Post-conference cross submission

Market study into personal banking | v1.0 | 30 May 2024

About us

The Banking Reform Coalition was formed in May 2024 to advocate for the structural reform of the banking sector in Aotearoa New Zealand.

Our banking industry is broken. Four Australian banks are extracting stratospheric levels of profit from New Zealand families and businesses, whilst taking exceptionally low risks and benefiting from a *de facto* government guarantee. This behaviour is impoverishing our nation, whilst delivering un-earned and undeserved profits to overseas shareholders.

The sector is in need of major structural reform to stop the pillaging of our economy, restore a competitive market for banking services, and enable innovative and agile Fintech companies to deliver a new generation of financial services to Kiwis.

The Banking Reform Coalition is advocating for the legislative and regulatory changes needed to restructure the banking industry. We do not promote specific technologies or solutions, as we believe an open and competitive market for banking services will deliver the best outcomes for individuals and communities and businesses.

Our full plan for how this can be achieved – at low cost and low risk, using proven regulatory approaches – is on our website, and is attached to this document as an appendix.

The Banking Reform Coalition is a not-for-profit incorporated society, based in Tamaki Mākaurau Auckland. Enquiries and questions can be directed to:

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Executive summary

Our convener, Kent Duston, attended the Commission's conference proceedings in Tamaki Mākaurau Auckland on 13-14 May 2024. During the conference, the Australian banks seemed to put forth the view that the green loans they are all promoting is evidence of robust competition in the marketplace, and that the development and marketing of these loans is the result of innovation and responsiveness to customer demand.

We think this position is a nonsense.

As we will show in this paper, it is apparent that these loans are solely the result of ESG obligations being imposed by their largest shareholders, which require the Australian banks to put forth products and services that demonstrate compliance with specific ESG requirements. Further, the fact that all four Australian banks offer very similar products has nothing to do with competition in the marketplace; rather, the interlocking shareholdings of the largest investors in all four banks has driven consistency in product offerings and in the timing of their release to the market.

In other words, our view is that the green loans are exactly the opposite of what is claimed – they are further evidence of market failure, show a lack of genuine innovation, and are the result of anti-competitive coordination behaviour.

While it is outside the scope of the Commission's market study, we also show that the primary purpose of these loans is greenwashing, in light of the continued investment by their parent banks in the fossil fuel infrastructure that will ensure the planet will not meet the 1.5° goal set out in the Paris Agreement. The Commission may therefore wish to consider the fair trading implications of the tactics employed by the Australian banks in marketing these loans.

