

## Executive Summary

While I agree with much in this report, I suggest that the Commerce Commission needs to investigate open banking further and also the potential of networked identity, and I suggest that Government will need to lead if major changes are to be driven forward.

I agree with the analysis in the Executive Summary document in the section titled “The major banks do not currently face strong competition”. In my analysis I also highlight a number of other areas of concern and suggest that the oligopoly effect allows banks to focus on profit to the exclusive of customer service.

I agree with the analysis of factors limiting competition and suggest that the challenge of changing overnight payment relationships is an issue that requires specific attention if competition is to be improved.

Various solutions are suggested. Re the open banking approach, I suggest that open banking may not in fact deliver more competition and that the Commerce Commission needs to undertake more research in this space. The report considers identity under the heading of open banking. The assumption seems to be that decentralized identity will take over, but this seems highly unlikely due to the inherent security limitations of public personal digital devices.

A networked solution seems so much more likely and can be implemented today. There is a place for both Government and banks to contribute to such a solution.

Re the other solutions, there seems to be a glaring omission of Government leadership. The last two decades has shown that the New Zealand major banks have not worked together to develop better and cheaper banking services in this country. Providing better finance to the fifth player may assist that bank in joining the club, as might more streamlined regulations make innovation easier around the edges of the banking system. But such measures are unlikely to launch the major banks into action and I suggest that Government needs to lead in some way.

## **Retail Banking Performance in New Zealand**

In the NZ Retail banking sector, annual financial statements makes it amply clear that the major banks achieve super profits. But we additionally see a lack of or reducing service provision:

- closed and closing branches
- reduction of ATM services
- antiquated administration of overnight payments (no centralised register of corporate payment destinations, no ability to validate direct debit account numbers)
- no retail real-time payments services
- no bill presentment solutions

The lack of centralized structures and planning is not just a question of lack of consumers services but it also limits joint actions in the banking sector such as combating investment scams that are currently being perpetuated against New Zealand consumers.

All this is indicative of an Net Present Value approach to banking decision making where profit is the driving force. The oligopoly effect, well documented in the Draft Report, allows the banks to operate this way with impunity. There is a lack of any concept of a social license for major banks, no matter how much community support window dressing is undertaken. I do not suggest that banks are being malevolent, but I do suggest that retail banking is structured in operate in a profit first manner where customer service is only a minor consideration.

## **Factors Limiting Competition**

The report proposes that four main factors are limiting competition

- Structural advantages of the major banks
- Regulatory barriers to entry and expansion
- Barriers to consumer switching and engagement
- Impediments to innovation by fintechs

These are all valid factors and I wish to expand on barriers to consumer switching. Banks' retail customers utilize the following services:

1. deposit accounts
2. term deposits
3. payment instruments (e.g. debit cards)
4. bill payment services
5. mortgages

1-3 are relatively generic and there is little friction when changing banks. Bill payments can be achieved through automatic payments, direct debit, credit card, and direct credits. The challenge to change all of these relationships when moving banks is considerable. As mentioned above, New Zealand lacks a common infrastructure for the administration of these overnight payment relationships, hence there is no easy way to switch all relationships.

I suggest that this is a significant barrier than needs to be considered in the future.

## **Solutions**

The report suggest four different solutions:

1. Improve the capital position of smaller providers and Kiwibank
2. Accelerate progress on open banking
3. Ensure the regulatory environment better supports competition
4. Empower consumers to better access the benefits of competition

I will restrict my comments to open banking, including some comments on identity, which is erroneously included as part of open banking.

### **Open Banking**

“Open banking has the potential to revolutionise banking” is the opening line in the Draft Report Executive Summary. I disagree as, to date, banking has not been revolutionized and, logically, open banking cannot change the fundamental dynamics that major players with large balance sheets dominate the banking world.

I suggest a possible outcome of open banking will be to ensure banks’ oligopoly benefits remain. While this may sound counterintuitive, the actuality is that open banking only enables fringe banking services and has not delivered any major change to a country’s banking environment. For major banks it has been a windfall as they are seen as complying, even when they are glacial in developing open banking solutions, and hence they maintain their market dominance.

I recommend that the Commerce Commission should study the likely effect of open banking on a small economy like NZ.

## **Identity**

Identity will play a key role in any further banking developments in the areas of:

1. AML
2. fraud detection
3. transaction authorization
4. payments

Currently the assumption is that a decentralized approach will appear but in the decade it has been mooted, no commercial service has been launched. I firmly believe that a networked solution will eventuate as it can be implemented now, is efficient and is secure. A networked solution, similar to that seen in the Scandinavian countries, can be configured in multiple ways. A sensible approach will be to utilize RealMe as a general source to identity information with the banks being sources of banking profile information. However, it also possible that banks could be a source of general identity information if their data was proven to be of sufficient quality.