**Strategic Intelligence Assessment**

# Consumer Issues 2014

***Released 31 March 2014***


This paper follows the international risk standard ISO 31000.
It is intended for internal dissemination and has not been subject to review for external release, including review against our guidelines for quantitative analysis.

## Document Production

| | | | |
|---|---|---|---|
| **Date** | 31 March 2014 | **DocID** | 1683667.1 |
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| **Released by** | [ ] | **Position** | Manager, Intelligence and Screening |
| **Disseminated to (Action)** | Competition Branch Management Team | | |
| **Disseminated to (Information)** | Commissioners<br>Senior Leadership Team<br>Commission staff | | |


### Acknowledgements

The Intelligence team would like to acknowledge the information provided by the organisations below:

- the Ministry of Business Innovation and Employment (Loan Complaints Line)
- the Insurance and Savings Ombudsman
- the Banking Ombudsman
- Financial Dispute Resolution Services (now known as FairWay Resolution)
- Financial Services Complaints Limited
- the New Zealand Federation of Family Budgeting Services, and
- Consumer NZ

# Consumer Issues 2014 – Executive Summary

## Overview

- A national construction boom is predicted to peak in 2016
- The Christchurch rebuild is part of that construction boom
- Recent cartel investigations have traversed a wide range of products and services with no obvious industry patterns identified
- Some industry associations may be impacting on competition by facilitating price fixing arrangements or by creating barriers to entry
- Our ageing population is likely to have long-term implications on consumer spending patterns
- Different socio-economic groups complain to different organisations
- Traders are continuing to find new ways to mislead consumers
- Premiumising and upsizing retail sales through misrepresentations are growing issues
- A small number of traders cause a disproportionate degree of harm to consumers
- Continuing growth in online sales is likely to significantly alter the retail environment
- The significant percentage of complaints from online sales is expected to increase
- Increasing extra-jurisdictional online sales will require new methods for effective enforcement or disruption
- M-commerce requires mobile friendly websites to avoid misleading consumers through omissions
- Frauds and scams are significantly impacting consumers and this impact is likely to increase
- Consumers trust social media comments more than traditional advertising
- Social media is influencing traders through consumer feedback and complaints, and offers additional enforcement opportunities
- Technological advancements continue to change the consumer environment and influence how consumers purchase goods and services
- Non-trading bank lenders generate the bulk of CCCFA related complaints to the Commission
- 50% churn in lower tier lenders over last five years erodes previous Commission work
- Car loans and personal loans account for 51% of consumer finance complaints
- The truck shop business model focuses on disadvantaged and vulnerable consumers
- Insufficient disclosure is the most complained about lender behaviour to the Commission

## The greatest risks facing consumers

| | |
|---|---|
| [redacted] | New Zealand's geographic isolation can limit competition in markets |
| | Some lenders continue to charge consumers excessive fees |
| | A small number of traders are causing a disproportionate degree of harm to consumers |
| | The domestic appliance retail industry is causing a disproportionate degree of harm to consumers |
| | Scams and frauds are becoming more prevalent and causing increasing detriment to consumers |
| | Lower tier lenders cause the most financial harm to consumers |
| | Traders using the truck shop model cause the third highest credit related detriment to consumers |
| | The significant level of harm caused to consumers by online traders is expected to increase |
| | Inter-company relationships by employees can facilitate anti-competitive agreements or understandings |
| | Industry associations sometimes facilitate anti-competitive conduct |
| | Consumers continue to suffer detriment by misunderstanding the break fees on phone contracts |

## Emerging risks

| | |
|---|---|
| [redacted] | Increasing upselling of payment protection insurance |
| | Readability of m-commerce documentation |
| | Personal social media accounts to promote employers |
| | Requiring payments for warranty claims |
| | Price comparison websites lack oversight and verification |
| | Potential for additional bank fee generated surcharges |

## Major trader programme candidates

[redacted]

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## Purpose

1. To identify current and potential issues for consumers, and provide the findings to the Branch management team for 2014/15 business year planning.

## Introduction

2. This strategic assessment has been undertaken to look widely at the issues currently affecting consumers, and to identify potential issues for the year ahead.

3. It is intended to inform the Branch management team and assist them with selecting and prioritising work for the year ahead.

4. The assessment begins with a high-level examination of our operating environment to establish the context in which the Commission operates. The paper then identifies the current and potential issues facing consumers, before nominating a pool of risks for prioritisation.

5. The assessment draws on research and media sources available on the internet, complaints data from a number of consumer orientated organisations, and knowledge from Commission staff.

## The methodology used in this assessment

6. The assessment started with a series of brainstorms using the PESTELM methodology, with approximately 40 staff from across the Competition Branch, and a representative from FMA. These results were subsequently reviewed and agreed by attendees.

7. A high-level evidence-based environmental scan followed. This built on the PESTELMs and brainstorms, and including enquiry/complaints data from a number of consumer oriented organisations. The scan provides the environmental context for the subsequent risk identification process. Various sections of the draft were then reviewed by relevant subject matter experts to ensure accuracy.

8. A series of risk identification meetings were then held with the same Commission staff who participated in the brainstorm sessions. A list of approximately 175 risks was developed from this exercise.

9. The same groups were reconvened to assess the identified risks. Each risk was validated or discarded, and then assessed against a 5 x 5 matrix in terms of likelihood and detriment (see section two for risks to consumers and markets for detail).[1]

10. The highest risks were then carried through for the management team to consider as operational priorities for the 2014/15 year.

[1] As per ASNZ 4360 and ISO31000, the international standards for assessing risk.

## Section 1: Examining the wider consumer environment

**Key points**

- The predicted national construction boom is likely to affect our regulatory workload and responses.
- The Christchurch rebuild is a part of the national construction boom.

### Economic influences

11. The Commerce Commission is charged with achieving the best possible outcome in competitive and regulated markets, for the long-term benefit of New Zealanders. The national economy is instrumental in shaping the nature of competitive markets domestically.

12. The Treasury is predicting the New Zealand economy to grow sharply to 3.6 % in 2014 (one of the fastest growth rates in the developed world).[i] While the New Zealand Institute of Economic Research (NZIER) predicts strong broad-based growth from March 2014. NZIER expects that growth to encompass household spending, investment, residential construction, and exports. March 2014 saw the first real rise in the official cash rate in five years, and interest rates are predicted to continue increasing for at least the next two years. [ii] [iii] [iv]

*General construction boom*

13. The National Construction Pipeline report, released in December 2013, predicts that New Zealand is on the brink of its biggest construction boom in 40 years. That boom is predicted to peak in 2016 with an estimated $32 billion investment for that year alone.[2] [v] The forecast peak is expected to include:

    - an expected peak in building roads of national significance
    - a national peak in residential construction
    - extremely high levels of construction activity in Auckland
    - a peak in building in Waikato and Tauranga, and
    - the Christchurch rebuild. [vi]

14. It appears likely the forecast construction boom will result in unmet demand, which may affect competition, pricing, and/or quality in the construction sector. This may create some challenges for the construction sector given the current Government's focus on housing affordability.

2 The report was written prior to the LVR rules being changed to allow new residential builds to only require a 10 per cent deposit. Therefore the investment estimates are likely to be conservative.

*The Christchurch rebuild*

15. Rebuilding New Zealand's second largest city is a Government priority, and is expected to cost $40 billion, making it the largest and most complex single economic project in our history.[vii]

16. More than 100,000 homes require fixing or replacing, and 60 % of the CBD buildings require replacing.[viii] The estimated $18 billion investment in new residential housing alone is expected to generate half of Canterbury's growth over the next four years.[ix]

17. The class actions contemplated by consumers against Southern Response and EQC identify that affected consumers are still suffering significant detriment, more than three years on from the initial earthquake.[x] [xi]

18. Internationally it is widely acknowledged that fraud, corruption, and anti-competitive practices (e.g. price fixing, bid rigging, and market sharing) occur after natural disasters. The New Zealand experience has largely has mirrored this expectation, albeit to a lesser degree.[3] [xii]

**The commercial environment**

**Key points**

- Recent Commission cartel investigations have traversed a wide range of products and services with no apparent industry patterns.
- Some industry associations may be facilitating domestic anti-competitive conduct.

19. As at February 2013, there were 472,600 business enterprises in New Zealand. Enterprise deaths outnumbered enterprise births for the fourth consecutive year, and large enterprises (100 or more employees) made up less than 1% of all enterprises but contained nearly half of all employees.[4] [5] [xiii]

20. New Zealand is a relatively small and geographically isolated economy with uneven and low population densities. These "market factors may result in more limited competition and/or higher barriers to entry" than larger and more accessible economies.[6] Regional markets and concentrated industries are more often observed in small isolated economies such as New Zealand.[xiv]

21. A 2012 analysis of all 506 domestic industries identified a number of very concentrated industries, with a number exhibiting structural characteristics that

[3] The Commission's earthquake related investigations have covered misrepresentations, bid rigging, and price fixing.

[4] Statistics NZ describe an enterprise as a business or service entity operating in New Zealand. It can be a company, partnership, trust, estate, incorporated society, producer board, local or central government organisation, voluntary organisation or self-employed individual.

[5] According to Statistics NZ 322,887 enterprises had 0 employees, 97,320 had 1-5 employees, 19,713 had 6-9 employees, 15,987 had 10-19 employees, 8,519 had 20-49, 2,547 had 50-99, 2,145 had 100 and over.

[6] Commerce Commission submission to Competition Law in Small Economies, prepared for the 8th annual ICN conference.

can facilitate cartel formation.[7] A number were also exhibiting some of the behavioural characteristics that can indicate cartel conduct.[8] [xv]

22. Domestically, the economic pressures from the Global Financial Crisis (GFC) do not appear to have translated into an increase in complaints about anti-competitive company practices. Recent domestic cartel investigations have traversed a wide range of products and services with no industry patterns being apparent.[9] However, industry associations appear to be facilitating some price fixing arrangements, or excluding competition by creating barriers to new entrants; for example medical practitioners' requirements, and building industry participants bench-marking their products as the standard to meet.

23. Our experience differs from the international experience. Internationally, cartel investigations currently have a strong focus on benchmarking processes such as LIBOR, and the ripple in the pond effect from broken cartels, such as in the automotive industries.[10]

24. Just over half of the Commerce Act-related complaints to the Commission in 2013 were for price fixing, or for *Contracts, Agreements, and Understandings – Substantially Lessening Competition*.[11] [12] Utilities and infrastructure was the most complained about sector.[13]

25. Utility and infrastructure companies have significant market power concentrated in relatively few companies. The key feature of these complaints was how these companies were allegedly taking advantage of their market power. Key themes in the electricity company complaints involved the connection of new subdivisions to their networks, or charging an access fee for photovoltaic home generators to supply power to the grid; while the three main airports were accused of ratcheting up access fees for taxi services or parking.[14]

26. The number of clearance applications has increased post-GFC. However, they remain down on previous peak levels.[15] The competition issues raised in clearance applications are more complex than in the past few years, with more involving global transactions or increased concentration. The UK Office of Fair Trading (OFT) has similarly noted a move toward increasing concentration in the United

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7 For example: the degree of concentration, the stability of the industry (exit or entry of players), homogeneity of products, barriers to entry, degree of import penetration, etc.

8 For example: a history of or allegations of, anti-competitive conduct, simultaneous price rises, the signalling of price rises, etc.

9 For example [ ], [ ], [ ], [ ], [ ], [ ], [ ], [ ], [ ], [ ], etc.

10 LIBOR, the London interbank offered rate, affects the interest rates offered by banks.

11 Complaints in this context refers to those enquires that were further assessed for compliance activity.

12 The most complained about sectors were utilities and infrastructure, construction and property, and manufacturing and importing. While the most complained about industries were foodstuffs, electricity distribution, and telecommunication service providers and carriers. See attachment A for further detail

13 Utilities and infrastructure includes wharves, airports, electricity distribution, automotive fuel distribution, coal, gas distribution, waste and recycling.

14 Port companies have previously been accused of similar activity in respect of cruise ship passenger tours.

15 Merger applications have averaged 13 for the last two calendar years.

Kingdom.[xvi] Coordination with other competition agencies is now common-place, particularly in respect of merger remedies.

## The retail environment

**Key points**

- Our ageing population is likely to have long-term implications on consumer spending patterns.
- Continuing growth in online sales is likely to significantly alter the retail environment and the way the Commission protects consumers.
- Traders are continuing to find new ways to mislead consumers.
- Frauds and scams are significantly impacting on consumers, and this impact is likely to increase.

*Socio-demographic economic considerations*

27. The 2013 census identified that:

    - Our population is growing older. The median age has increased 10 years in the last 30 years
    - Our population consists approximately of European 70%, Maori 14%, Asian 11%, Pacific 7 %
    - The national median income was $28,500[xvii]

28. Currently, persons aged 65 and over account for 13.3% of the population. This is projected to increase to 21.3% in 20 years' time, with the percentage predicted to be even more dramatic in those areas favoured for retirement.[16] [xviii] The increased ageing of our population may have long-term implications for consumer spending patterns.

*Vulnerable and disadvantaged consumers*

29. A vulnerable consumer is a person who is susceptible to readily or quickly suffering detriment in the process of consumption. A disadvantaged consumer is a person in persistent circumstances and/or with ongoing attributes which adversely affect consumption, thereby causing a continuing susceptibility to detriment in consumption.[xix] Key contributors to vulnerability and disadvantage include: low income, limited English comprehension, some form of disability, serious or chronic illness, poor reading or numeracy skills, homelessness, very young, or very old.[xx] Often the detriment suffered individually by vulnerable or disadvantaged consumers is proportionally greater than suffered by a non-vulnerable consumer.

30. Compared to the median income in Auckland of $29,600, the median income in South Auckland is $19,700.[xxi] The South Auckland population is also noted as having the highest proportion of Pacific heritage, at 55%. Commentary from the

[16] Some regions are expected to have approximately 30% of their population aged 65 or older.

Salvation Army notes that Maori and Pacific Islanders have been hardest hit by the recession, and the low median income may also be reflective of their rates of employment. [17] [xxii]

31. The concentration of low income earners in some locales, particularly South Auckland, has created location-specific “opportunities” for some traders e.g. truck shops and lower-tier lenders. However, vulnerable and disadvantaged consumers are not just limited to South Auckland. Recent figures from Consumer NZ identify that people on pre-paid electricity plans (often the disadvantaged) paid substantially more than consumers on standard contracts. Those affected consumers were identified across the country.[xxiii]

*Retail breakdown*

32. Core New Zealand retail sales for the year ending 30 September 2013 totalled $54 billion.[xxiv] [18] Key contributors by value were: [19]

- Supermarket and grocery stores (30%)[20]
- Food and beverage services (13%)
- Hardware, building, and garden supplies (9%)
- Pharmaceutical and other store-based retailing (8%)
- Department stores (7%)
- Clothing, footwear, and accessories (6%)
- Accommodation (5%)
- Electrical and electronic goods (4%)

*Virtual retailing is challenging physical retailing*

33. The New Zealand Retailers Association notes that we are in the midst of a consumer revolution brought about by the collision of the physical and virtual worlds, and this is fundamentally changing consumer purchasing behaviour. [xxv]

34. Retailing has shifted from a single, physical point of contact, to multiple points of contact across the physical and virtual environments. European Union research reveals that online products are also generally offered at lower prices.[xxvi] While

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[17] The Maori unemployment rate for the year ended March 2013 was 14.1 per cent. Compared to the general unemployment rate of 6.8%

[18] Statistics NZ detail the core retail industries as excluding motor vehicles and fuel (another 17.3 billion in sales). Retail is separate from the wholesaling industry which generated 83 billion in sales for the same period.

