from: <https://www.tsb.co.nz/about/news/tsb-year-confirms-its-right-track-future-growth> [Emphasis added]

<sup>13</sup> (30 November 2022). Business update for the six months to 30 September 2022. Cooperative Bank. Retrieved from: <https://www.co-operativebank.co.nz/about-us/news> [Emphasis added]

<sup>14</sup> (3 August 2023). Annual General Meeting and Director Election 2023 Summary of Event and Results. Cooperative Bank. Retrieved from: <https://www.co-operativebank.co.nz/about-us/news>

- (c) Heartland Bank, announced in February 2023 that it "experienced **the highest growth rate in retail deposits of all main and domestic banks in New Zealand** for the first quarter (Q1) of the financial year ending 30 June 2023."<sup>15</sup>
- (d) SBS, announced in May 2023 that "SBS Bank's total home lending for the year to 31 March, 2023 increased by approximately 12% from \$3.6 billion to \$4.0 billion – **well above the broader industry growth rate of closer to 3.5%**."<sup>16</sup>
- (e) Rabobank, reported in its 2022 results that "Rabobank Online Savings – also recorded good portfolio growth" and that "[t]hroughout last year the deposit rates offered by Rabobank Online Savings were consistently at, or near, the top of the market, and our deposit-focused advertising – which highlights that all deposits with Rabobank are used to help fund and support New Zealand agribusiness – resonated strongly with existing and prospective customers."<sup>17</sup>

## **(2 C) There is increasing competition from other non-bank providers**

- 2.11 In addition to the traditional banking competitors outlined above, there is also a range of other non-bank competitors competing with banks to provide personal banking services, including in relation to the home lending and deposit products that are the primary focus of the Market Study.
- 2.12 Those non-bank competitors include:
- (a) non-bank deposit takers (NBDTs), such as credit unions (e.g. First Credit Union), and building societies (e.g. Nelson Building Society) that offer home lending products;
  - (b) fund managers, such as Simplicity which entered with a home loan product in 2019;<sup>18</sup>
  - (c) other non-bank lenders, such as Resimac, which entered New Zealand in 2012 and has been reported as "enjoy[ing] massive home loan growth",<sup>19</sup> Pepper Money (which entered residential home loans in New Zealand in 2019/20,<sup>20</sup> was quoted as "seek[ing] to become the largest and most trusted non-bank lender in Australian and New Zealand"<sup>21</sup>, and in September 2023 announced it would be purchasing HSBC's

<sup>15</sup> (28 February 2023). Heartland announces strong half year profit and Heartland Bank considers offer of subordinated notes. Retrieved from: [https://www.heartlandgroup.info/documents/reports/results-announcements/Heartland%201H2023%20Results%20Announcement%20\[28%20Feb%202023\].pdf](https://www.heartlandgroup.info/documents/reports/results-announcements/Heartland%201H2023%20Results%20Announcement%20[28%20Feb%202023].pdf) [Emphasis added]

<sup>16</sup> (30 May 2023). SBS Bank announce full-year result. NZX. Retrieved from: <https://www.nzx.com/announcements/412228#:~:text=SBS%20Bank's%20total%20home%20lending.rate%20of%20closer%20to%203.5%25>. [Emphasis added]

<sup>17</sup> Rabobank New Zealand Banking Group 2022 results. Rabobank. Retrieved from: <https://www.rabobank.co.nz/media-releases/2023/230331-rabobank-new-zealand-banking-group-2022-results/#:~:text=Agribusiness%20banking%20specialist%20Rabobank%20continued,its%20New%20Zealand%20Banking%20Group>.

<sup>18</sup> (30 March 2020). Couple celebrates first home with Simplicity's lowest cost mortgage. Simplicity. Retrieved from: <https://simplicity.kiwi/learn/updates/simplicitys-first-home-loan-mortgage-gets-couple-into-new-home-pre-lock-out/>

<sup>19</sup> (12 March 2022). Resimac NZ enjoys massive home loan growth. NZA. Retrieved from: <https://www.mpamag.com/nz/news/general/resimac-nz-enjoys-massive-home-loan-growth/398350>

<sup>20</sup> (16 September 2019). Pepper Money launches in NZ. Pepper Money. Retrieved from: <https://www.peppermoney.com.au/about/media-releases/pepper-money-launches-in-nz>

<sup>21</sup> Pepper Money. Appendix 4E. Retrieved from: <https://announcements.asx.com.au/asxpdf/20220224/pdf/456b0p2vrvpqh1.pdfhttps://announcements.asx.com.au/asxpdf/20220224/pdf/456b0p2vrvpqh1.pdf>

New Zealand residential home loan portfolio to "see the business continue to build scale in New Zealand"),<sup>22</sup> as well as Bluestone, Basecorp Finance, Paraloan (home loans for people with physical disabilities), Kainga Ora (a Crown agency), and mortgage trusts;

- (d) investment platforms such as Squirrel<sup>23</sup> and Sharesies<sup>24</sup> that have both expanded in the last year into offering on-call savings deposit accounts, along with Squirrel having expanded in 2021 to offering peer-to-peer home lending (in collaboration with Resimac);<sup>25</sup>
- (e) fintechs, for example, Wise,<sup>26</sup> Revolut,<sup>27</sup> Dosh,<sup>28</sup> Qippay,<sup>29</sup> BlinkPay,<sup>30</sup> and Volley<sup>31</sup> have entered as providers of digital wallet and payment services;
- (f) peer-to-peer home lenders such as Zagga;<sup>32</sup>
- (g) other offerors of term deposit products, such as Liberty Financial<sup>33</sup> and Xceda Finance;<sup>34</sup>
- (h) new start-ups, for example, Debut has announced an intention to enter with "a new kind of bank being built openly with the NZ public. Debut is set to launch on mobile devices later this year";<sup>35</sup> and
- (i) increasingly it is expected that the large technology companies, such as Apple and Google, will expand from their existing focus on payment services (Apple Pay and Google Pay), to competing further in personal banking products. For example, earlier this year Apple launched a white-labelled savings account in the USA, which

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<sup>22</sup> (1 September 2023). Pepper Money announces deal to acquire HSBC NZ home loans. Mortgage Professional Australia. Retrieved from: <https://www.mpamaq.com/au/news/general/pepper-money-announces-deal-to-acquire-hsbc-nz-home-loans/458241>

<sup>23</sup> (24 January 2023). Introducing Squirrel's high-interest On-Call account: What you need to know. Squirrel. Retrieved from: <https://www.squirrel.co.nz/blogs/saving-and-investing/introducing-squirrels-high-interest-on-call-account>

<sup>24</sup> (19 April 2023). Sharesies expands offering with new no-fees savings account. RNZ. Retrieved from: <https://www.rnz.co.nz/news/business/488264/sharesies-expands-offering-with-new-no-fees-savings-account>

<sup>25</sup> (21 April 2021). Mortgage broker Squirrel offers home loans for buyers with 5 per cent deposit. Stuff. Retrieved from: <https://www.stuff.co.nz/business/124895427/mortgage-broker-squirrel-offers-home-loans-for-buyers-with-5-per-cent-deposit>

<sup>26</sup> (3 December 2018). Kia ora New Zealand! The Wise borderless account has landed. Wise. Retrieved from: <https://wise.com/au/blog/launching-borderless-new-zealand>

<sup>27</sup> (3 July 2023). Revolut launches in New Zealand. Revolut. Retrieved from: <https://www.revolut.com/en-NZ/news/revolut-launches-in-new-zealand/>

<sup>28</sup> (13 June 2023). Dosh launches Stashes to help Kiwis manage their money. Dosh. Retrieved from: <https://www.dosh.nz/blog/dosh-launches-stashes-to-help-kiwis-manage-their-money>

<sup>29</sup> (29 May 2023). Fintech to raise \$1.2m on back of deal with BNZ. Business Desk. Retrieved from: <https://businessdesk.co.nz/article/finance/fintech-to-raise-12m-on-back-of-deal-with-bnz>

<sup>30</sup> (12 January 2022). First Māori-owned fintech company finds an easier way to pay bills. BlinkPay. Retrieved from: <https://news.blinkpay.co.nz/first-m%C4%81ori-owned-financial-technology-fintech-company-finds-an-easier-way-to-pay-bills>

<sup>31</sup> (24 July 2023). BNZ And Volley Announce Agreement To Bring "request To Pay" App To New Zealand. BNZ Press Release. Scoop. Retrieved from: <https://www.scoop.co.nz/stories/BU2307/S00275/bnz-and-volley-announce-agreement-to-bring-request-to-pay-app-to-new-zealand.htm>

<sup>32</sup> <https://www.zagga.co.nz/zagga-lending/>

<sup>33</sup> (8 November 2018). Kiwis Are Seeking a Better Return on Their Savings. Liberty Financial Press Release. Retrieved from: <https://www.scoop.co.nz/stories/BU1811/S00246/kiwis-are-seeking-a-better-return-on-their-savings.htm>

<sup>34</sup> Xceda Finance. Term Deposits. Retrieved from: <https://www.xceda.co.nz/term-deposits/>

<sup>35</sup> (30 May 2023). Roadmap Update. Debut. Retrieved from: <https://www.makingdebutbank.co.nz/spotlight/roadmap-update-may-2023>

demonstrates the growing importance of digital channels and, therefore, new entrants' ability to compete without a physical footprint.<sup>36</sup>

2.13 Each of the competitors described above operates a very different business model to traditional banking competitors, and therefore they introduce their own innovations and unique competitive offerings to the New Zealand personal banking sector. Further, for the reasons outlined below, BNZ expects that the range of such competitors and the competitive constraint they impose is likely to grow further. For example, BNZ considers that in future:

- (a) "digital only" banks with a low-cost base and automated straight-through processing may enter the New Zealand personal banking sector (for example, providers such as Nano Lending Solutions or Tic:Toc in Australia); and
- (b) other fintechs, such as Revolut, will compete more widely for personal banking customers (including in relation to mortgage lending).

#### **(2 D) Regulation remains, but commercial requirements for new entry are decreasing**

2.14 As the PIP recognises, there are regulatory requirements that impose conditions for participation in the New Zealand personal banking sector. For example, New Zealand banks will be highly capitalised compared to international peers once the RBNZ's new capital settings have been fully implemented. Other regulation includes restrictions on the operation of overseas branches, the (incoming) Depositor Compensation Scheme, CCCFA and Responsible Lending Code lending and disclosure restrictions, and the requirements of the incoming Conduct of Financial Institutions regime (see further at Part [5] in relation to the relevance of the regulatory environment to the Market Study). BNZ is also subject to the Code of Banking Practice developed by the New Zealand Banking Association – Te Rangapū Pekē<sup>37</sup> and the requirements of the Banking Ombudsman Scheme.<sup>38</sup>

2.15 The policy rationale for such regulations and guidelines are well understood, including to ensure a resilient New Zealand banking system that operates in the interests of consumers, and to mitigate against the risk of bank failures seen historically in New Zealand, and more recently offshore. For example, as the RBNZ outlined at the time of the Silicon Valley Bank collapse: "We are confident that the banks we are responsible for supervising have sound liquidity and funding positions. Banks operating here are subject to different liquidity requirements than those applied to SVB, and all New Zealand banks are operating above minimum regulatory requirements."<sup>39</sup>

2.16 However, beyond those regulatory requirements (which reflect policy decisions and enforcement functions of Government and relevant regulators, including the Commission), BNZ's observation is that many of the commercial requirements for entry into the personal banking sector are decreasing. For example:

- (a) APIs, Open Banking, and the Consumer Data Right ("CDR"): As the PIP recognises, developments in Open Banking overseas combined with an appropriate Consumer Data Right have enabled digital challengers to enter and expand in the

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<sup>36</sup> See Apple, Apple Card's new high-yield Savings account is now available, offering a 4.15 percent APY (17 April 2023): <https://www.apple.com/newsroom/2023/04/apple-cards-new-high-yield-savings-account-is-now-available-offering-a-4-point15-percent-apy/>

<sup>37</sup> The Code of Banking Practice. New Zealand Banking Association – Te Rangapū Pekē. Retrieved from: <https://www.nzba.org.nz/banking-information/code-banking-practice/code-of-banking-practice/>

<sup>38</sup> Banking Ombudsman Scheme. Retrieved from: <https://bankomb.org.nz/>

<sup>39</sup> (14 March 2023). Silicon Valley Bank collapse: Why NZ banks don't face same fate. NZ Herald. Retrieved from: <https://www.nzherald.co.nz/business/silicon-valley-bank-collapse-why-nz-banks-dont-face-same-fate/GLB7ZXCOSZHH5CWK624YUKPZMI/>

banking sector.<sup>40</sup> Given the intention of Open Banking is to further reduce any impediments to entry and customer switching by allowing customers to share account and transaction data with accredited third parties (such as new entrants or alternative providers), BNZ expects that Open Banking will achieve those aims and foster further competition, innovation, consumer choice, and enhanced customer experiences in New Zealand. Demonstrating this, through BNZ's sector leading position in the development of APIs (having partnered with 18 FinTech firms as at 30 August 2023), BNZ has already seen entry of new financial services providers across various financial products, and more than 100,000 BNZ customers have already benefitted through secure, integrated account reconciliation tools, budgeting, and alternative payment options. BNZ expects that further advances in Open Banking will assist in the further development of new and innovative personal banking products and services for customers.

- (b) Branch and physical footprint of decreasing importance: The PIP questions "how important having a physical presence is (eg, branch network) to competing for personal banking services".<sup>41</sup> **While BNZ is committed to maintaining a physical branch network for its customers, and believes this presence will play an important role in delivering on its commitment to serve customers brilliantly,** BNZ's experience is that over time the branch / physical footprint is decreasing in importance to most New Zealand consumers and, therefore, as a requirement to compete. Demonstrating this:
- (i) The number of over-the-counter transactions in BNZ's branches has fallen from [ ] in FY2018 to [ ] in FY2022 (meaning in branch transactions are only [ ] the number they were in FY2018). This is shown in **Figure 6** below.
  - (ii) According to Canstar's 2021 research into New Zealanders' banking habits "just 6% of us still bank at a high street branch. While 4% use phone banking, the overwhelming majority of us use online banking: 51% prefer mobile apps, while 38% use desktop computers".<sup>42</sup>
  - (iii) In recent years during and post COVID, increasing channel options have been made available to customers (phones, video calls, online), and the customer demand for physical branches has continued to reduce.
  - (iv) The growing prominence of brokers in home lending (see paragraphs 2.31 to 2.34 below), means that increasingly home loan applications are being directed to BNZ's centralised broker team (rather than through BNZ branches).
  - (v) Even before the COVID pandemic, Heartland had commented:<sup>43</sup>

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<sup>40</sup> [132] PIP.

<sup>41</sup> [Q10.4] PIP.

<sup>42</sup> Compare Online Banking. Canstar. Retrieved from: <https://www.canstar.co.nz/online-banking/#:~:text=Online%20Banking,-When%20was%20the&text=According%20to%20Canstar's%202021%20research,while%2038%25%20use%20desktop%20computers.>

<sup>43</sup> (21 November 2017). CEO Jeff Greenslade details why Heartland Bank is moving aggressively into digital banking and data use and away from traditional branch banking. Interest.co.nz. Retrieved from: <https://www.interest.co.nz/business/91001/ceo-jeff-greenslade-details-why-heartland-bank-moving-aggressively-digital-banking>

We do not have branches in a conventional sense anymore. This has not impacted on our all-important deposit raising needs. Our customers are busy, live remotely or are unwilling to fight the traffic to go to a bank. With digital platforms, Heartland can get to every New Zealander at a lower marginal cost. For example, we regularly get up to 1,000 potential customers visiting our deposit platform each week and 600 visiting our SME [small and medium-sized enterprise] working capital platform compared to the 20 to 40 customers per week that used to visit some of our branches. Digital allows a small bank to operate with the similar scale of larger banks and to offer speed as a point of difference.

**Figure 6 – BNZ customer over the counter transactions in branch<sup>44</sup>**

[ ]

These dynamics mean that while, as noted, BNZ is committed to maintaining a physical branch network for its customers, it is likely that online, mobile, or brokers, rather than branches, will be the main customer interface for new entrants, giving them a lower cost of customer service. For online-only banks and financial service firms, there will be no need to safeguard and move cash, which will lower their cost to serve and inevitably lower conditions for entry and enhance competitiveness of the New Zealand personal banking sector.

- (c) **Technology:** Developments in technology are lowering the commercial requirements for entry and expansion in the provision of personal banking services. For example, server space and banking systems can now be rented as needed rather than purchased (for example, cloud and SaaS (software as a service) offerings), and customers can be encouraged to use technology (such as mobile apps) to "self-serve". This reduces the investment and ongoing costs needed to start and run a bank. This is demonstrated in Heartland's recent investor presentation:

Through technology, Heartland has been able to replicate the scale of big banks. This is evidenced by Heartland's CTI ratio, which improved by 53 bps on FY2022 to 42.0% on an underlying basis in FY2023 – much lower than the average CTI ratio of New Zealand's main domestic non-major banks (The Co-operative Bank, Kiwibank, SBS and TSB) and more comparable to the average CTI ratio of Australia's major banks (ANZ, CBA, NAB and Westpac).

Heartland's ambition is to achieve an underlying CTI ratio of less than 35% by FY2028 through revenue growth and ongoing automation and digitalisation initiatives. Key to achieving this ambition is increasing customer self-service functionality and improving efficiency through streamlining and digitising internal processes. This activity is intended to contribute to providing customers with frictionless service and enabling scalable growth possibilities for Heartland.

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<sup>44</sup> BNZ customer research.



In addition, increasingly technology companies are offering "bank in a box" platforms (i.e. off-the-shelf banking software). One example is nCino, which is a provider of cloud-based platforms to financial institutions, including in New Zealand:<sup>45</sup>

Continued traction in APAC has resulted in [financial institutions] such as Judo Bank, RedZed, Rabobank, Metrics, ASB, KiwiBank, and BNZ adopting nCino's platform. With partnerships with ecosystem partners such as Rich Data Co (RDC), an industry-leading artificial intelligence (AI) decisioning platform, to enhance the lending process for its customers, nCino will continue to equip financial institutions to streamline and further automate workflow, creating significant value and efficiencies.

Beyond "back-end" technology providers lowering the requirements for entry, increasingly financial technology start-ups (fintechs) and large technology firms are also entering to become competitors themselves in the personal banking sector. For example, in recent years fintechs such as Wise, Revolut and Dosh have entered as providers of digital wallet and payment services, and Apple and Google have also entered with Apple Pay and Google Pay products. As noted at paragraph 2.12(i) above, Apple has also recently launched a savings product in the USA.<sup>46</sup>

- (d) 365-day payments: A further enabler of competition in personal banking in New Zealand is the launch, in May 2023, of 365-day electronic payment processing.<sup>47</sup> This development will further enhance the offering of newer entrants (such as Sharesies and Squirrel) by enabling them to also offer payments / transfers that can take place on any day (so consumers can hold savings in their accounts, and have almost instant access to their funds). For example, in relation to its deposit account Squirrel markets that: "Funds can be moved between your main bank and Squirrel (and vice versa) within two hours, 7 days a week, as long as you make the transfer between 9:00am and 10:00pm".<sup>48</sup> The ability of customers to switch funds between accounts on any day of the week will likely also increase the extent of "multi-homing" already seen in the sector.
- (e) Comprehensive credit reporting: In its PIP, the Commission refers to "information asymmetries"<sup>49</sup> as a potential condition for entry / expansion for new competitors. BNZ's view is that in addition to impending developments in Open Banking / Consumer Data Rights (as discussed above), developments over recent years in relation to comprehensive credit reporting also provide greater access to relevant consumer data for new entrants into personal banking. For example, BNZ began contributing to comprehensive credit reporting in 2019, and considers that access to broad comprehensive credit reporting datasets enables newer and non-bank lenders to better assess credit risk, meet relevant responsible lending obligations, and reduce exposure to defaults. For example, as a non-bank lender has observed in Australia:<sup>50</sup>

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<sup>45</sup> (18 July 2023). How nCino is Driving Innovation and Growth Across Australia and New Zealand. nCino. Retrieved from: <https://www.ncino.com/news/ncino-apac-team-spotlight>

<sup>46</sup> (19 April 2023). Apple's savings pivot points to dogfight with big tech. Financial Review. Retrieved from: <https://www.afr.com/companies/financial-services/anz-ceo-says-apple-s-savings-move-points-to-dogfight-with-big-tech-20230419-p5d1oe>

<sup>47</sup> (22 May 2023). Payments Every Day Arrives In Aotearoa New Zealand. Payments NZ. Retrieved from: <https://www.scoop.co.nz/stories/BU2305/S00335/payments-every-day-arrives-in-aotearoa-new-zealand.htm>

<sup>48</sup> <https://www.squirrel.co.nz/blogs/saving-and-investing/ranking-new-zealands-best-and-worst-savings-accounts>

<sup>49</sup> PIP [191.1].

<sup>50</sup> (Oct / Nov 2018). Corporate Australia on the ground. KangaNews. Retrieved from: <https://www.kanganews.com/news/9077-corporate-australia-on-the-ground>

As a nonbank lender we have access to static data but not much seasoned data. Comprehensive credit reporting allows us more easily to factor existing repayment information into our credit model, meaning we can better price for risk. We expect this will help improve the accuracy of our estimated customer default rates by about 20 per cent.

