

## ASB response to the Commerce Commission's Preliminary Issues paper for the market study into personal banking services

### Whakarāpopototanga Executive Summary

ASB Bank Limited (**ASB**) welcomes the opportunity to respond to the Commerce Commission (**Commission**)'s Preliminary Issues paper (**PIP**) for the market study into personal banking services.

For more than 176 years ASB has offered banking services to New Zealanders. While banking has evolved beyond recognition in this time and our business has grown exponentially, our fundamental purpose of accelerating the progress of New Zealanders remains the same. Today we employ more than 6,000 people across New Zealand, serving more than 1.5 million personal, business and rural customers. We are proud to support the communities in which we operate, including significant partnerships like KidsCan, Youthline and Hato Hone St John.

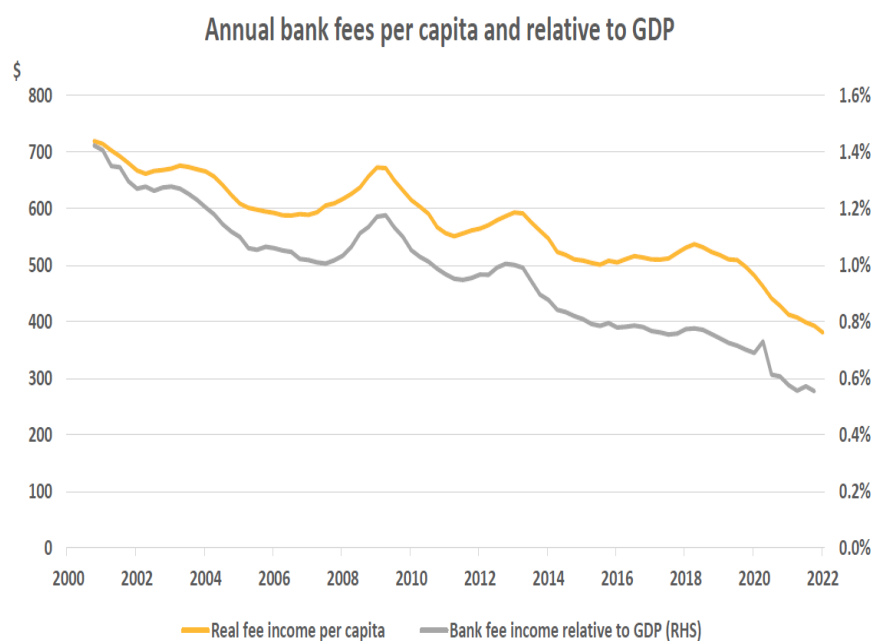
1. **Ngā Tauwhāinga ā-Māketē** Competition
  - 1.1 In ASB's view, the personal banking sector is, to use the relevant term, "workably competitive". We continue to see heightened levels of competition in our core product lines, taking place among the five major banks, smaller banks and from product-specific and emerging new competitors and technology.
  - 1.2 That there are *five*, large, well-known players in a market the size of New Zealand, offering a range of products/services across all of the core personal banking lines, is itself strongly consistent with a workably competitive market, even ignoring for a moment the presence of the many other registered banks, and the increasing number of non-bank competitors.
  - 1.3 Kiwibank continues to grow. The 2022 move to 100% direct Government ownership is expected to increase Kiwibank's access to capital. Indeed, Kiwibank recently announced a \$225 million cash injection to speed up growth, with its CEO stating that "*[t]his capital injection will enable Kiwibank to continue to deliver on its growth ambitions by supporting Kiwis with their home ownership aspirations and backing local businesses to thrive*".<sup>1</sup> Kiwibank has been steadily growing its home lending share in recent years.
  - 1.4 In terms of some of the other banks:
    - (a) SBS' total home lending for the year to 31 March 2023 increased by approximately 12% – well above the broader industry growth rate of closer to 3.5%;<sup>2</sup>

<sup>1</sup> <https://www.kiwibank.co.nz/about-us/news-and-updates/media-releases/kiwi-group-capital-invests-225-million-into-kiwibank-to-accelerate-growth/>

<sup>2</sup> <https://www.sbsbank.co.nz/news/sbs-bank-reports-solid-full-year-result#:~:text=The%20SBS%20Group%2C%20which%20includes,16%25%20from%20the%20previous%20year>

- (b) TSB also performed well in FY23. TSB outperformed the market in residential lending, achieving 1.6x system (market) growth, with lending assets increasing a further 6% to \$6.2 billion;<sup>3</sup>
- (c) Heartland experienced, in Q1 and Q2 of FY2023, the highest growth rate in retail deposits of all main and domestic banks in New Zealand, based on balance sheet data from the Reserve Bank of New Zealand (**RBNZ**);<sup>4</sup> and
- (d) The Cooperative Bank also experienced 8% growth in mortgages in FY23, which was well above the market average.<sup>5</sup>
- 1.5 Consistent with this high level of competition, since the OCR began to rise in late 2021, ASB has passed through interest rate rises at a greater rate on term deposits than it has on home loans: since October 2021, our 12-month home lending rates are up 4.2%, while our 12-month term deposit rates have increased 4.6%. In fact, the combined impact of strong competition and elevated wholesale rates has resulted in a significant volume of new mortgages being written below ASB's current cost of capital.
- 1.6 ASB's significant marketing spend (ASB spent [Redacted] on marketing in FY23) is further evidence of a highly competitive market. The strong competition outlined above has also contributed to the ongoing reduction in fees over time.

**Figure 1: Fee Income over time**



Source: RBNZ

- 1.7 The competition from non-bank participants, many of whom are not subject to regulation (or are subject to substantially less regulation), is increasing. Among others, this includes Apple Pay in the payments sector (which now offers a high-yield savings product in the United States), buy now pay later (**BNPL**) products, the likes of Harmoney providing unsecured credit; and the recent arrival in New Zealand of global player Revolut in digital payments and account services. We are also seeing new entrants enter into one area and then expand into core banking areas, a strategy

<sup>3</sup> See media release: <https://www.tsb.co.nz/about/news/tsb-year-confirms-its-right-track-future-growth#:~:text=TSB%20reported%20a%20net%20profit,Shareholder%2C%20philanthropic%20organisation%20Toi%20Foundation>.

<sup>4</sup> See Heartland's investor presentation, slide 18: <https://www.heartlandgroup.info/documents/reports/presentations/Heartland%20Group%20FY23%20Investor%20Presentation.pdf>

<sup>5</sup> See The Cooperative Bank's Annual Results here: <https://www.co-operativebank.co.nz/api/content/Document/17997>.

successfully adopted overseas. For example, Sharesies is now offering a savings account, with deposits held in trust by an undisclosed New Zealand bank.

- 1.8 A 2022 World Bank publication, “Global Patterns of Fintech Activity and Enabling Factors”, undertook a detailed cross-country regression analysis of 125 countries to establish a “Fintech Activity Index”.<sup>6</sup> It assessed Equity Investments in Fintech Companies, Usage of Fintech Credit, Digital Payments, Finance Mobile App Downloads and used two different measures to rank countries. It placed New Zealand 5 out of 74 countries on one measure and 4 out of 125 countries on the other. These are extraordinarily strong rankings in terms of the level of fintech activity in New Zealand relative to overseas countries.
- 1.9 Across the Tasman, Macquarie has recently entered and disrupted the Australian mortgage market. It grew to a 5% market share in a comparatively short period.<sup>7</sup>
- 1.10 The international experience, and recent activity in New Zealand, suggests that competition is only likely to increase from non-bank players. For instance, the U.S. Department of the Treasury writes that non-banks “*appear to be contributing to competitive pressures*” by “...*adding significantly to the number of firms and of business models competing with IDIs [insured depository institutions i.e., banks] in core consumer finance markets*” which as a result “*means more choices, better service, and lower prices*”.<sup>8</sup> Speaking more broadly, the World Bank notes the “*advances in technology that have the potential to transform the provision of financial services*”<sup>9</sup> while the OECD states that “*digital technology may have a large impact in terms of increasing competition and contestability of banking markets*” and that improvements in efficiency can be expected from fintech-driven innovations.<sup>10</sup> Indeed, a report by the U.S. Department of the Treasury noted the continuing trend of increasing competition from non-banks, which is in part facilitated by falling costs. The Treasury cited factors ranging from falling costs of cloud computing to greater proliferation of mobile devices and connectivity, all of which is also true in New Zealand.<sup>11</sup>
- 1.11 Competition is likely to intensify from the increased presence of these new business models because customers are increasingly willing to take up products from new entrants. As set out in the more detailed response below, consumers consider a broad range of factors when selecting a provider, which in turn creates a host of opportunities for new entrants. For instance, while home loan and savings customers still value a pre-existing relationship, its importance has decreased over time. Conversely, factors such as interest rates, mobile banking app functionality and recommendations from family/friends/brokers have all increased in importance.
- 1.12 Ultimately, this means that the provision of personal banking services does not occur in a static environment. In addition to the broader fintech/non-bank trends noted above, competition among existing players is highly dynamic. At a particular moment in time existing firms will invariably have different strategies, focus areas and cost bases (including different transfer pricing models), which means firms will dynamically adjust their pricing, marketing spend and product mix as they react to different market opportunities and competitor moves in order to win and retain customers – all of which makes it difficult for any market participant to predict how its competitors will act on a given day, week or month.

<sup>6</sup> World Bank, “Global Patterns of Fintech Activity and Enabling Factors”, 2022. Available at <http://documents1.worldbank.org/curated/en/099735504212234006/pdf/P1730060695b370090908c0bf80ed27eba6.pdf>.

<sup>7</sup> For further information, see: <https://www.macquarie.com.au/home-loans.html>.

<sup>8</sup> U.S. Department of the Treasury, *Assessing the Impact of New Entrant Non-bank Firms on Competition in Consumer Finance Markets*, November 2022, p. 5. <https://home.treasury.gov/system/files/136/Assessing-the-Impact-of-New-Entrant-Nonbank-Firms.pdf>

<sup>9</sup> World Bank, *Fintech and the Future of Finance: Market and Policy Implications*, 2023, at page 17. <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099450005162250110/p17300600228b70070914b0b5edf26e2f9f>

<sup>10</sup> OECD, *Digital disruption in banking and its impact on competition*, 2020, at page 7. <https://www.oecd.org/competition/digital-disruption-in-banking-and-its-impact-on-competition-2020.pdf>

<sup>11</sup> U.S. Department of the Treasury, *A Financial System That Creates Economic Opportunities, Nonbank Financials, Fintech, and Innovation*, at page 5. <https://home.treasury.gov/sites/default/files/2018-08/A-Financial-System-that-Creates-Economic-Opportunities---Nonbank-Financials-Fintech-and-Innovation.pdf>

- 1.13 The result is a workably competitive market, in which firms must ensure they are pricing competitively, innovating and offering a service valued by customers, to avoid losing share to their rivals.
2. ***Te Pikinga o Ngā Waeture*** The increasing level of Regulation
- 2.1 Banking is heavily regulated given its role in the economy, which comes at a significant cost. Not only is the level of regulation increasing, there are multiple regulators, which further increases the practical costs for those regulated. While ASB accepts there is a trade-off between ensuring a strong and stable banking sector on the one hand, and the cost of the regulatory burden on the other (in terms of absolute dollar costs but also the opportunity costs more generally), we consider that more can be done to strike the right balance by refining some of these regulatory requirements.
- 2.2 As set out in response to question 29 below, ASB naturally prioritises its financial and people resources for investment on compliance with current and upcoming regulatory obligations. ASB spent \$[Redacted] million on regulatory initiatives in FY23 alone. Given there is only so much change ASB can safely make to its core systems at any one time, and there are only so many skilled people available, in practice there is a direct substitution between investment in regulatory compliance and innovation.
- 2.3 Not only is regulation costly, it is frequently focused on the *entity* rather than the *activity*, which often imposes an uneven burden on firms engaged in the same activity. Ultimately, regulation is about addressing the potential for human harm, which is why ASB believes the activity should be the focus. For example, looking at the retail payments value chain, banks are regulated at an entity level, but many of the payments made are facilitated by companies who are not similarly regulated (such as Apple, Google, Wise, etc.).
- 2.4 In addition, the regulatory landscape continues to evolve. Even over the course of this market study it will change, with developments in relation to, e.g. Deposit to Income Rules, Deposit Takers Act (deposit insurance), real time payments and open banking initiatives all in train. The latter three in particular are designed to drive pro-competitive outcomes, and in ASB's view are likely to mean yet more innovation in the market.
- 2.5 Given the impact of the regulatory burden on how competition plays out, we are supportive of the Commission obtaining a deep understanding of the regulatory framework and its implications for competition and innovation – bearing in mind that New Zealand's distance from other markets, population and its relatively small economy can make it harder, all things being equal, to attract new players.
3. ***Ngā Kiritaki*** Customers
- 3.1 ASB's focus is on accelerating progress for all New Zealanders, by encouraging:
- (a) Financial Progress – Toitū te Tahua;
  - (b) Social Progress – Toitū te Tangata; and
  - (c) Environmental Progress – Toitū te Taiao.
- 3.2 In line with this purpose, ASB has been working more closely than ever with customers as they manage rising living costs and adapt to higher interest rates, in particular where we believe there is a product more suited to their current needs.
- 3.3 We recognise the role we play in helping our customers understand their finances. We proactively contact customers to ensure they are achieving the best financial outcomes for their circumstances. In response to rising living costs and interest rates, ASB has reached out to more than 12,000 distinct customers identified as likely to be particularly impacted in recent months to work through their options as they refix their home loans. Where a customer has not chosen to refix and their loan has reverted to a floating rate ASB makes further contact to discuss whether this is the best option for them. In the period of July 2021 to June 2023, ASB contacted more than

6,000 such customers and helped to facilitate more than \$1.1 million in annualised cost savings for these customers.