[19] Bricks and mortar retailers with an online sales component have the value included as total sales. Purely online retailers are recorded in the survey as non-store based retailing, the value of which is too low to be included in this list.

[20] Statistics NZ have adjusted the core retail components from earlier years. This has resulted in supermarkets and grocery stores decreasing in terms of percentage of sales from approximately 50% in previous years to 30% in 2013.

lower prices have benefits for consumers, the competition is affecting the viability of some bricks and mortar stores.[xxvii] This competition is likely to increase as the range of goods and services online increases.

35. The role of the store is under question, with some predicting a medium to long-term reduction in physical retail presence of 30-40 per cent.[xxviii] The challenges faced by bricks and mortar stores in the UK have been documented in the Portas Review which was undertaken in an attempt to halt the decline in high-street retailing following the impact of the GFC and increasing online sales.[21] [xxix] Already, some domestic traders have been unable to adapt to the new environment and have ceased trading.[22] [xxx]

36. The OECD notes that eCommerce development in OECD countries has been facilitated by increased internet and broadband penetration, the proliferation of mobile devices, enhanced consumer choice and lower prices, customised consumer experience, and increased competition.[xxxi]

37. Four out of five homes in New Zealand have some form of internet connection.[xxxii] 54 % of New Zealanders aged 18 years and over are now shopping online.[23] [xxxiii] Statistics NZ further qualifies this as 71% of New Zealanders aged 25-34 and 68% of those aged 35-44 as shopping online.[xxxiv] The total "spend" by December 2013 was approximately NZ$4 billion, with approximately NZ$1 billion spent on international websites.[24] [xxxv] [xxxvi]

38. Not only will the retail revolution fundamentally change how consumers shop, it will also affect the role of the regulator in an increasingly virtual marketplace.

*Overall complaint patterns*

39. Both [          ]and Commission complaint data identified that a small number of traders cause a disproportionate amount of the overall harm to consumers. In the Commission's case, 25 traders (out 1652) were the subject of 25% of the fair trading related complaints. [          ]data also identified that a small number of traders caused a disproportionate degree of harm. However, the traders identified in their data differed from those identified in Commission data.[25]



21 The growing tension between bricks and mortar resellers competing with internet-based resellers has become apparent in Commission resale price maintenance complaint narratives. However, the level of complaints is still low.

22 For example national clothing chain JK Kids has blamed its closure, in part, on internet based competition.

23 This was predicted to rise to 60% by December 2013.

24 The amount spent on international websites is likely to have a degree of fluctuation in line with the value of the New Zealand dollar when compared to our main trading partners.

25 See attachment B for detail on the most complained about traders

40. Analysing these complaints, in conjunction with an awareness of other contributors' complaints data, suggests that different organisations are attracting complaints from different demographic groups, e.g. Consumer NZ, a subscription membership organisation, appears to attract wealthier consumers who shop at different stores. Other organisations attract more vulnerable consumers. This results in a selection bias that can skew results if complaints are viewed in isolation.[26]

41. The "upsizing" of retail sales is a growing issue. While complaints data points to consumers becoming savvier around purchasing extended warranties, we are now seeing upsizing through drip-pricing, surcharges, fees, difficult to end contracts, and selling payment protection insurances (including to pensioners).

42. Product safety complaints to the Commission remained largely constant with 2012 levels (45-49). Childrens' cots and multi-use ladders accounted for 71 % of complaints. The level was sustained by media articles, a product recall following the collapse of a cot, and a serial complainant about unsafe cots.[xxxvii]

*An investigation by Australian consumer group Choice has revealed 85% of sales staff at major electronics retailers failed to comply with aspects of Australian consumer law.*

*Two Choice staff visited 80 Harvey Norman, The Good Guys, and JB Hi-Fi stores across Australia.*

*Choice asked the salespeople if they had any responsibility should a $2,500 TV cease to function after the manufacturers' one year warranty.*

*85% of salespeople got it wrong and 100% offered an extended warranty.*

*Source: Smartcompany.com*

*MasterCard Australia estimates Australian consumers have been hit with AU$800 million in credit card surcharges in the past 12 months.*

*The data showed Australian households had paid an average of $100 in surcharges.*

*A Choice review earlier this year found consumers flying with Qantas from Sydney to Melbourne can still pay 523% more than the average merchant fee.*

*Source: ABC.net.au/news 18/03/14*

*Bricks and mortar*

43. A pattern noted in complaints data this year is the "premiumising", or value-adding, through misrepresentations. Examples have included re-badging lower price-point products as premium products (e.g. caged eggs as free range), green-washing, organic claims, country of origin labelling, and compliance with safety standards. We have also received complaints about the establishing of certifying mechanisms solely to enable traders to certify their own products as meeting certain industry standards.

44. A feature noted in 2013 complaints has been the practice of charging, sometimes non-refundable, deposits on goods returned



[26] This pattern was noted across both the fair trading and the consumer credit complaints data.

to the retailer for warranty repairs. This has been particularly prevalent in domestic appliance and electronics retail. It appears that this tactic has been introduced to dissuade consumers from warranty claims on cheaper electronics in an industry that survives on a low profit margin.

*A Consumer purchased an iron for $89 from a nationwide appliance retailer. After seven months it became faulty. The Consumer returned the iron to the trader and requested a replacement or a refund.*

*The trader's manager told the Consumer the CGA was only applicable for two weeks and the manufacturer would need to fix the fault.*

*The manager then tried to get the Consumer to sign a repair document that made the Consumer liable for the cost of repair, handling charges, and for any damage that might occur while the iron was in the Trader's possession.*

*Online*

45. The main internet retail purchases for New Zealander shoppers in 2012, by value spent, were:

- Electrical and electronic items 24%
- Clothing, footwear, and accessories 22%
- Recreational goods 13%
- Books and magazines 12%[27] [xxxviii]

46. The growing level of international transactions is exposing New Zealand consumers to increasing levels of risk.

47. Foreign traders are also registering New Zealand domain names to attract New Zealand custom.[28] Consumers buying on these sites effectively have no protection under New Zealand law, while opening themselves up to various forms of misrepresentations, including misleading conduct and fraud.[29]

48. Legitimate foreign and domestic traders are also misleading New Zealand consumers on occasion. Regular features in our complaints include: misleading descriptions, drip-pricing, surcharges, long delivery time frames, shipping costs, transaction currency, and the payment of GST at the New Zealand border.[30]

49. Illegitimate or unscrupulous foreign, and some domestic, traders are deliberately misleading New Zealand consumers online. Commonly reported issues include no intention to supply, drop shipping delivery timeframes, unsubstantiated claims, fake reviews, and "was, now" pricing.[31]



27 These figures are for retail sales only and do not include the 1.6 to 2billion dollars spent on downloadable products or intangible assets like airline tickets.

28 Some of these companies use virtual offices to facilitate the registration of their .NZ domain names.

29 It is exceedingly difficult to apply the protections of the Consumer Guarantees Act and the Fair Trading Act to a trader based in another country e.g. Moldova or Nigeria.

30 Drip pricing is the practice of adding on additional fees or charges through the purchase process. Airline companies, hotels, and car dealers are prime examples eg car purchase price plus on road costs.

31 Drop shipping is the practice of taking orders for a product and lodging the combined order with a third party supplier who ships the goods to the individual purchasers. The drop shipper (order taker) is then

50. Complaints to the Commission for the non-supply of internet purchases grew by 15% on 2012 levels. However, at only 12% of total complaints, it is likely that we can expect more growth in this area, particularly as more New Zealanders purchase from overseas websites.

51. The issues experienced by New Zealand internet purchasers are very similar to those reported by the Federal Trade Commission (FTC) and the Australian Competition and Consumer Commission (ACCC).

52. M-commerce, or the use of wireless handheld devices such as cellular phones and laptops to conduct commercial transactions online, continues to rapidly grow, and is predicted to grow strongly for some time.[32] [xxxix] A third of New Zealand mobile phone users already use their phones for M-commerce, which is double the global average. Another 39% are reported as being interested in migrating to this platform.[xl]

*In January 2014, the brand of a large government department was used to 'legitimise' a phishing attack on New Zealand citizens.*

*Recipients of the offending email were advised they had money awaiting them if they clicked a hyperlink included in the text, which led to a bogus website.*

*Over a two day period the department was made aware of around 1,000 recipients and estimated the email may have gone to as many as 10,000 recipients.*

*Source: Netsafe 28/03/14*

53. The move to M-commerce requires that retailers and service providers provide mobile friendly websites and forms to ensure purchasers are not misled by accidental omission. For example terms and conditions, licencing obligations for end users, the need to "opt out", or safety labelling (all of which can be accidentally omitted when downloading a computer friendly site to a mobile device).

54. "In-app" purchasing has become a topical issue internationally due to its potential to mislead consumers by its "free" component masking the possible need to purchase advanced features, functionality, or virtual goods. Partner jurisdictions have examined this issue and are working with platform providers.[33] The OFT has also proposed a set of guidelines intended to protect children and their parents' finances, and to inform consumers about how in-app purchase systems work.[xli] To date, we have received few complaints about this issue.



billed by the third party supplier. The profit is the difference between the selling price and the bill from the third party.

32 M-commerce includes the purchase and sale of a wide range of goods and services, online banking, bill payment, information delivery and so on.

33 In January 2014, Apple reached a settlement with the FTC to refund $US32.5 million of in-app purchases incurred by children without their parents' consent.

55. Lack of internet access for 20% of New Zealand households potentially creates a new class of disadvantaged consumer by decreasing their ability to make informed choices, and decreasing their access to competitive market places.

*Fraudulent conduct*

56. Generally, the frauds and scams noted in complaint data have been variations of traditional frauds but now undertaken through the internet. By example, proforma invoicing, or the false billing of services, is now undertaken by email rather than fax.[34] This provides criminals a greater global reach, for lower cost and faster potential results.

57. We are however seeing increasing complaints about predictive computer programmes for foreign exchange trading or gambling, and for the non-supply of goods purchased on the internet. Often consumers duped by non-supplying internet traders are encouraged to pay by non-reversible means.[35]

58. Netsafe reported in their 2013 annual report that reported scams had cost New Zealanders $4.4 million for the 20013 business year. By comparison, the ACCC reported the financial losses from scams in 2012 as being AU$93 million, and noted that many people are too embarrassed to report their experience.[xlii]

**The increasing influence of social media**

**Key points**

- Social media provides increased opportunity for consumers to be informed, for consumers and traders to interact, and for traders to mislead consumers.
- Social media has the potential to provide additional enforcement opportunities for the Commission.

59. American research on social media usage notes 73% of online adults now use social media, with 71% using Facebook. The rise of smartphones also enables 40% of users to network socially via their phones, with 28% reportedly doing so on a typical day.[xliii]

60. Social sharing, group buying, onsite user reviews, Facebook storefronts (known as f-commerce), and posting products on Facebook, are all key components of social commerce, and have developed in line with the maturing of social media. [36] OECD research notes that today's consumers tend to regard reviews and ratings on social media as more transparent and trustworthy than traditional advertising.[xliv]



34 Recent complaints have pointed to proforma invoicers claiming the "target" signed a roll-over clause and they threaten to enforce the clause as leverage to encourage payment for the fraudulent claim.

35 Credit card transactions can often be reversed if the bank is contacted promptly.

36 F-commerce, Facebook commerce, and f-comm all refer to the buying and selling of goods or services through Facebook.

61. Numerous traders have embraced the opportunities offered by social commerce and invite consumers to provide feedback (good and bad) on the companies' service and products. Many use this feedback to drive positive change, while others remove negative feedback to provide a false impression of the company. A number also purchase "likes" or post fake positive reviews to misrepresent the popularity and credibility of their business or products. The prevalence of fake reviews is now driving industry moves toward the verification of reviewers.[37]

62. Social media has also provided the opportunity for dissatisfied customers to vent their frustrations publicly rather than engaging with regulators. This can have dramatic results for the consumer – sometimes exceeding what a regulator could have achieved.[xlv] However, this public venting is likely to be impacting on complaints data, and our view of the marketplace.[38]

*A businessman, exasperated by how British Airways was handling lost luggage belonging to his father, vented on Twitter: "Don't fly @British Airways. Their customer service is horrendous".*

*Such was his anger that he paid Twitter a reported US$1,000 for his tweet to be promoted.*

*Six hours after it went live, it had been retweeted by thousands of Twitter users and reported in international media.*

*Yet it took another four hours for British Airways to respond*

*Source: New Zealand Herald*

63. The Harvard Business Review suggests that corporations are now looking to move beyond using social media for customer service, communication, and marketing. They have noted the increasing use of employees' personal accounts to endorse the employer's brand and to speak directly to customers.[xlvi] This could result in unwitting misrepresentations to consumers.

64. Much of the misconduct noted as occurring online is already manifesting in f-commerce, particularly no, or limited, intention to supply.

## Continued technological advances

**Key points**

- Technological advancements continue to change the consumer environment and influence how consumers purchase goods.

65. The recently rolled out mobile 4G networks provide 10 times the bandwidth of landline broadband. However, there is already a move to Category four-4G devices which would extend that bandwidth advantage to 15 times.[xlvii] Advances like this will encourage more people to migrate to M-commerce. This could have

[37] Amazon, Google Play, and Bazaar voice, are all examples of this move toward visible substantiation of reviewers.

[38] Commission complaints data has been trending downward for the last five years, with 2013 complaints down 15% on 2012 complaints, and down 50% on 2008 complaint levels.

implications for mobile handset sales, servicing, and warranty claims, and telecommunications contracts.

66. Price comparison websites and, internationally contract comparison websites, are increasingly popular ways for consumers to inform themselves. However, there is little or no oversight, or verification of the content, of these sites.[xlviii]

67. The advent of GPS tracking and information harvesting programmes in electronics and appliances, while enabling more accurate tailoring of products or services, can mislead consumers, particularly if they incorrectly believe they have disabled the harvesting programme.[39] [xlix]

68. PayWave and PayPass have been touted as the latest and greatest advancement in retail technology, and allow consumers to make a purchase by simply passing a near field communication (NFC) enabled card over a terminal. PayWave transactions have doubled in the last six months and exceed 1,000,000 transactions a month.[l] Despite assurances from the banking industry, there are indications that this technology is currently not as secure as it is claimed, and the [ ]has begun receiving a low level of complaints.[40] [li] [lii]

69. Already we are seeing signs that NFC transaction systems are replacing the current EFTPOS payment system with its lower fee structure. This could result in a transaction fee structure monopoly and increased charges to consumers as traders pass on their increased transaction costs through surcharges or increased prices.[liii]

70. The convergence in media is increasingly presenting consumers with more choice and more competition as service providers continue to diversify their offerings to consumers. For example, Telecom is proposing to offer ShowmeTV online in competition to Sky TV, while Sky TV is launching apps to provide broadcasting services to mobile devices.[liv]

### Consumer credit

**Key points**

- Non-trading bank lenders cause the bulk of lending related complaints from consumers.
- Car loans and personal loans account for 51% of consumer finance complaints
- The truck shop business model essentially focuses on disadvantaged or vulnerable consumers.



