

1                   **DAY 3 – PERSONAL BANKING SERVICES MARKET STUDY CONFERENCE**

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3                   **SESSION 9 – CONSUMER EXPERIENCES**

4  
5                   **15 MAY 2024**

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8                   **Lunch adjournment from 12.18 pm to 1.11 pm**

9 **ANNE CALLINAN:** Good afternoon everyone. Special thank you for everyone making it to the  
10 very last session. And I'm really pleased to say that this last session is rounding back to one  
11 of the most important topics we have to discuss, which is the consumer experience. And  
12 that's really at the heart of what we're looking at in terms of the competitive dynamics and  
13 ultimately what that means for the consumer experience.

14                   So the purpose of this particular session is to discuss a number of things. We're  
15 seeking feedback regarding from consumers and others about their experiences with  
16 switching; and closely related to that topic, what can be done to make better information  
17 available to consumers so that they can make better choices about what products and  
18 services suit them best.

19                   We'd really like to hear from people about their ideas about how to enhance the  
20 current account switching services that are available, and we've heard that the CCCFA and  
21 AML can be barriers to switching. On the CCCFA we'd really like to discuss how we can  
22 reduce any barriers that it places to the switching experience.

23                   We're going to talk about AML insofar as it's a barrier to switching. And we'd like  
24 to hear views on how important the basic bank accounts can be to consumers and what can  
25 be done in this space.

26                   Just before we get into the session, I just want to set the scene by recapping what we  
27 found in our Draft Report. We found that there was a low level of switching because of  
28 difficulties accessing and using information to decide on a provider and then act on that  
29 information. And we've seen a significant degree of consumer inertia. We've seen that  
30 there are these legislative barriers to switching through AML and CCCFA, particularly the  
31 affordability assessments, and they create friction when someone is wanting to switch  
32 providers.

33                   For home loans, there are also barriers through bank fees and legal requirements.  
34 We've heard that the industry-led switching service run by Payments NZ, Ezy Switch, is  
35 not working as well as it could do. And all of these factors combine to reduce the  
36 competitive pressure on the major banks. There are also some groups of consumers who

1 are not well served by competition currently and who do not have the best access to  
2 personal banking services, or access to basic bank accounts.

3 In response to that Draft, there was a broad level of agreement that there are many  
4 reasons that consumers do not switch providers. There was broad support for the  
5 recommendations to enhance the account switching service and provide access to bank  
6 accounts, basic bank accounts.

7 Some submitters, though, did express different views that we'd like to explore,  
8 including the view that the presence of multi-banking shows that customers do pick and  
9 choose providers, compare information, and that helps them shop around. It's been  
10 submitted to us that a lot of customers are very happy with their provider and this, at least  
11 in part, explains the low switching rates. We've heard that the difficulties around switching  
12 are more perceived than real in that those who do switch find it relatively easy.

13 And we've all heard that there's already a lot of information available to consumers  
14 to help them choose, and that any changes to legislation needs to be carefully considered to  
15 guard against unintended consequences particularly, such as the risk of fraud. So that's  
16 kind of the Draft and what we've heard and we'd like to explore some of that today.

17 But just to chunk that down into sections, the first thing we want to talk about  
18 specifically is customer switching. And that really falls into two camps. It falls into the  
19 search costs, that's essentially the precious time that consumers need to spend shopping  
20 around to figure out what's the best product to service for them. And that really goes to the  
21 quality of the information and the transparency of information that is available to  
22 consumers when they're doing that.

23 We've heard that in respect of home loans those search costs are significantly  
24 increased by the opaque pricing that is on offer, discretionary discounts and below the line  
25 pricing, such as cash backs. And that some customers have low levels of confidence about  
26 their ability to access information and compare products.

27 So that takes us first to the switching questions, which Tristan's going to kick off.

28 **TRISTAN GILBERTSON:** Thanks Anne. So the importance of switching for me was really  
29 nicely put in submissions by Banzpay, and what they said was this: "Customer mobility  
30 works as a powerful mechanism to place competitive pressure on banks to win and retain  
31 business."

32 That really nicely captures, I think, the concept of competition as an ongoing,  
33 restless process of rivalry, which is what it should be. It's a process where you need to  
34 work really hard to win a customer, you need to keep working really hard to retain the

1 customer, and others will work really hard to take the customer off you. And consumers  
2 ultimately, of course, vote with their feet and that's where switching comes in, and so  
3 switching mechanisms are a critically important enabler of competition.

4 So we want to spend a bit of time drilling into what that currently looks like in  
5 personal banking and what opportunities for improvement there might be. I want to start by  
6 testing the view put to us in submissions that our concerns about barriers to switching and  
7 low levels of switching are overstated. And maybe Jon Duffy from Consumer is online;  
8 Jon, we could start with you. How are you seeing it? Are you seeing barriers there, what  
9 are the things that stop consumers from switching providers?

10 **JON DUFFY:** Thanks Tristan. I think there's a range of things. Yes, we are seeing barriers.

11 I mean it's evidenced by the woefully low switching rates, there was something like 3% I  
12 think in 2024 so far this year. You know, that is a very low level of switching. And yes,  
13 we accept that there is a proliferation of accounts from a consumer's perspective, so they  
14 won't just necessarily have one bank, they'll have multiple banks. But again, we think if  
15 competition was working well, banks would be seeking to attract all of a customer's  
16 business, not just pick up piecemeal elements of that business.

17 We think there's a lack of information out there, so it's very difficult for consumers  
18 to compare one bank to another bank for the full range of services that those banks offer.  
19 There are green shoots of good information provision, and particularly in the mortgage  
20 market. We see that there is perhaps a higher level of competition for customers. But  
21 across the full range of personal banking services, there are real dead spots, I guess you  
22 could call them.

23 So in terms of making it easier for consumers to switch, I'm not sure if you want to  
24 move on to that part of the discussion here, but we think it starts with better information  
25 provision and the ability to compare one bank with another in a reasonably simple way.

26 **TRISTAN GILBERTSON:** Thanks Jon. Maybe just a couple of follow-on related questions, if  
27 that's okay, while we've got you, just to set the ground before asking for the banks to share  
28 their view and hear what others have to say. So hear what you say about the presence of  
29 barriers. Do you think that multi-banking is effectively a form of soft switching? It's  
30 prevalent in the market in New Zealand now. Do you see it as something that has, at least  
31 up to a point, reduced barriers for consumers?

32 **JON DUFFY:** I think soft switching is a good way to describe it, but it is suboptimal. I think, you  
33 know, if I was a service provider and I could acquire a customer across the full range of  
34 services that I provide, or acquire a customer on one segment of the services that I provide,

1 I should be providing, you know, a discounted rate to that customer who I switch on to the  
2 full range of services that I provide. That's not happening here, banks are not competing  
3 for the full range of services. So the soft competition, or soft switching, as you've  
4 described it, is -- yeah, okay, it's a form of switching, but it is suboptimal in my mind.

5 **TRISTAN GILBERTSON:** How are the banks seeing it from their perspective? Dan. Adam,  
6 sorry, shall we start with you and then jump to Dan.

7 **ADAM BOYD:** Adam Boyd, ASB. I guess, to me I think you need to form a view  
8 on -- obviously banking is across a broad set of product and services, so I think you almost  
9 need to start with a perspective around do you think it is likely that a provider is going to be  
10 able to have the best product across the full range of services compared to the market at a  
11 point in time. And if you believe that, then I can get my head around why you would  
12 expect, or want to see higher levels of full switching going on.

13 If you believe that that's unrealistic given the suite, the breadth of products and the  
14 level of providers that are in market at any one point in time, then I would expect to see  
15 higher levels of multi-banking where a particular consumer has got multiple relationships  
16 and they are looking to cherry-pick, for want of a better word, the best product from a  
17 particular provider at any one point in time.

18 And I guess, you know, our perspective would be the latter is a fairer description of  
19 what we think is operating in this market and actually intuitively what you would expect in  
20 a market. And so I think what we're seeing is consumers act rationally, you know, half of  
21 our customers have got relationships with another institution; so we're seeing consumers  
22 kind of act rationally and choose the best of a particular provider at any one point in time.

23 **DAN HUGGINS:** Dan Huggins, BNZ. Look I think adding to that, I agree, we have removed  
24 bundling from the New Zealand market, and I think if you were seeing in a market where  
25 you had bundling and price discounts associated with that, you would probably expect an  
26 entire relationship to move to get advantage of that. So the fact we don't have that enables  
27 product-by-product competition, which I think is a good thing, but perhaps explains why  
28 you don't see whole of bank switching.

29 I think to Jon's point, we certainly compete to win the entire customer and we would  
30 like to win the entire customer. But the reality is that the products that are often left behind  
31 in a multi-bank, like the products are free. So a transactional account is free, there is not a  
32 monthly fee for that, at least for us, there's no fee to hold it, there's no fee to transact on it.