- 3.4 ASB also offers a range of tools to assist customers. For example, ASB has an online platform called Home Central which gives customers more control over their home loan and encourages them to take an active role in ensuring their loan is working well for them. This tool illustrates how changes made to their loan, such as increasing mortgage repayments or changing the frequency of payments, can make a significant impact to the cost and duration of the loan. Home Central also provides up-to-date information on the property's estimated value, at no cost. In the last month alone Home Central has been visited by our customers more than [Redacted] times, with over [Redacted] visits to manage repayments, and over [Redacted] visits to manage fixed rate rollovers.
- 3.5 We believe this collaborative approach is the right approach, because it acknowledges that customers choose products for a host of different reasons – customers who may objectively appear to be in the same circumstances may in fact, quite rationally, choose different products. But the key point from a competition perspective is that they have the information available to make those comparisons (which they do) and that the market provides a range of products to meet consumers' demand (which it does).
- 3.6 ASB is also conscious that certain consumer groups may find it more difficult to navigate the financial system, which is why we introduced the ASB Community Council in late 2019. This is a collective of external partners who represent a number of potentially vulnerable customer groups. It is chaired by ASB's CEO, meets quarterly, and provides a forum for ASB to listen to customers, to amplify the voice of those who are marginalised, disadvantaged, or otherwise find the financial system difficult to navigate, and ensures the needs of all customers are being considered.
- 3.7 Finally, to the extent there are any residual concerns, ASB believes that the Financial Markets (Conduct of Institutions) Amendment Act 2022 (**CoFI**) will provide further assistance in relation to customer outcomes.

#### 4. ***Te Huamoni ō Ngā Pēke*** Bank Profitability

- 4.1 ASB acknowledges that bank profitability was specifically referred to in the Terms of Reference. The attached Report from NERA (**NERA Report**) considers in particular Attachment C of the PIP, and reaches a number of conclusions, which we summarise below.
- (a) The Commission's preliminary observation that the New Zealand banking sector appears to have persistently high profitability compared to banking sectors in international peer countries is likely to be overstated.
- (b) Each of the financial performance measures analysed in the PIP cannot be properly understood without consideration of risk and the cost of equity. In particular:
- (i) the net interest margin (**NIM**) does not account for the cost of equity. Accordingly, for example, NIM will increase:
- (A) as interest rates increase even if the interest rate spread does not change; and
- (B) as a bank's equity share increases (equity shares have been increasing in New Zealand, due to RBNZ capital requirements).
- (c) Regarding return on assets (**ROA**) and return on equity (**ROE**), the Attachment C analysis underestimates the comparative riskiness to Australian banks of investing in New Zealand banks.
- (i) In the PIP, the Commission uses Professor Damodaran's estimates of the equity risk premium (**ERP**) to assess whether the risk to shareholders might justify what the Commission says are relatively high ROE measures for New Zealand banks. However, the Damodaran ERP for New Zealand is the same as that for the US, Canada and Australia and lower than the ERP for the UK. On its face, this is

surprising, given the smallness and relative lack of liquidity of the New Zealand equity market compared to these other countries.

- (ii) The Commission finds there is little correlation between ERP and ROE, but in NERA's opinion this appears to be because Professor Damodaran's analysis gives the same ERP for any country that has the same *sovereign* credit rating. Because New Zealand has a sovereign rating of Aaa, it is given a default spread of 0 and thus is assumed to have no country-specific risk.
  - (iii) This is relevant because, presumably on Professor Damodaran's own logic, the cost of government debt in countries with the same sovereign credit rating should also be the same. But as the NERA Report outlines, the cost of the New Zealand government's debt is generally higher than that of the US, Canada and Australia, despite having the same (Moody's) credit rating. It is also generally higher than that of the UK, despite the UK having a lower sovereign credit rating than New Zealand.
  - (iv) Ultimately, because the Damodaran analysis assumes there is no difference in the ERP between countries whose government bonds have the same credit rating, it assumes away country specific risk factors, which is why NERA concludes this methodology is not fit for purpose for the question the Commission is seeking to answer.
- (d) Ultimately, these factors mean that:
- (i) caution is required in time series and cross-sectional (particularly international) benchmarking; and
  - (ii) if the four largest New Zealand banks do persistently derive higher ROE than the rest of the New Zealand banking sector, this:
    - (A) may be at least partly justified by their shareholders (Australian banks) taking on higher financial crisis risks than shareholders in other banks, with corresponding benefits to New Zealand customers;
    - (B) may be partly explained by the four banks generally having a lower equity share/higher leverage than the other banks; and
    - (C) likely reflects (accounting) cost efficiencies – as opposed to pricing – as illustrated by the fourth column of PIP Figure 10, showing that, as expressed by the RBNZ, “the large New Zealand banks operate lower cost structures than both the small New Zealand banks and large banks in peer countries”.<sup>12</sup>

4.2 There is also the issue of ensuring any analysis is over an appropriate time period. The New Zealand economy and the performance of New Zealand banks are closely linked. Strong, stable, well-funded banks are critical to supporting economic growth. At the same time, balance sheet growth and profitability tend to follow the economic cycle, with realised loan losses lifting during times of financial stress. The NERA Report notes that while banking crises are relatively rare, they are potentially very serious for shareholders, creditors and economies more generally.

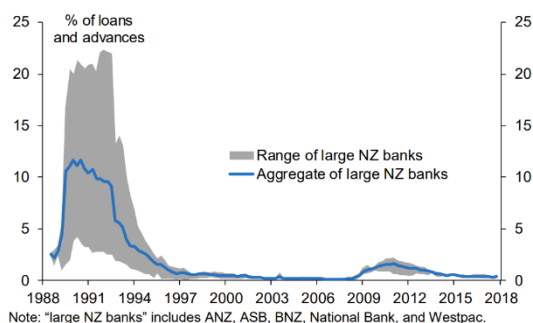
4.3 NERA observes that New Zealand has not had a banking crisis since the late 1980s and it escaped relatively unscathed from the GFC. For example, in a 2018 speech, RBNZ Deputy Governor Geoff Bascand noted that New Zealand's financial sector “*has weathered the GFC better than most*”.<sup>13</sup> The figures below (taken from a RBNZ explanatory note<sup>14</sup>) illustrate the point.

<sup>12</sup> RBNZ (2023) *Financial Stability Report*, at page 24.

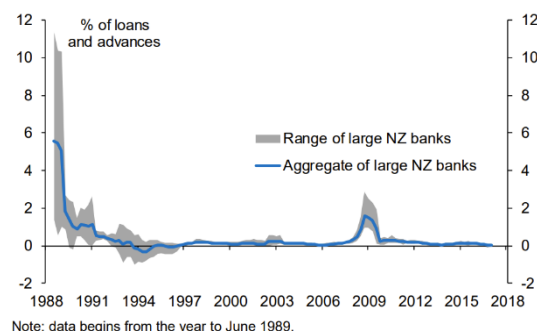
<sup>13</sup> “Financial Stability – risky, safe or just right?”, 13 November 2018, available at: <https://www.rbnz.govt.nz/news/2018/11/financial-stability-risky-safe-or-just-right>.

<sup>14</sup> RBNZ, “Explanatory note on portfolio risk modelling in the New Zealand context”, [https://www.rbnz.govt.nz/hub/-/media/project/sites/rbnz/files/regulation-and-supervision/banks/capital-review/capital-review-explanatory-note-on-portfolio-risk-modelling-in-the-new-zealand-context.pdf?sc\\_lang=en&hash=5BCFD504335B7308BAFAE2193B01CF7D](https://www.rbnz.govt.nz/hub/-/media/project/sites/rbnz/files/regulation-and-supervision/banks/capital-review/capital-review-explanatory-note-on-portfolio-risk-modelling-in-the-new-zealand-context.pdf?sc_lang=en&hash=5BCFD504335B7308BAFAE2193B01CF7D).

**Figure 2: Impaired assets as a share of gross loans and advances, large New Zealand banks, 1988-2017**



**Figure 3: Impaired asset expense and extraordinary items (12 month rolling total) as a share of gross loans and advances, large New Zealand banks, 1988-2017**



4.4 In contrast, as illustrated in the NERA Report, many of the PIP's comparator countries had crises during the GFC, which had long-lasting financial and real effects. As NERA points out, this means that because the PIP's analysis of earnings volatility only goes back to 2010 (Tables C6 and C7) or 2000 (Figure 11), the results are directionally biased in favour of a finding that New Zealand volatility is low. As Figure 3 makes clear, even the GFC impacts were most acute in 2009, i.e. prior to the 2010 start of the analysis.

4.5 To assess comparative risk properly, NERA concludes a much longer time series would be required.

## 5. *Te Whakawhitinga o Ngā Raraunga Pūtea Kua Whakaaetia* Open Banking

5.1 Finally, we anticipate the design of any open banking framework will be a key feature of the market study. We make further comments below, but in ASB's view a carefully designed Consumer Data Right (**CDR**), with a Digital ID to improve the efficiency of the system generally (and which, in relation to banking, would address several challenges related to safety and onboarding of customers) is a critical first step in terms of open banking. For instance, any mandating of Application Programming Interfaces (**API's**) should only occur as part of a well-designed CDR framework, given one of the cornerstones of CDR should be to ensure third party recipients are subject to appropriate privacy safeguards.

5.2 The Commission will have seen the explosion in the number of people impacted by increasingly sophisticated frauds and scams in New Zealand and elsewhere. The implications of this issue when considering the competition/data security trade-offs of open banking – which by design is intended to grant broad third party access to bank systems and customer information – cannot be overstated.

5.3 To suitably protect consumer data from the increasingly sophisticated fraud and scams and to mitigate the risk of privacy breaches or unauthorised access, it is critical to ensure that robust data security standards apply for all accredited requestors. With those objectives in mind, the opportunities (in terms of competition and ultimately the long term consumer benefit) and the risks of a proposed CDR should be carefully considered, so that an appropriate balance can be struck.

ASB's responses to the specific PIP questions follow, and we look forward to continuing to engage with the Commission throughout this market study.

## Pātaitai Questions

## Overview of personal banking services in New Zealand

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

- 1.1 ASB broadly agrees with the Commission's description of the structure of the personal banking sector, noting there will be debate as to the appropriate emphasis and some of the provisional conclusions drawn from the material.

***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. [1.1]***

- 1.2 While traditional banks and some of the more recent product offerings are mentioned in the PIP, many relevant participants are either not mentioned or are not (in our view) afforded sufficient emphasis.
- (a) Credit unions and building societies, e.g. Unity Credit Union, First CU, NZCU Auckland, Police CU, Heretaunga Building Society, The Wairarapa Building Society and the Nelson Building Society.
  - (b) The multitude of savings/investment related players, including peer to peer (**P2P**) lenders such as Squirrel. In respect of KiwiSaver, there are some 37 providers vying for business, some of which have used KiwiSaver as a platform to expand into core banking areas, e.g. Sharesies.
  - (c) There has been new entry from the likes of Aera<sup>15</sup>, and continued competition from more traditional competitors such as Rabobank. Most recently SBS has launched an 8% Capital Bond as a further savings and investment option for customers. Fixed interest offerings (e.g. on the NZX) are an alternative for consumers to term deposits, and are therefore a relevant consideration. KiwiBonds is an investment product offered by the Crown.
  - (d) The many finance companies which also provide savings products, including Christian Savings, Finance Direct, General Finance, Gold Band Finance, Liberty Financial, Mutual Credit Finance and Xceda Finance.
  - (e) Major global players, such as Apple and Alphabet (Google), which each dwarf ASB and other New Zealand banks in size, are pushing into the payments space with their on-phone payment solutions. Apple has already made some initial steps into the traditional banking space, reportedly accounting for US\$30 billion in fee-free high-yielding savings accounts in the United States.<sup>16</sup> Apple Pay has surpassed Mastercard in total transaction value worldwide<sup>17</sup> and in New Zealand now represents 5% of total credit card spending and 10% of debit card spending.<sup>18</sup>
  - (f) Additionally, internationally business-to-consumer (**B2C**) and P2P payment apps offering in-app hosted wallets and engagement (e.g. social media) and crypto wallets that store value using cryptocurrency, e.g. WeChat and AliPay.
  - (g) A host of other players compete with ASB on a narrower set of products, including aggregator platforms (e.g. "InvestNow") that simplify access (e.g. opening and managing accounts) to savings products offered by different providers; BNPL firms (e.g. Afterpay) that

<sup>15</sup> Founded by NZ entrepreneur Derek Handley, Aera is a non-bank lender offering attractive annual savings rates for home loan deposit savers, positioned specifically against the larger New Zealand banks.

<sup>16</sup> For further information please see: <https://www.apple.com/newsroom/2023/04/apple-cards-new-high-yield-savings-account-is-now-available-offering-a-4-point-15-percent-apy/>.

