

Subject: NZHL's response to the Commerce Commission Personal banking services market study conference.

30 May 2024

NZHL Group was pleased to be involved in the recent Market Study conference. This submission will respond to inaccurate comments made by participants at the conference about NZHL and clarify the NZHL proposition.

NZHL Group is a respected and trusted Kiwi brand - a purpose-driven (financial freedom, faster) home loan and insurance network. We offer a solution to support Advisers and help put New Zealanders in a better financial position.

NZHL Group is a Government-owned subsidiary of Kiwi Group Capital Ltd (KGC) alongside its sister company, Kiwibank – with which NZHL has an arms-length arrangement. NZHL & Kiwibank operate with Independent Boards.

NZHL Group comprises of two main Adviser businesses:

- Link Financial Group (LFG) - an aggregation business for approximately 180 Advisers who provide financial advice for mortgages, insurances, KiwiSaver, and investments.
- NZHL (New Zealand Home Loans) - a purpose-driven home loan and insurance Adviser network. Started in 1996, NZHL now operates a nationwide network of approximately 70 locally owned franchises and 170 Advisers.

NZHL's proposition is our point of difference - we provide structured and ongoing personalised guidance to help our clients achieve financial freedom and protect themselves, their loved ones, and their financial future.

NZHL works with our clients to make the most of their income and savings to reduce debt and interest costs. The below case study is an example of how our clients are supported to reach their financial goals.

Lisa & Maurice have been clients since mid-2021. When they joined NZHL, they had 17 years left on their \$236,000 mortgage. They are now on track to save \$96,932 in interest costs and be free in mid-2028 (ten years earlier than with their previous provider), and they were able to upgrade their business van to reduce their running costs.

**Calculated with Lisa & Maurice's current net monthly total household income of \$12,419 and monthly household expenses of \$6,996. This is their position in April 2024. Total savings will vary depending on future applicable interest rates.*

At NZHL, we have a bespoke Managed Home Loan, and our clients have access to DebtNav, NZHL's proprietary online debt management tool, to track their progress and factor in short-term goals (or unexpected expenses) to see how it will impact their mortgage and support informed financial decisions, guided by our financial advisers.

Insurance arranged by NZHL is about sensible protection tailored around our clients' home loan, income, obligations, and budget. We step through the options including Life, Health, Disability, Income, House, Car, and Contents Insurance.

In our clients' first year, they have a 2, 4, and 12-month review to ensure their loan is working best for their needs, they are supported to achieve their goals, additional requirements are covered, and their questions are answered. We provide a high-touch service as we believe in coaching our clients to take control of their financial situation.

After their first year, NZHL clients are offered a yearly check-in to review their financial plan with their Adviser and adjust as required to ensure the plan their circumstances and supports their goals. NZHL Advisers usually have multiple touchpoints with their clients as they are available for ongoing advice, and coaching when their clients need help, have a question, or have a change in circumstance and need to review their plan.

NZHL's managed home loans are arranged through two main bank lenders, ASB and Kiwibank. The commission received by our Advisers does not differ based on the lender and reflects the servicing model of NZHL.

Clients who do not fit with NZHL's proposition, or prefer another lender, are referred to NZHL Advisory – which under the Group can access LFG's full panel of lenders.

At NZHL Group, we recognise the importance of providing our clients with choices that support their financial freedom. While we have approached multiple lenders about the opportunity to create a product suited to NZHL's Managed Home Loan offering, as yet there has been no further appetite to do so.

In 2023, LFG was acquired with two of the main strategic benefits being the diversification of suppliers (lending, insurance, and KiwiSaver) and Adviser models to support greater choice. With the establishment of NZHL Group, we are confident we have the range of suppliers and Adviser models required to best meet the needs of New Zealand homeowners.

At NZHL Group, we remain focused on supporting more Kiwis to take control of their finances to achieve their goals with a high-touch, personalised service.

To promote greater competition, we put forward the following points:

As it stands the CCCFA is onerous, so it is pleasing to see the Government responding to the need for refinement.

Technology advancements

We believe financial advice delivered by qualified Advisers is critical to delivering good customer outcomes. Technology plays a significant role in all parts of the mortgage value chain and will promote greater competition within the industry.

Developments in Open Banking and Consumer Data Rights are a useful start in providing, for example, a secure way to allow consumers to safely share their personal information with financial services providers, automate the transfer of financial data, streamline the application process, and reduce the risk of error however, industry progression is not at a fast enough pace to effectively promote innovation and competition.

As easier loan applications and ongoing management appeal to homeowners and Advisers - lenders need to do more to simplify and automate the mortgage process as the industry moves forward.

Disclosure

Under current regulations, Advisers are required to make it clear in their disclosures which suppliers they are accredited and work with and the advice they provide includes the supplier they are selecting and reasons for this. We believe this is sufficient to inform a client.

Our understanding is most Advisers in the market typically use 5-7 lenders of their full panel. We've observed a tendency for Advisers to limit their supplier panel due to the volume of changes and the subsequent administration required for each supplier. A single supplier can have between 10-20 changes per year which require careful management to update processes and policy, pricing, and documents, which becomes intensive. Advisers also need to understand each lender's credit risk appetite, which can change regularly.

It is important to consider that many Advisers provide services for multiple product solutions, which may include mortgages, insurance, and KiwiSaver. Any consideration of changes to disclosure should consider the full range of services that an Adviser provides and ensure clients are clearly informed and not unnecessarily overwhelmed.

Price focus to drive competition.

Pricing competition is driven by the Banks as they set the interest rates and react to market movements. While Advisers consider rates, it is only one component of providing advice to their clients. Arguably the most influential aspects that support a client's financial well-being are the loan structure, product, and advice.

Technology has allowed clients (and advisers) easy access to available rates, and there are now several publicly available comparison sites. Clients are increasingly aware of their options and can move to another supplier if they feel they can obtain a better rate.

We are concerned with the Commission's focus on price competition over holistic financial advice, which has a long-term financial impact. For example, providing support to pay down debt faster and make informed financial decisions can significantly reduce long-term interest costs and support wealth creation.

It is important to note that NZHL Group Advisers receive the same interest rate pricing and can negotiate with lenders as is standard procedure (for Advisers) throughout the industry.

Remuneration and Clawbacks

Clawbacks have always been a contentious issue in the market. Advisers often invest an average of 10-20 hours (depending on complexity) to prepare and submit a loan application.

After settlement, Adviser commissions are at risk over the next 24-27 months if the client has a change in circumstance or if market changes make it beneficial for the client to change their loan arrangements. In these situations, the clawback often amounts to the Adviser working for free due to the requirement of repaying the commission.

It's our view that changing the remuneration structure from a supplier commission-based model to a fee-for-service model would provide a deterrent for New Zealanders able to access qualified financial advice. New Zealand's financial literacy is low and limiting access to qualified advisers would exacerbate this gap, creating further vulnerability for a large percentage of the population.



Kip Hanna

CEO