33 So actually the incentive is to move the products where actually you are getting a  
34 better deal, you know, a term deposit, or a savings account, or a mortgage, or a credit card.

1 But actually there's an underlying relationship there which is free and therefore customers  
2 will, I think, end up with these multi-bank relationships. And that then enables them to  
3 select between different offers that are in market at any given time based on their needs.

4 **TRISTAN GILBERTSON:** Thanks Dan. Catherine.

5 **CATHERINE McGRATH:** Catherine McGrath, Westpac. Banks absolutely do compete for the  
6 transactional accounts and what banks do want, primarily, is where you're putting your  
7 money in and you're doing the bulk of your transactions. Now, the fact that consumers  
8 have multiple, they can move, and what you see is someone does move because they switch  
9 where their credit is going from and to and that effectively means they've moved their  
10 primary relationship.

11 And the drivers for that for a consumer will be about the digital experience, if your  
12 digital experience isn't good enough you won't attract people in their 20s and 30s to open  
13 their main bank account with you. It could be to do with a physical location of branch, it  
14 could be to do with the bankers in the branch as well. So there's a lot of factors that people  
15 take into account.

16 But to Dan's point, choosing to hold many has no cost to a consumer and it actually  
17 is giving them visibility into what's the digital experience, or the in-person experience they  
18 can get across a multiplicity of banks, in the New Zealand experience, and this is very  
19 consistent with other markets.

20 **BENJAMIN KELLEHER:** Ben Kelleher, ANZ. I think the question is why wouldn't they  
21 multi-bank, because one in two New Zealanders do it. If you close your banking  
22 relationship you actually have to do some work to do that, so why wouldn't you just leave it  
23 open.

24 To the point Dan made, there's no fees. If you're not active on that, that's fine, you  
25 can leave it there, and if you do want to exercise that option at some point, you can. But I  
26 think New Zealanders are voting with their feet and saying, well actually, it's helpful to  
27 have multiple options and at some stage I may exercise them, at some stage I may not.

28 **ANTONIA WATSON:** And just to add a stat in there, is that I think I said it the other day; in a  
29 given month RBNZ total home loan commitments, 20% of them are switching providers;  
30 when you're talking about the types of things that makes a difference to the wallet. I think  
31 the thing about banking is it's very different to other industries in terms of, you know, it's a  
32 lifelong relationship. You don't choose to have the relationship when you walk into Harvey  
33 Norman and buy the TV, or whatever it is. And you can have these lifelong relationships  
34 with lots and lots of different parties. And some of them matter because your home loan

1 costs you a lot of money. A lot of them don't matter. It's more about the quality of the app  
2 than the actual transactional account because I think, as Dan said, they tend to be free.

3 **BENJAMIN KELLEHER:** While ANZ's got the microphone. The other thing I would say is,  
4 like we're all striving to get that relationship. So, you know, while people are  
5 multi-banking, we would love them to single bank. In fact it helps us because we can get  
6 more data to then offer personalised services to them as well. So I think we're all striving  
7 for that, but we recognise that there is an opportunity for customers to choose and they're  
8 choosing that.

9 **TRISTAN GILBERTSON:** Thank you. I guess we have a situation where yes, different aspects  
10 of the relationship such as term deposits, for example, can and do fall away. But  
11 nevertheless, the main banking relationship is the centre of gravity and that sits in an  
12 account that, if a consumer wants to move, the main bank relationship needs to go through  
13 a switching process. So the process itself, or the importance of it, doesn't necessarily fall  
14 away unless the consumer has already set up an account to shift that into.

15 Tex had something to say on multi-banking on day one and Antonia, before I come  
16 back to you, Tex, did you have a view on this you wanted to share?

17 **TEX EDWARDS:** Yeah, having canvassed multi-banking, it's not competition, it's a legacy left  
18 over from when Westpac was the trustee savings banks of Tauranga, it's a legacy from  
19 when National Bank wasn't part of ANZ. And multi-banking is very much like having  
20 three telephone lines in your house all from the one provider, dare I say Telecom.

21 But the issue is, it's fertilising coordination, not competition. It's not what this  
22 conference is about, which is personal banking competition. And it's not resolving the  
23 problem in the economy here, which is the economic dead loss weight paid to Australian  
24 banks that are extracting monopoly rents.

25 And so multi-banking is part of the problem and all lines from discussing  
26 multi-banking point towards what is the catalyst to break up this cosy cartel. And is it the  
27 mortgage brokers, or is it greenfield institutional start-ups initiated by open banking. I  
28 think multi-banking is a problem and I felt very much that on day one that was "gotcha"  
29 from the incumbent banks when they said multi-banking's going on. I just don't think it's  
30 competition.

31 **SAM STUBBS:** Yeah, Sam Stubbs from Simplicity. We would concur with that, that  
32 multi-banking is the excuse but it's not the reason, or it's the reason for excess profits. I  
33 think there's an important lesson in Kiwisaver here, because Kiwisaver has a very easy  
34 switching mechanism in the IRD and that helped facilitate switching. But what was

1 interesting is that what really helped facilitate switching, and I was running a default  
2 provider at the time, was when Kiwisaver members were told the total cost of the  
3 relationship in dollars and cents; so not in percentages but actually in dollars and cents.

4 So I wonder whether or not a key to unlocking the switching is when a consumer  
5 understands every year exactly what they paid their bank in dollars and cents. So what has  
6 been the total cost of that relationship, and if they had multi-banking relationships then they  
7 can add that up. And that will facilitate switching sites, which will allow an examination of  
8 that and you'll be able to put in your relationship and it will throw out different numbers, as  
9 it does with Kiwisaver now, where you can find out what it would cost you to run.

10 So I wonder if there's a very important lesson, that it's not necessarily just the  
11 mechanism, it's actually the transparency of the information, and that would also fit in with  
12 the multi-banking relationships they have too, because switching sites would be able to add  
13 those up and give you a total cost of your banking, no matter how many banks you were  
14 using.

15 **TRISTAN GILBERTSON:** Thanks Sam, that's probably a nice segue into the next thing we  
16 wanted to touch on, which is the comparability of products. But Antonia, I'm conscious  
17 you wanted to say something just before we do that.

18 **ANTONIA WATSON:** I was just going to make sure that there's understanding in the room of  
19 the switching process, because switching banks isn't as easy as switching Kiwisaver  
20 providers, which is a payment from your -- one of the beautiful things about Kiwisaver is it  
21 is a very simple product and we've not tried to overcomplicate it in New Zealand, but  
22 there's a bit more to it in banking.

23 But the Payments NZ switching service is a five day SLA; you go to your new  
24 bank, you tell them your old bank's name and account number, the date you want to start  
25 payments moving and sign it. And the old bank has to, within the five days, provide the  
26 new bank with all the details all your regular payments, APs, DDs, all those sorts of things.  
27 That is the process, I would argue it's better than the UK one that was talked about in the  
28 report.

29 What I think collectively we could do better is talk about it more and advertise it  
30 more and make sure people are aware of that process. And, you know, there's reporting  
31 that goes on in other countries that actually start to talk about switching rates and those  
32 sorts of things.

33 **TRISTAN GILBERTSON:** Thank you, we're certainly going to come on to that in a little bit.  
34 But Sam raised the really important issue of the comparability of services, products and

1 services. Jon, how comparable are personal banking products and services in your view?  
2 Is there something that could happen in that space to improve comparability for consumers,  
3 and what might that look like?

4 **JON DUFFY:** Yeah, look I think it could be significantly improved. I think there's a lot that  
5 could be improved with the existing switching service. Data provision is key. And if  
6 I speak from Consumer NZ's experience with running Powerswitch, which is an electricity  
7 retailer and gas comparison site, the key thing that drives that is data. So having the ability  
8 to pull data together in an easily consumable way that allows consumers to make a  
9 relatively quick and accurate and independent comparison of banking services is vital to  
10 igniting competition in this market. So without that, we will continue to see what we're  
11 seeing at the moment, which is relatively low switching rates, regardless of how you define  
12 multi-banking or moving full services over.

13 And, you know, no offence to the good work that Payments NZ does, but it is an  
14 industry-run switching service at the moment so lacks the independence that I would  
15 suggest is key. So banks would need to provide data on their offering. And that runs up  
16 against some of the practises we see in the sector around -- and this has been quite a  
17 difficult issue for us to get our head around, because, you know, we see the ability for a  
18 consumer to go, either through a broker or directly to a bank, and negotiate let's say a  
19 mortgage rate that's better than the advertised rate.

20 Now on the face of it that's actually a good thing, right, you can go in and if you  
21 have the ability and the capacity and the knowledge of how the system works, you can go  
22 in and get yourself a better rate. In theory that's good, particularly if you're saying hey, you  
23 know, the red bank is offering me this and you go to the blue bank and they better it. That's  
24 a good outcome for that particular consumer; but again, those who don't have that capacity  
25 will miss out and pay the rack rate that's advertised, and that's a poor outcome for that  
26 particular consumer.