[39] LG electronics recently came to note after a computer technician, believing he had enabled the privacy settings on his television, found that it continued gathering information on his viewing habits.

[40] There have been documented instances of stolen PayWave cards being used fraudulently, multiple transactions being billed to a card still in a wallet, and a US news story of a thief getting people's credit card numbers with a scanner to clone new cards.

71. House prices nationally have risen more than 18% in the past two years, fuelled by low interest rates, rising migration, and housing shortages in Christchurch and Auckland.[lv] Deutsche Bank research identifies the New Zealand housing market as being the third-most over-valued market in the world.[lvi]

72. The introduction of the loan to value ratio (LVR) lending restrictions on 1 October 2013, to cool the housing market, has already impacted on mainstream mortgage lending. The LVR has also been attributed with driving borrowers to lower-tier lenders for personal loans to meet deposit funding shortfalls.[41] [42] [lvii] [lviii] There are also concerns that family members could be risking their assets by acting as loan guarantors or through providing equity in their homes without knowing the full extent of any potential risks.[43] [lix]

73. The LVR has also been attributed with attracting Australian finance companies into the New Zealand mortgage market as finance companies fall outside of the LVR rules. Current Australian mortgage providers include Resimac and Liberty Financial, although a number of other finance companies, such as Bluestone and Pepper, are reported as considering entering the New Zealand market.[lx]

74. Previous forays into the New Zealand finance market by Australian lenders have seen the introduction of an unreasonable deferred establishment fee model for mortgages that are paid off within the first four years.[44] Australian lenders also continue to use the "originate/securitise" debt model that became notorious as the US sub-prime mortgage crisis.[lxi]

75. The NZIER believe borrowing is now at a very high level, and the risk from a potential fall in house prices is high.[lxii]

76. Approximately 40% of borrowers nationally are currently on floating mortgages, with many fixed-rate mortgages being fixed for less than two years.[lxiii] This will result in the predicted interest rate increases rapidly impacting on household budgets.[lxiv]

77. Combined [ ]and Commission Consumer Credit Contracts and Finance Act (CCCFA) related complaints identify the most complained about types of debt are; car loans (31%), personal loans (22%), truck shops (13%), hire purchase (8%), and payday loans (6%).[45] [46] [47] [48] Commission complaints data, which focuses on



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41 LVR limits banks to lending 10% of total mortgage lending to people with deposits of less than 20%, although new builds are now excluded from this restriction.

42 Data released by Veda, Australasia's largest credit reference agency shows enquiries for personal loans increased 17.7% for the September to November period when compared to 2012 figures.

43 Veda Advantage statistics for the September to November 2013 quarter note an 18% jump in applications for personal loans when compared to the same quarter in 2012.

44 In 2009 the Commerce Commission filed proceedings against Bluestone Mortgages, Trustees Executors Ltd, and TEA Custodians (Bluestone) Ltd (together Bluestone) for unreasonable establishment fees under the CCCFA.

45 [ ]

46 The data from both agencies was combined to provide a more robust view of the environment as [ ], due to its targeted advertising, reaches a different socio economic demographic of

behaviour, rather than the type of debt, identifies insufficient disclosure as driving approximately 50% of our complaints.[49]

78. Department of Internal Affairs reporting notes that there were 378 non-bank non-deposit taking lenders (NBNDTL) in New Zealand in 2013.[lxv] NBNDTL essentially form the second and third tier lenders in New Zealand.[50]

79. A 2011 third-tier lender desk-based survey noted that there is considerable "churn" in the third tier, with over 50% of the lenders having exited the market, and been replaced, since the previous survey in 2006.[51] [lxvi] Lower tier lenders (second and third tier) account for just over half of Commission CCCFA related complaints (despite having far fewer transactions than the trading banks), and are six of our top 10 most complained about credit providers. [52]

80. The use of aggressive repossession tactics became more prominent in the media and in complaints statistics for 2013. Illegally seizing goods, pressuring borrowers into repaying faster than the courts have ordered, using "dragnet" clauses to seize all present and future possessions until a debt is paid, seizing worthless items to pressure borrowers or to increase the debt with collection costs, and physically threatening borrowers with weapons have all been in the media this year.[53] [54] [55] [lxvii]

81. Truck shops, because of the way they target vulnerable consumers to purchase generally overpriced items on credit, often provoke moral outrage, particularly in the media.[56] [lxviii] Like other industries, there is a variance in the quality and morality of traders, and this has influenced public perceptions.

82. The truck shop business model, of using commission paid agents in mobile stores, has also been utilised by a number of businesses running a combination of mobile stores/showrooms, direct-sales, catalogue-sales, and internet-based sales of consumer goods on credit. Collectively, this group, along with the truck shop themselves, are known as truck shops. There are currently an estimated 27



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complainants. It is accepted that there may be some double-ups in the data however there are unlikely to be very many.

47 See attachment E for more detail on the aggregated [ ]and Commission complaints data.

48 See attachment D for more detail on [ ]enquiries and complaints.

49 See attachment C for more detail on Commission CCCFA enquiries and complaints.

50 Second tier lenders are generally large finance companies.

51 The survey was conducted by the then Ministry of Consumer Affairs.

52 Recent Commission third tier lender visits, have shown that the majority are compliant with the CCCFA although some are deficient in their paperwork. The Commission is taking an educative approach with these lenders to assist them with their compliance with the legislation.

53 Baycorp settled with the Commission for attempting to recover more than the debt balance outstanding after repossessed goods had been sold.

54 The Commerce Commission issued "stop now" letters to Evolution Finance Ltd and Budget Loans Ltd in November 2013 asking them to stop repossessing, or asserting a right to repossess when the applicable contract afforded them no right to do so.

55 Gavin John Marsich, owner of Payday Loans and 20/50 Loans was charged with using an offensive weapon to enforce any non-compliance with loan terms.

56 Some truck shops import their stock and can therefore sell to consumers at a lower price than others.

companies operating over 150 mobile “stores” nationwide under both models.[lxix] This group generated 13% of combined Commission and [ ]complaints.

83. The payday lending market has been described as being in boom mode in New Zealand, particularly on-line where loans can often be approved in less than five minutes. [lxx] Not all of the lenders are domestic providers. Recent media articles have noted that lenders from Australia, Britain, Sweden, Finland, and Estonia are currently active in this market.[lxxi]

84. The seemingly usurious interest rates charged by payday lenders provoke continuous media and political hype, and these are often evidenced with tales of consumers from disadvantaged communities who have fallen into a debt trap.[57] However, combined complaints data for 2013 identifies that payday lending was the fifth most complained about issue with just 6% of complaints. Commission complaints data identifies less than 4% of all CCCFA complaints relate to payday lenders.

85. Industry insiders point to the typical customer as being young professionals in their 30s.[lxxii] [lxxiii] The no asset procedure (NAP) statistics for 2012/13 suggest this view may have some veracity given that 52% of NAP debtors were aged between 20 and 40. [58] Only 14% of insolvents listed “excessive use of credit” as the cause of their insolvency, while 43% cited loss of employment as the primary cause.[59] [lxxiv]

86. The alleged over-charging of penalty fees by banks has also received a degree of publicity over the last year. This has been largely due to the two class actions against ANZ/National and Kiwi Bank.[60] [lxxv] However, this issue does not show in complaints data.



[57] It is not uncommon for payday lenders to charge annualised interest rates in excess of 500% e.g. a $15 charge on $100 loan for 14 days equates to an annualised interest rate of 391%.

[58] A debtor who is unable to pay their debts may have an alternative to bankruptcy through the NAP process. It is designed for debtors with debts between $1,000 and $40,000 with no realisable assets and no means of repaying their debt. It essentially allows a debtor to “reset” their life once.

[59] NAPs peaked at 3,026 in the 2009/2010 business year, and have now declined by half.

[60] The fair play on fees campaign was launched in March 2013 by Auckland lawyer, Andrew Hooker.

## Section 2: The risks to consumers and markets

87. Building from the high-level strategic scan in Section 1, this section identifies the specific current and emerging risks that are likely to cause significant harm to consumers. It is not an exhaustive list of all of the issues, nor is it intended to be a list of issues that the Commission will be working on in the year ahead. Rather, it is primarily intended to inform the planning and prioritisation process of the Competition Branch to enable targeting of resources to the areas of greatest harm.

88. One hundred and forty five risks were identified through the series of workshops, using the complaint data from nine consumer related agencies, as well as the knowledge of Commission staff on the current and emerging issues being encountered. A full list of the risks is on pages 28-31.

89. Any mitigating work undertaken by the Branch to address these risks falls outside this assessment.

90. Each risk was rated by assessing the frequency of occurrence, multiplied by the likely degree of detriment to consumers. In some instances the risk rating is based on limited evidence. This is particularly so for emerging risks, or where an activity occurs covertly (e.g. cartels).

| Likelihood | | Detriment | | Harm |
|---|---|---|---|---|
| 1. Never happens<br>2. Infrequently happens<br>3. Sometimes happens<br>4. Commonly happens<br>5. Entrenched behaviour | X | 1. No harm<br>2. Some harm<br>3. Moderate harm to consumers or businesses<br>4. Major harm to consumers, businesses, or markets<br>5. Severe harm to consumers, businesses, or markets | = | Score is determined by the matrix below. |

**Overall Detriment**

| Likelihood of Happening | No Harm | Some | Moderate | Major | Severe |
|---|---|---|---|---|---|
| *Never* | Low | Low | Low | Medium | Medium |
| *Infrequent* | Low | Low | Medium | Medium | High |
| *Sometimes* | Low | Medium | Medium | High | High |
| *Commonly* | Medium | Medium | High | High | Very High |
| *Entrenched* | Medium | High | High | Very High | Very High |

## How we consider detriment

### No harm

- Consumers or businesses have suffered no harm

### Some harm

- consumers or businesses have incurred little:
  - physical harm
  - increased prices or adverse effects on non-price elements (e.g. quality)
  - loss of property, or
  - impaired choice
- vulnerable consumers have not been targeted

### Moderate harm

- limited numbers of consumers or businesses have been directly adversely affected
- there is limited impact on indirectly-related consumers or businesses eg through decreased consumer confidence
- competition in the relevant markets has not been affected

### Major harm

- consumers or businesses have incurred:
  - physical harm or could incur physical harm
  - increased prices or adverse effects on non-price elements (e.g. quality)
  - loss of property, or
  - impaired choice
- vulnerable consumers have been targeted
- many consumers or businesses have been directly adversely affected

### Severe harm

- Death or severe injury have, or could, occur
- there is a significant impact on related consumers or businesses
- competition in the relevant markets has been significantly affected
- there is significant regional or national impact

## The most harmful issues affecting consumers and markets

91. [ ]. These risks are considered the most harmful to consumers

**Table 1:** Register of most harmful risks faced by consumers.

| ID | Risk | Likelihood | Overall Detriment | Total | Rank |
|---|---|---|---|---|---|
| 1 | New Zealand's geographic isolation can limit competition in markets | [redacted] | [redacted] | [redacted] | [redacted] |
| 2 | Consumers are charged excessive fees by some lending institutions | [redacted] | [redacted] | [redacted] | [redacted] |
| 3 | A small number of traders cause a disproportionate level of harm to consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| 4 | Scams and frauds are becoming more prevalent and causing increasing detriment to consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| 5 | Use of multiple direct debits by some truck shops causes harm to consumers (e.g. some continue debits after goods are paid for) | [redacted] | [redacted] | [redacted] | [redacted] |
| 6 | Car loans generated 40% of consumer complaints to the [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| 7 | The Commission receives the most complaints about the domestic appliance retail industry | [redacted] | [redacted] | [redacted] | [redacted] |
| 8 | The current level of consumer detriment caused by online traders is likely to grow significantly | [redacted] | [redacted] | [redacted] | [redacted] |
| 9 | Misleading country of business by online traders limits consumer redress (e.g. use of .CO.NZ by international traders) | [redacted] | [redacted] | [redacted] | [redacted] |
| 10 | The non-delivery of goods by some online traders generated 12% of consumer complaints to the Commission | [redacted] | [redacted] | [redacted] | [redacted] |
| 11 | Fake reviews and testimonials on websites can misrepresent the quality of goods or services to consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| 12 | Jurisdictional issues prevent the Commission from policing errant online internationally-based traders (including F-Commerce traders) which disadvantages consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| 13 | The close personal relationships between individuals in companies in an industry can facilitate agreements and/or understandings, which can affect competition in markets | [redacted] | [redacted] | [redacted] | [redacted] |
| 14 | Industry associations sometimes enable/assist cartel formation, which affects competition in markets | [redacted] | [redacted] | [redacted] | [redacted] |
| 15 | The upsizing of sales with needless add-ons (e.g. additional warranties and insurances) causes unnecessary costs to consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| 16 | Churn in lower tier lenders erodes previous Commission work to protect consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| 17 | Lower tier lenders continue to drive a high percentage of complaints (50%) from consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| 18 | Consumers are not informed of the ramifications of APAAP (dragnet) clauses | [redacted] | [redacted] | [redacted] | [redacted] |
| 19 | Truck shops and similar traders are the third most complained about lender type by consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| 20 | Consumers misunderstand the extent of their obligations on phone contracts, including break fees, and continue to complain to the Commission | [redacted] | [redacted] | [redacted] | [redacted] |
| 21 | Personal loans are the second most complained about credit type to the [redacted] (22%) | [redacted] | [redacted] | [redacted] | [redacted] |
| 22 | Insufficient disclosure to consumers is the most complained about behaviour to the Commission (51%) | [redacted] | [redacted] | [redacted] | [redacted] |

## Emerging risks

92. There is a limited evidence base for measuring the extent of detriment caused by emerging risks. This causes a lower score than would ordinarily be attributed if the risk had emerged and was harming consumers. Key emerging risks have been included here for information and monitoring purposes.

**Table 2:** Register of emerging risks

| | | | | | |
|---|---|---|---|---|---|
| | consumers are being misled into purchasing payment protection insurance through a lack of knowledge and/or disclosure | [redacted] | [redacted] | [redacted] | [redacted] |
| | readability of m-commerce loan documentation may limit disclosure to consumers | | | | |
| | the use of personal social media accounts to promote employers' companies can mislead consumers | | | | |
| | requiring payments for warranty claims, dissuades consumers from pursuing CGA remedies | | | | |
| | the lack of oversight and validation of content on price comparison websites may mislead consumers | | | | |
| | The potential for new bank transaction fee structure monopolies to cost consumers more through surcharges or increased prices. (this risk was not assessed) | | | | |



## Considering the most harmful issues

*New Zealand's geographic isolation*

| | | |
|---|---|---|
| [ ] | New Zealand's geographic isolation can limit competition in markets | [ ] |

93. New Zealand's geographic location and distance from competition naturally limits competition. Increasing market concentration by mergers exacerbates this risk.