- 2.17 As a result of the developments above, BNZ expects further new entry into the New Zealand personal banking sector in the coming years, which will build further on the new entry already observed in the sector (such as Heartland's re-entry into providing residential mortgages in 2020<sup>51</sup> and the entry of Sharesies and Squirrel into on-call deposit accounts, etc).

## **(2 E) Consumers can readily switch between providers**

- 2.18 The PIP states that the Commission's "preliminary understanding is that low switching rates may be a barrier to expansion",<sup>52</sup> and that features of some deposit accounts<sup>53</sup> and home loan products<sup>54</sup> may mean that "switching providers is complicated. For example, transaction, income, and payment card arrangements may need to be re-established."<sup>55</sup>

- 2.19 As set out at 3.15 below, customer satisfaction with New Zealand banks is generally high. This demonstrates that banks compete to retain customers through meeting their needs. Therefore, any perception of a lack of switching may simply reflect that customers are satisfied they are already receiving competitive prices, service and products. For customers who do wish to switch, BNZ's experience is that consumers can readily switch some or all of their banking between providers, and that switching between products / services (including switching between banks or switching to other non-bank competitors) is generally not complicated.

- 2.20 There are a number of factors that reflect the lack of barriers to switching:

(a) In relation to transaction accounts:

- (i) there is no financial barrier or cost to switch accounts as BNZ's current accounts are monthly and transactional fee free, with no joining or establishment fees, and no charge for holding an account that is not actively used. As a result, customers may open new accounts with BNZ, or move some part of their transactional banking to another bank, without any costs or fees.
- (ii) switching between banks is generally not complicated. BNZ takes active steps to make it easy for customers to move their everyday banking between BNZ and other banks. That includes having a dedicated team that works directly with other banks' switching teams to transfer funds and set up and cancel payments for transactional banking. The ease of switching is a feature of BNZ's marketing.

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<sup>51</sup> (28 September 2021). Heartland's digital home loans disrupt the market: The launch of Heartland Home Loans. Heartland. Retrieved from: <https://www.heartland.co.nz/about-us/news/digital-home-loans-disrupt-the-market>

<sup>52</sup> PIP [192].

<sup>53</sup> PIP [147].

<sup>54</sup> PIP [160.1].

<sup>55</sup> PIP [147].

Furthermore, as the Commission notes in the PIP,<sup>56</sup> Payments NZ offers an account and recurring payment transfer service to facilitate switching banks. As outlined on the Payments NZ website:<sup>57</sup>

The banks will identify and transfer all of your reoccurring payments. The new bank will manage the entire switching process and the account will move from old bank to the new bank along with all of the scheduled instructions.

Industry standards and protocols

The industry standards and protocols for switching banks include:

A timeframe of five business days to complete the switching process between banks.

A common switching form and authority to re-establish customer payment instructions by the new bank.

A dedicated team at each bank for processing customer account switching requests.

While the PIP states that the above "does not appear to overcome all transaction costs (for example, there is a five-day timeframe for the service, incoming payments are not redirected, and the need to change account numbers remains)", the switching data referred to at 2.21 below demonstrates that consumers do switch.

- (b) In relation to savings accounts, again BNZ's savings account (Rapid Save) is free of monthly fees. Once onboarded to BNZ, a customer can easily open a Rapid Save account and transfer funds from another bank to it. If a customer wants to transfer funds from Rapid Save to another bank account, the process is similarly simple.<sup>58</sup>
- (c) In relation to term deposits, while there are additional considerations (including permitted break notice timings that are driven by regulatory liquidity settings) and potentially costs associated with "breaking" a deposit before the fixed term ends, at the end of a term deposit if a customer wants to transfer funds from BNZ to a term deposit with another bank account, the process is again simple. In addition, even during the term of a term deposit, customers can withdraw all or part of their term deposits before the maturity date, by advising BNZ either:
  - (i) during the cooling-off period (the first seven calendar days from opening or rolling over a term deposit including the start date);
  - (ii) 31 days before they want to withdraw; or
  - (iii) if they are experiencing hardship (as determined by BNZ).
- (d) In relation to mortgage lending, there are costs involved in discharging a mortgage (for example, legal and conveyancing fees and potentially early repayment charges),<sup>59</sup> and it is necessary to provide the required information to a new lending provider. However, banks often offer "cashback" incentives for new mortgage

<sup>56</sup> PIP [148].

<sup>57</sup> <https://www.paymentsnz.co.nz/resources/switching-banks/>

<sup>58</sup> With Rapid Save, customers get one free withdrawal per bank month. For any subsequent withdrawals during that period, each withdrawal incurs a \$3 fee.

<sup>59</sup> Or potentially "clawbacks" from previous "cashbacks" if a customer switches within a certain period.

lending, (i) to entice switching, and (ii) that can be used to cover these costs. For example, in 2022, interest.co.nz reported: "Banks are offering substantial cash-back rewards to entice new home loan customers with TSB currently offering up to \$5000 and, though they may not advertise the fact, other banks are matching the promotions... Though these offers usually run for a set period, they are now an established part of the marketing toolkit for several of the larger banks."<sup>60</sup>

2.21 The evidence demonstrates that customers have the ability to switch and churn in the personal banking sector. For example:

- (a) BNZ currently has approximately [ ] individual customers, and from July 2022 to June 2023, BNZ acquired [ ] customers, while [ ] BNZ customers switched away from BNZ.
- (b) In July 2023 alone there were close to [ ] customers who newly joined BNZ, and during June 2023 over [ ] YouMoney accounts (BNZ's leading transactional account) were closed.
- (c) Switching also occurs in relation to mortgage lending. Customers refinancing home loans into BNZ represented nearly [ ] of new home loans for BNZ in the most recent year, growing from [ ] three years ago. At the same time, [ ] BNZ home loans were refinanced from BNZ to other financial institutions during the last year (July 2022 to June 2023).
- (d) BNZ's own customer survey information demonstrates the extent of switching:
  - (i) [ ] of those who opened a new savings account in the last 12 months did so with a provider that they were not previously using,<sup>61</sup> and the proportion of consumers who open a term deposit account with a new provider is similar ([ ]).<sup>62</sup>
  - (ii) switching mortgage lending can also be a driver for customers to switch to other personal banking services. BNZ research in January 2023 indicates that [ ] of customers claim to have changed their "main bank" as a result of taking out their most recent home loan.<sup>63</sup>

2.22 In addition to the above, there are a number of technological advancements that are further reducing any impediments to customers switching between different banks (or maintaining accounts at multiple banks ("multi-homing")). For example:

- (a) Open Banking, as part of the CDR reforms, is designed to increase the ease of switching by allowing customers to share account and transaction data with accredited third parties; and
- (b) RealMe has been developed by the Department of Internal Affairs ("**DIA**") to make it easier for people and organisations to confirm identity online, and can be used by consumers to open bank accounts online.

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<sup>60</sup> (12 March 2022). Banks are offering substantial mortgage 'cashback' rewards of up to \$5000, but they may be yours for the asking from other banks too, even if not advertised. Interest.co.nz. Retrieved from: <https://www.interest.co.nz/personal-finance/114792/banks-are-offering-substantial-mortgage-cashback-rewards-5000-they-may-be>

<sup>61</sup> [ ]  
<sup>62</sup> [ ]  
<sup>63</sup> [ ]

**(2 F) Consumers frequently "multi-home" with a number of providers**

2.23 Unlike other industries, where customers are locked into service contracts, banking customers are able to hold relationships with multiple banks without incurring fees. In fact, it is considered normal for customers to have multiple banks as they shop around for the best deals for their home loans, term deposits and everyday banking. Reflecting these dynamics, BNZ's experience is that:

- (a) customers very frequently "multi-home" across a number of banking providers, and are willing to move funds between existing or new accounts (either within the same provider, or between providers) to maximise interest returns on deposits or to take advantage of different product features (for example, to take advantage of particularly favourable interest rates, or special introductory rates, on savings accounts or term deposits, or to move funds between transaction and savings accounts).
- (b) banking providers are generally added rather than replaced and, unlike other services (for example, electricity or telecommunications), it is common for customers to maintain multiple providers simultaneously.

2.24 BNZ's research demonstrates the extent of "multi-homing":

- (a) [ ];<sup>64</sup>
- (b) Only [ ]% of BNZ's personal banking customers regard BNZ as their "main bank", and of those customers [ ] also had a secondary bank relationship;<sup>65</sup>
- (c) as at June 2023, [ ] BNZ personal customers have home loans with other financial institutions, which compares to the [ ] BNZ personal customers who hold home loan products with BNZ (demonstrating that customers are very willing to "split" their mortgage lending from their other banking needs); and
- (d) as at June 2023, among those BNZ customers holding a BNZ transaction account: [ ]% also had one with ANZ, [ ]% with Westpac, [ ]% with ASB and [ ]% with Kiwibank. [ ]% have one with at least one provider outside of the 5 larger banks. This reflects that multi-homing for personal banking products can go beyond simply having a different provider for each product category, with a significant proportion of consumers choosing to have multiple of the same product with different providers. This is shown in **Figure 7** to **Figure 9** below.

**Figure 7 – Percentage of consumers with a cheque/transaction account with another provider, by provider**

[ ]

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<sup>64</sup> [ ]  
<sup>65</sup> [ ]

**Figure 8 – Percentage of consumers with a savings/call account with another provider, by provider**

[ ]

**Figure 9 – Percentage of consumers with a term deposit account with another provider, by provider**

[ ]

2.25 To the extent there are some customers that have a preference for having an "all of financial relationship" with a single provider, it is notable that since 2018/19, there has been a significant reduction in the extent to which New Zealand banks own businesses offering ancillary services – with a number divesting life insurance and KiwiSaver businesses. For example:

- (a) CBA / ASB selling its Sovereign life insurance business to AIA in 2018;<sup>66</sup>
- (b) ANZ selling its OnePath life insurance business to Cigna in 2018;<sup>67</sup>
- (c) Westpac selling its life insurance business to Fidelity Live in 2022;<sup>68</sup>
- (d) NAB selling its BNZ life insurance business to Partners Life in 2022;<sup>69</sup> and
- (e) Kiwibank selling its Kiwi Wealth business to Fisher Funds in 2022.<sup>70</sup>

2.26 The Deposit Compensation Scheme, once active, is likely to also further encourage customers with large deposits to "multi-home" as it will protect deposits held at each bank up to a maximum of \$100,000.<sup>71</sup>

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<sup>66</sup> (2 July 2018). AIA completes acquisition of Sovereign Assurance Company Limited ("Sovereign"). AIA. Retrieved from: <https://www.aia.co.nz/en/about-aia/media-centre/press-releases/2018/AIA-Completes-acquisition-of-Sovereign-Assurance-Company-Limited.html>

<sup>67</sup> (30 May 2018). ANZ New Zealand announces sale of OnePath Life NZ Ltd to Cigna Corporation. Retrieved from: <https://media.anz.com/posts/2018/05/anz-new-zealand-announces-sale-of-onepath-life-nz-ltd-to-cigna-c#:~:text=ANZ%20Bank%20New%20Zealand%20Ltd,New%20Zealanders%20for%20100%20years>.

<sup>68</sup> (28 February 2022). Westpac completes sale of New Zealand life insurance business. Westpac. Retrieved from: <https://www.westpac.com.au/about-westpac/media/media-releases/2022/28-february/#:~:text=28%20February%202022,of%20the%20sale%20remain%20unchanged>.

<sup>69</sup> (30 September 2022). BNZ completes sale of BNZ Life. BNZ. Retrieved from: [https://blog.bnz.co.nz/2022/09/bnz-completes-sale-of-bnz-life#:~:text=Bank%20of%20New%20Zealand%20\(BNZ,which%20were%20received%20in%20September](https://blog.bnz.co.nz/2022/09/bnz-completes-sale-of-bnz-life#:~:text=Bank%20of%20New%20Zealand%20(BNZ,which%20were%20received%20in%20September).

<sup>70</sup> (15 August 2022). Fisher Funds acquires Kiwi Wealth business. Kiwibank. Retrieved from: <https://www.kiwibank.co.nz/about-us/news-and-updates/media-releases/fisher-funds-acquires-kiwi-wealth-business/>

<sup>71</sup> (29 June 2023). Deposit compensation scheme becomes law. Hon Grant Robertson. Retrieved from: <https://www.beehive.govt.nz/release/deposit-compensation-scheme-becomes-law>

- 2.27 These developments, as well as 365-day payments, increased use of online channels, and the decreasing use of physical branches can, therefore, be expected to further enhance the extent to which consumers are willing to "multi-home" by disaggregating various aspects of their financial services requirements.

**(2 G) Many consumers are actively engaged in choosing their banking products**

- 2.28 The PIP states that "[w]hen consumers are actively engaged with the market, including by searching for the best available offers and switching providers in response to those offers, this can play an important role in the competitive process".<sup>72</sup> BNZ agrees, and its observation is that a significant proportion of New Zealand consumers are actively engaged with their banking products, and consider their banking options. That can manifest itself in the market either through customers switching between providers (as outlined at paragraph 2.18 to 2.22 above), or through customers actively considering and changing products with an existing provider. Demonstrating this:

- (a) survey data shows that almost [ ] of customers have reviewed their savings products and goals in the last 3 months;<sup>73</sup> and
- (b) BNZ's data shows that over [ ] of all new home lending customers have had a pricing conversation before finalising the rate with BNZ<sup>74</sup> (which likely reflects that home loans are high value items, so consumers see the benefit in investing time to obtain the best offers); and
- (c) customers are attuned to the benefits of different types of products and will switch products accordingly in order to take advantage of higher rates. For example, customers switch funds between demand deposit, savings, and term deposit accounts in response to changes in the interest rate environment. In particular, in a rising rate environment, more term deposits are likely to be opened. For example, in the 12 months to 31 March 2023, [ ]% more term deposit accounts were opened with BNZ compared to the previous 12 month period, which was driven by the increasing rate environment.

**(2 H) There are numerous tools to assist consumers to engage in price discovery and switching, including online tools (such as calculators and comparison websites), and assistance from providers' teams and brokers**

- 2.29 Consumers are also able to use online tools, such as providers' websites, online calculators and third-party comparison websites to engage in price discovery, compare interest rates, services, features or returns available on both deposit and home lending products. For example:

- (a) Generally, banks and other providers keep their own websites up to date with their product features, interest rates, conditions, and fees for customers to review and compare offerings themselves. Reflecting this:
  - (i) BNZ has a range of online tools available for customers, and prospective customers, to enable them to compare products and understand BNZ's offering:
    - (aa) [Switch your home loan to BNZ – BNZ](#)

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<sup>72</sup> PIP [198].

<sup>73</sup> [ ]

<sup>74</sup> BNZ customer research.

- (bb) [Offset mortgage calculator – What could I save with a TotalMoney home loan? – BNZ](#)
  - (cc) [Home loan types – BNZ](#)
  - (dd) [Compare BNZ home loan rates – BNZ](#)
  - (ee) [Manage your home loan – BNZ](#)
  - (ff) [Home loan calculators – BNZ](#)
- (ii) Other personal banking providers also offer such online tools, and actively market tools such as "refinancing calculators" to assist consumers to understand their value proposition and compare to alternative providers. See, for example, Heartland's recent online advertising.

**Figure 10 – Example of Heartland advertising its "refinancing calculator"<sup>75</sup>**



- (b) As noted above, there are a number of comparison websites that not only enable customers to compare offerings, but also provide channels for diverse and smaller providers to reach consumers. These include:
- (i) <https://www.interest.co.nz/>
  - (ii) <https://sorted.org.nz/>
  - (iii) <https://www.canstar.co.nz/>
  - (iv) <https://mortgages.co.nz/mortgage-rates>

The contestability of the market is illustrated by the number of products listed on such comparison sites. This is shown in relation to home loans in **Figure 11** below.

<sup>75</sup> Heartland Bank advertising, August 2023.



**Figure 11 – Screenshot of Mortgages.co.nz lending rate comparison website<sup>76</sup>**

Lender	Floating	1 Year	2 Years	3 Years	4 Years	5 Years
ANZ	8.64	7.25	6.99	6.69	7.09	7.09
restmac	8.84	8.79	8.29	7.89	7.69	7.59
W	8.64	7.25	6.89	6.69	6.49	6.25
peppermoney	8.29					
bnz	8.69	7.19	6.85	6.69	6.59	6.49
Heartland	8.74	7.25	6.89	5.99	6.59	6.69
Kiwi Bank	8.50	6.99	6.89	6.69	6.49	6.49
The Cooperative Bank	8.40	7.09	6.79	6.49	6.49	6.49
TSB	8.64	7.19	6.89	6.69	6.59	6.49
AVANTI FINANCE	9.15					
Liberty	8.59	8.69	8.79	8.94		
ASB	8.64	7.45	7.05	6.85	6.75	6.69
HEARTLAND	7.75	6.59	6.45	6.15		

- (c) Switching is also supported by banks' and other providers' frontline staff. BNZ has invested in its frontline teams to ensure they are well equipped to provide the expertise to support customers in making the right choice and make switching simple.
- (d) In relation to home loans, brokers also assist consumers to switch (see further at (2 l) below).

2.30 Accordingly, BNZ considers that consumers are better informed than ever about the competitive options and have access to a range of tools to assist price discovery, switching decisions, or to negotiate with current providers. BNZ's experience is that consumers can, and do, frequently use such tools to compare offerings and "shop around".

<sup>76</sup> <https://mortgages.co.nz/mortgage-rates/>

## (2 I) Brokers drive competition, and are growing in prominence

2.31 In addition to customers' ability to directly compare offerings, mortgage brokers are also an important facilitator of competition in relation to home lending. Mortgage brokers provide a comparative service that assists consumers to shop around for the best mortgage deal, and therefore further enhance competition between home loan lenders by:

- (a) providing consumers with additional choices of lenders than they might have otherwise identified; and
- (b) assisting consumers' understanding of the options available – including price, credit settings, and service quality.

2.32 It is notable that the proportion of mortgages facilitated by mortgage brokers has significantly increased in New Zealand. Brokers are now estimated to account for 50%<sup>77</sup> of all new residential loans in New Zealand. For BNZ specifically, brokers contribute approximately [ ] of BNZ's home loan drawdown lending volumes, and brokers play a prominent role in BNZ's lending to both existing (refixing) and new customers. This is shown in **Figure 12** below ([ ]).

**Figure 12 – BNZ loan value and rates by channel**<sup>78</sup>

[ ]

2.33 This growing prominence of brokers has further enhanced competition in the provision of mortgage lending by providing an additional channel for providers to distribute lending and ensuring home loan providers are highly reactive to competitive pricing, products and services from other providers. Demonstrating this:

- (a) Brands focused on growth, smaller competitors, and newer entrants often use the broker channel as a way to grow their home lending businesses in New Zealand. For example:
  - (i) **BNZ** has previously said, in the context of its focus on growth in home lending, that "its presence in the broker market continues to deliver expanded distribution reach."<sup>79</sup>
  - (ii) **Kiwibank** has announced that its recent home loan growth is, in part, attributable to "continu[ing] to deepen its relationship with advisers."<sup>80</sup>
  - (iii) **Pepper Money**, which began offering an "end-to-end mortgage offering" in New Zealand in 2019,<sup>81</sup> and has stated that "Pepper will lend primarily through mortgage advisers in New Zealand".<sup>82</sup>

<sup>77</sup> (14 September 2022). How advisers can boost market share. NZA. Retrieved from: <https://www.mpamag.com/nz/news/general/how-advisers-can-boost-market-share/420310>

<sup>78</sup> [ ]

<sup>79</sup> (2 November 2017). BNZ focuses on creating a high achieving New Zealand – FY17 Results. BNZ. Retrieved from: <https://blog.bnz.co.nz/2017/11/bnz-focuses-on-creating-a-high-achieving-new-zealand>

<sup>80</sup> (23 February 2023). Kiwibank half-year results for the six months to 31 December 2022. Kiwibank. Retrieved from: <https://www.kiwibank.co.nz/about-us/news-and-updates/media-releases/2023-02-23-kiwibank-half-year-results/> [Emphasis added]

<sup>81</sup> (1 September 2023). Pepper Money announces deal to acquire HSBC NZ home loans. Mortgage Professional Australia. Retrieved from: <https://www.mpamag.com/au/news/general/pepper-money-announces-deal-to-acquire-hsbc-nz-home-loans/458241>

<sup>82</sup> (16 September 2019). Pepper Money launches in NZ. Pepper Money. Retrieved from: <https://www.peppermoney.com.au/about/media-releases/pepper-money-launches-in-nz>

- (iv) In 2022 **Heartland Bank** announced that it would be using the broker channel to offer "white label" home loans via the largest mortgage broker group in New Zealand, New Zealand Financial Services Group ("**NZFSG**").<sup>83</sup>
  - (v) **TSB** has previously referred to "an increased use of brokers" as driving growth in its home lending business.<sup>84</sup>
  - (vi) Referring to growth across its broader Australasian business, **Resimac** has noted that growth in its mortgage lending "is a testament to the longstanding relationships we have with our broker partners, who have been instrumental in helping to drive demand for our diverse product range."<sup>85</sup>
- (b) The impact of the brokers' role in the New Zealand mortgage lending sector is illustrated in **Figure 13** below. BNZ exited the broker channel in early 2000 before re-entering in 2015, [ ].

