MONOPOLY WATCH NZ
market structure matters

Draft Report into Banking Market Study,

Submission of Comments and recommendations from MWNZ
24th March 2024

Marathon to fix a severely broken market has started

Monopoly Watch applauds a sensible start to the Marathon work required to fix the NZ banking sector, which is not working for consumers, and is inflicting structural damage to NZ economy and will hurt further generations of taxpayers and consumers unless it is fixed this decade.

We applaud the diagnosis of the Banking Market delivered in the draft report, we now encourage the commission to now focus on the prescription, effort and capital required to fix this embarrassing broken market.

We urge the Commission to fish outside the waters of the vested interests of NZ bank board members and focus on introducing to NZ international best practise of open banking and competitive bank remedies of peer group OECD countries. MWNZ believes the final report should contain more consultation outside NZ , specifically in similar OECD countries of Sweden Denmark and Norway. Australia is a broken banking market.

Kiwi Consumers interests will be advanced if the Commission specifically reach out to more senior people than local board directors and went to speak with the major bank shareholder groups, particularly those who sell ESG funds to the US and EU markets .Blackrock ESG , Capital , Templeton , Barclays Capital Investors , and several proxy Management companies should be consulted .

It was those groups who shuffled the board seats of the ANZ bank prior to this enquiry. Gone are the days when USA and EU institutional shareholders will tolerate the childish 1980s nonsense of Kiwi political indulgences.

The Commerce Commission rightly concluded in its draft , competition isn’t working and there were structural problems in banking this is proved by

1) Ridiculous NIM, relative to OECD benchmarks for similar countries to NZ
2) Unprecedented Profitability
3) Lies & mis truths being told by boards and senior executives of incumbent banks about their profitability, investment in infrastructure , and asset allocation .
4) Poor outcomes for consumers
5) An industry which is 15 years behind international best practise
6) Low ethical standards by local bank boards, who routinely deliver commentary which

conflicts with their own correspondent banking and ratings teams .(see INFINZ conference videos)

We implore the commission to ignore the vested interests of incumbent bank directors and executives. its waste of time to engage with these people, when the commission could be using its resources to engage the shareholders, specifically those shareholders with substantial ESG programs.

We think the commerce Commission understated and missed the following matters in the draft report.

1) What international best practise is in open banking? And just how far NZ is behind the rest of the world.

2) The impact of the *" too big to fail implied guarantee the big Australian Banks have from the NZ govt* "

3) The impact of the large Aussie Banks creating inflation in house construction costs (look specifically at the misinformation in the ANZ ESG report on housing in the 2023 AR , it conflicts with the Building Materials Market Study)

4) The impact of banking competition in household asset allocation (this is massively understated and is the best example of a negative Non Price impact of little competition in banking)

5) The failure of dialogue with the shareholders of the banks, who have substantial detailed ESG programs to adhere too.

6) An analysis of what has created the low CIM ratio and the impact this has had on consumers?

7) Why ANZ won't finance in Brisbane what it will finance in NZ, the joining the dots between Building Market Study and Banking would help catapult the Market study discipline forward .

8) Misinformation delivered by the Bankers Association (which is funded by size of bank meaning the big banks pay for it all and influence its message) and INFINZ a pretend professional members group, which is generally failed to promote competitive markets and is used by big banks which control its funding (on a look through basis) to disguise the low level of competition and innovation . Such is the concern in the industry that its Noteworthy that investment banks and the KiwiSaver community have withdrawn support of INFINZ.

LOBBYING MATTERS

To fix the banking market several highly capitalised "*like for like* "retail and wholesale players are needed. Kiwi consumers won't benefit until a substantial challenger basis is established and the market power of incumbents in wholesale money markets is neutralised.

Kiwis want price and innovation competition; not more small bespoke pretend competitors Kiwis will win when the challengers enter the market at scale.

We urge the Commissioners to be brave in steering away from Academic solutions and lovely reports and focus on attending to the inequity of Market Power, which was created not by innovation but by merger.

We urge Commissioners at the ComCom to resign from their jobs if back room lobbyists remove and water down the recommendations, which should include, severe penalties for missing Open Banking introduction deadlines , definition of Market power , and the prescription under which ANZ and ASB should be broken up .

Our submission points on Chapter 10 – Draft Recommendations – *Nga Tutohinga Hukihuki*

1) Discussion of leveraging Kiwi-Bank as a solution.
2) Why a Greenfields institutional start up (Maverick) is required
3) Why the ComCom needs to recommend consequences for the further delay of open banking
4) Why the threat of break up needs to be issued.
5) What is similar to the Supermarkets, Fuel companies, Building materials companies and Telecommunications companies?

Discussion of leveraging Kiwi-Bank as a solution

MWNZ respects Kiwi bank executives and team , who have persevered for 20 years , however they cannot climb this mountain by themselves .

The Commission can't get lured into reliance on one party, to fix such a complex problem, this is intellectually lazy and plays into the hands of the Incumbents.

In particular the wrong incentives would create and extended the oligopoly, not an efficient consumer facing banking industry , but more specifically Kiwi bank's shareholder the government can't do some things to fix the private sector problem . Simply put without fresh capital into new fresh entities the same game theory errors of the past 2 decades will be repeated.

Government organisations are not good at start-ups, or snazzy branding , profit based executive remuneration ,and the things here which are required here to fracture consumer inertia , Government organisations cant react quickly to substantial market changes and competitive reactions. Additional capital, and reactionary strategy is outside the gambit of a Govt owned enterprise. This is why Kiwibank cant fix the problem .