94. Increasing online transactions help mitigate some of this risk.

*Lenders charging excessive fees*

| | | |
|---|---|---|
| [ ] | Consumers are charged excessive fees by some lending institutions | [ ] |

95. The charging of penalty fees by banks has received a degree of publicity over the last year. Credit card fees have also been considered as excessive (e.g. $100 per annum).

96. The class actions currently underway against ANZ/National and Kiwi Bank should help mitigate this risk by establishing what is reasonable.

*The disproportionate degree of harm generated by a small number of traders*

| | | |
|---|---|---|
| [ ] | A small number of traders cause a disproportionate level of harm to consumers | [ ] |

97. Commission complaints data identifies that 25 of 1,652 complained about traders generated 25% of all incoming complaints. These 25 companies are mostly large companies with a high number of retail transactions. The harm these companies generate is significant.

98. The major trader programme, when implemented, will help mitigate this risk.

*Domestic appliance retail*

| | | |
|---|---|---|
| [ ] | The Commission receives the most complaints about the domestic appliance retail industry | [ ] |

| | | |
|---|---|---|
| [ ] | The upsizing of sales with needless add-ons (e.g. additional warranties and insurances) causes unnecessary costs to consumers | [redacted] |

99. The domestic appliance retail stores featuring in complaint data are generally members of large retail chains and also feature amongst the 25 worst traders. This group has been surviving on low profit margins (4%) during the GFC and have increased profits by selling worthless add-ons such as extended warranties that run concurrently to CGA rights. This group has also started charging consumers for warranty repairs to likely dissuade claims.

100. Including key stores from this group in the major trader programme will help mitigate these risks. Engaging with external organisations, such as Consumer NZ and Choice, could also assist.

*The increasing detriment from scams and frauds*

| | | |
|---|---|---|
| [ ] | Scams and frauds are becoming more prevalent and causing increasing detriment to consumers | [redacted] |

101. Scams and frauds are becoming increasingly prevalent. The reported monetary impact on domestic consumers is, per capita, well under the level reported by Australia (AU$100 million per annum). This suggests we may still expect increases in the level of detriment to consumers.

102. A clear Commission stance on frauds/scams needs to be formed before this risk can be mitigated (e.g. does proforma invoicing differ from a fraudulent website that doesn't supply, or a scam dating website, or a Nigerian scam letter?). The use of disruption or disturbance tactics may provide a cost effective prevention option for mitigating this risk.

*Lower tier lenders cause the most financial harm to consumers*

| | | |
|---|---|---|
| [ ] | Car loans generated 40% of consumer complaints to the [ ] | [redacted] |
| [ ] | Churn in lower tier lenders erodes previous Commission work to protect consumers | [redacted] |
| [ ] | Lower tier lenders continue to drive a high percentage of complaints (50%) from consumers | [redacted] |
| [ ] | Consumers are not informed of the ramifications of APAAP (dragnet) clauses | [redacted] |
| [ ] | Personal loans are the second most complained about credit type to the [ ](22%) | [redacted] |
| [ ] | Insufficient disclosure to consumers is the most complained about behaviour to the Commission (51%) | [redacted] |

103. Lower tier lenders drive a disproportionate amount of consumer complaints, particularly when their minor share of the lending market is taken into consideration. The large degree of churn amongst these lenders also erodes previous Commission regulation and advocacy.

104. Lower-tier lenders cause significant harm to vulnerable and disadvantaged consumers, who are the largest users of these lenders.

105. Any law changes, such as the responsible lending provisions or the proposed lenders code of conduct, may provide a degree of mitigation. However, the unconscionable conduct displayed by some in this industry would suggest otherwise.

*The truck shop business model*

| | | |
|---|---|---|
| [ ] | Use of multiple direct debits by some truck shops causes harm to consumers (e.g. some continue debits after goods are paid for) | [ ] |
| [ ] | Truck shops and similar traders are the third most complained about lender type by consumers | [ ] |

106. Truck shops, and companies which use the truck shop model of providing generally overprice goods on credit, generated 13% of complaints in combined [ ]and Commission CCCFA related data. These traders target vulnerable and disadvantaged consumers, with a number trying to tie consumers to a cycle of continuous purchasing.

107. Consumer law reform and changes to the responsible lending provisions may help mitigate these risks, once truck shop business model users are made aware of the impact of the changes.

*Increasing detriment from online traders*

| | | |
|---|---|---|
| [ ] | The current level of consumer detriment caused by online traders is likely to grow significantly | [ ] |
| [ ] | Misleading country of business by online traders limits consumer redress (e.g. use of .CO.NZ by international traders) | [ ] |
| [ ] | The non-delivery of goods by some online traders generated 12% of consumer complaints to the Commission | [ ] |
| [ ] | Fake reviews and testimonials on websites can misrepresent the quality of goods or services to consumers | [ ] |
| [ ] | Jurisdictional issues prevent the Commission from policing errant online internationally based traders (including F-Commerce traders) which disadvantages consumers | [ ] |

108. Online transactions provide increased competition within New Zealand markets, but also expose consumers to greater potential detriment. Online transactions are predicted to continue increasing for some time, potentially to such an extent that the physical retail presence could decrease by up to 40%. This will have significant implications for consumers and how the Commission protects consumers.

109. Currently consumers purchasing from internationally based online traders have little in the way of protections. However, this largely true for any consumers globally who purchase from off-shore traders via the internet.

110. No intention to supply, fake reviews, and the use of ".CO.NZ" are all significant risks that fall outside the Commission's traditional regulatory responses. This will

necessitate a new approach to regulate effectively or mitigate this risk. The use of disruption or disturbance tactics may also provide a cost effective prevention option for mitigating this risk.

*Intercompany personal relationships*

| | | |
|---|---|---|
| [ ] | The close personal relationships between individuals in companies in an industry can facilitate agreements and/or understandings, which can affect competition in markets | [ ] |

111. The naturally constrained national and regional markets in New Zealand, coupled with the way personnel move between companies within an industry, enables the establishment of close relationships. The sometimes less-aggressive nature of business within New Zealand markets can also result in competitors being treated as colleagues or peers.

*Industry associations*

| | | |
|---|---|---|
| [ ] | Industry associations sometimes enable/assist cartel formation, which affects competition in markets | [ ] |

112. Business associations have been noted as facilitating some price fixing arrangements, or excluding competition by creating barriers to new entrants (e.g. medical practitioners' practicing requirements, and building industry participants bench-marking their products as the industry standard).

*Break fees on phone contracts*

| | | |
|---|---|---|
| [ ] | Consumers misunderstand the extent of their obligations on phone contracts, including break fees, and continue to complain to the Commission | [ ] |

113. Break fees on phone contracts generate a low number of complaints to the Commission. The large numbers of consumers potentially affected by these telecommunication contracts could result in significant detriment if they are systemic issues.

114. Including the telecommunications companies in the major traders programme could help mitigate this risk.

## The issues affecting consumers and markets

| Focus Area | Risk | Likelihood | Overall Detriment | Rate | Rank |
|---|---|---|---|---|---|
| Commission Specific | the continuing shift to alternative complaint mechanisms, rather than the Commission, limits our ability to identify trends and patterns affecting consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | consumers from different socio-economic demographics use different channels to complain about issues, which can limit our ability to regulate the consumer environment effectively | [redacted] | [redacted] | [redacted] | [redacted] |
| Fair Trading Act | a small number of traders cause a disproportionate level of harm to consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | consumers complain the most about the domestic appliance retail industry | [redacted] | [redacted] | [redacted] | [redacted] |
| | scams and frauds are becoming more prevalent and causing increasing consumer detriment | [redacted] | [redacted] | [redacted] | [redacted] |
| | the upsizing of sales with needless add-ons (e.g. additional warranties and insurances) causes unnecessary costs to consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | the current level of consumer detriment caused by online traders is likely to grow significantly | [redacted] | [redacted] | [redacted] | [redacted] |
| | misleading country of business by online traders limits consumer redress (e.g. use of .CO.NZ by international traders) | [redacted] | [redacted] | [redacted] | [redacted] |
| | fake reviews and testimonials on websites can misrepresent the quality of products or services to consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | jurisdictional issues prevent the Commission from policing errant online internationally based traders (including F-commerce traders), which disadvantages consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | the non-delivery of goods by some online traders generated 12% of consumer complaints to the Commission | [redacted] | [redacted] | [redacted] | [redacted] |
| | misuse of "was, now" and "introduction" pricing misleads consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | advanced fee frauds cause consumer harm (eg Nigerian letters) | [redacted] | [redacted] | [redacted] | [redacted] |
| | the premiumising of products (eg manuka honey, organic, hypoallergenic, etc.) is misleading consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | misrepresenting country of origin misleads consumers (including tourists) | [redacted] | [redacted] | [redacted] | [redacted] |
| | the terms and conditions of unfair contracts disadvantages consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | a concentration of low income earners in some locales creates communities of disadvantaged or vulnerable consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | truck shops are targeting disadvantaged or vulnerable consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | telecommunications is the second most complained about industry by consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | consumers continue to experience mobile data bill shock | [redacted] | [redacted] | [redacted] | [redacted] |
| | motor vehicle sales is the third most complained about industry by consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | increased imports exposes consumers to more potentially uncertified products (e.g. multiuse ladders, baby walkers, or cots) | [redacted] | [redacted] | [redacted] | [redacted] |
| | some traders have deliberately mislead consumers during the Christchurch rebuild (e.g. Alligator drainage) | [redacted] | [redacted] | [redacted] | [redacted] |
| | misleading descriptions by online traders causes consumers to buy inferior or unfit goods | [redacted] | [redacted] | [redacted] | [redacted] |
| | international traders | [redacted] | [redacted] | [redacted] | [redacted] |
| | domestic traders | [redacted] | [redacted] | [redacted] | [redacted] |
| | misleading on delivery timeframes by online traders disadvantages consumers (e.g. drop shipping) | [redacted] | [redacted] | [redacted] | [redacted] |
| | the geo-locking of digital markets disadvantages consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | unsafe and/or inferior products have the potential to harm consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | counterfeit goods can mislead consumers on product quality | [redacted] | [redacted] | [redacted] | [redacted] |
| | the unclear allegiance of agents/brokers in a transaction can misled consumers (e.g. real estate, insurance, and financial transactions) | [redacted] | [redacted] | [redacted] | [redacted] |
| | some online traders fail to supply goods to consumers, depending on the method of payment | [redacted] | [redacted] | [redacted] | [redacted] |
| | unsubstantiated claims by online traders mislead consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | the use of continuous payment authorities and subscription traps causes consumers higher costs than anticipated | [redacted] | [redacted] | [redacted] | [redacted] |
| | internet based frauds cause consumers harm (e.g. proforma invoicing, predictive programmes) | [redacted] | [redacted] | [redacted] | [redacted] |
| | romance scams cause consumer harm | [redacted] | [redacted] | [redacted] | [redacted] |
| | employment scams cause consumer harm | [redacted] | [redacted] | [redacted] | [redacted] |

| Focus Area | Risk | Likelihood | Overall Detriment | Rate | Rank |
|---|---|---|---|---|---|
| Fair Trading Act | investment scams cause consumer harm | [redacted] | [redacted] | [redacted] | [redacted] |
| | spread betting and FOREX predictive programmes cause consumer harm | [redacted] | [redacted] | [redacted] | [redacted] |
| | unsubstantiated or spurious claims mislead consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | green washing misleads consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | complex or obfuscated pricing (including drip- pricing, additional fees, surcharge, & hidden fees) misleads consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | the use of continuous payment authorities and subscription traps can cause consumers higher costs than anticipated | [redacted] | [redacted] | [redacted] | [redacted] |
| | some traders deliberately target disadvantaged, or vulnerable, consumers (e.g. lower socio-economic, aged, DTD sales, tree fellers, PPI) | [redacted] | [redacted] | [redacted] | [redacted] |
| | misleading shipping costs by online traders causes consumers harm through additional costs | [redacted] | [redacted] | [redacted] | [redacted] |
| | the use of difficult to end contracts can cause consumers higher costs than anticipated | [redacted] | [redacted] | [redacted] | [redacted] |
| | the practice of "slamming" (e.g. telecommunications, electricity, insurance) disadvantages consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | misleading transaction currency by online traders causes consumers higher costs | [redacted] | [redacted] | [redacted] | [redacted] |
| | misuse of "was, now" and "introduction" pricing by some online traders misrepresents the degree of saving to consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | the use of price customisation, or discrimination, by geographic location (e.g. Steam) disadvantages consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | the use of in-app purchases and the freemium business model can mislead consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | non-trading individuals with no intention to supply goods disadvantage consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | rental scams cause consumer harm | [redacted] | [redacted] | [redacted] | [redacted] |
| | requiring payments for warranty claims, dissuades consumers from pursuing CGA remedies | [redacted] | [redacted] | [redacted] | [redacted] |
| | products or services sold through a reseller, can affect disclosure to consumers (e.g. insurance products through a bank) | [redacted] | [redacted] | [redacted] | [redacted] |
| | non-activation of insurance or warranty policies (e.g. motor vehicle breakdown, master builder, and income protection) sold to consumers denies them the protection offered by these products | [redacted] | [redacted] | [redacted] | [redacted] |
| | advertising inconsistencies between various forms of media (e.g. print vs internet advertising) can mislead consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | some automated websites that accept orders/payment, but fail to ship goods disadvantages consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | the lack of oversight and validation of content on price comparison websites may mislead consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | tracking of individual spending habits to inform tailored pricing may disadvantage consumers through the charging of higher prices | [redacted] | [redacted] | [redacted] | [redacted] |
| | the misrepresentation of the security of NFC/RFID technology for retail purchases misleads consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | penny auction sites are causing consumers harm | [redacted] | [redacted] | [redacted] | [redacted] |
| | group buying voucher process continues to mislead consumers (eg non-refundable & non-redeemable) | [redacted] | [redacted] | [redacted] | [redacted] |
| | paid endorsements can mislead consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | purchasing fake Facebook Likes by traders misleads consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | traders mislead consumers by removing negative online feedback | [redacted] | [redacted] | [redacted] | [redacted] |
| | the use of personal social media accounts to promote employers' companies can mislead consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| Credit Contracts & Consumer Finance Act | consumers are charged excessive fees by some lending institutions | [redacted] | [redacted] | [redacted] | [redacted] |
| | use of multiple direct debits by some truck shops causes harm to consumers (e.g. some continue debits after goods paid for) | [redacted] | [redacted] | [redacted] | [redacted] |
| | consumers complain the most about car loans to the loan complaints line (40%) | [redacted] | [redacted] | [redacted] | [redacted] |
| | churn in lower tier lenders erodes previous commission work to protect consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | lower tier lenders continue to drive high percentage of complaints (50%) from consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | truck shops and similar traders are the third most complained about lender type by consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | consumers misunderstand the extent of their obligations on phone contracts, including break fees, and continue to complain to the Commission | [redacted] | [redacted] | [redacted] | [redacted] |