**Figure 13 – [ ]<sup>86</sup>**

[ ]

2.34 BNZ expects the role of brokers in the New Zealand mortgage lending sector will only increase further. Accordingly, the role that brokers play in driving competition will also further increase.

**(2 J) Bundling is not a material feature of the sector, nor an impediment to switching**

2.35 The PIP says the Commission is considering "the extent to which services may be tied or bundled",<sup>87</sup> and whether that might act as an impediment to switching – including the Commission considering the extent to which providers are "tying a mortgage account to a transaction account where salary and wages must be deposited."<sup>88</sup>

2.36 Based on its observations and analysis of product offerings, BNZ does not consider that bundling is a material feature in the market, or a material impediment to customer switching. Reflecting this, BNZ does not:

- (a) offer any "bundled" personal banking products – they are all stand-alone products (namely, no on-sale products are available on better terms when purchased by customers in conjunction with other products);<sup>89</sup> or

<sup>83</sup> (28 February 2022). Heartland Bank enters broker market. Good Returns. Retrieved from: [https://www.goodreturns.co.nz/article/976519960/heartland-bank-enters-broker-market.html#:~:text=Heartland%20Bank%20has%20begun%20a,Financial%20Services%20Group%20\(NZFSG\).](https://www.goodreturns.co.nz/article/976519960/heartland-bank-enters-broker-market.html#:~:text=Heartland%20Bank%20has%20begun%20a,Financial%20Services%20Group%20(NZFSG).)

<sup>84</sup> (4 June 2016). TSB Bank delivers big jump in profit. NZ Herald. Retrieved from: <https://www.nzherald.co.nz/business/tsb-bank-delivers-big-jump-in-profit/B7PCSYRAWTCYKKDMJVBRAZZ6LA/>

<sup>85</sup> (29 August 2022). Resimac portfolio surpasses \$15bn after record year. Mortgage Business. Retrieved from: <https://www.mortgagebusiness.com.au/lender/17133-resimac-portfolio-surpasses-15bn-after-record-year>

<sup>86</sup> [ ]

<sup>87</sup> PIP [197].

<sup>88</sup> PIP [200].

<sup>89</sup> [ ]. BNZ has two products in the home loan / deposit account space (one of which is off-sale) with features that are combined with another product to provide an effective outcome for customers. Namely:

- **TotalMoney Home Loan:** When taken up in conjunction with a TotalMoney transaction account, the loan will subtract the balance on the transaction account from the balance of the home loan, so customers pay interest only on the remaining amount. A TotalMoney Home Loan which is not linked to a TotalMoney transaction account does not benefit from the offset feature of the product.

- (b) require salaries or wages to be deposited into a BNZ transactional account when a customer takes up a home loan.

2.37 Accordingly, to the extent customers purchase more than one product / service from the same provider, BNZ's observation is that is a result of customer preference (reflecting that their requirements are being met by that provider), and is not a result of providers seeking to impose tying or bundling to impede customer switching.

- 
- Private Bank accounts (off-sale): These are off-sale packages that were previously offered to Private Bank customers, including a transaction account, line of credit and a credit card. The line of credit could either be secured or unsecured. One fee was charged to cover all accounts in the package.

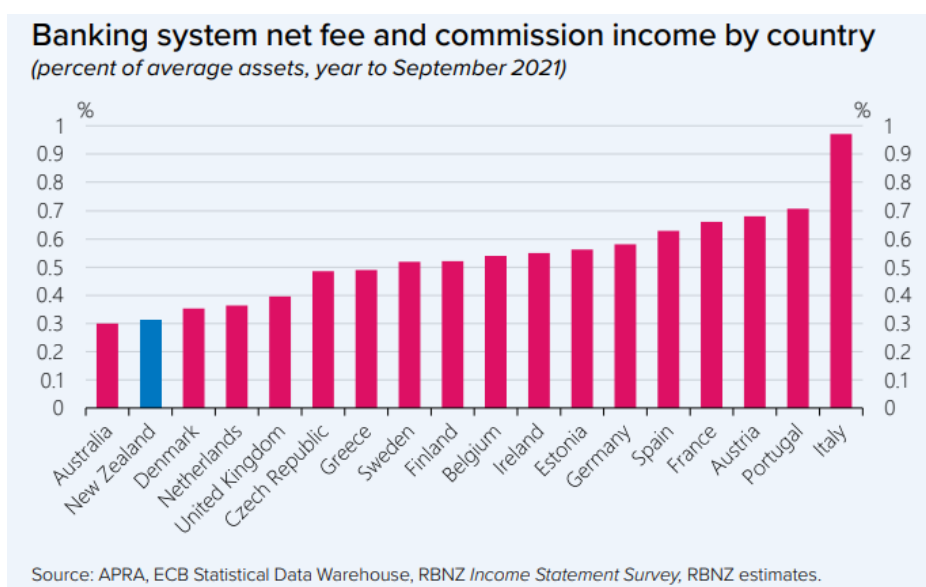
### **Part [3]: The key indicators demonstrate that the New Zealand personal banking sector is delivering competitive outcomes for consumers**

- 3.1 The PIP states that the Commerce and Consumer Affairs Minister initiated the Market Study into personal banking on the basis there are "indications of possible competition problems in the market (such as high prices, low levels of innovation, low levels of service and/or a lack of dynamism between market participants)".<sup>90</sup>
- 3.2 As a competitor in the sector, that is not BNZ's experience. As set out in Part [2], BNZ considers the sector is highly competitive, and that there is a range of measures that show that the sector is delivering competitive outcomes.

#### **(3 A) Bank fees are very low, and are decreasing further**

- 3.3 Bank fees in New Zealand are very low. BNZ (and many other banks in New Zealand) do not charge fees on personal transaction accounts. RBNZ has noted that New Zealand banks' fee income is relatively low by global standards (and similar to that seen in Australia). This is shown in **Figure 14** below.

**Figure 14 – Banking system net fee and commission income by country<sup>91</sup>**

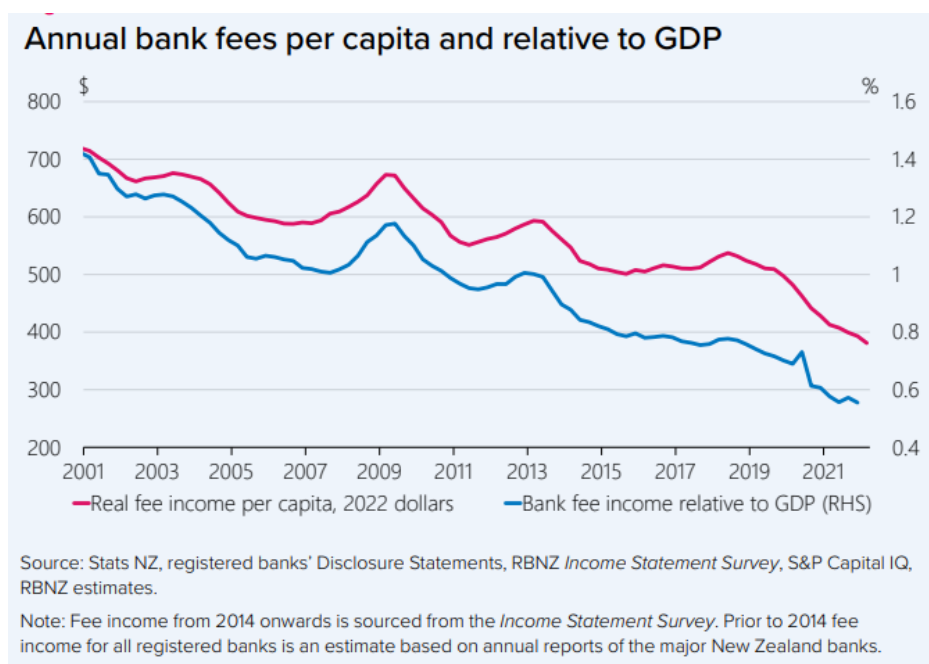


- 3.4 In addition, over the last two decades bank fees in New Zealand have continually decreased – both on a per capita basis and relative to GDP. RBNZ has observed that, when adjusted for inflation, per capita bank fees have decreased by approximately 40% since 2001. This is shown in **Figure 15** below.

<sup>90</sup> PIP [18].

<sup>91</sup> (May 2022). Financial Stability Report. RBNZ. Retrieved from: <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/publications/financial-stability-reports/2022/fsr-may-22.pdf>

***Figure 15 – Annual bank fees per capita and relative to GDP<sup>92</sup>***



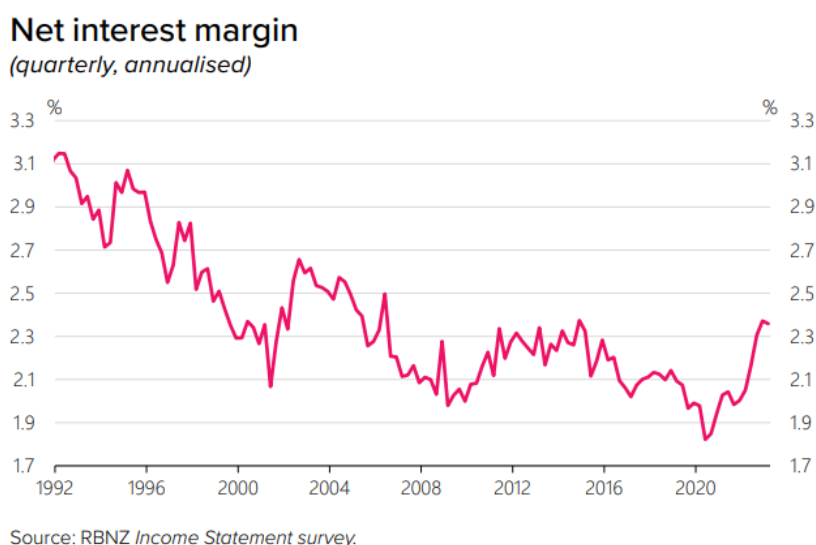
3.5 In BNZ's view, low (and decreasing) bank fees demonstrates not only the role of regulations, such as the CCCFA (that limit fees on consumer lending), but also that consumers are benefitting from competition in the personal banking sector.

**(3 B) Banks' interest margins have decreased over time**

3.6 Competition in the New Zealand banking sector is also evidenced by the long-term decline in net interest margins ("NIMs").<sup>93</sup> This is shown in **Figure 16** below.

<sup>92</sup> (May 2022). Financial Stability Report. RBNZ. Retrieved from: <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/publications/financial-stability-reports/2022/fsr-may-22.pdf>

<sup>93</sup> Which, as the Commission notes in its PIP ([C12]), "is the difference between what banks earn on their lending assets and their borrowing costs (net interest income, NII), divided by their interest-earning assets to account for scale".

**Figure 16 – New Zealand net interest margins<sup>94</sup>**

3.7 While there has been a small uptick in NIMs since 2020, several factors (unrelated to competition) have contributed to that. These include:<sup>95</sup>

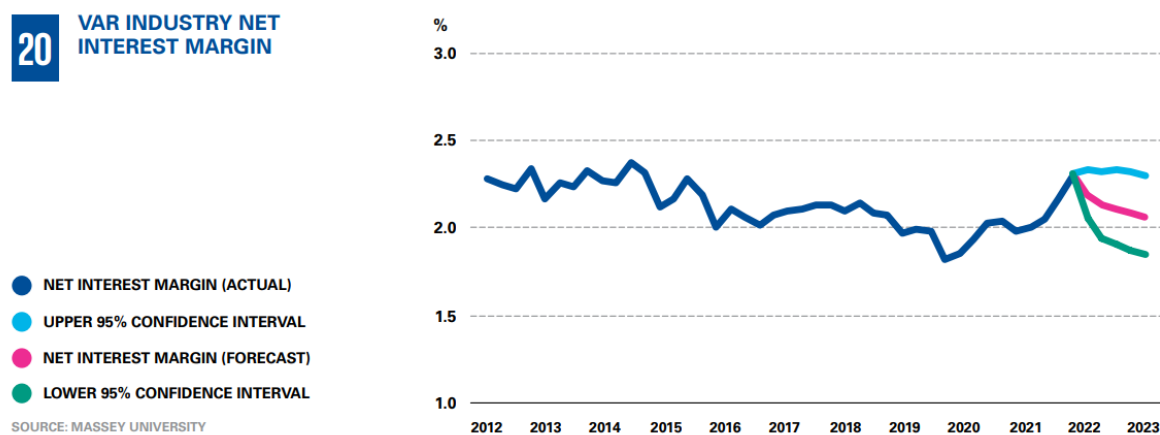
- (a) as the RBNZ has noted:
- (i) "deposit growth has been strong, supported by the large monetary and fiscal stimulus introduced at the start of the pandemic";
  - (ii) "lending growth has also been subdued in recent times... reduc[ing] the need for banks to use more expensive wholesale funding and to compete for further deposit funding";
  - (iii) there have been "lags in monetary policy transmission that mean higher interest rates are taking longer to pass through to banks' funding costs" meaning that NIMs are temporarily higher than they would otherwise be while the economy transitions to higher interest rates; and
- (b) when rates are rising (or are expected to rise), as they have been recently, depositors often hold-off commencing new term deposits in anticipation of "locking-in" a higher rate, creating a short-term increase in NIMs (with that impact now closing).

<sup>94</sup> (May 2023). Financial Stability Report. RBNZ. Retrieved from: <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/publications/financial-stability-reports/2023/may-2023/fsr-may-23.pdf>

<sup>95</sup> (May 2023). Financial Stability Report. RBNZ. Retrieved from: <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/publications/financial-stability-reports/2023/may-2023/fsr-may-23.pdf>

3.8 Massey University is forecasting NIMs to decrease again. This is shown in **Figure 17** below.

**Figure 17 – Forecast New Zealand net interest margins<sup>96</sup>**



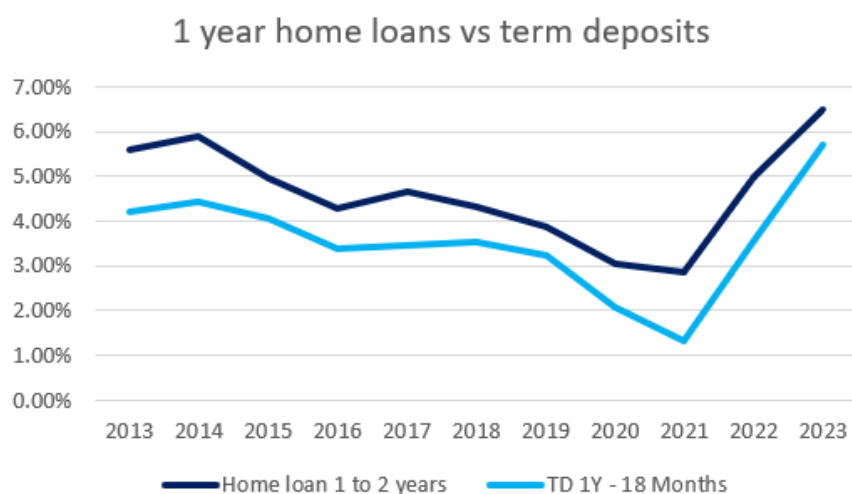
3.9 Reinforcing this point is that while BNZ's 1 to 3 year home loan rates have increased since October 2022, its term deposit rates have increased at either the same rate or more quickly in some instances – demonstrating<sup>97</sup> that there is no 'lag' between movements in home loan and term deposit rates in this period. This is shown in **Figure 18** to **Figure 20** below.

<sup>96</sup> Massey University. Published in: KPMG Financial Institutions Performance Survey. Banks – Review of 2022. Retrieved from: <https://assets.kpmg.com/content/dam/kpmg/nz/pdf/2023/03/2022-banks-fips.pdf>

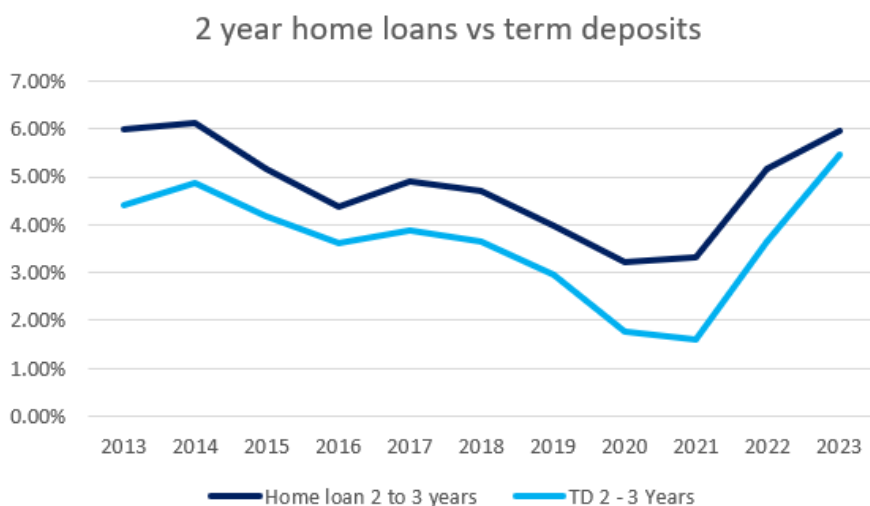
<sup>97</sup> In response to the commentary cited in the PIP (PIP [157]).



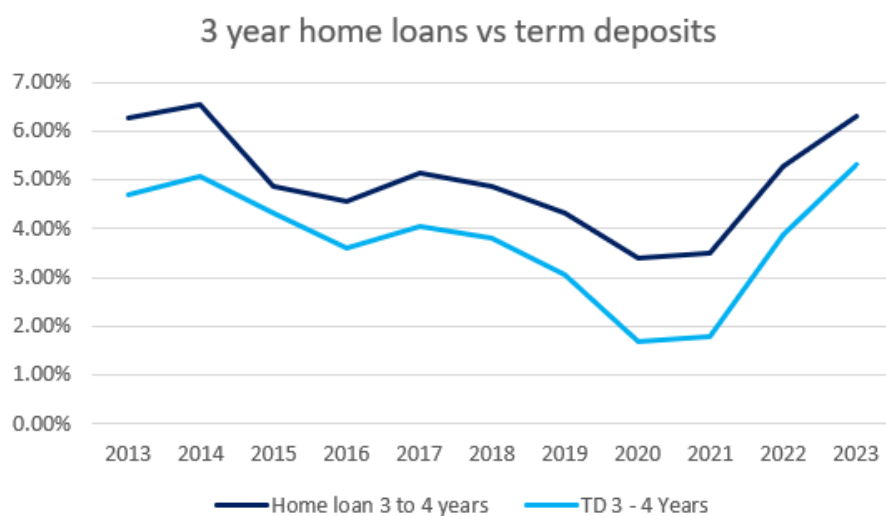
**Figure 18 – BNZ 1 year home loans vs. term deposit rates (2013 to 2023)**



**Figure 19 – BNZ 2 year home loans vs. term deposit rates (2013 to 2023)**



**Figure 20 – BNZ 3 year home loans vs. term deposit rates (2013 to 2023)**



- 3.10 It is not just sector wide that interest margins are decreasing. For the last twelve months, BNZ's margins on home loans have been substantially lower than historically, and at times, [ ]. **Figure 21** below shows BNZ's home lending margins from September 2021 to July 2023.

**Figure 21 – BNZ home lending margins (September 2021 to July 2023)**<sup>98</sup>

[ ]

**(3 C) Sector concentration is decreasing**

- 3.11 While it has been observed that "[m]arket concentration alone does not provide much guidance to the competitiveness of a market",<sup>99</sup> concentration within the banking industry has been decreasing over the last two decades. For example:
- (a) in November 2021, RBNZ noted that "measures of concentration across key bank lending and deposit markets point to gradually decreasing levels of market concentration" and that "domestic-owned banks have grown their market shares in the residential mortgage lending and household deposit markets";<sup>100</sup> and
  - (b) for Q1 of FY2023, RBNZ reported that the domestic-owned Heartland Bank experienced the highest growth rate in retail deposits of all main and domestic banks in New Zealand.<sup>101</sup>
- 3.12 This trend is reflected in **Figure 22** below, which shows a gradually decreasing Herfindahl-Hirschman Index ("HHI") since ANZ's acquisition of National Bank in 2003.