27 So some transparency around the rates on offer would, again, be pretty useful, along  
28 with a range of other data to fuel -- a comparison tool, that doesn't have to be a website,  
29 but, you know, whatever works best in this sector.

30 **TRISTAN GILBERTSON:** Paul, did you want to jump in from the advisor perspective?

31 **PAUL FULLER:** Yeah, Paul from the Mortgage Room. As far as bank accounts go it's very easy  
32 to swap and that's not an issue. When I was in a bank it was all about ring-fencing our  
33 clients and making sure we sold as much as possible, and it was drummed into me then that  
34 you sold as much, it made it harder for the client to move.



1 But from a mortgage point of view, what I really want to highlight is the way clients  
2 structure their lending on fixed rates and the way the banks apply break costs. So what I'm  
3 suggesting there, is that when interest rates obviously fall, the banks apply break costs.  
4 And under the CCCFA section 43-54., they're entitled to charge that cost on.

5 So when a client's on a lower rate and an event happens and the interest rates rise,  
6 what actually happens to that profit that the bank makes? It is the client that took on the  
7 risk and made the commitment to fix that rate. Now, it just happens to be that they might  
8 have a life event, made redundant through a government agency, whatever, have to move.

9 It also would help with off-setting the potential if their lending is split. So, for  
10 example, if a client wanted to pack up and move, or whatever, surely the ability for the  
11 lender to pay the benefit out to the client -- and it used to happen back in the mid-2000s, it  
12 stopped, just as interest rates were rising -- I can't see why it can't be reinstated to help  
13 mortgage owners, or mortgage lenders, borrowers, help offset some of their costs if they do  
14 need to move banks. And, you know, I'm seeing lenders enforce break costs on restructure  
15 of lending.

16 My question is, what happens to going from a, say, 4, 5% rate to now 6.8, what  
17 happens to that profit? I just think it's a way that perhaps that might be a key to look at  
18 some of our mortgage owners', house owners' offset. I've seen banks charge for people that  
19 have died, made redundant, all those sort of things. But when interest rates are rising, those  
20 benefits that the client took the risk on has been retained by the banks. And it's a practice  
21 throughout all the banks.

22 So if it's not a major part of their profit, surely 2, 3, \$4,000 benefit that the client  
23 could benefit from breaking their fixed rate should be handed on to the consumer. But it's  
24 not disclosed.

25 **ANNE CALLINAN:** Do any of the banks want to respond to that question about break fees?

26 Antonia's going to respond. I think the gist of it is that the --

27 **ANTONIA WATSON:** They're highly regulated by you guys.

28 **ANNE CALLINAN:** I think the gist of it, if I understand it, Paul, is that the bank passes the pain  
29 on to the customer where breaking a fixed term loan early costs them, but they don't pass  
30 on any benefit. I think maybe that's just food for thought in terms of the break fee  
31 calculations under the CCCFA, which is -- I don't know that that's on the list of things to  
32 look at at the minute with the CCCFA, but it might be something else to add to the list.  
33 Sam.

1 **SAM STUBBS:** Sorry, can I just make one comment, though, on break fees. I would have the  
2 Commission note that the floating rates charged by banks, where the break fee issued is not  
3 an opportunity for them to capture income, is extraordinarily high relative the spread  
4 between fixed and floating rates, it's extraordinarily high and higher than we would  
5 typically see in other OECD markets. Which indicates that they have an incentive to fix the  
6 rates so that there is an opportunity to capture this break fee. But in floating rates where  
7 you never have to talk to the customer again, it can be repaid as much as you want to.  
8 Where the ability to retain the relationship is somewhat less, it seems to be, in fact to my  
9 mind it is evidence of the cartel nature, pricing nature, which is that floating rates are not at  
10 all competitive for a consumer. In fact you seem to be actively discouraged from taking  
11 out a floating rate loan.

12 **ANNE CALLINAN:** Thank you Sam. Just before we move on to the details of the switching  
13 service and just coming back to this general issue about whether we can improve  
14 comparability of offers, one of the things that we've seen is the prevalence in the market of  
15 cash backs and cash offers together with home loans. And we were raising in the draft  
16 whether there could be some more transparency around what that really means to the  
17 overall cost of the borrowing.

18 And this is probably a question for Kiwibank really, because Kiwibank in their  
19 submission said that there would be some complexities in actually calculating what  
20 difference that cash offer made to the overall cost of borrowing, if I've characterised your  
21 submission correctly.

22 And we just wanted to test that, because it just does seem to be quite often a  
23 deciding factor for consumers. We didn't really get to ask the mortgage advisors whether  
24 they do the calculation for their clients and explain to their clients whether they're actually  
25 ahead by taking the cash offer, or by shopping around for a lower interest rate.

26 But Kiwibank, do you want to maybe respond to that, or explain what their concerns  
27 were?

28 **MIKE HENDRIKSEN:** Mike Hendriksen, Kiwibank. Was it on the ability to do a blended  
29 average comparator?

30 **ANNE CALLINAN:** I think it was, yeah.

31 **MIKE HENDRIKSEN:** Which again may be a temporal issue in the sense of do you have the  
32 data to do that accurately or not at this point in time. I think we're broadly supportive of a  
33 mechanism that would have a comparability to it, but whether that's a thing that can  
34 actually be captured at this moment.

1 **ANNE CALLINAN:** Antonia or Ben?

2 **BENJAMIN KELLEHER:** I think with this, and I agree with Mike, we'd be broadly comfortable  
3 with that as well. I think the key thing as well is making sure that you're not solving one  
4 problem and creating another. Because if you look at Australia, similar comparability, on  
5 all of the banks' websites when you go and you look at the home loan rates there and what  
6 you can get versus what you actually pay and all this kind of stuff, it actually is really  
7 confusing. So in trying to solve one problem, I think you can potentially create an even  
8 worse situation.

9 **ANTONIA WATSON:** And I think the other thing to consider -- sorry, Antonia Watson, ANZ,  
10 I keep forgetting -- is to consider is it a home loan in particular, which is often where these  
11 conversations end up. It's not a highly commoditised product. It sort of sounds like it on  
12 the face of it, but you're making a risk-based decision for every single home loan that you  
13 put out there and you have to hold a certain amount of capital that is actually highly  
14 correlated to that risk because that's what our risk models are churning out and they're all  
15 approved by the RBNZ.

16 So it's actually really legitimate to price different home loans differently. And if we  
17 were really, really scientific about it, and again it's down to the prioritisation and all sorts of  
18 other things, you would have a vast array of different pricing depending on the risk. And I  
19 think that's, you know, we might not do it in a very scientific way now, but it doesn't mean  
20 that's not a very legitimate way of pricing a home loan.

21 **DAN HUGGINS:** Dan, BNZ. So I again lived this one in Australia where there is a requirement  
22 for an effective rate. But it assumes both a -- you have to make assumptions about the  
23 product. So you have to assume a homogeneous product, of course which they often aren't.  
24 Plus you then assume a certain dollar value paid out over a certain period with a range of  
25 assumptions. And what you tended to see was that actually it was just disconnected from  
26 the reality of that customer, so it wasn't an effective way of creating transparency. Because  
27 every customer was different, to Antonia's point, and the products themselves might have  
28 been different.

29 So I think we're all sort of in for the conversation of well, how do we approve this  
30 as consumers, we'd all like to do that, but it's an interesting one as to how we solve that  
31 particular problem. And then we also need to make sure it's not misleading from a CCCFA  
32 perspective, so that's the other piece here, we just need to make sure that it's compliant with  
33 those rules, as you'd be aware.

1 **TRISTAN GILBERTSON:** Thank you. Before we move on to the switching service itself, Paul  
2 from Mortgage Room is online and wanted to speak. Paul.

3 **ANNE CALLINAN:** We may have heard from Paul.

4 **TRISTAN GILBERTSON:** Okay. In that case let's move on to the switching service itself;  
5 where, as Anne said, our recommendation is to create something better; something with  
6 better functionality, something with a guaranteed minimum standards. What we're quite  
7 keen to explore now is views on what an enhanced switching service might look like.

8 Jon Duffy, maybe we could start with you again from a consumer point of view.  
9 Ultimately the question is, if there is to be something new, who should run it and why  
10 would they be the most suitable? And what are the key elements that would change in  
11 order to make it more effective than it currently seems to be?

12 **JON DUFFY:** Okay, so Jon Duffy, Consumer NZ. Sorry, I keep forgetting to say who I am. In  
13 terms of operating it, as I mentioned before, it needs to be independent of industry. And I  
14 would say that Payments NZ is not that at the moment, given its ownership structure and  
15 governance structure. So I don't have a view on who should run it. It should be, you know,  
16 something that can garner the trust and respect of the consumers that it intends to benefit.  
17 So yeah, an organisation with those attributes that has no affiliation with the industry.