| Focus Area | Risk | Likelihood | Overall Detriment | Rate | Rank |
|---|---|---|---|---|---|
| Credit Contracts & Consumer Finance Act | insufficient disclosure to consumers is the most complained about credit related behaviour to the Commission (51% of complaints) | [redacted] | [redacted] | [redacted] | [redacted] |
| | consumers are not informed of the ramifications of APAAP (dragnet) clauses | [redacted] | [redacted] | [redacted] | [redacted] |
| | personal loans to consumers are the second most complained about credit type to the loan complaints line (22%) | [redacted] | [redacted] | [redacted] | [redacted] |
| | payday lending services have high costs for consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | consumers do not read travel insurance policies before purchase which leads to a failure to understand coverage (e.g. relatives are under 81years old) | [redacted] | [redacted] | [redacted] | [redacted] |
| | break fees on gym contracts continue to affect consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | hire purchase agreements between traders and consumers is the third most complained about credit type to the loan complaints line (12%) | [redacted] | [redacted] | [redacted] | [redacted] |
| | gym contracts continue to generate complaints from consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | loan sharks lending to consumers outside the regulated system which increases the risks to consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | readability of m-commerce loan documentation may limit disclosure to consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | consumers providing inaccurate information on loan documents, may overestimate their ability to repay debt | [redacted] | [redacted] | [redacted] | [redacted] |
| | unfair contract terms on some financial arrangements disadvantage some consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | cultural lending to some consumers can sit outside the regulated market, reducing consumer protections | [redacted] | [redacted] | [redacted] | [redacted] |
| | some lenders use aggressive repossession of chattels as a business model | [redacted] | [redacted] | [redacted] | [redacted] |
| | consumers are being misled into purchasing payment protection insurance, (lack of disclosure) | [redacted] | [redacted] | [redacted] | [redacted] |
| | consumers are being misled into purchasing payment protection insurance through a lack of knowledge | [redacted] | [redacted] | [redacted] | [redacted] |
| | some lenders use aggression, or force (e.g. using weapons), against consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | reverse equity mortgages could affect some consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | rent to buy agreements can be ambiguous for consumers | [redacted] | [redacted] | [redacted] | [redacted] |
| | rent to buy agreements are a grey area in legislation, which may expose consumers to uncertainty (e.g. layby or credit contract?) | [redacted] | [redacted] | [redacted] | [redacted] |
| | consumers do not understand the break fee structure of Australian lenders which exposes them to significant break fees | [redacted] | [redacted] | [redacted] | [redacted] |
| Commerce Act | NZs geographic isolation can limit competition in markets | [redacted] | [redacted] | [redacted] | [redacted] |
| | industry associations sometimes enable/assist cartel formation, which affects competition in markets | [redacted] | [redacted] | [redacted] | [redacted] |
| | the close personal relationships between individuals in companies in an industry can facilitate agreements and/or understandings, which can affect competition in markets | [redacted] | [redacted] | [redacted] | [redacted] |
| | NZ contains naturally concentrated markets | [redacted] | [redacted] | [redacted] | [redacted] |
| | the creation of barriers to entry can affect competition in markets | [redacted] | [redacted] | [redacted] | [redacted] |
| | cartel behaviour can affect competition in markets | [redacted] | [redacted] | [redacted] | [redacted] |
| | the misuse of market power can affect competition in markets | [redacted] | [redacted] | [redacted] | [redacted] |
| | government policies sometimes distort competition in domestic markets | [redacted] | [redacted] | [redacted] | [redacted] |
| | a lack of awareness, or understanding, of the Commerce Act within the business community can increase non-compliance, affecting competition in markets | [redacted] | [redacted] | [redacted] | [redacted] |
| | mergers cause increased concentration in markets | [redacted] | [redacted] | [redacted] | [redacted] |
| | lack of aggression between traders in NZ markets lessens competition | [redacted] | [redacted] | [redacted] | [redacted] |
| | first right of refusal in contracts creates a barrier to competition in some markets | [redacted] | [redacted] | [redacted] | [redacted] |
| | abuse of market dominance by traders can affect competition in markets | [redacted] | [redacted] | [redacted] | [redacted] |
| | the increasing tension between bricks and mortar and online traders may drive increased 'resale price maintenance' in markets | [redacted] | [redacted] | [redacted] | [redacted] |
| | other anti-competitive agreements can lessen competition in markets | [redacted] | [redacted] | [redacted] | [redacted] |
| | incumbents can create barriers to dissuade new entrants in markets, e.g. bench marking, accreditation, etc. | [redacted] | [redacted] | [redacted] | [redacted] |
| | the "matey" style of conducting business in NZ (colleague not competitor) can facilitate agreements and/or understandings that affect competition in markets | [redacted] | [redacted] | [redacted] | [redacted] |

| Focus Area | Risk | Likelihood | Overall Detriment | Rate | Rank |
|---|---|---|---|---|---|
| Commerce Act | exclusive supply contracts limit competition and create artificially high prices in some markets | [redacted] | [redacted] | [redacted] | [redacted] |
| | a concentration of uncompliant behaviour in a market can drive more uncompliant behaviour | | | | |
| | multiple business units owned by conglomerates can give the impression of competition in a market | | | | |
| | natural disasters can impact competition in markets, e.g. demand can exceed supply | | | | |
| | some traders within the utilities and infrastructure sectors may be taking advantage of market power | | | | |

## Section 3: Possible candidates for the major trader programme

115. One of the ways we intend to protect consumer interests is to pro-actively encourage businesses to voluntarily comply with the law. The goal of the Major Trader Programme (the programme) is to encourage this compliance in the small number of traders generating a significant number of complaints.

116. Analysis of 2013 data shows 25 traders generated 25% of complaints. By focusing on these traders we expect to see a reduction in consumer harm and any subsequent complaints.

117. The programme looks to work with traders to improve their compliance efforts. Focusing on those traders likely to engage with the Commission in a positive and collaborative manner should produce the best results.

118. The programme looks to use education, persuasion, and cooperation to encourage trader compliance, rather than relying solely on enforcement. Although enforcement always remains an option when dealing with these traders.

*Analysis in context*

119. The candidates for selection were initially selected due to their high complaint numbers. The complaint narratives were then read to help establish the nature and validity of these complaints, and establish a context for later commentary. Other factors considered were the candidates' annual turnover, previous compliance history, the business model or structure, current compliance activity, and the identified risks to consumers.

### Prioritised Traders

120. The seven traders considered to be a priority for inclusion in the programme are:

- [ ]
- [ ]
- [ ]
- [ ]
- [ ]
- [ ]
- [ ]

### The Prioritisation Process

121. The prioritisation of the Top 25 traders uses the same matrix and process used to prioritise the risks faced by consumers.

**Key:** The following is recorded for each trader: 2013 complaints (compared to 2012, colour coded), the likelihood of further harm, potential detriment, which are used to show the total risk posed by the trader.

| Increase | Decline | Likelihood | Detriment | Rate |
|---|---|---|---|---|

122. Likelihood and Detriment are determined through the use of the measures listed below and qualitative analysis of the complaints generated by each trader:

- the trader's annual turnover
  a. an indication of the potential impact on the market from the trader's actions
- extent of potential detriment
  a. a high value product, large market share, or trader's dominant position
- nature of the complaints
  a. deliberate or inadvertent, are their actions calculated or ignorant
- previous compliance history
  a. has the trader's behaviour changed following an interaction with us

123. Consideration for inclusion in the programme will also include the likelihood of a trader's willingness to engage with us to improve their level of compliance.

**Top 25 Traders**

124. The top 25 traders, as determined by 2013 data, and ordered by the quantity of complaints they generated, are:

**GlobalSoundTrade Limited (currently the subject of enforcement activity)**

| [ ] | [ ] | [ ] | [ ] |
|---|---|---|---|

125. Globalsoundtrade is an example of how an online business can cause harm to consumers, even as a small business. A stop now letter and subsequent investigation has had an effect, however it could return to operate as an offshore based entity, which would put it outside of our influence.

**[ ](currently the subject of enforcement activity)**

| [ ] | [ ] | [ ] | [ ] |
|---|---|---|---|

126. The majority of complaints related to the current [ ] investigation, which places the [ ] outside of consideration for the programme.

**[ ]**

| [ ] | [ ] | [ ] | [ ] |
|---|---|---|---|

127. Of the complaints made against [ ] there were many that could be described as "grizzles", but there were also a number of systemic issues with the potential to affect significant numbers of consumers. [ ], [ ] has the potential to affect a significant number of consumers.

**[ ]**

| [ ] | [ ] | [ ] | [ ] |
|---|---|---|---|

128. Of the complaints made against [ ] there were many that could be described as “grizzles”, but there were also a number of systemic issues with the potential to affect significant numbers of consumers. With [ ], [ ] has the potential to affect a significant number of consumers.

**[ ]**

| [ ] | [ ] | [ ] | [ ] |
|---|---|---|---|

129. [ ].
[ ]. Also [ ]use their strong systems and processes to maintain trust in its platform, conform with legislation, and refer breaches to us. [ ] are better suited to a partnership approach to target at risk traders.

**[ ]**

| [ ] | [ ] | [ ] | [ ] |
|---|---|---|---|

130. [ ]is a dominant participant in the retail sector, with stores in most (if not all) regional markets. Complaints relate to the misrepresentation to quality and pricing of goods. There are likely to be benefits from engaging with [ ], however it is not a priority candidate as it has a business model which provides good redress for consumers.

**[ ]**

| [ ] | [ ] | [ ] | [ ] |
|---|---|---|---|

131. [ ]appears to have adopted pricing practices used by other [ ] globally, some of which have attracted the attention of other ICPEN participants. These issues, particularly drip-pricing, are sustained and widespread, and operated through a centralised computer system. This could be addressed through a one-off intervention rather than through the programme.

**[ ]**

| [ ] | [ ] | [ ] | [ ] |
|---|---|---|---|

132. Complaints mainly related to the misleading of consumers around pricing and goods. The systemic nature of these complaints, based on the volume of trade, suggests a far larger degree of detriment than the complaint numbers would indicate. [ ]would be a good candidate for the programme, as sustained interaction with the Commission is likely to decrease significant consumer detriment. However, [ ] is the subject of a current investigation.

**[ ]**

| [ ] | [ ] | [ ] | [ ] |
|---|---|---|---|

133. While operating [ ]in the [ ]market, we see few systemic issues with [ ] and it is uncertain whether the programme's sustained contact would yield significant benefits to consumers.

**[ ]**

| [ ] | [ ] | [ ] | [ ] |
|---|---|---|---|

134. Complaint narratives consistently point to staff at [ ] misleading consumers and misleading about the trader's remedial obligations. It is ideal for the major trader programme as the issues are systemic, nationwide, and enduring. The behaviour appears endemic in the industry.

**[ ]**

| [ ] | [ ] | [ ] | [ ] |
|---|---|---|---|

135. Complaint narratives suggest that [ ] has not ensured that voucher providing merchants can meet the obligations of their deals on offer, before the deal is sold to the public. A halving of complaints points to [ ] possibly improving their performance. Also consumers may have matured in their use of such services. [ ] is not a good candidate for the programme.

**[ ]**

| [ ] | [ ] | [ ] | [ ] |
|---|---|---|---|

137. [ ]is an example of the risks posed by f-commerce and the harm a sole trader can cause to consumers. A single intervention should be sufficient to curb this trader's behaviour and therefore [ ]is not a good candidate for the programme.

**[ ]**

| [ ] | [ ] | [ ] | [ ] |
|---|---|---|---|

138. Complaint narratives consistently point to staff at [ ] misleading consumers and misleading about the traders remedial obligations. It is ideal for the major trader programme as the issues are systemic, nationwide, and enduring. The behaviour appears endemic in the industry. These issues are also reflected in the Australian franchise stores.

139. Of note, [ ] recently announced that have shifted all New Zealand administration to the Australian headquarters. This shift may adversely affect their compliance with New Zealand legislation.

**[ ]**

| [ ] | [ ] | [ ] | [ ] |
|---|---|---|---|

140. As [ ]currently has a significant number of complaints under investigation by the Commission, it is not a good candidate for the programme.

**[ ]**

| [ ] | [ ] | [ ] | [ ] |
|---|---|---|---|

141. Complaints predominantly revolve around pricing, particularly the advertised or shelf price not being represented at point of sale. The systemic nature of these complaints, based on the volume of trade, suggests a far larger degree of detriment than the complaint numbers would indicate. It would appear the consumers are unlikely to complain due to the low level of individual detriment suffered in each transaction. [ ] would be a good candidate for the programme, as sustained interaction with the Commission is likely to decrease significant consumer detriment. However, the current enquiry into [ ] has the potential to widen and include other [ ], which could undermine any major trader engagement.

**[ ]**

| | | | |
|---|---|---|---|
| [ ] | [ ] | [ ] | [ ] |

142. [ ] takes an openly adversarial stance with the Commission. As such, the trader is not a good candidate for the programme.

**[ ]**

| | | | |
|---|---|---|---|
| [ ] | [ ] | [ ] | [ ] |

143. Complaint narratives consistently point to staff at [ ] misleading consumers and misleading about the traders remedial obligations. It is ideal for the major trader programme as the issues are systemic, nationwide, and enduring. The behaviour appears endemic in the industry. These issues are also reflected in the Australian franchise stores.

**[ ]**

| | | | |
|---|---|---|---|
| [ ] | [ ] | [ ] | [ ] |

144. Complaints about [ ] were largely frivolous, or related to the sale of refurbished electronic products, and were made by well-informed consumers. While some discussion with [ ] is warranted, it is not a good candidate for the programme.

**[ ]**

| | | | |
|---|---|---|---|
| [ ] | [ ] | [ ] | [ ] |

145. [ ] follows industry practices. Complaints stemmed from consumer interpretation of what they felt was right or reasonable, rather than contractual obligations. Not a good candidate for the programme.

**[ ]**

| | | | |
|---|---|---|---|
| [ ] | [ ] | [ ] | [ ] |

146. There were no discernable patterns to the complaints made about [ ]. Complaints appeared to be case specific and consumers could equally be at fault, due to the number of “he said/she said” incidents. Not a good candidate for the programme.

**[ ]**

| | | | |
|---|---|---|---|
| [ ] | [ ] | [ ] | [ ] |

147. [ ] is a relatively new trader with exponential growth in the last six years. It has been somewhat responsive to issues raised by the Commission, but need to establish better internal compliance systems to become more proactive in identifying issues itself. [ ] could be a candidate for the programme next year. Particularly after we have assessed their response to current issues raised by the Commission.

**[ ]**

| | | | |
|---|---|---|---|
| [ ] | [ ] | [ ] | [ ] |

148. [ ] has a limited market share, complaints about them in 2013 were ‘grizzles’ by non-customers taking exception to the use of particular words in [ ] advertising; rather than systemic, contractual, or pricing issues.

