

Market study into personal banking services

Preliminary Issues paper

Date: 10 August 2023



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Glossary

ANZ	ANZ Bank New Zealand Limited (a New Zealand registered bank), owned by Australia and New Zealand Banking Group Limited.
ASB	ASB Bank Limited (a New Zealand registered bank), owned by Commonwealth Bank of Australia Limited.
Banking services	Includes personal banking services, corporate, institutional, commercial, agricultural and small to medium enterprise (SME) banking services.
Banks	Entities registered with Reserve Bank of New Zealand as operating a bank. Banks are either incorporated in New Zealand, or operating as branches of overseas-incorporated banks.
BNZ	Bank of New Zealand, owned by National Australia Bank Limited.
Deposit	Money deposited in a bank account.
Deposit account	Includes transaction, savings, and term deposit accounts, as well as any associated overdraft facilities (ie, a line of credit, whether arranged or unarranged, that allows the account balance to go below zero to cover transactions). Some deposit accounts are also sometimes referred to as current accounts.
FMA	Financial Markets Authority, Te Mana Tātai Hokohoko.
Fintech	A firm that uses digital information and automation technology in providing innovative financial services.
Home loan	A loan made by a bank (or other lender) to a property owner (for example, to enable the owner to buy the property, to buy land for the construction of a new house, or to renovate an existing house). Home loans are almost always secured through a mortgage over the property, and the terms “home loan” and “mortgage” are sometimes used interchangeably. See definition of “residential mortgage”.
Interest	A payment from a borrower or deposit-taking institution to a lender or depositor, that is not the repayment of the principal sum, calculated as a percentage rate. It is distinct from a fee which the borrower may pay the lender.
Kiwibank	Kiwibank Limited (a New Zealand registered bank), a subsidiary of Kiwi Group Capital Limited which is owned by the New Zealand Government.
MBIE	Ministry of Business, Innovation & Employment, Hīkina Whakatutuki.

Mortgage broker	A person or company that can act on behalf of the borrower in arranging a home loan (typically secured by a mortgage) from a bank or other lender. A mortgage broker may facilitate access to a range of home loan products from different lenders.
NBDT	Non-bank deposit taker. A business, other than a registered bank, that makes an NBDT-regulated offer of debt securities, and carries on the business of borrowing and lending money or providing financial services (or both). NBDTs include finance companies that raise funds from the public, as well as most building societies and credit unions.
OCR	Official cash rate. The OCR is the overnight interest rate set by the Reserve Bank of New Zealand.
Personal banking services	A subset of banking services, personal banking services are banking services ordinarily acquired for personal, domestic, or household use.
Reserve Bank	Reserve Bank of New Zealand, Te Pūtea Matua.
Residential mortgage	<p>A legal instrument registered on a residential property's title in order to secure the payment of a loan made by a bank (or other lender) to the property owner (for example, to enable the owner to buy the property, to buy land for the construction of a new house, or to renovate an existing house). A mortgage allows the lender to sell the property as a last resort if the borrower is unable to pay back the loan.</p> <p>A mortgage registered on the title is separate to the underlying loan agreement. If the loan is paid back, the property owner can apply to the lender (usually through a lawyer) for removal of the lender's mortgage from the title. Lenders often refer to a loan related to residential properties as a "home loan" and the terms "home loan" and "mortgage" are sometimes used interchangeably.</p>
The Treasury	The Treasury, Te Tai Ōhanga.
Westpac	Westpac New Zealand Limited (a New Zealand registered bank), a subsidiary of Westpac Banking Corporation.
Whenua Māori	Types of whenua Māori (Māori land) are Māori freehold land, Māori customary land and general land privately owned by Māori. In this paper we largely refer to Māori freehold land. This is land where Māori customary interests have been converted to freehold title by the Māori Land Court or its predecessors by a freehold order.

Introduction

1. The Minister of Commerce and Consumer Affairs (Minister) has required Te Komihana Tauhokohoko | the Commerce Commission (Commission) to carry out a study under Part 3A of the Commerce Act 1986 (Commerce Act) into any factors that may affect competition for the supply or acquisition of personal banking services. For the purposes of this study, personal banking services are banking services ordinarily acquired for personal, domestic, or household use.
2. This study provides the first opportunity in New Zealand's history to consider and evaluate in-depth whether competition in personal banking is promoting outcomes that benefit New Zealand consumers over the long term. Competition drives businesses to innovate and be more efficient, and to offer New Zealanders greater value and more choice. It is an effective competitive process that ensures prices and profits are not too high for too long.
3. We expect this study will help to inform the public, the sector and government about the nature of competition in personal banking and how the sector operates at present. As an independent Crown entity we will run a transparent process, and we will gather, analyse and assess information to explore in-depth the issues within the scope of study.
4. We are committed to engaging with Māori as part of this work and to supporting future-focussed Māori-Crown relationships, through taking a good-faith, collaborative approach to engaging with Māori. We acknowledge Te Tiriti o Waitangi | the Treaty of Waitangi and the importance of having regard to a Te Ao Māori view as part of our engagement process. We are therefore committed to engaging with Māori on this study to hear their perspectives.
5. We are required by the terms of reference to make the final report from this study publicly available by 20 August 2024. The final report may include recommendations that identify ways to improve competition in the sector for the long-term benefit of New Zealand consumers.

Purpose of this paper

6. This paper provides an overview of our current understanding of the personal banking services sector in New Zealand, our proposed areas of focus within the broad scope of the terms of reference, the lines of enquiry we intend to pursue, and the factors potentially affecting competition which we may explore as part of the study.
7. We invite responses from all interested parties to help further our understanding of the sector and decide where to focus our efforts during the study – including actual and potential providers of personal banking services, consumers and consumer representatives, and those with particular knowledge of, insight into, or interest in, the sector.

8. We will engage Māori as Treaty partners to gather Te Ao Māori perspectives to inform the study. We plan to engage with Māori directly in this process and will be in contact with partners and stakeholders in due course.

Structure of this paper

9. This paper has four main sections.
 - 9.1 **Our role and the process for the study** describes what a market study is, the terms of reference for this study, and how you can be involved in the process.
 - 9.2 **Overview of personal banking services in New Zealand** provides an overview of our current understanding of the sector.
 - 9.3 **Proposed focus of the market study** provides our initial views as to where we will place our focus in terms of particular services within the scope of the study.
 - 9.4 **Analysis we intend to undertake** outlines our proposed approach to the study, including the analysis we have planned and the potential factors affecting competition that we may explore.
10. The discussion in this paper does not pre-suppose that there are competition issues in the sector. We have identified relevant lines of enquiry as well as factors which may be affecting competition so that these can be explored during the study. These have been identified based on the information available to date and the direction given to us by the terms of reference for this study.
11. We expect that the lines of enquiry and factors that we focus on will be refined as our understanding of personal banking develops. In particular, feedback received from stakeholders during the study, including in response to this paper, will help us refine the focus of the study.

Our role and the process for the study

12. This section provides an overview of:
 - 12.1 our role when undertaking a market study;
 - 12.2 the terms of reference for this study;
 - 12.3 our intended process for this study;
 - 12.4 how you can have your say on this paper; and
 - 12.5 the historical and international context of this study.

Our role is to study competition and factors that may affect it

13. A market study, referred to as a “competition study” in Part 3A of the Act, is a study of any factors that may affect competition for the supply or acquisition of goods or services.¹
14. Market studies allow us to examine whether markets could work better for New Zealanders. By gathering and analysing information on markets we can identify whether there are factors preventing competition from working well. We can then consider if competition in a market could be improved and, if so, make recommendations about how to make markets work better for the benefit of New Zealanders.
15. Further guidance on our approach to market studies can be found in our [Market Studies Guidelines](#).²

The Minister has set the terms of reference for this study

16. We must carry out the market study in accordance with the terms of reference issued by the Minister. We may also consider any ancillary matters that are related to, but not explicitly covered by, the terms of reference.³
17. The terms of reference for this study are set out in the box below.⁴

¹ Commerce Act 1986, s 48.

² Commerce Commission “Market Studies Guidelines” (19 November 2020).

³ Commerce Act 1986, s 51A(4)(b).

⁴ “Notice for Commerce Commission Competition Study into Personal Banking Services” (20 June 2023) *New Zealand Gazette* No 2023-go2632, available at <https://gazette.govt.nz/notice/id/2023-go2632>.

Notice for Commerce Commission Competition Study into Personal Banking Services

I, the Honourable Dr Duncan Webb, Minister of Commerce and Consumer Affairs, pursuant to section 51 of Part 3A of the Commerce Act 1986, require the Commerce Commission to carry out a competition study into any factors that may affect competition for the supply or acquisition of personal banking services. For the purposes of this study, personal banking services are banking services ordinarily acquired for personal, domestic, or household use.

Matters to be considered in the study may include, but are not restricted to:

- The structure of the industry and the nature of competition.
- The conditions for entry by potential competitors and the conditions for expansion.
- Any barriers to consumers comparing bank offers or switching banks, including the extent to which products or services may be tied or bundled.
- Any impediments to new or innovative banking products or services.
- Comparative indicators of bank financial performance (including profitability).

Should the Commission be of the view that one or more matters listed above, or any additional matters not listed, are likely to provide special insight into competition for the supply and acquisition of personal banking services then the Commission may focus on those aspects.

The Commerce Commission should make its report publicly available by **20 August 2024**.

Consistent with previous market studies, I expect the Commission will produce a preliminary issues paper into the sector by the end of August 2023.

18. The Minister considered it in the public interest to require a study into personal banking services, defined for the purpose of the study as banking services ordinarily acquired for personal, domestic, or household use. In particular, the Minister considered that:⁵

- 18.1 there are existing 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);
- 18.2 the market is of strategic importance to the New Zealand economy or businesses, or of significant importance to consumers;
- 18.3 it is likely that there will be viable solutions to any issues that are found; and

⁵ Hīkina Whakatutuki | Ministry of Business, Innovation & Employment “Cabinet paper – Initiating a Market Study into Personal Banking Services” (28 June 2023), available at www.mbie.govt.nz/dmsdocument/26848-initiating-a-market-study-into-personal-banking-services-proactiverelase-pdf.

- 18.4 a formal study by the Commission would add value above work that could be done by other agencies.

Our process ends with a final report in August 2024

19. The process for this study is described in our [Statement of Process](#).⁶ That paper outlines the process we intend to follow over the course of the study and how interested parties can remain informed and contribute to the study.
20. As an independent Crown entity we will run a transparent process, and gather, analyse and assess information to explore in-depth the issues within the scope of study. We will seek to engage directly with and collect information from a range of stakeholders and interested parties across business, consumer groups and industry bodies, actual and potential providers of personal banking services, and consumers.
21. We welcome responses to this paper from all interested parties. We also intend to continue engaging more directly with stakeholders and interested parties during 2023 and early 2024.
22. We recognise the impact that multiple and concurrent regulatory reform processes may have on the ability of sector participants to engage with our market study. We are committed to reducing unnecessary burden on sector participants as they engage with our market study, including with respect to the regulatory work of the Commission and by consulting and working with fellow members of Kaunihera Kaiwhakarite Ahumoni | the Council of Financial Regulators.⁷
23. We will, as appropriate:
- 23.1 give sufficient time for participants to engage with information requests and consultation processes;
 - 23.2 give a preference to voluntary information requests over using mandatory information gathering powers in the first instance; and
 - 23.3 take a proportionate approach when engaging with smaller or less well-resourced sector participants.

⁶ Commerce Commission “Market study into personal banking services – Statement of Process” (22 June 2023).

⁷ Alongside the Commerce Commission, member agencies of the Council of Financial Regulators are the Reserve Bank of New Zealand, the Financial Markets Authority, the Ministry of Business, Innovation & Employment, and The Treasury.

We welcome your feedback on this paper and continued engagement with our market study

24. We are seeking your views on the content of this paper and the questions we have raised. We also welcome your views on any other matters you consider important within the terms of reference for this study. Your views will help us to understand relevant factors affecting competition for the supply or acquisition of personal banking services and help us decide where to focus our effort and analysis during the study.
25. You do not need to respond to all the content or questions raised – you can instead respond to specific questions or aspects of the paper, or address just those that relate to your business operations or your experience.
26. Please send any feedback by email to: marketstudies@comcom.govt.nz.
27. To ensure your views can be taken into account, please provide your feedback to us by **4pm, Thursday 7 September 2023**. You will also have further opportunities to contribute to this study, as described in our [Statement of Process](#).
28. For ease of reference, we have attached to this paper:
 - 28.1 further details on how to provide us with feedback on this paper, and details about what to do if you would like to share confidential or commercially sensitive information, or wish to remain anonymous (Attachment A); and
 - 28.2 a complete list of the questions asked throughout this paper (Attachment B).
29. As part of running a transparent process, **we publish all submissions that we receive at different points in the process to the website landing page for this study**. This means that, where applicable to them, submitters will need to provide us with public (non-confidential) and confidential versions of their submissions so that the public version can be published.

This is the first competition study of personal banking services in New Zealand and follows similar studies overseas

30. Although we have considered competition in the banking sector in the context of specific merger decisions, this market study is the first opportunity in New Zealand's history to consider and evaluate in-depth whether competition in personal banking is promoting outcomes that benefit New Zealand consumers over the long term.

31. Public bodies in other jurisdictions have carried out similar studies into their banking sectors in recent years. Although New Zealand’s personal banking sector has its own history, structure and regulatory environment, we will draw from other jurisdictions’ studies to the extent we consider their findings or recommendations are relevant. Studies of particular relevance that we refer to in this paper include:
- 31.1 the UK Competition and Markets Authority (UK CMA) ‘*Retail banking market investigation*’ (2016).⁸ The UK CMA, noting its grounds for suspecting that features of the market prevented, restricted, or distorted competition, investigated the supply of retail banking services to personal current account (PCA) customers and to small and medium-sized enterprises.^{9, 10} It examined aspects such as market concentration, pricing, quality, and the switching process. The UK CMA introduced several remedies to improve competition, including an order to introduce open banking by 2018.¹¹
- 31.2 the UK Financial Conduct Authority (UK FCA) ‘*Strategic review of retail banking business models*’ (2018 and 2022).¹² The objectives of the review were to understand the impact of regulatory change and technological developments on retail banking business models and the impacts of these changes on competition and consumer outcomes, including for small and medium-sized businesses. In 2022, the UK FCA published an updated final report that discussed competition developments since its 2018 final report.

⁸ UK CMA “Retail banking market investigation”, available at <https://www.gov.uk/cma-cases/review-of-banking-for-small-and-medium-sized-businesses-smes-in-the-uk>.

⁹ The CMA initiated the investigation following concerns raised in two market studies, by the CMA and FCA, into personal current accounts, and SME banking. UK CMA “Personal current accounts and small business banking not working well for customers” (July 2014), available at <https://www.gov.uk/government/news/personal-current-accounts-and-small-business-banking-not-working-well-for-customers>.

¹⁰ Personal current account, or PCA, is a term used in UK studies and refers to a transaction account.

¹¹ UK CMA “Retail Banking Market Investigation Order 2017”, available at www.gov.uk/government/publications/retail-banking-market-investigation-order-2017.

¹² UK FCA “Strategic review of retail banking business models”, available at www.fca.org.uk/publications/multi-firm-reviews/strategic-review-retail-banking-business-models.

- 31.3 the UK FCA *'Mortgages Market Study'* (2019).¹³ Acknowledging the changes in the economic and regulatory environment since its 2009 'Mortgage Market Review', and a recently added new objective of promoting competition, the UK FCA's Mortgages Market Study considered how the mortgage market had developed, and whether competition could be improved.¹⁴
- 31.4 the Australian Productivity Commission *'Competition in the Australian Financial System'* (2018).¹⁵ This inquiry considered the broader Australian financial system, of which the banking system is a part. It examined competition for a range of personal banking services, insurance, and other financial services, with a view to improving consumer outcomes, and productivity and stability of the financial system.
- 31.5 the Australian Competition and Consumer Commission (ACCC) *'Residential mortgage products price inquiry'* (2018).¹⁶ Following the introduction of a 'Major Bank Levy', the Australian Treasurer directed the ACCC to conduct an inquiry to examine the extent to which the levy was being passed through to mortgage borrowers.¹⁷
- 31.6 the ACCC *'Home loan price inquiry'* (2020).¹⁸ The Australian Treasurer then directed the ACCC to conduct an inquiry into home loan pricing more generally. While the inquiry considered home loan pricing similarly to the 2018 inquiry, it also focussed on impediments to consumers switching to alternative home loan suppliers.

¹³ UK FCA "Mortgages Market Study" www.fca.org.uk/publications/market-studies/mortgages-market-study.

¹⁴ This was a discussion paper published by what was then the Financial Services Authority (as the UK FCA was previously known) setting out the case for regulatory reform of the mortgage market in order to address issues it had identified leading to consumer detriment, Financial Services Authority "Mortgage Market Review – Discussion Paper" (October 2009), available at www.fca.org.uk/publication/discussion/fsa-dp09-03.pdf.

¹⁵ Australian Productivity Commission "Competition in the Australian Financial System", available at www.pc.gov.au/inquiries/completed/financial-system/report.

¹⁶ ACCC "Residential mortgage products price inquiry 2017-18", available at www.accc.gov.au/inquiries-and-consultations/finalised-inquiries/residential-mortgage-products-price-inquiry-2017-18.

¹⁷ Parliament of Australia 'The Major Bank Levy explained' (June 2017), available at www.aph.gov.au/About_Parliament/Parliamentary_departments/Parliamentary_Library/FlagPost/2017/June/The_Major_Bank_Levy_explained.

¹⁸ ACCC "Home loan price inquiry 2019-20", available at www.accc.gov.au/inquiries-and-consultations/finalised-inquiries/home-loan-price-inquiry-2019-20.

- 31.7 the ACCC *'Retail deposits inquiry' (2023)*.¹⁹ Launched in February 2023, the retail deposits inquiry is currently in progress and expected to be finalised by December 2023. The inquiry is into the market for retail deposit products, and includes how banks set interest rates, as well as other terms and conditions.

Overview of personal banking services in New Zealand

32. This section provides an overview of our current understanding of the personal banking sector in New Zealand, based on the information we have reviewed to date, and also sets out our initial views on the scope set for us by the terms of reference.
33. This section discusses our current understanding of:
- 33.1 what banking is and what personal banking services are;
 - 33.2 why personal banking services are important to New Zealanders;
 - 33.3 the nature of regulation applying to personal banking service providers;
 - 33.4 the history of banking in New Zealand and Māori interactions with personal banking services;
 - 33.5 the current structure of the banking sector;
 - 33.6 the concentrated supply of some core personal banking services;
 - 33.7 the financial performance indicators (including profitability) of banks and, in particular, the larger banks; and
 - 33.8 digital disruption and the future of personal banking services.
34. Our understanding and characterisation of the sector will continue to evolve as the study progresses. We welcome comments on the preliminary overview contained in this section.

Core banking activities are taking deposits and extending loans, but personal banking services include a broader range of financial services

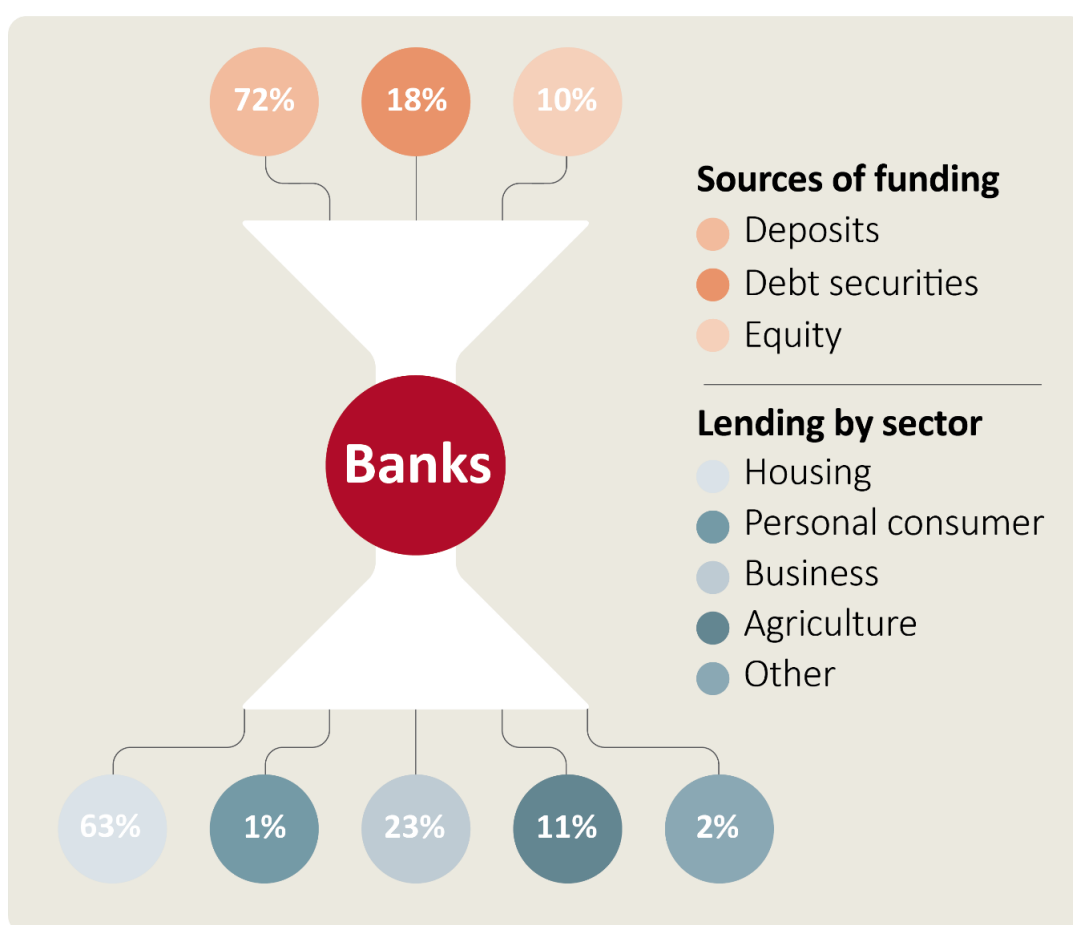
35. At its core, banking involves taking deposits from lenders and extending loans to borrowers.²⁰ Banks provide a service to each group of customers (depositors and borrowers), including closely associated services such as transaction accounts.

¹⁹ ACCC "Retail deposits inquiry 2023", available at www.accc.gov.au/inquiries-and-consultations/retail-deposits-inquiry-2023.

²⁰ In this sense banking has characteristics of a platform or two-sided market. That is, banks provide an intermediation service to (at least) two distinct types of users: those seeking to safely store their money and earn a return on it, and those seeking to borrow money and who are willing to pay for the use of it.

36. Figure 1 below shows the different sources of funding that registered banks in New Zealand use, their relative size, as well as the sectors that registered banks lend to. The numbers used in Figure 1 are illustrative only and are intended to provide a sense of the relative significance of each source of funding and each lending sector.²¹ We have displayed the relative size of deposits, debt securities, and equity because we understand they are the primary sources of banks' funding for lending. We welcome feedback on the extent this figure is representative of individual banks and other service providers.

Figure 1 Sources of registered bank funding and sector lending



Source: Commerce Commission.²²

²¹ Figure 1 shows equity as making up approximately 10% of registered banks' funding for lending. This is a simple estimate based on its relative size compared to deposits and debt securities held by registered banks. This percentage is different from, and not related to, the capital ratios monitored by the Reserve Bank, Reserve Bank of New Zealand "Bank Financial Strength Dashboard", available at <https://bankdashboard.rbnz.govt.nz/capital-adequacy>.

²² Figures used in this diagram are illustrative only. They broadly reflect data from: Reserve Bank of New Zealand "Banks: Balance sheet (S10)", available at <https://www.rbnz.govt.nz/statistics/series/registered-banks/banks-balance-sheet>; Reserve Bank of New Zealand "Banks: Assets – Loans by purpose (S31)", available at <https://www.rbnz.govt.nz/statistics/series/registered-banks/banks-assets-loans-by-purpose>.

37. Banks may also offer services to complement the core activities, but which are less directly connected with them. These may include insurance, financial advice, wealth management, and other financial services provided to corporate, business and personal customers. In addition to banks, there is a broad range of non-bank financial entities that may provide some or many of the broad category of personal banking services.
38. The terms of reference define personal banking services as banking services that are ordinarily acquired for personal, domestic, or household use. We consider that personal banking services will likely include:
 - 38.1 transaction accounts and services such as payments and money transfers;
 - 38.2 savings accounts and term deposit accounts, and other forms of interest bearing accounts;
 - 38.3 consumer credit services, including home loans, credit cards, personal loans, and overdrafts;
 - 38.4 wealth management, including financial advice, and access to investment opportunities including Kiwisaver;
 - 38.5 branch services, including acceptance of cash deposits, provision of cash withdrawals, and access to cash through Automated Teller Machines (ATMs);
 - 38.6 services that are also typically offered to personal banking customers such as insurance and foreign exchange; and
 - 38.7 services targeted at specific groups, such as Islamic banking, lending against whenua Māori, and overseas remittances (such as to the Pacific Islands).

39. Not all these services are within the intended scope of the study. The Cabinet paper states (emphasis added):²³

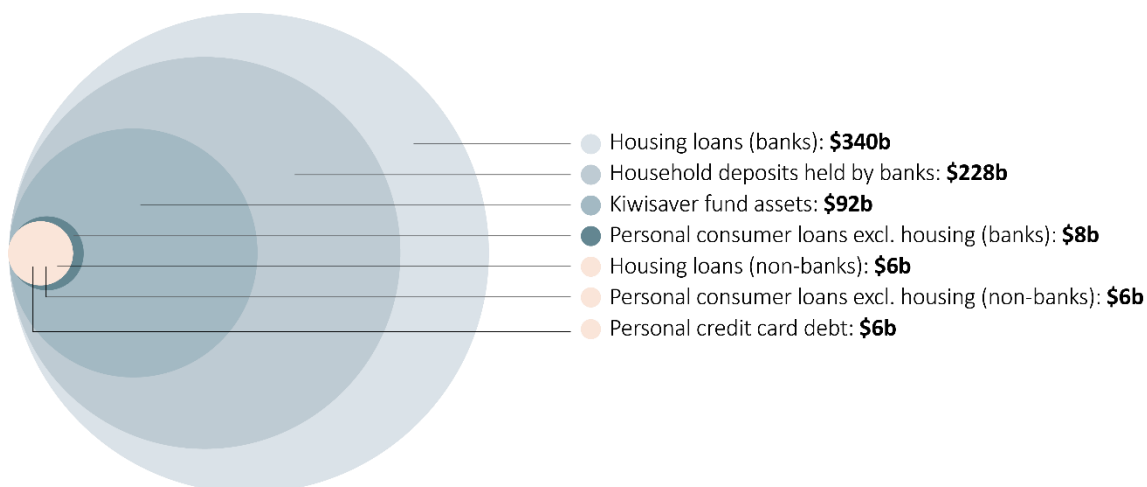
Personal banking services for the purposes of the study (as set out in the terms of reference) will include current, deposit, and overdraft account services, personal loans, and mortgage and credit card lending. Services such as institutional, corporate, commercial, and small to medium enterprise (SME) banking services, will be outside of the scope of the study except to the extent necessary to analyse financial performance such as profitability, which will likely need to be considered on a cross-portfolio basis. Some customers may use personal banking services for business purposes – e.g. residential mortgages as security to finance business borrowing. Such activity would be within the scope of the study but is not expected to be a focus.

Of the services that are in scope, the Commission may exercise discretion as to which services it focusses its study on. In addition, the proposed terms of reference allow for consideration of the role and influence of additional players (e.g. non-banks and mortgage brokers) in personal banking services. **I would envisage a primary focus on personal banking services such as current, deposit, and overdraft account services, personal loans, and mortgage and credit card lending, and less of a focus on financial services such as KiwiSaver, wealth management, insurance, and foreign exchange.**

40. In paragraphs 135 to 162 below we explain our intended focus on deposit accounts (including transaction accounts and overdraft facilities, savings accounts, and term deposits) and home loans.
41. Figure 2 below shows the relative size of some of the personal banking services described above compared to each other in December 2022. Some of these categories are not mutually exclusive, and are intended to give an indication of relative size only.

²³ Ministry of Business, Innovation & Employment “Cabinet paper – Initiating a market study into personal banking services” (28 June 2023) at [23]-[24], available at <https://www.mbie.govt.nz/dmsdocument/26848-initiating-a-market-study-into-personal-banking-services-proactiverelease-pdf>.

Figure 2 Relative size of selected personal banking services, December 2022



Source: Te Pūtea Matua | Reserve Bank of New Zealand.²⁴

42. Registered banks appear to be the main suppliers of the services that we intend to focus on (see discussion of concentration at paragraphs 91 to 95 below). However, we are interested to hear from consumers as well as all actual and potential suppliers of the broad range of personal banking services to help us better understand the sector, decide where to focus the study, and to identify any factors that may affecting competition. We are seeking engagement with all interested parties, including, for example:
- 42.1 consumers of personal banking services, consumer advocacy groups, and consumer advisory services;
 - 42.2 registered banks, non-bank deposit takers, finance companies, credit unions, building societies, fintech firms, and mortgage brokers;
 - 42.3 providers of transaction services, including registered banks, digital wallets, foreign exchange, and international transfer providers; and
 - 42.4 providers of personal lending, from across the spectrum of larger home loans to small personal loans.

²⁴ Reserve Bank of New Zealand “Statistics – Tātauranga”, available at <https://www.rbnz.govt.nz/statistics>.

Personal banking services are important to New Zealanders

43. Almost all New Zealanders use personal banking services.²⁵ Although very few New Zealanders use no banking services at all, we acknowledge the detrimental impacts lack of access can have, and are interested in exploring whether competition in personal banking services can work better for these groups.²⁶
44. Consumers may access services digitally (for example, through mobile phone applications or internet banking), physically (for example, by using ATMs and banks' physical branches), or a combination of both.
45. Personal banking services allow people to be paid and pay for things securely and quickly and, more generally, to participate in the modern economy. Financial inclusion (meaning that individuals and businesses have access to useful and affordable financial services that meet their needs, delivered in a responsible and sustainable way) is described by the World Bank as a key enabler to reduce poverty and boost prosperity.²⁷
46. Access to personal banking services can be impacted by factors such as proximity to physical bank branches or digital literacy. Lack of access to personal banking services may financially disenfranchise individuals and impede their economic mobility, as well as their ability to build wealth and generally live a secure life.
47. The personal banking services that a person may use can change over the course of their life. Some examples are outlined below to illustrate how consumers may use different personal banking services at different stages of their lives. The examples are not intended to be, and will not be, representative of all New Zealanders' interactions with personal banking services, but are intended to explore how different services may be more or less relevant at different stages of life, and how consumers' interactions with personal banking services may vary over time.
 - 47.1 Many registered banks offer account options for children and teenagers, and this may be many people's first interaction with personal banking services. Over the course of their lives, people may vary from being net borrowers of money to net lenders of money, and vice versa. This may influence the relative importance they place on different interest rates.

²⁵ In 2021, approximately 57% of New Zealanders age 15+ had a credit card and 96% had a debit card, and 99% of New Zealanders age 14+ had a bank account. Data sourced from: The Global Economy "Business and economic data for 200 countries", available at <https://www.theglobaleconomy.com/New-Zealand/>.

²⁶ ThinkPlace "Westpac NZ Access to Banking in Aotearoa Report" (April 2023), available at <https://www.westpac.co.nz/assets/Personal/life-money/documents/Westpac-NZ-Access-to-Banking-in-Aotearoa-Report.pdf>.

²⁷ The World Bank "Understanding Poverty – Financial Inclusion", available at <https://www.worldbank.org/en/topic/financialinclusion/overview>.

- 47.2 Earlier in their lives, consumers may earn lower wages, or may not be earning at all (for example, if studying), and may consequently have fewer assets. Personal loans such as car loans or home loans allow consumers to maintain a higher standard of living during these periods than they could otherwise afford based on their assets or current income.
- 47.3 As their earnings increase, consumers may choose to save money for retirement or to protect against unexpected events that could impact their ability to earn. Insurance products allow people to manage the risk that a life event such as serious health condition or loss of assets has a detrimental impact on their standard of living.
- 47.4 Accessing KiwiSaver and other savings or investments can allow people to retire and maintain a higher standard of living despite reduced or ceased earnings.

Regulation of personal banking services reflects their unique characteristics

48. The financial system plays a significant role in the development of the economy and the wellbeing of New Zealanders. Firms that provide personal banking services form an important part of the financial system, and their actions can have important economic consequences that can affect financial stability, their customers and the broader economy.²⁸ In the absence of regulation, these individual firms may not be properly incentivised to factor in these wider societal impacts.²⁹ Regulation plays an important role in aligning banks' private incentives with these impacts.³⁰
49. Sector-specific regulation of personal banking services falls under two categories:
- 49.1 prudential regulation, which focusses on the stability of providers of personal banking services, and their role in maintaining a sound and efficient financial system;³¹ and

²⁸ Office of the Minister of Commerce and Consumer Affairs "Cabinet paper: Conduct of Financial Institutions: Introduction of a New Conduct Regime" (11 September 2019) at [4], available at <https://www.mbie.govt.nz/dmsdocument/6929-conduct-of-financial-institutions-introduction-of-a-new-conduct-regime-proactiverelease-pdf>; Bank of England "Why Do We Regulate Banks?", available at <https://www.bankofengland.co.uk/explainers/why-do-we-regulate-banks>.

²⁹ International Monetary Fund, "A Primer on Bank Capital Regulation: Theory, Empirics and Policy" (June 2014) at 3, available at <https://www.imf.org/external/np/seminars/eng/2013/mmi/pdf/Calomiris-Aiyar-Wieladek.pdf>.

³⁰ Coase, Ronald "The Problem of Social Cost" *Journal of Law and Economics*: Vol 3, No 1, 1960, at 1-44; International Monetary Fund "What Are Externalities?", available at <https://www.imf.org/external/pubs/ft/fandd/2010/12/basics.htm#ref3>; Reserve Bank of New Zealand "Statement of Principles – Bank Registration and Supervision, Financial Stability Group Document BS1" (October 2021) at [5], available at <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/banks/banking-supervision-handbook/bs1-statement-of-principles.pdf>.

³¹ Reserve Bank of New Zealand "How we regulate and supervise banks – How we oversee banks", available at <http://www.rbnz.govt.nz/regulation-and-supervision/oversight-of-banks/how-we-regulate-and-supervise-banks/how-we-oversee-banks>.

- 49.2 other sector-specific regulation, which (among other things) sets out how providers of personal banking services can interact with their customers (including, for example, what information needs to be disclosed to customers and what information is permitted to be asked for from customers), as well as compliance obligations.
50. In this market study, we will focus on those aspects of the regulatory environment that are most likely to affect competition in personal banking services, and more specifically on the regulation applying to the services we are likely to focus most closely on – ie, home loans and deposit accounts. In particular, we will consider the impact of regulation on the conditions of entry and expansion, and any impediments to innovation.
51. Table 1 below sets out a high-level summary of the existing prudential and other sector-specific regulatory requirements that we consider are likely to be most relevant to this market study.