18 In terms of functionality, it needs to meet consumer need obviously. You know,  
19 currently we have a service that, you know, partially switches a customer, in that my  
20 understanding is outgoing payments from an account will be switched over, but incoming  
21 payments can't be. So that is a question that would need to be solved. Because from what  
22 we see from our surveying, there is a strong perception among consumers that this is a  
23 really difficult thing to do, unravelling my life from the -- there was mention of a lifelong  
24 relationship, well, you know, the longer relationship goes on the harder the break-up is,  
25 right? So unravelling my life from my relationship with my bank is perceived as a really  
26 difficult thing.

27 Now, we also have surveyed consumers who have switched and have said actually it  
28 wasn't as bad as I thought it would be. Could have been smoother, but wasn't as bad as  
29 I thought it would be. So we need to have the ability to get consumers over that hurdle, that  
30 perception that this is a very difficult thing to do.

31 So independence, transparency, public reporting on the effectiveness of the service  
32 is really, really important. And that's feedback both for industry and for, you know, say the  
33 Commission was the regulator in this instance, or the FMA or whoever was overlooking

1 this service, they need to know that it is meeting consumer needs and promoting good  
2 competition outcomes. So reporting's really important.

3 There needs to be marketing, because one of the problems with the existing service  
4 is no one actually knows it exists. And usage rates are low as a result. So there needs to be  
5 money put into marketing it.

6 There also needs to be the question of liability for errors needs to be addressed as  
7 well. So a consumer needs to be able to access this service, and if either the bank being  
8 switched to or the bank that is being switched from messes something up and a payment  
9 isn't made and the consumer is put to expense because of that, as one example, there needs  
10 to be a regime sitting behind a switching site that allocates liability where fault lies.

11 And, you know, we don't see this working without some form of regulation. One of  
12 the issues we have with the operation of Powerswitch, particularly around access to the data  
13 that would really make the service work brilliantly, is that industry is not mandated to  
14 provide that either through, you know, the long awaited consumer data right, or some other  
15 mechanism.

16 So the regulator, whoever has got oversight of this, needs to step in and put rules in  
17 place to make sure that industry participants know what data needs to be provided to make  
18 sure the service is a success.

19 **TRISTAN GILBERTSON:** Thank you Jon. Maybe at this point we could jump to Payments NZ  
20 itself, I understand we've got them online. In submissions Payments NZ is very firmly of  
21 the view that the service should stay with it, and the banks also supported maintaining that  
22 industry-owned process while also conceding that there was room for improvement, as  
23 Payments NZ itself conceded as well.

24 The question, I guess, at this point is, do you have a credibility issue, Payments NZ,  
25 in the sense that the key things that Jon Duffy mentioned that make the difference here,  
26 independent oversight and monitoring and reporting, are things that were recommended by  
27 the Productivity Commission ten years ago? Yet here we are, nothing's changed, we have a  
28 service with gaps in it and acknowledged opportunities for improvement. Is it too late?

29 **STEVE WIGGINS:** Steve Wiggins, Payments NZ. No, we don't believe it's too late. We believe  
30 the switching service that is delivered actually, with an SLA of five days, is one of the best  
31 you'll find, and the banks work really hard to make sure that the customer experience on the  
32 way through is a good one as well. I think there's already been some suggestions around  
33 better communication, marketing, reporting to make that more transparent, and with the

1 support of the participant banks who participate in the switching service, and we could  
2 provide that role on their behalf.

3 **ANNE CALLINAN:** Steve, do you keep records of how many people switch through your  
4 service and how frequently you hit or miss that five day target?

5 **STEVE WIGGINS:** No, we don't keep that number. Simply our role was to develop the rules  
6 around how that was to occur. That would then be a request to those banks participating to  
7 provide that data. That could be, if they desired, centralised and reported on.

8 **ANNE CALLINAN:** So is one of the areas where you think it's fair to say some improvements  
9 could come, is in terms of gathering the performance to those SLAs, monitoring and  
10 reporting on that, is that something you think would be helpful?

11 **STEVE WIGGINS:** Yes, I do. I think that would be helpful in terms of, it's really hard to know  
12 how something works unless you have that underlying data and that data is shared.

13 **ANNE CALLINAN:** Yeah, okay, thank you.

14 **TRISTAN GILBERTSON:** Catherine.

15 **CATHERINE McGRATH:** Catherine McGrath, Westpac. Fully supportive of transparency and  
16 advocacy. So our view would be it's more a problem of perception than substance. But in  
17 order to be confident with using it as a consumer, knowing that it's got a high advocacy  
18 score from those that have been through it, is important and knowing the performance data  
19 is important too.

20 The other point that I would just observe; I have implemented the UK solution in a  
21 bank before and I can also see the outcomes that it is not driven despite the expense that  
22 went into it at the time. So there's a couple of observations I would make. Investment, it's  
23 always good when it delivers the required consumer outcomes. And so if we're looking at  
24 other markets, looking at markets where they have delivered the outcomes, I would be  
25 prioritising those.

26 Secondly, consumer research and insight can be really helpful on this in terms of  
27 what are the barriers. So there was a suggestion that Payments NZ ownership is a problem.  
28 I haven't seen any data either way, but talking to consumers that have been through it might  
29 help on that.

30 But I absolutely support data that would give transparency and insight about why  
31 you should be confident to use it and knowing that it's available. And I think there are  
32 some useful opportunities that have been used in other parts of the world that help in terms  
33 of where some of that promotion should be as well.

1 **ANNE CALLINAN:** Can I ask a follow-up on that, because we did hear that in your submission  
2 from Westpac. What would be ways that you would suggest to promote the scheme?  
3 Because we hear you in relation to there is a system already, some improvements can be  
4 made and we've heard more generally around the burdens on various investments.

5 So what do you think, and others think, about what could be done to improve the  
6 visibility of this service? Because it seems like there's some agreement that the  
7 accountability could be improved as well.

8 **CATHERINE McGRATH:** I think marketing is one opportunity. Secondly, what I've seen work  
9 well before is if there's a particular trigger promoting the service can be a good thing. So  
10 one of the things that I think the UK didn't get right is it put a lot of notifications in front of  
11 consumers all the time and then it becomes wallpaper and then you don't see it. Whereas  
12 when you've had a complaint with a bank, for example getting a reminder that there's a  
13 switching service, is probably quite a useful targeted time to say maybe it's time to have a  
14 think about it.

15 **ANNE CALLINAN:** Yeah. Can I ask, just trying to draw these two sessions together, Steve, do  
16 you spend much time talking to the Mortgage Advisor channel about what Payments NZ  
17 can do in this space? Do they know about your service if they're recommending switching?

18 **STEVE WIGGINS:** No, I haven't engaged with that group. Nor they with us for that matter.

19 **JOHN SMALL:** Is it fair to suggest that the switching service, the Payments NZ switching  
20 service, which sounds, the way Steve's talking about it, as if it's kind of a situation where  
21 Payments NZ set the ground rules and you folk essentially implement it. So in order to get  
22 the reporting, presumably you'll have to report back to them so they can centralise it. So it's  
23 almost an outsourced kind of model. That's just a comment; but is it mainly used for  
24 transaction accounts? Which is the hard one, right?

25 **STEVE WIGGINS:** Yeah, yes, it is, and certain payment instruments within that. So the  
26 established direct debit authorities, automatic payments, bill payments and on, they all track  
27 across. So we simply provide the rules and standards around that and bilaterally the service  
28 is delivered by the existing and new bank.

29 **TRISTAN GILBERTSON:** An interesting conversation, thank you. And just from a  
30 telecommunications perspective it sounds very much like the direction of travel is towards  
31 what we have with mobile switching in New Zealand, which is very successful, it's  
32 operated by the industry itself, but subject to KPIs and reporting so that everybody knows  
33 there's complete transparency about performance and where things are working and where  
34 they're not and where the opportunities for improvement might be. But also independent

1 oversight; I think that's maybe the one piece of the equation that we haven't quite surfaced  
2 yet.

3 To make all of that work, for all of that to come together effectively, ultimately  
4 there needs to be, the telecommunications experience would suggest that there needs to be  
5 that independent oversight to drive accountability. Tex.

6 **TEX EDWARDS:** I have to make a comment here. The absolutely fundamental difference  
7 between mobile number portability is that there was a clear and present catalyst to use it.  
8 And it was a \$1.2 million start-up that spent 150 million bucks on marketing, that cajoled,  
9 scrapped, that fought and grabbed customers from other networks and put them on their  
10 own network. That catalyst is not here.

11 And respectfully, Commissioner Gilbertson, I have to catalogue a message to the  
12 Commerce Commission analysts, that without this clear and present, well-capitalised  
13 greenfield institutional start-up that isn't a maverick, that comes into the clubhouse and  
14 scraps, fights, markets, eats, does other things to get customers, it just isn't going to happen.