<sup>17</sup> See: <https://www.forbes.com/sites/billhardekopf/2022/09/08/this-week-in-credit-card-news-apple-pay-overtakes-mastercard-most-online-shoppers-make-mobile-purchases/>.

<sup>18</sup> As at June 2023.



compete with credit cards and other credit products; and account services e.g., Dosh and Revolut) that replace traditional current accounts. The competitive constraint from these non-traditional banking competitors is enhanced because they often face significantly fewer regulatory hurdles than traditional banks like ASB.

- (h) In relation to savings products, such as term deposits, alternatives include bonds, PIE funds, traditional managed funds and equities with many deposit holders making dynamic choices as to how they weight their investments across asset classes, having regard to e.g. expected returns.
- (i) Further examples in relation to Home Lending and Home Lending Brokerage include the following.
  - (i) Simplicity, with alternative funding from funds and/or other financial sponsors. Simplicity uses the fixed income portion of Simplicity funds to offer mortgages.
  - (ii) NZHL, Loan Market and Squirrel: growing forces in brokerage, leading to bank disintermediation and commoditisation, and facilitating switching/shopping around.
  - (iii) Tella (a digital broker) and Neo (a digital non-bank home lender) which have both recently entered New Zealand.
  - (iv) First Mortgage Trust and Midlands Mortgage Trust, which are non-bank mortgage lenders offering floating rate loans secured by first ranking mortgages over residential, commercial and rural land and buildings throughout New Zealand.<sup>19</sup>
  - (v) Finance companies such as Avanti Finance, Basecorp Finance, Bluestone, CFML Loans, Hibernian, Liberty Financial, Paraloan, Pepper Money, Resimac and Xceda Finance. A 2022 *Stuff* article reported that CoreLogic data shows the largest finance companies had doubled their share of new home loans since 2020, noting that “[c]ompanies including Basecorp, Bluestone, Avanti Finance and Resimac have increased their share of the new-home loan market from 3% in 2020 to 6% during 2022.”<sup>20</sup> The article goes on to note that non-bank and so-called second tier lenders grew from 10% in 2020 to 14% over the same period, an increase of 40%. More recently their overall share has fallen, but by reacting to market opportunities they remain an important presence in the market.
  - (vi) New models such as Squirrel’s “Launchpad”, a service whereby Squirrel acts as a mortgage broker for the first 80% of a loan and then taps its own pool of P2P lending to finance the residual equity. Squirrel’s CEO described this service as similar to securitisation, which is the most common form of mortgage funding in the US in which the lender funds loans through wholesale funding rather than taking deposits.<sup>21</sup>
  - (vii) Growth in different ownership schemes such as “rent-to-own” (NZ Housing Foundation) and home lending linking to savings accounts (Aera).
  - (viii) More generally, it is reasonable to assume that the RBNZ-required increases in capital for the traditional banks is likely to facilitate the expansion of non-regulated (or at least less regulated) financial institutions into lending (and deposit-taking).
- (j) In relation to Payments (e.g. BNPL, digital wallets and merchant payment solutions):
  - (i) BNPL, while a relatively new product, has turned into a fast-growing credit alternative in New Zealand with a number of players (e.g. Afterpay, Laybuy, Klarna and Zip);

<sup>19</sup> For further information please see: <https://fmt.co.nz/about/about-fmt/> and <https://midlandsfundmanagement.co.nz/>.

<sup>20</sup> <https://www.stuff.co.nz/business/129049074/largest-finance-companies-double-home-loan-market-share-since-2020>

<sup>21</sup> <https://www.interest.co.nz/personal-finance/110033/squirrel>

- (ii) Kiwi-owned Dosh is an example of a relatively new digital wallet;
- (iii) Wise is a widely used app for international payments and holding international currency; and
- (iv) the following non-bank entities which provide credit card products: Amex, Finance Now, Latitude (GEM), FlexiGroup (Q card / Flight Centre / Farmers) and The Warehouse.

***What are useful measures of concentration/market share within the personal banking sector? Please describe the measures and explain your reasoning. [1.2]***

- 1.3 There is no readily available robust measure of concentration or market share that includes all competitors for the personal banking products under consideration by the Commission. The RBNZ's C5 data series is a reasonable approximation for lending, although it excludes substitutes such as BNPL. Deposit statistics will generally exclude substitutes such as fixed interest managed funds.
- 1.4 ASB encourages the Commission, through this Market Study, to seek information from all providers active in personal banking to obtain a more fulsome picture of true market concentration.
- 2. ***Do you agree with our description of the regulatory environment for the personal banking sector? If not, please explain.***
  - 2.1 Please refer to ASB's consolidated response to question 3 below.
- 3. ***Please describe any other legislation, regulations, or other regulatory instruments that may be relevant to understanding competition in the personal banking sector.***
  - 3.1 ASB agrees that regulation plays an important role in the market and participants should have a positive societal impact.
  - 3.2 While ASB accepts that there is a necessary trade-off between ensuring a strong and stable banking sector on the one hand, and the cost of the regulatory burden on the other (in terms of absolute dollar costs but also the opportunity costs more generally), ASB considers that more can be done to strike the right balance by refining some of these regulatory requirements.
  - 3.3 As noted elsewhere, ASB naturally prioritises its financial and people resources for investment on compliance with current and upcoming regulatory obligations. ASB spent \$[Redacted] million on regulatory initiatives in FY23 alone. Given there is only so much change ASB can safely make to its core systems at any one time, and there are only so many skilled people available, there is a direct substitution between investment in regulatory compliance and innovation. This limitation is real, and its practical impact should not be underestimated.
  - 3.4 Not only is regulation costly, it is frequently focussed on the *entity* rather than the *activity*, which often imposes an uneven burden on firms engaged in the same activity. Ultimately, regulation is about addressing the potential for human harm, which is why ASB believes the activity should be the focus. For example, looking at the retail payments value chain, banks are regulated at an entity level, but many of the payments made are facilitated by companies who are not similarly regulated (such as Apple, Google, Wise, etc.). This means a significant amount of consumers' funds are being transacted without the benefit of the safeguards a regulatory framework would provide. Regulation like CoFI and the draft CDR bill are examples of regulation which should be targeted at the activity (e.g. consumer lending) not the entity (e.g. a bank).
  - 3.5 The Commission will have seen the explosion in the number of people impacted by increasingly sophisticated frauds and scams in New Zealand and elsewhere. The implications of this issue when considering the competition/data security trade-offs of, say, open banking, which by design is intended to grant broad third party access to bank systems and customer information, cannot be overstated. In ASB's view, competition would be most efficiently served by a single entity regulating all aspects of cyber security (as part of CDR and more generally). For example, the

Cyber Security Agency of Singapore provides centralised oversight of national cyber security functions and works with sector leads to protect Singapore's critical information infrastructure, including banking and finance. This entity oversees the Cyber Security Act which establishes a legal framework for the oversight and maintenance of cyber security in Singapore.

- 3.6 Given the impact of the regulatory burden on how competition plays out, ASB is supportive of the Commission obtaining a deep understanding of the current and proposed regulatory framework and its implications for competition. This is of course bearing in mind that New Zealand's distance from other markets, population and relatively small economy can make it harder, all things being equal, to attract new players. Other planned legislation and initiatives such as the Deposit Takers Act, open banking and real time payments reforms are designed to drive pro-competitive outcomes, which in ASB's view are likely to lead to yet more innovation in the market.
- 3.7 In the PIP, the Commission describes the regulatory environment for personal banking services as being comprised of a mix of general and sector-specific regulation. ASB agrees that it is subject (or will be subject) to much of the regulation set out at paragraphs 51 to 54 of the PIP (including Tables 1 and 2). There are also *further* regulations which govern ASB's operations, which are described in red text below. In addition, there are of course the various regulations which support the principal legislation noted below. Finally, the table below does not purport to be a complete list of applicable regulations.
- 3.8 It's also worth noting that not only is there a great deal of regulation in absolute terms, it has increased markedly in recent times. To illustrate the point, ASB has marked with "\*\*\*" existing or new legislation which, in the past five years, has resulted in additional regulatory obligations.

Regulation	Relevance to personal banking services market
<b>Prudential</b>	
***Reserve Bank of New Zealand Act 2021 (RBNZ Act)***	The RBNZ's governing legislation. Sets the RBNZ's objectives, including the financial stability objective, as well as establishing the RBNZ's functions to act as New Zealand's central bank, prudential regulator and supervise banks and other financial institutions. <b>NB:</b> Falling under the RBNZ Act is BS11 (Outsourcing Requirements), discussed below, which is a condition of registration for banks with over \$10 billion in liabilities.
***Banking (Prudential Supervision) Act 1989 (BPSA)***	Provides for registration of banks, and prudential supervision including compliance with conditions of registration and disclosure obligations. These relate to matters such as capital and liquidity requirements. <sup>22</sup> <b>NB:</b> The BPSA also imposes restrictions on mortgage loan-to-value ratios (LVR). Restrictions on high-LVR residential mortgage lending set a 'speed limit' on how much new low-deposit lending banks can do.
Non-Bank Deposit Takers Act 2013	Provides for licensing of non-bank deposit takers including compliance with conditions. Requires licensed non-bank deposit takers to have a current credit rating, and risk management plans. Provides for imposition of capital requirements, limits on related party exposures, liquidity requirements, and suitability of directors. Provides for Reserve Bank monitoring and enforcement. <sup>23</sup>
Financial Service Providers (Registration and Dispute Resolution) Act 2008	Requires those in the business of providing a financial service (including banks, and non-bank deposit takers) to be registered, and to be members of an approved dispute resolution scheme (e.g. the Banking Ombudsman Scheme).
***Financial Markets Infrastructures Act 2021***	Regulates financial market infrastructures (multilateral systems for the clearing, settling or recording of, for example, payments).
<b>Other sector-specific</b>	

<sup>22</sup> Note that the Banking (Prudential Supervision) Act 1989 will be replaced in the near future by a new regime under the Deposit Takers Act 2023.

<sup>23</sup> Note that the Non-Bank Deposit Takers Act 2013 will be replaced in the near future by a new regime in the Deposit Takers Act 2023 (see below for further detail).

<p>***Credit Contracts and Consumer Finance Act 2003 (<b>CCCFA</b>)***</p>	<p>Protects consumers' interests under credit contracts such as home loans, credit cards, arranged overdrafts and personal loans. Imposes responsibilities on lenders, as well as setting requirements for consumer credit contracts (where credit is loaned for personal, domestic or household purposes and interest/credit fees are payable or a security interest is taken, such as a residential home loan). These requirements include rules relating to disclosures, cancellation, interest charges, fees and payments, amongst other things. Lenders must be certified before they can provide credit under a consumer credit contract (unless exempt). Banks and non-bank deposit takers are exempt from certification on the basis that they are licensed by the Reserve Bank. ASB also notes the significant remedies available to consumers and the Commission under the CCCFA (including penalties, statutory damages, and – for certain disclosure breaches – forfeiture of borrowing costs).</p>
<p>***Financial Markets Conduct Act 2013 (<b>FMCA</b>)***</p>	<p>Relevantly to personal banking services, the FMCA:</p> <ol style="list-style-type: none"> <li>1) imposes fair dealing obligations on the provision of financial products and financial services (other than credit contracts), generally setting out that no person shall engage in trade or conduct that is misleading or deceptive or likely to mislead or deceive in relation to financial products or the supply or possible supply of financial services;</li> <li>2) sets out the financial advice regime (incorporated into the FMCA by the Financial Services Legislation Amendment Act 2019). Under the regime, advice providers need a licence from the Financial Markets Authority and are subject to certain duties and obligations in the provision of financial advice – including in relation to any financial advice provided in connection with home loans; and</li> <li>3) regulates the provision of investment products (such as KiwiSaver).</li> </ol> <p>The FMCA has, over recent years, become an omnibus piece of legislation with multiple other related Acts. This includes the Financial Services Legislation Amendment Act 2019 (<b>FSLAA</b>), Conduct of Financial Institutions regime (<b>CoFI</b>) (discussed further below), Climate-related Disclosure regime (<b>CRD</b> – see below for further detail regarding this), in addition to the Discretionary Investment Management Services (<b>DIMS</b>) regime, Managed Investment Scheme regime (<b>MIS</b>) and general fair dealing obligations.</p> <p>ASB also notes that large, registered banks are now Climate Reporting Entities (<b>CREs</b>) under part 7A of the FMCA, which was recently introduced by the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021. This requires CREs to analyse and disclose climate impacts and emissions, and their response.</p>
<p>***Retail Payment System Act 2022 (<b>RSPA</b>)***</p>	<p>Provides for the regulation of participants in retail payment networks, including the designation of a retail payment network after which the designated network may be issued standards that it must comply with. Network standards may deal with the disclosure of information relating to payment services, pricing for payment services and access requirements.</p>
<p><b>Not sector-specific</b></p>	
<p>Foreign Account Tax Compliance Act (<b>FATCA</b>)</p>	<p>New Zealand financial institutions are not exempt from this regime and must report on US citizens and tax residents who have specified foreign financial assets that exceed certain thresholds.</p> <p>This has necessitated banks, including ASB, to establish international reporting programs – essentially exchanging information with global tax authorities to combat global tax evasion.</p>
<p>Common Reporting Standard (<b>CRS</b>)</p>	<p>The CRS is a global framework for the collection, reporting, and exchange of financial account information about people and entities</p>