A facade of competition

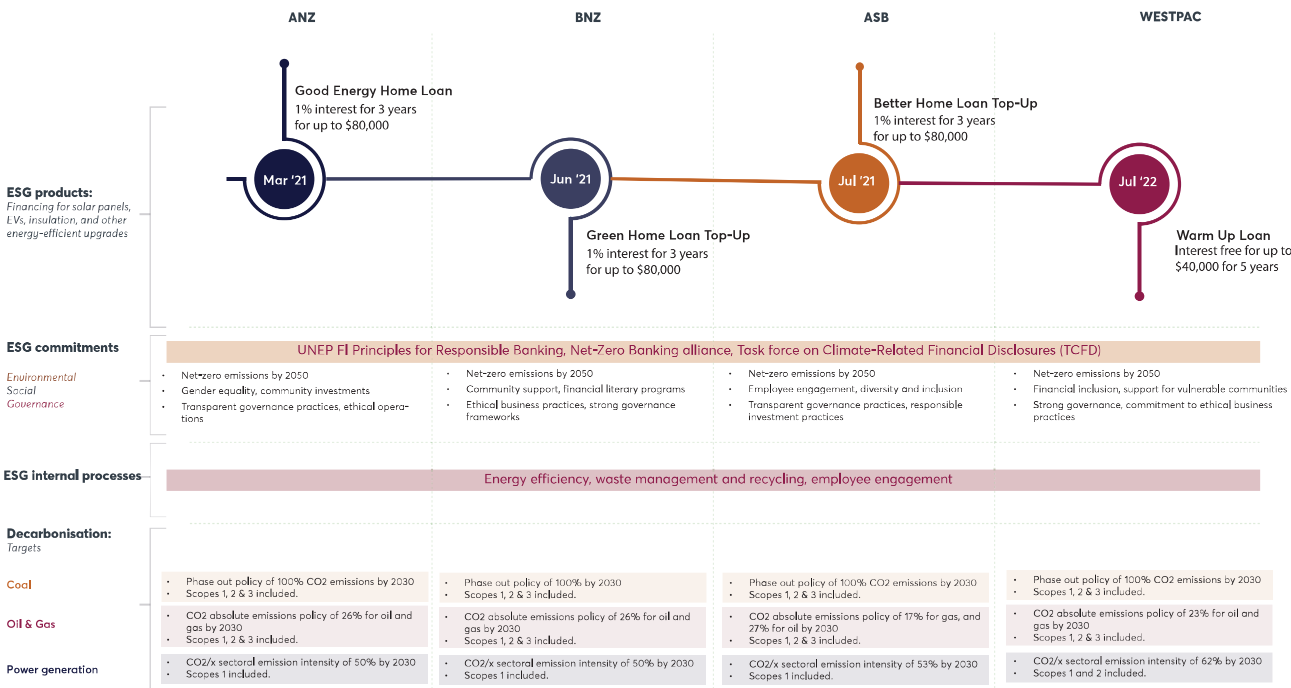
The introduction of "green loan" products by the four major banks within a short period is a clear indicator of coordinated behaviour, rather than independent competitive strategies as suggested by the banks.

As the diagram at right shows, both the timing and nature of these products suggest a highly convergent product development cycle. This is driven by the nearly identical ESG compliance obligations being adopted by financial institutions, in Aotearoa New Zealand and internationally. In most cases, these ESG obligations are influenced by the expectations of the largest investors, and by a desire from banks to pre-empt regulatory imposition of ESG metrics.

Investors prioritising ESG compliance have a direct influence on the banks to provide offerings that demonstrate good ESG practices, and which meet the ESG expectations and obligations of the investment funds. The result is a series of near-identical products launched simultaneously, creating a veneer of competition over what is little more than an industry-centric pseudo-regulatory response.

All four of the Australian banks—ANZ, BNZ, ASB, and Westpac—have significant overlaps in their ESG commitments, aligning with global standards set by organizations like the United Nations and the CDP (Carbon Disclosure Project). For instance, ANZ has been a member of the CDP since 2007 and aligns its strategies with the UN Global Compact and the Principles for Responsible Banking. Similar commitments are seen across BNZ, ASB, and Westpac, which adhere to global ESG frameworks and emphasise sustainable finance as part of their core strategies.

The adoption of similar ESG-driven products across the global banking sector means that this is not a unique proposition, nor is it a sign of market competition, but merely part of a wider industry trend.