Table 1 Overview of current regulation relevant to personal banking services

Regulation	Relevance to personal banking services	Key regulatory agency
Prudential		
Reserve Bank of New Zealand Act 2021 (RBNZ Act)	The Reserve Bank’s governing legislation. Sets the Reserve Bank’s objectives, including the financial stability objective, as well as establishing the Reserve Bank’s functions to act as New Zealand’s central bank, prudential regulator and supervise banks and other financial institutions.	Te Pūtea Matua Reserve Bank of New Zealand
Banking (Prudential Supervision) Act 1989* (BPSA)	Restricts use of the words “bank”, “banker”, and “banking”. Provides for registration of banks, and prudential supervision including compliance with conditions of registration and disclosure obligations. These relate to matters such as capital and liquidity requirements. *Note that the Banking (Prudential Supervision) Act 1989 will be replaced in the near future by a new regime under the Deposit Takers Act 2023 (see Table 2 below for further detail).	Te Pūtea Matua Reserve Bank of New Zealand

Regulation	Relevance to personal banking services	Key regulatory agency
Non-Bank Deposit Takers Act 2013* (NBDT Act)	Provides for licensing of non-bank deposit takers including compliance with conditions. Requires licensed non-bank deposit takers to have a current credit rating, and risk management plans. Provides for imposition of capital requirements, limits on related party exposures, liquidity requirements, and suitability of directors. Provides for Reserve Bank monitoring and enforcement. *Note that the Non-Bank Deposit Takers Act 2013 will be replaced in the near future by a new regime in the Deposit Takers Act 2023 (see Table 2 below for further detail).	Te Pūtea Matua Reserve Bank of New Zealand
Financial Service Providers (Registration and Dispute Resolution) Act 2008 (FSPA)	Requires those in the business of providing a financial service (including banks, and non-bank deposit takers) to be registered, and to be members of an approved dispute resolution scheme (eg, the Banking Ombudsman Scheme).	Registrar of Financial Service Providers, Te Mana Tātai Hokohoko Financial Markets Authority
Financial Markets Infrastructures Act 2021	Regulates financial market infrastructures (multilateral systems for the clearing, settling or recording of, for example, payments).	Te Pūtea Matua Reserve Bank of New Zealand, Te Mana Tātai Hokohoko Financial Markets Authority

Regulation	Relevance to personal banking services	Key regulatory agency
Other sector-specific		
Credit Contracts and Consumer Finance Act 2003 (CCCFA)	Protects consumers' interests under credit contracts such as home loans, credit cards, arranged overdrafts and personal loans. Imposes responsibilities on lenders, as well as setting requirements for consumer credit contracts (where credit is loaned for personal, domestic or household purposes and interest/credit fees are payable or a security interest is taken, such as a residential home loan). These requirements include rules relating to disclosures, cancellation, interest charges, fees and payments, amongst other things. Lenders must be certified before they can provide credit under a consumer credit contract (unless exempt). Banks and non-bank deposit takers are exempt from certification on the basis that they are licensed by the Reserve Bank.	Te Komihana Tauhokohoko The Commerce Commission

Regulation	Relevance to personal banking services	Key regulatory agency
Financial Markets Conduct Act 2013 (FMCA)	<p>Relevantly to personal banking services, the FMCA: (1) imposes fair dealing obligations on the provision of financial products and financial services (other than credit contracts), generally setting out that no person shall engage in trade or conduct that is misleading or deceptive or likely to mislead or deceive in relation to financial products or the supply or possible supply of financial services; (2) sets out the financial advice regime (incorporated into the FMCA by the Financial Services Legislation Amendment Act 2019). Under the regime, advice providers need a licence from the Financial Markets Authority and are subject to certain duties and obligations in the provision of financial advice – including in relation to any financial advice provided in connection with home loans; and (3) regulates the provision of investment products (such as KiwiSaver).</p>	<p>Te Mana Tātai Hokohoko Financial Markets Authority</p>
Retail Payment System Act 2022 (RSPA)	<p>Provides for the regulation of participants in retail payment networks, including the designation of a retail payment network after which the designated network may be issued standards that it must comply with.</p> <p>Network standards may deal with the disclosure of information relating to payment services, pricing for payment services and access requirements.</p>	<p>Te Komihana Tauhokohoko The Commerce Commission</p>

52. Although not sector-specific, we also note that the financial sector has obligations under:
- 52.1 The Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (AML/CFT Act). That legislation places obligations on a range of New Zealand organisations, including financial institutions, to detect and deter money laundering (the method by which people disguise and conceal the proceeds of crime and protect and enjoy their assets) and terrorism financing. The AML/CFT Act aims to ensure that businesses take appropriate measures to guard against money laundering and terrorism financing. For example, a bank may be required to carry out due diligence when opening an account for a new customer, including verifying the customer’s identity from independent and reliable sources.³² The supervision of financial institutions under the AML/CFT Act is split between Te Tari Taiwhenua | Department of Internal Affairs, the Reserve Bank, and the FMA.³³
- 52.2 The Privacy Act 2020 (Privacy Act). Relevant to personal banking services, Te Mana Mātāpono Matatapu | the Privacy Commissioner monitors banks’ conduct in relation to privacy, and provides specific guidance on bank related questions and investigates privacy breaches. The Privacy Commissioner has recently commented on or investigated various privacy issues in the banking sector. The role of the Privacy Act in the provision of personal banking services will likely become more prominent with the designation of the consumer data right to the banking sector (see below).
53. As can be seen from Table 1 above, the Reserve Bank, the Financial Markets Authority and the Commission each have key regulatory responsibilities related to personal banking, along with Hīkina Whakatutuki | Ministry of Business, Innovation & Employment (MBIE) and Te Tai Ōhanga | The Treasury. Together, these agencies comprise the Council of Financial Regulators. The Council facilitates co-operation and co-ordination between its members to support effective and responsive regulation of the financial system in New Zealand.³⁴

³² AML/CFT Act, as well as guidance from: Department of Internal Affairs “Information for Financial Institutions and Casinos”, available at <https://www.dia.govt.nz/AML-CFT-Financial-Institutions-and-Casinos#Financial-Institutions-Factsheet>; Banking Ombudsman “Anti-money laundering – changes to banking”, available at <https://bankomb.org.nz/guides-and-cases/quick-guides/other/anti-money-laundering-changes-to-banking/>.

³³ Department of Internal Affairs “Financial Institutions: AML/CFT Factsheet”, available at [https://www.dia.govt.nz/diawebsite.nsf/Files/AML-CFT-Financial-Institutions-Factsheet/\\$file/AML-CFT-Financial-Institutions-Factsheet.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/AML-CFT-Financial-Institutions-Factsheet/$file/AML-CFT-Financial-Institutions-Factsheet.pdf).

³⁴ Council of Financial Regulators “Objective and responsibilities”, available at <https://www.cofr.govt.nz/about-us/objectives-and-responsibilities.html>.

54. There also are significant upcoming or proposed changes to the regulatory framework relevant to personal banking services, as outlined in Table 2 below.³⁵

Table 2 Overview of upcoming or proposed regulation relevant to personal banking services

Proposed regulation	Relevance to personal banking services	Anticipated timing
Prudential		
Deposit Takers Act 2023 (DTA)	<p>The DTA will modernise legislation for prudential regulation and supervision of the deposit-taking sector. It will merge the currently separate frameworks for registered banks and licensed non-bank deposit takers (eg, credit unions and building societies) under a single regulatory regime.</p> <p>Updates to the Reserve Bank’s prudential framework include modernising the licensing process, enabling a range of prudential standards to be applied to particular deposit takers or classes of deposit takers, and expanding the Reserve Bank’s supervisory and enforcement tools.</p> <p>The Bill also introduces a Depositor Compensation Scheme (DCS), a fund that will compensate eligible depositors up to \$100,000.</p>	<p>Limited parts of the DTA (to allow the Reserve Bank to develop and consult on the secondary legislation to implement the new regime) are already in effect.</p> <p>The DCS provisions are intended to be in place in late 2024.</p> <p>The rest of the DTA will come into effect on or before 6 July 2029, once the related secondary legislation is in place.</p>
Changes to the Reserve Bank’s liquidity policy	<p>The Reserve Bank is undertaking a liquidity policy review. The objective of the liquidity policy is to strengthen financial stability by lowering the likelihood of liquidity problems affecting banks and improve their ability to manage such problems. Having earlier consulted on and finalised the principles by which a new liquidity policy framework should be governed, the Reserve Bank completed further consultation in May 2023 on significant policy issues (including eligibility criteria for liquid assets, the potential adoption of international standards, and how requirements could be applied across deposit takers in a proportionate manner).³⁶</p>	<p>The Reserve Bank proposes to consult later in 2023 on further policy issues before a final round of consultation on the proposed new liquidity policy in 2024.</p>

³⁵ We acknowledge that, in addition to what is covered in Table 2, there are a number of other ongoing regulatory initiatives in the financial sector, which are summarised here: Council of Financial Regulators “Regulatory Initiatives Calendar – Q2 2023” (30 June 2023), available at <https://www.cofr.govt.nz/files/regulatory-initiatives-calendar/regulatory-initiatives-calendar-q2-2023.pdf>.

³⁶ Reserve Bank of New Zealand “Review of Liquidity Policy (BS13)”, available at <https://www.rbnz.govt.nz/have-your-say/2022/review-of-liquidity-policy>.

Proposed regulation	Relevance to personal banking services	Anticipated timing
Changes to the Reserve Bank's debt-to-income (DTI) restriction framework	The Reserve Bank consulted on a framework for restrictions on DTI residential lending in November 2022. When the DTI restriction framework is implemented, limits will be set on the amount of debt borrowers can take on relative to their income. The Reserve Bank states that this will support financial stability by limiting higher-risk mortgage lending.	The Reserve Bank's finalised framework was released in April 2023 and sets the framework for technical specifications that banks must comply with if a DTI tool is activated. The Reserve Bank have indicated that the earliest they will implement the DTI restrictions is likely to be March 2024.
Proposed changes to the Reserve Bank's policy for branches of overseas banks	The Reserve Bank has recently consulted on its policy for branches of overseas banks. Included in the Reserve Bank's package of proposed changes was that branches of overseas banks be restricted to engaging in wholesale business only, meaning they could not take retail deposits or offer products or services to retail customers (in other words, would not be able to provide personal banking services to customers).	The Reserve Bank is looking to publish final policy decisions on its policy for branches of overseas banks later in 2023.
Other sector-specific		
Financial Markets (Conduct of Institutions) Amendment Act 2022 (CoFI Act)	This legislation introduces a new regime requiring that certain institutions – including registered banks – must be licensed in relation to their general conduct towards consumers. This will be a new type of “market services licence” and will be monitored and enforced by the FMA. The CoFI Act arose out of joint reviews by the Reserve Bank and the FMA into the conduct and culture of banks (and life insurers) in New Zealand in 2018 and 2019. These reforms are intended to address the issues identified in the reviews that banks and insurers were not putting in place systems and processes to ensure consumers were treated fairly.	The Commencement Order for the CoFI Act was made 6 June 2023, setting out that section 23 of the CoFI Act (relating to transitional, savings and related provisions) will come into force on 25 July 2023, and the rest of the CoFI Act will come into force on 31 March 2025. At that point, the institutions subject to the CoFI Act will be required to obtain a market services licence and implement a fair conduct programme.

Proposed regulation	Relevance to personal banking services	Anticipated timing
Consumer Data Right (CDR)	MBIE has published a discussion document that consults on draft legislation, the Customer and Product Data Bill, which will set standards and safeguards for customer and product data exchange. ³⁷ The Bill is intended to improve customer access and control of their own data, standardise how data is exchanged, and ensure those who request access to data are accredited as trustworthy. The aim is to help innovators create new products and services, increase competition, and ultimately benefit consumers. It is currently intended that the CDR will be applied to one sector at a time, and to the banking sector first. ³⁸ The application of the CDR to the banking sector is referred to as “open banking”. ³⁹	Submissions on the Bill closed on 24 July 2023. The Government aims to introduce legislation to establish the CDR framework by the end of 2023.

55. We will monitor the above proposed and upcoming changes to the regulatory framework for personal banking services, to ensure that the study takes account of changes that are already in train.

A brief history of banking in New Zealand

56. This section provides a brief history of banking in New Zealand, covering the early banks and banking regulation, the deregulation of the 1980s and the introduction of modern prudential regulation, and the consolidation that followed. The particular history and experiences of Māori with personal banking are set out in the next section.

³⁷ Ministry of Business, Innovation & Employment “Unlocking value from our customer data” (June 2023), available at <https://www.mbie.govt.nz/assets/unlocking-value-from-our-customer-data-bill-discussion-document.pdf>.

³⁸ Ministry of Business, Innovation & Employment “Unlocking value from our customer data” (June 2023) at 8, available at <https://www.mbie.govt.nz/assets/unlocking-value-from-our-customer-data-bill-discussion-document.pdf>.

³⁹ Ministry of Business, Innovation & Employment, “Discussion Document: Options for establishing a consumer data right in New Zealand” (August 2020), available at <https://www.mbie.govt.nz/dmsdocument/11625-discussion-document-options-for-establishing-a-consumer-data-right-in-new-zealand>.

Early banks

57. The first bank opened in New Zealand in 1840, followed by several more as the gold rush of the 1860s took hold.⁴⁰ In 1886, the Māori King Tāwhiao established a bank, Te Peeke o Aotearoa, to provide banking and monetary services to Māori.⁴¹ Te Peeke o Aotearoa operated until about 1905.⁴²
58. New Zealand's banks were originally divided into trading banks (which were the main providers of services to commercial customers) and trustee savings banks (which generally served personal banking customers).⁴³ There was little overlap between the services that each type of bank provided.
59. The Reserve Bank was established by legislation and opened on 1 August 1934.⁴⁴ Initially, the Reserve Bank did not have a prudential supervisory role. Its original purpose was to exercise control over monetary circulation and credit.⁴⁵ The Reserve Bank's role was expanded by legislation in 1964 to include advising government on monetary policy, as well as regulating and controlling money, banking, banking transactions, credit and currency, and interest rates on behalf of the government.⁴⁶

⁴⁰ David Tripe "Banking and finance" Te Ara – An Encyclopedia of New Zealand, available at <http://www.TeAra.govt.nz/en/banking-and-finance>.

⁴¹ Park, Stuart "Te Peeke o Aotearoa – The Bank of King Tawhiao" (1993), available at https://www.nzjh.auckland.ac.nz/docs/1992/NZJH_26_2_04.pdf.

⁴² Park, Stuart "Te Peeke o Aotearoa – The Bank of King Tawhiao" (1993), available at https://www.nzjh.auckland.ac.nz/docs/1992/NZJH_26_2_04.pdf.

⁴³ Arthur Grimes "Liberalisation of financial markets in New Zealand" Reserve Bank of New Zealand Bulletin (1998), Vol 61, No. 4 (December 1998), available at <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/publications/bulletins/1998/1998dec61-4Grimes.pdf>.

⁴⁴ Matthew Wright "The Policy Origins of the Reserve Bank of New Zealand" Reserve Bank of New Zealand Bulletin, Vol. 69, No. 3 (September 2006), available at <https://www.rbnz.govt.nz/hub/-/media/project/sites/rbnz/files/publications/bulletins/2006/2006sep69-3wright.pdf>.

⁴⁵ Chris Hunt "A short history of prudential regulation and supervision at the Reserve Bank" Reserve Bank of New Zealand Bulletin: Vol. 79, No. 14 (August 2016), available at <https://www.treasury.govt.nz/sites/default/files/2018-06/rbnz-3924759.pdf>.

⁴⁶ Chris Hunt "A short history of prudential regulation and supervision at the Reserve Bank" Reserve Bank of New Zealand Bulletin: Vol. 79, No. 14 (August 2016), available at <https://www.treasury.govt.nz/sites/default/files/2018-06/rbnz-3924759.pdf>.

A pre-prudential, strict regulatory era

60. New Zealand’s banking system between 1933 and the early 1980s has been described as “one of the most heavily strait-jacketed financial sectors in the industrialised world”.⁴⁷ In particular:
- 60.1 an Act of Parliament was needed to establish a trading bank up until 1987. The five trading banks in business in New Zealand in the mid-1900s were subject to restrictions regarding interest rates, permitted levels of overseas deposits, exchange rates, and investments in government securities. Initially trading banks were not permitted to participate in savings banking;⁴⁸ and
 - 60.2 the trustee savings banks’ activities also were strictly limited under the Trustee Savings Bank Act 1948. Amongst other things, at one time they could not establish a branch or agency more than 25 miles from head office.⁴⁹
61. From 1950, non-bank financial institutions – such as building societies and finance companies – grew by offering services that banks could not, such as riskier lending at higher interest rates. To illustrate, in 1960 finance companies only accounted for 1% of total deposits of the bank and finance sector as a whole, but by the end of 1984 this had increased to 20%.⁵⁰

⁴⁷ Chris Hunt “A short history of prudential regulation and supervision at the Reserve Bank” Reserve Bank of New Zealand Bulletin: Vol. 79, No. 14 (August 2016), available at <https://www.treasury.govt.nz/sites/default/files/2018-06/rbnz-3924759.pdf>.

⁴⁸ Te Ara – An Encyclopedia of New Zealand “The Banking System”, available at <http://www.TeAra.govt.nz/en/1966/banking>.

⁴⁹ Trustees Savings Banks Act 1948 (Repealed), s 5(3), available at http://www.nzlii.org/nz//legis/hist_act/tsba19481948n62275.pdf.

⁵⁰ David Tripe “Banking and finance – Banking and finance to 1984” Te Ara – the Encyclopedia of New Zealand, available at <http://www.TeAra.govt.nz/en/banking-and-finance/page-1>.

Deregulation and the establishment of a prudential regime

62. In 1984, a raft of controls on the economy were eased, including the regulation that restricted competition in the finance sector as well as the removal of capital and current account restrictions, floating of the New Zealand dollar, and removal of interest rate controls.^{51, 52} A 'light-handed' prudential supervisory regime was established, including restricting the use of the term "bank" to only those institutions that are registered as banks, as well as establishing the Reserve Bank's prudential supervisory role in the sense that it is understood today.⁵³ There is no longer any relevant distinction between trading banks and trustee savings banks.
63. By 1987, the banking sector had opened to allow the entry of new banks. The four trading banks in existence at the time – ANZ, BNZ, the National Bank of New Zealand and Westpac – were all registered and many other banks and financial institutions followed.⁵⁴

⁵¹ Chris Hunt "A short history of prudential regulation and supervision at the Reserve Bank" Reserve Bank of New Zealand Bulletin: Vol. 79, No. 14 (August 2016), available at <https://www.treasury.govt.nz/sites/default/files/2018-06/rbnz-3924759.pdf>.

⁵² Arthur Grimes "Liberalisation of financial markets in New Zealand" Reserve Bank of New Zealand Bulletin (1998), Vol 61, No. 4 (December 1998), available at <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/publications/bulletins/1998/1998dec61-4Grimes.pdf>.

⁵³ Chris Hunt "A short history of prudential regulation and supervision at the Reserve Bank" Reserve Bank of New Zealand Bulletin: Vol. 79, No. 14 (August 2016), available at <https://www.treasury.govt.nz/sites/default/files/2018-06/rbnz-3924759.pdf>.

⁵⁴ David Tripe "Banking and finance – Banking and finance since 1984" Te Ara - the Encyclopedia of New Zealand, available at <http://www.TeAra.govt.nz/en/banking-and-finance/page-2>.

64. In the 1980s the government also corporatised the trustee savings banks, with community trusts being set up as the sole owner of each one.⁵⁵ Most of them merged in 1984, although they continued to trade under their regional names and their respective community trusts continued to hold shares in the merged entity, Trust Bank New Zealand.⁵⁶ The community trust shareholders of the trustee savings banks continue to exist today, although they do not generally retain any ownership stake in the banks in relation to which they were originally established.⁵⁷ The trustee savings banks that did not merge included the then Taranaki Savings Bank, now TSB, and the former Westland Bank, which was later acquired by ASB.^{58, 59} ASB originated as Auckland Savings Bank and merged with other trustee savings banks into Trust Bank New Zealand, but withdrew from the merged entity and took on the name ASB in 1987.^{60, 61}
65. The 1990s and early 2000s saw a wave of bank mergers and acquisitions, including:⁶²
- 65.1 the acquisition of ASB by the Commonwealth Bank of Australia (which acquired a 75% interest in 1989 and the other 25% in 2000);
 - 65.2 the privatisation of BNZ (which was sold to National Australia Bank in 1992);
 - 65.3 the merger of Westpac Holding Limited and Trust Bank New Zealand Limited (cleared by the Commerce Commission on 3 May 1996) to form Westpac Trust; and
 - 65.4 the acquisition by ANZ Banking Group (New Zealand) Limited of The National Bank of New Zealand Limited (cleared by the Commerce Commission on 25 September 2003).

⁵⁵ Economic Reform Australia “Trustee Savings Banks: News and views from New Zealand”, available at <https://era.org.au/trustee-savings-banks-news-and-views-from-new-zealand/>.

⁵⁶ Economic Reform Australia “Trustee Savings Banks: News and views from New Zealand”, available at <https://era.org.au/trustee-savings-banks-news-and-views-from-new-zealand/>.

⁵⁷ We understand that the only exception is TSB, which remains 100% owned by the Toi Foundation (formerly the TSB Community Trust).

⁵⁸ Toi Foundation “About us” <https://www.toifoundation.org.nz/about/>; TSB “Our story”, available at <https://www.tsb.co.nz/about/history>.

⁵⁹ Trust Bank (New Zealand), Merger and Dissolution, available at [https://en.wikipedia.org/wiki/Trust_Bank_\(New_Zealand\)](https://en.wikipedia.org/wiki/Trust_Bank_(New_Zealand)).

⁶⁰ ASB “Our history” <https://www.asb.co.nz/about-us>.

⁶¹ Wikipedia “Trust Bank (New Zealand) – Merger and Dissolution”, available at [https://en.wikipedia.org/wiki/Trust_Bank_\(New_Zealand\)](https://en.wikipedia.org/wiki/Trust_Bank_(New_Zealand)).

⁶² David Tripe “New Zealand Bank Mergers and Efficiency Gains – Paper presented at the 14th Annual Australasian Finance and Banking Conference, Sydney” (December 2001), available at https://www.academia.edu/12183999/New_Zealand_Bank_Mergers_and_Efficiency_Gains.

66. In response to concerns about the high level of foreign ownership after the wave of bank mergers and acquisitions, and the levels of service provided by the existing banks, the government established Kiwibank in 2001 as a subsidiary of New Zealand Post.⁶³
67. In the last two decades, a number of local and non-Australian foreign owned banks have registered with the Reserve Bank.⁶⁴ For example, the Bank of China and the Bank of India are now registered and provide personal banking services in New Zealand.

Māori interactions with personal banking in New Zealand

68. This section sets out our current high-level understanding of Māori interactions with the personal banking sector. We understand that there may be unique barriers and competition issues for Māori in engaging with personal banking services, and for those seeking to obtain finance to build on whenua Māori. We intend to engage with Māori to better understand Te Ao Māori views on personal banking generally, and whether competition in the personal banking sector is delivering good outcomes for Māori.
69. We discuss below research on the experience of Māori with banks and financial institutions, recent work on the Māori economy, and some of the difficulties in financing building on whenua Māori.

Māori experiences with personal banking services

70. While we acknowledge that not all Māori will have identical experiences with personal banking services, research by Te Ara Ahunga Ora | Retirement Commission and MBIE has found that:
- 70.1 Māori use fewer personal banking services than non-Māori, particularly for bank accounts;⁶⁵
- 70.2 Māori are more likely to feel they have insufficient knowledge to choose savings or lending products (eg, 23% feel they have sufficient knowledge about savings products compared to 39% of non-Māori);⁶⁶ and

⁶³ David Tripe “Banking and finance” Te Ara – An Encyclopedia of New Zealand, available at <http://www.TeAra.govt.nz/en/banking-and-finance>.

⁶⁴ Reserve Bank of New Zealand “Registered banks in New Zealand, available at <https://www.rbnz.govt.nz/regulation-and-supervision/cross-sector-oversight/registers-of-entities-we-regulate/registered-banks-in-new-zealand>.

⁶⁵ Retirement Commission “New Zealand Financial Capability Survey Focus on Māori” (2021) at 12, available at https://assets.retirement.govt.nz/public/Uploads/Research/TAAO- NZ-financial-capability_maori.pdf.

⁶⁶ Retirement Commission “New Zealand Financial Capability Survey Focus on Māori” (2021) at 12, available at https://assets.retirement.govt.nz/public/Uploads/Research/TAAO- NZ-financial-capability_maori.pdf.

70.3 the nature of standardised criteria has the unintended consequence of making home loans more difficult for Māori to obtain in comparison to other segments of the population.⁶⁷

71. In response to some of these issues, some iwi and Māori trusts offer financial services to their members or develop relationships with the financial services sector that support improved services for members, including Whai Rawa – the Ngai Tahu savings scheme and the shared equity mortgage scheme between Ngā Potiki a Tamapāhore Trust and Westpac.

The evolving Māori economy

72. There has been recent media and political discussion calling for the establishment of an iwi bank, in the context of rapid Māori economic development, and the Reserve Bank’s observation that Māori are significantly contributing to New Zealand’s cultural and economic wellbeing, with this contribution steadily growing.^{68, 69, 70, 71}
73. While the Māori economy existed prior to European settlement in New Zealand, iwi participation in this economy fell away as land was alienated.⁷² When the Waitangi Tribunal was set up in 1975 to address breaches of the Treaty of Waitangi by the Crown (with its mandate widened in 1985 to enable it to look at historic claims), the restoration of land and assets to Māori saw Māori businesses begin to grow.^{73, 74}

⁶⁷ Te Māngai Penapena Pūtea | Partner Working Group “Goal 3: Financial Literacy and Savings – Snapshot of financial literacy services for Māori” (2015), available at <https://www.mbie.govt.nz/dmsdocument/1063-hkkr-partner-working-group-financial-literacy-and-savings-pdf>.

⁶⁸ RNZ “The Land Laid Bare: Why Māori can’t build on their whenua” (30 May 2022), available at <https://www.rnz.co.nz/news/in-depth/468122/the-land-laid-bare-why-maori-can-t-build-on-their-whenua>.

⁶⁹ RNZ “Māori Party backs calls for establishment of iwi-led bank to finance building on Māori land” (31 May 2022), available at <https://www.rnz.co.nz/news/te-manu-korihi/468196/maori-party-backs-calls-for-establishment-of-iwi-led-bank-to-finance-building-on-maori-land>.

⁷⁰ MBIE is the lead government agency responsible for coordinating the Crown Māori Economic Strategy and Action Plan, the framework to drive an all-of-government focus on achieving positive outcomes for Māori, Ministry of Business, Innovation & Employment “Māori economic development”, available at <https://www.mbie.govt.nz/business-and-employment/economic-development/maori-economic-development/>.

⁷¹ Adrian Orr “Why we embraced Te Ao Māori” (13 June 2022), available at <https://www.rbnz.govt.nz/hub/publications/speech/2022/speech2022-06-13>.

⁷² Basil Keane “Te Māori i te ohanga – Māori in the economy” Te Ara - the Encyclopedia of New Zealand, available at <http://www.TeAra.govt.nz/en/te-maori-i-te-ohanga-maori-in-the-economy>.

⁷³ Basil Keane “Te Māori i te ohanga – Māori in the economy— Government reforms, 1980s” Te Ara— the Encyclopedia of New Zealand, available at <http://www.TeAra.govt.nz/en/te-maori-i-te-ohanga-maori-in-the-economy/page-7>.

⁷⁴ Basil Keane “Te Māori i te ohanga – Māori in the economy” Te Ara - the Encyclopedia of New Zealand, available at <http://www.TeAra.govt.nz/en/te-maori-i-te-ohanga-maori-in-the-economy>.

74. Through the Waitangi Tribunal, a number of iwi received settlements (usually involving a Crown apology and acknowledgement, cultural redress, and commercial and financial redress) from the government, through their claimant groups. The total value of all finalised settlements is currently \$2.2 billion.⁷⁵ These settlements have supported the growth of the Māori economy (from an estimated value of \$9 billion in 1991, to over \$68.7 billion in 2018), and have created opportunities for Māori (through iwi post-settlement governance entities) to support businesses, education, fund scholarships, create jobs and provide social and cultural services.^{76, 77}
75. While the Treaty of Waitangi settlements have been an important contribution to the Māori economy, there are many other contributors to the growing Māori economy outside of the scope of Treaty settlements:
- 75.1 In 2011, Te Puni Kōkiri | Ministry of Māori Development commissioned Business and Economic Research Limited (BERL) to report on the asset base, income, expenditure and GDP of the 2010 Māori economy. The report stressed that there are various dimensions to the Māori economy and reported that over 50% of the asset base of the Māori economy was attributable to Māori employers and self-employed (as separate to the assets of post-settlement governance entities, Māori trusts, incorporations, organisations, and iwi/rūnanga holdings companies);⁷⁸
- 75.2 In 2013 the report was updated – further noting the significant and increasingly important contribution of the Māori economy to New Zealand’s broader economy but suggesting that suitable policy settings be adopted so that the Māori economy develops in tandem with the wider New Zealand economy;⁷⁹ and

⁷⁵ Westpac New Zealand by BERL and OpinionNative “The Māori economy – obstacles and opportunities” (October 2021) at 8, available at <https://www.westpac.co.nz/assets/About-us/sponsorship/documents/The-Maori-economy-obstacles-and-opportunities-Westpac-NZ-Oct-2021.pdf>.

⁷⁶ New Zealand Story “Māori Economy Overview” <https://toolkit.nzstory.govt.nz/assets/77243>; Reserve Bank of New Zealand and BERL “Te Ōhanga Māori 2018 – The Māori Economy 2018” at 14, available at <https://www.rbnz.govt.nz/hub/-/media/project/sites/rbnz/files/research/te-ohanga-maori-report-2018.pdf>.

⁷⁷ Westpac New Zealand by BERL and OpinionNative “The Māori economy – obstacles and opportunities” (October 2021) at 8, available at <https://www.westpac.co.nz/assets/About-us/sponsorship/documents/The-Maori-economy-obstacles-and-opportunities-Westpac-NZ-Oct-2021.pdf>.

⁷⁸ Ministry of Māori Development and BERL “The asset base, income, expenditure and GDP of the 2010 Māori economy” (2011) at 4 and 7, available at https://ndhadeliver.natlib.govt.nz/delivery/DeliveryManagerServlet?dps_pid=IE34285740.

⁷⁹ Ministry of Māori Development and BERL “Te Ōhanga Māori 2013 – Māori economy report 2013” (2015) at 28, available at https://ndhadeliver.natlib.govt.nz/delivery/DeliveryManagerServlet?dps_pid=IE25266643.

- 75.3 In 2018, the Reserve Bank commissioned BERL to publish *Te Ōhanga Māori 2018*, quantifying the Māori economy and recognising it as an integral part of the Aotearoa economy – no longer separate or distinct. A key theme of the BERL Report was that *Te Ōhanga Māori* is a vibrant, varied and rapidly growing economy in spite of enduring income and wealth inequality.⁸⁰
76. Today, the Māori economy and Māori economic development continues to be a focus for the Ministry of Māori Development and the Reserve Bank, as well as a number of other government agencies such as MBIE, Manatū Aorere | Ministry of Foreign Affairs and Trade, Manatū Ahu Matua | Ministry for Primary Industries, and Kāinga Ora.^{81, 82, 83, 84, 85}

Using whenua Māori to secure a home loan

77. Under *Te Ture Whenua Act 1993*, Māori freehold land is protected from being removed from Māori ownership and cannot be sold, meaning that most current institutions are unable to use whenua Māori as security for finance because institutions' current standard risk frameworks do not permit lending on multiple-owned land.^{86, 87}

⁸⁰ Reserve Bank of New Zealand and BERL “*Te Ōhanga Māori 2018 – The Māori Economy 2018*”, available at <https://www.rbnz.govt.nz/hub/-/media/project/sites/rbnz/files/research/te-ohanga-maori-report-2018.pdf>.

⁸¹ Ministry of Māori Development “Māori economic resilience” <https://www.tpk.govt.nz/en/a-matou-whakaarotau/maori-economic-resilience>.

⁸² We note the publication of the Reserve Bank’s issues paper, *Improving Māori Access to Capital*, Reserve Bank of New Zealand “*Improving Māori Access to Capital – Issues Paper*”, available at <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/maori-access-to-capital/improving-maori-access-to-capital-issues-paper.pdf>. While the issues paper focusses predominantly on Māori businesses’ access to capital, it includes discussion on using whenua Māori as loan collateral – relevant to the use of whenua Māori to secure residential home loans.

⁸³ Ministry of Business, Innovation & Employment “Māori economic development”, available at <https://www.mbie.govt.nz/business-and-employment/economic-development/maori-economic-development/>.

⁸⁴ Ministry of Foreign Affairs and Trade “Māori Engagement and Interests in Trade”, available at <https://www.mfat.govt.nz/en/trade/trade-engagement-with-maori/>.

⁸⁵ Ministry for Primary Industries “Introduction to Māori agribusiness”, available at <https://www.mpi.govt.nz/funding-rural-support/maori-agribusiness-funding-support/introduction-to-maori-agribusiness/>.

⁸⁶ *Te Ture Whenua Māori Act 1993*, s 129.

⁸⁷ Office of the Auditor General “Part 6: Financial support to help Māori landowners build housing”, available at <https://oag.parliament.nz/2011/housing-on-maori-land/part6.htm>.

78. Government-designed sources of finance have been set up for housing on whenua Māori, including the Kāinga Whenua loan scheme administered by Kāinga Ora and supported by Kiwibank.⁸⁸ However, it has also been reported that uptake has been low, suggesting requirements may be too difficult for Māori to meet.⁸⁹
79. In its Issues Paper, the Reserve Bank stated that the difficulty in using whenua Māori to raise finance is a well-known and long-standing issue due to the difficulty in selling the land to recover money lent in the event of default. It further stated it is working collaboratively with retail banks to support the development of solutions for lending on whenua Māori to improve access to capital for Māori landowners and collectives.⁹⁰ For example, in 2019 Westpac provided a home loan to Ngāti Koroki Kahukura through a shared equity model, in FY22 BNZ amended its policy on loans secured against Māori freehold land to be able to lend up to 80% on residential property on Māori land as long as the land has been valued by an acceptable registered valuer, and ANZ aim to have changed their risk appetite and lending policies to enable multiply owned Māori land to be better used and leveraged for housing purposes by 2029.^{91,92,93}
80. For completeness, grants through the Whai Kāinga Whai Oranga commitment delivered jointly by the Ministry of Māori Development and Te Tuapapa Kura Kāinga | Ministry for Housing and Urban Development are also designed to assist with building on papakāinga.⁹⁴ However, for the purposes of this market study we are specifically interested in Māori access to residential lending, through the Kāinga Whenua scheme (or otherwise) for whenua Māori, or by way of mainstream access to lending for Māori, for land that is not whenua Māori.

⁸⁸ Kāinga Ora “Kāinga Whenua”, available at <https://kaingaora.govt.nz/home-ownership/kainga-whenua/>.

⁸⁹ Ella Stewart “The Land Laid Bare: Why Māori can’t build on their whenua” Radio New Zealand (30 May 2022), available at <https://www.rnz.co.nz/news/in-depth/468122/the-land-laid-bare-why-maori-can-t-build-on-their-whenua>.

⁹⁰ Reserve Bank of New Zealand “Improving Māori Access to Capital” at 21, available at <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/maori-access-to-capital/improving-maori-access-to-capital-issues-paper.pdf>.

⁹¹ Westpac, “Innovative home ownership model for whānau”, available at <https://westpacsustainability.co.nz/papak%C4%81inga>.

⁹² BNZ, Sustainability Report (2022), at 7 and 33, available at <https://www.bnz.co.nz/assets/bnz/about-us/PDFs/2022-BNZ-Sustainability-Report.pdf?c0701a358e577d7113202445d916eca83afc131e>.

⁹³ ANZ, Te Ao Māori Strategy 2040, at 14, available at <https://www.anz.co.nz/content/dam/anzconz/documents/about-us/Maori-Strategy.pdf>.

⁹⁴ Ministry of Māori Development “Supporting new homes and papakāinga”, available at <https://www.tpk.govt.nz/en/nga-putea-me-nga-ratonga/maori-housing-support/supporting-new-homes-and-papakāinga>; Ministry of Māori Development “Whai Kāinga Whai Oranga” <https://www.tpk.govt.nz/en/nga-putea-me-nga-ratonga/maori-housing-support/whai-kainga-whai-oranga>.