	investing outside of their tax residence jurisdiction. As with FATCA above, this has resulted in international reporting programs needing to be implemented within banks to manage global tax evasion.
***Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (AML/CFT Act)***	That legislation places obligations on a range of New Zealand organisations, including financial institutions, to detect and deter money laundering (the method by which people disguise and conceal the proceeds of crime and protect and enjoy their assets) and terrorism financing. The AML/CFT Act aims to ensure that businesses take appropriate measures to guard against money laundering and terrorism financing. For example, a bank may be required to carry out due diligence when opening an account for a new customer, including verifying the customer's identity from independent and reliable sources. The supervision of financial institutions under the AML/CFT Act is split between Te Tari Taiwhenua - Department of Internal Affairs, the Reserve Bank, and the FMA.
***Privacy Act 2020***	Relevant to personal banking services, Te Mana Mātāpono Matatapu   the Privacy Commissioner monitors banks' conduct in relation to privacy, and provides specific guidance on bank related questions and investigates privacy breaches. The Privacy Commissioner has recently commented on or investigated various privacy issues in the banking sector. The role of the Privacy Act in the provision of personal banking services will likely become more prominent with the designation of the consumer data right to the banking sector (see below).
<b>Proposed prudential regulation</b>	
***Deposit Takers Act 2023 (DTA)***	The DTA will modernise legislation for prudential regulation and supervision of the deposit-taking sector. It will merge the currently separate frameworks for registered banks and licensed nonbank deposit takers (e.g. credit unions and building societies) under a single regulatory regime. Updates to the Reserve Bank's prudential framework include modernising the licensing process, enabling a range of prudential standards to be applied to particular deposit takers or classes of deposit takers, and expanding the Reserve Bank's supervisory and enforcement tools. The Bill also introduces a Depositor Compensation Scheme (DCS), a fund that will compensate eligible depositors up to \$100,000.
***Changes to the Reserve Bank's liquidity policy***	The Reserve Bank is undertaking a liquidity policy review. The objective of the liquidity policy is to strengthen financial stability by lowering the likelihood of liquidity problems affecting banks and improve their ability to manage such problems. Having earlier consulted on and finalised the principles by which a new liquidity policy framework should be governed, the Reserve Bank completed further consultation in May 2023 on significant policy issues (including eligibility criteria for liquid assets, the potential adoption of international standards, and how requirements could be applied across deposit takers in a proportionate manner).
***Changes to the Reserve Bank's debt-to-income (DTI) restriction framework***	The Reserve Bank consulted on a framework for restrictions on DTI residential lending in November 2022. When the DTI restriction framework is implemented, limits will be set on the amount of debt borrowers can take on relative to their income. The Reserve Bank states that this will support financial stability by limiting higher-risk mortgage lending.
***Proposed changes to the Reserve Bank's policy for branches of overseas banks***	The Reserve Bank has recently consulted on its policy for branches of overseas banks. Included in the Reserve Bank's package of proposed changes was that branches of overseas banks be restricted to engaging in wholesale business only, meaning they could not take retail deposits or offer products or services to retail customers (in other words, would not be able to provide personal banking services to customers).
<b>Proposed other sector-specific</b>	
***Financial Markets (Conduct of Institutions)	This legislation introduces a new regime requiring that certain institutions – including registered banks – must be licensed in relation to their general conduct towards consumers. This will be a new type of

Amendment Act 2022 (CoFI Act)***	“market services licence” and will be monitored and enforced by the FMA. The CoFI Act arose out of joint reviews by the Reserve Bank and the FMA into the conduct and culture of banks (and life insurers) in New Zealand in 2018 and 2019. These reforms are intended to address the issues identified in the reviews that banks and insurers were not putting in place systems and processes to ensure consumers were treated fairly.
***Consumer Data Right (CDR)***	MBIE has published a discussion document that consults on draft legislation, the Customer and Product Data Bill, which will set standards and safeguards for customer and product data exchange. The Bill is intended to improve customer access and control of their own data, standardise how data is exchanged, and ensure those who request access to data are accredited as trustworthy. The aim is to help innovators create new products and services, increase competition, and ultimately benefit consumers. It is currently intended that the CDR will be applied to one sector at a time, and to the banking sector first. The application of the CDR to the banking sector is referred to as “open banking”.

3.9 ASB is also subject to certain foreign regulations, including:

- (a) Australian regulations: requiring ASB to assist CBA group to meet its regulatory requirements, for example Critical Data Elements (CDE) and other Australian Prudential Regulation Authority (APRA) requirements; and
- (b) global regulations: predominately in the payments space, e.g. ISO 20022 which is a global standard for payments messaging, as well as the European Union General Data Protection Regulation (GDPR).

3.10 In addition, there are also the costs of complying with e.g. RBNZ policies. For instance, there has been a substantial cost to ensure compliance with BS11, which is the RBNZ’s policy in relation to banks’ outsourcing of functions such as IT processing, accounting, call centres, etc. The lengthy policy is accompanied by eight supporting documents.<sup>24</sup> Complying with BS11 alone is expected to have cost ASB approximately \$[Redacted] million. It is but one example of the lesser known regulations, policies and procedures banks must understand and comply with, typically at great cost.

3.11 The sheer amount of regulation inevitably has an impact on competition in personal banking markets, particularly New Zealand’s ability to attract international ‘would-be’ competitors to a small market with a relatively complex regulatory regime, as well as reducing the scope for incumbents to innovate as they are forced to prioritise e.g. people to ensure systems are compliant with the increasing regulatory burden.

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

4.1 The growing Māori economy is estimated at just under \$69 billion and is no longer a separate segment of the Aotearoa economy. Māori culture and language are a key part of New Zealand’s national identity, and there is growing recognition of the value that a Māori worldview and core cultural values can bring to businesses.

4.2 The purpose of ASB’s Te Ao Māori strategy is to accelerate the prosperity of tangata whenua (people of the land) – this includes Māori employees, customers and communities. The three pou (pillars) of this strategy are:

<sup>24</sup> See <https://www.rbnz.govt.nz/regulation-and-supervision/oversight-of-banks/standards-and-requirements-for-banks/banks-outsourcing-policy>.

- (a) Te Ao Māori – The Māori World: building on ASB’s Māori cultural capability training by developing further learning and educational opportunities for ASB’s people. This includes authentically embracing and elevating Māori language, culture, and customs;
- (b) Rangatiratanga – Leadership: improving pathways to employment and development for Māori at ASB, to better reflect the communities ASB serves and improve outcomes for Māori. This includes introducing internships for Māori and Pasifika students in FY23; and
- (c) Ōhanga Māori – accelerating the financial progress of Māori communities through a targeted approach including addressing access to capital. This involves collaborating with a broad range of stakeholders, including Māori owned businesses, community organisations, housing providers and the Government. ASB’s specialist Māori banking team, Te Waka Whaihua, has developed strong relationships with Māori customers over many years.

4.3 The guiding principles which support the pou above, are:

- (a) Tika, Pona, Aroha: doing the right thing, acting with integrity and leading with respect and compassion;
- (b) Whanaungatanga: building meaningful and reciprocal relationships between ASB’s people, customers and communities; and
- (c) Toitutanga: taking a more balanced approach to prosperity across social, cultural, environmental and economic measures.

4.4 ASB believes there are two key areas where aspects of competition in the personal banking sector may have a particular impact on Māori.

- (a) Home ownership, and in particular the ability to access a home loan for a property on Māori land.
  - (i) As at June 2022 Māori home ownership was 31%, compared to 52% for non-Māori.
  - (ii) ASB’s Lending Standard provides for Māori Freehold Land to be an acceptable security, and ASB has a positive track record of lending in this space. ASB’s Māori Banking Team, Te Waka Whaihua, is working on clarifying ASB’s position to the market.
  - (iii) ASB submitted to the RBNZ in September 2022 on its Issues Paper on Improving Māori Access to Capital.<sup>25</sup> In that response ASB noted that without Government support, ASB can only apply lending for Māori Freehold Land where owners are a sole owner, joint tenants or owners in common (up to a limited number of owners), Māori Land Act Trusts or Incorporations. Lenders need Government backing to be able to lend against Māori freehold land which is owned by multiple parties/individuals, to assist Māori to achieve home ownership.
  - (iv) Te Waka Whaihua is in discussions with Kāinga Ora to potentially provide Government guarantee support (at some level) to drive access to finance on Māori land. This would unlock better access to finance on Māori land across all large banks (rather than the current case by case basis).
  - (v) ASB believes better home ownership for Māori would be possible were all banks to participate in the Kāinga Ora first home loan ownership scheme. This scheme allows customers to get into the housing market with as little as 5% deposit, underwritten by Kāinga Ora in its capacity as a provider of Lenders’ Mortgage Insurance. This scheme provides an opportunity to include lending on Māori Land.

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<sup>25</sup> ASB’s submission on RBNZ’s Issues Paper on Improving Māori Access to Capital is available, from page 83 to 87, at: <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/maori-access-to-capital/individual-submissions-on-improving-maori-access-to-capital-issues-paper.pdf>.

- (vi) Te Puni Kōkiri (The Ministry for Māori Economic Development) provides infrastructure funding for papakāinga (communal housing) development on Māori Freehold Land. An example of this that ASB is supporting can be found [here](#).
- (b) The second area is that, in some instances, there can be a lack of confidence for Māori to engage with banks. Initiatives currently underway include:
- (i) ASB is working on its cultural capability internally to better support Māori to engage with ASB, which includes via ASB's specialist Māori banking team, Te Waka Whaihua;
  - (ii) ASB has been running a pilot program in kura (Māori schools), called Tikitiki o Pūtea, which is a Māori version of GetWise (the ASB program run in 1,500 schools throughout New Zealand, teaching kids to be clever with cash);
  - (iii) ASB is conducting a partnership pilot between The Retirement Commission, NZBA, Tāwhia, and Te Puni Kōkiri, called the Whānau Programme, which is aimed at deepening understandings of financial literacy and basic banking; and
  - (iv) ASB is relaunching the ASB Te Reo Māori / CC app called Whaihua.
5. ***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.***
- 5.1 Please see the attached NERA Report and the comments in the Executive Summary.
6. ***Please describe the factors that have the most influence on the financial performance of New Zealand personal banking service providers.***
- 6.1 In addition to the level of competition, ASB believes the following factors have the most influence.
- (a) Interest rates achieved on assets, including customer advances and liquid assets. The mix of assets is also relevant.
  - (b) Costs of funding, including customer deposits and wholesale funding. The mix of deposits is also relevant.
  - (c) Costs of hedging interest rate and other risks.
  - (d) Other sources of income, including fee revenue and commission.
  - (e) Operating expenses needed to acquire and service customer accounts.
  - (f) Expenses required to support investment programs, including regulatory requirements and technology platforms.
  - (g) Loan impairment expenses.
  - (h) The amount of equity provided by shareholders, which is strongly influenced by regulatory requirements.
  - (i) The prevailing level of interest rates.
  - (j) The level of risk including factors such as the quality of assets, the quantum of liquid assets and the mismatch in duration of assets and liabilities.
7. ***Do you agree with our description of the digital innovation and digital disruption trends in New Zealand and overseas? If not, please explain.***
- 7.1 ASB agrees with the Commission that *“Digital disruption is occurring in some parts of the New Zealand economy and we see no reason why these global and local trends would not impact the*



*future of the New Zealand banking sector*".<sup>26</sup> In fact, these impacts are being felt *today*, and we have discussed the many New Zealand participants leveraging these trends in response to question 1 above (e.g. Apple Pay, Sharesies, Revolut, etc.). ASB is acutely aware of the success digital players have had overseas, and the implications of their emergence and ongoing growth in New Zealand.

7.2 Looking internationally, there is a worldwide trend of increasing availability and adoption of banking services offered by firms that are not traditional banks ("non-banks"). Non-banks typically face different (and lower) regulatory demands than more traditional banks and, as a result, they often have lower costs and more freedom in their product offering. ASB has addressed in response to question 16 and elsewhere the constraining effect regulation has on innovation by banks. By way of example, "fintechs" are primarily digital platforms that offer specific banking services, without needing to offer physical branches and cash services. Internationally, the numbers suggest that for a selection of important banking services, non-banks are now comparable to traditional banks.