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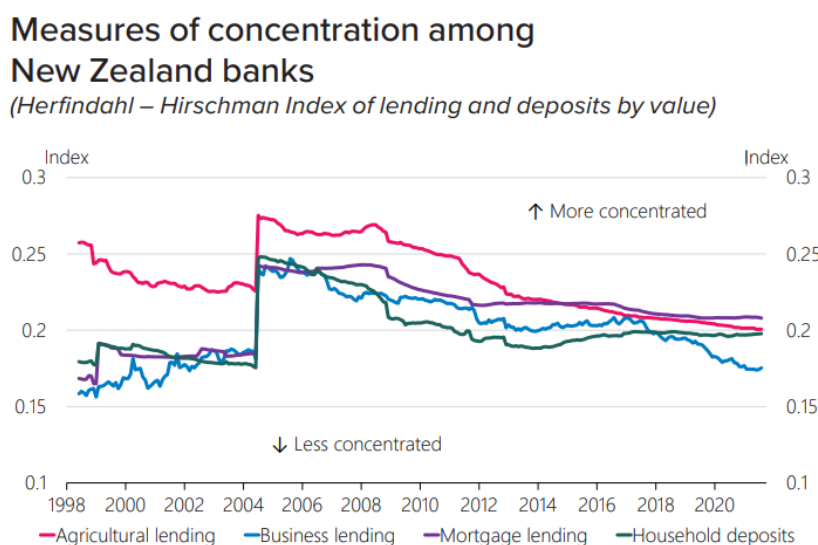
<sup>98</sup> [ ]

<sup>99</sup> Commonwealth Government, Productivity Commission Inquiry Report No 56: Economic Structure and Performance of the Australian Retail Industry (4 November 2011), page 38.

<sup>100</sup> (November 2021). Financial Stability Report. RBNZ. Retrieved from: <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/publications/financial-stability-reports/2021/fsr-nov-21.pdf>

<sup>101</sup> (2 March 2023). Heartland Group announces half-year profit of \$48.7 million. NZA. Retrieved from: <https://www.mpamag.com/nz/news/general/heartland-group-announces-half-year-profit-of-487-million/437939>

**Figure 22 – Measures of concentration among New Zealand banks (HHI)<sup>102</sup>**



3.13 The above puts the HHI for mortgage lending and household deposits at or around 2,000,<sup>103</sup> and the ACCC states in its merger guidelines that it will "generally be less likely to identify horizontal competition concerns" (in assessing a merger) when the post-merger HHI is less than 2,000.<sup>104</sup> Therefore, while concentration appears moderate, it is not at a level that should give rise to any presumption of competition concerns.

3.14 Further, BNZ expects that this trend towards less concentration will continue as a result of the ongoing growth of smaller banks, along with the entry and expansion of alternative or disruptive non-bank business models (as discussed at paragraph 2.12 above), including brokers, fintechs and other non-bank providers.

**(3 D) Customer satisfaction levels are generally high**

3.15 The evidence indicates that customer satisfaction levels with New Zealand banks are generally high and, therefore, that competition is delivering competitive products and services for consumers. This is shown in **Figure 23** below.

**Figure 23 – Overall consumer satisfaction by selected providers<sup>105</sup>**

[ ]

<sup>102</sup> (November 2021). Financial Stability Report. RBNZ. Retrieved from: <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/publications/financial-stability-reports/2021/fsr-nov-21.pdf>

<sup>103</sup> The HHI index can be expressed per 10,000 "points", therefore an index of 0.2 is the same as 2,000 points. See: Glossary: Herfindahl-Hirschman Index (HHI). European Commission. Retrieved from: [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Herfindahl\\_Hirschman\\_Index\\_\(HHI\)](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Herfindahl_Hirschman_Index_(HHI))

<sup>104</sup> 7.14. ACCC. Merger Guidelines. November 2008.

<sup>105</sup> [ ]

3.16 These high levels of customers satisfaction also extend to the specific personal banking products / services that the Commission is focusing on. This is shown in **Figure 24** below.

**Figure 24 – Overall consumer satisfaction for each of transaction accounts, savings accounts, and home loans**<sup>106</sup>

[ ]

**(3 E) The sector has strong levels of innovation - delivering products and services that meet consumer preferences**

3.17 The PIP states that "[i]nnovation can be a useful indicator of how well dynamic competition is working in a market."<sup>107</sup> BNZ agrees that innovation is an indicator of competitive dynamics.

3.18 However, contrary to the suggestion in the PIP, BNZ does not consider there are "indicators of subdued innovation"<sup>108</sup> within the New Zealand personal banking sector.

3.19 Rather, BNZ considers that the New Zealand banking sector is highly innovative, reflecting that competition in the New Zealand personal banking sector has occurred both on the basis of price and that New Zealand banks are also constantly innovating to better attract, retain and serve customers.

3.20 It is also important to recognise that "innovation" occurs across a number of fronts (not just a narrow conception of "technology"), and that innovation can be iterative (rather than a new product launch) but nonetheless require significant financial, resource, and technology investment (for example, BNZ submits that a comparison of the functionality of mobile banking apps today to those that were in the market five years ago would show that the enhancements have been significant). The enclosed Deloitte Access Economics report also outlines that the concept of innovation is broad, and can be defined as the "*successful development and application of new knowledge*".

3.21 BNZ considers that innovation in the New Zealand personal banking sector occurs across at least the following fronts to achieve an attractive "price, quality, service" combination for customers:

(a) **Product design:** delivering banking products that have features and capabilities that resonate with consumers (including sustainable finance offerings), and are simple and accessible. For example, BNZ has developed a number of new products and features in recent years (see **Figure 25** below), and has significantly simplified its products to best help consumers choose the right products for their requirements.

(b) **Pricing:** innovation on pricing is a key way in which personal banking providers compete to lower customers' costs in using a particular provider. For example, BNZ's partnerships with mobile providers to offer free mobile data access to BNZ's banking app, BNZ removing its \$5 account-keeping fee on its YouMoney transaction accounts,<sup>109</sup> and BNZ being the first bank in New Zealand to remove international

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<sup>106</sup> [ ]

<sup>107</sup> PIP [213].

<sup>108</sup> PIP [216].

<sup>109</sup> (12 July 2020). BNZ | Canstar's Bank of the Year Everyday Banking 2020. Canstar. Retrieved from: <https://www.canstar.co.nz/transaction-accounts/bnz-canstars-bank-of-the-year-everyday-banking-2020/>

payment fees and overseas bank charges for transactions made online<sup>110</sup> (see **Figure 25** below).

- (c) Communications, customer support, and accessibility: innovation in communications to customers, accessibility (for example, through branches, contact centres, online and mobile), and support for customers in relation to enquiries and service provision.
- (d) Digital capability: enhancing product functionality and customers' awareness of their own finances with financial management tools such as budgeting, spend tracking, savings goals, and bill prediction.
- (e) Payments: innovation in payment technologies that give customers more flexible and convenient payment options.
- (f) Safety and security: investing in cyber security, biometric authentication, fraud and scams protection technology and expert teams (which is becoming increasingly important given the increasing sophistication of bad actors targeting customers and banks).

3.22 Across these fronts, BNZ considers that the New Zealand banking sector has seen a number of notable innovations over the last five years that have transformed the way financial services are delivered and experienced by New Zealand consumers. These innovations reflect both the competitive nature of the sector and the ongoing efforts of the banking sector to adapt to changing consumer preferences, technological advancements, and regulatory changes, and to enhance the overall banking experience for customers in light of that competition. BNZ notes that the need to preserve the data privacy for banking customers and their personal information is an important consideration in relevant innovations.

3.23 Some of the key innovations in the New Zealand banking sector in recent years are outlined in **Figure 25** below.

**Figure 25 – Key innovations in the New Zealand banking sector in recent years**

- **API development**: Banks compete in API development to enable Open Banking services and new product offerings, and that competition is expected to further intensify. For example, BNZ has been leading industry-driven API development since 2018, providing the technical structural support in the form of APIs for third parties to connect. By facilitating digital data sharing, banks and other third parties can develop new and innovative data enabled products, services, payments, and partnerships. Already over 100,000 BNZ customers are benefiting from Open Banking, through secure, integrated account reconciliation tools, budgeting, and alternative payment options, supported with customer-controlled data sharing consent management. As at 30 August 2023, BNZ has partnered on Open Banking with 18 FinTech firms. For example:
  - The October 2021 announcement of BNZ's API agreement with Māori owned and managed fintech start-up BlinkPay to enable BlinkPay to provide innovative online payment services to New Zealand consumers and companies.<sup>111</sup> More recently, in September 2023, BNZ and

<sup>110</sup> (14 March 2023). BNZ to remove international payment fees, saving customers \$6m per year. BNZ. Retrieved from: <https://blog.bnz.co.nz/2023/03/bnz-to-remove-international-payment-fees-saving-customers-6m-per-year>

<sup>111</sup> (5 October 2021). BlinkPay Signs Industry API Agreement With BNZ. Press Release: BlinkPay. Scoop. Retrieved from: <https://www.scoop.co.nz/stories/BU2110/S00101/blinkpay-signs-industry-api-agreement-with-bnz.htm>

BlinkPay have reached a further API agreement to enable BlinkPay to offer "Blink PayNow",<sup>112</sup> which is a new payment solution for online shopping that eliminates the need to use a credit or debit card.

- The July 2023 announcement of BNZ's API agreement with New Zealand fintech Volley to introduce an innovative "request to pay" service to New Zealand to enable customers to split bills / share payments (for example, splitting bills at a restaurant). As Volley said: "We're incredibly proud to be working with BNZ, and this agreement allows us to bring the power of open banking to individuals to make peer-to-peer payments for the first time in New Zealand. We're grateful for the support from the BNZ team and look forward to launching Volley soon."<sup>113</sup>

BNZ sees that API development and Open Banking provides exciting new opportunities for financial innovation and enhanced customer experiences (however, it is necessary to implement high security standards, as BNZ has done, to appropriately mitigate the risks of fraud, cyber security, theft, and loss of privacy).

- **Innovation in product offerings and fees:** Banks compete to offer consumers new product offerings that better meet their needs and enhance product accessibility, and to innovate on pricing / fees to best retain and attract consumers to their products and services. Such innovation can occur across a number of fronts, and the following are just a few examples of recent BNZ innovations in this space:
  - **Product and fee simplification:** BNZ has simplified its product offering for customers by streamlining and reducing the number of products it offers, whilst also simplifying its fees (including removing early repayment fees from its personal loans).
  - **International payments for personal customers:** In March 2023, BNZ became the first bank in New Zealand to remove international payment fees and overseas bank charges for transactions made online.<sup>114</sup>
  - **Free mobile data to access banking services:** In a New Zealand first, in December 2021, BNZ partnered with Vodafone (now One NZ) to bring free mobile banking to all its customers on the Vodafone network. This meant customers could access the BNZ app, BNZ online banking or the BNZ website any time with no mobile data charge being incurred (both lowering customer costs and enhancing accessibility).<sup>115</sup> BNZ has since partnered with Spark (including Skinny mobile)<sup>116</sup> and 2degrees<sup>117</sup> so that BNZ customers on those networks are also able to access BNZ mobile banking free of charge.
  - **Shared ownership schemes:** In 2019 BNZ launched a shared ownership scheme ("the first of its kind in New Zealand") to enable home buyers to partner with finance companies to get on the property ladder.<sup>118</sup> In 2021 BNZ was also a founding bank partner to the Kāinga Ora shared ownership scheme to help first home buyers purchase properties in conjunction with Kāinga Ora.<sup>119</sup>

<sup>112</sup> (6 September 2023). No card? No problem: New Zealanders can now shop online without a credit or debit card. BNZ. Retrieved from: <https://blog.bnz.co.nz/2023/09/no-card-no-problem-new-zealanders-can-now-shop-online-without-a-credit-or-debit-card>

<sup>113</sup> (24 July 2023). BNZ and Volley announce agreement to bring "request to pay" app to New Zealand. BNZ. Retrieved from: <https://blog.bnz.co.nz/2023/07/bnz-and-volley-announce-agreement-to-bring-request-to-pay-app-to-new-zealand>

<sup>114</sup> (14 March 2023). BNZ to remove international payment fees, saving customers \$6m per year. BNZ. Retrieved from: <https://blog.bnz.co.nz/2023/03/bnz-to-remove-international-payment-fees-saving-customers-6m-per-year>

<sup>115</sup> (17 December 2021). No data, no worries: Free mobile banking for Vodafone and BNZ customers. BNZ. Retrieved from: <https://blog.bnz.co.nz/2021/12/no-data-no-worries-free-mobile-banking-for-vodafone-and-bnz-customers>

<sup>116</sup> (15 December 2022). Spark and BNZ offer free mobile banking to customers. Spark. Retrieved from: <https://www.sparknz.co.nz/news/bnz-spark-mobile-banking/>

<sup>117</sup> (14 April 2022). No mobile data worries for 2degrees and BNZ customers. BNZ. Retrieved from: <https://blog.bnz.co.nz/2022/04/no-mobile-data-worries-for-2degrees-and-bnz-customers#:~:text=The%20partnership%20between%20the%20two,mobile%20network%20in%20New%20Zealand.>

<sup>118</sup> (10 December 2018). BNZ starts shared ownership scheme. Good Returns. Retrieved from: <https://www.goodreturns.co.nz/article/976514072/bnz-starts-shared-ownership-scheme.html>

<sup>119</sup> (5 October 2021). BNZ supports Kāinga Ora shared ownership scheme to help first home buyers. BNZ. Retrieved from: <https://blog.bnz.co.nz/2021/10/bnz-supports-kainga-ora-shared-ownership-scheme-to-help-first-home-buyers>

- **Online provisioning of services:** BNZ continues to invest in improving its online provisioning and functionality of services to enhance customer experience and ease to join BNZ.
- **Artificial Intelligence (AI) and Chatbots:** For example:
  - BNZ being the first bank in New Zealand to adopt Amazon Connect to meet customer expectations in a faster and more user-friendly way with personal, dynamic, and natural service experiences, which included putting AI techniques to work to meet customers' requirements (including launching Āwhina a machine learning service that turns text into lifelike speech to assist with customers' banking enquiries).<sup>120</sup>
  - ASB's AI-powered chatbot, "Josie", which was an "Australasian banking first"<sup>121</sup> designed to provide customer support, answer queries, and assist with basic banking transactions.

AI also helps in fraud detection, risk assessment, and personalized financial advice.

- **Sustainable Finance Solutions:** With an increased focus on environmental and social responsibility, a number of banks have introduced products and services that align with sustainable investing and green initiatives. This includes offering customers lending for expenditure that will lower carbon emissions (for example, BNZ's Green Home Loan top-ups, which allow customers to borrow up to \$80,000 at 1% p.a. fixed for three years to invest in renewable energy options, heating and insulation and water tanks, or transport options including for electric vehicles, plug in hybrids, electric chargers or electric bikes).<sup>122</sup>
- **365 / 7-Day Payments (SBI):** From May 2023 the New Zealand banking sector moved to 365 / 7-day payment processing, which was a "significant industry change project", which involved significant innovations and changes in process by New Zealand banks, Payments NZ, and RBNZ.<sup>123</sup>
- **Enhanced mobile apps:** Banks have significantly improved their mobile apps with user-friendly interfaces, streamlined navigation, and features that make it easier to perform a wide range of transactions and manage accounts on the go. Reflecting BNZ's investment in its mobile app, for four years in a row (2018 to 2021) BNZ won Canstar's "Online Banking Award", with Canstar noting "that BNZ's major strength is the depth of its mobile banking app, which offers a suite of saving and spending tools to help users stay on top of their savings goals... In addition, with robust security features such as multi-factor authentication and app encryption, customers can feel safe when banking online through BNZ."<sup>124</sup> For example:
  - BNZ has invested in International Payment Mobile options (which enable customers to make international payments via mobile channels ("on the go"), removing the complexity of old paper based Telegraphic transfers and enabling customers to monitor and secure foreign exchange rates in near real time).
  - BNZ now offers "in app" resetting of card PINs (which provides a convenient channel for customers to "self-serve").
  - BNZ introduced Te Reo Māori to its mobile banking app, enabling customers to change their language setting to incorporate Te Reo Māori.<sup>125</sup>

<sup>120</sup> (3 December 2020). Bank Of New Zealand Launches First Kiwi 'Brand Voice' And Reduces Wait Times With Amazon Connect. BNZ Press Release. Scoop. Retrieved from:

<https://www.scoop.co.nz/stories/BU2012/S00061/bank-of-new-zealand-launches-first-kiwi-brand-voice-and-reduces-wait-times-with-amazon-connect.htm>

<sup>121</sup> ASB employs digital assistant. Retrieved from: <https://www.asb.co.nz/documents/media-centre/media-releases/asb-employs-digital-assistant.html>

<sup>122</sup> <https://www.bnz.co.nz/personal-banking/home-loans/manage-your-loan/top-ups/green-home-loan-top-ups>

<sup>123</sup> (22 May 2023). Payments every day arrives in Aotearoa New Zealand. Payments NZ. Retrieved from: <https://www.paymentsnz.co.nz/resources/articles/payments-every-day-arrives-in-aotearoa-new-zealand/>

<sup>124</sup> (27 September 2021). The BNZ: the best for Online Banking. Canstar. Retrieved from:

<https://www.canstar.co.nz/online-banking/bnz-best-for-online-banking/#:~:text=The%20BNZ's%20repeated%20success%20is,top%20of%20their%20savings%20goals.>

<sup>125</sup> (10 September 2018). BNZ launches digital banking in Te Reo Māori with a twist. BNZ Press Release.

Scoop. Retrieved from: <https://www.scoop.co.nz/stories/BU1809/S00238/bnz-launches-digital-banking-in-te-reo-maori-with-a-twist.htm>

- **Digital Identity Verification and Biometric Authentication:** Banks (including BNZ) have introduced digital identity verification processes that allow customers to open accounts remotely without visiting a physical branch (including biometric security measures like fingerprint and facial recognition having become common features in online banking apps). These methods offer convenient and secure ways for customers to log in to their accounts and authorise transactions.
- **Personalised Financial Insights and Management tools:** Online banking platforms now offer personalised insights and recommendations based on customers' spending patterns, financial goals, and account history to help users manage their budgets, track spending, set financial goals, and visualise their financial health over time. For example:
  - BNZ launched the "**Activity**" tab in its Mobile App in 2020, which is a new personalised money tracking and categorisation feature that automatically puts spending into categories such as groceries, pets, transport, and bills to enable customers to see where their money is going, to make better decisions about how they use their money. This was the first of its kind for a big New Zealand bank to be integrated into the existing banking app.<sup>126</sup>
  - BNZ launched the **MyProperty** online tool in 2022 to help home loan customers to see "all payments in one easy-to-understand chart,<sup>127</sup> to provide its mortgage customers with greater insight into their home loans and repayment options. In April 2023 BNZ won a Canstar Innovation Excellence Award for this MyProperty tool,<sup>128</sup> and BNZ's own customer research shows that it is resonating strongly with customers.
- **Innovations to protect consumers experiencing vulnerability / disrupt predatory lending:** Innovation in the sector also takes the form of initiatives to protect consumers who are experiencing vulnerability and minimise financial distress. For example, BNZ is committed to disrupting high cost, predatory lenders through innovative partnerships with community partners, and working to support other consumers experiencing vulnerability:
  - **Good Loans:** is a partnership between BNZ and Good Shepherd NZ that provides no and low interest loans to people who are financially excluded from appropriate mainstream financial services.<sup>129</sup>
  - **PayNow:** is a partnership between BNZ and PaySauce launched in March 2021 allowing employees to access funds they have already earned ahead of their pay day for no interest, effectively letting them choose their own pay day on demand.
  - **Money Sweetspot:** Money Sweetspot is an innovative debt consolidation social enterprise backed by lending capital from BNZ.<sup>130</sup> It allows customers to consolidate unmanageable, high interest debt of up to \$40,000 at a reduced rate (where they may have been paying rates between 25% and 50% previously). Money Sweetspot also provides free access to financial education resources.
  - In 2020, BNZ was the first bank in New Zealand to establish a dedicated economic and domestic violence banking team that, in conjunction with Non-Government Organisations in the sector, works closely with victim survivors to help get back on their feet financially.
- **Instant Balance and Transaction Alerts:** Banks now offer the ability to view account balances and receive real-time alerts for specific transactions or account activities. This keeps customers informed about their financial status and helps prevent unauthorised transactions.

<sup>126</sup> (18 May 2020). BNZ launches first bank in-app spend tracker as business comes back online. BNZ. Retrieved from: <https://blog.bnz.co.nz/2020/05/bnz-launches-first-bank-in-app-spend-tracker-as-business-comes-back-online>

<sup>127</sup> (22 December 2022). BNZ launches MyProperty to help home loan customers plan ahead. BNZ. Retrieved from: <https://blog.bnz.co.nz/2022/12/bnz-launches-myproperty-to-help-home-loan-customers-plan-ahead>

<sup>128</sup> (20 April 2023). BNZ Leading Banking Innovation. Canstar. Retrieved from: <https://www.canstar.co.nz/banking-insurance/bnz-leading-banking-innovation/>

<sup>129</sup> (4 November 2022). Good Shepherd and BNZ now offering all Good Loans interest and fee free. BNZ. Retrieved from: <https://blog.bnz.co.nz/2022/11/good-shepherd-nz-and-bnz-now-offering-all-good-loans-interest-and-fee-free>

<sup>130</sup> (22 May 2023). Money Sweetspot nears \$3 million in support, helping hundreds of New Zealanders kick unmanageable debt. BNZ. Retrieved from: <https://blog.bnz.co.nz/2023/05/money-sweetspot-nears-3-million-in-support-helping-hundreds-of-new-zealanders-kick-unmanageable-debt>



- **Card Controls and Security Features:** Customers can now exercise greater control over their debit and credit cards through online banking apps. This includes features like card locking, spending limits, and transaction categorisation.
- **Digital Wallets and Contactless Payments:** The adoption of digital wallets like Apple Pay and Google Pay has become widespread. These solutions enable users to make payments with their smartphones, smartwatches, or other devices, offering a more convenient and secure alternative to traditional payment methods. For example, by integrating into digital wallet services for Google Pay (Android) and Apple Pay (iOS) devices, BNZ has enhanced value and functionality for its VISA and MasterCard cardholders; allowing them to pay in-store or online securely using their mobile phones.
- **Internal innovations to enhance customer experience:** Innovations in the banking sector are not limited to customer-facing innovations. Banks also compete for customer retention and acquisition by investing in internal innovations to ensure their customers' experience is as seamless as possible. For example, BNZ has:
  - Invested in the Pega Customer Decision Hub to ensure that BNZ can identify the right conversation to have with its customers, either to update information (tax status, contact details etc) or identify customer needs.
  - Invested in new customer relationship management (CRM) and lending origination processes (from Salesforce and nCino) to enable BNZ bankers to better understand customers' needs.