15 And this is the very important issue here. Because the one success the Commerce  
16 Commission's had in changing market structure had a well capitalised competitor. We  
17 haven't seen that in this room. And yesterday we had \$25 billion worth of bank capitalised  
18 for player, 96% market. Talk to two or three start-ups that hadn't, not one of the start-ups  
19 had raised the same amount of money as the CEO's salary from an Aussie bank.

20 And I'll close off, but I do feel compelled to mention the impact of that catalyst at  
21 the greenfield institutional start-up level. Thank you.

22 **ANNE CALLINAN:** I feel this might be a let down, Tex, because now the next topic is the  
23 CCCFA, about which much has been said. And so I really want, for the purposes of this  
24 discussion, to zero in on whether the CCCFA is a barrier to switching your home loan  
25 provider. I mean we've heard a lot about, and we've heard submitters about the regulatory  
26 burden the CCCFA generally places on lenders; we understand that. And since we  
27 launched our market study, everyone in this room will be aware that there will be a change  
28 of legislation and so the CCCFA regulations will be repealed. We'll still be left with the  
29 overarching responsible lending principles and then a code will be amended or developed  
30 and there'll be some further changes to the CCCFA down the track.

31 So the landscape has changed a bit since we first had this discussion. So we want to  
32 now focus on, I guess for us, in this new environment that we're going to have relatively  
33 soon, where we have the CCCFA responsible lending principles but we don't have the regs,  
34 we'll have a code.



1           What we're curious about asking people about is whether they think in that  
2 environment there's going to be less friction for people to get loans; and in particular for us  
3 as a competition regulator, we're interested in that opportunity for people to switch  
4 providers part way through their loan, right? We see that as an opportunity for increased  
5 competition and we're interested in how we facilitate that through mortgage providers. But  
6 we have heard that the CCCFA has traditionally been a bit of a barrier to switching part  
7 way through a loan because someone thinks well, I'm considering my home loan provider,  
8 but it's actually a hassle factor and a drag on that process to go through the CCCFA check.

9           So that's kind of where we'd like to take the CCCFA conversation, we think that's  
10 perhaps the most topical thing right now. But I think Jon Duffy, coming back to you, just  
11 with that sort of scene setting, did you want to make some general comments about the  
12 CCCFA and insofar as it's affecting our study?

13 **JON DUFFY:** Yeah, we are in quite an interesting time, I think, with -- the state of play is in flux,  
14 I guess. Look, there is a tension between protecting consumers and efficiently processing  
15 applications and getting money to people who can service the level of lending that they're  
16 applying for. Absolutely get that tension and it's always going to be a tension, I think. I  
17 don't think we're ever going to completely iron the friction out of the system, no matter how  
18 well any responsible lending code is drafted.

19           Where we have concerns is the, you know, we've been through a process over the  
20 last 18 months or so where the CCCFA, where the affordability requirements were  
21 amended. It's clear that things went too far, there were further amendments. There is, from  
22 our perspective, a lack of analysis and evidence that those subsequent changes are still  
23 resulting in the negative outcomes that prompted those changes in the first place. And we  
24 are quite concerned that changes are being rushed through with a lack of evidence of harm.

25           So we do absolutely accept the theoretical argument that affordability requirements,  
26 as they were being administered by the banking sector, could be a barrier to switching.  
27 Whether a more permissive interpretation of those requirements could have taken some of  
28 the friction out of the system is another question. So it kind of needs will on both sides of  
29 the fence. Banks need to be, or lenders, sorry, need to be willing to work within the spirit  
30 of the regulations and, you know, policymakers who set those regulations need to take  
31 competition issues into account.

32           So to summarise, we really encourage a full review of the CCCFA, not just a  
33 piecemeal approach to it, which seems to be what's happening at the moment. And to take  
34 a bit of time to really think this stuff through carefully and take competition issues into

1 account and weigh them up against the evidence base of whatever harm is occurring  
2 because of the existing regs.

3 **ANNE CALLINAN:** Okay, can I open it up to other feedback. Dan.

4 **DAN HUGGINS:** Dan Huggins, BNZ. Look, I think certainly from a BNZ perspective, we're  
5 pretty aligned with what Jon is articulating there. We want to make sure with any changes  
6 that we continue to see good customer outcomes and we want responsible lending; it's in  
7 no-one's interests to see that degraded.

8 But what we did see was the regulation in its initial form was too prescriptive and it  
9 caused quite a lot of friction in the market and that made it very, very difficult and had a  
10 competition impact, which wasn't considered in its initial version. There have been a  
11 number of changes to that; we're supportive of those changes.

12 I think to Jon's point, we then need to make sure that, now that we're in another  
13 round of them, that we get that balance right and that we can enable less friction, you know,  
14 enough friction to make sure that we still deliver great customer outcomes but not so much  
15 that we damage the ability for people to switch, or that their perception of switching is that  
16 it's very, very hard to do, and I think we did see that as well where people just said it was  
17 all too hard.

18 But I think we're pretty aligned with where Jon was at, albeit we may articulate it  
19 slightly differently. The outcomes that he's articulated I think are those that we're all  
20 looking for.

21 **ANNE CALLINAN:** Thank you. Kiwibank.

22 **MIKE HENDRIKSEN:** Kia ora, Mike Hendriksen, Kiwibank. Hopefully Tex won't give up on  
23 us yet being a maverick, but we'll plunge onwards. So I think not only is it the affordability  
24 of regs, but it was also the consequences of getting it wrong that drove a lot of that  
25 behaviour. And so when we think about the new world and in relation to switching, I think  
26 there's still a question to be resolved about the right amount of friction that an existing bank  
27 would have with a new bank competing for the business, because you can still see  
28 circumstances where the bank that has the customer thinks that they don't need to ask as  
29 many questions, or delve as deeply as the new bank. So solving for that or making matters  
30 less differential would probably help with the switching process from a mortgage  
31 perspective.

32 **ANNE CALLINAN:** Yeah, and that's not in the first phase of the reforms, yeah.

33 **ANTONIA WATSON:** I was just going to come back to the -- sorry, Antonia Watson,  
34 ANZ -- the problem statement about it's been hard to switch recently because of the

1 CCCFA. The other thing that's made it hard to switch recently is actually just the extreme  
2 rise in interest rates. And I think we just have to be a bit careful again, is that quite often a  
3 new bank will have the right -- it's a bit different, you're not going to stop someone buying  
4 the TV at Harvey Norman because you're a certain person. But if you suddenly -- the  
5 affordability equation is worse, then it is going to be harder to switch. And I think we have  
6 to take that risk nature of a home loan product into account as well as the fact of the  
7 product itself.

8 **ANNE CALLINAN:** Yeah, no, I think we agree, it's difficult to unpack what the issue is in a  
9 rising interest rate environment.

10 **ANTONIA WATSON:** Also, the liability regime is a big impediment here, and that's one thing  
11 that sounds like they're on to it, but it's just going to be harder and take longer because  
12 there's no real proportionality in it.

13 **STEPHEN BENDALL:** Stephen Bendall, ASB. Just on the liability regime, we've got to  
14 remember that when the increased affordability rules came in, they came in at the same  
15 time as director and senior manager liability, which was quite an extreme regime as well.  
16 So you had this very draconian set of rules and at the same time a penalty regime which  
17 was also draconian, and this real sense of we dare not get it wrong.

18 So, you know, and we're very supportive of the review that the Minister is taking of  
19 the CCCFA at the moment and very keen to see that that's a full review of all of the  
20 legislation, not just the affordability regime, and certainly getting the consequences aspects  
21 right as well.

22 **ANNE CALLINAN:** Thank you. Anyone else want to chip in on the CCCFA?

23 **TEX EDWARDS:** I'll chip in.

24 **ANNE CALLINAN:** Is this really going to be about the CCCFA, Tex?

25 **TEX EDWARDS:** Yes, I've had substantial experience in having paid off three, maybe five  
26 employees' loans. And I just urge the Commission to refocus on this unskilled, poor  
27 financial literacy community, minimum wage workers in unskilled positions. And when  
28 I see CCCFA start stuttering because to see kids' first financial experience paying 100,000  
29 bucks for a 20,000 car is just devastating; nobody in this room wants that stuff going down.

30 And somebody mentioned the word "balance" earlier. This is a real CCCFA issue,  
31 because I was a supporter of CCCFA having had paid off employees' loans. And  
32 competition is important, the impact of non-competition benefits, one of those is  
33 responsible lending.

1 I don't know how it can be resolved in the forum. Obviously I'm very literate on  
2 what the Final Report should have on competition and a catalyst to open up the market.

3 But I don't think we can end the conference without just cataloguing the financial illiterate  
4 community and the minimum wage workers that this legislation is needed to protect.

5 **ANNE CALLINAN:** And we certainly, in other parts of the Commission, still are sadly seeing a  
6 whole range of behaviours we need to take up under the CCCFA, for sure. Dan.