**[ ]**

| | | | |
|---|---|---|---|
| [ ] | [ ] | [ ] | [ ] |

149. [ ] faced a number of complaints about the ‘hard-line’ it takes over [ ], but the majority related to issues around pricing and unwanted add-ons. The adoption of excessive credit card charges, a growing industry practice, appears to be a mechanism to dissuade their use by consumers. These issues can be addressed outside of the programme, as they are not sustained or widespread and operated through a centralised computer system. [ ] is not seen as warranting inclusion in the programme.

**[ ]**

| | | | |
|---|---|---|---|
| [ ] | [ ] | [ ] | [ ] |

150. Complaints against [ ] concentrate on price, and particularly a price increase in 2013, which was perceived to be handled poorly. However, [ ] pricing structure and behaviour align with common industry practice. It is not seen as an organisation in need of specific engagement, as set out in the programme.

**[ ]**

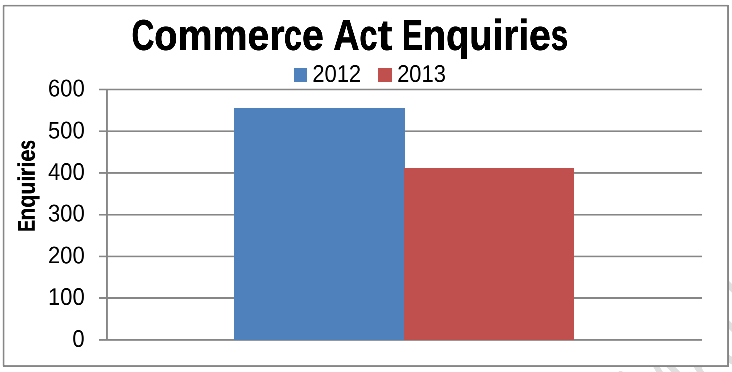
| | | | |
|---|---|---|---|
| [ ] | [ ] | [ ] | [ ] |

151. In 2013, complaints about [ ] mainly related to the Commission’s investigation into [ ]. Not a good candidate for the programme.

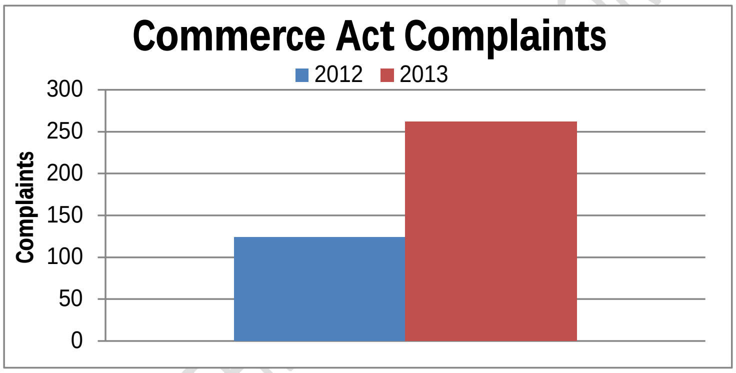
## Attachment A – Commerce Act, 2013 complaints analysis

The following graphs use Commerce Act enquiry data for the 2012 and 2013 calendar years.

- In 2013, Commerce Act enquiries decreased by 26% from 2012 levels.



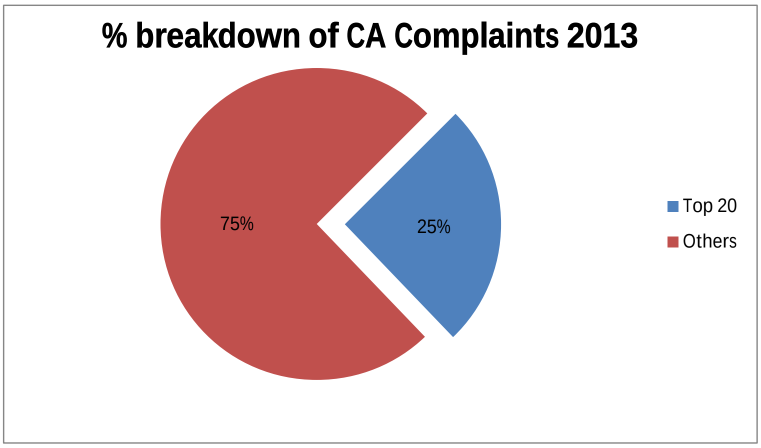

- In 2013, Commerce Act complaints increased by 111% from 2012 levels.



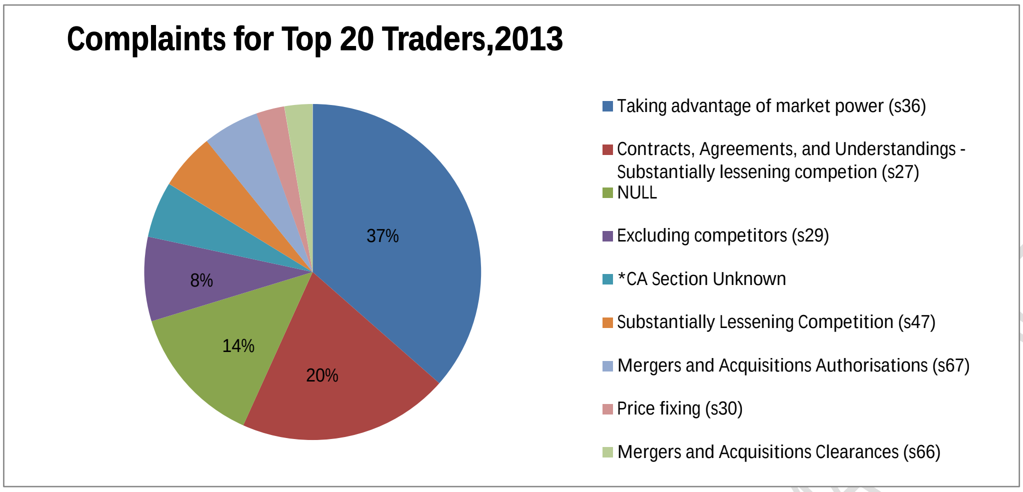

- The proportion of complaints to enquiries in 2013 was 64%.

# 64%

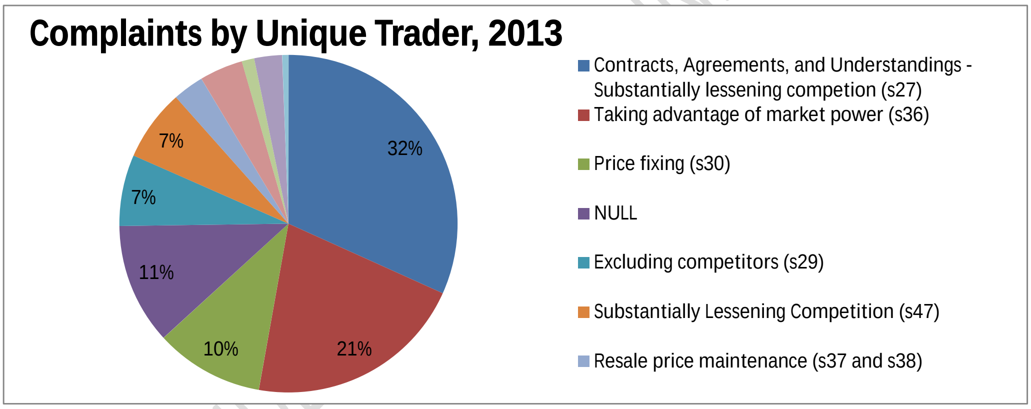
- Of traders complained about in 2013, the Top 20 accounted for one in four complaints.



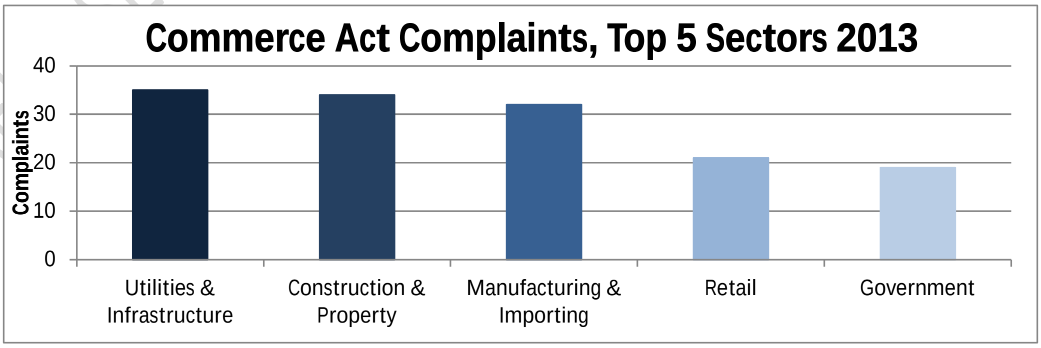
- For complaints linked to the Top 20 traders, about one in three related to section 36 (*Taking advantage of market power*).



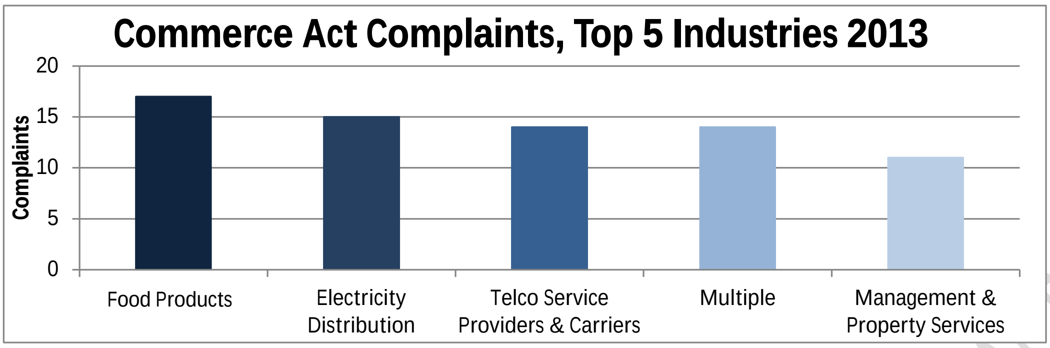

- Comparing traders generally, about one in three complaints related to section 27 (*Contracts, Agreements, and Understandings – Substantially Lessening Competition*).




- Of the Sectors identified in the 2013 data, the Top 5 accounted for about 40% of complaints.



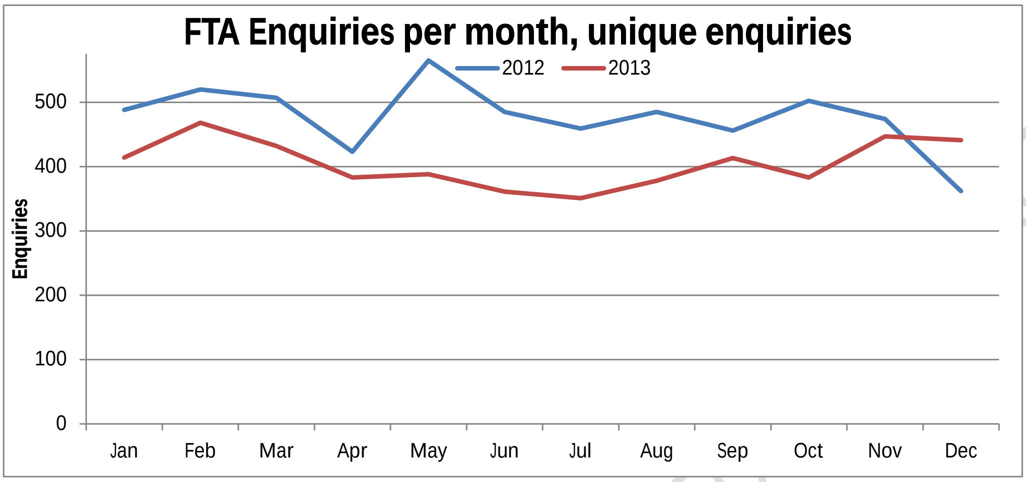
- Of the Industries identified, the Top 5 accounted for about 20% of complaints.



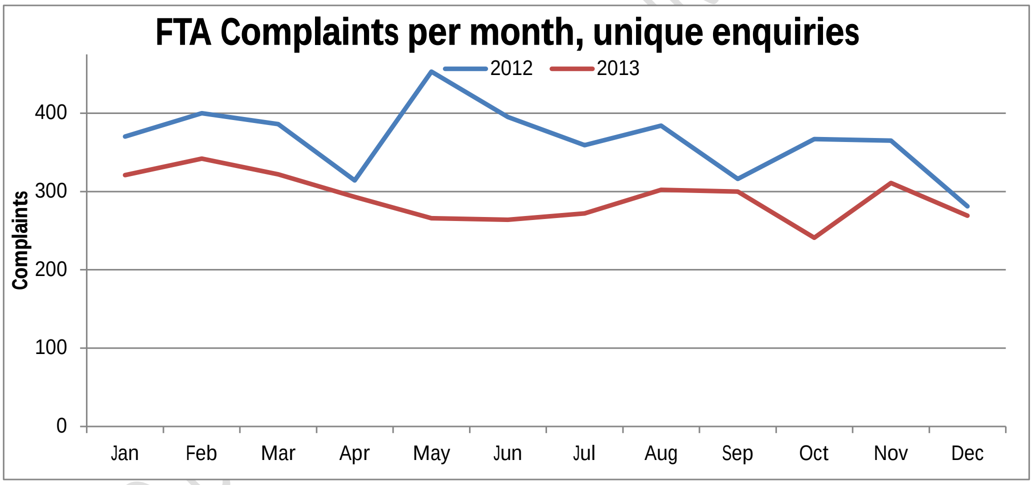
## Attachment B – Fair Trading Act, 2013 complaints analysis

The following uses Fair Trading Act (FT Act) enquiry data for the 2012 and 2013 calendar years.

- In 2013, FT Act enquiries decreased by 15% from 2012 levels.



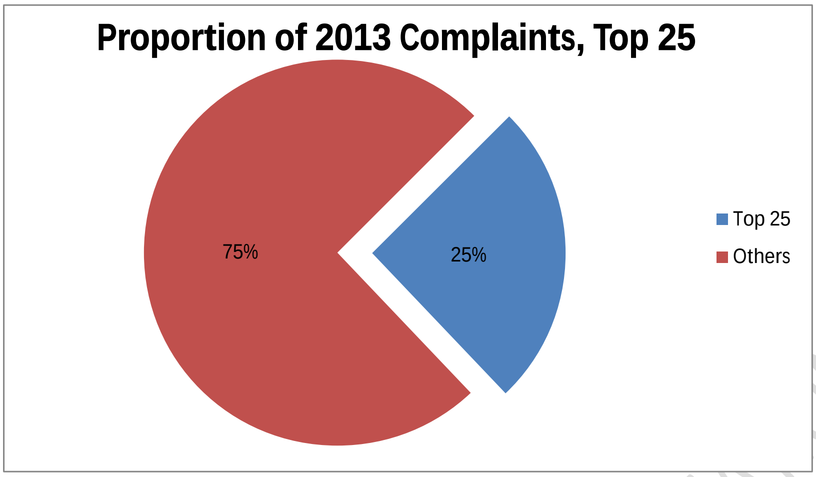

- In 2013, FT Act complaints decreased by 20% from 2012 levels.