The structure of the banking sector is characterised by four large overseas-owned banks, a larger group of smaller banks, and a range of non-bank providers

81. There are currently 27 registered banks operating in New Zealand, though only 17 of these are unique banks that offer personal banking services.⁹⁵ Registered banks are supervised by the Reserve Bank and are allowed to refer to themselves as a ‘bank’ (the term is otherwise restricted).⁹⁶ Registered banks’ business activities primarily consist of the borrowing and lending of money, or the provision of other financial services, or both.
82. There is also a range of licensed and/or certified non-bank businesses (such as non-bank deposit takers, and peer-to-peer lenders) that offer personal banking services.^{97, 98}
83. Registered banks are the primary providers of personal banking services.⁹⁹ Figure 3 below shows the relative size of the largest registered banks, measured by their total assets. References to the ‘largest four banks’ and similar throughout this paper are references to the largest four banks by assets size, unless noted otherwise.

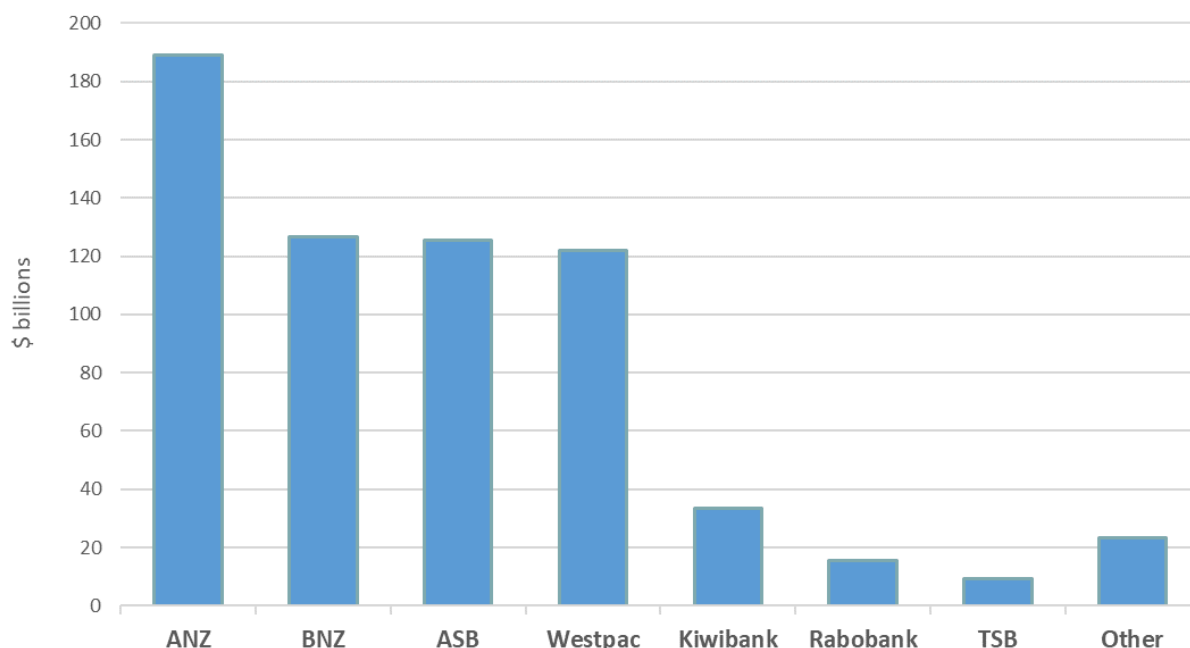
⁹⁵ Seven of the 27 registered banks are the overseas group entity of a New Zealand subsidiary, and others do not appear to offer personal banking services in New Zealand.

⁹⁶ Reserve Bank of New Zealand “How we oversee banks”, available at <https://www.rbnz.govt.nz/regulation-and-supervision/oversight-of-banks/how-we-regulate-and-supervise-banks/how-we-oversee-banks>.

⁹⁷ Reserve Bank of New Zealand “Register of non-bank deposit takers in New Zealand” (30 June 2023), available at <https://www.rbnz.govt.nz/regulation-and-supervision/cross-sector-oversight/registers-of-entities-we-regulate/register-of-non-bank-deposit-takers-in-new-zealand>.

⁹⁸ Financial Markets Authority “Peer-to-peer lending service providers”, available at <https://www.fma.govt.nz/business/services/peer-to-peer-lending-providers/>.

⁹⁹ For example, 97% of housing and personal consumer lending is provided by registered banks, Reserve Bank of New Zealand “Registered banks and non-bank lending institutions: sector lending” (30 June 2023), available at <http://www.rbnz.govt.nz/statistics/series/lending-and-monetary/registered-banks-and-non-bank-lending-institutions-sector-lending>.

Figure 3 Total assets of registered banks as at March 2023

Source: Reserve Bank Balance Sheet, as at 31 March 2023.^{100, 101}

84. The four largest banks in New Zealand (measured by total assets, as set out at Figure 3) are ANZ, BNZ, ASB, and Westpac. These banks hold a combined 88% of total assets of all registered banks in New Zealand.
85. ANZ, BNZ, ASB, and Westpac are all overseas owned, and are each subsidiaries of Australian banks.¹⁰² Their parent entities ANZ Group Holdings, National Australia Bank, Commonwealth Bank of Australia, and Westpac Banking Corporation are the four largest banks operating in Australia.¹⁰³

¹⁰⁰ Reserve Bank of New Zealand “Bank Financial Strength Dashboard – Balance sheet” (31 May 2023), available at <https://bankdashboard.rbnz.govt.nz/balance-sheet>.

¹⁰¹ ‘Other’ combines all remaining registered banks with a total asset share of less than 1%.

¹⁰² See Companies Office for each of: ANZ Bank New Zealand Limited, available at <https://app.companiesoffice.govt.nz/companies/app/ui/pages/companies/35976>; Bank of New Zealand, available at <https://app.companiesoffice.govt.nz/companies/app/ui/pages/companies/428849>; ASB Bank Limited, available at <https://app.companiesoffice.govt.nz/companies/app/ui/pages/companies/398445>; and Westpac New Zealand Group Limited, available at <https://app.companiesoffice.govt.nz/companies/app/ui/pages/companies/1856466>.

¹⁰³ Australian Productivity Commission “Competition in the Australian Financial System Inquiry report” (August 2018) at 254, available at: <https://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system.pdf>.

86. The four largest banks have a long historical presence in New Zealand, and can trace their origins to the 1840s and 1860s.¹⁰⁴ They appear to have become the largest banks through a process of growth and acquisitions.
87. Other registered banks in New Zealand with greater than 1% of total assets of all registered banks are:
- 87.1 Kiwibank: A New Zealand state-owned registered bank established in 2001.¹⁰⁵ The objectives, nature and scope of Kiwibank’s business are set out in the Statement of Corporate Intent for Kiwi Group Capital Limited (KGCL), Kiwibank’s majority shareholder.¹⁰⁶ KGCL’s objectives for Kiwibank are to maximise long-term value and return to shareholders, be as profitable and as efficient as comparable private sector entities, exhibit a sense of social and environmental responsibility, remain 100% New Zealand-owned and majority-Crown owned, and grow on a commercially sustainable basis to challenge the status quo in the New Zealand banking sector and provide a competitive alternative to New Zealanders.¹⁰⁷
- 87.2 TSB: TSB is owned by the New Zealand-based Toi Foundation (also known as the TSB Community Trust).¹⁰⁸ TSB characterises itself as a bank with regional roots with ambition to grow its national footprint.¹⁰⁹ Unlike larger banks in New Zealand, TSB’s lending appears to be funded almost entirely by its customer deposits.¹¹⁰
- 87.3 Rabobank NZ: A subsidiary of the Dutch Rabobank group, headquartered in Netherlands, Rabobank NZ provides a range of banking services (including personal banking services) focussed on serving rural and agribusiness needs.¹¹¹

¹⁰⁴ The banks (or their predecessors) were first established in New Zealand as follows: ANZ in 1840, www.anz.co.nz/about-us/our-company/anz-new-zealand/brands/anz/; ASB in 1847, www.asb.co.nz/about-us/; BNZ in 1861, www.bnzheritage.co.nz/timeline/; Westpac in 1861, www.westpac.co.nz/about-us/.

¹⁰⁵ 74.67% of Kiwibank shares are owned by the New Zealand Government, New Zealand Companies Office “Companies Register – Kiwibank Limited (1135352) Registered” available at <https://app.companiesoffice.govt.nz/companies/app/ui/pages/companies/1135352/shareholdings>.

¹⁰⁶ Kiwibank Limited, available at <https://app.companiesoffice.govt.nz/companies/app/ui/pages/companies/1135352/documents>.

¹⁰⁷ Kiwi Capital Group Limited “Statement of Intent – FY24-27” at 5, available at https://media.kiwibank.co.nz/media/documents/Statement_of_Intent_FY24-27.pdf.

¹⁰⁸ New Zealand Companies Office “TSB Bank Limited”, available at <https://app.companiesoffice.govt.nz/companies/app/ui/pages/companies/405309/shareholdings>.









¹⁰⁹ TSB “TSB Annual Report 2022” (2022) at 5, available at <https://www.tsb.co.nz/about/financial-information>.

¹¹⁰ TSB “TSB Annual Report 2022” (2022) at 30, available at <https://www.tsb.co.nz/about/financial-information>.

¹¹¹ Rabobank “Our Story”, available at <https://www.rabobank.co.nz/our-story/>.

88. Figure 4 below provides a list of registered banks in New Zealand that offer personal banking services, grouped by ownership.

Figure 4 Ownership of registered banks in New Zealand that offer personal banking services

Domestic ownership	Australian ownership	Rest of world
   HEARTLAND BANK 	   	       

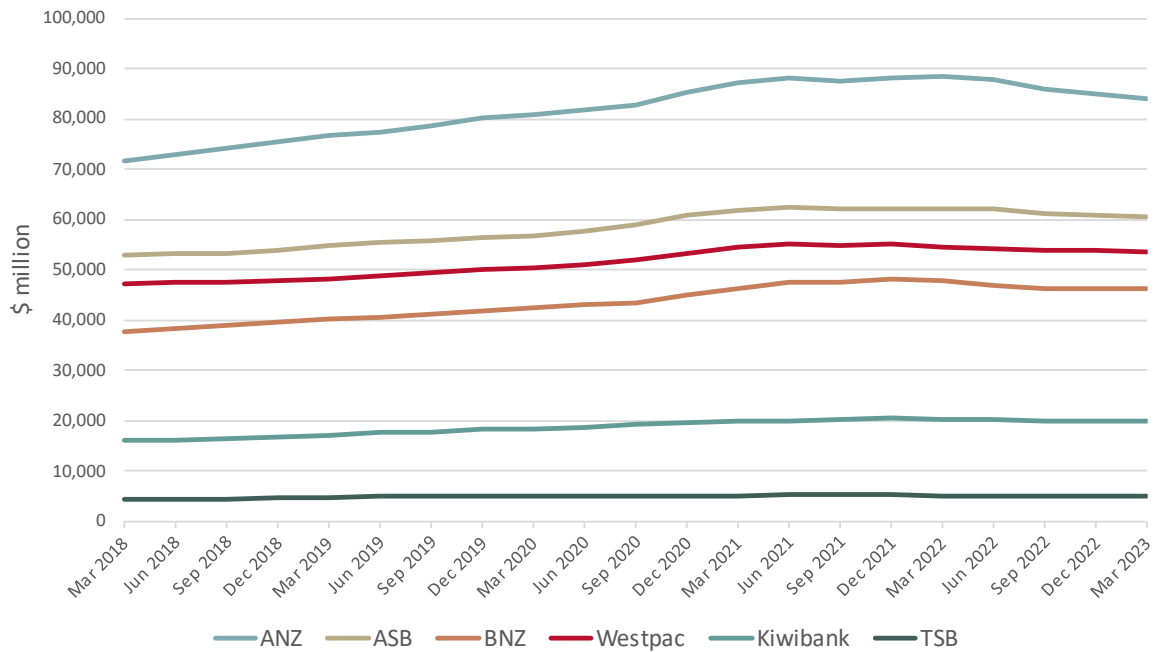
Source: Commerce Commission.¹¹²

¹¹² Reserve Bank of New Zealand “Banks currently registered in New Zealand”, available at <https://www.rbnz.govt.nz/regulation-and-supervision/cross-sector-oversight/registers-of-entities-we-regulate/registered-banks-in-new-zealand>; New Zealand Companies Office “Companies Register” <https://companies-register.companiesoffice.govt.nz/>.

89. In addition to registered banks, there is a wide range of non-bank businesses providing personal banking services.
90. Some of these businesses are licensed as non-bank deposit takers by the Reserve Bank, others are licensed under the FMA by the Financial Markets Authority and/or certified by the Commerce Commission under the Credit Contracts and Consumer Finance Act (CCCFA) (unless exempt). They include finance companies that raise funds from the public, fintechs, as well as most building societies and credit unions.
91. Although there is no commonly accepted measure of market share for the banking or personal banking sectors, the four largest banks appear to be the main providers of several core personal banking services.
92. Figure 5 to Figure 7 below show the six largest registered banks' value of housing loans, consumer loans, and deposits over the past five years. With the exception of ANZ's sale of UDC Finance to Shinsei Bank in 2020 (Figure 6), Figure 5 to Figure 7 below appear to show a fairly stable supply of several key personal banking services amongst the six largest providers of personal banking services.¹¹³ The figures also show that this supply is concentrated with the four largest banks.

¹¹³ UDC Finance, "ANZ NZ announce sale of UDC Finance" (2 June 2020), available at https://www.udc.co.nz/comm/about_us/media_article/article/40406/0/0/anz-nz-announces-sale-of-udc-finance.html?type=.

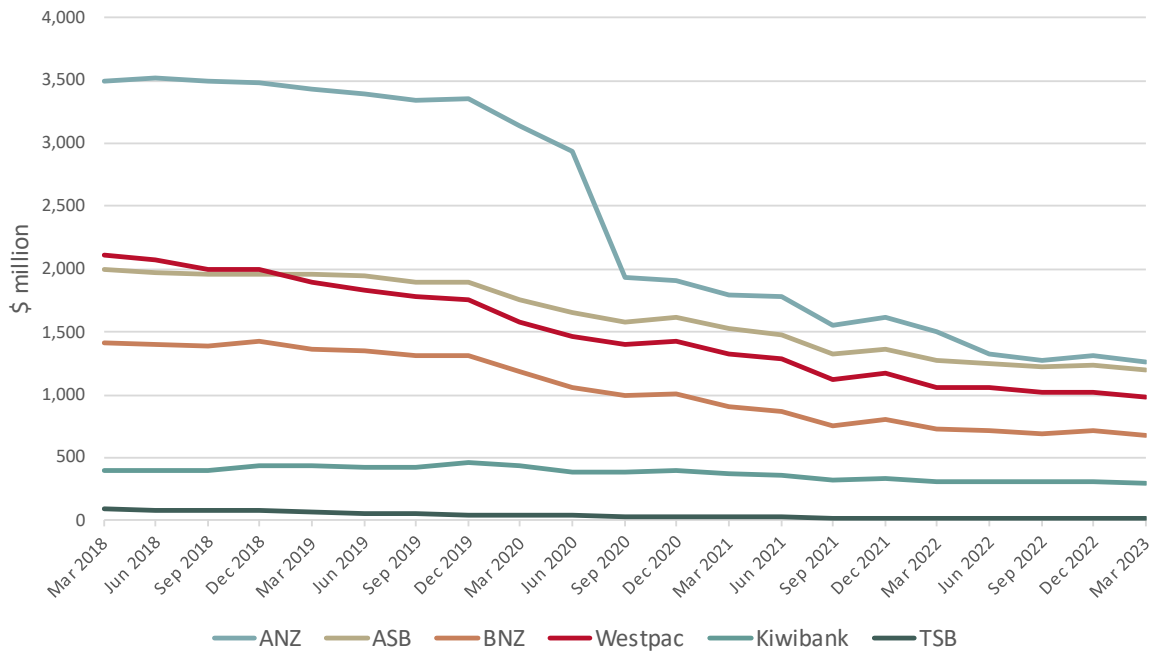
**Figure 5 Value of housing loan supply by the six largest registered banks
March 2018 – March 2023 (real, base June 2017)**



Source: Reserve Bank of New Zealand – Bank financial strength dashboard.¹¹⁴

¹¹⁴ Reserve Bank of New Zealand “Bank Financial Strength Dashboard – Asset Quality”, available at <https://bankdashboard.rbnz.govt.nz/asset-quality>.

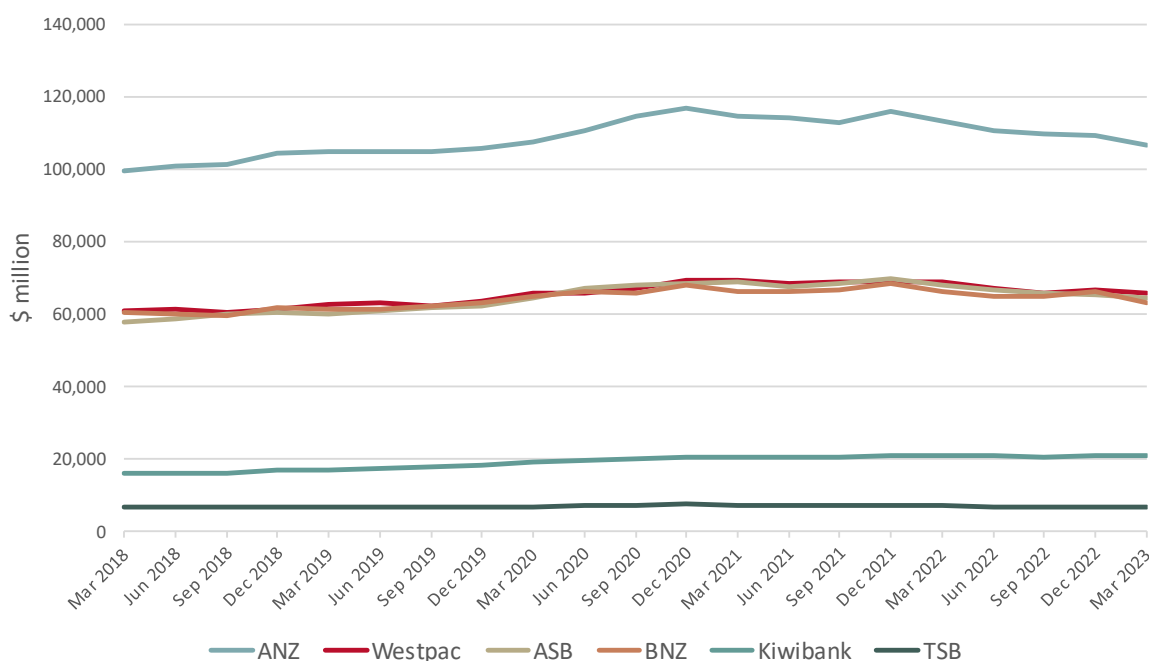
**Figure 6 Value of consumer loan supply by the six largest registered banks
March 2018 – March 2023 (real, base June 2017)**



Source: Reserve Bank of New Zealand – Bank financial strength dashboard.¹¹⁵

¹¹⁵ Reserve Bank of New Zealand “Bank Financial Strength Dashboard – Asset Quality”, available at <https://bankdashboard.rbnz.govt.nz/asset-quality>.

**Figure 7 Value of deposits held by the six largest registered banks
March 2018 – March 2023 (real, base June 2017)**



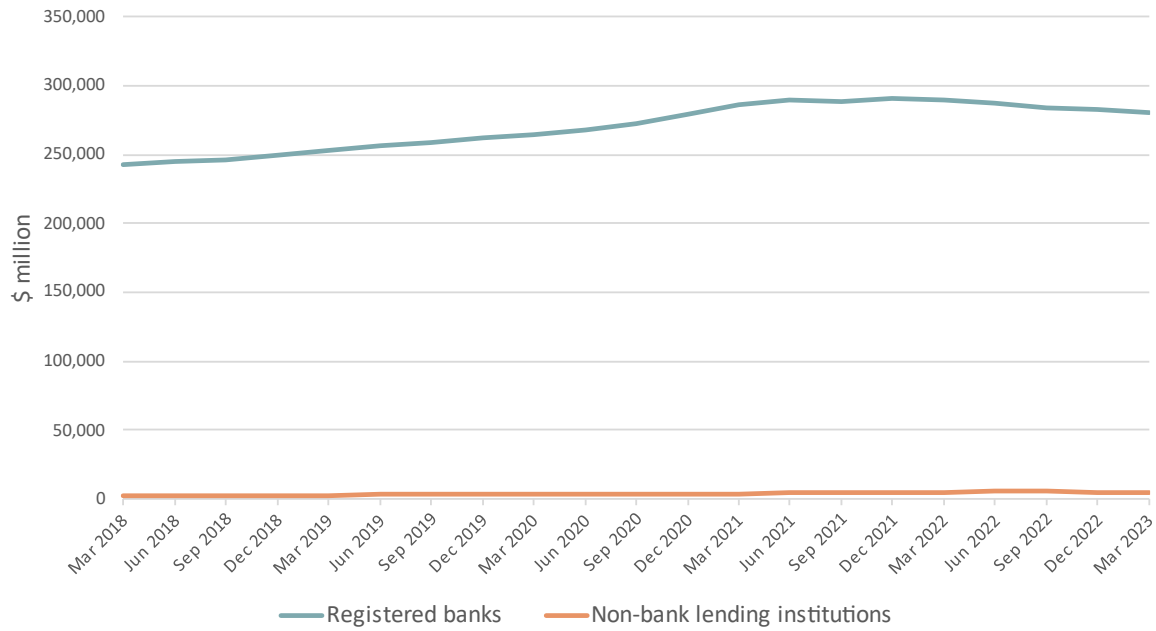
Source: Reserve Bank of New Zealand – Bank financial strength dashboard.¹¹⁶

93. Although our best available data currently relates to registered banks, other providers have an important role to play in understanding actual and potential competition for personal banking services. Figure 8 and Figure 9 below compare the value of registered bank lending to that of non-bank lending institutions lending for housing and personal consumer loans.¹¹⁷ Figure 8 shows that most housing loans are provided by registered banks. However, Figure 9 shows that non-bank lending institutions provide a significant share of personal consumer loans.

¹¹⁶ Reserve Bank of New Zealand “Bank Financial Strength Dashboard – Balance sheet”, available at <https://bankdashboard.rbnz.govt.nz/balance-sheet>.

¹¹⁷ For Figure 8 and Figure 9 ‘non-bank’ refers to non-bank lending institutions (NBLIs), financial institutions with total assets of \$5 million or more at the consolidated group level, whose principal business is credit provision and borrowing money from the public and/or other sources.

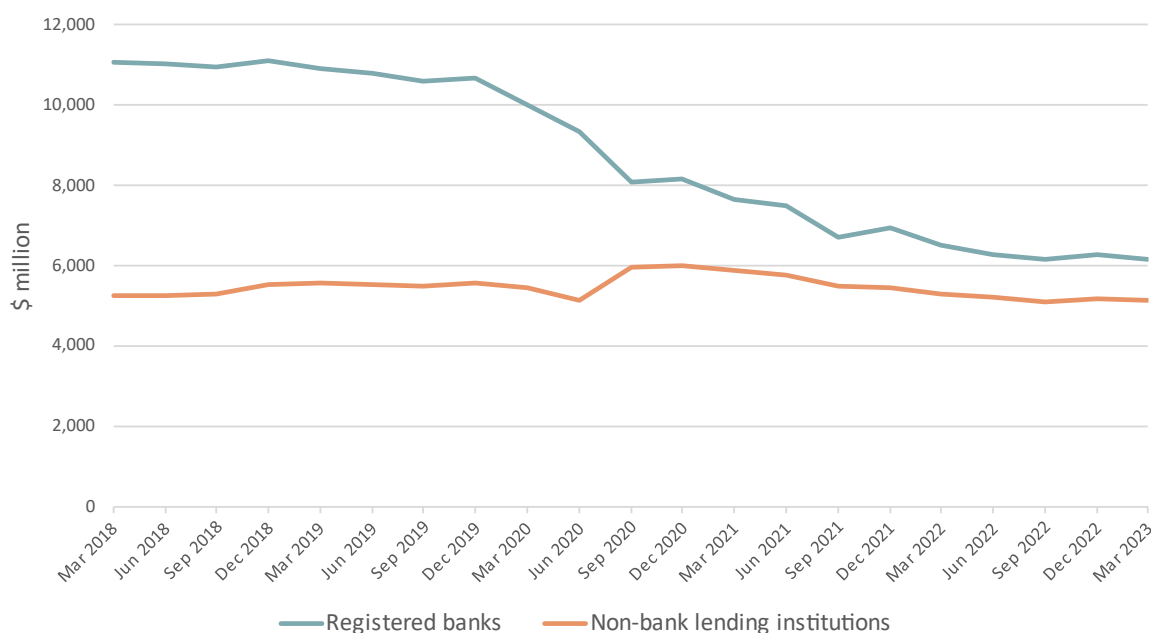
Figure 8 Value of housing loans by registered banks and non-bank lending institutions March 2018 – March 2023 (real, base June 2017)



Source: Reserve Bank of New Zealand – Registered banks and non-bank lending institutions: Sector lending (C5).¹¹⁸

¹¹⁸ Reserve Bank of New Zealand “Registered banks and non-bank lending institutions: Sector lending (C5)” (31 May 2023), available at <https://www.rbnz.govt.nz/statistics/series/lending-and-monetary/registered-banks-and-non-bank-lending-institutions-sector-lending>.

Figure 9 Value of personal consumer loans by registered banks and non-bank lending institutions March 2018 – March 2023 (real, base June 2017)



Source: Reserve Bank of New Zealand – Registered banks and non-bank lending institutions: Sector lending (C5).¹¹⁹

94. Beyond the data we present above, we are interested in better understanding the breadth of actual and potential providers of deposit accounts and home loans, as well as other services that have similar features from a consumer’s perspective. We are particularly interested to hear from providers that may not be represented in the Reserve Bank’s data.
95. Although registered banks and non-bank deposit takers are likely to be the largest providers of deposit accounts, we are interested to hear from consumers, and actual and potential providers, about other services that may have the same or similar features as deposit accounts.
96. These could include, for example, digital wallets and store cards, debit cards, and other services that allow consumers to store and transfer money, and make payments with their own money. Substitutes for savings or term deposit accounts may include, for example, similar products offered by non-banks, such as credit unions and finance companies.

¹¹⁹ Reserve Bank of New Zealand “Registered banks and non-bank lending institutions: Sector lending (C5)” (31 May 2023), available at www.rbnz.govt.nz/statistics/series/lending-and-monetary/registered-banks-and-non-bank-lending-institutions-sector-lending.

97. We are also interested to hear from all actual and potential providers of home loans, actual and potential home loan users, as well as providers of services that have similar features to home loans and may be substitutable from a consumer's perspective.

New Zealand banks are regarded as financially strong and stable but persistently high profits raise questions about the intensity of competition

98. Comparative indicators of bank financial performance (including profitability) are identified in the terms of reference for us to consider as part of the study.¹²⁰ This section sets out how profitability of banks may be relevant to the market study, and identifies and discusses some recent overseas studies and New Zealand commentary discussing profitability. We then introduce our preliminary review of information published by the Reserve Bank and the World Bank about bank financial performance (set out in Attachment C), to which we invite responses, and outline the further analysis that we are proposing to undertake as part of the study.

Profitability is an outcome of the competitive process in markets, and can provide insight to the intensity of competition

99. One part of undertaking a market study is to consider the outcomes of the competitive process that can be observed, including the prices charged by firms and their profitability. These outcomes can serve as indicators of the intensity of competition.
100. In a workably competitive market, firms are generally expected to earn a level of profit that approximates their opportunity cost of capital (this is often referred to as a 'normal' rate of return). While profit levels may vary over time due to changes in supply and demand, cyclical factors, transitory price changes and promotional activities, in competitive markets there is an overall tendency towards profit levels that correspond to firms' cost of capital.
101. Where firms that represent a substantial part of the market persistently derive returns that significantly exceed their opportunity cost of capital (ie, profits are above the levels that might be expected in a workably competitive market over a sufficiently long period of time) this could indicate that the competitive process is not working well. For example, the ability to earn more than 'normal' profits could be an indicator of high entry barriers, significant market power, or of less vigorous competition between firms in the market.
102. That said, observing that profitability in a market appears high does not provide conclusive evidence that the market could be more competitive, and it is important to seek out the underlying reasons for apparently high profits. Similarly, low profitability in a market is not necessarily evidence that competition is working well.

¹²⁰ "Notice for Commerce Commission Competition Study into Personal Banking Services" (20 June 2023) *New Zealand Gazette* No 2023-go2632, available at <https://gazette.govt.nz/notice/id/2023-go2632>.

Recent overseas studies and New Zealand commentary have considered the issue of bank profits and the link to competition

103. The Cabinet paper identifies evidence of high and increasing bank sector profitability as suggestive of possible competition problems.¹²¹ Recent and widespread media coverage of bank profitability has focussed on both the absolute and relative level of profitability of the sector as a whole and that of the largest four banks in particular.¹²²
104. Previous studies into overseas banking sectors have reached mixed conclusions regarding levels of profitability. For example:
- 104.1 The Australian Productivity Commission’s 2018 report identified that the four major Australian banks as a group held substantial market power in Australia as a result of their size, strong brands and geographic reach. As a result, the major Australian banks had the ability to pass on costs and set prices that maintain high levels of profitability without losing market share.¹²³

¹²¹ Ministry of Business, Innovation & Employment “Cabinet paper – Initiating a Market Study into Personal Banking Services” (28 June 2023) at [25.1.1], available at <https://www.mbie.govt.nz/dmsdocument/26848-initiating-a-market-study-into-personal-banking-services-proactiverelease-pdf>.

¹²² For example: Jonathon Milne “Reserve Bank would back a Commerce Commission probe into bank profits” (28 February 2023), available at <https://www.newsroom.co.nz/pro/reserve-bank-wants-commerce-commission-inquiry-into-bank-profits>; Jonathon Milne “Growing momentum for ‘David and Goliath’ official inquiry into banks” (1 March 2023), available at <https://www.newsroom.co.nz/pro/growing-momentum-for-david-and-goliath-official-inquiry-into-banks>; Rebecca Stevenson “NZ bank profit probe by Commerce Commission would be a good start: Shamubeel Eaqub” (3 March 2023), available at <https://www.interest.co.nz/banking/120160/nz-bank-profit-probe-commerce-commission-would-be-good-start-shamubeel-eaqub>; Bernard Hickey “It’s official: our banks are profitability world-beaters” (4 May 2023), available at <https://thekaka.substack.com/p/its-official-our-banks-are-profitability>. However, not all commentary has identified bank profitability as indicative of competition issues. For example, Newstalk ZB “Professor: Inquiry into bank profits may not be job for Commerce Commission” (3 March 2023), available at <https://www.newstalkzb.co.nz/on-air/early-edition/audio/claire-matthews-banking-professor-says-inquiry-into-bank-profits-may-not-be-a-job-for-the-commerce-commission/>.

¹²³ Australian Productivity Commission, “Competition in the Australian Financial System – Overview & Recommendations” (June 2018), Finding 3.2 at 38, available at <https://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system-overview.pdf>.

- 104.2 In 2016 the UK CMA identified that evidence did not suggest that the largest UK banks had significantly higher average net interest margins or average return on equity than smaller UK banks.¹²⁴ In 2022, following the implementation of open banking, the UK FCA identified that the big four UK banks had experienced declining net interest margins and pre-tax return on equity with the gap between larger and smaller banks' profitability narrowing.¹²⁵

The Reserve Bank and the Treasury have both recently analysed bank profitability

105. The Reserve Bank recently published an analysis of trends in bank profitability as part of its May 2023 Financial Stability Report.¹²⁶ The analysis discussed recent trends in the New Zealand banking sector across a range of financial performance metrics and compared key profitability indicators within the New Zealand banking sector and between banks in peer countries.
106. The Reserve Bank analysed trends in nominal profits and went on to analyse profitability ratios such as return on assets and return on equity. It considered profitability ratios to be more robust indicators of performance because they take account of variables such as inflation and business growth. The Reserve Bank assessed trends in these ratios and compared the financial performance of the large New Zealand banks (ANZ, ASB, BNZ and Westpac) against small New Zealand banks and a sample of peer countries. Table 2.2 from the Reserve Bank's analysis is provided in Figure 10 below.

¹²⁴ UK CMA "Retail banking market investigation – Final report" (2016) at [35], available at <https://assets.publishing.service.gov.uk/media/57ac9667e5274a0f6c00007a/retail-banking-market-investigation-full-final-report.pdf>.

¹²⁵ UK FCA "Strategic Review of Retail Banking Business Models: Final Report 2022" (2022) at 4, and [2.8]-[2.10], available at <https://www.fca.org.uk/publication/multi-firm-reviews/strategic-review-retail-banking-business-models-final-report-2022.pdf>.

¹²⁶ Reserve Bank of New Zealand "Trends in bank profitability" (3 May 2023), available at <https://www.rbnz.govt.nz/hub/publications/financial-stability-report/2023/may-2023/fsr-may-23-special-topic-3>.

Figure 10 Profitability of banks in New Zealand and selected large banks in peer countries

(Figures are 5-year averages over 2018-2022)

Country (number of banks)	Return on equity Net profit / CET 1 %	= (Total income Net interest + other income / Exposure %	- Total expenses) Expenses + tax / Exposure %	x Leverage multiplier Exposure / CET 1 times
New Zealand large (4)	15.28	2.09	1.21	17.4
New Zealand small (5)	7.35	2.07	1.66	17.6
Canada (4)	19.59	2.72	1.91	24.4
Norway (3)	13.91	2.05	1.12	15.1
Singapore (3)	13.66	2.11	1.20	15.0
Australia large (4)	12.87	1.94	1.33	21.0
Sweden (4)	12.75	1.68	1.08	21.4
Australia small (3)	10.28	2.00	1.49	20.3
Switzerland (4)	8.30	2.88	2.53	23.4
Netherlands (4)	8.28	1.75	1.36	21.4
Denmark (4)	7.03	1.21	0.91	22.7
Ireland (4)	4.82	2.33	1.99	14.1
Peer country average (37)	11.25	2.08	1.49	19.8

Source: Reserve Bank of New Zealand.¹²⁷

¹²⁷ Reserve Bank of New Zealand “Financial Stability Report” (3 May 2023) at Table 2.2, available at <https://www.rbnz.govt.nz/hub/-/media/project/sites/rbnz/files/publications/financial-stability-reports/2023/may-2023/fsr-may-23.pdf>.