7 **DAN HUGGINS:** I knew there would come a time where in these three days I would agree with  
8 Tex and here is my moment. And I suspect I speak for the whole industry where we  
9 support that statement of there is terrible customer harm happening with predatory lenders  
10 in this country, and that has to be stopped; and anyway we can do that. If in changing this  
11 we allow that to return, that is a terrible outcome and nobody wants that at all.

12 **ANNE CALLINAN:** Thank you, I think there's alignment on that. Which maybe takes us to our  
13 next topic, which is AML. I'm not telling this audience anything about AML; customer due  
14 diligence and the process that customers need to go through to be on-boarded. We've heard  
15 that that's a barrier to customers getting access to bank accounts. We've heard that that  
16 becomes a bit of a barrier to customers deciding to switch providers if they're not already  
17 multi-banked with that provider. We've heard that the Ministry of Justice is considering  
18 changes to CDD settings, including some exemptions that might assist, but it sounds like  
19 those are some way off, some years off being actually put through. So it sounds like there's  
20 a recognition of this being a problem, but perhaps we don't quite have the impetus or the  
21 solution to it just yet.

22 And I really wanted to start this little part of the conference by asking Jane Horan,  
23 an advisor to the Community Networks of Aotearoa to speak just from a consumer  
24 perspective around your experiences. But Jane, I think it might be helpful, if you're not  
25 already going to do so, to just explain where you're coming from.

26 **JANE HORAN:** Sure thank you. Kia ora. My name is Dr Jane Horan, I was the author of this  
27 report. You can see the name of it, "Better banking, creating ease of banking for the  
28 not-for-profit sector". It was research commissioned by Community Networks Aotearoa  
29 which are based in Wellington. They are a network organisation and literally have clear  
30 communication channels with thousands and thousands of not-for-profit organisations  
31 throughout the country, predominantly tier 4 and tier 3 sized organisations. So these are  
32 organisations that have some sort of legal structure, like a charitable trust or an  
33 incorporated society. But the smaller organisations in particular, so under \$2 million

1 operating expenses, which is a tier 3, or under 140,000 operating payments which is a tier 4  
2 sized organisation, are having real issues accessing and using banking services.

3 So Community Networks Aotearoa was hearing thousands of these stories around  
4 how difficult it was. And probably there'll be people in this room who belong to a  
5 not-for-profit, needed to change their signatories and have had real issues doing that.

6 So Community Networks Aotearoa put up a survey online, we got applicants, we've  
7 got a whole lot of survey responses from that. And then I came in, analysed the survey  
8 results and as an economic anthropologist then conducted a set of in-depth interviews with  
9 people.

10 Now to be clear, the research was set up originally because one of the reasons why  
11 the issues around changing signatories was occurring, was banks were saying it was  
12 because of AML. So the research was really founded on, okay, what does that really mean?  
13 So we went looking for that. And in the survey we got lots of responses around the banks  
14 said this is an AML issue. When I went to all of these organisations, and I spoke to 27  
15 individuals from 37 different organisations and then we had 120 survey responses from  
16 other organisations, we got granular around what that really meant.

17 Now the first -- I've got a visual for you. Let's have a look at this visual. Okay, so  
18 this is a -- and to be clear, this research was published last June and prior to the research  
19 being published publicly, we went to all the banks, including the ones in this room, and  
20 presented the findings of our research to them in clear user experience language, gave them  
21 useful insights as well as something that they could do about this.

22 Now, this is an organisation, tiny sports club in a main centre, they are a tier 4  
23 organisation, turnover of around \$20,000 a year, they own their premises but they don't  
24 have any mortgages, so very simple banking needs, really, in many ways. But they have to  
25 change their signatories on a fairly regular basis, well, normally annually.

26 This is the experience that they had the last time they needed to do this. They had  
27 interactions, the treasurer and the secretary had interactions with up to ten bank personnel  
28 across three different branches. Each time they encountered a bank person, they were told  
29 a different story about what they needed to do. They would go away, get the paperwork,  
30 come back to the bank, lodge it with -- encounter another bank person and they would say  
31 "No, that's not the right thing", or "We didn't get the last lot of paperwork", or "No, you've  
32 got to the go away and do this, this and this now."

33 So the issue was, and often AML when the organisation people said "Why do we  
34 have to do this?" The bank would say "It's AML regulations." But each bank person had a

1 different version of what the AML regulations were requiring them to do. And also it  
2 transpired through the research, as far as we can see, the bank teller has some liability  
3 around if they -- the risk sits with them, to some degree, about if they allow this particular  
4 organisation's signatory to go ahead.

5 Now what was revealed really was that the AML process is relatively  
6 straightforward. Yes organisations like this trigger, if they've got some form of a legal  
7 structure like a charitable trust, they trigger an extended due diligence process, which is  
8 what the Ministry of Justice's review of the AML/CFT regime called "unintended  
9 consequences". So an organisation like this gets the same extended due diligence as a  
10 much bigger organisation. So this one size fits all model doesn't work very well, and  
11 Community Networks Aotearoa are working with MOJ to try and kind of find  
12 work-arounds around that.

13 But the issue is, that the customer service piece that tier 3 and tier 4 organisations  
14 are routinely getting, which is always just bank tellers because you're not going to get a  
15 special banker to do 20,000 a year, is uniformly poor. And the problem is it's across all the  
16 banks; all of the banks have got this. That's anti-competitive right there.

17 Now, in this diagram, ten interactions with various banking people each time told a  
18 different story, until the treasurer happened to be standing in the bank one day, very, very  
19 busy, it was midday, and this person emerged from the back office and said "Can I help  
20 anybody?" We're calling that particular individual a golden unicorn, because they knew  
21 how to bank a not-for-profit, they knew exactly what the organisation required, they said to  
22 them "Okay, do this, this, and this"; they gave them their email so the organisation could  
23 communicate with them and it all got sorted out. All the banks have golden unicorns. But  
24 often banks don't know where they are, nor are they incentivised, or seemingly interested in  
25 mobilising those golden unicorns.

26 Now to be clear, these organisations, community and social service organisations  
27 are the very bedrock of New Zealand society and our economy up to a point as well. This  
28 is in the territory of social licence to operate. Bank the not-for-profit sector, give them a  
29 chance, they don't need to spend 40 or 50 or 60 hours trying to change their signatures  
30 every year, they just need to get back to doing the incredible work that they're doing within  
31 the communities. So I'll leave it there for the time being, but thanks

32 **ANNE CALLINAN:** Thank you very much, Jane. And I think, although you're speaking to the  
33 AML issues insofar as it's affecting not-for-profit organisations, which I think is, you know,  
34 obviously an important issue where I imagine some of those issues spillover into

1 individuals that we're concerned with in the personal banking study, so we think that that's  
2 kind of relevant. I guess it's a little bit like CCCFA, AML has to be complied with, it is a  
3 serious obligation for good reason and it does have serious consequences if you get it  
4 wrong.

5 What I'm interested in hearing is really whether there are any further ideas around  
6 how we can smooth this process for people wanting to get better access to personal banking  
7 services. Any ideas? Sam.

8 **SAM STUBBS:** Sam Stubbs from Simplicity. I'd make the comment that as a relatively new  
9 entrant to the market, and we are involved in CCCFA and AML, that with the right  
10 investment in technology and the right platforms, it's actually relatively easy, it's not an  
11 undue burden on business. I think perhaps a little bit more transparency on this might be  
12 useful in the sense that is it the excuse, or is it the reason. And it's certainly not the reason  
13 with us and it's not an excuse either.

14 So perhaps if the Commission, respectfully suggest that the Commission might ask  
15 for more transparency on IT spend per customer and so on, so we know whether there's  
16 been due investment in this by the sector, because it is a relatively inexpensive and quick  
17 thing to do if you're a new entrant.

18 **ANNE CALLINAN:** Thanks, I think Dan wants to respond to that.

19 **DAN HUGGINS:** Look, from a BNZ perspective I'm happy to provide that information to the  
20 Commission on a confidential basis as well. At the risk of agreeing with Sam now, we  
21 have invested and we have found that there are many of these issues which are solvable  
22 with the right investment, and we've seen that in some of our on-boarding processes, they  
23 have been significantly simplified with the right investment in technology. There are,  
24 however, a number of situations where that is not possible because customers don't have the  
25 information for us to meet these requirements, particularly when it comes to proof of  
26 address and some of those things.

27 So I think that is one for us to continue to work on, on there are some pain points  
28 which some customers and some organisations find very hard to meet, but we don't have a  
29 choice but to meet those requirements or we will breach.

30 I also wanted to take the opportunity to acknowledge the observations; we, from a  
31 BNZ perspective, have not been doing a good enough job with things like signature  
32 changes. We just haven't, and we need to do a better job there. You are right, there are  
33 those golden unicorns in the organisation who help get people through. But we have

1 acknowledged internally and are doing work around how do we make this much simpler  
2 and easier.