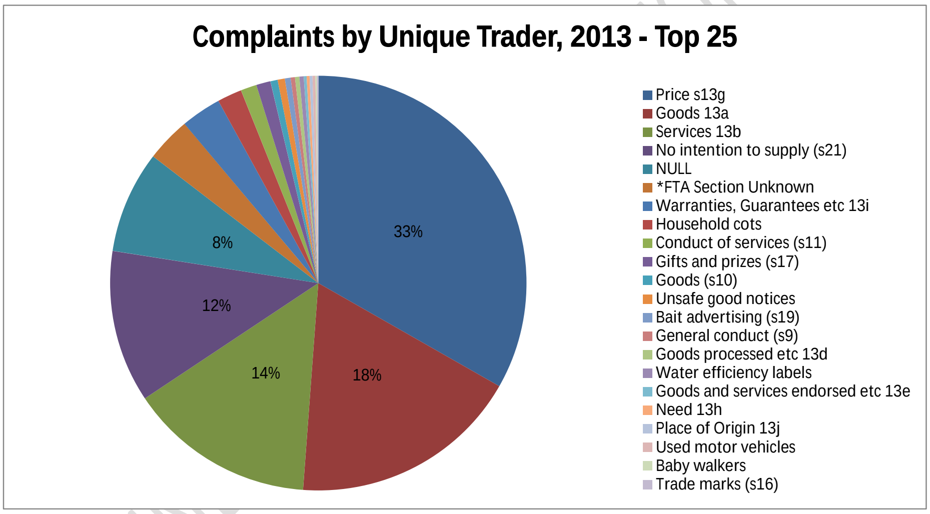

- The proportion of complaints to enquiries in 2013 was 72%.

# 72%

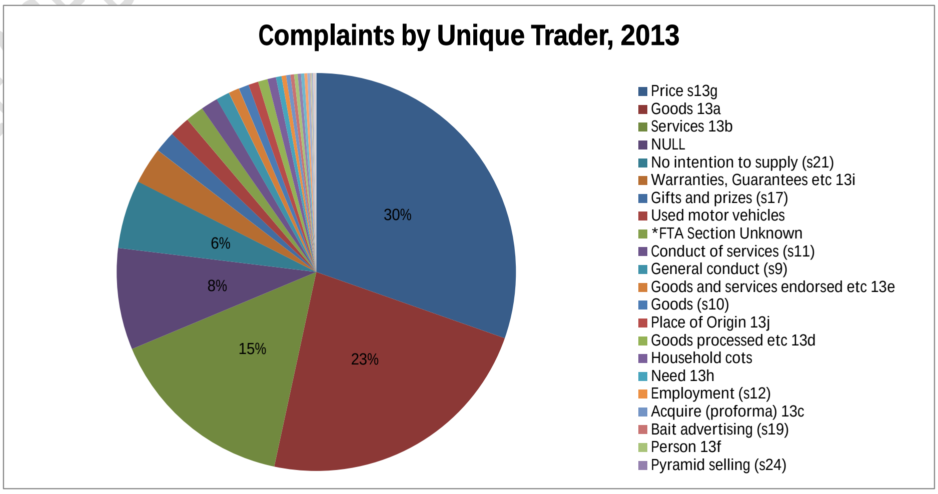
- Of the 1,652 traders complained about in 2013, the Top 25 accounted for about 25% of complaints.



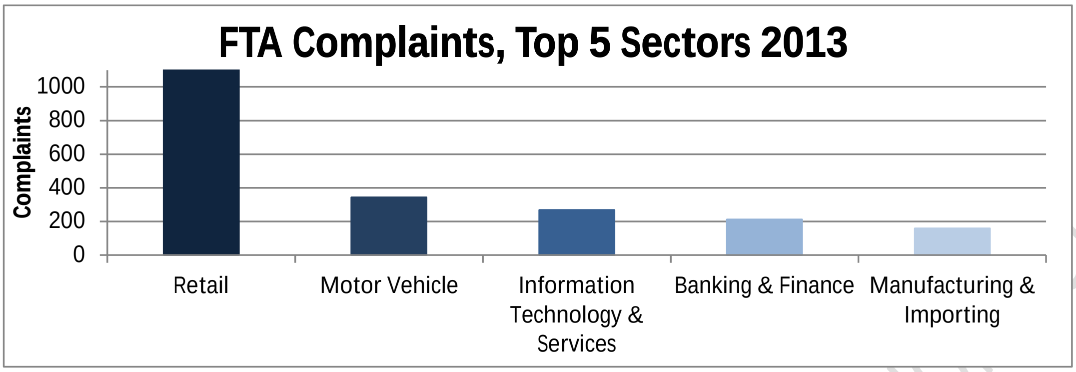

- With complaints linked to the Top 25 traders, almost two thirds related to section 13; mainly misrepresentation in price, but also goods and services.



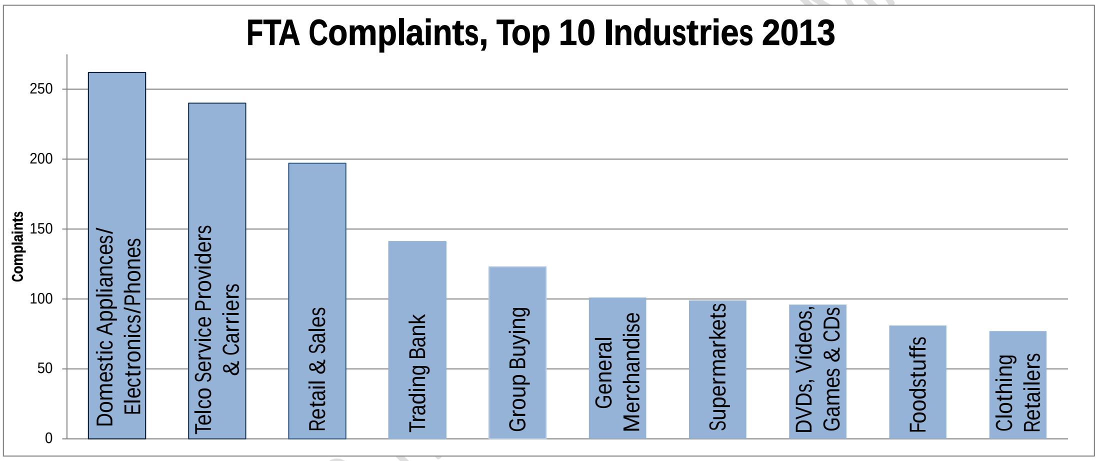

- Comparing traders generally, again almost two in three complaints related to section 13, although the emphasis on price declined and goods increased.



- Of the Sectors identified in the 2013 data, the Top 5 accounted for one in two complaints (56%, excluding those complaints where a sector was not recorded). Retail (1,117) had more complaints than the next four sectors combined (984).



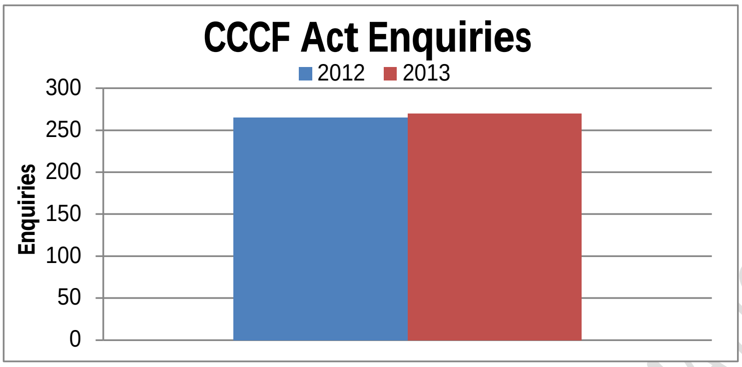

- Of the Industries identified, the Top 10 accounted for about 40% complaints.



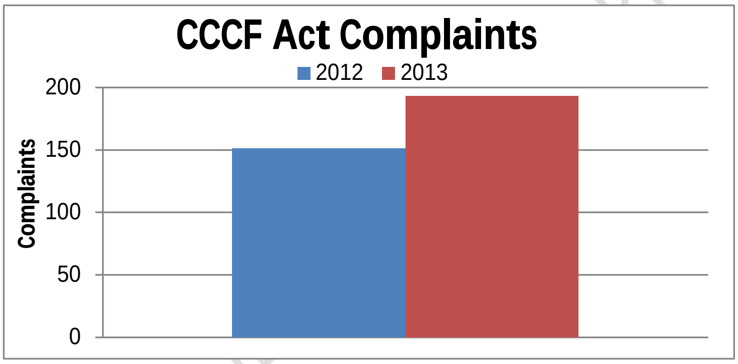
## Attachment C – CCCFA, 2013 complaints analysis

The following uses Credit Contract and Consumer Finance Act (CCCF Act) enquiry data for the 2012 and 2013 calendar years.

- In 2013, CCCF Act enquiries increased by 2% from 2012 levels.



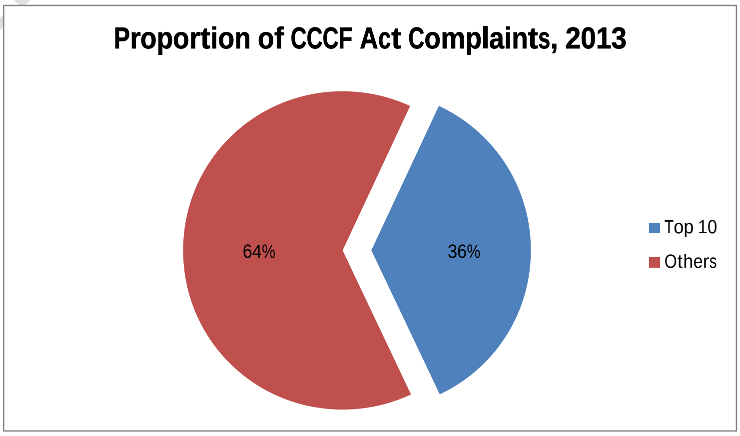

- In 2013, CCCF Act complaints increased by 28% from 2012 levels.



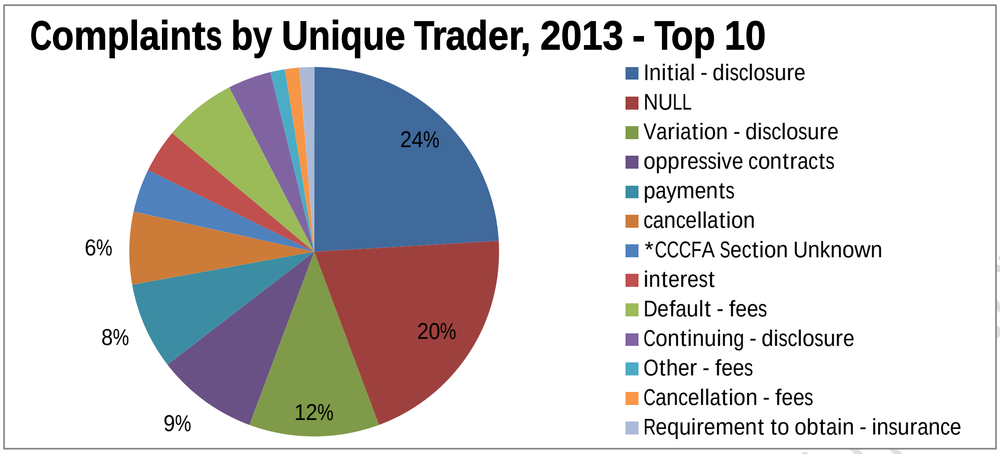

- The proportion of enquiries to complaints in 2013 was 71%.

# 71%

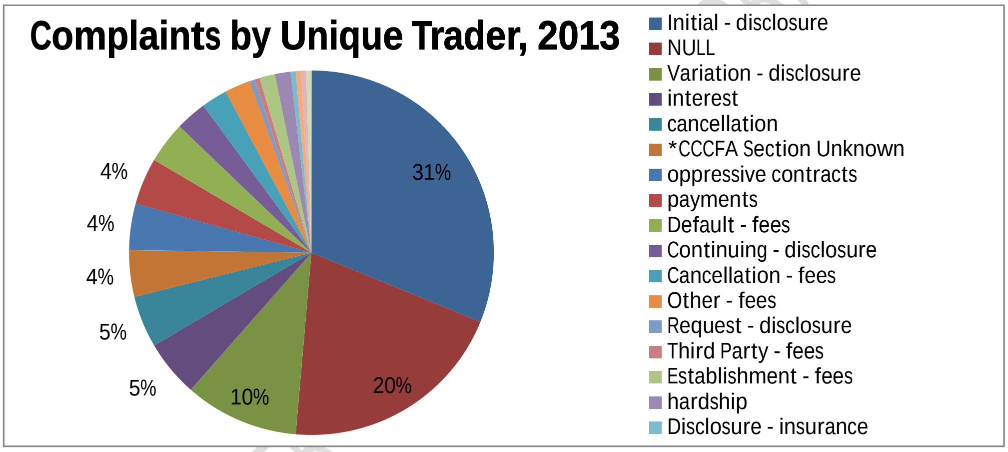
- Of traders complained about in 2013, the Top 10 accounted for about one in three complaints.



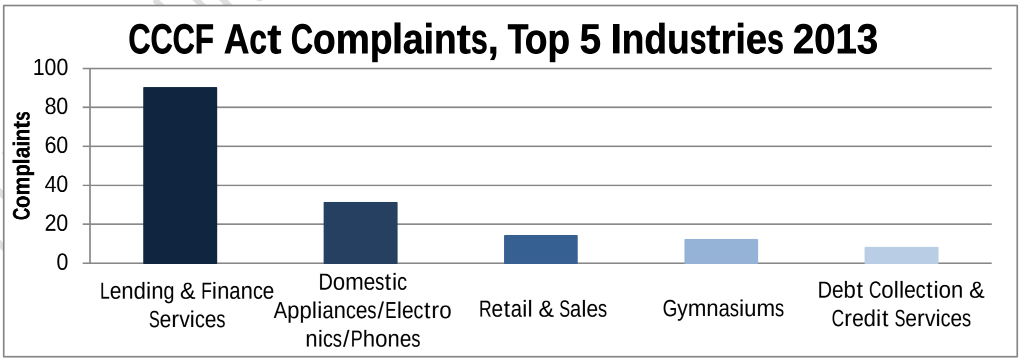
- With complaints linked to the Top 10 traders, about one in four related to initial disclosure.