- (a) An IMF report notes that the US mortgage market "*presents evidence of a significant negative impact of competitive pressure from fintechs on the income of traditional banks.*"<sup>27</sup>
- (b) Global player Revolut (an online non-bank account provider) has over 30 million users, is adding almost one million new customers per month and is processing over 400 million transactions a month.<sup>28</sup> Revolut, mentioned briefly in the PIP, and who recently launched in New Zealand, is expected to eventually introduce open banking features, loan partnerships and apply for a New Zealand banking license as it has done overseas. Expanding from the initial entry point into related areas (as e.g. Sharesies has done in New Zealand) is consistent with the overseas experience. For instance, in the United States, Venmo began as a P2P player but it can now be used for point of sale P2B transactions.
- (c) In Australia, Macquarie entered and disrupted the mortgage market and managed to obtain a 5% market share in a comparatively short period.<sup>29</sup>
- (d) In the US, Rocket Mortgage – an online non-bank lender – has been the largest originator of mortgages for several consecutive years.<sup>30</sup>

7.3 Looking beyond the numbers, various government and regulatory organisations have identified that competition from non-banks is already material and is likely to keep growing. For instance, the U.S. Treasury writes that non-banks "*appear to be contributing to competitive pressures*" by "*...adding significantly to the number of firms and of business models competing with IDIs [insured depository institutions i.e., banks] in core consumer finance markets*".<sup>31</sup> Speaking more broadly, the World Bank notes that "*Fintech, the application of digital technology to financial services, is reshaping the future of finance. Digital technologies are revolutionizing payments, lending, investment, insurance, and other financial products and services – a process that the COVID-19 pandemic has accelerated.*"<sup>32</sup> The OECD states that "*digital technology may have a large impact in terms of increasing competition and contestability of banking markets*" and that improvements in efficiency can be expected from fintech-driven innovations.<sup>33</sup>

<sup>26</sup> PIP, para 123.

<sup>27</sup> IMF, *Global Financial Stability Report*, Chapter 3 "The Rapid Growth of Fintech" 2022.

<sup>28</sup> [https://www.revolut.com/news/revolut\\_surpasses\\_30\\_million\\_retail\\_customers\\_worldwide/](https://www.revolut.com/news/revolut_surpasses_30_million_retail_customers_worldwide/)

<sup>29</sup> For further information, see: <https://www.afr.com/companies/financial-services/the-secret-behind-macquarie-s-superfast-mortgage-growth-20230210-p5cjj6>.

<sup>30</sup> <https://www.forbes.com/advisor/mortgages/10-largest-mortgage-lenders-in-us/>

<sup>31</sup> U.S. Treasury, *Assessing the Impact of New Entrant Non-bank Firms on Competition in Consumer Finance Markets*, November 2022, p. 5. <https://home.treasury.gov/system/files/136/Assessing-the-Impact-of-New-Entrant-Nonbank-Firms.pdf>

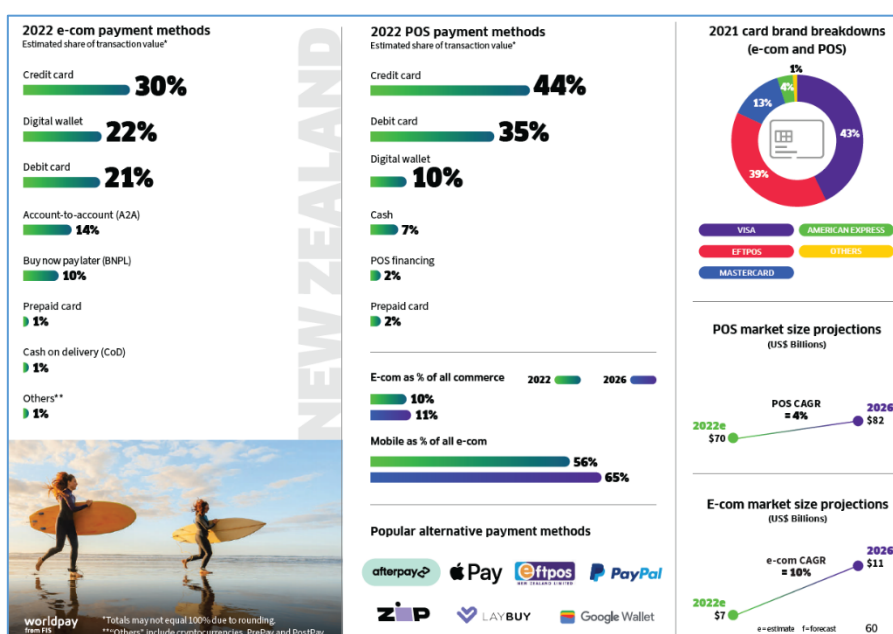
<sup>32</sup> World Bank, *Fintech and the Future of Finance: Market and Policy Implications*, 2023, at page 17.

<https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099450005162250110/p17300600228b70070914b0b5edf26e2f9f>

<sup>33</sup> OECD, *Digital disruption in banking and its impact on competition*, 2020, at page 7. <https://www.oecd.org/competition/digital-disruption-in-banking-and-its-impact-on-competition-2020.pdf>

- 7.4 A report by the U.S. Department of the Treasury noted the continuing trend of increasing competition from non-banks, which is in part facilitated by falling costs.<sup>34</sup> The Treasury cited factors ranging from falling costs of cloud computing to greater proliferation of mobile devices and connectivity, all of which apply in New Zealand.
- 7.5 The upshot being that Kiwi customers have, and are expected to increasingly have, a diverse range of products and suppliers to choose from. Firms' offerings are well publicised and search and switching costs are low. All major banks offer a free five-day switching service; it is as simple as a customer advising their new bank they want to switch banks. The new bank then facilitates all of the switching for the customer. Not only is switching easy mechanically, but many customers already maintain accounts with multiple suppliers, given there are generally no longer monthly account fees.
- 7.6 The Deposit Takers Act will further increase competition for savings and deposits by reducing the perceived risk of investing with smaller less well-known institutions.
- 7.7 In terms of New Zealanders' willingness to take up technological solutions, ASB refers the Commission to the below information on New Zealand from the FIS Global Payments Report<sup>35</sup> which shows New Zealand's significant uptake of e-commerce payments and of popular payment methods, including Afterpay, Apple Pay, Google Wallet, Paypal, Zip and Layby, alongside EFTPOS. This is consistent with the generally held view that New Zealanders have shown a high willingness to embrace digital banking solutions. The 2022 World Bank publication on fintech activity in various countries (described more fully in our response to question 26) is further evidence in this regard.

Figure 4: FIS Global Payments Report



Source: FIS Global Payments Report

- 7.8 The PIP refers to the potential benefits of open banking, including the related matters of APIs and a CDR. ASB expands on these matters in question 18 below.

<sup>34</sup> U.S. Department of Treasury, *A Financial System That Creates Economic Opportunities, Nonbank Financials, Fintech, and Innovation*, at page 5. <https://home.treasury.gov/sites/default/files/2018-08/A-Financial-System-that-Creates-Economic-Opportunities---Nonbank-Financials-Fintech-and-Innovation.pdf>

<sup>35</sup> The FIS Global Payments Report can be accessed here: <https://www.fisglobal.com/en/global-payments-report>

## Question on the services that the Commission will focus on in the study

8. ***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?***
- 8.1 ASB agrees that deposits and loans to personal customers represent core bank offerings to most New Zealanders, and ASB appreciates the practical reality that the Commission can only cover so much, in which case ASB understands the proposal to omit foreign exchange, investments and insurance to narrow the scope of the study. However, ASB questions the decision not to focus on personal consumer loans and credit cards.
- 8.2 The Cabinet Paper, to which the Commission refers, envisaged that personal loans would be one of the primary focus products.
- 8.3 Somewhat concerningly, one of the reasons the Commission gives is that the level of concentration among providers of personal loans is less than for home loans. Implicit in this argument is that concentration is a reliable indicator of the level of competition. But even if that were accepted, the upshot would be to remove a core lending activity from the study because it appears to be more competitive than other activities, which (if true) would *necessarily* understate the true level of competition.
- 8.4 Quite apart from biasing the results towards one outcome, valuable insights can be taken from consumer lending: the core aspects of writing a personal loan – raising capital, assessing risk, loaning money and managing repayments – are also present for home lending. There is also some overlap between consumer loans and the use of home loans/revolving credit to finance consumer items (such as cars, travel, and other big-ticket purchases).
- 8.5 Further, there are many consumer loan market participants which could step into the home loan market. The finance company examples above being a case in point. It is important for the Commission to understand what would encourage these providers to enter or expand further, as these reasons will help inform the Commission on the state of competition (and potential competition) in relation to home loans. For instance, the Commission may want to consider whether there are barriers to entry, a lack of profitable opportunity, or that consumer lenders enjoy a relative advantage in consumer lending through the lighter regulation they face and lack of regulatory capital requirements for those providers not registered as a bank.
- 8.6 Additionally, credit cards are far more popular personal banking products than personal and home loans. As referenced in the PIP, according to the Global Economy Data in 2021, approximately 57% of New Zealanders aged 15+ had a credit card.<sup>36</sup> Whereas it is estimated that only around a third of New Zealand households have a mortgage.<sup>37</sup> As at April 2022, more than 2.7 million people had a credit card in New Zealand, and were spending around \$600 million a year on credit card interest payments.<sup>38</sup>
- 8.7 Finally, customers have many substitute products for their money. They may choose to pay down debt, increase KiwiSaver contributions, move money into a managed fund or shares, etc. This means that a narrow focus on savings and deposits will not necessarily reflect the choice customers have for their money and the assessment each will undertake to determine the solution that best helps achieve their goals.

<sup>36</sup> Data sourced from: The Global Economy "Business and economic data for 200 countries", available at <https://www.theglobaleconomy.com/New-Zealand>

<sup>37</sup> <https://www.rnz.co.nz/national/programmes/mediawatch/audio/2018898507/could-a-mortgage-bomb-blow-up-borrowers#:~:text=Senior%20business%20journalist%20Miriam%20Bell,over%20the%20next%2012%20months.>

<sup>38</sup> <https://www.stuff.co.nz/business/money/128256157/are-credit-cards-worth-risking-the-debt-to-reap-the-rewards#:~:text=More%20than%202.7%20million%20people,on%20credit%20card%20interest%20payments.>

## Questions on the nature of competition

9. ***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?***
- 9.1 Personal banking markets are dynamic and competition is intense between the large number of market participants, being the five major banks, the smaller banks, product-specific and emerging new competitors.
- 9.2 As ASB sets out below, the provision of personal banking services does not occur in a static environment. The market is continually changing due to the competitive jockeying for share among 'traditional' competitors – who at a particular moment in time will invariably have different strategies, focus areas and cost bases – coupled with the growing competition from fintechs and other 'non-bank' offerings, consistent with developments overseas.
- 9.3 On pricing, ASB ensures it is across competitor pricing on a daily basis, e.g. via competitors' websites or information provided to frontline teams by customers shopping around for the best rate – be it the pricing of one of the larger five banks or a smaller player. While ASB formally reviews its rate card pricing on at least a [Redacted] basis, it will also react in a more dynamic fashion on a day-to-day basis. The discussion below reveals how quickly share moves if a bank's pricing is not competitive. This competitive dynamic applies to both new and existing business as customers enter the market for a new home loan or deposit as well as when an existing term expires.
- 9.4 While competitive price positioning is critical, ASB also deploys other competitive levers, such as marketing, distribution, service levels, digital offerings, and credit policy. In order to win, and retain, market share firms must be competitive across a broad range of factors.
- 9.5 As the discussion below makes clear, the nature of the market means that firms dynamically adjust their pricing, other offers, marketing spend and product focus as they react to different market opportunities and competitor moves – all of which makes it difficult for any market participant to predict how its competitors will act on a given day, week or month.

### Competition among the registered banks

- 9.6 That there are *five*, large, well-known players in a market the size of New Zealand, offering a range of products/services across all of the core personal banking lines, is itself strongly consistent with a workably competitive market, even before allowing for the presence of the many other bank and non-bank competitors.
- 9.7 Competition among the registered banks is far from static.
- 9.8 At a macro level, in the late 1990s, ASB made a conscious decision to grow its home loan book, and in doing so doubled its overall size, going from 9% in 1998 to 13% in 2003 and 17% in 2008, during which other market participants understandably fought hard to maintain share. Of course, the market has also seen the entry and growth of Kiwibank.
- 9.9 There is a range of data points which reveal the dynamic nature of competition among the registered banks.
- 9.10 One indicator of volatility (and resulting uncertainty for competitors) is the share of new loans over time. The chart below shows that particular firms are leading bouts of competition in light of their individual (and different) strategies at particular times, leading to considerable variation in share, but no clear patterns over time. Share of new business can vary greatly in comparatively short time periods.

### **Figure 5: Share of new home loans**

[Redacted]

[Redacted]

- 9.11 The dynamic nature of competition can also be seen from the variation in wins/losses of home lending written as customers come to the end of a fixed rate period or just choose to switch their home loan provider. The graph below shows the net position for each of the larger banks by charting the number of home loan titles from customers switching that business to that bank less the number of home loan titles lost to other banks. [Redacted]

**Figure 6: Home Lending – Net Refinances**

[Redacted]

[Redacted]

- 9.12 Another example is the volatility of home loan marketing spend. Banks will make major marketing pushes relative to others at seemingly random times – with these periods of high marketing spend generally accompanied by very competitive interest rates. [Redacted] These marketing actions mean no bank can have any degree of confidence as to how another will act on a particular day, week or month.

**Figure 7: Share of Voice (Marketing) Home Loans**

[Redacted]

[Redacted]

- 9.13 Government-funded Kiwibank plays an increasing role in the various markets. It has grown to over one million customers since its inception. Because it is Government-funded, it should have the lowest cost of funds of any of the main banks, and it is continuing to grow its market share.

