



7 September 2023

NZ Commerce Commission  
Market Study into Personal Banking Services  
PO Box 2351  
Wellington 6140  
New Zealand

## **Response to Preliminary Issues Paper: Market Study into Personal Banking Services**

Kia Ora,

We thank the Commerce Commission for this opportunity to respond to the Preliminary Issues Paper for the Market Study into Personal Banking Services. Wise views the Market Study as a generational opportunity to improve customer outcomes for consumers in New Zealand.

Wise makes for a fairer, more dynamic and more productive economy in New Zealand through our provision of low cost, transparent, cross-border payments.

Reform to increase competition in the space for international payments will likely yield considerable productivity gains for the New Zealand economy, reduce the cost of living for ordinary people in New Zealand and improve the value of remittances being sent and received by those in New Zealand and neighbouring countries near and far.

### **About Wise**

Wise is a global technology company, building the best way to move and manage the world's money.

With Wise Account and Wise Business, people and businesses can hold over 40 currencies, move money between countries and spend money abroad.

Large companies and banks use Wise technology too; an entirely new network for the world's money. Co-founded by Kristo Käärman and Taavet Hinrikus, Wise launched in 2011 under its original name TransferWise. It is one of the world's fastest growing,

profitable tech companies and is listed on the London Stock Exchange under the ticker, WISE.

16 million people and businesses use Wise. In fiscal year 2023, Wise processed approximately £105 billion in cross-border transactions, saving customers around £1.5 billion.

## **Overview of Personal Banking Services in New Zealand**

***Q1 Do you agree with our description of the structure of the personal banking sector? If not, please explain.***

Wise broadly agrees with the description of the structure of the personal banking sector.

***Q1.1 Are there any other key participants or stakeholders that play a major role in the sector that we have not mentioned in this paper? If so, please identify them and explain their role.***

Wise broadly agrees with the key participants and stakeholders identified in the Preliminary Issues Paper, however, we note that the presence of disruptors in the banking and financial services space is not limited to 'online-only banks' but also includes those who conduct payment services or other similar services without seeking banking licences.

***Q1.2 What are useful measures of concentration/market share within the personal banking sector? Please describe the measures and explain your reasoning.***

Wise views prices as the most useful and important determinants of whether a market is experiencing unfair levels of concentration. For example, the market for domestic payments is highly concentrated amongst the biggest four banks in New Zealand, yet the costs of these domestic payments to consumers is - at least with internet banking - effectively free for the consumer.

As the Minister's stated objective in his Cabinet proposal is to reduce the cost of living, by extension the key issue is not whether there is excessive market concentration in and of itself, but rather if this market concentration leads to adverse customer outcomes and higher prices.

***Q2 Do you agree with our description of the regulatory environment for the personal banking sector? If not, please explain.***

Wise broadly agrees with the description of the regulatory environment for the personal banking sector.

***Q3 Please describe any other legislation, regulations, or other regulatory instruments that may be relevant to understanding competition in the personal banking sector.***

Wise has no comment on this question.

***Q4 What aspects of competition in the personal banking sector have a particular impact on Māori?***

Wise has no comment on this question but notes the importance of ensuring that the products and services we provide to our customers are useful to those from diverse backgrounds.

***Q5 Do you agree with our preliminary observations of publicly available bank financial performance data (including those set out in Attachment C)? If not, please explain.***

Wise has no view on the profitability or otherwise of banks and financial institutions in New Zealand and prefers to focus on the specific matter of high costs of international transfers.

***Q6 Please describe the factors that have the most influence on the financial performance of New Zealand personal banking service providers.***

Wise has no comment on this question.

***Q7 Do you agree with our description of the digital innovation and digital disruption trends in New Zealand and overseas? If not, please explain.***

The ability of digital innovators and disruptor firms to compete with banks in New Zealand is stymied by financial institutions' ability to obscure their prices to customers and prevent them from switching to providers who provide lower costs for the same service.

The potential benefits of digital innovation in New Zealand are that it presents a potential opportunity for more competition with better consumer outcomes which can only be realised with updated regulation illustrating to customers the true costs of particular products and services.

In short, the presence in the marketplace of more digital disruptors should be the means by which the ends of better customer outcomes will be achieved - not sought as the end in itself.

***Q8 Do you agree with our initial choice of personal banking services to focus on? If so, why? If not, which services should we focus on, and why?***

Wise does not agree with the initial choice of personal banking services outlined in the preliminary issues paper as a focus of this market study.