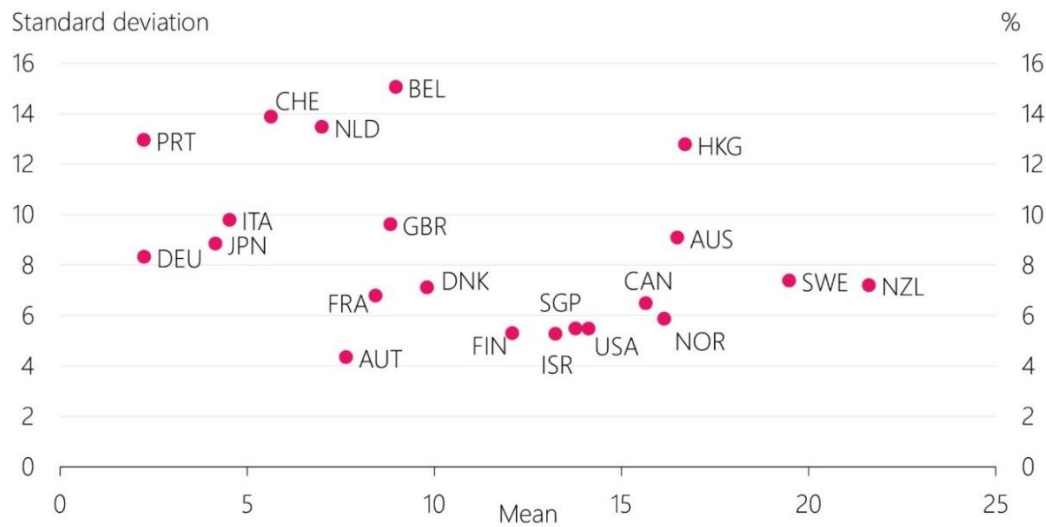
107. On the analysis in Figure 10, the five-year average return on equity of the four large banks in New Zealand sits above those of the selected large banks in all other peer countries other than Canada, above both the large and small banks in Australia, and is more than double the average of the small New Zealand banks in the sample. The Reserve Bank noted that “the large New Zealand banks have been more profitable than the rest of the New Zealand banking sector and large banks in a number of comparable economies in recent years”.¹²⁸
108. The Reserve Bank then considered whether higher risk associated with operating a bank in New Zealand could be a potential driver of ‘high profitability for New Zealand banks’. This is shown in Figure 2.12 of the Reserve Bank’s report (reproduced as Figure 11 below), where the Reserve Bank plots average pre-tax return on equity against the standard deviation of return on equity. It does this at the country level for selected countries from 2000 to 2021.
109. Figure 11 shows that New Zealand had the highest average pre-tax return on equity over that period, and that volatility of earnings does not appear high compared to other nations in the sample.¹²⁹ The Reserve Bank concluded that “[t]his suggests that risk does not fully explain the relatively higher returns of New Zealand banks”.¹³⁰

¹²⁸ Reserve Bank of New Zealand “Trends in bank profitability” (3 May 2023), available at <https://www.rbnz.govt.nz/hub/publications/financial-stability-report/2023/may-2023/fsr-may-23-special-topic-3>.

¹²⁹ Reserve Bank of New Zealand “Financial Stability Report” (3 May 2023) at Figure 2.12, available at <https://www.rbnz.govt.nz/hub/-/media/project/sites/rbnz/files/publications/financial-stability-reports/2023/may-2023/fsr-may-23.pdf>.

¹³⁰ The Reserve Bank did acknowledge that in the period considered in its analysis, New Zealand experienced ongoing economic growth and strong housing market performance that may have affected the volatility of bank returns.

Figure 11 Reserve Bank analysis of mean and standard deviation of pre-tax return on equity across selected countries, 2000-2021



Source: World Bank Global Financial Development database, APRA, registered banks' Disclosure Statements, RBNZ calculations.

Source: Figure 2.12 of Reserve Bank of New Zealand – Bank Financial Stability Report.^{131, 132}

110. The Reserve Bank discussed several potential alternative explanations for the observed level of return in New Zealand, including a lack of competition, foreign ownership and the tax treatment of Australian shareholders, and differences in operational structure. The Reserve Bank then discussed what it considered to be some of the benefits of profitable banks to a “sound, efficient, inclusive, and dynamic financial system”.

¹³¹ Reserve Bank of New Zealand “Financial Stability Report” (3 May 2023) at Figure 2.12, available at <https://www.rbnz.govt.nz/hub/-/media/project/sites/rbnz/files/publications/financial-stability-reports/2023/may-2023/fsr-may-23.pdf>.

¹³² New Zealand (NZL), Australia (AUS), Canada (CAN), United States (USA), United Kingdom (GBR), Italy (ITA), Netherlands (NLD), Singapore (SGP), Portugal (PRT), Norway (NOR), Denmark (DNK), Switzerland (CHE), Austria (AUT), Belgium (BEL), Japan (JPN), Hong Kong (HKG), Finland (FIN), Germany (DEU), Sweden (SWE), France (FRA), Israel (ISR).

111. The Treasury recently released a report from February 2023 which responded to the Minister of Finance’s request for advice about the extent to which the New Zealand banking sector may be generating windfall or supernormal profits, and tax options for responding to any windfall profits in the sector.¹³³ The Treasury defined excess or supernormal profits as those above the level that would be expected in a workably competitive market.¹³⁴ It described windfall profits as “a temporary excess profit that arise from an extraordinary external event (rather than an ongoing structural issue like weak competition) that the firm is not responsible for (ie, the firm did not anticipate the event, and the firm’s actions did not contribute to the windfall profit)”.¹³⁵
112. The Treasury’s report noted how in September 2022 nominal bank profits in New Zealand were the highest on record, with an upward trend over the past three decades, but when measured by return on equity and return on assets profitability was near the average for the 2013 to 2022 period. The Treasury also noted that the fall and then recovery of New Zealand’s main banks’ return on equity and return on assets between 2020 and 2022 was consistent with international peers. The Treasury ultimately concluded that there was no clear evidence that bank profitability constituted a windfall and did not recommend a windfall tax in the banking sector.¹³⁶
113. The Treasury’s report also recorded its observation that the four largest New Zealand banks have had persistently elevated levels of profitability compared to the rest of the banking sector on return on equity and return on assets and questioned why competition between the large New Zealand banks’, due to their relatively lower costs, had not resulted in lower interest rate margins and fees. The Treasury discussed possible explanations for this including that the profits may not be supernormal but required to compensate providers of equity for an elevated risk premium associated with New Zealand equity investments, and that New Zealand large banks may be more highly leveraged relative to international peers. The Treasury made no conclusive findings as to the drivers of large bank profitability.¹³⁷

¹³³ The Treasury “Budget 2023 Tax Initiatives Information Release” (July 2023), available at <https://www.treasury.govt.nz/sites/default/files/2023-07/b23-tax-4791084.pdf>.

¹³⁴ The Treasury “Budget 2023 Tax Initiatives Information Release” (July 2023) at [9], available at <https://www.treasury.govt.nz/sites/default/files/2023-07/b23-tax-4791084.pdf>.

¹³⁵ The Treasury “Budget 2023 Tax Initiatives Information Release” (July 2023) at [13], available at <https://www.treasury.govt.nz/sites/default/files/2023-07/b23-tax-4791084.pdf>.

¹³⁶ The Treasury “Budget 2023 Tax Initiatives Information Release” (July 2023) at [14]-[22], available at <https://www.treasury.govt.nz/sites/default/files/2023-07/b23-tax-4791084.pdf>.

¹³⁷ The Treasury “Budget 2023 Tax Initiatives Information Release” (July 2023) at [10]-[12], available at <https://www.treasury.govt.nz/sites/default/files/2023-07/b23-tax-4791084.pdf>.

We intend to consider and build on existing analyses of bank profitability in the study

114. We propose to consider financial performance indicators across firms that provide personal banking services in New Zealand. This will draw on existing information and analyses prepared by the Reserve Bank and published on its Bank Financial Strength Dashboard.¹³⁸
115. In addition, we propose to consider international banking data (for example, those provided by the World Bank and Australian Prudential Regulation Authority) to compare New Zealand banks' financial performance with similar firms in other countries.
116. We have begun by looking at three common measures for evaluating profitability in banking: net interest margins (NIM), return on equity (ROE) and return on assets (ROA). We note that these measures are at a 'whole of bank' level and therefore include activities that do not relate to personal banking services. We will consider the extent to which we can gather more granular measures of profitability that relate to personal banking services in particular. In the meantime, we propose to use the whole of bank level data to inform our understanding of the profitability of the banking sector as a whole, including personal banking.
117. We do not propose to conduct our own internal calculations of firms' opportunity cost of capital or profitability.
118. Our preliminary review of certain publicly available data about New Zealand bank profitability is attached to this paper for feedback (Attachment C).
119. From that review, our initial observations are that:
- 119.1 on some measures, the New Zealand banking sector appears to have persistently high profitability compared to banking sectors in international peer countries; and
 - 119.2 the four largest New Zealand banks appear to persistently derive higher returns on equity than the rest of the New Zealand banking sector.
120. We will continue to examine financial performance indicators for New Zealand banks over the course of the study, and welcome feedback on our preliminary review of publicly available data set out in Attachment C.

¹³⁸ Reserve Bank of New Zealand "Bank Financial Strength Dashboard – Profitability", available at <https://bankdashboard.rbnz.govt.nz/profitability>.

121. In addition to the work outlined above seeking to understand the absolute and relative financial performance of New Zealand banks, we also intend to analyse the possible reasons for the profitability of New Zealand banks, including those identified by the Reserve Bank and the Treasury in their recent analyses, and others identified in the literature or by stakeholders. Attachment C contains a discussion of some of this intended analysis, and we welcome feedback on it.
122. New Zealand banks are widely regarded as financially strong and stable, but indications of persistently high profitability raise questions about the intensity of competition, including for personal banking services. It is not clear to us what the drivers of this are, or why the returns on equity of the four largest banks appear to be above those of other participants in the New Zealand banking sector. We invite banks and other interested parties to provide us with information, analysis and evidence to aid our understanding of the drivers of banks' profitability in New Zealand.

Global trends toward digital innovation and digital disruption

123. Digital disruption is a phenomenon that is occurring across many sectors and affecting many aspects of the global economy, including in overseas banking sectors. Digital disruption is occurring in some parts of the New Zealand economy and we see no reason why these global and local trends would not impact the future of the New Zealand banking sector. This section describes some of the digital innovations seen in overseas banking sectors, evidence of digital innovation in New Zealand, and policy developments towards open banking in New Zealand.

Digital disruption in the banking industry

124. In a 2020 report titled 'Digital disruption in banking and its impact on competition' the OECD observed that digital disruption in the banking industry has occurred, and continues to occur, through the rise of digital disruptors – namely fintechs, who use digital information and automation technology in providing innovative financial services.¹³⁹
125. The report noted that digital disruptors are likely to be more efficient (not being constrained by, for example, legacy IT systems or large networks of physical branches) and have a more customer-centric approach. The presence of such disruptive competitors can also prompt incumbent providers to innovate as well, potentially bringing benefits to consumers across the sector, through enhanced efficiency, supply diversity, and financial inclusion.

¹³⁹ OECD "Digital Disruption in Banking and its Impact on Competition" (2020), available at <https://www.oecd.org/competition/digital-disruption-in-banking-and-its-impact-on-competition-2020.pdf>.

126. Online-only banks, such as Monzo, Revolut, Starling Bank, Atom Bank, and Monese in the UK are examples of fintech digital disruptors.¹⁴⁰ The UK FCA has observed that, as well as systematically disrupting the banking environment, some of these fintechs' digital innovations have been adopted in the UK by traditional banks – examples being digital security software and peer-to-peer lending.¹⁴¹ Globally, innovation through collaboration can also be seen coming from partnering between fintechs and traditional banks, for example, through payment processing apps and mobile wallets (such as Google Pay and Apple Pay).¹⁴²

Digital innovation in New Zealand

127. We do not yet see similar levels of digital disruption occurring in the New Zealand banking industry. However, some innovative fintechs are present here, including (but not limited to):
- 127.1 Harmony, a personal loan provider in Australia and New Zealand, delivered 100% online;¹⁴³
 - 127.2 WindCave, providing end-to-end payment solutions;¹⁴⁴
 - 127.3 Akahu, providing open finance infrastructure for New Zealand.¹⁴⁵ Akahu's mobile application allows consumers' financial accounts to be connected through one mobile application. In addition, Akahu works with banks and other financial institutions to maintain functional data integrations and bundle those integrations into a simple API for developers; and
 - 127.4 CoGo, providing banks with a way for customers to measure, manage and reduce their carbon footprint through analysing customers' transaction data.¹⁴⁶

¹⁴⁰ We note that Revolut recently launched in New Zealand, at the beginning of July but that it does not intend to become a registered bank or licensed non-bank deposit taker in New Zealand: see Rob Stock "Digital disruptor Revolut takes a swipe at high profits of legacy banks" (3 July 2023), available at <https://www.stuff.co.nz/business/132453717/digital-disruptor-revolut-takes-a-swipe-a-high-profits-of-legacy-banks>.

¹⁴¹ UK FCA "Strategic Review of Retail Banking Business Models: Final Report 2022" (January 2022), available at <https://www.fca.org.uk/publication/multi-firm-reviews/strategic-review-retail-banking-business-models-final-report-2022.pdf>.

¹⁴² Frederrick Hamann "5 fintech and bank partnerships that are generating revenue" (23 November 2021), available at <https://subaio.com/digital-banking/5-fintech-and-bank-partnerships-that-are-generating-revenue>.

¹⁴³ Harmony: <https://www.harmony.co.nz/>.

¹⁴⁴ Windcave: <https://www.windcave.com/>.

¹⁴⁵ Akahu: <https://www.akahu.nz/>.

¹⁴⁶ Cogo: <https://www.cogo.co/products/for-banks>.

128. FinTechNZ, an industry working group, lists over 160 members, and there will be other innovations and innovators that we have not mentioned.¹⁴⁷ We are interested in hearing the experiences of New Zealand market participants and innovators, particularly those that have sought to enter or expand in New Zealand.
129. Industry-owned company, Payments NZ is also contributing to the trend of digital innovation in the banking sector. Payments NZ has been working to develop and manage certain payment clearing systems through its API Centre, which was established in response to government and industry discussions in 2017. The API Centre aims to develop common API standards with the objective of standardisation and protocols to ensure fast, secure, and user-friendly data sharing. It also aims to set up a shared framework to enable banks and third party fintechs to form partnerships so they can deliver open banking innovation for New Zealanders.¹⁴⁸
130. Payments NZ has made good progress on developing common API standards, but banks building to those standards and partnering with third parties has not advanced as expected. In a recently published paper we stated our support for Payments NZ's open API industry implementation plan, but noted outstanding concerns that progress may stall.¹⁴⁹

Open banking

131. The Government has signalled its desire to support digital innovation and recently published an exposure draft of the Customer and Product Data Bill (CPD Bill), to establish a CDR in New Zealand.¹⁵⁰ Policymakers have indicated that the banking sector will be the first industry designated under the CDR. The designation of the banking sector under the CDR is commonly referred to as "open banking".¹⁵¹
132. In other jurisdictions, open banking is supported by mature CDR regulatory regimes. The UK FCA has observed that innovations brought about by open banking (among others) appear to have enabled digital challengers to gain market share, where they have historically been unsuccessful.¹⁵²

¹⁴⁷ FinTechNZ "FinTech members – Organisations from across the FinTech New Zealand ecosystem", available at <https://fintechnz.org.nz/fintechnz-members/>.

¹⁴⁸ Apicentre: <https://www.apicentre.paymentsnz.co.nz/>.

¹⁴⁹ Commerce Commission "Retail Payments System – payments between bank accounts" (31 July 2023) at [4.19]-[4.22], available at https://comcom.govt.nz/_data/assets/pdf_file/0016/323602/Retail-Payment-System-Payments-Between-Bank-Accounts-Request-for-views-paper-31-July-2023.pdf.

¹⁵⁰ Ministry of Business, Innovation & Employment "Customer and Protection Data Bill – Draft for consultation" (22 June 2023), available at <https://www.mbie.govt.nz/assets/exposure-draft-customer-and-product-data-bill.pdf>.

¹⁵¹ Ministry of Business, Innovation & Employment "Government progresses work on open banking" (10 November 2022), available at <https://www.mbie.govt.nz/about/news/government-progresses-work-on-open-banking>.

¹⁵² UK FCA "Strategic Review of Retail Banking Business Models: Final Report 2022" (January 2022) at [2.24], available at <https://www.fca.org.uk/publication/multi-firm-reviews/strategic-review-retail-banking-business-models-final-report-2022.pdf>.

133. We intend to continue monitoring developments in New Zealand with regards to digital disruptions, digital disruptors, Payments NZ's work and the progress of the CPD Bill during the course of our market study into personal banking services. We welcome feedback on how these proposed reforms may impact innovation and competition in the New Zealand banking sector.

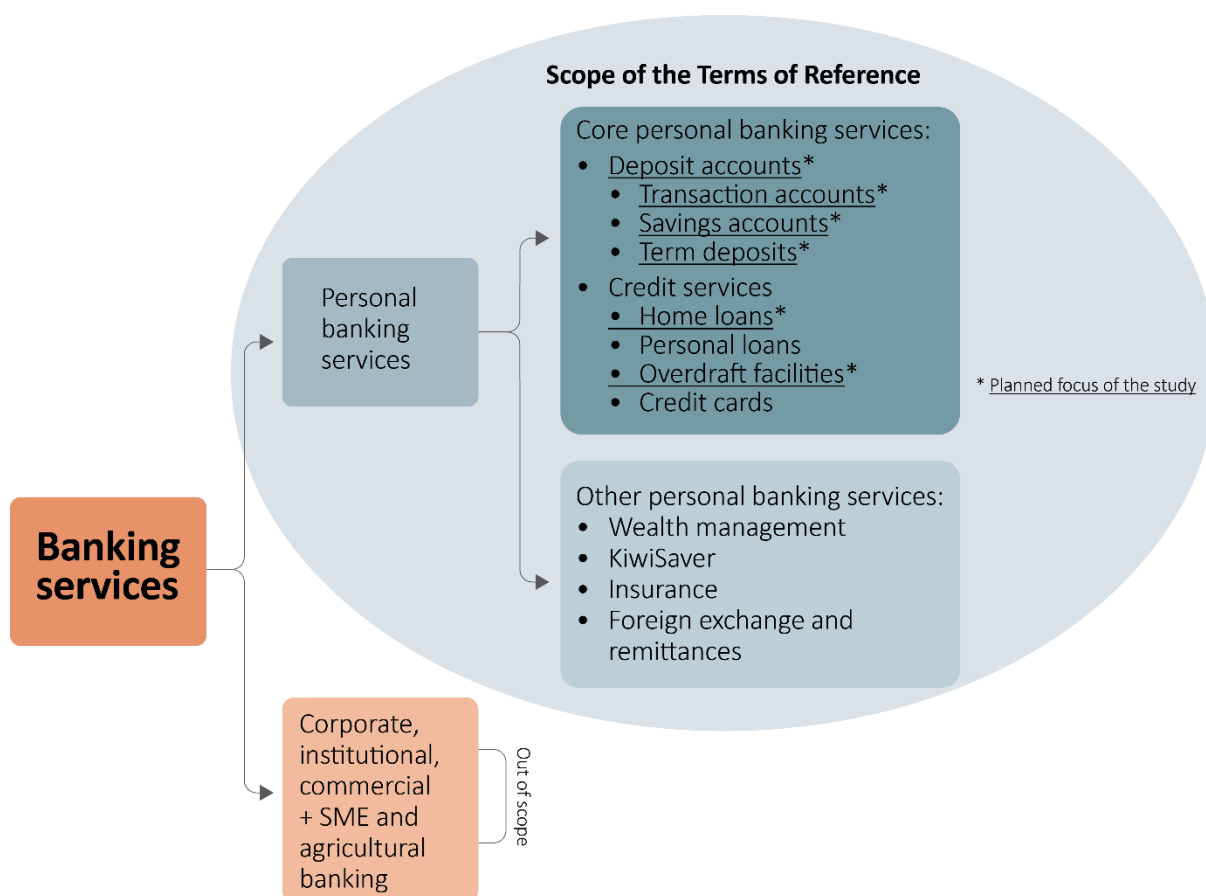
Questions on our overview of personal banking services in New Zealand

- Q1 Do you agree with our description of the structure of the personal banking sector? If not, please explain.
- Q1.1 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.
- Q1.2 What are useful measures of concentration/market share within the personal banking sector? Please describe the measures and explain your reasoning.
- Q2 Do you agree with our description of the regulatory environment for the personal banking sector? If not, please explain.
- Q3 Please describe any other legislation, regulations, or other regulatory instruments that may be relevant to understanding competition in the personal banking sector.
- Q4 What aspects of competition in the personal banking sector have a particular impact on Māori?
- Q5 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.
- Q6 Please describe the factors that have the most influence on the financial performance of New Zealand personal banking service providers.
- Q7 Do you agree with our description of the digital innovation and digital disruption trends in New Zealand and overseas? If not, please explain.

Proposed focus of the market study – deposit accounts and home loans

134. Within the broad scope of ‘any factors that may affect competition for the supply or acquisition of personal banking services’, we have discretion to focus the study on particular services, and to focus on particular lines of enquiry and types of analysis.
135. This section explains our intent to focus on deposit accounts and home loans, and seeks feedback on whether these are the most appropriate services to focus the study on. The proposed scope of the study is summarised in Figure 12 below.

Figure 12 Proposed focus of the study



136. We propose to focus the study on:
- 136.1 deposit accounts, being transaction, savings, and term deposit accounts (including overdraft facilities); and
- 136.2 home loans.

137. In keeping with the Minister’s intended focus for the study, we do not propose to focus on insurance, KiwiSaver, wealth management and financial advice, or foreign exchange.¹⁵³ We are also not proposing to focus closely on credit cards, personal loans generally, or other types of personal banking service that are not deposit accounts (including overdraft facilities) and home loans. Although these out-of-focus services fall within the broad definition of personal banking services, focussing on them would materially increase the scope of the study due to the extra markets, market participants and (in the case of KiwiSaver) other regulatory regimes involved. In identifying the proposed focus of the study we have also taken into account that supply of home loans appears to be particularly concentrated compared to, for example, personal loans generally.
138. We may, however, consider other personal banking services to the extent that they are relevant to understanding competition for the services we are focussing on. For example:
- 138.1 we intend to consider the extent to which other services (such as insurance) may be bundled with or tied to deposit accounts or home loans;¹⁵⁴ and
- 138.2 some aspects of our analysis, such as seeking to understand bank financial performance and the nature of competition between personal banking service providers, may require us to take a high-level view of firms’ activities across a broad range of services.
139. This means that the analysis we describe throughout this paper will be largely focussed on deposit accounts and home loans, unless noted otherwise.
140. In identifying the proposed focus of the study we have considered how best to promote the long-term benefit of consumers, and what is in the public interest, including how these concepts were articulated in the Cabinet paper.^{155, 156, 157} Our intent to focus on deposit accounts and home loans is informed by our understanding that those services:
- 140.1 are a focal point for competition within the personal banking sector;

¹⁵³ Ministry of Business, Innovation & Employment “Cabinet paper – Initiating a Market Study into Personal Banking Services” (28 June 2023) at [24], available at <https://www.mbie.govt.nz/dmsdocument/26848-initiating-a-market-study-into-personal-banking-services-proactiverelase-pdf>.

¹⁵⁴ Our use of the terms ‘bundled’ and ‘tied’ is explained in paragraph 210 below.

¹⁵⁵ Commerce Act 1986, s 1A.

¹⁵⁶ The Commission can undertake a market study if either the Minister or Commission consider it to be in the public interest, Commerce Act 1986, ss 50 and 51.

¹⁵⁷ Ministry of Business, Innovation & Employment “Cabinet paper – Initiating a Market Study into Personal Banking Services” (28 June 2023) at [16], available at <https://www.mbie.govt.nz/dmsdocument/26848-initiating-a-market-study-into-personal-banking-services-proactiverelase-pdf>.

- 140.2 are relevant to a large proportion of New Zealanders (deposit accounts), or are of particular significance to New Zealanders who acquire them (home loans), and where effective competition is most likely to deliver long-term benefits for the most consumers;
 - 140.3 are of strategic importance to the New Zealand economy or businesses or of significant importance to consumers; and
 - 140.4 are where close consideration is likely to reveal any factors affecting competition for the supply or acquisition of personal banking services.
141. We welcome feedback on our proposed focus of the study and, in particular, we are interested to hear whether there are competition issues with other personal banking services (for example, foreign exchange, remittances, credit cards or other types of personal lending) such that we should focus on them in the study.

Deposit accounts appear to be an important source of funding for banks

142. Our intended focus on deposit accounts covers transaction, savings, and term deposit accounts, and includes associated overdraft facilities. In seeking to describe these accounts we have relied on the Reserve Bank’s description of them in its Balance Sheet Survey.¹⁵⁸
- 142.1 Transaction accounts are a type of bank account with a primary purpose for consumers of making transactions or ‘everyday banking’ activities. Balances are on call, meaning they are available for withdrawal with no notice period.
 - 142.2 Savings accounts and term deposit are accounts where the primary purpose is to save money or earn interest. Deposits in savings accounts are on call, although for some balances disincentives may apply if used for transaction purposes; that is, a penalty may apply such as loss of bonus interest. Term deposit balances are not on call, meaning they have a maturity of more than one day.
143. Our intention to focus on deposit accounts is informed by our understanding that they are a focal point for competition between providers, an important source of funding for banks, and important to understanding consumers’ engagement with personal banking services.

A focal point for competition

144. Our current understanding is that deposit accounts play an important role in how banks attract customers and sell, or cross-sell, other personal banking services.

¹⁵⁸ Reserve Bank of New Zealand “Procedures and definitions for completion of the monthly Balance Sheet Survey” (2021) at 19, available at <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/banks/surveys/definitions-for-bank-balance-sheet.pdf>.

145. The role of Personal Current Accounts (PCAs) (ie, transaction accounts) in retail banking competition was explored by the UK FCA in its 2018 final report on its Strategic Review of Retail Banking Business Models.¹⁵⁹
146. The report described the benefits that the major banks enjoy as a result of their size and established presence, and the competition and consumer outcomes that flow from those benefits. Its findings largely related to the large number of PCAs of the major banks, which provide significant funding benefits compared with smaller banks, as well as cross-selling opportunities, and income from fees and charges (particularly overdraft fees).¹⁶⁰
147. Engaged consumers that actively search the market for the best offers and switch providers in response to that offer can play an important role in the competitive process.¹⁶¹ There are some indications that searching for, and switching account providers may be difficult. Features of some deposit accounts, particularly transaction accounts, may mean switching providers is complicated. For example, transaction, income, and payment card arrangements may need to be re-established.
148. Payments NZ offers an account and recurring payment transfer service to facilitate switching banks, although it 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).¹⁶²

Important source of bank funding

149. Retail deposits (deposits in transaction, savings, and term deposit accounts) are a significant source of funding for banks. For example, as at May 2023, deposits make up approximately 62% of registered banks' total funding.¹⁶³ The combined total deposits of all registered banks is \$435 billion. This consists of deposits in transaction accounts (\$128 billion), savings accounts (\$110 billion), and term deposits (\$197 billion).¹⁶⁴

¹⁵⁹ UK FCA "Strategic Review of Retail Banking Business Models: Final Report" (December 2018), available at <https://www.fca.org.uk/publication/multi-firm-reviews/strategic-review-retail-banking-business-models-final-report.pdf>.

¹⁶⁰ UK FCA "Strategic Review of Retail Banking Business Models: Final Report" (January 2022) at [2.20], available at <https://www.fca.org.uk/publication/multi-firm-reviews/strategic-review-retail-banking-business-models-final-report-2022.pdf>.

¹⁶¹ The CMA noted that the general lack of customer engagement in the market affects banks' incentives to compete and how they compete, UK CMA "Retail banking market investigation – Final Report" (2016) at [6.230], available at <https://assets.publishing.service.gov.uk/media/57ac9667e5274a0f6c00007a/retail-banking-market-investigation-full-final-report.pdf>.

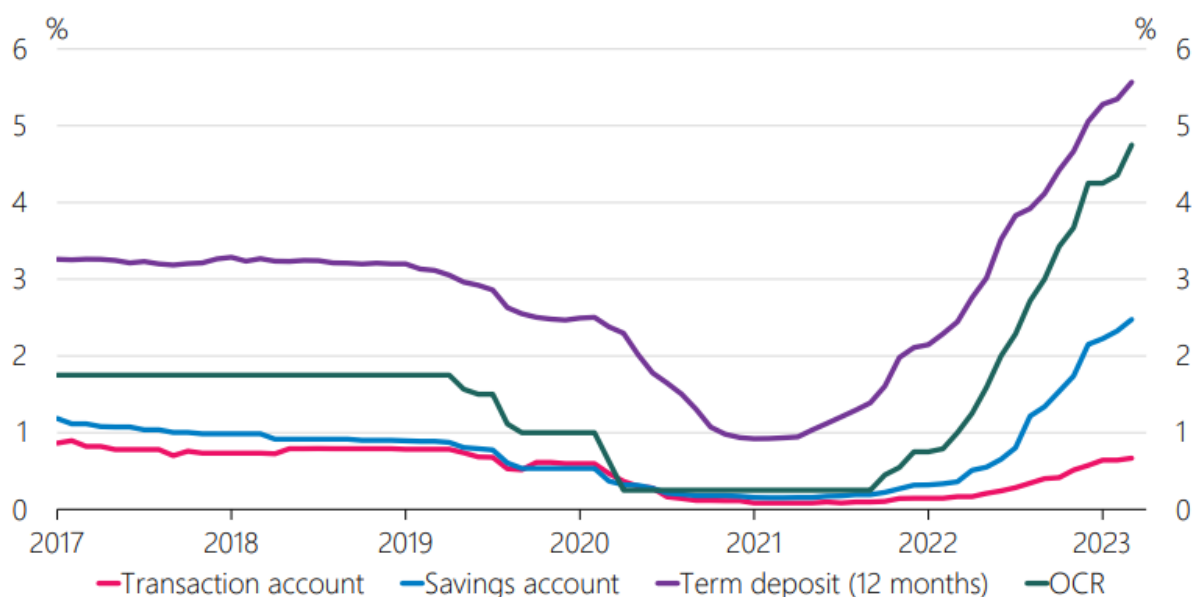
¹⁶² PaymentsNZ "Switching Banks", available at www.paymentsnz.co.nz/resources/switching-banks/.

¹⁶³ Deposits as a proportion of total liabilities + equity, Reserve Bank of New Zealand "Banks: Balance sheet (\$10)", available at www.rbnz.govt.nz/statistics/series/registered-banks/banks-balance-sheet.

¹⁶⁴ Reserve Bank of New Zealand "Banks: Liabilities – Deposits by sector (\$40)", available at www.rbnz.govt.nz/statistics/series/registered-banks/banks-liabilities-deposits-by-sector.

150. We understand that retail deposits are typically a stable and low-cost source of funding for banks, compared to alternatives such as short- and long-term wholesale debt, or equity.¹⁶⁵
151. The average interest rates offered by registered banks for retail deposits and the OCR (reflecting the Reserve Bank’s monetary policy) are shown in Figure 13 below.

Figure 13 Deposit rates and OCR (monthly, annualised)



Source: Reserve Bank of New Zealand.¹⁶⁶

¹⁶⁵ Reserve Bank of New Zealand “Financial Stability Report” (3 May 2023) at 22-23, available at <https://www.rbnz.govt.nz/hub/-/media/project/sites/rbnz/files/publications/financial-stability-reports/2023/may-2023/fsr-may-23.pdf>; UK FCA “Strategic Review of Retail Banking Business Models – Progress Report” (June 2018) at [3.25], available at <https://www.fca.org.uk/publication/multi-firm-reviews/strategic-review-retail-banking-business-models-progress-report.pdf>; Australian Productivity Commission “Competition in the Australian Financial System – Final Report” (August 2018) at 228, available at <https://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system.pdf>.

¹⁶⁶ Note: Rates are monthly averages, unweighted across banks. Savings account rates are rates on unconditional on-call savings accounts, Reserve Bank of New Zealand “Financial Stability Report” (3 May 2023) at 23, available at <https://www.rbnz.govt.nz/hub/-/media/project/sites/rbnz/files/publications/financial-stability-reports/2023/may-2023/fsr-may-23.pdf>.

152. The Reserve Bank has observed that:¹⁶⁷

Rates on short-duration deposits, such as transaction and on-call savings accounts, have not increased as quickly as the Official Cash Rate (OCR) and the interest income banks earn on their assets. Consequently, these deposits have become increasingly profitable sources of funding relative to term deposits or issuing debt in wholesale markets.

Important to consumers

153. Deposit accounts are also likely to be an important part of the personal banking sector from a consumer's point of view. Bank accounts are likely one of the first personal banking services that consumers acquire.
154. We surmise that, for many, the first experience may be having a savings account opened for them by a parent or guardian.
155. We are planning to investigate the extent to which customers engage with the market for transaction accounts. Our current understanding is that, as a generalisation, it may be that it is significant life events (such as taking out a first loan, or starting wage earning, buying a house, marriage or separation) that prompt consideration of banking arrangements and the prospect of switching providers and that overall switching activity may be relatively limited (although some consumers will multi-bank). If there is a tendency towards consumer inertia, this could result in significant incumbency advantages.
156. Consumers may face barriers to selecting a transaction account that best meets their needs. The UK CMA found that customers' ability to access information and identify the best-value account for their needs is likely to be impaired by the complexity involved in comparing different PCA pricing structures.¹⁶⁸ It also found that consumers need to be able to access and assess their expected account usage in order to choose the best-value PCA product.¹⁶⁹ These findings, if applicable in New Zealand, suggest there could be material challenges for consumers in trying to assess different options.

¹⁶⁷ Reserve Bank of New Zealand "Financial Stability Report" (3 May 2023) at 23, available at <https://www.rbnz.govt.nz/hub/-/media/project/sites/rbnz/files/publications/financial-stability-reports/2023/may-2023/fsr-may-23.pdf>.

¹⁶⁸ UK Competition Markets Authority "Retail banking market investigation – Final Report" (2016) at [6.82], available at <https://assets.publishing.service.gov.uk/media/57ac9667e5274a0f6c00007a/retail-banking-market-investigation-full-final-report.pdf>.

¹⁶⁹ UK Competition Markets Authority "Retail banking market investigation – Final Report" (2016) at [6.93], available at <https://assets.publishing.service.gov.uk/media/57ac9667e5274a0f6c00007a/retail-banking-market-investigation-full-final-report.pdf>. Account usage will affect the application of account fees and charges, and interest earned (if applicable), where fees, charges and interest can be expected to differ between banks and other providers.

157. Recent media commentary on banking has included discussion on intensity of competition for retail deposits, the lag between OCR increases and increases in deposit rates, and the impact that this may have on consumers, particularly older people who may be more reliant on term deposits.^{170, 171, 172}
158. For the reasons set out above, deposit accounts are one of the services we intend to focus on in the market study.

Home loans are a significant cost to many New Zealanders and there is potentially limited customer switching

159. Home loans are loans secured by a mortgage over one or more residential properties. Home loans make up around \$348 billion in overall lending in New Zealand, of which around 86% is provided by the four largest banks.^{173, 174}
160. We propose to focus on home loans because:
- 160.1 as noted in the Cabinet paper, there is some anecdotal evidence suggesting potential for consumer stickiness and inertia, corresponding to subdued levels of switching,¹⁷⁵

¹⁷⁰ Rob Stock “Here’s why one former banker thinks the rip-off is not mortgage rates, but deposit rates” (12 March 2023), available at <https://www.stuff.co.nz/business/opinion-analysis/131459183/heres-why-one-former-banker-thinks-the-riporff-is-not-mortgage-rates-but-deposit-rates>.

¹⁷¹ Dan Bruskill “Reserve Bank says the high level of NZ bank profitability means they’re well positioned to support customers in tougher times” (3 May 2023), available at <https://www.interest.co.nz/banking/121032/reserve-bank-says-high-level-nz-bank-profitability-means-theyre-well-positioned>.

¹⁷² Jonathon Milne “Reserve Bank would back a Commerce Commission probe into bank profits” (28 February 2023), available at <https://www.newsroom.co.nz/pro/reserve-bank-wants-commerce-commission-inquiry-into-bank-profits>.

¹⁷³ Reserve Bank of New Zealand “Registered banks and non-bank lending institutions: Sector lending (C5)” (May 2023), available at <https://www.rbnz.govt.nz/statistics/series/lending-and-monetary/registered-banks-and-non-bank-lending-institutions-sector-lending>.

¹⁷⁴ Reserve Bank of New Zealand “Bank financial strength dashboard”, available at <https://bankdashboard.rbnz.govt.nz/summary>; Reserve Bank of New Zealand “Registered banks and non-bank lending institutions: Sector lending (C5)”, available at <https://www.rbnz.govt.nz/statistics/series/lending-and-monetary/registered-banks-and-non-bank-lending-institutions-sector-lending>.

¹⁷⁵ Ministry of Business, Innovation & Employment “Cabinet paper – Initiating a Market Study into Personal Banking Services” (28 June 2023) at [25.1.3], available at <https://www.mbie.govt.nz/dmsdocument/26848-initiating-a-market-study-into-personal-banking-services-proactiverelase-pdf>.