- 9.14 [Redacted]

**Figure 8: NPS Scores**

[Redacted]

[Redacted]

- 9.15 This further emphasises the real competitive threat posed by Kiwibank, which also undertook a total brand refresh in 2022. Kiwibank announced its best results in the history of the bank for FY23, up 34% on FY22.<sup>39</sup> As part of this announcement, the CEO noted “*Home lending growth of \$1.1 billion, (or 1.5x market)*”. Total deposits rose \$1.54 billion, or 6%.<sup>40</sup>
- 9.16 The recent change in ownership structure (with the New Zealand Government acquiring 100% of Kiwibank’s parent company in 2022) is expected to increase Kiwibank’s access to capital. Kiwibank has announced a \$225 million cash injection to speed up growth, via the reinvestment of the funds received from the sale of its former investment and insurance businesses. Kiwibank’s CEO said “*[t]his capital injection will enable Kiwibank to continue to deliver on its growth ambitions by supporting Kiwis with their home ownership aspirations and backing local businesses to thrive.*”<sup>41</sup>
- 9.17 Kiwibank is particularly gaining in home lending, where it is growing above the market. The below graph (scaled to show changes rather than absolute share) shows that ANZ, ASB and Westpac have all lost share over the period, while Kiwibank and BNZ (likely off the back of its re-engagement with mortgage brokers) have grown share. Kiwibank has been expanding its adviser

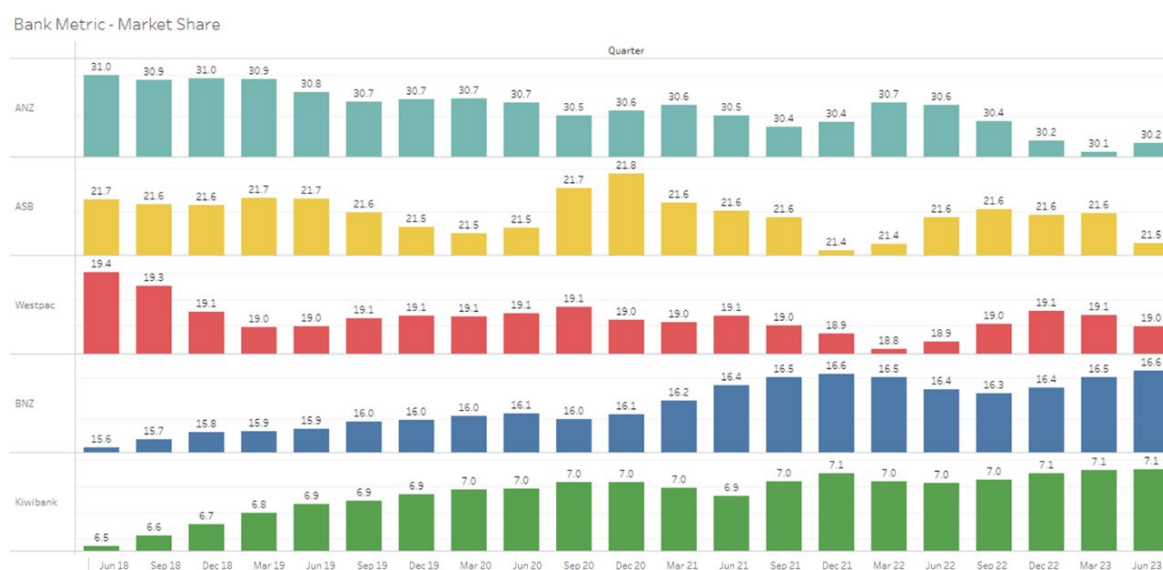
<sup>39</sup> <https://www.kiwibank.co.nz/about-us/news-and-updates/media-releases/kiwibank-releases-full-year-results-and-2023-sustainability-report/>

<sup>40</sup> <https://www.interest.co.nz/banking/123884/kiwibank-june-year-profit-hits-175-mln-income-surges-loan-impairment-losses-more>

<sup>41</sup> <https://www.kiwibank.co.nz/about-us/news-and-updates/media-releases/kiwi-group-capital-invests-225-million-into-kiwibank-to-accelerate-growth/>

channels, offering significant cash contributions, and in 2022 launched a 'co-own' product (as an alternative option to traditional home ownership in response to rising costs).

**Figure 9: Home Lending Market Share (June 2018-March 2023)**



Source: Data from RBNZ S31 Statistical Series and Bank Financial Strength Dashboard

### Competition from smaller banks and fintech

- 9.18 In addition to the larger banks, ASB keeps a close eye on the offerings of smaller banks, fintechs and product specific competitors.

#### *Smaller banks*

- 9.19 SBS Bank has a strong first home buyer proposition, including offering a low rate, coverage for insurance and a cashback offer, which has caused some ASB customers to switch to SBS. SBS delivered a strong financial performance in FY23, welcoming a record number of first home buyer and investment members.<sup>42</sup> Its release notes that, “Lending rose \$624 million or 14% to \$5.025 billion during the period and member deposits rose \$655 million to \$4.230 billion. SBS Bank’s total home lending for the year to 31 March, 2023 increased by approximately 12% from \$3.6 billion to \$4.0 billion - well above the broader industry growth rate of closer to 3.5%.”<sup>43</sup>
- 9.20 TSB also performed well in FY23. TSB outperformed the market in residential lending, achieving 1.6x system (market) growth, with lending assets increasing a further 6% to \$6.2 billion.<sup>44</sup>
- 9.21 In FY23, Heartland Bank increased its borrowings by NZD\$399.5 million (9.2%) to \$4.75 billion and its deposits grew by NZ\$534 million (~15%) to \$4.13 billion.<sup>45</sup> Heartland experienced, in Q1 and Q2 of FY23, the highest growth rate in retail deposits of all main and domestic banks in New Zealand, based on balance sheet data from the RBNZ.<sup>46</sup>

<sup>42</sup> See media release: <https://www.sbsbank.co.nz/news/sbs-bank-reports-solid-full-year-result#:~:text=The%20SBS%20Group%2C%20which%20includes,16%25%20from%20the%20previous%20year.>

<sup>43</sup> Ibid.

<sup>44</sup> See media release: <https://www.tsb.co.nz/about/news/tsb-year-confirms-its-right-track-future-growth#:~:text=TSB%20reported%20a%20net%20profit,Shareholder%2C%20philanthropic%20organisation%20to%20Foundation.>

<sup>45</sup> See Heartland’s investor presentation, slide 18:

<https://www.heartlandgroup.info/documents/reports/presentations/Heartland%20Group%20FY23%20Investor%20Presentation.pdf>

<sup>46</sup> Ibid, slide 18.

- 9.22 The Cooperative Bank also experienced 8% growth in mortgages in FY23 which was well above the market average, with its mortgage portfolio growing by \$204 million, compared to \$41 million mortgage growth in FY22.<sup>47</sup> Additionally, it experienced 5% deposit growth overall.<sup>48</sup>

#### *Fintech / product specific competitors*

- 9.23 Smaller competitors, often leveraging newer tech and a lower compliance burden, are also making inroads, with examples including the term savings / deposit products from Squirrel, Sharesies and Forsyth Barr. Squirrel's on-call savings account offers a high interest rate, with two hourly transfers to deposit or withdraw money.<sup>49</sup> Squirrel's account does not trigger lower rates if customers make a withdrawal or do not deposit funds in any given month.<sup>50</sup> Sharesies also offers a very attractive interest rate on its savings account which it introduced in April 2023.<sup>51</sup> [Redacted]
- 9.24 Some of these competitors compete heavily on price but spend relatively less on customer service and additional tools / assistance for customers. While ASB has observed some of the customers it has lost to these smaller businesses returning after a period, preferring ASB's broader product mix and offerings, the availability of different price/quality/service mixes means greater choice for customers and is a hallmark of a workably competitive market.
- 9.25 [Redacted]<sup>52</sup>
- 9.26 In ASB's view, the above data shows, consistent with its own experience, that customers, and hence market share, is highly sensitive to the competitive environment. For instance, even the smallest of rate differentials can have a material impact on share.
- 9.27 In addition to headline interest rates, firms are also competing on service levels and product offerings to support customers. For example, ASB has an online platform called Home Central which gives customers more control over their home loan and encourages them to take an active role in ensuring their loan is working well for them. This tool illustrates how changes made to their loan, such as increasing mortgage repayments or changing the frequency of payments, can make a significant impact to the cost and duration of the loan. Home Central also provides up-to-date information on the property's estimated value, at no cost. In the past month alone Home Central has been visited by our customers more than [Redacted] times, with over [Redacted] visits to manage repayments, and over [Redacted] visits to manage fixed rate rollovers.

#### Competition in transaction and deposits

- 9.28 Competition has led to a material reduction in fees for transactions and deposit accounts over time. ASB has removed over \$[Redacted] million worth of fees in relation to personal banking services in the last two years. In particular:
- (a) ASB no longer charges fees for an account, this is free to consumers, and there are no fees for self-service transactions or for access to online or mobile banking; and
  - (b) ASB's overdraft fees have also significantly reduced over time. While they were at \$20 for an unarranged overdraft, this reduced to \$10 over time, and now sits at just \$3 monthly. ASB no longer charges any fees for arranged overdrafts.
- 9.29 As is the case with home lending rates, market shares for deposits are highly sensitive to interest rate competitiveness.

<sup>47</sup> See Cooperative Bank's Annual Results here (at page 6): <https://www.co-operativebank.co.nz/api/content/Document/17997>.

<sup>48</sup> Ibid, at page 6.

<sup>49</sup> For additional information see: [https://www.squirrel.co.nz/invest/high-interest-on-call-account?utm\\_source=moneyhub&utm\\_medium=review&utm\\_campaign=march2023](https://www.squirrel.co.nz/invest/high-interest-on-call-account?utm_source=moneyhub&utm_medium=review&utm_campaign=march2023).

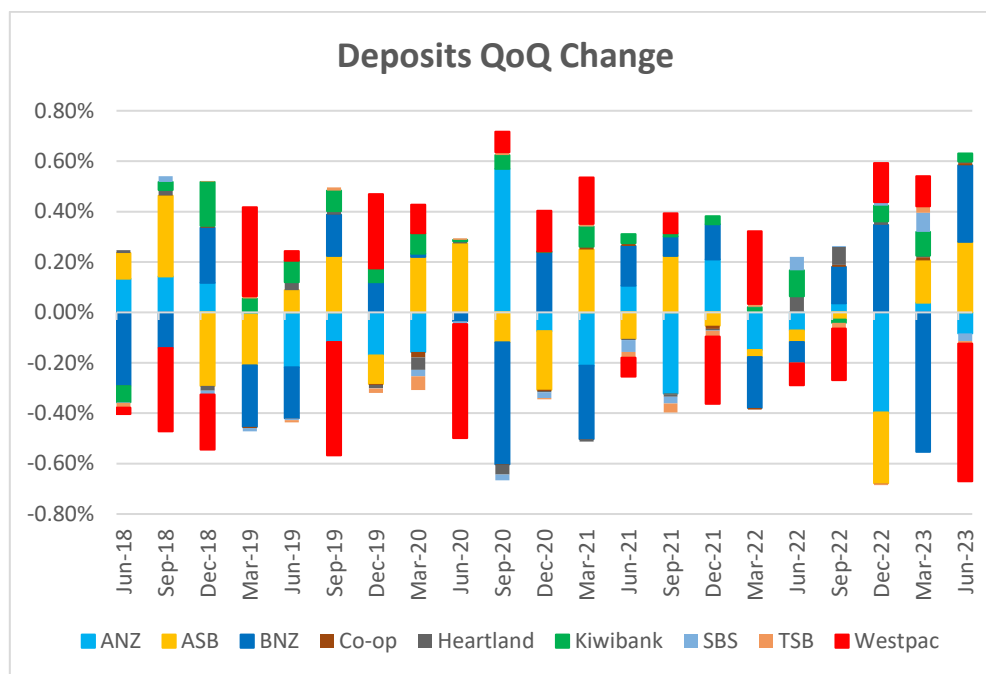
<sup>50</sup> See: <https://www.stuff.co.nz/business/money/130854277/new-account-aims-to-level-the-playing-field-for-savers>.

<sup>51</sup> <https://www.sharesies.nz/save>

<sup>52</sup> [Redacted]

- 9.30 ASB has also recently seen Kiwibank win customers due to its more aggressive competitive position in term deposits. [Redacted]
- 9.31 The graph below shows how on a quarter-by-quarter basis market shares for term deposits have changed over the past five years between various banks in New Zealand, demonstrating the dynamic nature of the term deposits space.