In its current form, it is unlikely that this market study will identify the most effective ways to improve cost of living outcomes for ordinary New Zealanders in regards to financial services.

While the direction from the Minister in his Cabinet minute is that there should be, “a primary focus on personal banking services such as current, deposit, and overdraft account services, personal loans, and mortgage and credit card lending, and less of a focus on financial services such as KiwiSaver, wealth management, insurance, and foreign exchange.” We believe that this direction stands at odds with the desire for the market study to be a, “response to increasing costs of living.”

If this market study is intended to help reduce the cost of living, the government should give a freer hand to the Commerce Commission to focus on potential markets where consumer outcomes are not only poor but also where intervention can best improve competition and achieve reductions in cost of living.

Wise believes the study should focus on markets where the smallest potential intervention can have the largest impact in promoting competition, yielding lower prices for consumers in the market for financial services.

Focusing on the size of a market as an analogue for impact is a red herring. Just because a market is large does not necessarily mean that it is ripe for regulatory intervention to yield cost of living outcomes.

For example, in certain sectors where there is a large market and a high level of market concentration - for instance in the market for current accounts which do not have significant competition outside the big four banks - prices for these products are still very low, often effectively free.

In other markets and product areas, such as the market for international payments and currency exchange, there are many competitors in the market and a greater dispersal of market concentration, yet prices remain high.

Wise proposes that the Commerce Commission focus on markets where there are:

- a) Significant disruptors who are already operating in the market;
- b) Potential consumer gains from further disruption; and,
- c) Feasible interventions to improve competition in order to produce the greatest outcomes for reductions in consumer cost of living.

Wise recommends that the Commerce Commission look directly at the market for international payments and foreign exchange along the same lines as the Australian Competition and Consumer Commission did in their 2018-19 inquiry into Foreign Currency Conversion Services.<sup>1</sup>

The market for foreign exchange and international payments is one which is large and where small interventions can yield considerable competition improvements and reductions in the cost of living. The amounts paid in personal remittances alone from New Zealand are in excess of \$1.5 billion NZD a year according to the World Bank.<sup>2</sup> This does not include payment for retail or other purposes making the total addressable market considerably larger.

Wise estimates the costs of these transactions to be, for many market participants, in excess of 5% of the amounts sent based on an examination of comparable markets. Wise also notes that the fees for these products are primarily hidden in a marked up retail FX rate given to customers which deviates significantly from the mid-market rate as would be found on Google or Reuters.

Given that Wise has, on average, a global fee of approximately 0.67% the potential benefit to customers for international payments of a more competitive market would be immense if only there were adequate transparency in the pricing regime for international payments and transfers.

Wise proposes that the commerce commission inquire into the market for international payments with a view to developing a regime for transparency of pricing of these products in New Zealand.

By focusing this study on the financial products where the most immediate impact can be found the stated intention to reduce the costs of living can be realised. If, however, the direction of this Market Study is towards topical products from major banks to address political concerns, this will be a missed opportunity to promote genuine policy change to reduce the cost of living.

***Q9 Is competition more or less intense between or within any particular group of providers? Please explain your reasoning. For example, is competition most intense between bigger banks and smaller banks? Or most intense within fintech?***

Given that banks and fintechs offer services which compete directly with each other, one would say that there is no difference between competition between big banks, small banks and fintechs. Provided that a company offers a service in a particular area there would be competition.

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<sup>1</sup> <https://www.accc.gov.au/about-us/publications/foreign-currency-conversion-services-inquiry-final-report>

<sup>2</sup> <https://data.worldbank.org/indicator/BM.TRF.PWKR.CD.DT?locations=NZ>

Whether this competitive tension yields any outcomes for consumers is not something that Wise has any particular information about.

***Q10 Please describe how personal banking service providers compete to gain and retain customers. Please explain your answers and provide examples. For example:***

***Q10.1 Do providers put the same amount of effort into gaining and retaining customers?***

Given our position as a disruptor in the financial services industry, Wise competes on the basis of providing a superior product and service at a lower price point.

***Q10.2 Which services are subject to greater competition and which services are subject to less competition?***

Given that we do not operate across as large a number of products in New Zealand as might a traditional bank and therefore we are unable to give a fulsome answer.