3.24 The innovations summarised in **Figure 25** above illustrate that to remain competitive against other providers of personal banking services, BNZ has had to continue to innovate and invest in order to deliver market leading products and services to BNZ's customers. Reflecting this, BNZ's total investment slate across the bank over the last six years has been approximately \$[ ]. While that investment includes a significant proportion of spending to meet the evolving regulatory and legislative landscape [ ], it also reflects the investments BNZ makes to deliver products and services customers value.

3.25 That investments and innovations are being made to meet customers' requirements is also reflected in the fact that New Zealand has sound banking infrastructure and has one of the most "banked" populations in the world,<sup>131</sup> which shows the sector is delivering products and services that meet consumers' needs.

3.26 Accordingly, BNZ's view is that the evidence demonstrates significant innovation in the New Zealand personal banking sector.

**(3 F) Key insights from these measures and outcomes**

3.27 In summary, BNZ believes these measures demonstrate that the New Zealand personal banking sector is competitive and is delivering competitive outcomes for the benefit of New Zealand consumers.

3.28 As such BNZ submits that the concerns that are implicit in the statement in the Minister's referral of the Market Study to the Commission suggesting that "there are existing indications of possible competition problems in the [personal banking sector]"<sup>132</sup> should be considered against the backdrop of the significant competition and innovation that has occurred in the sector and is continuing.

<sup>131</sup> Percent people with bank accounts – Country rankings. The Global Economy. Retrieved from: [https://www.theglobaleconomy.com/rankings/percent\\_people\\_bank\\_accounts/#:-:text=Percent%20people%20with%20bank%20accounts%20%2D%20Country%20rankings&text=The%20average%20for%202021%20based,available%20from%202011%20to%202021](https://www.theglobaleconomy.com/rankings/percent_people_bank_accounts/#:-:text=Percent%20people%20with%20bank%20accounts%20%2D%20Country%20rankings&text=The%20average%20for%202021%20based,available%20from%202011%20to%202021)

<sup>132</sup> PIP [18.1].

## **Part [4]: Profitability and returns in the New Zealand personal banking sector do not suggest there is a lack of competition**

4.1 The Commission's PIP states that the Commission intends to look at various measures of profitability in the sector to "consider the outcomes of the competitive process in that market."<sup>133</sup> In particular, the PIP states that the Commission intends to look at:

- (a) NIMs;<sup>134</sup>
- (b) return on assets;<sup>135</sup> and
- (c) return on equity,<sup>136</sup>

and that it intends to compare those margins and returns to other jurisdictions.

4.2 BNZ submits that:

- (a) it is difficult to draw conclusions about competition based on profitability / returns assessments;
- (b) significant care is needed in making comparisons of returns between countries, with the risk that such comparative returns can be misleading. It is necessary to take into account non-competition related factors that can have a significant impact on returns, including bank efficiency, portfolio composition, capital requirements, and differences in risk-free rates between different countries; and
- (c) "whole of bank" returns may not be a reasonable basis to reach conclusions about personal banking competition, and any NIM or returns assessments need to consider the full economic cycle (not just returns during an upward cycle when loan losses have been lower).

4.3 Further detail on these points is set out as follows.

### **(4 A) Comparisons of returns to other countries can be misleading**

4.4 The PIP sought to undertake some preliminary comparisons of New Zealand banking returns to other countries. However, it is necessary to note that seeking to make comparisons between jurisdictions to infer conclusions about competition is very difficult and can be misleading. That is because there are a number of different factors (unrelated to competition) that can significantly affect returns, including accounting treatment, scale of operations, periods of measurement, consequences of the global financial crisis,<sup>137</sup> business models, capital requirements, regulatory regimes, tax regimes, and risk-free rates between countries.

4.5 Reflecting this, in previous market studies the Commission has noted that "it is difficult to draw firm conclusions" about competition by seeking to make comparisons to overseas sectors.<sup>138</sup>

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<sup>133</sup> PIP [C1].

<sup>134</sup> PIP [116].

<sup>135</sup> PIP [116].

<sup>136</sup> PIP [116].

<sup>137</sup> As the PIP recognizes at [C44].

<sup>138</sup> (8 March 2022). Market study into the retail grocery sector. Final report. Commerce Commission. At [3.75] and [3.76].

4.6 BNZ agrees that there are numerous different factors that influence banking returns in a given country or over different time periods and, therefore, that seeking to make comparisons is difficult and could be misleading. In particular, if comparisons are to be made between countries, BNZ submits that the relevant caveats and specific factors discussed in this section, and outlined in the enclosed Deloitte Access Economics report should be taken into account.

**(4 B) Nominal profits are not informative of the extent of competition**

4.7 The PIP states that "[m]uch of the recent media commentary on profitability in the banking sector has reported on total dollar amounts of profits",<sup>139</sup> and that the "total dollar value of accounting profits (on its own) does not inform the question" of whether a sector is competitive.<sup>140</sup>

4.8 BNZ agrees with those observations, and notes that much of the commentary relating to "headline" profits of banks in New Zealand fails to take into account the significantly larger capital base of New Zealand banks (including to meet RBNZ capital requirements) compared to other businesses in New Zealand and compared to many banks in other jurisdictions.

4.9 A larger capital base inherently needs to earn a larger nominal profit to cover the cost of that capital. This was reflected in the PIP where the Commission noted that the "growth in total dollar value of profits (as observed in the media) is proportional to growth in assets and equity".<sup>141</sup> Or, as ANZ's New Zealand CEO has summarised in relation to ANZ's nominal profits: "Yes it's a big number but we are a very big company. We have got ten times the capital of Spark. We have got \$200 billion of assets."<sup>142</sup>

4.10 The difference in capital base between BNZ and other large New Zealand companies is shown in **Figure 26** below. The difference in the capital base of New Zealand banks compared to other jurisdictions is shown in **Figure 27** below.

4.11 As outlined at paragraphs 4.30 to 4.31 below, New Zealand also has a higher risk-free rate than many other OECD countries, which increases the nominal banking profits in New Zealand compared to other countries even before the bank has started trading (as bank capital that will need to return at least the risk-free rate):

$$\begin{array}{ccc} \textit{Higher risk-free rate} & & \textit{Higher capital base} \\ \textit{compared to other} & x & \textit{compared to other} \\ \textit{countries} & & \textit{countries} \end{array} = \begin{array}{c} \textit{Higher nominal} \\ \textit{profits than other} \\ \textit{countries} \end{array}$$

4.12 An example of the impact that capital requirements and base rates have on bank profits and returns is shown in **Figure 28** below. This impact of the RBNZ's capital requirements on profits has been noted by industry analysts, such as KPMG:<sup>143</sup>

"Another aspect to consider is the Reserve Bank of New Zealand's (RBNZ's) new capital requirements expected to be implemented gradually through until 2028. This means that many banks will have to increase their level of capital, driving the

<sup>139</sup> PIP [C3].

<sup>140</sup> PIP [C3].

<sup>141</sup> PIP [C29].

<sup>142</sup> (27 October 2022). ANZ CEO defends record profit and warns of 'dark clouds' ahead. NZ Herald. Retrieved from: <https://www.nzherald.co.nz/business/anz-ceo-defends-record-profit-and-warns-of-dark-clouds-ahead/PFPRDW7REG64SOLOVBX2ISAUXI/#:~:text=ANZ%20CEO%20Antonia%20Watson%20said,got%20%24200%20billion%20of%20assets.%22>

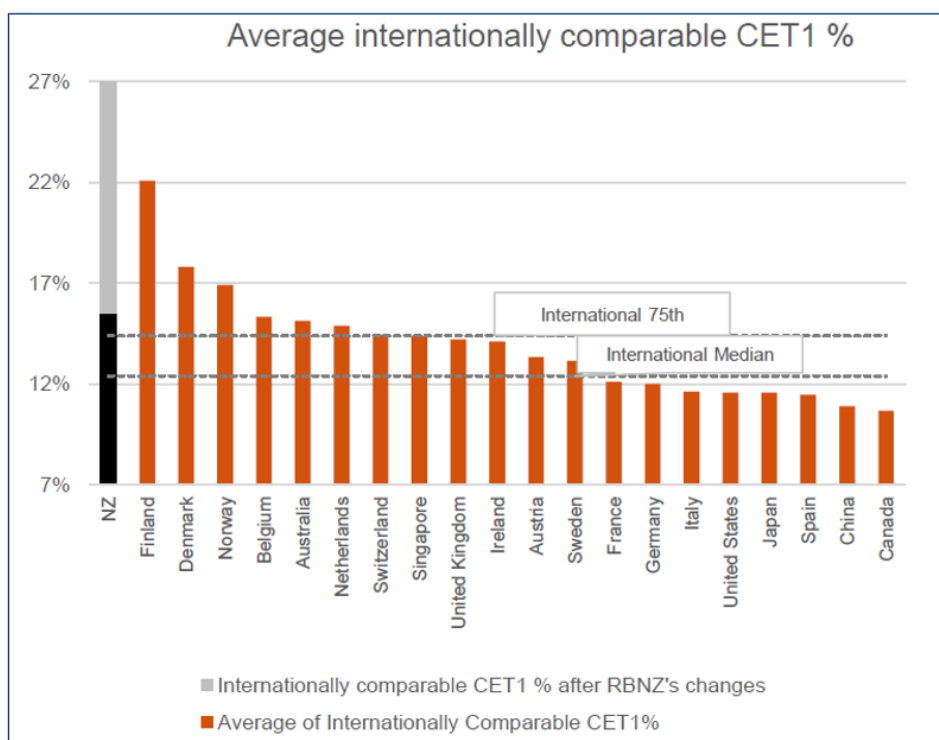
<sup>143</sup> KPMG Financial Institutions Performance Survey. Banks – Review of 2022. Retrieved from: <https://assets.kpmg.com/content/dam/kpmg/nz/pdf/2023/03/2022-banks-fips.pdf>

need to make larger profits in order to comply with the more demanding capital requirements (while also maintaining dividends expected by both shareholders and capital markets). There are benefits of banks complying with tougher capital requirements in that they will be more resilient to economic downturns and less likely to fail; however, it appears that it may come at a slight cost to customers in the form of higher interest rates on loans to ensure profits preserve the risk versus the return equilibrium and meet the RBNZ's mandated capital levels."

**Figure 26 – Comparison of BNZ's capital base to other NZX50 companies**





**Figure 27 – Average Common Equity Tier 1 (CET) capital requirements<sup>144</sup>**



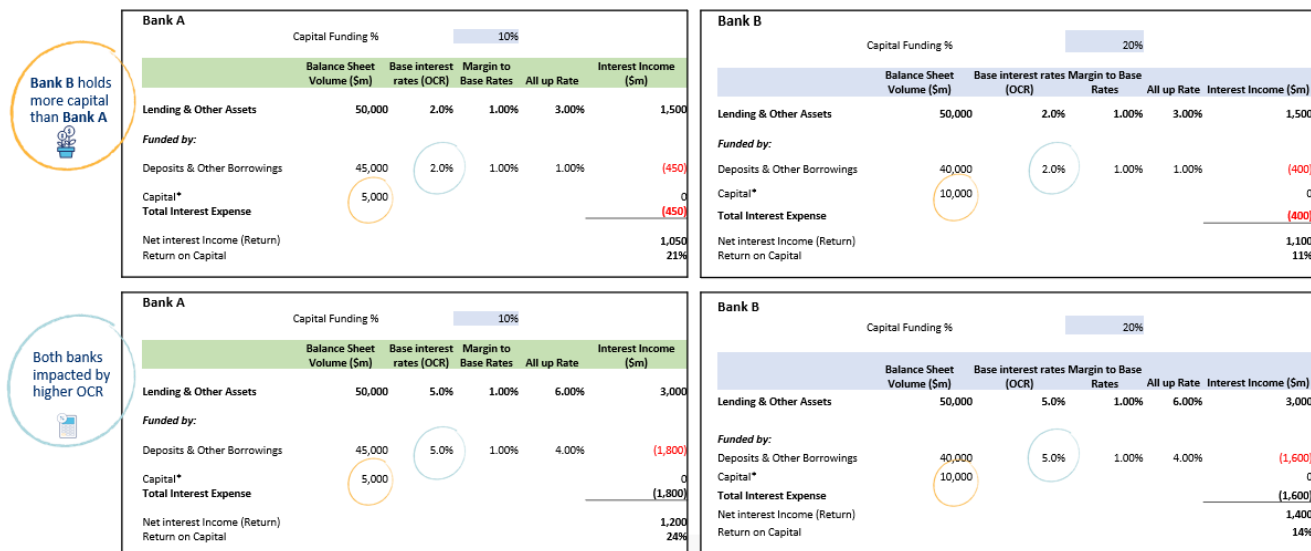
<sup>144</sup> Based on analysis by PwC in 2019. (17 May 2019). International comparability of the capital ratios of New Zealand's major banks – update paper. PwC. Retrieved from: <https://www.nzba.org.nz/wp->

**Figure 28 – Illustration of capital intensity and base rates on banks' profits / returns**

Nominal bank profits are driven by several factors but two large contributors are:

- 1)  The level of capital held in the business; and
- 2)  The base interests in the jurisdiction they operate in.

Outlined below are two scenarios for Bank A and Bank B illustrating the impact that changes in the level of capital and base interest rates have on bank income/profits and returns (profitability).



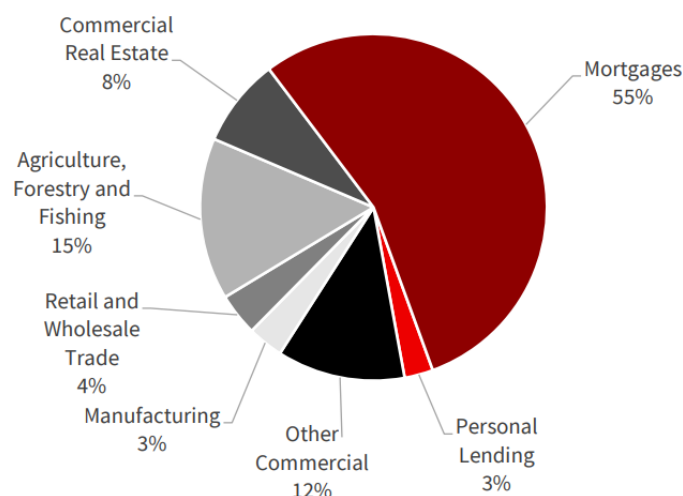
**(4 C) Using "whole of bank" returns to reach conclusions about personal banking competition would be incorrect**

- 4.13 The Commission has noted in the PIP that the returns measures it has used are "at a 'whole of bank' level and therefore include activities that do not relate to personal banking services."<sup>145</sup>
- 4.14 BNZ agrees with the Commission that it would be not be correct to infer conclusions about the extent of competition in personal banking from a "whole of bank" assessment when a significant proportion of the banks' and financial institutions' operations are in relation to non-personal banking activities,<sup>146</sup> which carry a very different cost to serve, risk, and return profile. For example, as a brand still seeking to grow its customer base and share in personal banking, a significant proportion of BNZ's business is non-personal banking. This is shown in **Figure 29** below.

<content/uploads/2019/05/Appendix-Two-International-comparability-of-capital-ratios-2019.pdf> In order to allow for cross-country comparisons of CET1 ratios, PwC undertook a number of adjustments to data on individual banks, such as for foreseeable dividends, specialised lending, sovereign LGD floor and Australian bank self-calculated international comparability differences. PwC notes on slide 14 that it has not been able to control for all differences. It is also noted that the analysis is based on FY2017 data.

<sup>145</sup> PIP [116].

<sup>146</sup> For example, RBNZ states that 35% of total bank lending in New Zealand is to the agriculture and business sectors. See: (18 May 2022). The banking sector. RBNZ. Retrieved from: <https://www.rbnz.govt.nz/financial-stability/about-the-new-zealand-financial-system/the-banking-sector>

**Figure 29 – BNZ lending mix (total \$99.7 billion)<sup>147</sup>**

4.15 Further, as outlined in the enclosed Deloitte Access Economics Report (at paragraphs 199 and 205), "[d]isaggregating costs and funding from in-scope and out of scope products [is] not trivial", and is an approach that was ultimately abandoned by the CMA in its retail banking market study (likely because of the complexity involved and the numerous assumptions required).

**(4 D) Any returns assessment needs to consider the full economic cycle**

4.16 The PIP states that the Commission intends to assess returns based on data covering the period 1 January 2018 to 31 March 2023.<sup>148</sup>

4.17 Given the procyclical<sup>149</sup> nature of the banking sector (and, therefore, banking profits), to the extent any conclusions can be drawn based on returns, it is necessary to look at profit over a longer period of time to view profits over a full business cycle.

4.18 In particular, over the past 10 years, there have been consistently favourable credit conditions (a benign credit risk environment), and therefore low levels of bad debts and loan losses for banks. Accordingly, looked at in isolation returns during that period would look higher as they were supported by lower loan loss rates and funding costs.

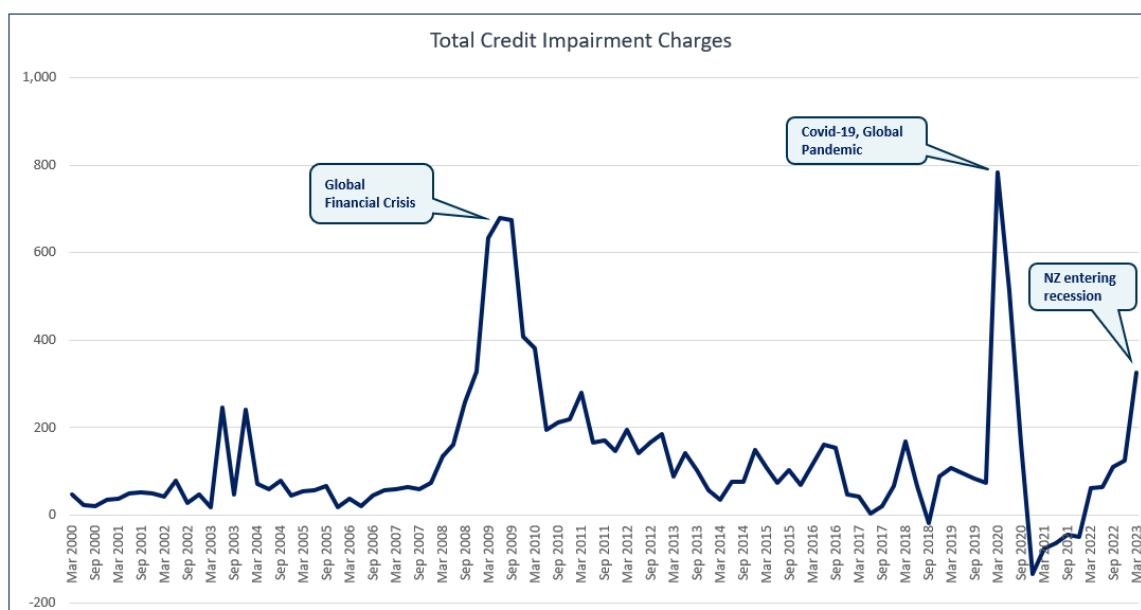
4.19 That is because it is necessary for banks during such periods to also make sufficient returns to provision for bad debts and loan losses during a downturn. New Zealand is currently entering into such a downturn, so any assessment of profits by the Commission needs to cover a period that goes back to at least 2007 in order to view profits over a full business cycle. This is illustrated in **Figure 30**.

<sup>147</sup> (9 November 2022). Full Year Results 2022 – Investor Presentation. NAB. Retrieved from: <https://www.nab.com.au/content/dam/nab/documents/reports/corporate/2022-full-year-investor-presentation.pdf>

<sup>148</sup> PIP [C18].