3 There are some times when it's hard because of addresses or other things, but we  
4 haven't done a good enough job for your organisations and our role in the community is to  
5 make sure that we make it simple and easy for you so that you can do the mahi that you  
6 should be doing in the community, which is to help New Zealand. So I just wanted to  
7 acknowledge your report and that we need to do a better job for you.

8 **ANNE CALLINAN:** Thank you. Okay, Adam.

9 **ADAM BOYD:** Yeah, look I think similarly acknowledge the challenges, and some of this comes  
10 down to sort of choices. So certainly from an ASB perspective we've prioritised the  
11 on-boarding of personal customers initially, so have invested a lot into that. So we're  
12 seeing a lot of customers just on-board directly in the app now, and that's really taken away  
13 a lot of the pain. But for our enterprise customers and trust customers there still is that  
14 tension point in our processes as well.

15 I think probably just two comments. One would be, we certainly see the need to  
16 verify address as a substantial pain point, and that is one of the ones that really knocks a lot  
17 of customers out of being able sort of just STP through our on-boarding processes. So I  
18 think there is a real untapped opportunity there to make it far more seamless for many of  
19 our customers, both personally and enterprise, if we can sort of deal to that.

20 And then I guess sort of maybe just connecting back to the sort of open banking  
21 conversation yesterday, I mean digital ID would be the massive unlocker here as well from  
22 both, you know, I guess just making it seamless, but also allowing access for many  
23 New Zealanders who don't currently have that opportunity.

24 **ANNE CALLINAN:** Thank you. Can I just ask the removal of the need for a physical address,  
25 which comes up on the access to basic bank accounts obviously as a real barrier; is that  
26 something, can someone tell me, is that going to require a legislative change, or is that  
27 something within the gift of DIA, or one of the other supervisors?

28 **BENJAMIN KELLEHER:** Legislative.

29 **ANNE CALLINAN:** Legislative?

30 **BENJAMIN KELLEHER:** Yeah.

31 **ANTONIA WATSON:** And I can say that as someone who has spent at least three months of  
32 this year without a proof of address and it was a complete pain in the neck. But I had a  
33 good reason, I had no address, and I'm not some of the vulnerable customers that we'll be  
34 referring to here.



1 **ANNE CALLINAN:** Yeah. There's a lot of things on a lot of people's lists and there's probably a  
2 lot of things with AML apart from the things that we're talking about today that are on  
3 people's wish lists. What's our realistic prospect of getting these issues pushed up the  
4 priority list?

5 **MIKE HENDRIKSEN:** Mike Hendriksen, Kiwibank. It's actually on the list, it's sitting in an  
6 omnibus bill going nowhere. So I think if you elevated the --

7 **ANNE CALLINAN:** Yeah.

8 **MIKE HENDRIKSEN:** -- like how do you make AML both safe but easier, you come back to  
9 the point about what a complicated regime it is. It's administered by the Ministry of Justice  
10 who has no other insight into how financial services works and it has four regulators so,  
11 you know. But, you know, to have something that would actually solve, not only for  
12 customer and bank kaimahi experience, but also solve some of the other things we're going  
13 to talk about, and it's in a bill that's going nowhere is sort of where we are.

14 **ANNE CALLINAN:** Alright, that's an opportunity to highlight that, isn't it. I think that probably  
15 takes us on to the last topic in this section, which we've touched on a bit, is access to basic  
16 bank accounts. And I think this is probably one of the areas where everyone had universal  
17 support for the fact that people should have access to basic bank accounts.

18 I think the issues for us, really, are do we have a common view, or do we need to  
19 have a common view about what's a basic bank account? That's probably issue number  
20 one. And issue number two is, what's people's views on whether there should be an  
21 obligation on banks to provide someone with a basic bank account? Not necessarily any  
22 one bank, but banks as a community, to actually, between you, make sure that no-one is  
23 unbanked. So maybe I can ask for comments on that. Ben.

24 **BENJAMIN KELLEHER:** Ben Kelleher, ANZ. Look, I think we'd all agree with that.

25 Certainly at ANZ we'd agree with that in terms of giving people access. It seems like a  
26 right that everyone should have the privilege to have their bank account. The challenges,  
27 I guess, are things we face are when we've had customers that have been abusive to our  
28 staff, or have threatened customers or staff within branches, for example. So there are  
29 always exceptions. We manage those exceptions really carefully. But as a first principle,  
30 we would always want to ensure that we can bank customers and give customers the right  
31 of a basic bank account.

32 I think in terms of your question as well, should there be a prescription around what  
33 a basic bank account is? I think a principle-based approach around that. Because we'll all  
34 have different variations and they might be based on different systems and different product

1 types. But I think if you had a principle approach to what it could look like, but not too  
2 prescriptive, I think that would be useful for the banks. I think we'd all be fine with that.

3 **ANNE CALLINAN:** Thank you. Kiwibank, the mic's down that end.

4 **MIKE HENDRIKSEN:** Mike Hendriksen, Kiwibank. Just a couple of thoughts. One is, if we're  
5 going to do it it should be sort of as white label as possible and there needs to be a sort of  
6 distribution curve of who's been absorbed by it. Because everyone signing up to it but there  
7 being impediments put in place by certain banks. And I'm not saying any would, but you  
8 know, if certain banks decided they weren't going to do it and "You're welcome to join us  
9 but you have to come back in eight weeks' time", sort of thing, versus being able to do it.

10 And then the second point is really picking up on Ben's, which is, if you do have  
11 that small group of people who are violent, or abusive, how do you keep them in the system  
12 but not compel the bank who has had to suffer that from having to continue to suffer?

13 **ANNE CALLINAN:** Thank you. Dan.

14 **DAN HUGGINS:** Dan Huggins, BNZ. Look, I agree with the comments. We've had situations  
15 where customers have taken our staff hostage. We have to have an exemption here to  
16 ensure that that person doesn't come back in to our branch. So I think we are 100% aligned  
17 here that we need to be providing basic banking services to customers and giving them  
18 access. But there's always going to be a situation where a bank has to have an ability -- the  
19 bar should be high, but an ability to say actually, you know, you've done something, or  
20 behaved illegally, or whatever, in a way that means that actually you don't have that right  
21 anymore with that bank.

22 On the basic bank account, again, I think principles-based is right. We, for  
23 example -- we've made a choice on our basic -- we have a basic bank account, we consider  
24 it basic, it's free to access, all of those things; but it does have a very limited overdraft  
25 facility, for example. And the reason we did that when we were designing that product was  
26 it is for people who have got a mortgage and the alternative would be they missed their  
27 mortgage payment, and we assessed that the outcome was better for the person to have an  
28 overdraft on their account.

29 Now we also say, look, if you pay back that overdraft by 11.45 pm that night and  
30 we send someone a trigger and say "Hey, you need to pay this back", then you won't pay  
31 fees or anything. But we assessed the better customer outcome was in that case to ensure  
32 their mortgage didn't go into arrears versus that account.

1                   So I think perhaps to add some flavour to why principles-based may be a slightly  
2                   better approach for customers rather than, you know, here is the account and it must look  
3                   and feel like this.

4 **ANNE CALLINAN:** Stephen then Catherine.

5 **STEPHEN BENDALL:** Stephen Bendall, ASB. Yeah, so we're very supportive of ensuring the  
6                   broadest possible access to banking services for customers and so a basic bank account is a  
7                   great idea. But just to this point of it being an absolute right, you know, we're very  
8                   supportive there needs to be some sort of exception. So, for example, you know, we should  
9                   not be facilitating financial crime by receiving the proceeds of crime. So immediately you  
10                  can begin to look across the legislation and see where you'd need some sort of exemptions  
11                  or protections for banks if we're going to be this broad.

12 **BRYAN CHAPPLE:** Can I just ask a question? So we talked just a few minutes earlier about the  
13                  issues around proof of address, which I understand is also a barrier. So if that was solved  
14                  one way or another, are there any other of those barriers -- I get the issue around certain  
15                  kinds of criminal behaviour, you know, including violence, but are there other legislative  
16                  barriers like the proof of address that would need to be solved in order to enable something  
17                  like this, or is that the main one?

18 **ADAM BOYD:** Adam Boyd, ASB. That's definitely one of the main ones, but we'll run into  
19                  challenges where customers just won't have any ID as an example and those sorts of things.  
20                  So there's sort of like a few different examples of where it's a bit of a blocker.

21 **BRYAN CHAPPLE:** It's a broader ID kind of verification question.

22 **CATHERINE McGRATH:** Catherine McGrath, Westpac. Firstly, there are barriers, and our  
23                  access to banking report purposefully pointed them out and pointed out where we think we  
24                  do need to have changes.

25                  Two, anything that we've discovered to work with the system at the moment we've  
26                  shared through the New Zealand Bankers Association because we think access to banking  
27                  is a responsibility that all of us should share.