However, we note that while almost all banks in New Zealand provide foreign exchange services, the levels of competition are relatively low as evinced by the stubbornly high mark up in FX rates over the mid-market rate.

***Q10.3 Please describe how important national branding is to competing for personal banking services.***

Wise does not have an answer to this question as we are an international brand.

***Q10.4 Please describe how important having a physical presence is (eg, branch network) to competing for personal banking services.***

As Wise provides an “online-only” service in every country in which we operate we believe that a physical presence is unnecessary in order to compete for the specific international money transfers services that we provide.

***Q10.5 Please describe how competition for personal banking services varies between regions.***

Wise has no comment on this question.

***Q11 How varied are home loans and deposit accounts between providers? What are the key features by which these services are differentiated?***

Wise has no comment on this question.

***Q12 What interactions do banks and other providers of personal banking services have with each other?***

Wise has a myriad of interactions with banks as we use their services to assist us in the day to day delivery of our products. For example we use large banks to purchase liquidity or to hold bank accounts in countries where we operate and do not have direct access to the payments infrastructure.

Wise also provides our platform to banks to use to provide foreign exchange to their customers. We term this “Wise Platform” and it operates with many major banks and fintechs around the world.

***Q13 What role do mortgage brokers or other intermediaries play in the market? What is their impact on competition?***

Wise has no comment on this question.

***Q14 How do banks and other service providers segment their customers? Why?***

Wise segments its customers between personal, business and our “Platform” product which is geared towards providing our infrastructure to financial institutions.

We segment our customers in this way to ensure that they are given access to products and services which most suit their needs.

***Q15 How well is competition for personal banking services working for different population groups in New Zealand? Why/why not? For example, how well is competition working for rural, Pacific, older or Māori populations?***

While many New Zealanders are making international payments every day whether it is through purchases in foreign denominated currencies, travel payments or payments for remittances or other international payment needs, Wise notes that those who use international payments the most are remitters - those migrants who send money home to their families abroad.

These populations are usually in more vulnerable situations than those who are not remitting funds home.<sup>3</sup> They are often in insecure work, have considerable strain on their household budgets and make considerable sacrifices to send money back to their families.

The high costs of international payments are a considerable strain on budgets for these households who remit and reducing these costs of living are a key value offering for those who are using Wise.

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<sup>3</sup> <https://www.imf.org/external/pubs/ft/fandd/basics/pdf/ratha-remittances.pdf>

***Q16 Which conditions of entry or expansion in the personal banking sector most significantly affect competition?***

Wise does not view conditions of entry or expansion in the personal banking sector as being the issues which most affect competition. Global firms like Wise are currently able to operate in New Zealand and will continue to seek to operate in New Zealand into the future.

Wise believes that the predicate matters which affect competition the most in a market are the illustration of costs to consumers and the ability of traditional firms to obfuscate their fees, confuse their customers and undermine the ability of challenger firms to illustrate the benefits of their products.

***Q17 How does the regulatory environment impact on entry or expansion in the personal banking sector?***

See question 16.

***Q18 How do you expect proposed open banking reforms to affect conditions of entry and expansion in the personal banking sector? Please explain your reasoning.***

Wise does not view the proposed open banking reforms as an adequate solution to the issues of competition in the personal banking sector.

The experience of the Consumer Data Right in Australia is an illustration that not only does an open banking regime take a considerable amount of time to develop and implement, but it also lacks uptake where there are insufficient use cases.

Competition in the banking sector will come not only as a result of lower barriers to entry, but to the underlying regulation of how information - particularly price information - is displayed to customers allowing them to make more informed choices resulting in more switching between firms.

***Q19 What are recent examples of actual or potential entry, expansion or exit in the sector that we should be aware of? Please provide as much detail as possible.***

Wise has no comment on this question.

***Q20 How do personal banking consumers select their first bank or personal banking service provider?***

Wise has no comment on this question.

***Q21 How often and why do personal banking consumers:  
Q21.1 search for a new service provider?***



Wise does not have New Zealand specific information on this question however we note that research on consumer switching in other markets shows that consumers don't switch with any great ease and that significant motivating factors need to be in place in order to encourage consumers to search for a new provider and also switch to a new provider.

In respect of international currency transfers, the Behavioural Insights Team in the United Kingdom has researched the most effective means by which a consumer can ascertain the true value of an international payment noting that the presence of hidden fees as a shrouded attribute hinders competition.<sup>4</sup> Wise contends that with greater transparency in this space comes more competition and therefore lower costs of living for consumers who are conducting international payments.