Shareholders are driving product development

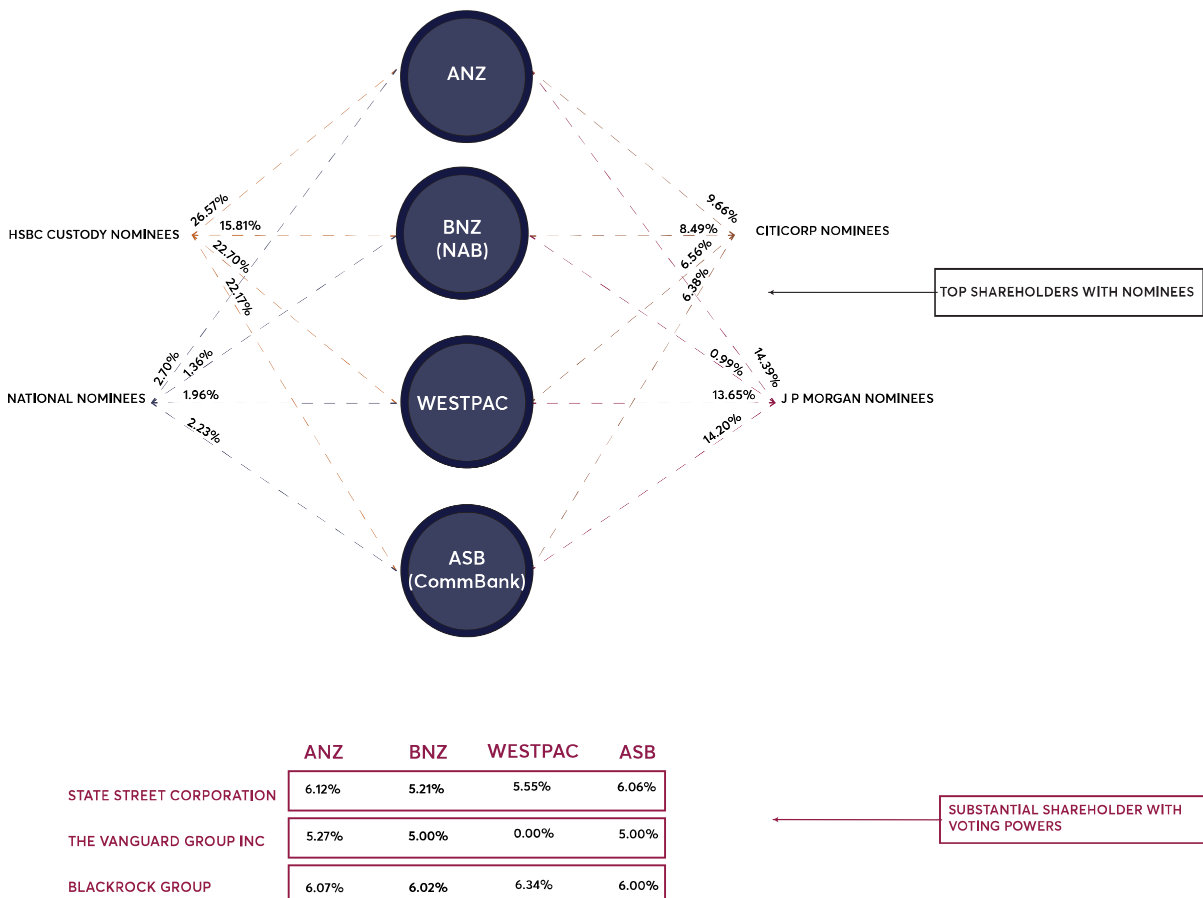
True competition would result in diverse product offerings tailored to consumer needs and market conditions. Instead, we see a homogenised market where product differentiation is minimal, and consumer choice is limited. There is an obvious link to be drawn between the similarity of large shareholders for the Big Four bank,s and the resultant uniformity in product offering.

As shown in the diagram, institutional investors like BlackRock, Vanguard, and State Street hold significant and similar voting shares across the four Australian banks. This allows investors to advocate for ESG compliance through their voting power and engagement with company governance.

The primary bank motivation for developing EGS-compliant products is not driven by a desire to increase market share in a competitive banking environment, but to meet an externally-driven compliance obligation. Nominees, as spokespeople for investors (such as J P Morgan, CitiCorp, HSBC and National) help drive this behaviour.

In this environment, it's hard to imagine that the banks would not adopt identical products in a synchronised manner (like green loans) to meet these investor and sectoral expectations. This results in price-setting rather than price-beating in the "green loans" market, which is what we have seen from the four Australian banks – functionally similar products at almost identical price points.

The near-simultaneous introduction of these products, and similar mix of shareholders of the banks raises obvious concerns around the level of coordination between the Big Four banks, and breaks the illusion of a functioning and competitive market for green loans.



	ANZ	BNZ	WESTPAC	ASB
STATE STREET CORPORATION	6.12%	5.21%	5.55%	6.06%
THE VANGUARD GROUP INC	5.27%	5.00%	0.00%	5.00%
BLACKROCK GROUP	6.07%	6.02%	6.34%	6.00%

An example of market dysfunction

The introduction of green loan products that have nearly identical offering for the big four banks highlights significant market dysfunction, characterised by barriers that disadvantage smaller banks.