- 160.2 in Australia, recent studies undertaken by the ACCC into banking and home loans have highlighted a number of competition issues that have dampened price competition for home loans, including unnecessarily high search costs created by opaque discretionary discounting by some lenders, unnecessarily difficult and lengthy discharge process for switching between lenders, and the existence of gaps between prices paid (interest) for new home loans relative to existing home loans;^{176, 177, 178}
- 160.3 home loan interest rates have significant effects on household budgets. For those households with a home loan (around 32% of households in 2021), repayments are a significant (if not the household’s largest) ongoing expenditure.¹⁷⁹ Home loan borrowing costs are likely to also flow through to the cost of rent for non-homeowners, at least in part; and
- 160.4 overseas studies have identified home loans as being particularly profitable portfolios for banks.¹⁸⁰
161. We expect that focussing on home loans will help to identify and better understand any factors potentially affecting competition in personal banking. Our initial understanding is that competition for home loan customers is a central arena for retail banking competition more generally, and has an important role in attracting and retaining personal banking customers. We are also aware that mortgage brokers play an important role in matching home loan providers with consumers, and we intend to study the role they play and the impact they may have on competition.
162. For the reasons set out above, home loans are one of the services we intend to focus on in the market study.

Question on the services that we will focus on in the study

Q8 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?

¹⁷⁶ ACCC “Home loan price inquiry – Final report” (2020) at [xi], available at <https://www.accc.gov.au/system/files/Home%20loan%20price%20inquiry%20-%20final%20report.pdf>.

¹⁷⁷ ACCC “Home loan price inquiry – Final report” (2020) at [xii], available at <https://www.accc.gov.au/system/files/Home%20loan%20price%20inquiry%20-%20final%20report.pdf>.

¹⁷⁸ ACCC “Home loan price inquiry – Final report” (2020) at [vii], available at <https://www.accc.gov.au/system/files/Home%20loan%20price%20inquiry%20-%20final%20report.pdf>.

¹⁷⁹ Stats NZ “Mortgages and other real estate loans drive household debt up” (3 March 2022), available at <https://www.stats.govt.nz/news/mortgages-and-other-real-estate-loans-drive-household-debt-up/>.

¹⁸⁰ For example, UK Competition Markets Authority “Retail Banking Market Investigation – Working Paper” (14 August 2015) at [11]-[12], available at https://assets.publishing.service.gov.uk/media/55cdf857ed915d534600002d/Financial_performance_working_paper.pdf.

Analysis we intend to undertake to identify any factors affecting competition

163. We have identified a range of analyses and factors potentially affecting competition that we intend to explore as part of the study. We do not pre-suppose that there are competition issues in the sector. We are seeking feedback from stakeholders and any interested parties on the analysis and potential factors we have identified, to help us decide where to focus our efforts during the study.
164. As noted above, our current intention is to focus the study on deposit accounts and home loans. This means that the analysis described in this section will largely be focussed on these services, unless a broader view is required to undertake the analysis (for example, assessing the nature and extent of tying and bundling of other personal banking services, and the nature of competition, will likely require a broader view at times).
165. The analysis and potential factors affecting competition we intend to explore are:
- 165.1 the nature of competition, including how competition is working for different population groups;
 - 165.2 the conditions for entry and expansion in the sector;
 - 165.3 the factors affecting consumers' ability to search for, and switch to, alternative providers; and
 - 165.4 impediments to disruption and innovation in the sector.
166. In each of the subsections below we explain in greater detail each aspect of our analysis including what it is, why we intend to explore it, and how we intend to do so. Each subsection contains a set of questions that we invite responses to. We also welcome views on whether there are other factors potentially affecting competition that we should consider during the study, having regard to the terms of reference.

Understanding the nature of competition to provide and acquire personal banking services will assist us to identify any factors affecting competition

167. The nature of competition is one of the matters identified in the terms of reference for us to consider as part of the study.¹⁸¹
168. The nature of competition encompasses a consideration of the value banks and other providers offer to customers in terms of price and quality across their suite of products and services, as well as the way in which they interact with their rivals and suppliers.

¹⁸¹ "Notice for Commerce Commission Competition Study into Personal Banking Services" (20 June 2023) *New Zealand Gazette* No 2023-go2632, available at <https://gazette.govt.nz/notice/id/2023-go2632>.

169. Recent media commentary on banking has discussed aspects of the nature of competition within the personal banking sector. For example, there has been commentary to the effect that competition is not vigorous for some products or for some customer segments, or is otherwise less intense than might be expected.^{182, 183, 184}
170. We will seek to better understand all aspects of the nature of competition in the personal banking sector, including how providers interact with each other and their suppliers. However, we expect our main focus will be on how providers compete with each other to acquire and retain customers and provide services.
171. Some initial questions we will seek to answer include:
- 171.1 How do banks compete to establish relationships with their customers? Does this differ by the size of the bank (large or small) or the type of customer?
- 171.2 How do banks compete to provide different types of services?
172. We expect to focus on understanding banks' strategies for acquiring and retaining personal banking customers, which includes understanding how banks determine the set of service offerings in order to meet customers' evolving banking needs over their lifetimes.
173. We will seek to understand trends in prices for home loans in New Zealand, including whether new customers get better rates than existing customers, the role of mortgage brokers, and whether price competition is clear and transparent, or pricing comparisons are made harder by discretionary discounting from advertised lending rates. We also intend to examine whether there are tools in the market to support consumers in their search.
174. We will also seek to understand the pricing strategies that banks adopt for key personal banking services to the extent that these represent a significant part of banks' personal banking strategies. For example, we will seek to understand how banks make their interest rate decisions in respect of home loans and deposits.

¹⁸² Bernard Hickey "What a bank profits market study should focus on" (9 May 2023), available at <https://thekaka.substack.com/p/what-a-bank-profits-market-study#details>.

¹⁸³ Sam Stubbs "Here's a way to give bank customers greater power and better deals" (26 March 2023), available at <https://www.stuff.co.nz/business/opinion-analysis/131594142/heres-a-way-to-give-bank-customers-greater-power-and-better-deals>.

¹⁸⁴ Gareth Vaughan "Against the backdrop of a possible Commerce Commission probe into banking competition, Gareth Vaughan looks at how the actions & inactions of NZ authorities have helped maintain the dominance of the big four banks" (8 March 2023), available at <https://www.interest.co.nz/banking/120190/against-backdrop-possible-commerce-commission-probe-banking-competition-gareth>.

175. We are interested in the dynamic between the interest rates charged for lending and interest rates paid for deposits. Retail deposits and home loans are typically the bank's largest sources of funding and lending, respectively. Net Interest Income (NII), the difference between a bank's interest income (that it charges for lending) and interest expenses (that is paid for funding sources) is the primary component of New Zealand banks' earnings.¹⁸⁵
176. We are also interested in how banks balance their portfolios across retail deposits and lending. For banks to undertake their core business of credit intermediation, they need to match their lending with various types of funding, including retail deposits, funding from wholesale lending markets, and equity from their shareholders. The relative balance may be impacted by cyclical market factors such as consumer interest rates and housing (and therefore home loan) demand.
177. For this aspect of the study in particular we are interested in hearing from a broad range of consumers as well as actual and potential providers of personal banking services. For example, we are interested in hearing the experiences of:
- 177.1 smaller and newer banks competing with the larger and more established banks;
 - 177.2 non-bank deposit takers, credit unions, and building societies, finance companies, fintechs, and other businesses that compete with registered banks;
 - 177.3 industry bodies and consumer groups with their observations about the level of intensity of competition in different market segments; and
 - 177.4 consumers, with their experiences of different providers competing for their business.

Questions on the nature of competition

- Q9 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?
- Q10 Please describe how personal banking service providers compete to gain and retain customers. Please explain your answers and provide examples. For example:
- Q10.1 Do providers put the same amount of effort into gaining and retaining customers?
 - Q10.2 Which services are subject to greater competition and which services are subject to less competition?

¹⁸⁵ Reserve Bank of New Zealand "Financial Stability Report" (3 May 2023) at footnote 11, available at <https://www.rbnz.govt.nz/hub/-/media/project/sites/rbnz/files/publications/financial-stability-reports/2023/may-2023/fsr-may-23.pdf>.

- Q10.3 Please describe how important national branding is to competing for personal banking services.
- Q10.4 Please describe how important having a physical presence is (eg, branch network) to competing for personal banking services.
- Q10.5 Please describe how competition for personal banking services varies between regions.
- Q11 How varied are home loans and deposit accounts between providers? What are the key features by which these services are differentiated?
- Q12 What interactions do banks and other providers of personal banking services have with each other?
- Q13 What role do mortgage brokers or other intermediaries play in the market? What is their impact on competition?

We want to understand how competition is working for New Zealanders as a whole as well as for different population groups

178. As part of our assessment of the nature of competition, we will consider whether there are differences in the intensity of competition to serve certain customer groups, or more generally whether the market is delivering disparate outcomes for different customer groups.
179. To do so, we will need to understand the nature of these groups, which could be based on age, location, income, ethnicity, digital or financial literacy, or other characteristics.
180. The Cabinet paper sets out an expectation that we consider how well competition is working for different customer groups, and in particular groups who may be underserved by the banking sector.¹⁸⁶ Recent media commentary on banks and banking has noted the sector may be delivering unequal outcomes for Māori, Pasifika, rural and elderly New Zealanders.¹⁸⁷
181. Overseas studies into personal banking have considered whether vulnerable consumer groups are experiencing harm from some services such as overdrafts, and explore the concept of ‘mortgage prisoners’: customers that are up-to-date with their payments, but are otherwise unable to switch home loan providers.¹⁸⁸

¹⁸⁶ Ministry of Business, Innovation & Employment “Cabinet paper – Initiating a Market Study into Personal Banking Services” (28 June 2023) at [45.3] and [45.5], available at <https://www.mbie.govt.nz/dmsdocument/26848-initiating-a-market-study-into-personal-banking-services-proactiverelase-pdf>.

¹⁸⁷ Jonathon Milne “Reserve Bank would back a Commerce Commission probe into bank profits” (28 February 2023), available at <https://www.newsroom.co.nz/pro/reserve-bank-wants-commerce-commission-inquiry-into-bank-profits>; Bernard Hickey “What a bank profits market study should focus on” (9 May 2023), available at <https://thekaka.substack.com/p/what-a-bank-profits-market-study#details>.

¹⁸⁸ UK FCA “Mortgages market study – Final Report” (2019) from [30], available at <https://www.fca.org.uk/publication/market-studies/ms16-2-3-final-report.pdf>.

182. We propose to assess the extent to which all customer segments and groups are served by the market, or whether there are differences in the intensity of competition to serve certain customers groups.
183. Our early sense is that it may be important to understand the ongoing role of physical banking, including:
- 183.1 any adverse consequences of the increased digitisation of banking services for certain regions of Aotearoa and for certain customer groups; and
 - 183.2 the potential resilience of the personal banking system and ongoing reliance on cash (as opposed to electronic payment systems and digital banking services).
184. For example, between 2010 and 2020 around 366 bank branches closed nationwide.¹⁸⁹ Consumer groups including Citizens Advice Bureau have voiced concerns that sectors of the community, such as the elderly and disabled, are being disadvantaged by the closure of face-to-face services, and identify banking and financial services as an area experiencing digital exclusion.¹⁹⁰
185. Since 2020 the New Zealand Bankers' Association (NZBA) and six of its members have been operating regional banking hubs. Each hub provides an ATM, phone banking and tablets for online banking. In August 2022, NZBA announced it would be extending and expanding its regional banking hub initiative.¹⁹¹ This initiative highlights the ongoing importance of access to physical banking.
186. Another example we are aware of and will explore in more detail is the limited availability of lending for building houses on whenua Māori. This is discussed in more detail in paragraphs 77 to 80 above.

Questions on how competition works for different population groups

- Q14 How do banks and other service providers segment their customers? Why?
- Q15 How well is competition for personal banking services working for different population groups in New Zealand? Why/why not? For example, how well is competition working for rural, Pacific, older or Māori populations?

¹⁸⁹ Consumer New Zealand "Bank branch closures: are banking hubs the answer?" (5 July 2021), available at https://www.consumer.org.nz/articles/bank-branch-closures-are-banking-hubs-the-answer?gclid=EAlalQobChMI1ZSA59PB_wIVTriWCh2N5gkOEAAAYASAAEgJ3NPD_BwE; KPMG "Financial Institution Performance Surveys 2010-2020", available at <https://kpmg.com/nz/en/home/insights/2016/02/financial-institution-performance-survey.html>.

¹⁹⁰ Citizens Advice Bureau "Face to face with digital exclusion" (February 2020) at 12, available at https://www.cab.org.nz/assets/Documents/Face-to-Face-with-Digital-Exclusion-/FINAL_CABNZ-report_Face-to-face-with-Digital-Exclusion.pdf.

¹⁹¹ New Zealand Banking Association "Banks expand regional banking hubs trial" (5 August 2022), available at <https://www.nzba.org.nz/2022/08/05/banks-expand-regional-banking-hubs-trial/>.

We will seek to understand the conditions for entry and expansion, particularly as they may affect disruptive firms

187. The conditions for entry and expansion of competitors are identified in the terms of reference for us to consider as part of this study.¹⁹²
188. The prospect that new firms will enter a market, or that existing firms will expand in response to profitable opportunities, is a key feature of workable competition. However, if there are barriers to entry and/or expansion, this can diminish the extent of competitive constraint in the market and can enable existing firms to exercise market power.
189. Conditions of entry and expansion can take a variety of forms, including structural, regulatory and strategic conditions. Structural conditions are associated with the technologies, resources or inputs a firm would need to enter or expand. Regulatory conditions include licensing or registration requirements for a business or product. Strategic conditions arise where incumbent firms take action to discourage prospective entrants or expansion, such as by raising customers' switching costs or signalling through present or past conduct that entry would provoke an aggressive response.¹⁹³

¹⁹² "Notice for Commerce Commission Competition Study into Personal Banking Services" (20 June 2023) *New Zealand Gazette* No 2023-go2632, available at <https://gazette.govt.nz/notice/id/2023-go2632>.

¹⁹³ Commerce Commission "Mergers and Acquisitions Guidelines" (May 2022) at [3.107]-[3.111], available at https://comcom.govt.nz/_data/assets/pdf_file/0020/91019/Mergers-and-acquisitions-Guidelines-May-2022.pdf.

190. Recent media commentary on banking has included discussion of low switching rates of consumers, and regulatory settings for banks, as potential barriers to expansion for newer entrants or smaller banks.^{194, 195}
191. Studies conducted in other jurisdictions have identified some challenging conditions of entry and expansion in banking. Some relevant studies are discussed below:
- 191.1 The UK CMA's 2016 '*Retail banking market investigation*' identified capital requirements (particularly for residential mortgages), the costs of funds for lending (new entrants or smaller banks faced higher wholesale funding costs and challenges in attracting retail deposits), as well as information asymmetries between banks (ie, banks with established customer bases having more information to use in developing new products or targeting promotions).¹⁹⁶

¹⁹⁴ For example: Jonathon Milne "Growing momentum for 'David and Goliath' official inquiry into banks" (1 March 2023), available at <https://www.newsroom.co.nz/pro/growing-momentum-for-david-and-goliath-official-inquiry-into-banks>; Gareth Vaughan "Against the backdrop of a possible Commerce Commission probe into banking competition, Gareth Vaughan looks at how the actions & inactions of NZ authorities have helped maintain the dominance of the big four banks" (8 March 2023), available at <https://www.interest.co.nz/banking/120190/against-backdrop-possible-commerce-commission-probe-banking-competition-gareth>; Rebecca Stevenson "NZ's big banks may be 'fat, dumb and happy with an apathetic, stable customer base.' But what does that mean for competition" (29 March 2023), available at <https://www.interest.co.nz/banking/120541/nzs-big-banks-may-be-fat-dumb-and-happy-apatetic-stable-customer-base-what-does>; Rob Stock "Here's why one former banker thinks the rip-off is not mortgage rates, but deposit rates" (12 March 2023), available at <https://www.stuff.co.nz/business/opinion-analysis/131459183/heres-why-one-former-banker-thinks-the-riporff-is-not-mortgage-rates-but-deposit-rates>; Consumer New Zealand "Trust in banks diving sharply amid soaring profit announcements" (12 May 2023), available at <https://www.consumer.org.nz/articles/consumer-nz-trust-in-banks-diving-sharply-amid-soaring-profit-announcements>.

¹⁹⁵ For example: Jonathon Milne "Growing momentum for 'David and Goliath' official inquiry into banks" (1 March 2023), available at <https://www.newsroom.co.nz/pro/growing-momentum-for-david-and-goliath-official-inquiry-into-banks>; Rebecca Stevenson "NZ bank profit probe by Commerce Commission would be a good start: Shamubeel Eaqub" (3 March 2023), available at <https://www.interest.co.nz/banking/120160/nz-bank-profit-probe-commerce-commission-would-be-good-start-shamubeel-eaqub>; Gareth Vaugh "Against the backdrop of a possible Commerce Commission probe into banking competition, Gareth Vaughan looks at how the actions & inactions of NZ authorities have helped maintain the dominance of the big four banks" (8 March 2023), available at <https://www.interest.co.nz/banking/120190/against-backdrop-possible-commerce-commission-probe-banking-competition-gareth>.

¹⁹⁶ UK CMA "Retail banking market investigation – final report" (2016) at [126]-[136], available at <https://assets.publishing.service.gov.uk/media/57ac9667e5274a0f6c00007a/retail-banking-market-investigation-full-final-report.pdf>.

- 191.2 The UK FCA noted in its 2022 *'Strategic review of retail banking business models'* that building market share has been an expensive and slow process for traditional challengers, often involving offering switching incentives or relatively high interest on balances (but that challengers have provided choice and value nonetheless).¹⁹⁷ The UK FCA also noted that the largest banks benefited from incumbency advantages, including a large and stable customer base built up over generations, brand familiarity, large branch networks, and certain aspects of the regulatory framework that tend to favour incumbents.¹⁹⁸
- 191.3 The Australian Productivity Commission referred in a 2018 report to various factors allowing market power to be sustained in Australia's financial system, including the established presence of incumbents (substantial geographic reach, scale and longevity of the major banks), regulatory arrangements that can reinforce incumbents' market power, and funding and operational efficiency advantages.¹⁹⁹
192. We propose to undertake a detailed assessment of the conditions of entry and expansion in the banking sector in New Zealand. Our preliminary understanding is that low switching rates may be a barrier to expansion and that the regulatory landscape (for example, capital requirements) may also have an impact, particularly for smaller providers of personal banking services for which the same set of regulatory requirements may impose proportionally greater compliance costs. We intend to initially focus our analysis on these conditions of entry and expansion.
193. We may also consider the impact that retail deposits held by a bank may have on its cost of funds. For example, the impact on cost of funds for a bank with a high proportion of transaction account deposits, compared with a bank that has a high proportion of savings and term deposits.²⁰⁰
194. We intend to consider whether these conditions are absolute barriers, or whether they restrict firms to a sufficient degree to impact on firms' decisions to enter or expand. We plan to consider the extent to which various conditions of entry and expansion may interact with and magnify each other's effect.

¹⁹⁷ UK FCA "Strategic Review of Retail Banking Business Models: Final Report 2022" (2022) at 4, available at <https://www.fca.org.uk/publication/multi-firm-reviews/strategic-review-retail-banking-business-models-final-report-2022.pdf>.

¹⁹⁸ UK FCA "Strategic Review of Retail Banking Business Models: Final Report 2022" (2022) at [2.4], available at <https://www.fca.org.uk/publication/multi-firm-reviews/strategic-review-retail-banking-business-models-final-report-2022.pdf>.

¹⁹⁹ Australian Productivity Commission "Overview – Inquiry Report – Competition in the Australian Financial System" (29 June 2018) at 5-8, available at <https://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system-overview.pdf>.

²⁰⁰ Controlling for the relative mix of other sources of funding sources such as wholesale debt and equity.

195. We note that the existence of these conditions does not necessarily give rise to a competition problem. We will seek to understand the effect that these conditions may have on incumbents' ability to maintain their position and on the ability of entrants to stimulate competition.
196. We will also seek to understand the reasons that firms exit the market, and what conditions attach to such events. We are aware of some recent examples with the withdrawal of ASB's BankDirect brand in 2017 and HSBC's recently announced wind-down of its Wealth and Personal Banking business.^{201, 202} We intend to study these events, and any others that we identify or are made aware of, as they may provide useful insights to the conditions of entry and expansion and competition in personal banking.

Questions on conditions of entry and expansion

- Q16 Which conditions of entry or expansion in the personal banking sector most significantly affect competition?
- Q17 How does the regulatory environment impact on entry or expansion in the personal banking sector?
- Q18 How do you expect proposed open banking reforms to affect conditions of entry and expansion in the personal banking sector? Please explain your reasoning.
- Q19 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.

What factors affect consumers' ability to search for, and switch to, alternative providers?

197. Barriers that may inhibit consumers' ability to compare banking products or to switching banks, including the extent to which services may be tied or bundled, are matters identified in the terms of reference for us to consider as part of the study.²⁰³
198. When 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. It is important because consumers who actively seek out and switch to alternatives reward the suppliers that best meet their needs with higher sales and profits, and discipline those that do not.

²⁰¹ ASB "Changes for BankDirect", available at <https://www.asb.co.nz/documents/media-centre/media-releases/changes-announced-for-bankdirect.html>.

²⁰² HSBC "Latest updates on the New Zealand wind-down", available at <https://www.hsbc.co.nz/wind-down/>.

²⁰³ "Notice for Commerce Commission Competition Study into Personal Banking Services" (20 June 2023) *New Zealand Gazette* No 2023-go2632, available at <https://gazette.govt.nz/notice/id/2023-go2632>.

199. By contrast, low customer engagement may weaken suppliers' incentives to compete to gain new customers and retain existing ones, to offer the best value for money or to come up with new and innovative products or services.
200. The Cabinet paper has raised this as a potential competition problem, in particular noting the complexity of switching as a potential driver of consumer stickiness for mortgage accounts, as well as the practice of tying a mortgage account to a transaction account where salary and wages must be deposited.²⁰⁴
201. Recent media commentary on banking has also highlighted New Zealand's apparent low rates of customers switching and a range of potential factors that may be driving this, such as opacity of different offers, perceived safety of large banks, and perceived difficulty of switching banks.^{205, 206, 207, 208}
202. Overseas studies into personal banking markets have found that, despite the existence of significant potential benefits from switching, in practice the levels of observed customer switching have been low.²⁰⁹
203. For example, in Australia, the ACCC home loan price inquiry (2019-2020) observed that:²¹⁰

Many borrowers with older home loans continue to pay interest rates significantly higher than those available on new loans. The fact that those borrowers have not switched to take advantage of potentially significant savings indicates that, among this cohort, there is a lack of engagement in the home loan market and limited awareness of the benefits of switching.

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- ²⁰⁴ Ministry of Business, Innovation & Employment "Cabinet paper – Initiating a Market Study into Personal Banking Services" (28 June 2023) at [25.1.3], available at <https://www.mbie.govt.nz/dmsdocument/26848-initiating-a-market-study-into-personal-banking-services-proactiverelase-pdf>.
- ²⁰⁵ Rebecca Stevenson "NZ's big banks may be 'fat, dumb and happy with an apathetic, stable customer base.' But what does that mean for competition" (29 March 2023), available at <https://www.interest.co.nz/banking/120541/nzs-big-banks-may-be-fat-dumb-and-happy-apatetic-stable-customer-base-what-does>.
- ²⁰⁶ Rebecca Stevenson "NZ's big banks may be 'fat, dumb and happy with an apathetic, stable customer base.' But what does that mean for competition" (29 March 2023), available at <https://www.interest.co.nz/banking/120541/nzs-big-banks-may-be-fat-dumb-and-happy-apatetic-stable-customer-base-what-does>.
- ²⁰⁷ Rob Stock "Here's why one former banker thinks the rip-off is not mortgage rates, but deposit rates" (12 March 2023), available at <https://www.stuff.co.nz/business/opinion-analysis/131459183/heres-why-one-former-banker-thinks-the-riporff-is-not-mortgage-rates-but-deposit-rates>.
- ²⁰⁸ Consumer New Zealand "Trust in banks diving sharply amid soaring profit announcements" (12 May 2023), available at <https://www.consumer.org.nz/articles/consumer-nz-trust-in-banks-diving-sharply-amid-soaring-profit-announcements>.
- ²⁰⁹ UK CMA "Retail Banking Market Investigation Final Report" (9 August 2016) at [64]-[66], available at <https://www.gov.uk/cma-cases/review-of-banking-for-small-and-medium-sized-businesses-smes-in-the-uk#final-report>; Productivity Commission (Australia) "Competition in the Australian Financial System Inquiry Report" (29 June 2018) at 145-150, available at <https://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system.pdf>.
- ²¹⁰ ACCC "Home loan price inquiry – Final report" (November 2020) at 17, available at <https://www.accc.gov.au/system/files/Home%20loan%20price%20inquiry%20-%20final%20report.pdf>.

204. Unnecessary barriers to switching such as opaque pricing, or perceived difficulties in relation to the technical procedure for switching can weaken the competitive constraint that personal banking providers can have on each other.
205. We will seek to understand the extent of searching and switching behaviour by consumers of personal banking services. We will also explore whether there are impediments or barriers to searching and switching between personal banking services.
206. We intend to undertake a comprehensive consumer survey on a large, representative sample of New Zealand personal banking customers. The survey will obtain descriptive statistics of personal banking customers, the services they acquire, and the extent to which they engage with the market in managing their personal banking needs.
207. The survey will seek to understand consumers' perceptions of the potential benefits and costs associated with switching between providers.
208. In addition, we intend to examine:
 - 208.1 the quality and nature of information, services and tools available to personal banking customers in relation to comparing different banks and banking services, whether on price or quality of service, so as to choose an appropriate option;
 - 208.2 the nature of any consumer behavioural biases affecting their ability to process and assess information in respect of personal banking services; and
 - 208.3 banks' strategies in respect of switching and retaining customers, with a view to understanding whether there are differences in the degree of competition for new compared to existing customers, as well as any barriers they may face in attracting customers.
209. We also intend to explore the extent to which different personal banking services may be either tied to or bundled together with other personal banking services, and how these strategies may affect the nature of competition for banking products.

210. Services are ‘tied’ if the purchase of one service is conditional on also purchasing another service.²¹¹ Bundling refers to the practice of selling two services together.²¹² Tying and bundling can provide benefits to consumers, but in some circumstances can make it harder for consumers to switch, reducing competitive constraint and leading to worse outcomes overall.
211. We propose to analyse the extent tying and bundling strategies may be directed at consumers, and the extent to which these strategies may impact consumers’ ability to make informed choices about the personal banking services they acquire.

Questions on consumer search and switch

- Q20 How do personal banking consumers select their first bank or personal banking service provider?
- Q21 How often and why do personal banking consumers:
- Q21.1 search for a new service provider?
- Q21.2 switch to a new service provider?
- Q22 Please describe any factors that might prompt or hinder a consumer searching and/or switching to an alternative provider of personal banking services.
- Q23 What tools are available to help consumers search, compare, and switch providers of personal banking services?
- Q24 Please identify any personal banking services that are either tied or bundled with other services. Please describe the impact on competition.

Are there impediments to innovation in the personal banking sector?

212. Impediments to new or innovative personal banking services is one of the matters identified in the terms of reference for us to consider as part of the study.²¹³
213. Innovation can be a useful indicator of how well dynamic competition is working in a market. In a well-functioning market, investment in innovation can bring benefits to customers in the form of new services, diversity of choice, cost efficiencies and enhanced service levels. Conversely, a lack of innovation may suggest firms are not subject to competitive pressure and therefore have reduced incentives to innovate, or that there are barriers to innovation in the market.

²¹¹ Jean Tirole “The Analysis of Tying Cases: A Primer” Competition Policy International (Spring 2005, Vol. 1, No. 1) at 8, available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=702641#:~:text=Jean%20Tirole,-University%20of%20Toulouse&text=This%20primer%20analyzes%20factors%20that,to%20total%20exclusion%20of%20competitors.

²¹² Bundles can be ‘pure’, where the two services are only available together, or ‘mixed’ if the products are each available separately, as well as together in the bundle.

²¹³ “Notice for Commerce Commission Competition Study into Personal Banking Services” (20 June 2023) *New Zealand Gazette* No 2023-go2632, available at <https://gazette.govt.nz/notice/id/2023-go2632>.

214. It may also be the case that innovation is occurring but for some reason, such as a lack of competitive tension, the benefits of that innovation accrue to the bank and its shareholders instead of its customers.
215. When considering what a new or innovative service may be, the OECD's definition of innovation in its Oslo Manual offers a helpful starting point: the implementation of a new or significantly improved product, process, marketing method, or organisational method in business practice, workplace organisation or external relations.²¹⁴
216. The Minister has initiated this study, in part, because of indicators of subdued innovation and limited variation in products and services within the sector.²¹⁵
217. Recent media commentary has identified specific innovations that are not present in the New Zealand banking sector as suggestive of weak competition. Examples include the variety of available services and open banking.^{216, 217} There has also been comment to the effect that any innovations which do occur are not benefiting banks' customers and may actually be disenfranchising them in the case of digitisation.²¹⁸

²¹⁴ OECD/Eurostat "Oslo Manual 2018: Guidelines for Collecting, Reporting and Using Data on Innovation, 4th Edition" (2018), available at <https://www.oecd.org/science/oslo-manual-2018-9789264304604-en.htm>.

²¹⁵ Ministry of Business, Innovation & Employment "Cabinet paper – Initiating a Market Study into Personal Banking Services" (28 June 2023) at [25.1.2], available at <https://www.mbie.govt.nz/dmsdocument/26848-initiating-a-market-study-into-personal-banking-services-proactiverelease-pdf>.

²¹⁶ Jonathon Milne "Growing momentum for 'David and Goliath' official inquiry into banks" (1 March 2023), available at <https://www.newsroom.co.nz/pro/growing-momentum-for-david-and-goliath-official-inquiry-into-banks>.

²¹⁷ Sam Stubbs "Here's a way to give bank customers greater power and better deals" (26 March 2023), available at <https://www.stuff.co.nz/business/opinion-analysis/131594142/heres-a-way-to-give-bank-customers-greater-power-and-better-deals>.

²¹⁸ Bernard Hickey "What a bank profits market study should focus on" (9 May 2023), available at <https://thekaka.substack.com/p/what-a-bank-profits-market-study>.

218. Reviews and ongoing consultations in other jurisdictions have made (and are in the process of making) observations about innovation and its impact on competition:
- 218.1 In its 2022 final report, the UK FCA found that digital challengers had rapidly gained an 8% share in personal current account (PCA) and business current account markets, through innovative mobile apps (enabled, in part, by open banking) which make the experience of banking easier, more convenient and better helped consumers manage their money. The UK FCA further noted that increased competition and innovation have improved outcomes for many consumers (and some small businesses) to the extent that larger banks have adopted digital innovation in PCA banking – led by digital challengers – and this has improved service quality for many consumers. However, the UK FCA also noted that digital challengers still need to achieve economies of scale, have yet to substantially grow in other personal banking service markets (such as mortgage and consumer lending), and that as digital challengers up-scale they may face challenges with compliance (including managing the risk of harm to customers), service standards, and subsequently, cost.²¹⁹
- 218.2 In October 2022, the UK FCA released a discussion paper on the potential competition benefits (and harms) from “Big Tech” and fintech firms’ entry into a range of retail financial services sectors, seeking views on this topic. Relevantly for innovation, the UK FCA stated that while challenger firms are an important source of competitive pressure in the short term – catalysing innovation in financial services that could benefit many consumers – such innovation also comes with longer term risk. This is due to the characteristics of digital markets and digital innovations leading to Big Tech’s potentially rapid acquisition of market share, which could result in the creation of harmful market power.²²⁰ The UK FCA plans to publish a feedback statement shortly following the consultation period.
- 218.3 In its submission to the Australian Productivity Commission’s inquiry into competition in the Australian financial system, the ACCC invited the Productivity Commission to consider the difficulty that UK challenger (including digital challenger) banks have found in building scale against incumbents, along with the ability for incumbents to “fast follow” innovative moves by challenger banks.²²¹

²¹⁹ UK FCA “Strategic Review of Retail Banking Business Models – Final Report” (January 2022), available at <https://www.fca.org.uk/publication/multi-firm-reviews/strategic-review-retail-banking-business-models-final-report-2022.pdf>.

²²⁰ UK FCA “The potential competition impacts of Big Tech entry and expansion in retail financial services” (October 2022), available at <https://www.fca.org.uk/publication/discussion/dp22-5.pdf>.

²²¹ ACCC “Submission to the Productivity Commission Inquiry into Competition in the Australian Financial System” (September 2017) at 18, available at https://www.pc.gov.au/data/assets/pdf_file/0019/221860/sub017-financial-system.pdf.

- 218.4 Subsequently, the Australian Productivity Commission in its 2018 report observed that on the one hand, entry can be a force for innovation by incumbents, but on the other, fear of risk often discourages innovation – that both policy and regulation can operate as barriers to innovation. It noted that regulatory and policy settings should facilitate innovation and accommodate market developments (including rapid technological innovations), where efficiency and user outcomes are improved. It further noted that incentive to innovate appears to be balanced against the objectives of a stable financial system.²²²
219. We propose to explore trends in innovation and new service development in the sector, including by looking at the breadth of product offerings in New Zealand compared to overseas banking sectors which may or may not have been impacted by digital disruption (or may be in the process of systemic change, driven by digital innovation). We intend to consider the following high-level questions:
- 219.1 Are services being introduced overseas that are not being offered in New Zealand?
- 219.2 Is there demand for new for innovative services that is currently unmet? If so, why?
- 219.3 Is there anything holding back the introduction of these new or innovative services in New Zealand (for example, the current regulatory settings, or other barriers)?
220. It may be that providers' ownership structures play a part in affecting ability and incentives to innovate:
- 220.1 The four largest banks in New Zealand are all Australian-owned. Australia has had (and appears to still have) a "Four Pillars" policy, which restricts the four major banks of Australia – the parent companies of New Zealand's largest banks – from merging. The Australian Productivity Commission has commented that, together with other restrictions on bank ownership in Australian law, the Four Pillars policy "...minimises the threat of takeover – the most direct form of market discipline for inefficiency and management failure – and so encourages complacency".²²³
- 220.2 Some smaller banks and other providers are government-owned (Kiwibank) or are co-operatives, which may restrict their ability to access capital to, for example, innovate (or expand).

²²² Australian Productivity Commission "Competition in the Australian Financial System – Final Report" (29 June 2018), available at <https://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system.pdf>.

²²³ Australian Productivity Commission "Competition in the Australian Financial System – Final Report" (August 2018) at 10, available at <https://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system.pdf>.

221. A question that we intend to explore is the effect of ownership relationships on innovation by New Zealand banks.

Questions on innovation

- Q25 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.
- Q26 How does innovation in the personal banking sector in New Zealand compare to overseas markets? Please describe and give examples.
- Q27 Please describe any latent demand for new personal banking services that is currently being unmet. Please describe and give examples.
- Q28 What are the main incentives for providers to innovate in the personal banking sector? Please describe the nature and strength of these incentives.
- Q29 What are the most significant impediments to innovation in the personal banking sector in New Zealand? Please describe and give examples.
- Q30 What impact, if any, does ownership structure have on providers' ability and incentive to innovate?

We welcome your views on other analyses and factors potentially affecting competition that we could consider as well as their relative priority

222. The analyses and factors potentially affecting competition that we are seeking views on are based on our preliminary assessment of the terms of reference for the study issued by the Minister. They are not intended to be exhaustive. Following submissions and feedback on this paper we may further refine or adjust the focus of the study.
223. We invite you to provide views on which analyses and factors potentially affecting competition are the most significant, and why, and to raise any other analyses, factors or information that you consider to be relevant to the study.