***Q21.2 switch to a new service provider?***

See Q21.1.

***Q22 Please describe any factors that might prompt or hinder a consumer searching and/or switching to an alternative provider of personal banking services.***

The absence of a clear and up front indication of the costs of an international transfer greatly stymies consumer switching in international payments. As noted above, in their examination of this market the United Kingdom's Behavioural Insights Team found that with more information presented to the customer the greater chance a consumer could choose the cheapest option for their international money transfer.<sup>5</sup>

With more information provided to consumers and the presentation of the true costs of an international transfer inclusive of the fee contained in the FX markup, there will be an initial and considerable prompt for consumers to begin the process of choosing a new provider and an ability for consumers to compare between providers more easily.

***Q23 What tools are available to help consumers search, compare, and switch providers of personal banking services?***

Presently there are no requirements that consumers are presented with necessary information that would assist them to search, compare and switch providers of international money transfer providers.

Wise's policy solution is to recommend that the Commerce Commission require that providers of international money transfers and payments be required to illustrate up front the total cost of the transaction inclusive of fixed fees and the fee contained in

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<sup>4</sup> <https://www.bi.team/publications/the-impact-of-improved-transparency-of-foreign-money-transfers-for-consumers-and-smes/>

<sup>5</sup> *ibid.*

the difference between the mid-market rate and the retail rate offered by the financial institution.

This can be accompanied or be integrated into a customisable currency calculator which can be used by a consumer to calculate their total costs and then this information can be used by the consumer to compare between and switch providers for international payments.

***Q24 Please identify any personal banking services that are either tied or bundled with other services. Please describe the impact on competition.***

Wise has no comment on this question.

***Q25 Please describe the innovation you have observed in the personal banking sector in New Zealand over the past five years? Please describe and give examples.***

Wise has no comment on this question.

***Q26 How does innovation in the personal banking sector in New Zealand compare to overseas markets? Please describe and give examples.***

Wise has no comment on this question.

***Q27 Please describe any latent demand for new personal banking services that is currently being unmet. Please describe and give examples.***

Wise has no comment on this question.

***Q28 What are the main incentives for providers to innovate in the personal banking sector? Please describe the nature and strength of these incentives.***

Wise notes that the incentives for providers to innovate in the personal banking sector should be to provide their customers with better quality products and services at lower prices in order to deliver more market share and greater returns on the investments placed into the firm.

When innovations in personal banking services are stymied through pricing structures which allow firms to keep their prices opaque, the incentives to innovate and to provide better and lower cost services is diminished.

***Q29 What are the most significant impediments to innovation in the personal banking sector in New Zealand? Please describe and give examples.***

Firms who innovate globally will be more inclined to invest in New Zealand and roll out their products when they can compete and see a return on their investments. If the

market is structured in such a way that the illustrations of the more competitive pricing of newer and more innovative products is hidden, then there is less of an incentive to invest in newer products and services.

A specific example is that Wise offers international currency payments at a fraction of the cost of major banks. Globally across all our corridors, we have an average cost of 0.67% per transaction. A high street bank usually charges in excess of 5% for these transactions and oftentimes much more.

In a rational market with clear illustrations of price to consumers and everything else being equal, consumers would select a firm which offers the lowest price. The reality is that with the current rules around price transparency in New Zealand, consumers have these costs hidden and therefore there is less competition.

***Q30 What impact, if any, does ownership structure have on providers' ability and incentive to innovate?***

Wise has no comment on this question.

***Q31 Are there any other analyses or factors not raised in this paper that could be relevant to this study? Please explain your answer.***

Wise has no comment on this question.

***Q32 Which analyses and factors do you think should be a priority for the Commission to focus on? Please explain your answer.***

As mentioned in previous answers, the key analysis which should be conducted by the Commerce Commission is to focus on markets and services which can yield the greatest improvements from the most modest interventions.

Given the improvements which can be made to the market for foreign exchange and international payments from simple changes to the way in which these products are priced, Wise reiterates its call for the Commerce Commission to inquire into the market for foreign exchange and international payments with a view to bringing true price transparency to this market, improve competitiveness and reduce the costs of living for New Zealanders.

Sincerely,



Jack Pinczewski  
APAC Government Relations Lead