28                  Three, I would welcome something that reflects on is everybody carrying their share  
29                  of basic bank accounts as a proportion of their total market share, because I think that then  
30                  circumvents some of the concerns that Kiwi raised about yes, we'll open it but in eight  
31                  weeks' time. And I've seen that work successfully in the UK market.

32                  And then the final observation is, I think irrespective of whether it's principles or  
33                  whatever, we need to be clear about what the purpose of it is. So in the UK market it didn't  
34                  have an overdraft and it didn't have any ability to authorise offline. And the reason for that

1 was never ever wanting to get somebody owing money. Now there are downsides to that,  
2 as Dan pointed out, but there are upsides.

3 And there was also a very clear migration path out of it. Because the problem of  
4 being in a basic bank account is you can't start to demonstrate any ability to repay debt,  
5 which means you can't move forward. And so I think it does require quite a bit of thought  
6 to make sure that, as far as possible, we understand the drivers for a consumer perspective  
7 and what we're trying to achieve.

8 And then finally, I would be in a lot of agreement about we need to keep our staff  
9 safe too. So in exceptions, and it really is an exception for us, we will, firstly, try and  
10 trespass, and if that doesn't work we will close the account.

11 **ANNE CALLINAN:** Thank you. Antonia. Sorry, Sam who was next, then Antonia.

12 **SAM STUBBS:** Sam Stubbs, Simplicity. I would urge the Commission to consider possibly also  
13 that in the nature of the unbanked sector in New Zealand there is also perhaps an equal  
14 need for an IRD number. And speaking on behalf of the foster children community, which  
15 I'm involved with, when you see foster kids without an IRD number and without a bank it  
16 is extremely difficult for them to get on in life.

17 And we may also ask the question whether or not the closure of bank branches  
18 around New Zealand and the creation of effectively financial deserts, not only reduces the  
19 chance of there being angry people in branches that no longer exist, but equally also the  
20 cost savings that come from that mean that the subsidising of basic bank accounts as a right  
21 may actually be a cost worth bearing for the future of our children.

22 **ANNE CALLINAN:** Thank you. Antonia.

23 **ANTONIA WATSON:** I was just going to give another example of someone without ID, which  
24 might be someone fleeing domestic violence, which is one of the cohorts that we've done  
25 work with. We've sort of got our head around how we can facilitate that for a period of  
26 time and those sort of things. But it just feels like it's one of those principles, again, that we  
27 might want to get, you know, an industry-wide understanding of those kinds of things.

28 Other examples would be working holiday visa makers, migrant workers, those  
29 sorts of things that are of perceived low value. And, you know, I would agree that they  
30 have a right to a bank account as well. Now, something like -- they've all gone through a  
31 visa programme, they've all shown someone in New Zealand a lot of information about  
32 themselves. The idea that that could then give them a digital identity and make it really  
33 easy for us to open a bank account without having to look at the Ukrainian -- which I've  
34 seen in a branch -- Ukrainian ID card and our staff are meant to know that that's a

1 legitimate form of ID, that can make it really hard as well. So the digital ID and the  
2 addressing I think come into this really strongly as well.

3 **ANNE CALLINAN:** Thank you.

4 **TRISTAN GILBERTSON:** Sounds like you're dangerously close to an industry agreed way  
5 forward on this stuff, so what's the best way of taking the conversation forward?

6 **ANTONIA WATSON:** Your report and the recommendations in it that someone will hopefully  
7 look at and act on.

8 **ANNE CALLINAN:** We can do that. Right, I think that's probably, unless my fellow  
9 Commissioners have any other questions on this topic, or consumer topics, that sort of takes  
10 the consumer section to a close, unless there are any other burning issues that people have  
11 that we haven't already canvassed today?

12 **TEX EDWARDS:** I didn't vote for Nigel Farage, but I do support banking for everybody. My  
13 closing comment here is really what Monopoly Watch is looking for in the Final Report is a  
14 clear and present pathway to getting institutional challenges into this market. This  
15 conference has been fantastically positive around open banking, and I applaud the  
16 Commission's detail on open banking.

17 But we need a catalyst here. Is it Kiwibank, is it not Kiwibank? Is it right to ask the  
18 taxpayer to put 2 or \$3 billion into Kiwibank to get it going again and being a catalyst? Is it  
19 correct to look at other markets, notably the UK, where the regulator stimulated the capital  
20 flow into the challengers?

21 And for me the gorilla in the room part of it is the clubiness of the Aussie banks,  
22 part of it is the clumsiness of ANZ having a \$2 billion share buy-back five days before this  
23 conference. But I can't help, and I apologise, Commissioners, for continuing to canvass  
24 this point, but the challenge before the Commission is a catalyst. A catalyst requires big  
25 blocks of capital, \$500 million would be a starter for a challenger bank. And we need to  
26 look at other markets to see how that challenger would evolve. We've solicited,  
27 unashamedly, that ANZ is broken up and ASB is broken up. And that's not unprecedented.

28 And we just close off this very successful conference with FYI, what will it take to  
29 get the catalyst to trigger this market to where everybody wants it to go, and can we talk to  
30 the shareholders and understand the four pillars policy in Australia? There's game theory  
31 going on outside this room in terms of the shareholders of these four dominant Kiwi banks  
32 benefit from the Paul Keating 1990s four pillars policy. And ANZ isn't going to beat up  
33 CBA, or NAB isn't going to beat up Westpac because they're in a club in Australia. We

1 just urge the Commission to look at these very serious substantial issues, because we need a  
2 catalyst. Thanks very much.

3 **JOHN SMALL:** I think we'll take one comment from Adam and then what's over here. Alright,  
4 so we'll take a couple more comments. We're not going to be rehearsing the whole thing,  
5 though. Adam.

6 **ADAM BOYD:** Thanks John. Probably just one reflection. I agree, it's been a positive  
7 conversation. When I think about -- one of the themes of the conversation over these last  
8 three days has been, and I think there's been relatively broad consensus on this, that, you  
9 know, regulation has been an inhibitor to the level of innovation and competition. We've  
10 heard that from some of the banks and equally from some of the fintechs as examples.

11 Just when I think about the draft recommendations, you know, there isn't a lot in  
12 there that kind of gives me confidence that we're going to unlock that into the future. So  
13 that would just be my one reflection, which is kind of like, you know, because I guess the  
14 implications we may come out of some of the things we've talked about here with some  
15 further levels of regulation. So I guess is there an unlocker, and how might we go about  
16 that would just be one thing I'd just sort of leave for reflection.

17 **JOHN SMALL:** Thank you. Final thought from Shaun.

18 **SHAUN FORGIE:** Yeah hi, Shaun Forgie from Bill Rush. Just on the notion of the basic bank  
19 accounts, I certainly think that we can start with a basic-basic bank account, where  
20 someone's able to deposit money with whatever ID they have, maybe it's an IRD number,  
21 maybe it's an application visa, or some sort of visitor visa, where they're able to access the  
22 account, deposit and transact at sort of \$1,000 a week and you can go up and have other  
23 types of basic accounts.

24 But I think the ability to walk in off the street, particularly, you know, I've got  
25 experience in South Auckland with criminals that have been discharged from prison simply  
26 unable to function in society because they can't get access to a bank account and go straight  
27 back into crime and dealing with cash and drugs. We've got to be able to provide very easy  
28 access for them to get banked quickly and then to maybe provide supplementary identity  
29 later once they're functioning back in society. So I think this notion of a basic-basic  
30 account where it's deposit only, they can operate it at maybe \$1,000 or \$2,000 a week  
31 would be a very, very good idea. Thank you.

32 **JOHN SMALL:** Okay, thanks very much. We will close it off at that point, but let me just abuse  
33 the Chair privilege a little bit and say it's been, from our point of view it's been really very,  
34 very successful. We are grateful to you all for your participation, recognise that senior

1 heads of banks and other organisations have been here throughout, and that there's an  
2 opportunity cost to that. So I acknowledge that and thank you for your time.

3 It's been particularly stimulating talking to a really wide variety of people. I hope  
4 that you have also benefitted, to some degree, by the cross-fertilisation of ideas, which was  
5 particularly evident yesterday, I think, in the open banking session. So, you know, we've  
6 had -- I guess from our point of view the first day was about focus on consultation with  
7 you, and we may not all agree on where all that leads, but it was a very productive  
8 conversation.

9 The second day on open banking I thought was much more constructive and  
10 collaborative and it felt like we've got some ways forward. And then today's really had a  
11 consumer focus with a strong emphasis on diversity of consumers, starting this morning  
12 with Rakihia's session with the Māori group which was fantastic, and the mortgage advisors  
13 and then this consumer focus just now.

14 So on behalf of the Commission, thank you very much indeed for your time and  
15 we're very grateful to you for it, and we look forward to any final submissions that you've  
16 got in due course. But let's keep the conversation going, thank you. **[Applause]**

17 **Conference concluded at 2.47 pm**