Questions on other analyses, factors, and priority

- Q31 Are there any other analyses or factors not raised in this paper that could be relevant to this study? Please explain your answer.
- Q32 Which analyses and factors do you think should be a priority for the Commission to focus on? Please explain your answer.

Attachment A How you can have your say

- A1 We are seeking your views on the content of the Preliminary Issues paper and the questions we have raised in it. We also welcome your views on any other matters you consider important within the context of the terms of reference for this study. Your views will help us to understand relevant factors affecting supply or acquisition of personal banking services and help us decide where to focus our effort and analysis during the study.
- A2 This document sets out how you can have your say on the paper and includes the full question list in one place to assist you when providing feedback.
- A3 You do not need to respond to all the contents of the Preliminary Issues paper or all the questions raised – you can instead respond to just those that interest you, or relate to your business operations or experience.
- A4 Where possible, please reference the section heading and question number to which each aspect of your submission responds or relates.
- A5 You are welcome to provide views beyond the questions and topics we have highlighted for feedback. Where you do so it would be helpful if you could set these out under a heading of ‘other issues’.
- A6 Please explain the reasoning behind your views, and if you include supporting materials please reference these in your answer.
- A7 We encourage you to provide comments that are supported by evidence. Less weight may be given to a statement or submission that cannot be supported by evidence.
- A8 Please send any feedback by email to: marketstudies@comcom.govt.nz.
- A9 To ensure your views can be taken into account, please provide your feedback to us by **4pm, Thursday 7 September 2023**. You will also have further opportunities to contribute to this study, as described in our [Statement of Process](#).

Format for written submissions

- A10 Please provide submissions in both a format suitable for word processing (such as a Microsoft Word document), and a ‘locked’ format (such as a PDF) for publication on our website.

Confidential information – disclosure of your submission

- A11 As part of running a transparent process, we will publish all submissions that we receive at different points in the process to the website landing page for this study.
- A12 We do, however, understand that it is important to parties that confidential, commercially sensitive or personal information (confidential information) is not disclosed because this could harm the provider of the information or a third party.

- A13 We recognise the need to ensure that you can have confidence in our use and retention of information, and we are committed to respecting any privacy, confidentiality, or commercial sensitivity attached to your information where possible.
- A14 Anyone who has information relevant to the study can ask the Commission to keep their identity and/or the information provided confidential. If confidentiality is a concern, it should be raised when you first contact the Commission so we can discuss your concerns and any available protections as soon as possible.
- A15 If your submission includes confidential information, we request that you provide us with a confidential and a public version of your submission. We intend to publish the public versions of submissions on our website. It is the responsibility of submitters to ensure that no confidential information is included in the public versions of submissions.
- A16 Where confidential information is included in submissions:
- A16.1 the information should be clearly marked with brackets and highlighted in yellow [like this, for example]; and
 - A16.2 both confidential and public versions of submissions should be provided by 4pm on the due date.
- A17 If your submission contains information which is considered confidential, a schedule must be provided which identifies each piece of information over which confidentiality is claimed and the reason why the information is confidential (preferably with reference to the Official Information Act 1982 (OIA)).
- A18 We will not disclose any confidential or commercially sensitive information in a media statement, public report, or in response to a request, unless there is a countervailing public interest in doing so in a particular case. Such cases are likely to be rare and will be discussed with you in advance of any publication.

Attachment B List of questions in the Preliminary Issues paper

Questions on our overview of personal banking services in New Zealand

The following questions relate to paragraphs 32-133 in the Preliminary Issues paper.

- Q1 Do you agree with our description of the structure of the personal banking sector? If not, please explain.
- Q1.1 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.
- Q1.2 What are useful measures of concentration/market share within the personal banking sector? Please describe the measures and explain your reasoning.
- Q2 Do you agree with our description of the regulatory environment for the personal banking sector? If not, please explain.
- Q3 Please describe any other legislation, regulations, or other regulatory instruments that may be relevant to understanding competition in the personal banking sector.
- Q4 What aspects of competition in the personal banking sector have a particular impact on Māori?
- Q5 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.
- Q6 Please describe the factors that have the most influence on the financial performance of New Zealand personal banking service providers.
- Q7 Do you agree with our description of the digital innovation and digital disruption trends in New Zealand and overseas? If not, please explain.

Question on the services that we will focus on in the study

The following question relates to paragraphs 134-162 in the Preliminary Issues paper.

- Q8 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?

Questions on the nature of competition

The following questions relate to paragraphs 167-177 in the Preliminary Issues paper.

- Q9 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?
- Q10 Please describe how personal banking service providers compete to gain and retain customers. Please explain your answers and provide examples. For example:
- Q10.1 Do providers put the same amount of effort into gaining and retaining customers?
- Q10.2 Which services are subject to greater competition and which services are subject to less competition?
- Q10.3 Please describe how important national branding is to competing for personal banking services.
- Q10.4 Please describe how important having a physical presence is (eg, branch network) to competing for personal banking services.
- Q10.5 Please describe how competition for personal banking services varies between regions.
- Q11 How varied are home loans and deposit accounts between providers? What are the key features by which these services are differentiated?
- Q12 What interactions do banks and other providers of personal banking services have with each other?
- Q13 What role do mortgage brokers or other intermediaries play in the market? What is their impact on competition?

Questions on how competition works for different population groups

The following questions relate to paragraphs 178-186 in the Preliminary Issues paper.

- Q14 How do banks and other service providers segment their customers? Why?
- Q15 How well is competition for personal banking services working for different population groups in New Zealand? Why/why not? For example, how well is competition working for rural, Pacific, older or Māori populations?

Questions on conditions of entry and expansion

The following questions relate to paragraphs 187-196 in the Preliminary Issues paper.

- Q16 Which conditions of entry or expansion in the personal banking sector most significantly affect competition?
- Q17 How does the regulatory environment impact on entry or expansion in the personal banking sector?
- Q18 How do you expect proposed open banking reforms to affect conditions of entry and expansion in the personal banking sector? Please explain your reasoning.
- Q19 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.

Questions on consumer search and switch

The following questions relate to paragraphs 197-211 in the Preliminary Issues paper.

- Q20 How do personal banking consumers select their first bank or personal banking service provider?
- Q21 How often and why do personal banking consumers:
- Q21.1 search for a new service provider?
 - Q21.2 switch to a new service provider?
- Q22 Please describe any factors that might prompt or hinder a consumer searching and/or switching to an alternative provider of personal banking services.
- Q23 What tools are available to help consumers search, compare, and switch providers of personal banking services?
- Q24 Please identify any personal banking services that are either tied or bundled with other services. Please describe the impact on competition.

Questions on innovation

The following questions relate to paragraphs 212-221 in the Preliminary Issues paper.

- Q25 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.
- Q26 How does innovation in the personal banking sector in New Zealand compare to overseas markets? Please describe and give examples.
- Q27 Please describe any latent demand for new personal banking services that is currently being unmet. Please describe and give examples.

- Q28 What are the main incentives for providers to innovate in the personal banking sector? Please describe the nature and strength of these incentives.
- Q29 What are the most significant impediments to innovation in the personal banking sector in New Zealand? Please describe and give examples.
- Q30 What impact, if any, does ownership structure have on providers' ability and incentive to innovate?

Questions on other analyses, factors, and priority

The following questions relate to paragraphs 222-223 in the Preliminary Issues paper.

- Q31 Are there any other analyses or factors not raised in this paper that could be relevant to this study? Please explain your answer.
- Q32 Which analyses and factors do you think should be a priority for the Commission to focus on? Please explain your answer.

Attachment C Bank performance indicators

Introduction

- C1 As outlined in this Preliminary Issues paper, one part of undertaking a market study is to consider the outcomes of the competitive process in that market, including profitability.²²⁴ These outcomes can serve as indicators of the level of competition.
- C2 In this attachment, we collate and present publicly available measures of financial performance derived by banks in New Zealand and overseas, in order to compare:
- C2.1 the relative financial performance of locally incorporated registered banks operating in New Zealand;²²⁵ and
 - C2.2 the New Zealand banking sector's financial performance with that of 20 other similar jurisdictions. In selecting the set of other similar jurisdictions, we have followed the set used by RBNZ in its May 2023 Financial Stability Report.²²⁶

We use three measures to assess profitability

- C3 Much of the recent media commentary on profitability in the banking sector has reported on total dollar amounts of bank profits.²²⁷ The total dollar value of accounting profits (on its own) does not inform the question of whether those profits reflect a firm's opportunity cost of capital and would therefore be consistent with what might be expected in a workably competitive market.
- C4 To assess profitability in this study, we propose to draw on three key measures of banking profitability:
- C4.1 Net Interest Margin (NIM);
 - C4.2 Return on Equity (ROE); and
 - C4.3 Return on Assets (ROA).

²²⁴ See paragraphs 93 to 97 above.

²²⁵ All banks operating in New Zealand must be registered with the Reserve Bank, Reserve Bank of New Zealand "Registered banks in New Zealand" (16 March 2023), available at <https://www.rbnz.govt.nz/regulation-and-supervision/cross-sector-oversight/registers-of-entities-we-regulate/registered-banks-in-new-zealand>.

²²⁶ Reserve Bank of New Zealand "Financial Stability Report May 2023" (3 May 2023), available at <https://www.rbnz.govt.nz/hub/publications/financial-stability-report/2023/may-2023/financial-stability-report-may-2023>.

²²⁷ For example, Tamsyn Parker "Record Profits: Banks made \$7 billion last year – a billion-dollar increase on 2021" (14 March 2023), available at <https://www.nzherald.co.nz/business/record-profits-banks-made-7-billion-last-year-a-billion-dollar-increase-on-2021/RNSQD7UTENHRZPCZEDDN5MSBTY/>.

- C5 Each of these measures report on profitability at a whole-of-entity level, rather than the profitability of a particular segment of a bank’s operations, such as personal banking. Banks obtain funding from various sources and the resulting costs of obtaining these funds cannot readily be directly attributed to a particular banking operation. Consequently, this review cannot be interpreted with regard to personal banking services alone.²²⁸

Return on Equity

- C6 ROE is calculated as net income divided by shareholders’ equity.²²⁹ Because shareholders’ equity is equal to net assets, ROE is a measure of return on net assets.

$$ROE = \frac{\text{Net income}}{\text{Shareholders' Equity}}$$

- C7 ROE provides a direct assessment of financial return to shareholders, and only requires publicly available information, making it easy to compute.
- C8 ROE is only a partial measure of profitability. In particular:
- C8.1 ROE depends upon firm leverage, such that a high ROE may simply reflect limited equity capital. For example, in 2022 all four of the largest Australian banks completed share buy-backs (in Australia), increasing their ROE without a change in prices or costs;^{230, 231} and
- C8.2 it is not risk sensitive.²³²

²²⁸ The Cabinet paper envisaged that an assessment of financial performance as part of this Market Study would be conducted at a whole-of-bank level as opposed to just personal banking services, Ministry of Business, Innovation & Employment “Cabinet paper – Initiating a market study into personal banking services” (28 June 2023) at [23], available at <https://www.mbie.govt.nz/dmsdocument/26848-initiating-a-market-study-into-personal-banking-services-pdf>.

²²⁹ ROE can be calculated either before or after tax. We use post-tax ROE in this paper when comparing domestic returns, and present pre-tax ROE when making international comparisons, so as to remove any differences across countries that relate to corporate tax rates.

²³⁰ ANZ completion of \$1.5 billion on-market share buy-back.

²³¹ European Central Bank “Beyond ROE – how to measure bank performance, appendix to the report on EU banking structures” (September 2010) at 5, available at <https://www.ecb.europa.eu/pub/pdf/other/beyondroehowtomeasurebankperformance201009en.pdf>.

²³² European Central Bank “Beyond ROE – how to measure bank performance, appendix to the report on EU banking structures” (September 2010) at 5, available at <https://www.ecb.europa.eu/pub/pdf/other/beyondroehowtomeasurebankperformance201009en.pdf>.

Return on Assets

C9 ROA is calculated as the ratio of net income divided by total assets.²³³ ROA is a measure of how efficiently a bank uses its assets to generate returns.

$$ROA = \frac{Net\ income}{Total\ Assets}$$

C10 ROA is a popular measure for banking profitability. It is a simple and accessible measure because, like ROE, it is based on publicly available information and the long-term nature of many assets makes it less sensitive to short-term ‘gaming’ than other measures.²³⁴

C11 Because ROA is sensitive to the total quantum of assets, it is not generally suitable for comparisons across sectors where the level of capital intensity, and therefore, quantum of total assets, may be expected to vary.

Net Interest Margin

C12 NIM is a key performance metric used in retail banking, and in simple terms refers to 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.

$$NIM = \frac{Interest\ Income - Interest\ Expense}{Interest\ Earning\ Assets}$$

C13 As noted by RBNZ, net interest income is a primary driver of New Zealand banks’ earnings. Therefore, NIM is a particularly useful measure of how effective a bank is at generating income in the New Zealand context.²³⁵ However, NIM is a partial indicator of profitability because it does not take all revenues and costs into account, such as non-interest income or operating costs.

²³³ ROA can be calculated either before or after tax. We use post-tax ROA in this paper when comparing domestic returns, and present pre-tax ROA when making international comparisons, so as to remove any differences across countries that relate to corporate tax rates.

²³⁴ Deloitte “Success or Struggle: ROA as a true measure of business performance” (31 October 2013), available at <https://www2.deloitte.com/us/en/insights/topics/operations/success-or-struggle-roa-as-a-true-measure-of-business-performance.html>.

²³⁵ Reserve Bank of New Zealand “Trends in bank profitability: An article from the May 2023 Financial Stability Report” (3 May 2023) at footnote 11, available at <https://www.rbnz.govt.nz/hub/publications/financial-stability-report/2023/may-2023/financial-stability-report-may-2023>.

Data sources

- C14 We conducted desktop research to identify the extent to which there has been any recent, reputable research which compares measures of financial performance in banking sectors including New Zealand. We also sought out publicly available datasets on measures of banking performance from established, reputable sources.²³⁶
- C15 We identified two robust data sources. These are:
- C15.1 **RBNZ Bank Financial Strength Dashboard** (the RBNZ database) – reports annualised quarterly bank level data for up to 22 banks and ‘groups’ operating in New Zealand.^{237, 238} This dataset includes ROE, ROA and NIM over the period 1 January 2018 to 31 March 2023 (as at the time of this review); and
- C15.2 **World Bank Global Financial Development Database** (the World Bank database) – includes annual country-level data on weighted average measures of financial performance for commercial banks including ROE, ROA and NIM over the period 2000 to 2021;^{239, 240, 241}
- C16 Each dataset is described in more detail below.

²³⁶ Our search included searching a number of jurisdictions’ central banks’ websites (eg, RBNZ, Federal Reserve), other relevant government agencies websites (eg, Statistics NZ, APRA, FRED), and any other relevant organisations or sources of public data (eg, OECD, World Bank).

²³⁷ Reserve Bank of New Zealand “Key metric summary”, available at <https://bankdashboard.rbnz.govt.nz/summary>.

²³⁸ ICBC Group was added to the data in the June 2020 quarter. Prior to this, there were only 21 banks and ‘groups’ in the data.

²³⁹ September 2022 Version, available for download at <https://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database> (hereafter, the World Bank database).

²⁴⁰ This dataset draws on a number of underlying sources including Bureau van Dijk BankScope and Orbis products, International Monetary Fund, Global Financial Inclusion database, surveys, and other sources.

²⁴¹ World Bank also holds data on non-bank financial institutions, which we have excluded in our presentation of these data.

The RBNZ database

- C17 The RBNZ publishes a dashboard that presents measures of bank financial strength.²⁴² This includes measures of profitability, liquidity, and asset quality among others. This data is reported quarterly at a bank level for up to 22 ‘banks’ and ‘groups’ operating in New Zealand.²⁴³ We present only the data relating to the 15 locally incorporated banks, excluding groups.²⁴⁴ We also exclude branches of overseas incorporated banks, because data on these are not available (HSBC and Kookmin Bank).
- C18 The quarterly data covers the period from 1 January 2018 to 31 March 2023 (the relevant period) at the time of this review. The raw data has been supplied to the RBNZ by each individual bank.
- C19 Regarding profitability measures, the RBNZ database contains data for ROE (after tax), ROA (after tax), and NIM.^{245, 246, 247, 248}
- C20 The key benefits of the RBNZ database are that it:
- C20.1 allows for the assessment of each individual bank’s performance over time;
 - C20.2 provides a greater picture of within year variation than would annual data;
 - C20.3 disaggregates the sector level data for New Zealand available in the World Bank dataset (discussed below); and
 - C20.4 is complete, and the RBNZ’s compulsory reporting ensures that a system is in place to minimise inconsistencies across sources.

²⁴² Reserve Bank of New Zealand “Profitability”, available at <https://bankdashboard.rbnz.govt.nz/profitability>.

²⁴³ We use the Reserve Bank’s definitions for these terms and refer to locally incorporated banks as ‘banks’, and the consolidated New Zealand-based activities of dual registered banking groups as ‘groups’, Reserve Bank of New Zealand “Frequently asked questions”, available at <https://bankdashboard.rbnz.govt.nz/faqs>.

²⁴⁴ The banking group data includes both the activities of the New Zealand incorporated company and the activities of any New Zealand branches of affiliated overseas companies. We understand that the provision of personal banking services occurs through the New Zealand incorporated companies, rather than through the New Zealand branches of overseas companies, so we have removed the banking groups from our dataset.

²⁴⁵ RBNZ defines ROE (after tax) as the ratio of profit after tax to average equity over the quarter.

²⁴⁶ RBNZ defines ROA (after tax) as profit after tax as a percentage of average total assets over the quarter.

²⁴⁷ RBNZ defines NIM as the ratio of net interest income to average interest-bearing assets, where net interest income is interest received less interest paid.

²⁴⁸ Reserve Bank of New Zealand “Bank Financial Strength Dashboard Data” Series: DBB.QIE13, DBB.QIE10, and DBB.QIE15, available at <https://bankdashboard.rbnz.govt.nz/profitability>.

The World Bank database

- C21 The World Bank publishes annual country level data on measures of financial development and financial system characteristics for 214 economies, including NIM, ROE (pre-tax) and ROA (pre-tax).^{249, 250, 251, 252} For each indicator, data for the numerator and the denominator is aggregated from a bank to a national level before the value is calculated.²⁵³
- C22 Data on these indicators are available for many countries over the period from 2000 to 2021. However, New Zealand’s data are only available from 2007. We have limited our presentation of the World Bank database to the period from 2010 to 2021 to account for the availability of New Zealand data, to also limit the number of missing or excluded values for other countries, and to remove the years relating to the global financial crisis. Where observations are missing from the database, this is shown as a break in our charts.
- C23 The countries included in our review are summarised in Table C1 below.²⁵⁴

²⁴⁹ Defined by World Bank as accounting value of banks’ net interest revenue as a share of its average interest-bearing assets. Series: GFDD.EI.01. World Bank database, available for download at: <https://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database>.

²⁵⁰ Defined by World Bank as the ratio of commercial banks’ before-tax income to yearly averaged equity. Series: GFDD.EI.10. World Bank database, available for download at: <https://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database>.

²⁵¹ Defined by World Bank as the ratio of commercial banks’ before-tax income to yearly averaged total assets. Series: GFDD.EI.09. World Bank database, available for download at: <https://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database>.

²⁵² The World Bank “DataBank – World Development Indicators” , available at [https://databank.worldbank.org/reports.aspx?source=2&series=FR.INR.LNDP&country=.](https://databank.worldbank.org/reports.aspx?source=2&series=FR.INR.LNDP&country=)

²⁵³ The World Bank notes that the banks included may vary between indicators for the same country. Data is also calculated from underlying bank-by-bank unconsolidated data from Bankscope and Orbis. Consequently, there may be some inter- and intra-country inconsistencies that may affect the interpretation of results.

²⁵⁴ To select the range of comparable countries, we followed the set of comparable countries used by the RBNZ in its May 2023 Financial Stability Report, Reserve Bank of New Zealand “Trends in Bank Profitability” (3 May 2023) at Figure 2.12, available at <https://www.rbnz.govt.nz/hub/publications/financial-stability-report/2023/may-2023/fsr-may-23-special-topic-3>.

Table C1 List of countries used in this appendix to assess trends in bank financial performance

Australia (AUS)	Germany (DEU)	Norway (NOR)
Austria (AUT)	Hong Kong (HKG)	Portugal (PRT)
Belgium (BEL)	Israel (ISR)	Singapore (SGP)
Canada (CAN)	Italy (ITA)	Sweden (SWE)
Denmark (DNK)	Japan (JPN)	Switzerland (CHE)
Finland (FIN)	Netherlands (NLD)	United Kingdom (GBR)
France (FRA)	New Zealand (NZL)	United States (USA)

Comparing measures of profitability across New Zealand Banks

- C24 We use the RBNZ database to compare the financial performance of banks operating in New Zealand over the period 1 January 2018 to 31 March 2023.
- C25 In order to make our comparisons tractable and relevant to the provision of personal banking services in New Zealand, we have focused our presentation and commentary on the 10 largest, locally incorporated banks operating in New Zealand.²⁵⁵ Using this approach, we have excluded China Construction Bank, Industrial and Commercial Bank of China, Bank of Baroda, Bank of India and Rabobank. However, we present their indicators of financial performance for completeness in Table C3 to C5 below.
- C26 Table C2 presents each of the 10 bank's annualised financial performance measures for the quarter ended 31 March 2023, to illustrate the nature of the data.

²⁵⁵ By risk-adjusted assets (residential mortgages only), using RBNZ data for the quarter ended 31 March 2023.

Table C2 Annualised financial performance measures for the quarter ended 31 March 2023 (ranked by ROE)

Bank	ROE	ROA	NIM
ASB	13.9%	1.2%	2.5%
BNZ	13.8%	1.2%	2.4%
ANZ	10.9%	1.0%	2.4%
Heartland	9.9%	1.3%	4.1%
Westpac	8.4%	0.6%	2.3%
SBS	7.6%	0.7%	2.5%
Kiwibank	7.2%	0.5%	2.5%
Bank of China	6.2%	0.5%	0.7%
TSB	1.8%	0.1%	2.1%
The Co-operative Bank	-4.7%	-0.4%	2.6%

Source: RBNZ Bank Financial Strength Dashboard.²⁵⁶

- C27 The full dataset can be seen in Table C3 to Table C5 in the sections below.
- C28 Figure C1, Figure C2 and Figure C3 below present bank level ROE, ROA and NIM, over the period 1 January 2018 to 31 March 2023. We describe these Figures in more detail below but from these Figures we observe that:
- C28.1 In relation to ROE, the four largest banks (ANZ, ASB, BNZ, and Westpac) have generally outperformed other banks;
- C28.2 On ROA, Heartland Bank Limited (Heartland) derived the highest returns over the period. ASB, ANZ, BNZ also performed strongly relative to the smaller banks included in our sample;
- C28.3 Comparing NIMs, Heartland had the widest margins and may be described as an outlier from the group. SBS Bank had slightly elevated NIMs compared to the rest of the New Zealand banks over the relevant period, while the NIMs of the four largest banks have tended to move closely together;
- C28.4 Comparing the returns of the four largest banks on all three measures of financial performance, ASB has consistently outperformed the other three large banks. Westpac has often derived the lowest returns of the group.

²⁵⁶ Reserve Bank of New Zealand “Bank Financial Strength Dashboard” Series: DBB.QIE13, DBB.QIE10 and DBB.QIE15, available for download at <https://bankdashboard.rbnz.govt.nz/summary>.

C29 Across all three measures, we have not observed a strong upward or downward trend in returns across the sector over the relevant period – that is, banking sector returns have not changed significantly in recent years as a proportion of equity or asset bases. The implication of this is that the growth in total dollar value of profits (as observed in the media) is proportional to growth in assets and equity.²⁵⁷

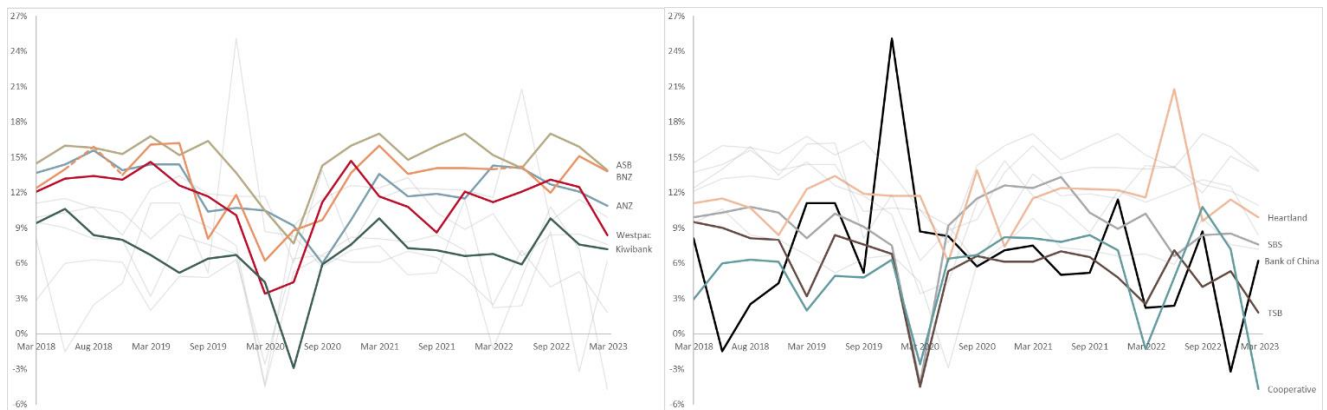
C30 We discuss our review of each of the three indicators of financial profitability in the sections below.

Return on Equity

C31 Figure C1 and Table C3 below display the post-tax ROE for all New Zealand banks over the period 1 January 2018 to 31 March 2023.

C32 The data show that ASB, followed by BNZ, ANZ and Westpac have been the strongest performers on return on equity across the banks in our sample over the relevant period.

Figure C1 Return on equity – Quarterly annualised data: 1 January 2018 – 31 March 2023



Source: RBNZ Bank Financial Strength Dashboard.²⁵⁸

C33 Outside of the four largest banks, Heartland has also reported comparable levels of return on equity to the largest banks over the relevant period (1 January 2018 to 31 March 2023).²⁵⁹

²⁵⁷ For example, Tamsyn Parker “Record Profits: Banks made \$7 billion last year – a billion-dollar increase on 2021” (14 March 2023), available at <https://www.nzherald.co.nz/business/record-profits-banks-made-7-billion-last-year-a-billion-dollar-increase-on-2021/RNSQD7UTENHRZPCZEDDN5MSBTY/>.

²⁵⁸ Reserve Bank of New Zealand “Bank Financial Strength Dashboard” Series: DBB.QIE13, available for download at <https://bankdashboard.rbnz.govt.nz/summary>.

²⁵⁹ We understand that Heartland has a very different business model to that of the four large Australian banks, and these differences may be driving their strong relative performance. This could similarly be true for other banks in New Zealand.

- C34 There is neither a strong increasing nor decreasing trend visible in the data across the period – that is, it does not appear that levels of profitability (as measured by ROE) have changed significantly over the relevant period.

Table C3 New Zealand bank quarterly ROE (March 2018 – March 2023)

Bank	Mar 2018	Jun 2018	Sep 2018	Dec 2018	Mar 2019	Jun 2019	Sep 2019	Dec 2019	Mar 2020	Jun 2020	Sep 2020	Dec 2020	Mar 2021	Jun 2021	Sep 2021	Dec 2021	Mar 2022	Jun 2022	Sep 2022	Dec 2022	Mar 2023
ANZ	13.7%	14.4%	15.6%	13.9%	14.4%	14.4%	10.4%	10.7%	10.5%	9.2%	6.0%	9.7%	13.6%	11.7%	11.9%	11.5%	14.3%	14.1%	12.7%	12.1%	10.9%
ASB	14.5%	16.0%	15.8%	15.3%	16.8%	15.2%	16.4%	13.7%	10.5%	7.7%	14.3%	16.0%	17.0%	14.8%	16.0%	17.0%	15.2%	14.1%	17.0%	15.9%	13.9%
BNZ	12.4%	14.0%	15.9%	13.5%	16.1%	16.2%	8.1%	11.8%	6.2%	8.8%	9.7%	13.7%	16.0%	13.6%	14.1%	14.1%	14.0%	14.2%	12.0%	15.1%	13.8%
Westpac	12.1%	13.2%	13.4%	13.1%	14.6%	12.6%	11.7%	10.1%	3.4%	4.4%	11.2%	14.7%	11.7%	10.8%	8.6%	12.1%	11.2%	12.1%	13.1%	12.5%	8.4%
Kiwibank	9.4%	10.6%	8.4%	8.0%	6.7%	5.2%	6.4%	6.7%	4.4%	-2.9%	5.9%	7.6%	9.8%	7.3%	7.1%	6.6%	6.8%	5.9%	9.8%	7.6%	7.2%
Bank of Baroda	2.0%	3.1%	1.7%	2.7%	0.0%	1.5%	2.2%	1.7%	1.9%	2.0%	2.0%	2.2%	2.9%	3.2%	2.2%	3.8%	2.4%	3.4%	3.3%	3.4%	4.9%
Bank of China	8.1%	-1.5%	2.5%	4.3%	11.1%	11.1%	5.2%	25.1%	8.7%	8.3%	5.7%	7.1%	7.5%	5.0%	5.2%	11.4%	2.2%	2.4%	8.7%	-3.2%	6.2%
Bank of India	1.1%	2.5%	2.0%	2.2%	1.7%	1.2%	0.1%	1.0%	-0.5%	2.6%	1.2%	4.2%	0.0%	4.2%	3.5%	3.8%	2.8%	3.4%	2.1%	5.0%	5.6%
China Construction Bank	7.6%	8.3%	5.8%	1.6%	2.3%	9.7%	6.3%	3.8%	5.8%	2.4%	6.1%	7.5%	10.4%	8.8%	8.5%	7.8%	10.3%	9.4%	8.1%	10.6%	8.5%
Cooperative	2.9%	6.0%	6.3%	6.1%	2.0%	4.9%	4.8%	6.3%	-2.6%	6.4%	6.7%	8.2%	8.1%	7.8%	8.4%	7.1%	-1.3%	4.8%	10.8%	7.2%	-4.7%
Heartland	11.1%	11.5%	10.7%	8.4%	12.3%	13.4%	11.9%	11.7%	11.7%	6.1%	13.9%	7.4%	11.5%	12.4%	12.3%	12.2%	11.6%	20.8%	9.6%	11.4%	9.9%
Industrial and Commercial Bank of China	7.3%	-2.6%	6.7%	3.5%	7.2%	5.2%	7.8%	17.4%	9.7%	4.6%	2.4%	2.4%	3.6%	5.5%	3.7%	3.9%	3.3%	6.4%	7.0%	6.3%	8.0%
Rabobank	8.0%	7.0%	7.1%	5.0%	6.1%	3.8%	7.2%	4.9%	4.2%	5.6%	7.7%	5.5%	7.6%	7.5%	8.6%	7.8%	6.4%	7.6%	8.2%	7.6%	8.8%
SBS	9.9%	10.3%	10.8%	10.3%	8.1%	10.2%	9.1%	7.5%	-4.3%	9.2%	11.5%	12.6%	12.4%	13.3%	10.3%	8.9%	10.2%	6.6%	8.4%	8.5%	7.6%
TSB	9.5%	9.0%	8.1%	8.0%	3.2%	8.4%	7.6%	6.8%	-4.5%	5.3%	6.6%	6.1%	6.1%	7.0%	6.5%	4.8%	2.5%	7.1%	4.0%	5.3%	1.8%

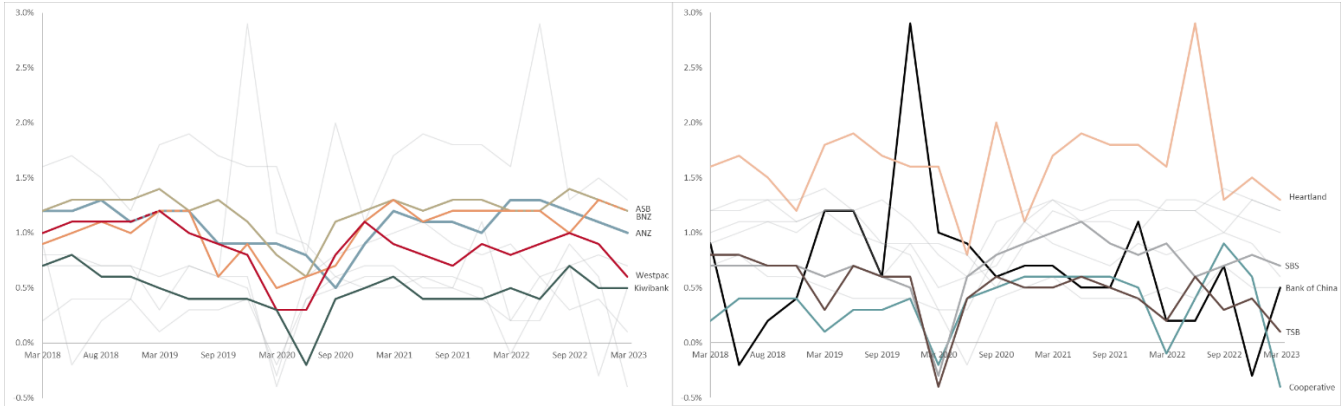
Source: RBNZ Bank Financial Strength Dashboard.²⁶⁰

²⁶⁰ Reserve Bank of New Zealand “Bank Financial Strength Dashboard” Series: DBB.QIE13, available for download at <https://bankdashboard.rbnz.govt.nz/summary>.

Return on Assets

C35 Figure C2 and Table C4 below display the post-tax ROA for New Zealand banks over the period 1 January 2018 to 31 March 2023.

Figure C2 Return on assets – Quarterly annualised 1 January 2018 –31 March 2023



Source: RBNZ Bank Financial Strength Dashboard.²⁶¹

C36 Heartland has performed strongly on measures of ROA over the period from 1 January 2018 to 31 March 2023, returning the highest quarterly result in 13 of the 21 quarters in our data.

C37 These data show that the returns of the four largest banks, particularly ASB, BNZ, and ANZ, have been relatively more consistent and less volatile than that of smaller New Zealand banks, and have generally been higher than the returns of Kiwibank, SBS, TSB and Co-operative Bank.

²⁶¹ Reserve Bank of New Zealand “Bank Financial Strength Dashboard” Series: DBB.QIE10, available for download at <https://bankdashboard.rbnz.govt.nz/summary>.