The favourable terms of 1% green loans offered through the large banks are not a charitable act towards sustainability initiatives; they're made possible through the substantial profits in other areas of the banks portfolios, which can cross-subsidise the lower-margin products.

The use of phantom equity, particularly with the green loans that are secured by existing home lending, also reduces the equity requirements for the major banks. For instance, the green loan of up to $80,000 offered by ANZ is only available to existing customers, and only if they have an existing mortgage with the bank. These conditions mean that ANZ is unlikely to need additional equity to support the additional borrowing, resulting in a very low-cost product.

This skews the playing field against the smaller banks by allowing the Australian banks to use their stronger equity position and lower risk and capital requirements to deliver products that are uneconomic for the smaller banks working under tighter regulatory control. Smaller banks that can't leverage phantom equity don't have an opportunity to be a disruptive competitor, as they face higher capital costs and stricter regulatory requirements around equity.

While the Australian banks are right to point out that the green loans are offered at a price lower than their average cost of capital, it does not follow that these loans are priced lower than their marginal cost of capital. The Australian banks are notoriously stingy in paying interest on daily transaction accounts, so there are circumstances where the marginal cost of capital can be zero – for instance, if account balances in non-interest paying accounts rises.

It seems likely that the cost of the green loans may be higher than the margin on the loans for the Australian banks; however, it also seems likely that losses are well controlled by the use of phantom equity and low-cost capital. And as noted, these pathways are not as viable for the smaller banking competitors.

The green loans market is therefore an example of market dysfunction. These products only exist because:

1. The requirement to meet ESG obligations has been placed on the Australian banks by investors, and by a global desire in the financial services sector to escape regulatory intervention.
2. The products are largely synchronised because all four Australian banks are doing the bare minimum necessary to meet the ESG obligations at the lowest cost, which is why there has been negligible further innovation or product differentiation since green loans were launched.
3. The lower capital requirements and lower costs of the Australian banks compared to their New Zealand competitors – a direct result of regulatory settings – means the product type is effectively unavailable to the smaller banks.

The result is products that are defined and driven from the supply side, rather than being a response to market demand or created in a desire to obtain greater market share from a competitor. It is merely the continuation of the coordinated cartel-like behaviour that is evident in everything from the synchronisation of deposit and loan interest rates to the use of near-identical contracts.

It is therefore clear that green loans are not an example of healthy or effective competition in the banking market in Aotearoa New Zealand.

A word about sustainability

Green loans do more than meet the ESG obligations imposed by international investors: they are also a stellar example of greenwashing, bolstering the environmental credentials of the Australian banks.

However, their green credentials are exceptionally poor.

Every year the Banking On Climate Chaos project produces listings of the 60 dirtiest banks globally – and all four Australian banks have been on the list since its inception, as the table at right shows. The list details their annual loans and investments made in fossil fuel infrastructure, from coal to gas to oil, which are preventing the world from achieving the 1.5° goal set out in the Paris Agreement.

It's notable that the Australian banks have continued to fund fossil fuels more than 30 years since the Rio Earth Summit made commitments to take action on climate change, and nearly a decade after the Paris Agreement. There is simply no excuse for providing the money needed by fossil fuel companies when the scientific evidence for climate change – and its adverse effects on people, society, ecosystems and our climate – is so overwhelming.

It should be noted that the figures at right are for the Australian parent banks – but as is clear from the profit announcements, New Zealanders are disproportionate contributors to the bottom line profits of the Australian banks, so we have a large stake in the continuance of this behaviour.

Here in Aotearoa New Zealand, three banks – ASB, BNZ and Westpac – no longer directly invest in fossil fuels; as the outlier, ANZ does continue to directly fund the heating of the planet. And notably, as far as we can tell, none of the four Australian banks have yet ruled out funding the restart of fossil fuel exploration and exploitation signalled by the new Government.