**Figure 10: Deposits Market Share Quarterly Change**



Source: Data from RBNZ Bank Financial Strength Dashboard

- 9.32 In addition to the growing range of alternative products to those offered by traditional banks, savings and term deposits are only one of a multitude of products customers can invest in. Alternatives include bonds, PIE funds, traditional managed funds, equities and the like, with many deposit holders making dynamic choices as to how they weight their investments across asset classes. For instance, while a particular customer may not substitute entirely away from term deposits to a fixed interest managed fund (or vice versa), the mix they allocate to, say, term deposits will be a function of their view on the expected return relative to these alternatives.
10. ***Please describe how personal banking service providers compete to gain and retain customers. Please explain your answers and provide examples. For example:***
- 10.1 Personal banking service providers need to use a broad approach to compete for new customers and to retain customers, given the broad needs and demands of consumers. As set out further below, a pre-existing relationship with a provider is decreasing in importance for customers who, in addition to competitive interest rates, are increasingly valuing factors such as recommendations from family/friends and brokers, a smooth application process and mobile banking app functionality.
- Do providers put the same amount of effort into gaining and retaining customers? [10.1]***
- 10.2 ASB is focussed on retaining customers and winning new customers.
- 10.3 It is difficult to disentangle the various initiatives because – as a general rule – many will assist with retention and winning new customers.
- 10.4 For example, the following innovations are largely aimed at retaining customers, including to drive increased customer satisfaction and engagement and to make banking simpler and easier for existing ASB customers, but of course they will also make ASB relatively more attractive to new customers:



- (a) introducing Apple Pay / Google Pay;
  - (b) Card Tracker, which shows customers where their card details are held, i.e. Visa Debit subscriptions that are being paid from their transaction account to help customers with budgeting etc.;
  - (c) Home Central, which allows customers to increase their home loan repayments, or re-fix, assisting existing customers in paying down their mortgage faster; and
  - (d) Support Finder, which helps customers discover what government financial support they might be eligible for, regardless of who they bank with.
- 10.5 The majority of ASB's frontline people across its Personal Banking business are geared towards supporting and serving existing ASB customers for their everyday banking needs, but again helpful and efficient front-line people will also appeal to new customers.
- 10.6 ASB has a significant direct-to-customer communication programme which is focussed on supporting existing customers and accelerating their financial progress. This includes trigger-based conversations that are aimed at existing ASB customers who:
- (a) may be better off on a different product;
  - (b) could avoid paying fees by changing their behaviour; or
  - (c) may have a significant deposit that could be moved into a different product based on their needs.
- 10.7 In terms of other initiatives which tend to be more targeted at winning new customers (as well as in many cases improving ASB's offering for the benefit of existing customers), ASB has introduced the following.
- (a) Back my Build, a preferential home loan offering for new build customers.
  - (b) Investments into online joining and ID verification solutions, making it simple and easy for customers to join ASB.
  - (c) A self-service digital advice tool which advises existing bank customers on KiwiSaver fund options (i.e. targeted at potential new KiwiSaver customers).
  - (d) New card propositions.
  - (e) Improvements made to True Rewards.
  - (f) Product simplification.
  - (g) Removing all fees on personal accounts.
  - (h) Community Bankers who visit local libraries, community centres and aged care facilities, to support customers with online banking.

***Which services are subject to greater competition and which services are subject to less competition? [10.2]***

- 10.8 ASB believes there is strong competition across all personal banking categories.
- 10.9 For home loans, being out of market on what customers care about and why they choose a provider (such as product offering, likelihood of approval (credit settings/appetite), price, and service – time to approval), will result in immediate market share losses.
- 10.10 For transaction accounts, more recently, these have become free for customers with competition around the broader banking offer including digital offerings, mobile and online, and other

innovations such as Apple Pay and Card Tracker. These offerings are focussed on supporting customers' broader banking needs, rather than purely a transaction account, e.g. considering how they use it, how they pay money to others, how they get paid, and to track their money and spending, etc.

- 10.11 For savings and term deposits, being competitive on rates is an increasingly important factor, and making it simple and easy to open accounts via an existing relationship is important. Similar to home loans, when a provider is out of market in terms of interest rates, customers will move their money to another trusted provider. In the context of an increasing OCR, the household deposit market has seen a shift in customer preferences from saving products to term deposits, so competition is particularly strong between market players in this space.
- 10.12 The figures below outline the primary reasons for people opening savings accounts with their current providers.

**Figure 11: Reasons customers opened primary savings account**

[Redacted]

[Redacted]

- 10.13 There are additional competitive dynamics and intensity when it comes to savings and deposits. ASB is not merely competing against providers of the same product type but also providers of substitute products. Customers have many substitutes to choose from and this changes based on the market cycle, i.e.: there are times when customers will:

- (a) focus on paying down debt instead of saving;
- (b) move their money to KiwiSaver to assist with getting into their first home or setting themselves up for retirement; and
- (c) move their money to shares or managed funds in the hope of a higher return.

***Please describe how important national branding is to competing for personal banking services. [10.3]***

- 10.14 While brand is one aspect of competition between personal banking service providers, it is less important than a competitive interest rate. [Redacted]

**Figure 12: Key Drivers of Choice**

[Redacted]

[Redacted]

- 10.15 [Redacted]

**Figure 13: Motivators for why customers open primary transaction account**

[Redacted]

[Redacted]

- 10.16 [Redacted]. In ASB's view, this reinforces the arguments made elsewhere that incumbent providers must ensure their offering is competitive across a whole range of measures, given there are multiple 'entry points' for competitors to target and win customers. The rapid growth of Macquarie Bank in Australia further demonstrates this.

- 10.17 Finally in relation to brand, competitors are able to build their brand in related services before offering additional personal banking products (as has occurred and is discussed above in relation to Sharesies and Squirrel).

**Please describe how important having a physical presence is (eg, branch network) to competing for personal banking services. [10.4]**

- 10.18 ASB constantly tests how it can most efficiently serve existing and potential customers' demands. As innovations and other technologies have developed, and consumers more generally have become increasingly comfortable transacting online, demand for in-branch services has reduced significantly.
- 10.19 While ASB remains of the view its physical branch network is an important component of its overall competitive offering, the trend to doing more online has meant ASB has reduced the number of physical branches to match customer demand, by, for example, having fewer branches servicing a particular catchment or changing hours. ASB is also involved in the regional banking hub pilot program with five other banks, providing banking services in small regional communities via banking hubs. ASB has also recently extended branch hours in two locations following customer demand.
- 10.20 Survey data backs up this view. [Redacted]

**Please describe how competition for personal banking services varies between regions. [10.5]**

- 10.21 While there are some subtle differences between some regions in terms of what customers value most, this does not drive any relevant variation in the overall level of *competition* for personal banking services between the regions. Rather, the majority of competitors active in New Zealand compete for business nationally.
- 10.22 ASB notes that new innovative competitors entering the market tend to focus on online only offerings which are offered on a nationwide basis and do not vary between regions (e.g. the offerings from Revolut, Sharesies, Area, etc.).

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

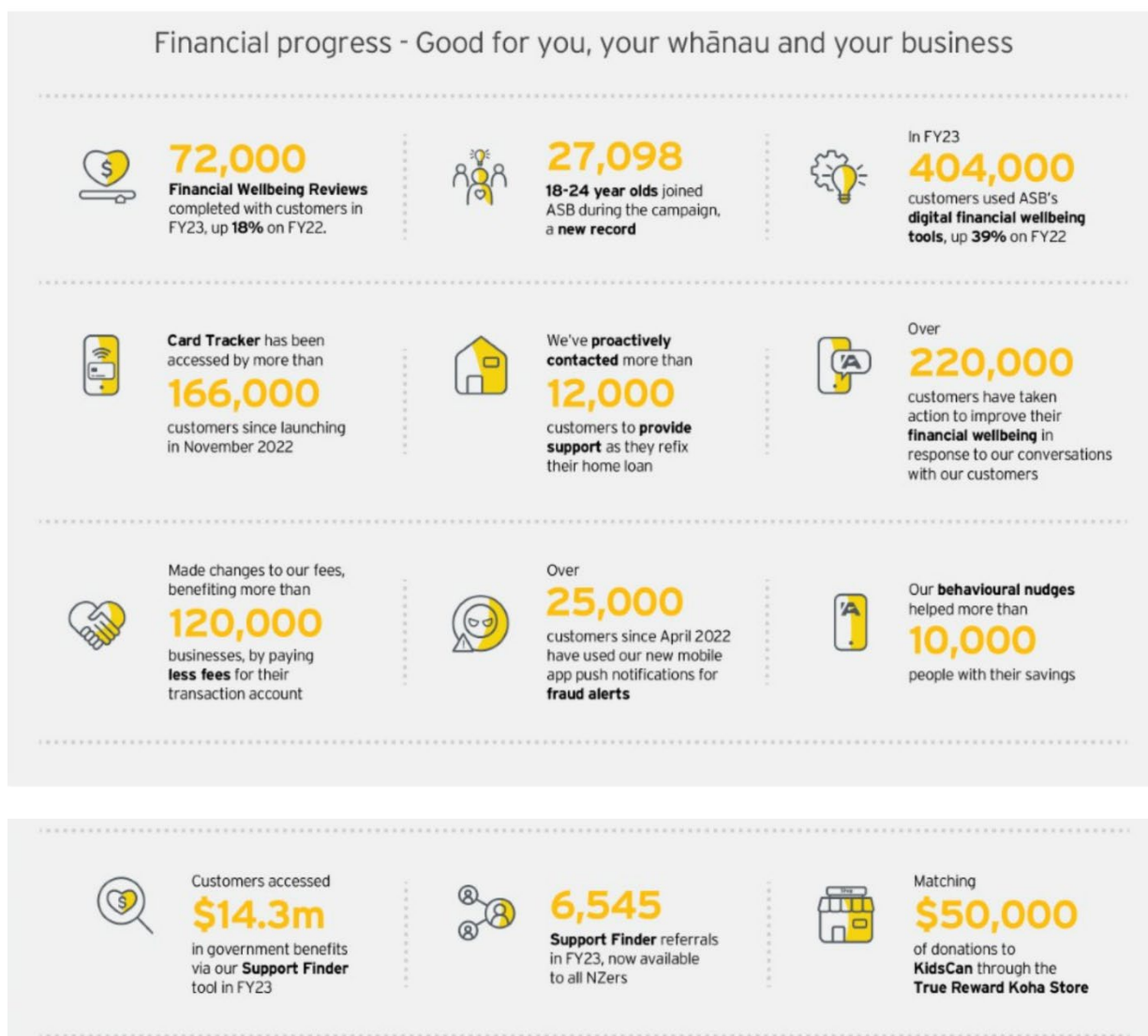
- 11.1 As set out below, there is variation among the home loan and deposit account products offered in the market, and the relative differences between providers tend to be volatile over time as providers' day-to-day and longer term strategies change.
- 11.2 For home loans, this variation occurs across:
- (a) pricing (interest rates) and price specials;
  - (b) product offering, e.g. with an ASB home loan customers receive a free compassionate care offering which is a complementary home loan feature whereby ASB will pay the interest costs of up to \$60,000 on eligible owner-occupied home lending for around 12 months if one of the eligible borrowers were to pass away. ASB and other banks also offer specific green focussed loans, or loans targeted at new builds. Westpac has recently offered home loan customers interest free loans for electric vehicles;<sup>53</sup>
  - (c) approval criteria, particularly for first home buyers where supply is constrained with LVR limits. Outside of LVR limits, offers vary based on e.g. interest rate test rates and types of income;
  - (d) channel of choice, i.e., supporting customers with online, broker, in person (including the customer visiting a branch, or mobile bankers visiting customers), and contact centres. Providers compete on which of these channels are offered as well as the service levels provided at each, e.g. response times;

<sup>53</sup> See <https://www.nzherald.co.nz/business/westpac-to-offer-interest-free-lending-on-electric-vehicles-but-theres-a-catch/G6ET7AYXKFA5XHNF3TGWE7X2I/>. Westpac will offer home loan customers interest-free loans of up to \$50,000 for five years to purchase an electric vehicle or other energy-efficient technology, subject to lending and affordability criteria.

- (e) geographic representation and scale, people/capability/experience, which varies by provider. ASB for example invests heavily in people as part of its strategy to have the best lenders in the market, to be able to support customers with quality guidance and advice;
  - (f) brand/reputation;
  - (g) promotions, which can include specific cashback or general insurance offerings; and
  - (h) guidance and advice.
- 11.3 For deposit accounts (which are now generally free):
- (a) pricing;
  - (b) functionality of mobile applications and online banking;
  - (c) support across other channels, including via branch and ATM locations, contact centres etc., as well as service levels within these channels;
  - (d) features of the accounts, e.g. integration with cryptocurrencies and payment features, such as the ability to use Apple Pay (see further detail below);
  - (e) tools/alerts to help customers manage their money, and features making it easier to save (e.g. ASB's 'Save the Change' proposition);
  - (f) brand / reputation of the provider, including how the bank plays a role in the broader community;
  - (g) promotions or other incentives; and
  - (h) guidance and advice.
- 11.4 As fee free accounts are largely ubiquitous across providers a greater focus has been placed on deposit account features and service levels, particularly when it comes to online banking and mobile app functionality. ASB sets out below some tools and innovations it offers in this regard to make it easy for customers to do their day-to-day banking (all of which are offered free of charge to customers).
- (a) Card Control, allowing customers to lock and unlock their card and set spending limits.
  - (b) Alerts, allowing customers to set up alerts on their accounts for when money comes in and goes out.
  - (c) Financial wellbeing assessments, with over 72,000 reviews completed last year.
  - (d) Digital financial wellbeing tools are also provided for customers' use, with 404,000 customers using them last year.
  - (e) Card Tracker, showing where customers have their payment details stored, such as subscriptions that they may no longer use. Approximately 166,000 customers have used this since its launch in November 2022.
  - (f) ASB's Support Finder tool has allowed customers to access \$14.3m in government benefits in FY23.
  - (g) ASB Save the Change feature allows customers to round up their day to day transactions to assist customers with set and forget savings behaviours.
  - (h) Easy ways to pay, including Apple Pay, Google Pay, and Garmin Pay.
  - (i) Guidance and advice.