Table C4 New Zealand bank quarterly ROA (March 2018 – March 2023)

Bank	Mar 2018	Jun 2018	Sep 2018	Dec 2018	Mar 2019	Jun 2019	Sep 2019	Dec 2019	Mar 2020	Jun 2020	Sep 2020	Dec 2020	Mar 2021	Jun 2021	Sep 2021	Dec 2021	Mar 2022	Jun 2022	Sep 2022	Dec 2022	Mar 2023
ANZ	1.2%	1.2%	1.3%	1.1%	1.2%	1.2%	0.9%	0.9%	0.9%	0.8%	0.5%	0.9%	1.2%	1.1%	1.1%	1.0%	1.3%	1.3%	1.2%	1.1%	1.0%
ASB	1.2%	1.3%	1.3%	1.3%	1.4%	1.2%	1.3%	1.1%	0.8%	0.6%	1.1%	1.2%	1.3%	1.2%	1.3%	1.3%	1.2%	1.2%	1.4%	1.3%	1.2%
BNZ	0.9%	1.0%	1.1%	1.0%	1.2%	1.2%	0.6%	0.9%	0.5%	0.6%	0.7%	1.1%	1.3%	1.1%	1.2%	1.2%	1.2%	1.2%	1.0%	1.3%	1.2%
Westpac	1.0%	1.1%	1.1%	1.1%	1.2%	1.0%	0.9%	0.8%	0.3%	0.3%	0.8%	1.1%	0.9%	0.8%	0.7%	0.9%	0.8%	0.9%	1.0%	0.9%	0.6%
Kiwibank	0.7%	0.8%	0.6%	0.6%	0.5%	0.4%	0.4%	0.4%	0.3%	-0.2%	0.4%	0.5%	0.6%	0.4%	0.4%	0.4%	0.5%	0.4%	0.7%	0.5%	0.5%
Bank of Baroda	0.8%	1.3%	0.7%	1.1%	0.0%	0.6%	0.8%	0.6%	0.7%	0.7%	0.7%	0.8%	1.0%	1.1%	0.7%	1.3%	0.8%	1.2%	1.2%	1.2%	1.8%
Bank of China	0.9%	-0.2%	0.2%	0.4%	1.2%	1.2%	0.6%	2.9%	1.0%	0.9%	0.6%	0.7%	0.7%	0.5%	0.5%	1.1%	0.2%	0.2%	0.7%	-0.3%	0.5%
Bank of India	0.5%	1.3%	1.1%	1.3%	1.0%	0.8%	0.0%	0.6%	-0.3%	1.7%	0.8%	2.5%	0.0%	2.2%	1.7%	1.7%	1.2%	1.4%	0.8%	2.0%	2.2%
China Construction Bank	0.8%	0.9%	0.8%	0.2%	0.3%	1.3%	0.9%	0.5%	0.7%	0.3%	0.8%	0.9%	1.4%	1.1%	1.1%	0.9%	1.2%	1.1%	1.0%	1.1%	1.0%
Cooperative	0.2%	0.4%	0.4%	0.4%	0.1%	0.3%	0.3%	0.4%	-0.2%	0.4%	0.5%	0.6%	0.6%	0.6%	0.6%	0.5%	-0.1%	0.4%	0.9%	0.6%	-0.4%
Heartland	1.6%	1.7%	1.5%	1.2%	1.8%	1.9%	1.7%	1.6%	1.6%	0.8%	2.0%	1.1%	1.7%	1.9%	1.8%	1.8%	1.6%	2.9%	1.3%	1.5%	1.3%
Industrial and Commercial Bank of China	0.6%	-0.2%	0.7%	0.4%	0.8%	0.6%	0.8%	1.9%	1.1%	0.5%	0.3%	0.3%	0.5%	0.7%	0.5%	0.5%	0.4%	0.8%	1.0%	0.9%	1.1%
Rabobank	1.1%	0.9%	0.9%	0.7%	0.8%	0.5%	0.9%	0.6%	0.6%	0.7%	1.1%	0.8%	1.1%	1.1%	1.2%	1.1%	0.9%	1.1%	1.1%	1.0%	1.2%
SBS	0.7%	0.7%	0.7%	0.7%	0.6%	0.7%	0.6%	0.5%	-0.3%	0.6%	0.8%	0.9%	1.0%	1.1%	0.9%	0.8%	0.9%	0.6%	0.7%	0.8%	0.7%
TSB	0.8%	0.8%	0.7%	0.7%	0.3%	0.7%	0.6%	0.6%	-0.4%	0.4%	0.6%	0.5%	0.5%	0.6%	0.5%	0.4%	0.2%	0.6%	0.3%	0.4%	0.1%

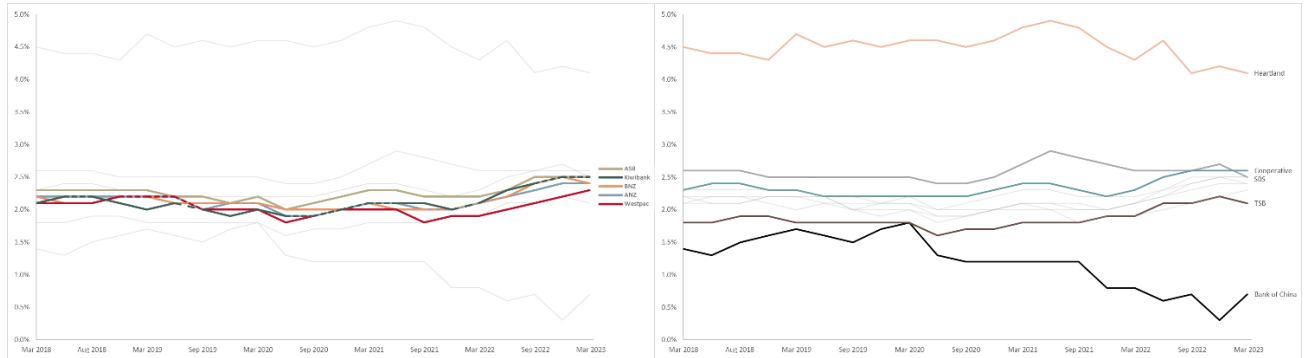
Source: RBNZ Bank Financial Strength Dashboard.²⁶²

²⁶² Reserve Bank of New Zealand “Bank Financial Strength Dashboard” Series: DBB.QIE10, available for download at <https://bankdashboard.rbnz.govt.nz/summary>.

Net Interest Margin

C38 Figure C3 and Table C5 below display NIM for the ten largest New Zealand banks (by risk-weighted residential mortgage assets) over the period 1 January 2018 to 31 March 2023.

Figure C3 Net Interest Margin – Quarterly annualised data: 1 January 2018 – 31 March 2023



Source: RBNZ Bank Financial Strength Dashboard.²⁶³

- C39 As shown in Figure C3 above, Heartland derived the widest margins over the period, and could potentially be described as an outlier from the group. SBS Bank is the next strongest performer on NIM, and has consistently derived slightly elevated margins compared to the rest of the New Zealand banks included in this chart. This is followed by Co-operative Bank whose net interest margin in March 2023 was higher than SBS.
- C40 The NIMs of the four largest banks have tended to move closely together over the period, and tended to sit towards the middle of the distribution of New Zealand banks over the relevant period.
- C41 Within the four largest banks, ASB has tended to record the widest NIM, and Westpac the narrowest margin over the period 1 January 2018 to 31 March 2023, as shown in Figure C3 above and Table C5 below.

²⁶³ Reserve Bank of New Zealand “Bank Financial Strength Dashboard” Series: DBB.QIE15, available for download at <https://bankdashboard.rbnz.govt.nz/summary>.

Table C5 New Zealand bank quarterly NIM (March 2018 – March 2023)

Bank	Mar 2018	Jun 2018	Sep 2018	Dec 2018	Mar 2019	Jun 2019	Sep 2019	Dec 2019	Mar 2020	Jun 2020	Sep 2020	Dec 2020	Mar 2021	Jun 2021	Sep 2021	Dec 2021	Mar 2022	Jun 2022	Sep 2022	Dec 2022	Mar 2023
ANZ	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.0%	2.1%	2.1%	1.9%	1.9%	2.0%	2.1%	2.1%	2.0%	2.0%	2.1%	2.2%	2.3%	2.4%	2.4%
ASB	2.3%	2.3%	2.3%	2.3%	2.3%	2.2%	2.2%	2.1%	2.2%	2.0%	2.1%	2.2%	2.3%	2.3%	2.2%	2.2%	2.2%	2.3%	2.5%	2.5%	2.5%
BNZ	2.2%	2.1%	2.1%	2.2%	2.2%	2.1%	2.1%	2.1%	2.1%	2.0%	2.0%	2.0%	2.1%	2.0%	2.0%	2.0%	2.1%	2.2%	2.4%	2.5%	2.4%
Westpac	2.1%	2.1%	2.1%	2.2%	2.2%	2.2%	2.0%	2.0%	2.0%	1.8%	1.9%	2.0%	2.0%	2.0%	1.8%	1.9%	1.9%	2.0%	2.1%	2.2%	2.3%
Kiwibank	2.1%	2.2%	2.2%	2.1%	2.0%	2.1%	2.0%	1.9%	2.0%	1.9%	1.9%	2.0%	2.1%	2.1%	2.1%	2.0%	2.1%	2.3%	2.4%	2.5%	2.5%
Bank of Baroda	2.9%	2.8%	2.7%	2.8%	2.6%	2.5%	2.8%	2.7%	2.7%	2.7%	2.5%	2.4%	2.6%	2.6%	2.7%	2.8%	3.2%	3.0%	3.4%	3.5%	4.2%
Bank of China	1.4%	1.3%	1.5%	1.6%	1.7%	1.6%	1.5%	1.7%	1.8%	1.3%	1.2%	1.2%	1.2%	1.2%	1.2%	0.8%	0.8%	0.6%	0.7%	0.3%	0.7%
Bank of India	3.0%	3.6%	3.9%	3.9%	4.0%	3.8%	3.3%	3.0%	3.2%	3.8%	3.9%	4.3%	3.9%	4.5%	3.9%	3.7%	3.5%	3.1%	3.0%	4.2%	4.7%
China Construction Bank	2.0%	1.9%	1.7%	1.3%	1.4%	1.5%	1.7%	1.4%	1.6%	1.6%	1.9%	1.9%	2.0%	2.0%	1.9%	1.7%	1.7%	1.8%	1.8%	1.5%	1.8%
Cooperative	2.3%	2.4%	2.4%	2.3%	2.3%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.3%	2.4%	2.4%	2.3%	2.2%	2.3%	2.5%	2.6%	2.6%	2.6%
Heartland	4.5%	4.4%	4.4%	4.3%	4.7%	4.5%	4.6%	4.5%	4.6%	4.6%	4.5%	4.6%	4.8%	4.9%	4.8%	4.5%	4.3%	4.6%	4.1%	4.2%	4.1%
Industrial and Commercial Bank of China	2.1%	1.9%	1.8%	1.8%	1.6%	1.6%	1.3%	1.7%	1.4%	1.2%	1.1%	1.5%	1.4%	1.7%	1.6%	1.8%	1.4%	1.7%	1.6%	1.8%	1.5%
Rabobank	2.2%	2.2%	2.2%	2.2%	2.1%	2.1%	2.1%	2.1%	2.2%	2.1%	2.3%	2.3%	2.5%	2.5%	2.6%	2.6%	2.5%	2.5%	2.6%	2.7%	2.8%
SBS	2.6%	2.6%	2.6%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.4%	2.4%	2.5%	2.7%	2.9%	2.8%	2.7%	2.6%	2.6%	2.6%	2.7%	2.5%
TSB	1.8%	1.8%	1.9%	1.9%	1.8%	1.8%	1.8%	1.8%	1.8%	1.6%	1.7%	1.7%	1.8%	1.8%	1.8%	1.9%	1.9%	2.1%	2.1%	2.2%	2.1%

Source: RBNZ Bank Financial Strength Dashboard.²⁶⁴

²⁶⁴ Reserve Bank of New Zealand “Bank Financial Strength Dashboard” Series: DBB.QIE15, available for download at <https://bankdashboard.rbnz.govt.nz/summary>.

International comparisons of banking sector returns

- C42 This section compares the New Zealand banking sector’s weighted average performance on each of the three measures of financial performance with the sector-level results of other similar jurisdictions.
- C43 As can be seen in Figure C4, Figure C7, and Figure C10 below, New Zealand’s banking sector sits near the top of the range across each of the three financial performance measures over the period 2010 to 2021. New Zealand’s banking sector has been above the upper quartile for most of this period.²⁶⁵
- C44 In interpreting these data, we are mindful that the consequences of the global financial crisis (2007 to 2009) will have had a bearing on the financial performance of banking sectors, and in ways that may vary significantly by country/region.
- C45 In particular, New Zealand did not experience widespread bank failure during the GFC. New Zealand and Australia appear to have benefited from their relatively vanilla banking sectors during this period and the relatively low direct exposure to the US housing market.²⁶⁶ Given the variety of country experiences during the GFC, it is possible that recovery from this period will influence cross-country comparisons in the earliest part of our sample.
- C46 The full set of relevant data can be seen in Table C6 to Table C8 below.

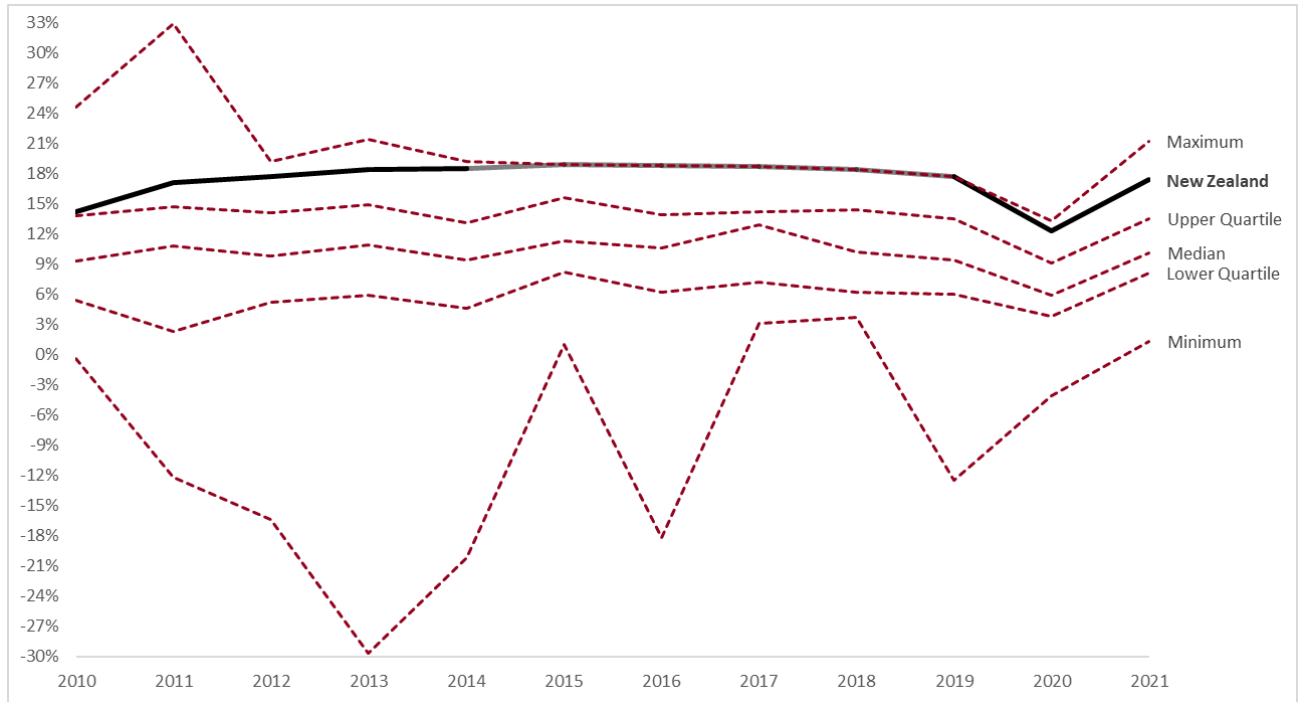
Return on Equity

- C47 Figure C4 shows the New Zealand banking sector’s annual pre-tax ROE for the period 2010 to 2021 relative to the comparator countries outlined in Table C1 above.

²⁶⁵ The quartiles in this section have been calculated using the inclusive method.

²⁶⁶ Reserve Bank of New Zealand “Learnings from the Global Financial Crisis: A speech delivered to Australian National University in Canberra on 9 August 2012” Bulletin, Vol. 5, No. 3, September 2012, at 58 and 64, available at <https://www.rbnz.govt.nz/hub/-/media/project/sites/rbnz/files/publications/speeches/2012/4890771.pdf>; Reserve Bank of Australia “The Global Financial Crisis” at 4, available at <https://www.rba.gov.au/education/resources/explainers/pdf/the-global-financial-crisis.pdf?v=2023-08-01-15-36-34>.

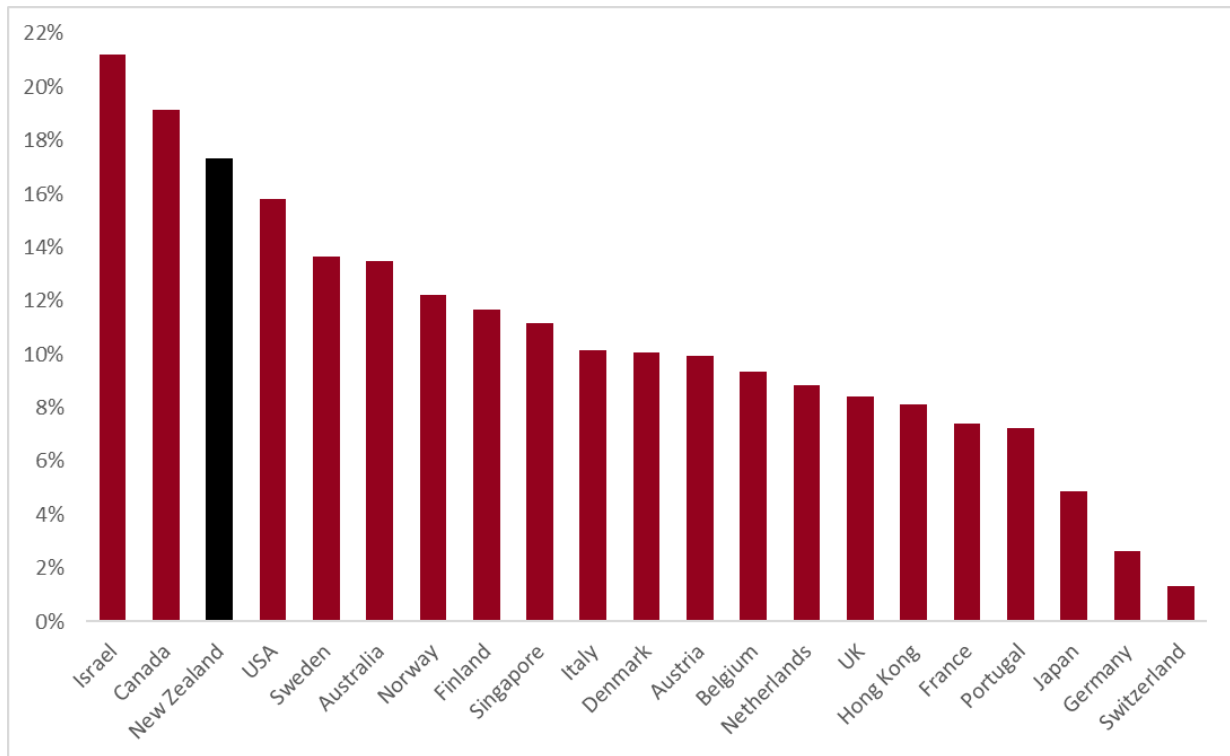
Figure C4 New Zealand banking sector pre-tax ROE relative to distribution of comparator countries (2010-2021)



Source: World Bank dataset.²⁶⁷

- C48 Figure C4 shows that the New Zealand banking sector has generated some of the highest returns on equity of those in our sample over the relevant period.
- C49 Figure C5 shows the pre-tax ROE for each country's banking sector in 2021. New Zealand's banking sector recorded a weighted average ROE of 17.33% in 2021. This was the third highest of the 21 comparator countries, behind Israel's (21.19%) and Canada's (19.16%).

²⁶⁷ World Bank "Global Financial Development Database" Series: GFDD.EI.10, September 2022 Version, available for download at <https://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database>.

Figure C5 International comparisons of banking profitability: pre-tax ROE (2021)

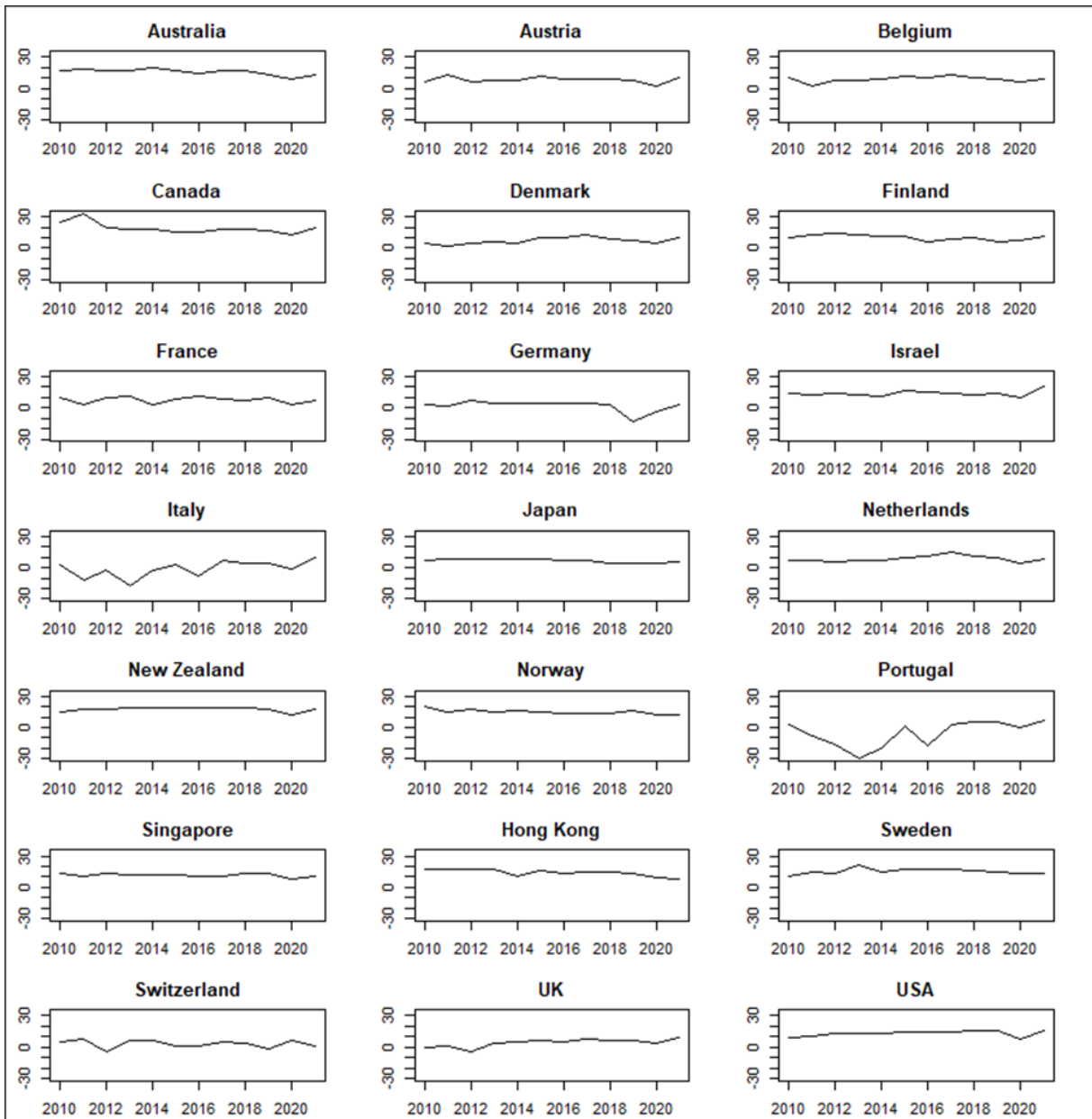
Source: World Bank dataset.²⁶⁸

C50 Figure C6 below presents a comparison of each banking sector's pre-tax ROE over the period from 2010 to 2021. Table C6 explores the level of variation and shows the standard deviation for each banking sector's ROE between 2010 and 2021.²⁶⁹

C51 New Zealand's ROE varied between approximately 12% and 19% over the period 2010 to 2021. New Zealand's banking sector had the third lowest standard deviation out of the comparator countries over the period (2.02%), following Singapore (1.42%) and Japan (1.84%).

²⁶⁸ World Bank "Global Financial Development Database" Series: GFDD.EI.10, September 2022 Version, available for download at <https://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database>.

²⁶⁹ The sample standard deviation formula has been used for this review.

Figure C6 International comparisons of banking profitability: pre-tax ROE (2010-2021)

Source: World Bank dataset.²⁷⁰

²⁷⁰ World Bank “Global Financial Development Database” Series: GFDD.EI.10, September 2022 Version, available for download at <https://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database>.

Table C6 Country-level weighted-average annual bank pre-tax ROE (2010 – 2021)

Nation	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Standard deviation	Simple average (mean)
Australia	16.53%	17.64%	16.87%	17.24%	19.14%	17.17%	14.47%	17.54%	17.23%	12.92%	9.09%	13.48%	2.79%	15.78%
Austria	5.61%	12.91%	6.74%	7.34%	6.96%	12.06%	8.92%	8.95%	8.93%	7.48%	2.45%	9.94%	2.80%	8.19%
Belgium	9.62%	2.32%	7.28%	7.41%	9.35%	11.60%	9.83%	13.23%	10.18%	9.00%	5.55%	9.35%	2.84%	8.73%
Canada	24.61%	32.88%	19.14%	17.56%	17.42%	15.55%	15.90%	17.69%	17.63%	16.76%	13.24%	19.16%	5.15%	18.96%
Denmark	4.64%	1.90%	4.28%	5.92%	4.40%	9.56%	10.54%	12.87%	9.02%	7.84%	4.89%	10.06%	3.29%	7.16%
Finland	10.12%	12.06%	14.13%	12.05%	11.12%	10.89%	6.22%	8.81%	9.63%	5.55%	7.85%	11.67%	2.53%	10.01%
France	9.33%	3.46%	9.83%	10.86%	2.71%	8.19%	11.66%	8.62%	7.18%	10.30%	3.31%	7.42%	3.06%	7.74%
Germany	3.06%	1.63%	6.70%	4.61%	4.06%	4.28%	4.29%	3.96%	3.71%	-12.48%	-4.06%	2.62%	5.21%	1.87%
Hong Kong	17.45%	17.02%	17.06%	17.42%	11.17%	16.01%	13.12%	14.05%	14.33%	13.06%	9.04%	8.11%	3.24%	13.99%
Israel	13.74%	12.26%	13.47%	12.49%	10.99%	16.06%	14.96%	13.83%	12.30%	13.49%	10.03%	21.19%	2.86%	13.73%
Italy	3.29%	-12.18%	-3.03%	-16.77%	-3.00%	2.39%	-7.68%	6.78%	4.18%	3.75%	-1.32%	10.14%	7.92%	-1.12%
Japan	7.43%	8.61%	8.45%	7.66%	8.88%	8.22%	6.53%	6.75%	4.74%	3.64%	4.32%	4.88%	1.84%	6.68%
Netherlands	7.32%	6.78%	5.18%	6.80%	7.29%	10.18%	11.06%	15.21%	11.34%	9.42%	4.32%	8.83%	3.02%	8.65%
New Zealand	14.22%	17.11%	17.69%	18.37%	18.52%	18.87%	18.76%	18.65%	18.39%	17.65%	12.33%	17.33%	2.02%	17.32%
Norway	19.67%	14.91%	17.60%	14.88%	16.00%	14.92%	13.38%	12.92%	13.48%	16.16%	11.93%	12.23%	2.28%	14.84%
Portugal	2.38%	-8.20%	-16.44%	-29.71%	-20.16%	0.95%	-18.16%	3.09%	5.76%	6.00%	-0.42%	7.26%	12.48%	-5.64%
Singapore	12.73%	10.87%	13.33%	12.01%	11.70%	11.33%	10.33%	11.04%	12.97%	13.37%	8.42%	11.17%	1.42%	11.60%
Sweden	10.88%	14.66%	13.16%	21.38%	14.94%	17.95%	17.03%	17.81%	15.53%	14.91%	12.95%	13.67%	2.80%	15.41%
Switzerland	5.37%	8.19%	-4.38%	5.92%	6.34%	1.59%	1.43%	4.57%	4.05%	-2.41%	5.86%	1.31%	3.75%	3.15%
UK	-0.37%	1.23%	-5.08%	3.79%	4.56%	6.27%	5.28%	7.22%	6.18%	6.43%	3.77%	8.42%	3.78%	3.98%
USA	8.48%	10.78%	12.42%	13.57%	13.10%	13.85%	13.91%	14.22%	15.74%	15.08%	8.32%	15.81%	2.53%	12.94%

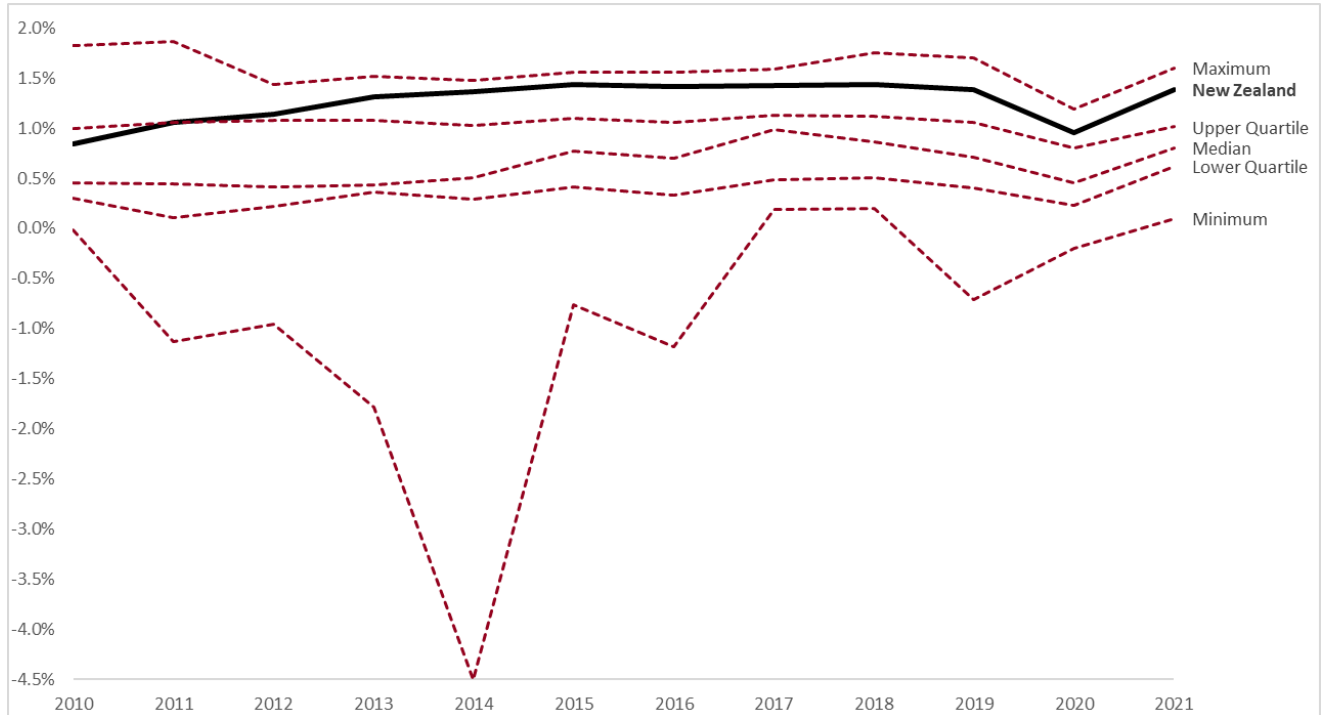
Source: World Bank dataset.²⁷¹

²⁷¹ World Bank “Global Financial Development Database” Series: GFDD.EI.10, September 2022 Version, available for download at <https://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database>.

Return on Assets

C52 Figure C7 shows New Zealand banking sector's weighted average pre-tax ROA for the period 2010 to 2021 relative to the comparator countries outlined in Table C1 above.

Figure C7 New Zealand banking sector pre-tax ROA relative to comparator countries (2010-2021)



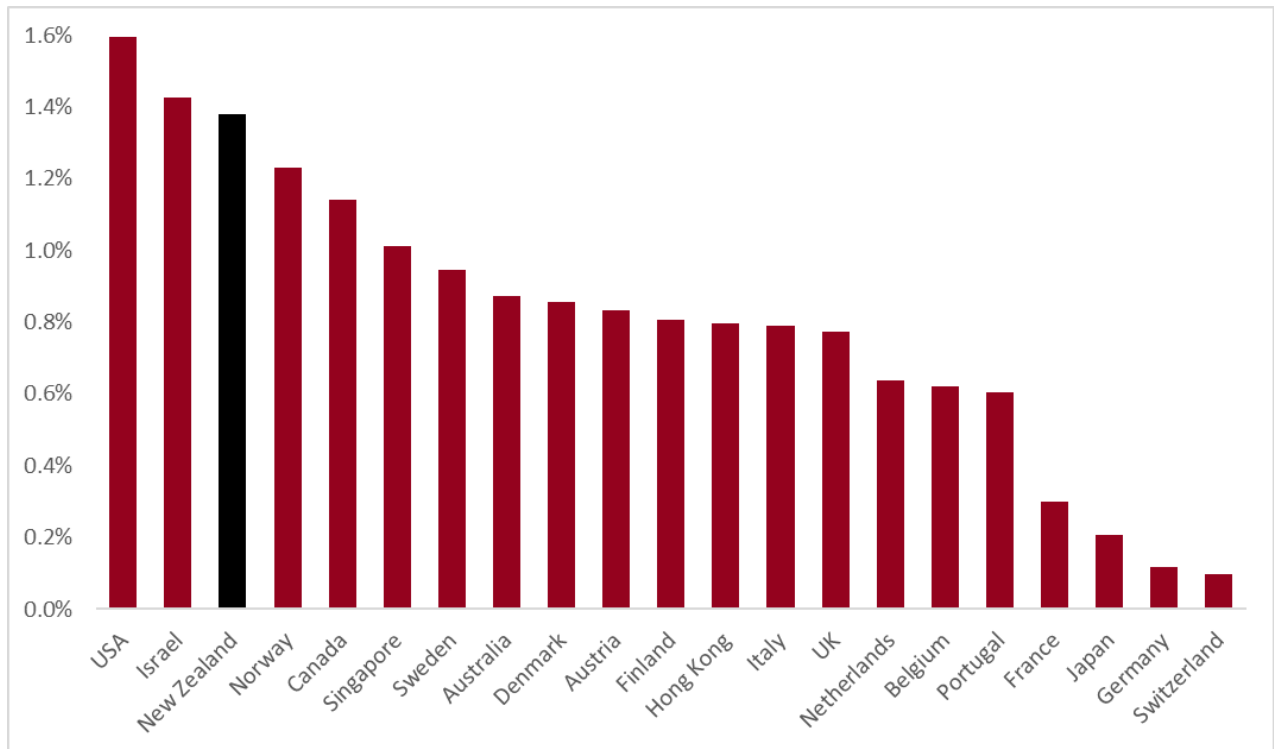
Source: World Bank dataset.²⁷²

C53 The data shows that New Zealand's average ROA across the banking sector has consistently been equal to or above the upper quartile of comparator countries over the period, except for in 2010.²⁷³

C54 Figure C8 shows each banking sector's ROA in 2021. New Zealand had the third highest pre-tax ROA in 2021 with a value of 1.38%, behind The United States (1.59%) and Israel (1.43%).

²⁷² World Bank "Global Financial Development Database" Series: GFDD.EI.09, September 2022 Version, available for download at <https://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database>.

²⁷³ The only exception is 2010, where New Zealand is below the upper quartile (0.68%) but above the median (0.35%), with a ROA of 0.60%.