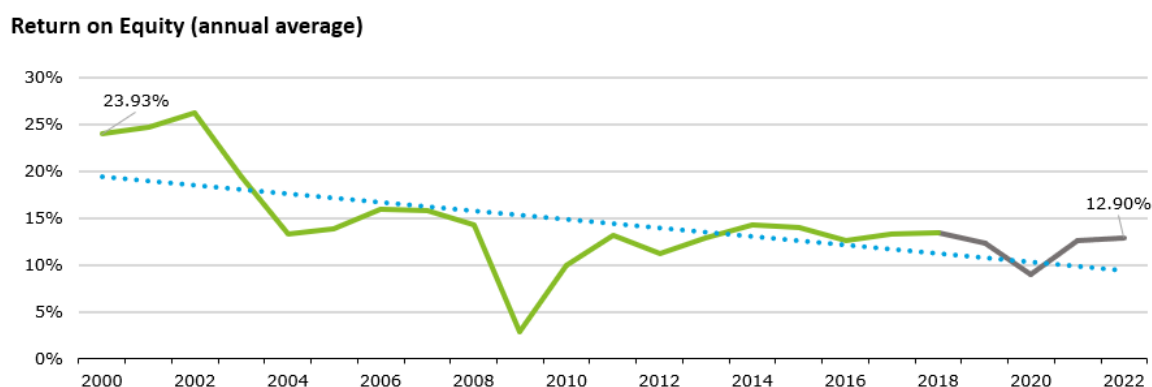
<sup>149</sup> (22 February 2022). Macroprudential policy. RBNZ. Retrieved from: <https://www.rbnz.govt.nz/regulation-and-supervision/oversight-of-banks/standards-and-requirements-for-banks/macroprudential-policy>

**Figure 30 – Total credit impairment charges (March 2000 to March 2023)**



4.20 It is also necessary to look at profit over such a longer term in order to identify the longer term trends in returns. This is shown in **Figure 31**.

**Figure 31 – Longer term return on equity trends (annual average, 2000 to 2023)**



Source: Deloitte Access Economics analysis based on RBNZ data (the grey part of the line indicates the profitability levels during the period considered by the Commission in the PIP. Annual ROE levels shown are an average of quarterly ROE. Trendline is linear.)

**(4 E) BNZ agrees it would not be informative for the Commission to make WACC assessments**

4.21 The PIP states that "[i]n a workably competitive market, firms are generally expected to earn a level of profit that approximates their opportunity cost of capital."<sup>150</sup> However, it is important to recognise that returns above an estimate of weighted average cost of capital ("**WACC**") can be found in most industries, with WACC estimates often viewed as a minimum benchmark for firms to be sustainable over the long-term. Demonstrating this point:

<sup>150</sup> PIP [100].

- (a) Nearly a third of all listed companies, and more than 60% of private companies, in New Zealand are estimated to achieve returns greater than WACC.<sup>151</sup>
  - (b) In Western Europe, more than half of businesses operate in sectors with returns in excess of WACC.<sup>152</sup>
  - (c) The former Chair of the Australian Productivity Commission stated to the Commission during its market study into the retail grocery sector that "WACC is not a commercial benchmark of profitability. It is more the measure of inadequate performance ie 'this firm barely covers its cost of capital'".<sup>153</sup>
  - (d) Armillary Private Capital has similarly stated that "[i]rrespective of the type of industry ROCE should at least be equal to or greater than the weighted average cost of capital (WACC) in order for a business to create shareholder value."<sup>154</sup>
- 4.22 The Commission has also recently acknowledged the difficulties in seeking to base findings about competition based on an assessment of returns. For example, in its most recent market study (into Residential Building Supplies), the Commission acknowledged submissions that "it would [not] be useful, would be overly complex, and at best only provide a clue that competition may not be working as well as it should."<sup>155</sup>
- 4.23 Accordingly, BNZ agrees with the Commission's approach of "not propos[ing] to conduct our own internal calculations of firms' opportunity cost of capital or profitability".<sup>156</sup>

**(4 F) Comparisons of return on equity cannot be made without allowing for other factors – including efficiencies and the risk-free rate**

- 4.24 The PIP states that "the New Zealand banking sector has generated some of the highest returns on equity of those in our sample over the relevant period".<sup>157</sup>
- 4.25 However, BNZ submits that return on equity cannot, in isolation, be used to infer any conclusions about competition – in particular when seeking to compare with other jurisdictions. That is because there are a number of different factors (unrelated to competition) that can significantly affect return on equity, including (as noted at 4.4 above) accounting treatment (including accruals, depreciation charges, intangible assets, asset valuations, goodwill, write-downs and impairments), loan losses, funding mix, scale of operations, periods of measurement, consequences of the global financial crisis, business models, capital requirements, regulatory regimes, tax regimes, and risk-free rates. Of these factors, BNZ emphasises the following two for consideration by the Commission:
- (a) the cost control and efficiencies of the businesses in question (a more efficient operator will have a higher return on equity than a less efficient one); and
  - (b) the risk-free rate of the relevant jurisdiction (the higher the risk-free rate in the jurisdiction, the higher the return on equity).

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<sup>151</sup> Armillary Private Capital "Return on Capital Employed – December 2022".

<sup>152</sup> Deloitte Access Economics analysis of "Equity EVA by Industry - Europe" data as at 5 January 2023.

Retrieved from: [https://pages.stern.nyu.edu/~adamodar/New\\_Home\\_Page/datacurrent.html](https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datacurrent.html)

<sup>153</sup> Peter Harris AO "Views on the Commerce Commission Draft Market Study Report on Grocery Retailing in New Zealand" (November 2021) at [13].

<sup>154</sup> Armillary Private Capital "Return on Capital Employed – December 2022".

<sup>155</sup> Commerce Commission Residential Building Supplies Market Study: Additional paper on the scope of this study, 31 March 2022.

<sup>156</sup> PIP [117].

<sup>157</sup> PIP [48].



4.26 These factors are described in more detail as follows.

*(4 F 1) The efficiencies of New Zealand banks results in higher return on equity*

4.27 The efficiency of the businesses in question will have a significant impact on the calculation of return on equity. For example, efficient management can substantially increase a firm's profit even in a workably competitive market, whereas poor management can have the opposite effect.

4.28 In this respect, it is highly relevant (as recognised in the PIP)<sup>158</sup> that the RBNZ has observed that the "large New Zealand banks" have a number of efficiencies that would necessarily (all else being equal) result in a higher return on equity to comparator countries / banks:<sup>159</sup>

the large New Zealand banks operate lower cost structures than both the small New Zealand banks and large banks in peer countries... The superior cost efficiency of large New Zealand banks relative to the smaller domestic banks is likely to be driven by greater economies of scale within large banks' operations. Furthermore, New Zealand is the only country in the comparison group where all of the large banks are owned by larger overseas parents. This ownership structure is likely to provide further efficiencies and support to the large New Zealand banks, from which much of the rest of the comparison group does not benefit.

4.29 BNZ agrees that the foreign-owned banks in New Zealand receive certain efficiency advantages compared to other banks overseas and domestically-owned banks, such as:

- (a) even though a small proportion of NAB head office costs are allocated to BNZ, there are a number of other efficiencies from being part of a broader group – including input into policy, technology, innovation, procurement cost benefits, and administrative services that are provided by the parent bank.
- (b) in seeking funding offshore, the Australian-owned (and other foreign-owned) New Zealand banks have "name-support" from having strong parents that lower their funding costs. That, of course, benefits borrowers, but also returns too.

*(4 F 2) The higher risk-free rate in New Zealand results in higher return on equity*

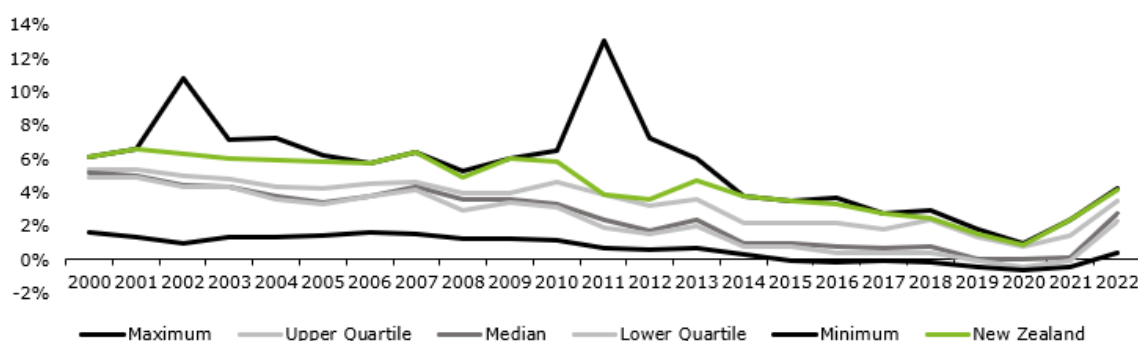
4.30 Another key component of the return on equity of a bank is the risk-free rate in the jurisdiction that the bank is operating in. All else being equal, a bank operating in a country with a higher risk-free rate would need to generate a higher return on equity than a bank in a country with a lower risk-free rate. It is, therefore, highly relevant that New Zealand has a higher risk-free rate than a number of countries that the Commission is considering comparing New Zealand banks to. This is shown in **Figure 32** below.<sup>160</sup>

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<sup>158</sup> PIP [C79].

<sup>159</sup> (May 2023). Financial Stability Report. RBNZ. Retrieved from: <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/publications/financial-stability-reports/2023/may-2023/fsr-may-23.pdf>

<sup>160</sup> Which shows that New Zealand has had consistently higher central bank cash rates than other OECD jurisdictions.

**Figure 32 – 10-year government bond yields (spot rates as at December of each year)<sup>161</sup>**

Source: Deloitte Access Economics analysis based on OECD data (comparison countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Israel, Italy, Netherlands, New Zealand, Norway, Portugal, Sweden, Switzerland, UK, Japan and US)

- 4.31 In assessing the return on equity by banks in New Zealand compared to other jurisdictions, the PIP also states that "volatility of earnings does not appear high compared to other nations in the sample" and, therefore, cites RBNZ concluding that "[t]his suggests that risk does not fully explain the relatively higher returns of New Zealand banks".<sup>162</sup> However, irrespective of volatility, all else being equal, a bank in a jurisdiction with a higher risk-free rate requires a higher return on equity in order to justify lending / investing in that jurisdiction and achieve an appropriate return.

**(4 G) The same factors also need to be taken into account in making any comparisons of return on assets**

- 4.32 The PIP states that the Commission also intends to make comparisons of the return on assets of the New Zealand banking sector with other "comparator countries".<sup>163</sup>

- 4.33 However, as with return on equity, return on assets cannot, in isolation, be used to infer any conclusions about competition – in particular when seeking to compare with other jurisdictions. It is necessary to consider:

- (a) the number of different factors (unrelated to competition) that can significantly affect return on assets (see 4.4 above);
- (b) the efficiencies of the businesses in question – with the subsidiary efficiencies of the foreign-owned banks also being relevant to return on assets assessments; and
- (c) the risk-free rate of the relevant jurisdiction – again, the higher the risk-free rate in the jurisdiction, the higher the return on assets.

**(4 H) Comparisons with other jurisdictions based on NIMs are also difficult**

- 4.34 Similar to the comments on return on equity above, absolute levels and changes in NIM cannot be isolated from risk-free rates, levels of equity and other factors.

<sup>161</sup> The 10-year government bond yield is a commonly used benchmark for estimating the risk-free interest rate in an economy. According to a comparison against the Commission's set of comparison countries, the yield on New Zealand's 10-year government bonds has sat relatively high.

<sup>162</sup> PIP [109].

<sup>163</sup> PIP [C52].

4.35 For example, in a jurisdiction with high equity / capital requirements and a higher risk-free rate, NIMs will naturally be higher than other jurisdictions because:

- (a) there is, in effect, a zero percent floor for interest rates on deposits, which means that when risk-free rates are already close to zero, a further reduction in monetary policy rates (and, therefore, risk-free rates) will reduce NIMs more; and
- (b) "banks in countries with more stringent capital requirements operate with higher interest margins. This result points out that stringent capital requirements, while incentivising more prudent lending behaviour, lead banks to attempt to cover the increased cost of holding equity capital by imposing a higher spread on net interest margin."<sup>164</sup>

4.36 In addition:

- (a) there are many other factors relevant to a bank's business that are not reflected in NIMs – including non-interest income, efficiency, and operating costs. Accordingly, in isolation it is very difficult to use NIMs to draw any meaningful conclusions about competition by comparisons with other jurisdictions; and
- (b) as noted at paragraphs 3.6 to 3.10 above, sector wide (and BNZ's) NIMs are decreasing in New Zealand. To the extent conclusions can be drawn about competition from NIMs, generally decreasing NIMs over time is evidence of a competitive market.

#### **(4 I) Bank returns are not high compared to other New Zealand businesses**

4.37 Looking beyond nominal profits (which as outlined at paragraph 4.9 above, reflect banks' large capital bases), to the extent conclusions can be drawn from comparisons of returns, the evidence demonstrates that the returns of New Zealand banks are not high compared to other New Zealand businesses – and are in fact lower than the average return on equity of NZX50 companies. As KPMG has reported:<sup>165</sup>

"One of the most accepted ways of comparing profits between companies is by looking at the return on equity (ROE – calculated as profit after tax as a percentage of average equity through the period). The New Zealand banking sector had a return on equity of 13.40%, while the average ROE of NZX50 companies (based on their annual financial statements) was 15.00%.

This shows that comparative to their size, **the profits made by the banking sector are in fact marginally lower in comparison to 50 of the largest listed companies in New Zealand.**

The alternative [ROA] profitability measure also shows that the ROA for banks was 1.08% for the year, which was significantly lower than the 7.60% achieved by the NZX50 companies (based on their latest financial statements).<sup>166</sup>

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<sup>164</sup> Sustainability 2019, 11(14), 3785. Determinants of Banks' Net Interest Margin: Evidence from the Euro Area during the Crisis and Post-Crisis Period.

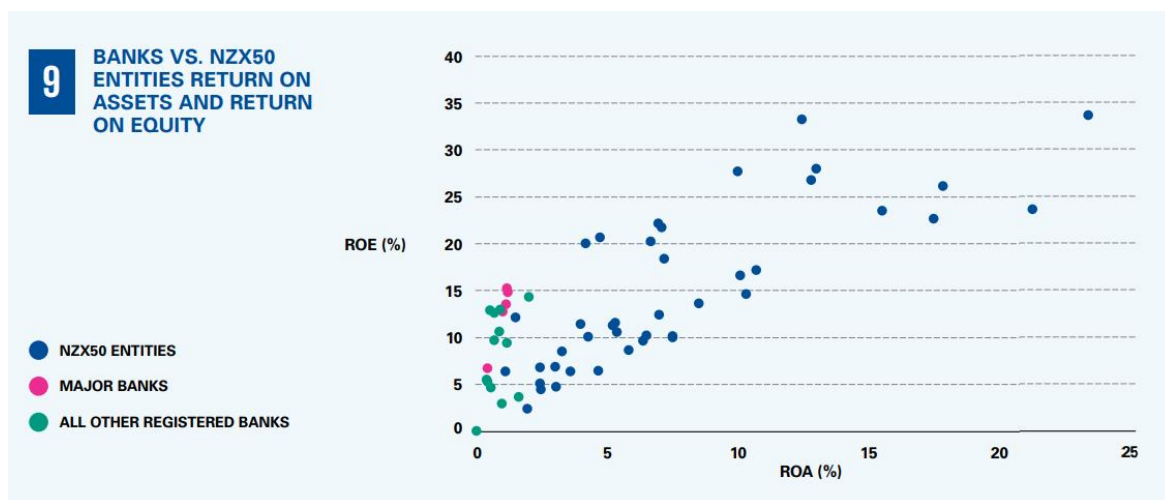
<sup>165</sup> KPMG Financial Institutions Performance Survey. Banks – Review of 2022. Retrieved from: <https://assets.kpmg.com/content/dam/kpmg/nz/pdf/2023/03/2022-banks-fips.pdf> [Emphasis added]

<sup>166</sup> In relation to ROA, KPMG also noted: "this measure is impacted more by the industry that an entity operates within, and therefore, is not so comparable." The PIP makes the same observation at C11.

Banks are large organisations with equally large profits, **but the numbers show that they are no more profitable [than] many other companies operating within New Zealand.**"

4.38 This is shown in **Figure 33** below.

**Figure 33 – Banks vs. NZX50 Entities Return on Assets and Return on Equity**<sup>167</sup>



<sup>167</sup> KPMG Financial Institutions Performance Survey. Banks – Review of 2022. Retrieved from: <https://assets.kpmg.com/content/dam/kpmg/nz/pdf/2023/03/2022-banks-fips.pdf>

## **Part [5]: The relevance of the regulatory environment to the Commission's Market Study**

- 5.1 As the PIP recognises,<sup>168</sup> banking is one of the most, if not the most, highly regulated sectors in New Zealand. That reflects that "the financial system plays a significant role in the development of the economy and the wellbeing of New Zealanders" and that the actions of personal banking providers "can have important economic consequences that can affect financial stability, their customers and the broader economy."<sup>169</sup>
- 5.2 This approach of highly regulating the New Zealand banking sector is consistent with the approach taken in jurisdictions overseas, and BNZ supports the effective and efficient regulation of the New Zealand banking sector.
- 5.3 The Commission states that during the Market Study it will "focus on those aspects of the regulatory environment that are most likely to affect competition in personal banking services".<sup>170</sup> In so doing, BNZ submits that it is necessary for the Commission to take the following factors into account:
- (a) **New Zealand banking regulations need to meet international standards:** The key regulators (and regulations) of the New Zealand banking sector are also subject to international independent scrutiny, benchmarking them against best practice and standards (such as the 2016/17 International Monetary Fund Financial Sector Assessment Programme review,<sup>171</sup> and the 2021 Financial Action Taskforce review of New Zealand's AML regime).<sup>172</sup> If New Zealand's regulators were to fall below expected standards in regulation, supervision and oversight of banks, including as they relate to personal banking products, this would impact the perceived risk profile of the New Zealand banking sector and could impact the availability and price at which banks are able to raise funding in wholesale markets. For these reasons, the New Zealand regulatory framework cannot be looked at in isolation, or from a perspective that New Zealand regulations can be set without consideration of international standards. New Zealand is a small country that is closely integrated into the global financial system and is required, to a significant extent, to adhere to international standards and benchmarks.
- (b) **Australian banking regulations can impact New Zealand banks' decisions:** in addition to the wider international regulatory context described above, BNZ notes that the New Zealand subsidiaries of Australian banks are also subject (indirectly, though effectively, via Australian Prudential Regulation Authority ("APRA") regulation of their parent banks) to certain APRA requirements. This can have a material impact on operations and costs, and the [way that the New Zealand subsidiaries can provide personal banking products to their customers.] For example, APRA's APG223<sup>173</sup> sets out requirements in relation to the management of risks in residential mortgage lending. This can impact New Zealand subsidiaries because:

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<sup>168</sup> PIP [48].

<sup>169</sup> PIP [48].

<sup>170</sup> PIP [50].

<sup>171</sup> (8 May 2017). New Zealand: Financial Sector Assessment Program: Financial System Stability Assessment. International Monetary Fund. Retrieved from: <https://www.imf.org/en/Publications/CR/Issues/2017/05/08/New-Zealand-Financial-Sector-Assessment-Program-Financial-System-Stability-Assessment-44886>

<sup>172</sup> (2021). New Zealand's measures to combat money laundering and terrorist financing. Financial Action Taskforce. Retrieved from: <https://www.fatf-gafi.org/en/publications/Mutualevaluations/Mer-new-zealand-2021.html>

<sup>173</sup> [https://www.apra.gov.au/sites/default/files/APG-223\\_0.pdf](https://www.apra.gov.au/sites/default/files/APG-223_0.pdf)

- (i) these requirements may be more prescriptive than the New Zealand regulatory requirements (for example in relation to the calculation and setting of test interest rates for home loans, which may be adjusted for specific local New Zealand market practices); and
- (ii) as part of its prudential oversight activity, APRA would expect that both the Australian parent and the New Zealand subsidiaries are complying with the requirements of their guidance (unless there are specific local regulatory or market requirements that would prevent compliance).

BNZ therefore submits that in assessing the factors influencing bank performance in New Zealand it is necessary for the Commission to also review the wider international and trans-Tasman regulatory environment.