FOSSIL FUEL FINANCING
$ USD (Billions)

	2018	2019	2020	2021	2022	2023	TOTAL
ANZ	$4.16b	$3.48b	$3.47b	$2.03b	$2.53b	$1.69b	$17.36b
BNZ (NAB)	$2.33b	$2.00b	$2.27b	$2.80b	$1.38b	$1.56b	$12.34b
ASB (CommBank)	$2.91b	$2.18b	$2.65b	$1.19b	$0.51b	$0.56b	$10b
WESTPAC	$1.81b	$1.39b	$1.59b	$0.75b	$1.57b	$0.69b	$7.8b

These issues are obviously outside the scope of the Commission's study – but they provide important context: as their track record on fossil fuels demonstrates, the Australian banks cannot be relied upon to do the right thing, if it stands in the way of making a dollar. This track record should be borne in mind when the veracity of their claims about the competitive environment for green loans is assessed.

Appendix | Our plan

1. / The vertical integration of the banking industry has failed New Zealand and must be ended.

We seek that the banking sector be separated into retail banks, wholesale clearing banks, and enabling infrastructure, using the same model as the telecommunications industry, in order to remove the excessive market power of the Australian banks and to allow innovation and competition to flourish.

2. / The rights of New Zealanders are more important than the rights of bank shareholders.

We seek immediate action from regulators to curtail the excessive profits of the Australian banks, action from law enforcement to prosecute them for their unjust enrichment at the expense of their customers, and their ongoing abuse of market power.

3. / We require restitution.

We seek the levying of an immediate windfall tax on the excessive profits of the Australian banks, equivalent to 50% of their post-tax profits over the last five years. These profits were simply taken rather than earned, and need to be returned to New Zealand to benefit our people and our nation.

4. / Open banking is in the best interests of all New Zealanders.

We seek an independent platform for banking innovation, by ensuring our essential open banking infrastructure and the standards it depends on are fully neutral, and provides a fair playing field for all existing and emerging financial service providers. We seek that customers are given access to the latest open banking technologies such as account portability, and that the requirement for all banks to provide these services forthwith is legislated as a matter of urgency.

5. / The preferential treatment of the Australian banks must stop.

We seek an immediate end to the preferential capital requirements being granted to the Australian banks by the Reserve Bank, an end to their preferential status in existing and new legislation, such as the Deposit Takers Act, and the opening of core Reserve Bank systems to the full range of banks and Fintechs.

6. / Banks must be responsible for their mistakes.

We seek urgent legislation that makes banks 100% liable for fraudulent transactions on their systems, and fully responsible for the security of the financial system. And we seek that customers who have been defrauded must be reimbursed within 30 days, under the threat of fines from regulators.

7. / It is a right of all New Zealanders to have access to the banking services they need.

We seek that banking services are immediately included as a fundamental human right, because a bank account is needed to participate in our society. As many as 50,000 Kiwis do not have a bank account because they are excluded by the arbitrary and unfair policies of the Australian banks. They have been granted no right to know why they've been discriminated against nor any right of appeal. We demand urgent legislation to entrench access to fair banking for all New Zealanders.

8. / The Banking Ombudsman needs full legislative authority.

We seek that the Banking Ombudsman be made fully independent of the banks, with the full weight of statutory authority to investigate and prosecute cases where consumers' rights are infringed, to compel banks to act fairly, and to levy fines and penalties for non-compliance. And where these reforms require additional regulatory oversight, we seek additional Crown funding to provide sufficient resources.

9. / Contracts must be equitable.

We seek that all the core contracts between banks and their customers are made transparent, equitable and consistent in legislation, as with insurance contracts. And we seek an end to unfair and punitive conditions and fees, such as bank-mandated insurance requirements.

10. / A full range of financial institutions are essential for a healthy economy.

We seek immediate regulatory reform to remove the unfair and unnecessary burden being placed on smaller financial institutions, and community and not-for-profit financial service providers such as friendly societies, credit unions and financial mutuals. And we demand the re-establishment of Trustee Savings Banks as community owned, government guaranteed retail finance institutions, set up under democratic and philanthropic principles.