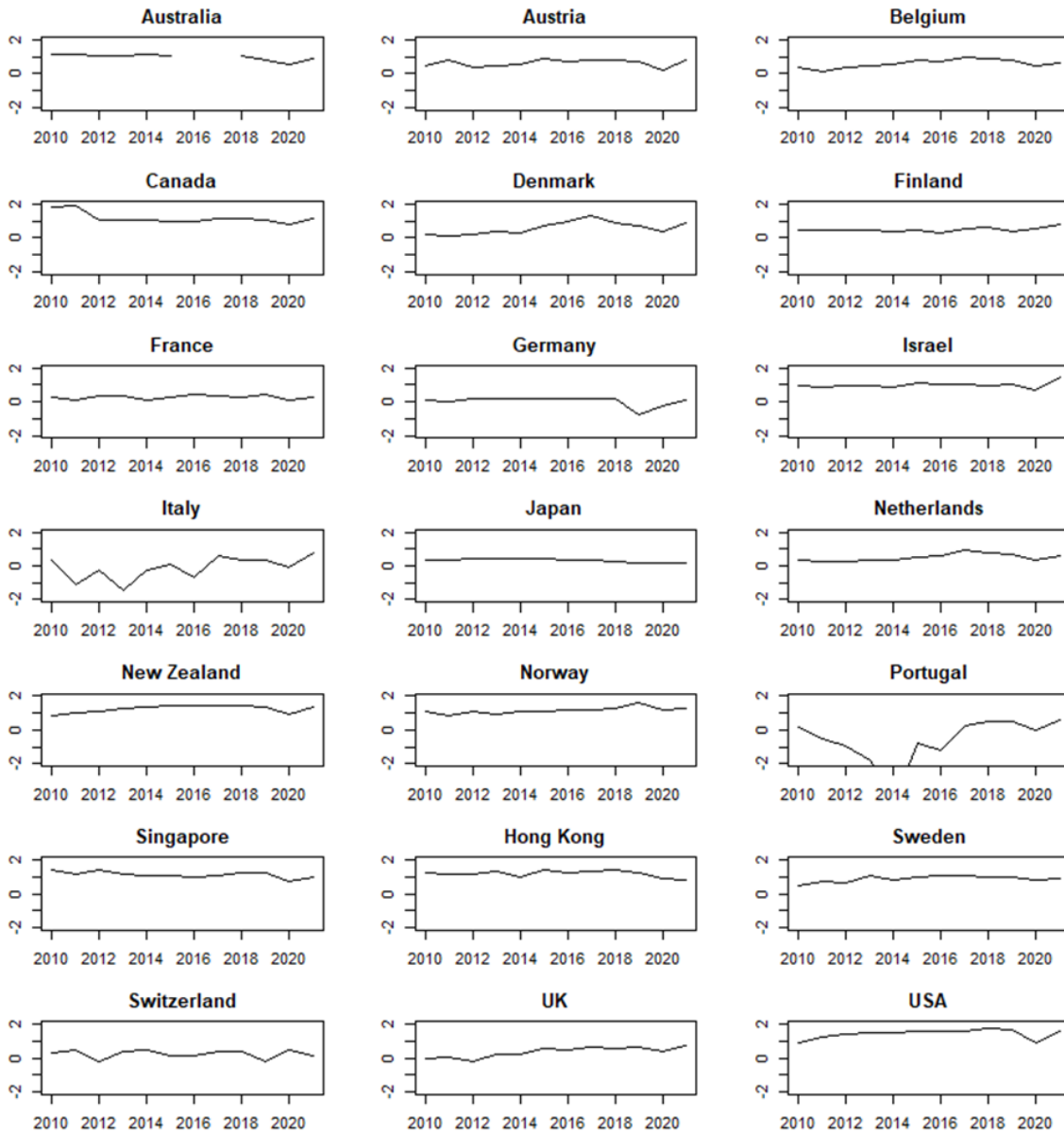
Figure C8 International comparisons of banking profitability: pre-tax ROA (2021)

Source: World Bank dataset.²⁷⁴

- C55 Figure C9 below isolates each banking sector's ROA over the period from 2010 to 2021.
- C56 Figure C9 shows that a larger number of countries experienced fairly stable returns between 2010 and 2021, relative to the variation observed for ROE (Figure C6). Looking at the standard deviation of pre-tax ROA over the relevant period in Table C7, New Zealand's standard deviation was near the middle of the distribution of comparator countries over the period, having the twelfth highest value (0.21%).

²⁷⁴ World Bank "Global Financial Development Database" Series: GFDD.EI.09, September 2022 Version, available for download at <https://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database>.

Figure C9 International comparisons of banking profitability: ROA (2010-2021)



Source: World Bank dataset.²⁷⁵

Note: Breaks in a country's trend indicate that data is missing for that year.

Note: Portugal's ROA in 2014 falls below the y-axis minimum to a value of -4.5%.

²⁷⁵ World Bank "Global Financial Development Database" Series: GFDD.EI.09, September 2022 Version, available for download at <https://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database>.

Table C7 Country-level weighted-average annual bank ROA (2010 – 2021)

Nation	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Standard deviation	Simple average (mean)
Australia	1.15%	1.17%	1.07%	1.08%	1.17%	1.03%			1.08%	0.81%	0.58%	0.87%	0.19%	1.00%
Austria	0.45%	0.79%	0.41%	0.49%	0.51%	0.88%	0.70%	0.78%	0.82%	0.71%	0.22%	0.83%	0.21%	0.63%
Belgium	0.40%	0.10%	0.35%	0.43%	0.57%	0.77%	0.70%	1.01%	0.86%	0.79%	0.45%	0.62%	0.25%	0.59%
Canada	1.82%	1.87%	1.09%	1.03%	1.03%	0.95%	0.99%	1.12%	1.12%	1.05%	0.80%	1.14%	0.33%	1.17%
Denmark	0.23%	0.10%	0.24%	0.36%	0.29%	0.74%	0.97%	1.31%	0.86%	0.69%	0.41%	0.86%	0.37%	0.59%
Finland	0.47%	0.45%	0.46%	0.43%	0.41%	0.41%	0.30%	0.52%	0.64%	0.37%	0.54%	0.80%	0.13%	0.48%
France	0.30%	0.11%	0.32%	0.39%	0.10%	0.30%	0.44%	0.34%	0.28%	0.40%	0.13%	0.30%	0.11%	0.28%
Germany	0.10%	0.05%	0.22%	0.17%	0.18%	0.18%	0.19%	0.19%	0.20%	-0.72%	-0.20%	0.12%	0.27%	0.06%
Hong Kong	1.23%	1.16%	1.18%	1.34%	0.98%	1.46%	1.22%	1.33%	1.39%	1.30%	0.90%	0.80%	0.20%	1.19%
Israel	0.99%	0.87%	0.95%	0.93%	0.83%	1.10%	1.06%	1.01%	0.93%	1.03%	0.73%	1.43%	0.17%	0.99%
Italy	0.33%	-1.13%	-0.27%	-1.45%	-0.25%	0.06%	-0.67%	0.61%	0.38%	0.33%	-0.11%	0.79%	0.69%	-0.12%
Japan	0.32%	0.37%	0.42%	0.39%	0.47%	0.44%	0.34%	0.35%	0.24%	0.17%	0.19%	0.21%	0.10%	0.33%
Netherlands	0.30%	0.28%	0.22%	0.33%	0.38%	0.53%	0.62%	0.96%	0.74%	0.65%	0.31%	0.64%	0.23%	0.50%
New Zealand	0.84%	1.05%	1.14%	1.31%	1.36%	1.44%	1.41%	1.42%	1.44%	1.38%	0.96%	1.38%	0.21%	1.26%
Norway	1.06%	0.88%	1.07%	0.95%	1.08%	1.10%	1.14%	1.15%	1.26%	1.58%	1.19%	1.23%	0.18%	1.14%
Portugal	0.12%	-0.49%	-0.96%	-1.79%	-4.50%	-0.77%	-1.19%	0.24%	0.51%	0.54%	-0.04%	0.60%	1.43%	-0.64%
Singapore	1.45%	1.19%	1.43%	1.21%	1.10%	1.10%	1.03%	1.08%	1.23%	1.26%	0.78%	1.01%	0.18%	1.16%
Sweden	0.51%	0.70%	0.63%	1.11%	0.80%	1.02%	1.05%	1.11%	1.00%	0.99%	0.87%	0.95%	0.19%	0.90%
Switzerland	0.28%	0.44%	-0.25%	0.38%	0.43%	0.12%	0.11%	0.38%	0.35%	-0.20%	0.45%	0.10%	0.24%	0.22%
UK	-0.01%	0.06%	-0.25%	0.19%	0.25%	0.59%	0.50%	0.61%	0.54%	0.62%	0.35%	0.77%	0.31%	0.35%
USA	0.95%	1.22%	1.40%	1.52%	1.47%	1.56%	1.56%	1.58%	1.76%	1.70%	0.89%	1.59%	0.28%	1.43%

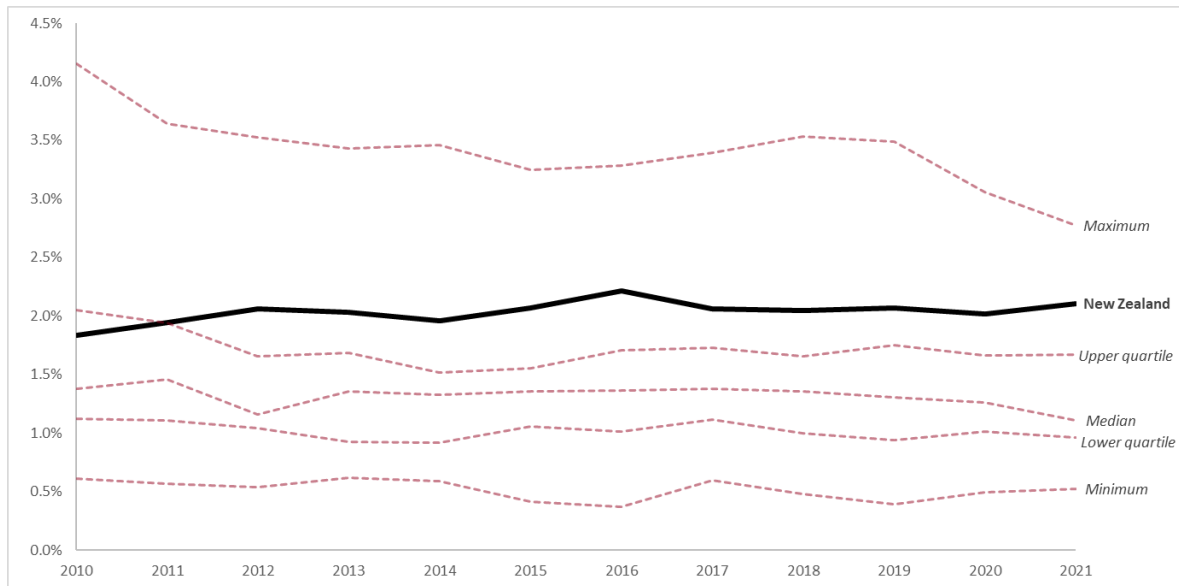
Source: World Bank dataset.²⁷⁶

²⁷⁶ World Bank “Global Financial Development Database” Series: GFDD.EI.09, September 2022 Version, available for download at <https://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database>.

Net Interest Margin

C57 Figure C10 shows New Zealand banking sector’s weighted average NIM for the period 2010 to 2021, relative to the comparator countries outlined in Table C1 above.

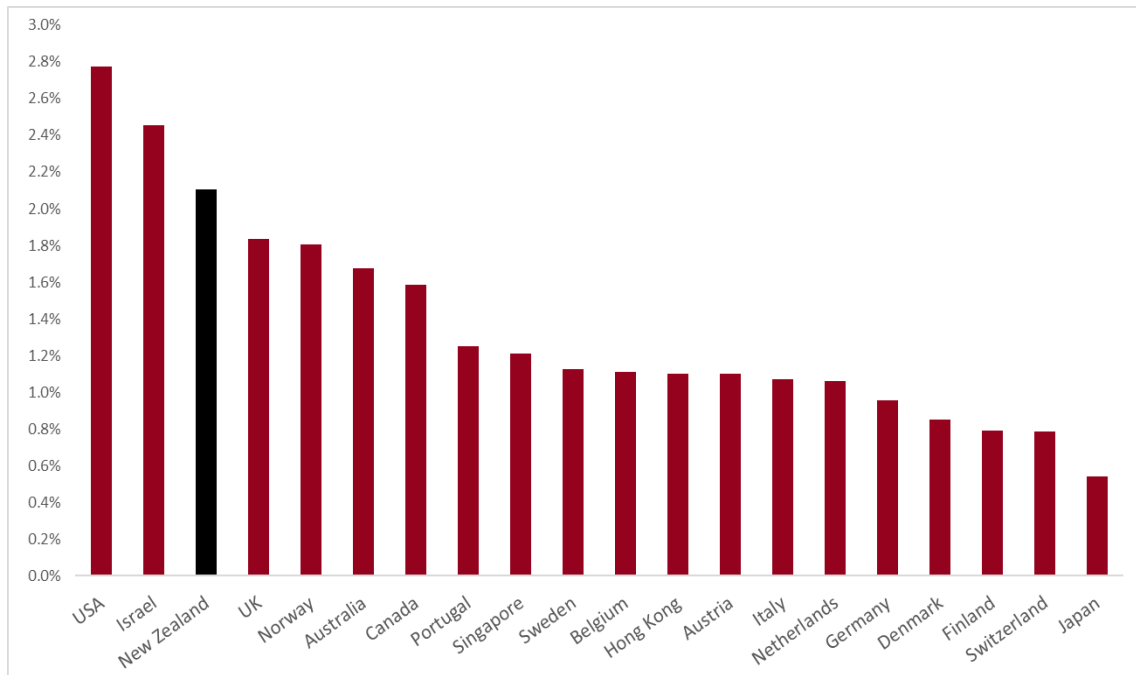
Figure C10 New Zealand banking sector NIM relative to comparator countries (2010-2021)



Source: World Bank dataset.²⁷⁷

C58 Figure C10 shows that New Zealand’s banking sector has had relatively wide margins, with New Zealand generally in the upper quartile of comparator countries over the period.

²⁷⁷ World Bank “Global Financial Development Database” Series: GFDD.EI.01, September 2022 Version, available for download at <https://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database>.

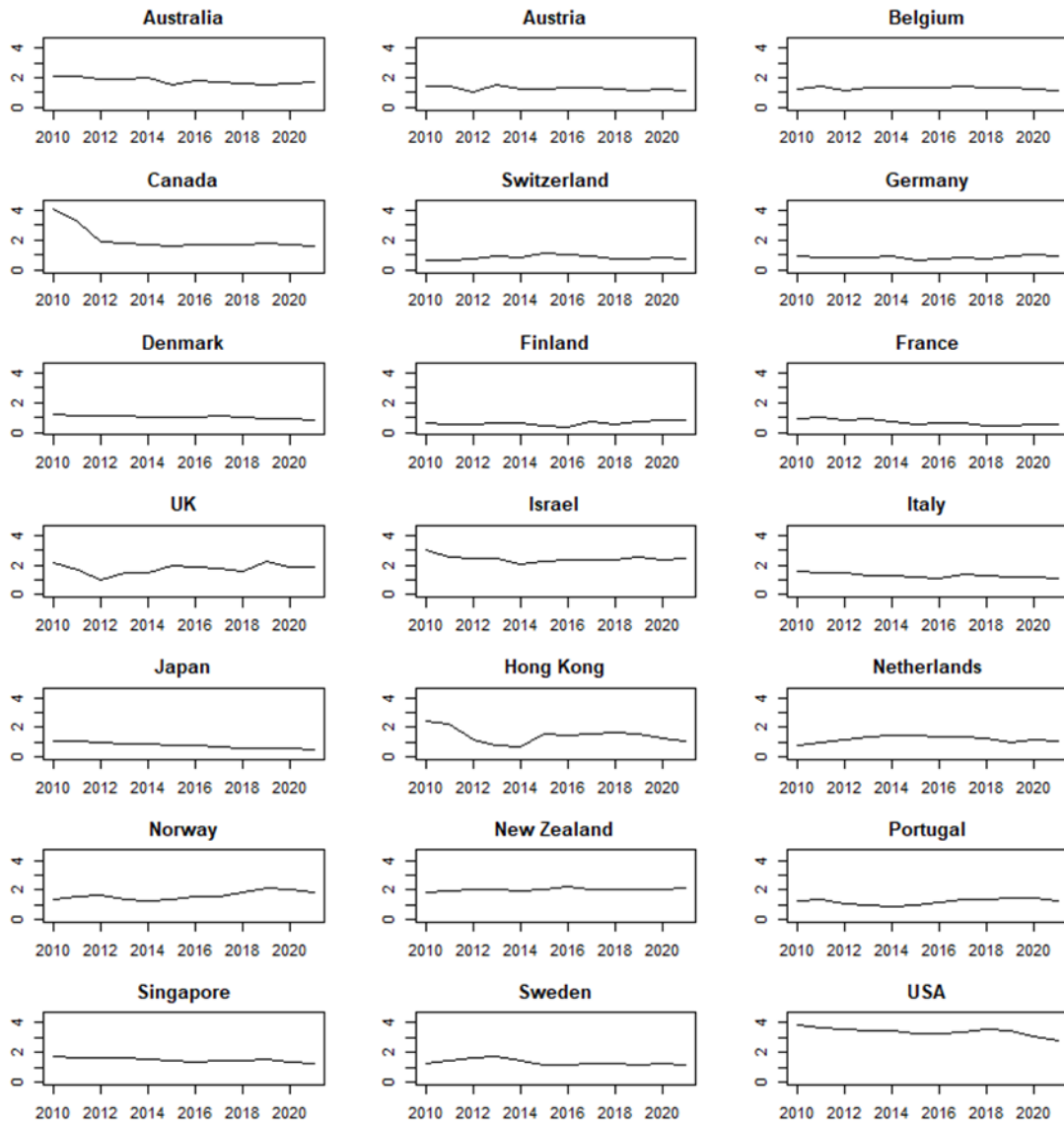
Figure C11 International comparisons of banking profitability: NIM (2021)

Source: World Bank dataset.²⁷⁸

- C59 Figure C11 above shows each nation's NIM in 2021. New Zealand had a NIM of 2.11%. This was the third highest of the comparator countries in our sample, after that of the United States (2.77%) and of Israel (2.45%).
- C60 Figure C12 presents each sector's NIM between 2010 and 2021. As with ROE and ROA, New Zealand NIM appears to have been relatively stable over the period. Looking at Table C8 below, New Zealand had the lowest standard deviation of NIM over the period.
- C61 Some other countries displayed similar levels of variation. For example, Belgium, Germany and Denmark each had a standard deviation of 0.10%, relative to New Zealand's standard deviation (0.09%).

²⁷⁸ World Bank "Global Financial Development Database" Series: GFDD.EI.01, September 2022 Version, available for download at <https://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database>.

Figure C12 International comparisons of banking profitability: NIM (2010-2021)



Source: World Bank dataset.²⁷⁹

²⁷⁹ World Bank "Global Financial Development Database" Series: GFDD.EI.01, September 2022 Version, available for download at <https://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database>.

Table C8 Country-level weighted-average annual bank NIM (2010 – 2021)

Nation	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Standard deviation	Simple average (Mean)
Australia	2.05%	2.09%	1.90%	1.90%	1.97%	1.55%	1.77%	1.73%	1.65%	1.56%	1.61%	1.67%	0.19%	1.79%
Austria	1.46%	1.46%	1.06%	1.48%	1.20%	1.20%	1.34%	1.33%	1.24%	1.17%	1.21%	1.10%	0.14%	1.27%
Belgium	1.19%	1.40%	1.16%	1.34%	1.35%	1.36%	1.36%	1.42%	1.36%	1.30%	1.25%	1.11%	0.10%	1.30%
Canada	4.15%	3.24%	1.86%	1.79%	1.72%	1.63%	1.71%	1.75%	1.72%	1.75%	1.67%	1.59%	0.80%	2.05%
Denmark	1.16%	1.11%	1.10%	1.07%	0.97%	1.05%	0.97%	1.12%	1.00%	0.89%	0.94%	0.85%	0.10%	1.02%
Finland	0.63%	0.56%	0.54%	0.62%	0.59%	0.42%	0.37%	0.76%	0.54%	0.72%	0.79%	0.79%	0.14%	0.61%
France	0.90%	0.97%	0.82%	0.93%	0.71%	0.57%	0.59%	0.59%	0.48%	0.39%	0.49%	0.52%	0.20%	0.66%
Germany	0.95%	0.80%	0.80%	0.87%	0.95%	0.67%	0.76%	0.82%	0.75%	0.94%	1.01%	0.96%	0.10%	0.86%
Hong Kong	2.39%	2.28%	1.14%	0.80%	0.72%	1.52%	1.43%	1.52%	1.63%	1.59%	1.26%	1.10%	0.51%	1.45%
Israel	3.02%	2.49%	2.47%	2.42%	2.09%	2.24%	2.39%	2.36%	2.34%	2.52%	2.35%	2.45%	0.22%	2.43%
Italy	1.59%	1.43%	1.45%	1.30%	1.33%	1.17%	1.06%	1.38%	1.25%	1.16%	1.16%	1.07%	0.16%	1.28%
Japan	1.12%	1.13%	1.02%	0.89%	0.92%	0.82%	0.76%	0.69%	0.63%	0.59%	0.56%	0.54%	0.21%	0.80%
Netherlands	0.81%	1.03%	1.16%	1.35%	1.45%	1.49%	1.39%	1.37%	1.30%	0.99%	1.16%	1.06%	0.21%	1.21%
New Zealand	1.83%	1.94%	2.06%	2.03%	1.96%	2.07%	2.21%	2.06%	2.05%	2.06%	2.01%	2.11%	0.09%	2.03%
Norway	1.37%	1.51%	1.62%	1.36%	1.23%	1.35%	1.59%	1.58%	1.88%	2.15%	2.01%	1.81%	0.29%	1.62%
Portugal	1.28%	1.37%	1.05%	0.93%	0.91%	0.97%	1.14%	1.34%	1.36%	1.46%	1.41%	1.25%	0.20%	1.21%
Singapore	1.77%	1.61%	1.65%	1.59%	1.52%	1.42%	1.39%	1.45%	1.43%	1.52%	1.32%	1.21%	0.15%	1.49%
Sweden	1.25%	1.48%	1.66%	1.68%	1.45%	1.12%	1.12%	1.26%	1.22%	1.14%	1.26%	1.12%	0.20%	1.31%
Switzerland	0.61%	0.62%	0.70%	0.89%	0.88%	1.11%	1.01%	0.93%	0.74%	0.78%	0.81%	0.79%	0.15%	0.82%
UK	2.13%	1.65%	1.04%	1.50%	1.48%	1.97%	1.86%	1.77%	1.55%	2.25%	1.85%	1.84%	0.32%	1.74%
USA	3.81%	3.65%	3.53%	3.43%	3.46%	3.25%	3.29%	3.39%	3.53%	3.49%	3.05%	2.77%	0.27%	3.39%

Source: World Bank dataset.²⁸⁰

²⁸⁰ World Bank “Global Financial Development Database” Series: GFDD.EI.01, September 2022 Version, available for download at <https://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database>.

Discussion

- C62 As shown in the review above, the New Zealand banking sector has been profitable relative to that of other comparable banking sectors internationally, taken across all three measures of financial performance.
- C63 Domestically, the major banks have outperformed the smaller banks with respect to ROE. In relation to ROA, Heartland Bank Limited (Heartland) derived the highest returns over the period, while ASB, ANZ, BNZ also performed strongly relative to the smaller banks included in our sample.
- C64 However, the largest four banks did not outperform relative to our sample of New Zealand banks in relation to NIM.

Understanding these results

- C65 RBNZ offers several potential alternative explanations for the observed returns (on equity) derived by New Zealand's banking sector. These include compensation for relatively higher degrees of risk, a lack of competition, foreign ownership and the tax treatment of Australian shareholders, and differences in operational structure.²⁸¹
- C66 RBNZ also acknowledges that in the period considered in its review, New Zealand experienced ongoing economic growth and strong housing market performance that may have affected the volatility of bank returns. We understand that profitability in the banking sector is affected by policy settings (such as monetary and fiscal policy), and the broader economic context.

Compensation for risk

- C67 RBNZ considered whether higher risk associated with operating a bank in New Zealand could be a potential driver of the strong performance of New Zealand banks. The concept that riskier investments should be associated with higher expected returns is central to risk and return models in finance.
- C68 RBNZ compared volatility of earnings across countries in recent decades, which they note is a standard measure for risk. Their comparison found that volatility of earnings has been relatively low in New Zealand compared to other countries in recent decades. As a result, RBNZ concluded that "this suggests that risk does not fully explain the relatively higher returns of New Zealand banks".²⁸²

²⁸¹ Reserve Bank of New Zealand "Trends in Bank Profitability" (3 May 2023), available at <https://www.rbnz.govt.nz/hub/publications/financial-stability-report/2023/may-2023/fsr-may-23-special-topic-3>.

²⁸² Reserve Bank of New Zealand "Trends in Bank Profitability" (3 May 2023), available at <https://www.rbnz.govt.nz/hub/publications/financial-stability-report/2023/may-2023/fsr-may-23-special-topic-3>.

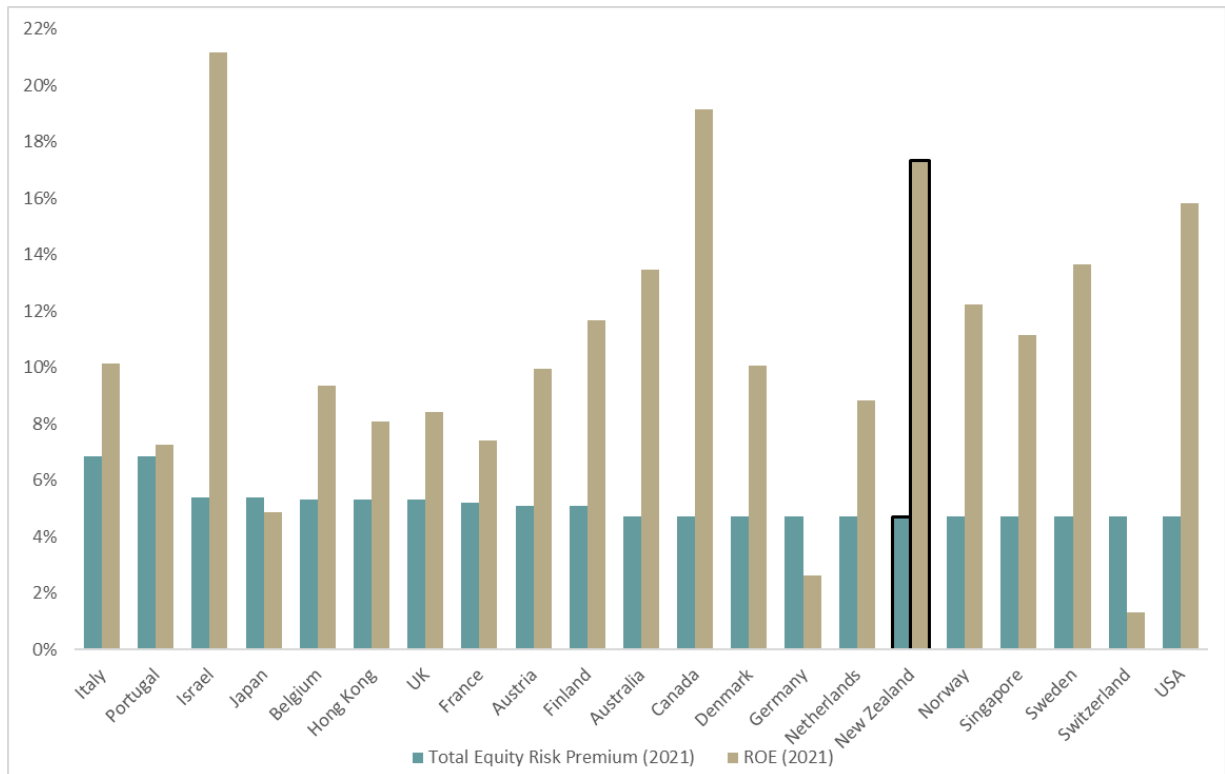
- C69 To further explore whether risk could be driving the relative performance of New Zealand's banking sector, we obtained publicly available estimates of the equity risk premium for each of the countries in our sample, produced by Professor Aswath Damodaran, a Professor of Finance at Stern School of Business at New York University.²⁸³
- C70 The equity risk premium can be thought of as the price of risk in equity markets.²⁸⁴ It is a market-wide number which represents the premium that investors demand for the average risk investment in a given country.²⁸⁵
- C71 Professor Damodaran explains his methodology for estimating country equity risk premiums in detail on his website. In short, his methodology entails:
- C71.1 First, obtaining the default spread that investors charge for buying bonds used by the country of interest; and
- C71.2 Second, accounting for the country risk premium by multiplying the default spread by the relative equity market volatility for that market, to account for the additional risk associated with the equity market, relative to investment in bonds.
- C72 We have used the rating-based risk premium data rather than the CDS risk premium data.²⁸⁶
- C73 We compared equity risk premiums and ROE for all the countries in our sample in 2021, presented in Figure C13 below. The Figure is ordered by equity risk premium. If there is a strong correlation between equity risk premium and ROE, we would expect to see countries with higher returns on equity towards the left-hand side of the chart.
- C74 Figure C13 shows that there was little correlation between equity risk premium and ROE for the 21 sample nations in 2021. While risk premiums are ordered from highest to lowest, there is no apparent trend in ROE in the figure.

²⁸³ All data obtained from Professor Damodaran's website: "Damodaran online" <https://pages.stern.nyu.edu/~adamodar/>; for historical data we used: https://pages.stern.nyu.edu/~adamodar/New_Home_Page/dataarchived.html#discrete. A year's data reflects the data as last updated in January of that year.

²⁸⁴ Aswath Damodaran "Equity Risk Premiums: Determinants, Estimation, and Implications – the 2023 Edition" (updated 23 March 2023) at 2, available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4398884. To access the equity risk beta data, we clicked on the link that corresponds to the row 'Discount rate estimation – risk premiums for other markets – July 12, 2023 update', available at <https://pages.stern.nyu.edu/~adamodar/>.

²⁸⁵ Aswath Damodaran "Equity Risk Premiums: Determinants, Estimation, and Implications – the 2023 Edition" (updated 23 March 2023) at 6, available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4398884.

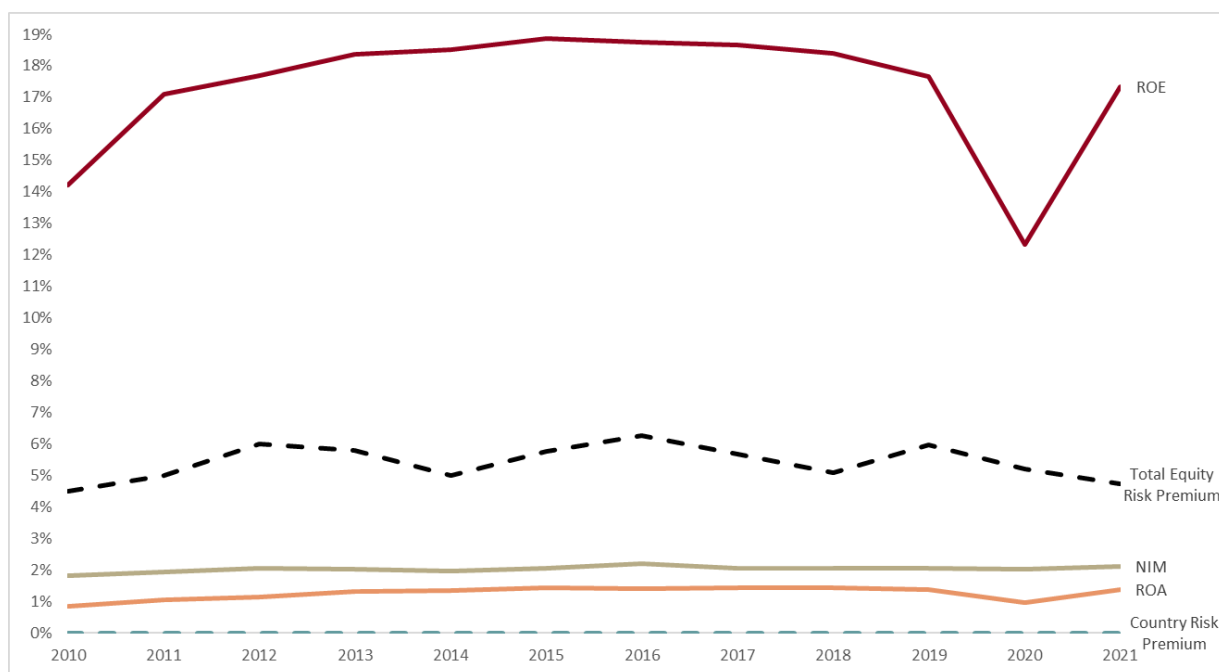
²⁸⁶ There appeared to be a significant number of countries where data was unavailable using the alternative method in Damodaran's data.

Figure C13 Equity risk premium and ROE for selected countries, 2021

Sources: RBNZ Bank Financial Strength Dashboard; Damodaran data.²⁸⁷

C75 In addition, there does not appear to be a strong relationship between New Zealand's equity risk premium and measures of profitability over time, as illustrated in Figure C14 below

²⁸⁷ Reserve Bank of New Zealand "Bank Financial Strength Dashboard" Series: DBB.QIE13, available for download at: <https://bankdashboard.rbnz.govt.nz/summary>; To access the equity risk beta data, we clicked on the link that corresponds to the row 'Discount rate estimation – risk premiums for other markets – July 12, 2023 update', available at: <https://pages.stern.nyu.edu/~adamodar/>.

Figure C14 New Zealand's equity risk premium and measures of profitability over time

Source: RBNZ Bank Financial Strength Dashboard; Damodaran data.²⁸⁸

Note: Dashed lines represent New Zealand's risk premium measures during the relevant period while solid lines represent New Zealand's annual profitability measures. The country risk premium for New Zealand was 0% over the entire relevant period.

- C76 The two variables appear to be moderately correlated. They have generally moved together over time, with both increasing from 2010 to 2012, dipping in 2014 and again in 2020. However, ROE does not seem to be highly sensitive to observed fluctuations in equity risk premium (particularly over the period 2016 to 2019).
- C77 Overall, our assessment of equity risk premiums further supports the conclusion that risk is unlikely to be driving the relatively higher returns of New Zealand banks, consistent with the conclusion that RBNZ reached in its May 2023 Financial stability report, described at paragraphs 86 and 87 above.
- C78 As the study progresses we will continue to develop our analysis in relation to risk and return, and we welcome submissions from stakeholders in relation to the points raised in this attachment.

²⁸⁸ Reserve Bank of New Zealand "Bank Financial Strength Dashboard" Series: DBB.QIE13, DBB.QIE10, and DBB.QIE15, available for download at <https://bankdashboard.rbnz.govt.nz/summary>. To access the equity risk beta data, we clicked on the link that corresponds to the row 'Discount rate estimation – risk premiums for other markets – July 12, 2023 update', available at: <https://pages.stern.nyu.edu/~adamodar/>.

Other potential explanations to be explored

- C79 We propose to continue to investigate other hypotheses that may explain the relative performance of the New Zealand banking sector (as measured by ROE), including those outlined by the RBNZ, including:
- C79.1 the ownership structure of the four large banks, each owned by larger Australian parents, is generating cost efficiencies that explain the differences in profitability observed in this document;²⁸⁹
 - C79.2 tax treatment of returns to shareholders – including whether the inability to recognise New Zealand generated imputation credits on dividends to Australian parent companies, is putting upwards pressure on the large New Zealand banks to deliver superior returns;²⁹⁰ and
 - C79.3 differences in profitability may be explained by other differences between the operational structure of banks in the comparison group and the regulatory environments in each country – RBNZ gives the example that New Zealand banks engage in relatively little investment banking and funds management compared to some banks in comparator countries, and notes that investment banking generates significant revenue for these banks, but also contributes to higher cost ratios. Another example might be the extent of residential mortgage-backed lending that takes place in New Zealand.
- C80 In relation to comparative measures of financial performance within the New Zealand banking sector, we are interested in understanding the high performance of the large four banks on measures of ROE, which are not reflected to the same extent in measures of ROA or NIM.
- C81 We also plan to examine trends in the levels of financial performance earned by the four largest New Zealand banks relative to each bank's Australian parent company over time.

²⁸⁹ We would expect that profits associated with cost efficiencies would be competed away over time in a workably competitive market.

²⁹⁰ If this is the case, it would also be true for a large proportion of New Zealand businesses. For example, it is estimated that in 2020, 39.3% of primary listed stocks on NZX were foreign owned: JBWere "2020 Equity Ownership Survey", available at <https://www.jbwere.co.nz/latest-insights/news/2020-equity-ownership-survey/>.