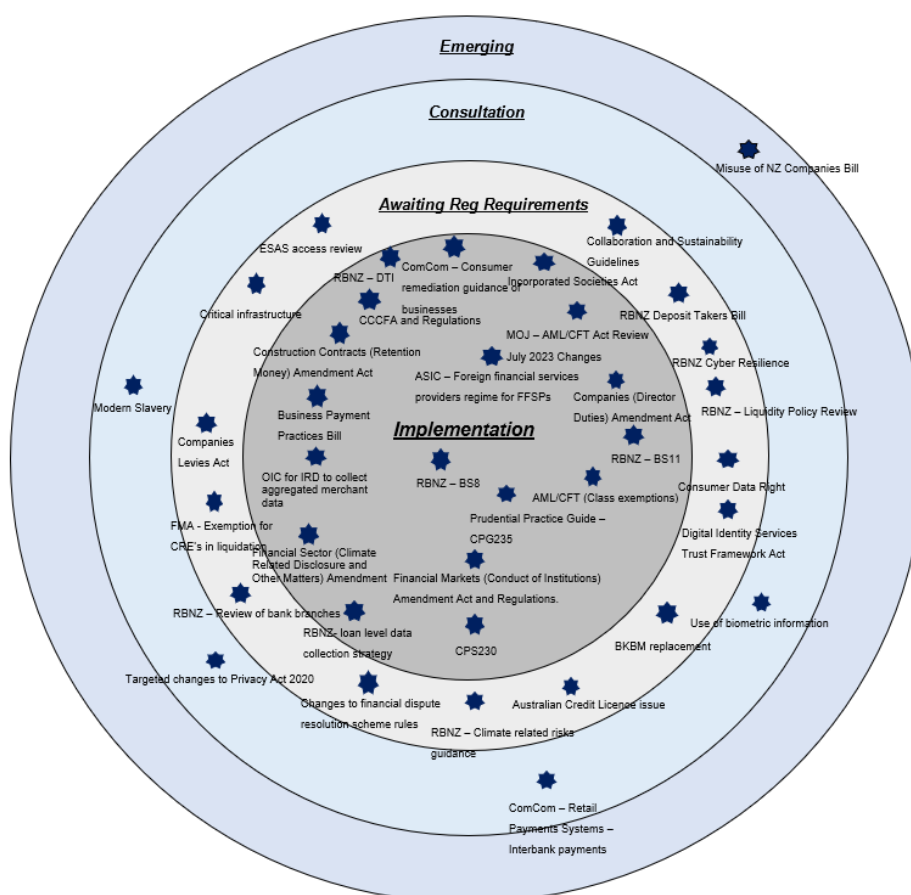
- (c) **Aspects of customer switching and product availability are determined by regulation, not banks or competition:** While, as noted, BNZ supports effective and efficient regulation (and there are good examples of this such as aspects of the incoming Deposit Takers Act regime, the Financial Markets Conduct Act, the Financial Markets Infrastructure Act and aspects of the Consumer and Product Data Bill), there are examples of overlapping or overly complex legislation and regulation that do not necessarily support effective and efficient outcomes for customers or the banking sector (for example, aspects of the CCCFA or macro-prudential tools that might jointly operate to impact specific consumer segments, for example loan to value ratio ("LVR") and debt to income ("DTI") tools). Accordingly, in making assessments about the rate of customer switching in the sector and the accessibility to personal banking services across different customer groups, it is necessary for the Commission to recognise that the regulatory environment can have a material impact, and that those regulations are outside of the control of banks, and other sector participants, and are unrelated to the extent of competition.
- (d) **Regulations, and reform, take capacity and resource:** The PIP states that the Commission will ensure that "proposed and upcoming changes to the regulatory framework for personal banking" are taken into account.<sup>174</sup> BNZ agrees that this is important. However, BNZ further submits that it is also necessary for the Commission to take into account the collective impact of all of that reform, and proposed reform, and the various reforms impacting the non-personal banking products and services (i.e. business, corporate, markets, funds management etc), in making in any assessments about the state of competition and innovation in the New Zealand personal banking sector. That is because the scale of recent and upcoming reform has created additional complexity in the sector and, in a market the size of New Zealand where the technical expertise to analyse, plan and implement complex change is relatively limited, such reform inevitably impacts a bank's ability to implement other large projects at the same time. The extent of regulatory reforms in progress is shown in ***Figure 34*** below. The same consideration also needs to be given to regulatory reform originating from Australia that will impact New Zealand subsidiaries of Australian banks.
- (e) **Banking regulation can also impact non-bank providers:** It is necessary to recognise that banking regulation can impact non-bank providers as well. For example, banks providing financing to support non-bank home loan lending are required to ensure that the lending profile of those home loans is consistent with macro-prudential settings that apply to the bank providing the funding (for example,

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<sup>174</sup> PIP [55].

the percentage of high LVR lending). This places the same regulatory limitations on non-bank lenders as banks (and, therefore, limits the extent to which non-bank lenders can differentiate themselves from bank lenders). While the rationale for that policy is understandable (given the risks if non-banks were able to channel bank funding into high LVR lending), it demonstrates that bank regulation can also impact non-bank providers.

**Figure 34 – Extent of regulatory reform in progress that relates to the New Zealand banking sector**



- (f) **Importance of taking a balanced approach to Open Banking:** BNZ recognises the important contribution that Open Banking can make to further enabling new entry into the New Zealand personal banking sector and, therefore, further enhancing competition and innovative alternatives for New Zealand consumers. It is for these reasons that BNZ has been leading industry-driven API development since 2018, and to date has partnered on Open Banking with 18 FinTech firms. That said, BNZ considers that the success of a CDR (Open Banking reform) in achieving its desired pro-competitive objectives is dependent on building customer trust in the process and balancing the benefits Open Banking can bring against the risks that are inherent in it if not managed appropriately (such as heightened risks of fraud, cyber security, theft, and loss of privacy). BNZ's views on this have been informed by observing experiences overseas (where BNZ considers Australia erred too much towards risk mitigation, whereas in the UK there have been concerns that risks were not fully addressed initially, requiring a change in approach now). To manage these risks, BNZ sees the following as necessary:

- (i) a crucial and extensive role for Government in both promoting the benefits of CDR to encourage uptake, whilst also educating consumers of the risks; and
- (ii) a focus on simplicity, particularly at the start of Open Banking reform. To that end, BNZ supports targeting a minimum use case that can be built on in progressive tranches. An example of this would be providing accredited requestors with access to customer accounts and balances (plus transactions), i.e. account aggregation building on the work that has already started via the API Centre.



## **Part [6]: The New Zealand personal banking sector caters for diverse population groups**

- 6.1 The PIP states that the Commission will be "consider[ing] how well competition is working for different customer groups",<sup>175</sup> citing media suggesting that the sector "may be delivering unequal outcomes for Māori, Pasifika, rural and elderly New Zealanders."<sup>176</sup>
- 6.2 BNZ considers that the New Zealand personal banking sector generally caters well for customers across different population groups and locations. Reflecting this, New Zealand has one of the most "banked" populations in the world,<sup>177</sup> with the PIP stating that "in 2021, 99% of New Zealanders age 14+ had a bank account."<sup>178</sup>
- 6.3 BNZ provides further detail on these points below.

### **(6 A) Customers across all regions have competitive options**

- 6.4 The PIP state states that the Commission is considering how competition for personal banking services varies between different regions in New Zealand.<sup>179</sup>
- 6.5 BNZ considers that there is limited difference in competition for personal banking services between regions. In particular:
- (a) competitors that maintain a physical branch network all compete nationwide, even in areas where they do not have a direct physical presence;
  - (b) while some competitors, for example ASB, SBS and TSB, originated in particular regions and, therefore, have a relatively greater presence there, they can and do compete across other regions of New Zealand;
  - (c) the significant shifts in recent years to consumers conducting banking online (internet or mobile) and using electronic means of payment instead of cash, along with the increase in self-service options available to customers, means that providers can compete for consumers' business irrespective of geography. These trends have only accelerated during and post COVID, with increasing use of other channels available to consumers (phones, video calls, online), reducing the need for physical branches and meaning that the location of a customer is increasingly not relevant to that customer or a provider (at least in regions where internet access is available); and
  - (d) while there may be some small differences between regions in terms of market share or advertising priority, which can be influenced by bank tenure and focus on a particular area (for example, ASB has a higher share in Auckland, whereas BNZ has a lower share),<sup>180</sup> BNZ's experience is that each and every region is competitive.

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<sup>175</sup> PIP [180].

<sup>176</sup> PIP [180].

<sup>177</sup> Percent people with bank accounts – Country rankings. The Global Economy. Retrieved from: [https://www.theglobaleconomy.com/rankings/percent\\_people\\_bank\\_accounts/#:~:text=Percent%20people%20with%20bank%20accounts%20%2D%20Country%20rankings&text=The%20average%20for%202021%20based,available%20from%202011%20to%202021](https://www.theglobaleconomy.com/rankings/percent_people_bank_accounts/#:~:text=Percent%20people%20with%20bank%20accounts%20%2D%20Country%20rankings&text=The%20average%20for%202021%20based,available%20from%202011%20to%202021)

<sup>178</sup> PIP [footnote 25].

<sup>179</sup> PIP [183.1].

<sup>180</sup> [ ]

6.6 Accordingly, BNZ's experience is that there is strong competition in the supply of home loans and this competition occurs on a national basis. BNZ's approach to managing its deposits and home loan products is consistent with competition occurring on a national basis - BNZ does not apply any differences in fees, interest rates, product features or processes between regions.

**(6 B) There are a number of initiatives to improve personal banking offerings across different population groups**

6.7 BNZ's vision is to serve customers well and help communities prosper by being a trusted, safe and sustainable bank. BNZ's sustainability strategy, which sets out this vision, is underpinned by two key pillars – one of which is manaakitanga, which refers to BNZ's pledge to grow the long-term social, cultural and financial well-being of New Zealand. This strategy drives BNZ to cater for all segments of the community, particularly those at the margins or those who may be experiencing vulnerability.

6.8 Accordingly, while as noted at 6.2 above, BNZ considers that the New Zealand personal banking sector generally caters well for customers across various different population groups, BNZ is committed to ensuring its product and services are accessible to all people in New Zealand. BNZ's initiatives to achieve that goal are set out below.

*(6 B 1) Improving accessibility and inclusiveness*

6.9 BNZ recognises that its customers have varying abilities and needs, and is dedicated to making banking more accessible and inclusive for all BNZ's customers.

6.10 BNZ has launched a number of initiatives in recent years in relation to accessibility and inclusivity. For example:

- (a) BNZ offers Smart ATMs with accessible features, such as clear contrast and high contrast, wheelchair access, technology intended to help with orientation, and multiple language options;
- (b) BNZ offers a number of banking channels, including online, telephone, and in-person banking;
- (c) BNZ covers the cost of customers New Zealand Sign Language interpreters for customers who require them during their appointments with BNZ;
- (d) As noted at **Figure 25** above, BNZ has partnered with Vodafone (now One NZ), Spark (including Skinny), and 2degrees so that its customers can access the BNZ mobile app without incurring data charges. Given high smart phone penetration rates in New Zealand, this provides many customers access to digital banking;
- (e) BNZ conducts regular and ongoing research in the user and customer experience space. This research focuses on the experience of users of BNZ's digital products and services, including the BNZ website, banking app and internet banking, and is used to trial potential new products, services or features, or understand any "pain points" for existing products. The usability and accessibility of products and services are key considerations when conducting this research; and
- (f) BNZ has worked with a number of its business customers in the primary and transport sectors who are recognised seasonal employers ("**RSE**") to onboard and support their RSE employees with transactional and international payments

services, including Pacific remittances. In 2023 this covered over [ ] RSE employees.

*(6 B 2) Improving accessibility in the face of digitisation*

- 6.11 The Commission is seeking to understand whether the increased digitisation of banking services is having adverse consequences for certain customer groups or regions.<sup>181</sup>
- 6.12 As indicated at 6.10(b) above, BNZ offers a range of channels through which customers can access banking services. Online banking is just one of the options available to customers, complementing the more traditional channels of phone and in-branch banking. BNZ also provides digital devices in branch for customers to use.
- 6.13 For the majority of customers, BNZ's award-winning online banking tools provide them with the accessibility and convenience they desire.<sup>182</sup> This preference is reflected in the digital activation statistics, which indicate that in July 2023, 87.9% of BNZ's customers were digitally enabled (i.e. they had a digital channel and were able to bank online when they had a need), and 81.9% of BNZ's "everyday active" individual customers were digitally active.<sup>183</sup> Further, as noted at 2.16(b)(i) above, the number of over-the-counter transactions in BNZ's branches has fallen from [ ] in FY2018 to [ ] in FY2022 (meaning in branch transactions are only [ ] of the number they were in FY2018).
- 6.14 BNZ acknowledges that the digitisation of banking may be difficult for some members of society, who face barriers such as access to devices, internet affordability and lack of sufficient digital skills. BNZ believes that banks have a role to play in ensuring that these consumers are not left behind. To better understand the challenges that New Zealanders are facing and the ways in which banks can help, BNZ has undertaken research projects into the digital skills of New Zealanders. The findings of these reports – which are released to the public – help inform BNZ's digital inclusion strategy, in line with BNZ's goals under its strategic pillar of manaakitanga.
- 6.15 In its most recent digital skills report, despite 92% of New Zealanders engaging in online banking, BNZ found that 20% of New Zealanders lack the digital skills that are essential for modern life.<sup>184</sup> These members of the population derive less benefit from the online world and are more exposed to cybersecurity threats. BNZ has taken a number of steps to support those customers who are not digitally active or skilled. In particular:
- (a) BNZ is a founding member of the Digital Boost Alliance (a collaboration between business and Government) and has made seven pledges to encourage digital transformation and support improved digital inclusion for BNZ's colleagues, customers, and communities. The activities range from basic actions such as having accessible websites through to caring for some of BNZ's customers experiencing vulnerability.
  - (b) BNZ has invested over \$600,000 into partnerships to deliver digital skills in communities over the last three years. This includes partnerships with Arataki

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<sup>181</sup> PIP [183].

<sup>182</sup> (27 September 2021). The BNZ: the Best for Online Banking. Canstar. Retrieved from: <https://www.canstar.co.nz/online-banking/bnz-best-for-online-banking/>, (20 April 2023). BNZ Leading Banking Innovation. Canstar. Retrieved from: <https://www.canstar.co.nz/banking-insurance/bnz-leading-banking-innovation/>

<sup>183</sup> An "everyday active" customer means those that have made one or more credit transactions and five or more transactions in two out of three previous months, including the current month. A "digitally active" customer is a customer that had a digital session in the given month.

<sup>184</sup> <https://blog.bnz.co.nz/wp-content/uploads/2022/04/BNS0692-Digital-Skills-Report-20224.pdf>

Systems, 360 Tautua Trust and Digital Seniors, to help remove barriers and build digital skills, with a focus on those most in need and at risk of digital harm.

- (c) Since 2018, BNZ has continued to build simple and accessible scam resources for customers and communities through the Scam Savvy programme. Scam Savvy offers resources in English, Te Reo Māori, Samoan, Tongan, Mandarin, Korean, Hindi, and Punjabi, with subtitles and voiceovers available for BNZ's low vision and low hearing communities to ensure all communities have access to simple, accessible scam education. Through Scam Savvy, BNZ has helped more than 225,000 New Zealanders learn how to spot scams and has provided tips to keep more people safe from scammers.
- (d) BNZ, and a number of other banks, participate in "Regional Banking Hubs", an initiative designed to provide banking services in small regional communities.<sup>185</sup> These are currently being piloted in seven small towns (with populations of more than 3,000 people who are at least a 30 minute-drive from an existing bank branch), with plans to expand over the coming months.

*(6 B 3) Disrupting predatory lending*

6.16 As part of its pledge to grow the long-term social, cultural and financial wellbeing of New Zealanders (manaakitanga), BNZ is also working to disrupt predatory lending. To accelerate this mission, BNZ's target is to provide \$50 million for no and low interest loans and advances by 2024. Since 2014, BNZ has delivered \$17.8m against its target. This includes through:

- (a) **Good Loans:** Good Loans is a partnership between BNZ and Good Shepherd NZ that provides no and low interest loans to people who are financially excluded from appropriate mainstream financial services due to low income. It provides an alternative to using loan sharks and predatory lenders.
- (b) **PayNow:** PayNow is a partnership between BNZ and PaySauce launched in March 2021 allowing employees to access funds they have already earned ahead of their pay day for no interest.
- (c) **Money Sweetspot:** Money Sweetspot is an innovative debt consolidation social enterprise backed by lending capital from BNZ. It allows customers to consolidate unmanageable, high interest debt of up to \$40,000 at a reduced interest rate (where they may have been paying rates between 25 and 50 percent previously). Money Sweetspot also provides free access to financial education resources.

6.17 In relation to home lending, BNZ partners with organisations to help members of the community that may have difficulty accessing traditional bank lending for either a home purchase or urgent repairs and improvements. This helps to ensure that those members of the community experiencing vulnerability are supported into warm, dry and resilient homes, necessary for people's wellbeing. For example:

- (a) **Kainga Ora:** BNZ's partnership with Kainga Ora is aimed at helping people who have a household income of under \$130,000 and a minimum deposit of 5%. Kainga Ora will typically contribute equity to a maximum of 25% of the purchase price or \$200,000, while BNZ will provide customers with the rest of the financing of the

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<sup>185</sup> Regional Banking Hubs pilot. New Zealand Banking Association – Te Rangapū Pekē. Retrieved from: <https://www.nzba.org.nz/banking-information/regional-banking-hubs/regional-banking-hubs-pilot/>

purchase price. In FY22, there were 34 First Home Partner customers supported into a new home, with total lending of \$19.5 million.

- (b) **Habitat for Humanity's Home Repair Programme:** Since 2019, BNZ has partnered with Habitat for Humanity to provide "whānau with access to no interest affordable loans for modest income owners to achieve critical maintenance and repairs."<sup>186</sup> This programme is currently available in Auckland, Waikato, Hawke's Bay, Gisborne, Christchurch and Invercargill. \$2.6 million has been provided in no interest loans under this scheme, with plans to expand further throughout New Zealand.

*(6 B 4) Improving lending accessibility in relation to whenua Māori*

6.18 As the Commission notes, using whenua Māori to raise finance has been a "well-known and long-standing issue due to difficulty in selling the land to recover money lent in the event of default."<sup>187</sup> BNZ has recognised this issue, and has worked to improve this. In particular:

- (a) In 2021, BNZ amended its policy on loans secured against Māori Freehold Land.<sup>188</sup> As long as the land has been valued by an acceptable Registered Valuer, BNZ can now adopt the same security value for Māori Freehold Land as it would for an equivalent parcel of land held in general title. This means that BNZ can now lend up to 80% on papakāinga and other developments provided appropriate governance and management structures and management are in place, and subject to usual affordability and other policy / regulatory considerations.
- (b) Following these policy changes, BNZ has also entered into a partnership with Whai Rawa (the entity responsible for growing the Ngāti Whātua Ōrākei asset base) in relation to a housing development project on iwi land in Orakei. The Hawaiki development is one of several that Whai Rawa are undertaking to assist Ngāti Whātua Ōrākei whanau into home ownership. As part of this project, BNZ is offering lending to iwi members who wish to purchase one of the 24 houses being developed. This project has improved capital access for iwi members as they are able to borrow directly from the bank, rather than having to borrow from the iwi itself, or a second-tier lender, as they would have previously.

6.19 Despite these steps, to date BNZ has experienced only limited uptake of its whenua Māori lending scheme. While it is difficult to determine the reasons, it suggests that there may be other impediments to customers borrowing on whenua Māori. Through BNZ's work as a member of Tāwhia, the Māori Bankers Rōpū, BNZ will continue to investigate this issue.

*(6 B 5) Removing online international payment fees*

6.20 As outlined at **Figure 25** above, in March 2023, BNZ became the first bank in New Zealand to remove international payment fees and overseas bank charges for transactions made online.<sup>189</sup> With more than half a million international payments processed by BNZ each year, this change is expected to save customers over \$6 million in the first year alone – and benefits

<sup>186</sup> (2022). Sustainable Futures Report 2022. BNZ. Retrieved from: <https://www.bnz.co.nz/assets/bnz/about-us/PDFs/2022-BNZ-Sustainability-Report.pdf?1bc444d65383df70e893e24ec143f47aafc45740> at 21.

<sup>187</sup> PIP [79].

<sup>188</sup> This was noted in the PIP at [79].

<sup>189</sup> (14 March 2023). BNZ to remove international payment fees, saving customers \$6m per year. BNZ. Retrieved from: <https://blog.bnz.co.nz/2023/03/bnz-to-remove-international-payment-fees-saving-customers-6m-per-year>

customers that wish to send money to family and friends overseas, including Pacific remittances.

*(6 B 6) Initiatives to enhance financial literacy*

- 6.21 BNZ considers that financial literacy is a critical capability for New Zealanders to be able to both make informed judgments about the use and management of money, and to make informed choices about which financial providers to use.
- 6.22 That is why BNZ has initiated a number of activities specifically focused on improving financial (and digital) literacy and wellbeing for underserved populations over the past decade,<sup>190</sup> including:
- (a) BNZ's Community Finance initiative, a partnership with Good Shepherd New Zealand, the Ministry of Social Development, and community providers like the Salvation Army and Aviva;<sup>191</sup> and
  - (b) BNZ partnering with Arataki Systems, 360 Tautua Trust, and Digital Seniors to help lift more New Zealanders digital skills.<sup>192</sup>

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<sup>190</sup> (30 November 2022). BNZ Sustainable Finance Framework. BNZ. Retrieved from: <https://www.bnz.co.nz/assets/bnz/about-us/PDFs/2022-BNZ-Sustainable-Finance-Framework.pdf?f4e4bdf8f141e8250dbc560226424cb1f5abcdbc=>

<sup>191</sup> (14 August 2017). Turning bad debts into good habits. BNZ. Retrieved from: <https://blog.bnz.co.nz/2017/08/turning-bad-debts-into-good-habits>

<sup>192</sup> (19 October 2022). Community partnerships to boost digital skills for those most in need. BNZ. Retrieved from: <https://blog.bnz.co.nz/2022/10/community-partnerships-to-boost-digital-skills-for-those-most-in-need>

## **Part [7]: Concluding comments**

- 7.1 BNZ hopes that this submission has assisted the Commission in understanding the personal banking sector in New Zealand, and BNZ's perspective on the questions asked.
- 7.2 It is BNZ's experience that BNZ operates in a dynamic and highly competitive market, with a range of existing, new and innovative competitors, and that the market delivers competitive outcomes for New Zealand consumers.
- 7.3 BNZ looks forward to working with the Commission on understanding BNZ's perspective on these dynamics, and on the next phases of the Market Study.