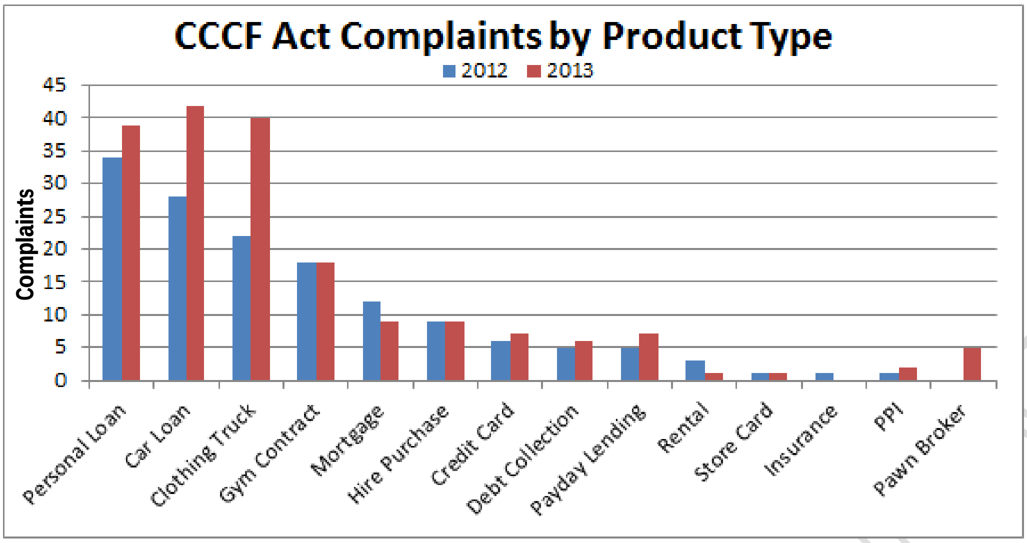


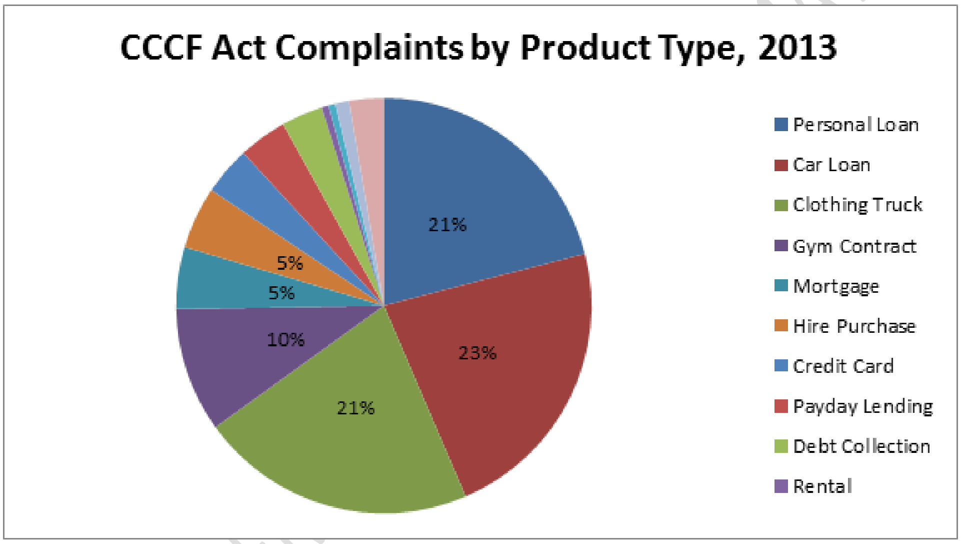

- Comparing traders generally, about one in three complaints related to initial disclosure.

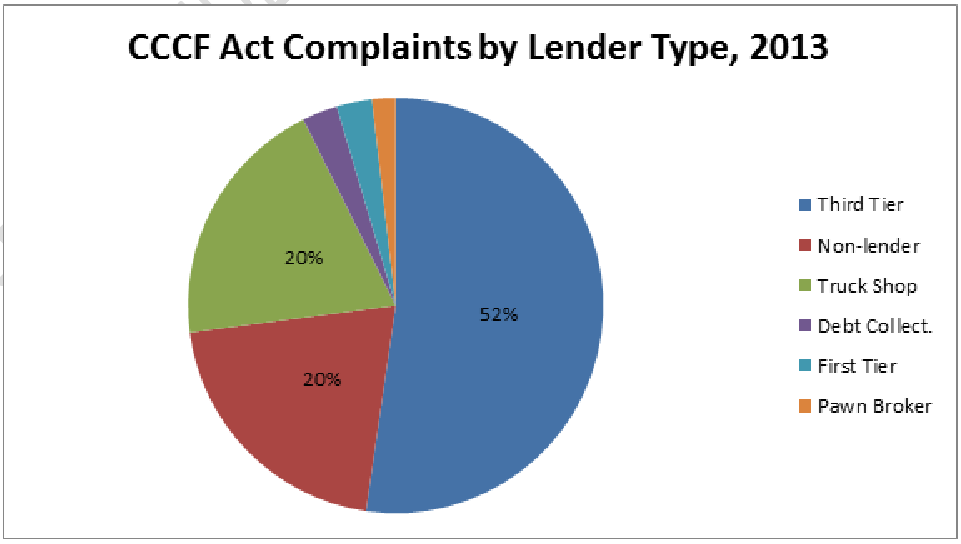



- Of the Sectors identified in the 2013 data, the Top 5 accounted for almost nine in ten complaints (86%, including those complaints where a sector was not recorded).




CCCF Act Complaints by Product Type
2012
2013
Complaints
45
40
35
30
25
20
15
10
5
0
Personal Loan
Car Loan
Clothing Truck
Gym Contract
Mortgage
Hire Purchase
Credit Card
Debt Collection
Payday Lending
Rental
Store Card
Insurance
PPI
Pawn Broker


CCCF Act Complaints by Product Type, 2013
21%
23%
21%
10%
5%
5%
Personal Loan
Car Loan
Clothing Truck
Gym Contract
Mortgage
Hire Purchase
Credit Card
Payday Lending
Debt Collection
Rental


CCCF Act Complaints by Lender Type, 2013
52%
20%
20%
Third Tier
Non-lender
Truck Shop
Debt Collect.
First Tier
Pawn Broker

This table details our top 10 most complained about consumer lenders.

| 2013, Top 10 | Count | Enquiry... | | | | | |
|---|---|---|---|---|---|---|---|
| **Budget Loans Limited** | | | | | | | |
| Oppressive contracts | 6 | 280688 | 284138 | 284241 | 284895 | 284991 | 285696 |
| Variation - disclosure | 6 | 281286 | 281794 | 283106 | 283418 | 283606 | 283702 |
| NULL | 4 | 282201 | 282423 | 283318 | 287487 | | |
| Default - fees | 3 | 284510 | 286184 | 287114 | | | |
| Initial - disclosure | 2 | 282056 | 284245 | | | | |
| Payments | 2 | 282280 | 282524 | | | | |
| Interest | 1 | 284163 | | | | | |
| Requirement to obtain - insurance | 1 | 285533 | | | | | |
| **U Buy Limited** | | | | | | | |
| Initial - disclosure | 4 | 280655 | 281124 | 281526 | 284924 | | |
| NULL | 2 | 281633 | 287622 | | | | |
| Cancellation | 2 | 281213 | 287155 | | | | |
| Cancellation - fees | 1 | 280685 | | | | | |
| **Home Direct Limited** | | | | | | | |
| NULL | 3 | 280641 | 281649 | 287989 | | | |
| Initial - disclosure | 2 | 283217 | 283454 | | | | |
| Other - fees | 1 | 283008 | | | | | |
| *CCCFA Section Unknown | 1 | 279990 | | | | | |
| **Layaway Depot Limited** | | | | | | | |
| Initial - disclosure | 3 | 283154 | 286439 | 287251 | | | |
| NULL | 2 | 281292 | 284645 | | | | |
| Cancellation | 2 | 281274 | 282048 | | | | |
| **DSN Limited T/A Direct Shopping Network** | | | | | | | |
| Initial - disclosure | 4 | 280678 | 281510 | 281657 | 283385 | | |
| *CCCFA Section Unknown | 1 | 281730 | | | | | |
| Continuing - disclosure | 1 | 280856 | | | | | |
| **Evolution Finance Limited** | | | | | | | |
| Payments | 3 | 282524 | 284388 | 285376 | | | |
| Interest | 2 | 284163 | 284257 | | | | |
| Continuing - disclosure | 1 | 282907 | | | | | |
| **Thorn Rentals NZ Limited T/A DTR** | | | | | | | |
| Initial - disclosure | 1 | 282928 | | | | | |
| Default - fees | 1 | 284575 | | | | | |
| *CCCFA Section Unknown | 1 | 285040 | | | | | |
| Continuing - disclosure | 1 | 283976 | | | | | |
| **Financial Holdings Limited** | | | | | | | |
| Variation - disclosure | 1 | 288029 | | | | | |
| NULL | 1 | 283375 | | | | | |
| Establishment - fees | 1 | 280888 | | | | | |
| Initial - disclosure | 1 | 282410 | | | | | |
| **GE Finance and Insurance** | | | | | | | |
| NULL | 2 | 282690 | 284329 | | | | |
| Variation - disclosure | 1 | 280602 | | | | | |
| Initial - disclosure | 1 | 284194 | | | | | |
| **Aotea Finance Limited** | | | | | | | |
| Variation - disclosure | 2 | 283617 | 287450 | | | | |
| Oppressive contracts | 1 | 281222 | | | | | |
| Payments | 1 | 283214 | | | | | |

## Attachment D – [ ]data

[redacted]

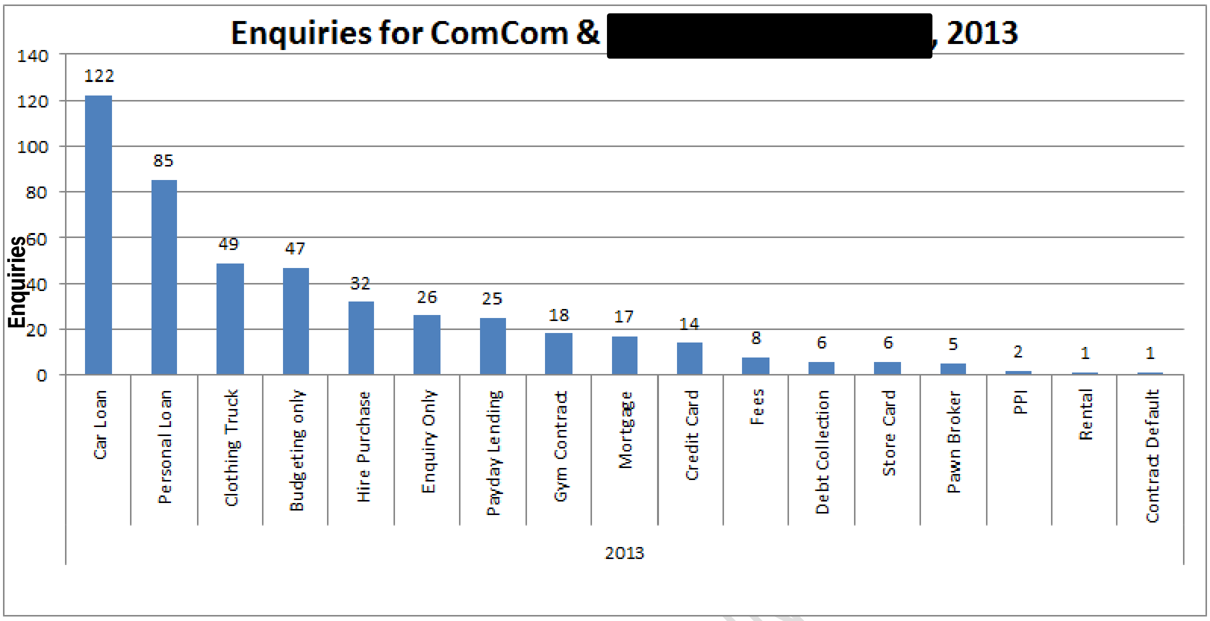
[redacted]

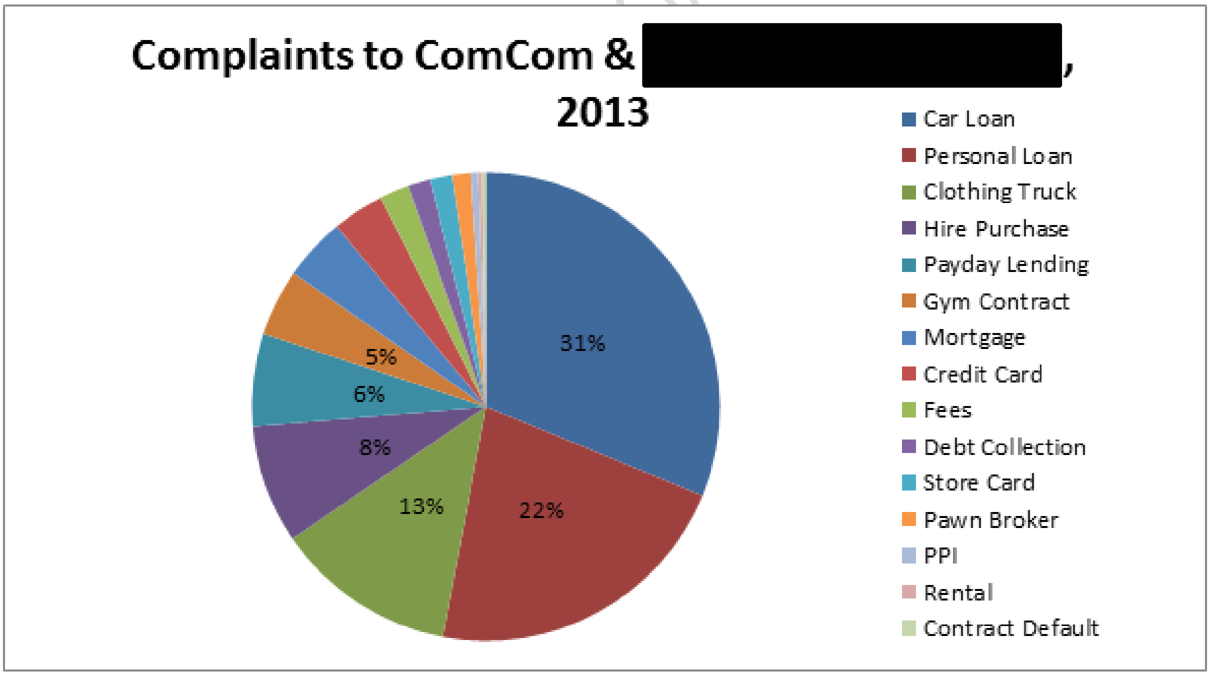
[redacted]

Top 10 [ ]most complained about lenders

| | |
|---|---|
| **[ ]** | **16** |
| Car loan | 10 |
| Personal Loan | 6 |
| **[ ]** | **11** |
| Personal Loan | 6 |
| Car loan | 4 |
| Payday lending | 1 |
| **[ ]** | **10** |
| Car loan | 4 |
| Hire Purchase | 2 |
| Personal Loan | 2 |
| Store card | 2 |
| **[ ]** | **9** |
| Personal Loan | 5 |
| Car loan | 2 |
| Payday lending | 2 |
| **[ ]** | **5** |
| Personal Loan | 2 |
| Fees | 1 |
| Car loan | 1 |
| Credit card | 1 |
| **[ ]** | **5** |
| Car loan | 5 |
| **[ ]** | **4** |
| Car loan | 4 |
| **[ ]** | **4** |
| Car loan | 3 |
| Personal Loan | 1 |
| **[ ]** | **4** |
| Car loan | 3 |
| Personal Loan | 1 |
| **[ ]** | **4** |
| Fees | 2 |
| Credit card | 1 |
| Personal Loan | 1 |

# Attachment E – aggregated [ ] and Commission CCCFA data



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