From: Andrew Body [redacted]
Sent: Tuesday, April 16, 2024 10:31 AM
To: marketstudies <marketstudies@comcom.govt.nz>
Subject: Submission to the Commerce Commission on its draft report on personal banking services

Hi there

The Commerce Commission's draft report on personal banking services has made an important contribution to thinking about banking services in NZ.

Thank you for the opportunity to make a submission on the draft report. I offer the following comments to the Commission for its consideration.

Financial system stasis or stability?

The Commission's draft report correctly identifies that personal banking services are highly regulated by the RBNZ for the purpose of underpinning stability of the financial system.

However the RBNZ confuses stasis for stability in the NZ's financial system. It does this in two ways.

First in regard to technological development. The RBNZ has limited, if any, jurisdiction over international technology organisations that offer market disruptive services into the NZ personal banking services market (particularly in the payments area at the moment, but this is quite capable of extending into savings and credit services). These organisations can quickly move from "too small to save" to "too big to fail" in terms of their importance to a financial system. The use of private data in service offerings outside a regulatory framework will also disrupt the overall financial system.

So in fact, given its lack of appreciation of the trade-offs and apparent rejection of the proposition that competition is at least not necessarily bad for stability, the RBNZ is likely to end up in a position where it over-regulates and causes unstable stasis in the regulated NZ financial system that is in turn undermined by rapid technological innovation in parts of the market that it cannot regulate.

Second in regard to demographic change. NZ's demographics are now rapidly changing as baby boomers die. Very soon baby boomers will no longer be the dominant political demographic in NZ. They will be replaced by younger generations that have less ownership of housing. These generations will be more inclined to vote for politicians that are willing to intervene in RBNZ's prudential rules to improve home ownership affordability. RBNZ's views about the benefits of its stasis will be overridden and the financial system will be less stable than it could have been with more competition.

I note that despite the RBNZ saying it would investigate the distribution impacts of its prudential management it has not provided any substantive research on the topic.

The RBNZ does not accept that competition and diversity is potentially an antidote to the problems of rapid technological, information and demographic change. This is a very serious problem in its approach to financial system stability as well as competition.

Relative risk weightings damage competition in housing tenure and therefore affordability

The relativity of the risk weightings for lending classes and indeed the appropriateness of what is in particular lending classes has not been touched on in the draft report. While I note footnote 519 of the draft report referring to the financing of housing developers it does not refer to the financing of housing ownership. Clearly “home loans” are within the scope of the market study.

The RBNZ’s approach to relative risk weightings and lending classes has largely determined that the alternative housing tenures (legal forms of occupation) available in nearly all of the western world are not available in New Zealand. It is not a coincidence that Australia has the same problem – RBNZ has adopted APRA’s approach the risk weightings. Given declining housing affordability in NZ it is important that this problem of financing housing ownership (quite apart from housing development) is highlighted by the Commerce Commission. Housing ownership financing is a key component of personal banking services that is not operating efficiently to create competition in housing tenure. It is a very serious problem for NZ.

RBNZ macroprudential policies reduce competition between banks

I suspect that the RBNZ’s macroprudential policies also reduce competition between big and small banks by preventing smaller banks from having different or niche mortgage portfolio characteristics that they can use to compete in the market.

Best regards

Andrew Body
[redacted]

[redacted]