The NZ taxpayer shouldn't have to pay up to do something the private sector can do, which is a function of erroneous merger approvals.

Marketing agencies, employees, and customers would rather have a private sector company resolve this for them . Capitalism is required to be fixed, not reset with Govt intervention which plays to incumbents .
It reflects very poorly on the ComCom if they cant engineer a private sector resolution to the banking competition issue , as it means state intervention in broken ,markets , rather than a competition reset , which requires thought and analysis .

The Kiwibank Brand , organisational structure, infrastructure and customer ecosystem have had an entrenched 20 years of operational work , which has been gamed by the incumbents , and had one hand tied behind there back , with the emotion attached to NZ ownership , the ComCom need to think very hard is this the right vehicle with the right history to fix a broken market ,

In any case we urge publication of a more detailed autopsy of why Kiwibank didn't make an impact , and did the ANZ / National Bank merger , put a nail in its coffin. This review will include what was it which prevented Kiwi bank from having Customer ecosystem and infrastructure equivalence to the majors NZ banks .

Why a Greenfields Institutional Start Up (*Maverick is a name which is not helpful*) is required

The problem which is being fixed is

1) Consumer Inertia
2) NZ being 15 years behind best practise
3) Under skilled industry
4) Under investment in legacy system replacements
5) A catalyst is required to make open banking work
6) Marketing expertise reinvigorated.
7) A new brand which exposes the nonsense from the incumbents
8) A education of consumers and a reset of there expectations
9) Very low skilled, and inexperienced bank directors and senior executives as a consequence of an inward looking incestuous market in both Australia and NZ, dominated by career monopolists whose defining source of experience of innovation has been improving market structure by mergers .

Fixing this market can only be done by a fresh block of capital, a fresh well supported brand . Central to the incumbency of these Australian dinosaurs is a vested interest club house supported by an army of Lobbyists like the Bankers association and the misguided Finance Professionals group INFINZ

We urge the commission to talk to international challenger banks, particularly those in the UK and those local Australian and Kiwi challenger organisation and ask them . What would it take to put up $500m to get going on a digital only banking enterprise.

While considerable focus is placed on New Zealand's poor productivity performance with the implication that we all need to work harder and smarter, the impact of failed markets in banking, groceries and building supplies is glossed over or not understood. The economic deadweight of the inflated banking sector, coupled with its exporting of its inflated profits, is right at the centre of our productivity challenge. Our economy will stall in neutral until market failure in banking is fixed.

Why the ComCom needs to establish serious consequences for the delay of open banking

MWNZ applauds the detail knowledge it has built up in open banking API systems and processes.

It needs to be introduced without delay , it is 15 years late (very similar to Mobile number portability). It would be savvy for the Commission to Communicate in the final report , that the benefit of delay is hugely beneficial to the incumbent banks , and publish estimates of the financial benefit of delay, postponement and obfuscation .

Simultaneously, its totally appropriate for the Commission to publish a penalty regime for further delay of the introduction of open banking.

Penalties should include , tens of millions of dollars a month of fines payable to the challengers such as Akura at al . (approximately $20% of NPAT PA)

A break up of the ANZ and ASB should be threatened if they don't meet their requirements to start open banking or an enquiry into wholesale treasury collusion proves problematic

Why the threat of break up needs to be issued.

The ComCom has an audit trail of sensible and improving market studies, in Teleco , Supermarkets , Fuel distribution , Building Materials and now Banks . However no market structures in major industries have changed since the Mobile Market review was published in October 2006 , nearly 20 years ago .

Banking is a serious industry which impacts all Kiwis , to date the banks boards and executives of NZ banks have behaved like children in denial . We urge real published consequences to facilitate competition and break the oligopolistic structure. We urge and escalation of these matters to their shareholders, who will be forced to quickly react to preserve their ESG funds status .

Simultaneously to a break up threat of the banks other departments of the Commission enforcing basic business principles of competition , will have the power of more leverage in other market structure reviews.
Commissioners have an audit trail of professional and high integrity custodianship, however resignations of commissioners should take place if lobbyists sleaze gets in the way of the public interest.

A successful Final Draft of the Banking market study should have has the following features

1) A firm fixed practical date for the introduction of comprehensive detailed open banking.

2) Substantial penalties for a failure to meet the deadline date for open banking

3) A Price regime for open banking costs , similar to the UK's

4) A detailed prescription of what*" Maverick Banks* "look like , how much capital they will need to become scalable and sustainable , where they get their systems from and what their target market shares will be

5) A recommendation that the government "pay " for licenses , after an MBIE run qualifying parade . This initiative should deliver the message to investors how serious the govt policy offices are on more competition.

6) An initial review of the impact of ANZ and ASB (* CBA) treasury dominance in wholesale money markets and whether accommodating behaviour in wholesale markets deserves a separate investigation

7) A discussion of the competitive reaction of the incumbents if a challenger entered the market

8) An autopsy of what when wrong over 20 years in Kiwibank

9) A Market structure in 2032 publicized.

10) Meeting notes from discussions with Bank's largest Shareholder groups and funds which finance challenger banks in Europe

11) A detailed prescription of a new model for mortgage brokers and how they should start to work in the clients interest and with all retainers paid to them being disclosed to retail clients .

12) An announcement that the ComCom is hiring Australian Senator Nick McKim to run the ComCom banking conference and the interview panel for Bank CEOs

Thank you for Considering the position of Monopoly Watch NZ

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Executive Director MWNZ