## Appendix One

### BNZ responses to the Commission's questions

BNZ has responded to a number of specific questions posed by the Commission in the body of its response. Any additional responses to the Commission's questions are set out in the table below.

<b><i>Overview of personal banking services in New Zealand</i></b>		
1	Do you agree with our description of the structure of the personal banking sector? If not, please explain.	BNZ's views on the nature and extent of competition in the New Zealand personal banking sector are set out in Part [2] of its submission.
1.1	Are there any other key participants or stakeholders that play a major role in the sector that we have not mentioned in this paper? If so, please identify them and explain their role.	BNZ's views on the key participants in the New Zealand personal banking sector are set out in Part [2] of its submission.
1.2	What are useful measures of concentration/market share within the personal banking sector? Please describe the measures and explain your reasoning.	BNZ's views on the decreasing concentration in the New Zealand banking sector are set out in Sub-Part (3 C) of Part [3] of its submission.
2	Do you agree with our description of the regulatory environment for the personal banking sector? If not, please explain.	BNZ's views on the relevance of the regulatory environment to the Commission's Market Study are set out in Part [5] of its submission.
3	Please describe any other legislation, regulations, or other regulatory instruments that may be relevant to understanding competition in the personal banking sector.	BNZ's views on the relevance of the regulatory environment to the Commission's Market Study are set out in Part [5] of its submission.
4	What aspects of competition in the personal banking sector have a particular impact on Māori?	BNZ's views on the extent to which the personal banking sector caters for different members of the population, including Māori, are set out at Part [6] of its submission.
5	Do you agree with our preliminary observations of publicly available bank financial performance data (including those set out in Attachment C)? If not, please explain.	No. BNZ does not agree with the inference that profits / returns in the sector imply a lack of competition.  BNZ's views on the relevant factors that are necessary to take into account in seeking to make any assessment based on bank profits / returns are set out at Part [4] of its submission.
6	Please describe the factors that have the most influence on the financial performance of New Zealand personal banking service providers.	There are a number of factors that drive financial performance in New Zealand. This includes market share, cost efficiency, scale, access to wholesale funding markets and cost of capital, losses (risk settings) balance sheet mix, customer mix, economic cycle, regulatory requirements (for example, the regulation of credit fees under the CCCFA, LVR and DTI requirements), pricing and pricing strategy.



		BNZ's views on the relevant factors that are necessary to take into account in seeking to make any assessment based on bank profits / returns are set out at Part [4] of its submission.
7	Do you agree with our description of the digital innovation and digital disruption trends in New Zealand and overseas? If not, please explain.	BNZ considers that there have been a number of significant innovations in New Zealand in recent years of varying scales. These are described further at Sub-part (3 E) of Part [3] of BNZ's submission.
<b>Services market study will focus on</b>		
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?	Nothing further in addition to BNZ's comments elsewhere in this submission.
<b>Nature of competition</b>		
9	Is competition more or less intense between or within any particular group of providers? Please explain your reasoning. For example, is competition most intense between bigger banks and smaller banks? Or most intense within fintech?	BNZ's views on the nature and extent of competition in the New Zealand personal banking sector are set out in Part [2] of its submission.
10	Please describe how personal banking service providers compete to gain and retain customers. Please explain your answers and provide examples. For example:	See response to 10.1 below.
10.1	Do providers put the same amount of effort into gaining and retaining customers?	As a business with a deliberate focus on growing its personal banking share BNZ is generally equally focused on retaining existing customers ("retentions") and winning new customers ("acquisitions"). That includes applying the same carded rates to both new and existing customers. Beyond carded rates, there can be a degree of individualised pricing that takes into consideration the individual circumstances of customers (such as, for term deposits, the size of deposit and tenure, and for home loans, the size of loan, customer risk assessment (including affordability, LVR, and credit scoring), and from time-to-time BNZ runs targeted campaigns that may be focussed either on acquisitions or retentions.
10.2	Which services are subject to greater competition and which services are subject to less competition?	BNZ considers that all personal banking products and services that the Market Study is focussing on (home loans, transactional, savings, and term deposit accounts) are highly competitive.  BNZ's views on the nature and extent of competition in the New Zealand personal banking sector are set out in Part [2] of its submission.
10.3	Please describe how important national branding is to competing for personal banking services.	The banking sector involves dealing with people's money. Accordingly, it is necessary to have a trusted brand. However, that is something a new entrant can achieve through investing in branding, fraud and security measures, and explaining those measures to customers.  In relation to the relevance of a "national" brand, there are a number of brands that historically were "regional" brands (such as TSB, SBS, and ASB historically) that impose effective competitive constraint in the market.
10.4	Please describe how important having a physical presence is (eg, branch network) to competing for personal banking services.	As set out at Sub-part (2 D) of Part [2] of its submission, while BNZ is committed to maintaining a physical branch network for its customers, BNZ's experience is that over time the branch / physical footprint is decreasing in importance to most New Zealand consumers and, therefore, as a requirement to compete. In addition, providing services via a physical branch network is a higher cost to serve channel, so it is likely that smaller competitors and new entrants will increasingly focus on digital channels (for

		example, reflected in Heartland's statements that "[d]igital services, platforms and processes remains a core focus of Heartland's overall strategy – particularly to achieve Heartland's key digital strategy objectives... to achieve low cost reach to the broadest target market, through online and mobile access and highly automated processes." <sup>193</sup>
10.5	Please describe how competition for personal banking services varies between regions.	BNZ's views on the nature and extent of competition in the New Zealand personal banking sector across regions are set out in Sub-part (6 A) of Part [6] of its submission.
11	How varied are home loans and deposit accounts between providers? What are the key features by which these services are differentiated?	<p>As set out at Sub-part (2 A) of Part [2] of its submission, BNZ competes vigorously with other providers across a range of price and non-price elements, including interest rates; fees; service; trust and security; rewards; digital capabilities, technology and innovation; accessibility; and interoperability with other ancillary personal banking services.</p> <p>In relation to home loans specifically, all banks offer base level home loan products that are similar, but may also offer more unique or specialised options (such as BNZ's offsetting home loan product, Total Money). Providers will also, however, differ in the value propositions they offer, which are a combination of pricing, service, distribution, digital capabilities, risk appetite and rewards.</p> <p>In relation to transactional accounts, many of the features are relatively standard across providers. For example, most banks now offer fee-free transactional accounts. However, the differentiation comes from other price and non-price elements, including competitive interest rates (BNZ constantly ensures its rates are competitive), service, trust and security (including customers' perception of BNZ's ability to keep their funds secure, or protect against fraud, errors and scams), technology and innovation (including tools to support customers' budgeting and saving goals), accessibility (including accessibility of branches and ATMs, digital channels, such as mobile apps and Internet banking), and interoperability with other ancillary personal banking services (such as Apple Pay and Google Pay).</p> <p>In relation to savings accounts, BNZ has made significant changes to its proposition to make it easier for customers to earn interest with no monthly requirements / minimum balance growth to earn the full amount. Features differ across all deposit providers.</p> <p>In relation to term deposits, rates tend to drive a customer's preference for terms. Interest compounding options, online open and maintenance capability and PIE options are the key differentiators between providers.</p>
12	What interactions do banks and other providers of personal banking services have with each other?	Nothing further in addition to BNZ's comments elsewhere in this submission, [ ].
13	What role do mortgage brokers or other intermediaries play in the market? What is their impact on competition?	BNZ's views on the prominent and growing role that brokers play in the provision of home loans are set out at Sub-part (2 I) of Part [2].
<b>How competition works for different population groups</b>		
14	How do banks and other service providers segment their customers? Why?	Nothing further in addition to BNZ's comments elsewhere in this submission, [ ].
15	How well is competition for personal banking services working for different population groups in New Zealand? Why/why not? For	BNZ's views on the extent to which the New Zealand personal banking sector caters for various different population groups is set out at Part [6] of its submission.

<sup>193</sup> (18 February 2020). Heartland announces half year profit of \$39.9 million. Heartland. Retrieved from: <http://nzx-prod-s7fsd7f98s.s3-website-ap-southeast-2.amazonaws.com/attachments/HBL/348585/316931.pdf>

	example, how well is competition working for rural, Pacific, older or Māori populations?	
<b>Conditions of entry and expansion</b>		
16	Which conditions of entry or expansion in the personal banking sector most significantly affect competition?	BNZ's views that commercial requirements for new entry are decreasing are set out at Sub-part (2 D) of Part [2] of its submission.
17	How does the regulatory environment impact on entry or expansion in the personal banking sector?	BNZ's views on the relevance of the regulatory environment to the Commission's Market Study are set out in Part [5] of its submission.
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.	As set out at Sub-part (2 D) of Part [2] of its submission, BNZ considers that Open Banking will further reduce any impediments to entry and customer switching in personal banking by allowing customers to share account and transaction data with accredited third parties, and therefore foster further competition, innovation, consumer choice, and enhanced customer experiences in New Zealand.  BNZ's views on the ways any CDR (Open Banking reform) can best achieve those outcomes is set out at Sub-part (6 B) of Part [5] of its submission.
19	What are recent examples of actual or potential entry, expansion or exit in the sector that we should be aware of? Please provide as much detail as possible.	BNZ's understanding of recent entry and expansion in the New Zealand personal banking sector, in relation to home lending, transaction, saving, and deposit products / services, are set out at Part [2] of its submission.  That includes details of the recent growth of Kiwibank (detailed at Sub-Part (2 A) of Part [2]) and TSB, Cooperative Bank, Heartland Bank, SBS, and Rabobank (detailed at Sub-part (2 B) of Part [2]).  In terms of specific examples of entry in these products / services in New Zealand, BNZ is aware that: <ul style="list-style-type: none"> <li>• <u>Heartland</u> re-entered into providing residential mortgages in 2020<sup>194</sup> (having previously exited conventional mortgages in 2013/14).<sup>195</sup> More recently, in 2022, has expanded further in residential mortgages by entering into "white label" home loan products with brokers, for example New Zealand Financial Services Group (which is the largest mortgage broker group in New Zealand);<sup>196</sup></li> <li>• <u>Pepper Money</u> entered residential home loans in New Zealand in 2011 "when it acquired GE Capital's Australian and New Zealand home lending business", and began offering an "end-to-end mortgage offering" in New Zealand in 2019,<sup>197</sup> and in September 2023 announced that it would be purchasing HSBC's New Zealand residential home loan portfolio;<sup>198</sup></li> </ul>

<sup>194</sup> Heartland's digital home loans disrupt the market. The launch of Heartland Home Loans. Retrieved from: <https://www.heartland.co.nz/about-us/news/digital-home-loans-disrupt-the-market>

<sup>195</sup> Heartland New Zealand Limited. Full Year Results to 30 June 2014. Heartland. Retrieved from: <https://www.heartlandgroup.info/documents/reports/presentations/fy14-full-year-results-presentation.pdf>

<sup>196</sup> (28 February 2022). Heartland Bank enters broker market. Good Returns. Retrieved from: <https://www.goodreturns.co.nz/article/976519960/heartland-bank-enters-broker-market.html>

<sup>197</sup> (1 September 2023). Pepper Money announces deal to acquire HSBC NZ home loans. Mortgage Professional Australia. Retrieved from: <https://www.mpamag.com/au/news/general/pepper-money-announces-deal-to-acquire-hsbc-nz-home-loans/458241>

<sup>198</sup> (1 September 2023). Pepper Money announces deal to acquire HSBC NZ home loans. Mortgage Professional Australia. Retrieved from: <https://www.mpamag.com/au/news/general/pepper-money-announces-deal-to-acquire-hsbc-nz-home-loans/458241>

		<ul style="list-style-type: none"> <li>• <u>Simplicity</u> entered with a home loan product in 2019;<sup>199</sup></li> <li>• <u>Squirrel</u> expanded in the last year into offering savings on-call deposit accounts;<sup>200</sup></li> <li>• <u>Sharesies</u> expanded in the last year into offering savings on-call deposit accounts;<sup>201</sup></li> <li>• <u>Debut</u>, a start-up, has announced an intention to enter shortly as "a new kind of bank being built openly with the NZ public. Debut is set to launch on mobile devices later this year";<sup>202</sup></li> <li>• fintechs, for example, <u>Wise</u>,<sup>203</sup> <u>Revolut</u>,<sup>204</sup> <u>Dosh</u>,<sup>205</sup> <u>Qippay</u>,<sup>206</sup> <u>BlinkPay</u>,<sup>207</sup> and <u>Volley</u><sup>208</sup> have entered as providers of digital wallet and payment services; and</li> <li>• <u>Apple</u> and <u>Google</u> have also entered with Apple Pay and Google Pay products.</li> </ul> <p>In terms of specific examples of exit, BNZ is aware of HSBC's June 2023 announcement of it exiting its New Zealand retail banking business.<sup>209</sup> As above, in September 2023 it was announced that Pepper Money would be purchasing HSBC's New Zealand residential home loan portfolio.<sup>210</sup></p> <p>BNZ also understands that in 2013/14 Heartland exited conventional residential mortgages (describing them as a not a "strategic product"),<sup>211</sup> before it re-entered in 2020.</p>
<b>Consumer search and switch</b>		
20	How do personal banking consumers select their first bank or personal banking service provider?	Nothing further in addition to BNZ's comments elsewhere in this submission.

<sup>199</sup> (30 March 2020). Couple celebrates first home with Simplicity's lowest cost mortgage. Simplicity. Retrieved from: <https://simplicity.kiwi/learn/updates/simplicitys-first-home-loan-mortgage-gets-couple-into-new-home-pre-lock-out/>

<sup>200</sup> (24 January 2023). Introducing Squirrel's high-interest On-Call account: What you need to know. Squirrel. Retrieved from: <https://www.squirrel.co.nz/blogs/saving-and-investing/introducing-squirrels-high-interest-on-call-account>

<sup>201</sup> (19 April 2023). Sharesies expands offering with new no-fees savings account. RNZ. Retrieved from: <https://www.rnz.co.nz/news/business/488264/sharesies-expands-offering-with-new-no-fees-savings-account>

<sup>202</sup> (30 May 2023). Roadmap Update. Debut. Retrieved from: <https://www.makingdebutbank.co.nz/spotlight/roadmap-update-may-2023>

<sup>203</sup> (3 December 2018). Kia ora New Zealand! The Wise borderless account has landed. Wise. Retrieved from: <https://wise.com/au/blog/launching-borderless-new-zealand>

<sup>204</sup> (3 July 2023). Revolut launches in New Zealand. Revolut. Retrieved from: <https://www.revolut.com/en-NZ/news/revolut-launches-in-new-zealand/>

<sup>205</sup> (13 June 2023). Dosh launches Stashes to help Kiwis manage their money. Dosh. Retrieved from: <https://www.dosh.nz/blog/dosh-launches-stashes-to-help-kiwis-manage-their-money>

<sup>206</sup> (29 May 2023). Fintech to raise \$1.2m on back of deal with BNZ. Business Desk. Retrieved from: <https://businessdesk.co.nz/article/finance/fintech-to-raise-12m-on-back-of-deal-with-bnz>

<sup>207</sup> (12 January 2022). First Māori-owned fintech company finds an easier way to pay bills. BlinkPay. Retrieved from: <https://news.blinkpay.co.nz/first-m%C4%81ori-owned-financial-technology-fintech-company-finds-an-easier-way-to-pay-bills>

<sup>208</sup> (24 July 2023). BNZ And Volley Announce Agreement To Bring "request To Pay" App To New Zealand. BNZ Press Release. Scoop. Retrieved from: <https://www.scoop.co.nz/stories/BU2307/S00275/bnz-and-volley-announce-agreement-to-bring-request-to-pay-app-to-new-zealand.htm>

<sup>209</sup> (13 June 2023). HSBC to exit its retail banking business in New Zealand, remains focused on wholesale. NZ Herald. Retrieved from: <https://www.nzherald.co.nz/business/hsbc-to-exit-its-retail-banking-business-in-new-zealand-remains-focused-on-wholesale/JSW54SQLUNHBTKUCTOHSKWIZZQ/>

<sup>210</sup> (1 September 2023). Pepper Money announces deal to acquire HSBC NZ home loans. Mortgage Professional Australia. Retrieved from: <https://www.mpamag.com/au/news/general/pepper-money-announces-deal-to-acquire-hsbc-nz-home-loans/458241>

<sup>211</sup> Heartland New Zealand Limited. Full Year Results to 30 June 2014. Retrieved from: <https://www.heartlandgroup.info/documents/reports/presentations/fy14-full-year-results-presentation.pdf>

21.1	How often and why do personal banking consumers search for a new service provider?	Nothing further in addition to BNZ's comments elsewhere in this submission.
21.2	How often and why do personal banking consumers switch to a new service provider?	Nothing further in addition to BNZ's comments elsewhere in this submission.
22	Please describe any factors that might prompt or hinder a consumer searching and/or switching to an alternative provider of personal banking services.	Nothing further in addition to BNZ's comments elsewhere in this submission.
23	What tools are available to help consumers search, compare, and switch providers of personal banking services?	BNZ's views of the tools available to assist consumers to search, compare, and switch providers of personal banking services are set out at Sub-part (2 H) of Part [2] of its submission.
24	Please identify any personal banking services that are either tied or bundled with other services. Please describe the impact on competition.	BNZ's views that bundling is not a material feature of the sector, nor a material impediment to customer switching, are set out at Sub-part (2 J) of Part [2] of its submission.
<b><i>Innovation</i></b>		
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.	BNZ's views that the New Zealand personal banking sector has strong levels of innovation are set out at Sub-part (3 E) of Part [3] of its submission.
26	How does innovation in the personal banking sector in New Zealand compare to overseas markets? Please describe and give examples.	BNZ's views that the New Zealand personal banking sector has strong levels of innovation are set out at Sub-part (3 E) of Part [3] of its submission.  In BNZ's view, the levels of innovation set out in Sub-part (3 E) demonstrates that innovation in New Zealand compare favourably with overseas markets.
27	Please describe any latent demand for new personal banking services that is currently being unmet. Please describe and give examples.	Nothing further in addition to BNZ's comments elsewhere in this submission.
28	What are the main incentives for providers to innovate in the personal banking sector? Please describe the nature and strength of these incentives.	BNZ's views that the New Zealand personal banking sector has strong levels of innovation are set out at Sub-part (3 E) of Part [3] of its submission.  BNZ considers that the main incentives for providers to innovate in the personal banking sector are to: <ul style="list-style-type: none"> <li>• stay competitive in the market;</li> <li>• attract and retain customers with enhanced and new products and services;</li> <li>• improve operational efficiency; and</li> <li>• comply with regulatory changes.</li> </ul>
29	What are the most significant impediments to innovation in the personal	BNZ considers that several factors can impede innovation in the personal banking sector in New Zealand. Some of the most significant impediments include:

	<p>banking sector in New Zealand? Please describe and give examples.</p>	<ul style="list-style-type: none"> <li>• <b>Regulatory Challenges:</b> Regulatory requirements and compliance standards can sometimes slow down the introduction of new innovations. Striking a balance between innovation and maintaining regulatory compliance can be challenging for financial institutions.</li> <li>• <b>Legacy Systems:</b> Many established banks in New Zealand operate on legacy systems that might not be easily adaptable to newer technologies. The cost and complexity of updating these systems can hinder the implementation of innovative solutions.</li> <li>• <b>Resource Constraints:</b> Developing and implementing new technologies is time-consuming and requires specialist technical expertise. Finding resources for innovation initiatives (especially when also dealing with significant regulatory reform at the same time, see Part [5] of this Submission), in a market the size of New Zealand where the technical expertise to implement complex change across the entire business sector is relatively limited can be challenging.</li> <li>• <b>Data Privacy and Security Concerns:</b> Given the heightened focus on data privacy and security, banks need to ensure that any innovation they introduce meets rigorous security standards and safeguards customer data. While necessary, this can sometimes slow down the innovation process.</li> <li>• <b>Regulatory Uncertainty:</b> In addition to causing resource constraints (described above), rapidly evolving regulatory environments can create uncertainty for banks when planning and implementing innovative technologies. Unclear or changing regulations can lead to delays or reluctance to invest in new solutions.</li> </ul> <p>Despite these challenges, the New Zealand banking sector still demonstrates significant innovation - outlined in Sub-part (3 E) of Part [3] of this submission. The sector is increasingly aware of the need to balance innovation with stability and security.</p>
30	<p>What impact, if any, does ownership structure have on providers' ability and incentive to innovate?</p>	<p>BNZ does not consider that ownership has a material impact on innovation. This is evident in BNZ's continued investment in secure Open Banking APIs, and its significant number of other investments in innovation outlined in Sub-part (3 E) of Part [3] of this submission.</p>
<b><i>Other analyses, factors and priority</i></b>		
31	<p>Are there any other analyses or factors not raised in this paper that could be relevant to this study? Please explain your answer.</p>	<p>Nothing further in addition to BNZ's comments elsewhere in this submission.</p>
32	<p>Which analyses and factors do you think should be a priority for the Commission to focus on? Please explain your answer.</p>	<p>Nothing further in addition to BNZ's comments elsewhere in this submission.</p>