11.5 Some of these features are reflected in ASB's end of year announcement.

**Figure 14: Financial Progress extract from ASB's 2022 EOY Announcement**



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

12.1 ASB interacts with other providers in the types of forums set out below.

- (a) **Market research:** ASB shares data and either receives some output or the output is used. Examples include Morningstar, Ipsos KiwiSaver NPS data, Consumer NZ, Canstar, Mindful Money, Sorted Smart Investors platform, Risk Managers Round Table, RBNZ market statistics.
- (b) **Working Groups:** ASB supports industry groups and initiatives related to personal banking services. For example, Payments NZ, Payments Council, SWIFT, AML / CFT, Financial Services Council, CCCFA.
- (c) **The New Zealand Banking Association (NZBA):** which is a non-profit unincorporated organisation that acts as a forum for member banks to work together on non-competitive industry issues, such as sustainability and climate change. It is funded by member banks

through subscriptions. Full membership of the NZBA is open to any bank registered under the RBNZ Act 1989.<sup>54</sup>

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

- 13.1 Mortgage brokers provide guidance and advice for consumers. This can be helpful for those consumers who might have more challenges in seeking approval for mortgages. Mortgage brokers also play a role for those consumers too busy (or who otherwise find it difficult) to shop around. To the extent there is any asymmetry of information, brokers can address that. In that regard, they do have the effect of increasing competition and offers.
- 13.2 Broker numbers have been increasing in New Zealand in recent years. This is likely to be at least partly driven by the CCCFA requirements which increase the complexity and work required for a home loan application. The number of mortgage advisers accredited with ASB has increased from [Redacted] at FY18, to [Redacted] at FY23. [Redacted] ASB's share of new home loan business which originates via a broker (as opposed to directly from customers), is now comfortably over [Redacted]%.
- 13.3 In addition to brokers, there are more digital intermediary offerings becoming available. For example, InvestNow, which launched in 2017 (discussed below) provides customers with the ability to view and select the best term deposit rates from a number of banks via InvestNow rather than dealing with each bank separately.

**Questions on how competition works for different population groups**

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

- 14.1 ASB segments customers in multiple ways, both on an overall customer basis, as well as product specific customer groupings for some products. This assists ASB to understand its customers from an organisational and servicing perspective, as well as to measure financial wellbeing.

15. ***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?***

- 15.1 In addition to the response to question 4 above, ASB sets out below some of the initiatives it has in place to focus on the needs of various population groups in New Zealand. The strength of these initiatives emphasises ASB's strong desire to ensure competition in personal banking markets works well for all consumers in New Zealand.

ASB Community Council

- 15.2 ASB is conscious that certain consumer groups may find it more difficult to navigate the financial system. ASB therefore introduced the ASB Community Council in late 2019. This is a collective of external partners who represent a number of potentially vulnerable customer groups. It is chaired by ASB's CEO, meets quarterly, and provides a forum for ASB to listen to its customers, and to amplify the voice of those who are marginalised, disadvantaged, or otherwise find the financial system difficult to navigate, and ensure that the needs of all customers are being considered.
- 15.3 Feedback from the ASB Community Council has resulted in some significant changes to the way ASB operates. This includes the following.
- (a) Improving how ASB treats its customers who are financially vulnerable.
  - (b) ASB Support Finder.
  - (c) Education session for ASB's Board.

<sup>54</sup> <https://www.nzba.org.nz/about-us/>.

- (d) The Council also identified the following as areas they would like ASB to focus on as a priority, and discussed these with the Board: BNPL being treated as a credit contract; domestic violence – provide better support for women being economically harmed by joint debt; better access to the right people for financial mentors and better support for their financially vulnerable clients, and the use of focus groups with assisted technology users for products.
- (e) 7-day payments: Council members raised concerns about low public awareness of the change. This feedback saw ASB’s communications plan expanded to include in-branch communications, print advertisements, bank statement inserts, and development of a flyer to be delivered in-person by financial mentors and budgeting services across the country. ASB also passed the Council’s feedback onto Payments New Zealand, which subsequently broadened its own communications activity.
- (f) Referral pathways: ASB listened and built referral pathways for financially vulnerable customers to MoneyTalks.
- (g) Raising awareness about financial abuse: Council members have contributed to digital guides for ASB’s customers as part of a phased approach to raising awareness about this widespread but often hidden problem.
- (h) Vulnerability lens on operational changes and communications: the Vulnerability & Accessibility team are now highlighted as a team to connect with on the internal ‘Engagement channels for Customer Communications’ guide, and ASB’s Senior Manger Vulnerability & Community receives a copy of every initial change impact assessment, to scan for anything that may impact customers in vulnerable circumstances so that a plan can be put in place to support these customers.

#### NZBA Vulnerability Working Group

- 15.4 The NZBA advocates for its member banks on non-competitive industry issues with a focus on regulatory reform and reputational management, both of which connect to customer vulnerability.
- 15.5 The FMA/RBNZ Bank Conduct and Culture Review in 2018 identified how banks deal with customers experiencing vulnerability as a theme. In March 2021, the NZBA Council agreed that NZBA establish a Vulnerability Working Group to take a strategic approach on industry customer vulnerability issues.
- 15.6 ASB is a member of this group, which in recent months has discussed: barriers to opening bank accounts; the development of vulnerability guidelines; basic banking information for migrants and refugees; and cultural competency and harmful gambling.

#### Good Shepherd New Zealand – Economic Harm Support Service Pilot

- 15.7 Good Shepherd New Zealand’s specialist Economic Harm Support Service was developed and piloted for 12 months from November 2021, with the aim of:
  - (a) identifying and providing the most appropriate support for people affected by economic harm;
  - (b) establishing whether there is a demand for such support;
  - (c) identifying improvements that could be made to financial, government and other services to reduce damage caused by economic harm; and
  - (d) identifying actions that could prevent economic harm occurring in the first place.
- 15.8 ASB worked with Good Shepherd to review the pilot, providing insight and subject matter expertise from a bank’s perspective. ASB, BNZ, and Westpac banks’ customer vulnerability teams were specifically acknowledged in the pilot review report for “*collaborating with Good Shepherd NZ to conscientiously review the experiences of shared clients, so we [Good Shepherd NZ] can*

*establish the respective roles we have to play in better responding to the financial needs of victims of family violence”.*<sup>55</sup>

#### Overcoming financial abuse

- 15.9 ASB’s specialist Extra Care team has been trained to recognise signs of potential financial harm while being sensitive to customers’ situations and needs. The team’s impact has been significant. Between April 2022 and July 2023, 163 referrals were made to the team, with over 101 solutions being provided to customers.
- 15.10 The Extra Care team’s scope has been extended across the past 12 months, and team members have partnered with specialist organisations including Age Concern New Zealand, Women’s Refuge and Public Trust to be able to address more forms of financial abuse.

#### Abuse in transactions

- 15.11 Abuse in transactions has also been addressed in FY23 by ASB’s Extra Care team. Transaction abuse occurs when people use payment transaction description fields to send abusive or coercive messages to others, often because they have been blocked by the recipient on other channels like social media.
- 15.12 ASB’s Extra Care team uses artificial intelligence, developed by ASB’s data science team, to help detect any potentially abusive messaging being sent through ASB’s digital channels. They are then able to take preventative action to target and stop this malicious behaviour.

#### ASB Community Bankers

- 15.13 In mid-2021 ASB introduced a dedicated team of Community Bankers to lend a helping hand to those who need extra support with their banking. Since then, the team has expanded from five to 13 (including a Manager and Assistant Manager) all of whom are out on the road in their communities across New Zealand.
- 15.14 The core responsibility of the Community Bankers is to support ASB’s customers who need extra support and provide a personalised service, including education on the use of ASB digital banking and Self-Service options, as well as the promotion of the 0800-priority line and how to engage with the Contact Centre for those unable to be digitally active. This can be in the form of facilitating workshops at local ASB sites or public locations like libraries and rest homes, one-on-one education in ASB Self Service areas, and, when it is safe to do so, potentially visits to someone’s home.
- 15.15 This initiative has seen (since July 2022) ASB attend 300+ workshops, 200+ Hui, connect with 2400+ customers, deliver 130 repurposed ASB Laptops to the community, make bespoke calls to customers regarding various issues (such as unarranged overdrafts, flood and cyclone relief information/support and the banking industry’s move to 7-day payments), run better banking workshops focused on fraud and scams, digital access, pin numbers and security, and run financial wellbeing workshops and ASB GetWise programs in schools.

#### Other ASB programs of note

- 15.16 In addition to the above ASB has the following in place to support consumers across the spectrum.
- (a) Regional Banking Hubs.<sup>56</sup> This is a pilot partnership of six New Zealand banks to provide banking services in small regional communities via banking hubs. The hubs provide basic banking services and feature a Smart ATM, support people and online and technology support. The Smart ATM provides for cash deposits and withdrawals, and other basic

<sup>55</sup> Good Shepherd New Zealand “Economic Harm Support Service Pilot – Interim six-month report” <https://goodshepherd.org.nz/wp-content/uploads/2022/08/Good-Shepherd-NZ-Economic-Harm-Support-Service-Pilot-6-month-insights-report.pdf>.

<sup>56</sup> See <https://www.nzba.org.nz/banking-information/regional-banking-hubs/regional-banking-hubs-pilot/>.



transactions are available on tablets and by phone, with ASB teams on hand to assist. Most of the hubs also have people from each bank available on site for a few hours on separate weekdays for face-to-face banking.

- (b) ASB has a dedicated seniors line in its Contact Centre for over 65 year old customers that gives them priority service and access to ASB's most experienced agents. ASB also offers a dedicated priority hour from 9am to 10am in branch for senior and more vulnerable customers.
- (c) Launched in October 2020, ASB runs Better Banking Workshops which are designed to support customers who want to use technology to do their banking but lack the confidence and knowledge to do it. The workshop aims to teach customers how to stay safe online and be confident using self-service banking platforms including Internet banking, Mobile banking, Phone banking and ATMs/cards. They provide education on how to use ASB's self-service channels and alternative options for those who are not digitally active. The ASB team which includes Community Bankers will do this through the facilitation of Better Banking workshops and one-on-one sessions at local ASB sites or other locations like libraries, rest homes or cafes.

#### General comments

- 15.17 We recognise the role we play in helping our customers understand their finances. We proactively contact customers to ensure they are achieving the best financial outcomes for their circumstances. In response to rising living costs and interest rates, ASB has reached out to more than 12,000 distinct customers identified as likely to be particularly impacted in recent months to work through their options as they refix their home loans. Where a customer has not chosen to refix and their loan has reverted to a floating rate, ASB makes further contact to discuss whether this is the best option for them. In the period of July 2021 to June 2023, ASB contacted more than 6,000 such customers and helped to facilitate more than \$1.1 million in annualised cost savings for these customers.
- 15.18 We believe this collaborative approach is the right approach, because it acknowledges that customers choose products for a host of different reasons – customers who may objectively appear to be in the same circumstances may in fact, quite rationally, choose different products. But the key point from a competition perspective is that they have the information available to make those comparisons (which they do) and that the market provides a range of products to meet consumers' demand (which it does).

#### **Questions on conditions of entry and expansion**

16. ***Which conditions of entry or expansion in the personal banking sector most significantly affect competition?***
- 16.1 As set out above in response to questions 2 and 3, the personal banking sector is subject to an expansive suite of regulation, which ASB considers to be the condition of entry and expansion most significantly affecting competition. The sheer amount of regulation impacts New Zealand's ability to attract international 'would-be' competitors to a small market with a relatively complex regulatory regime.
- 16.2 ASB expands on this below (and in regard to question 17), as well as outlining the other important conditions of entry and expansion. ASB notes that these conditions apply asymmetrically in the market, for example fintechs are not subject to anywhere near the same regulatory or capital requirements as banks.
- (a) **Regulation:** lenders and deposit takers face a range of regulations (see responses to questions 2, 3 and 17) that they must meet, requiring investment in processes, technology, and people with the requisite skills. The sunk costs of meeting these regulatory requirements may prove to be high at the start-up and market entry stages of lending / deposit activities, with the precise impost a function of the product mix. Compliance is then an ongoing cost.

- (b) **Capital:** New Zealand-registered banks have strict capital requirements relative to both international guidelines and to non-bank lenders operating in New Zealand. For any entity that is or aims to become a registered bank, lending growth needs to be proportionately matched by sufficient capital. That requires some degree of earnings that can be retained or capital injections from a shareholder to enable continued balance sheet expansion.
  - (c) **Technology:** Systems technology will have fixed costs and variable costs. New entrants have the ability to procure cutting-edge off-the-shelf technology, without the constraints of legacy technology systems, that can give competitive advantages in quality, range and cost of service. For example, as mentioned above, the U.S. Department of the Treasury has noted the continuing trend of increasing competition from non-banks, which is in part facilitated by falling costs – citing factors ranging from falling costs of cloud computing to greater proliferation of mobile devices and connectivity.
  - (d) **Small size of New Zealand’s personal banking market:** New Zealand’s population, economy, and banking market are relatively small compared to banking industries in other countries.
17. **How does the regulatory environment impact on entry or expansion in the personal banking sector?**
- 17.1 Like incumbents, new entrants must comply with the regulatory requirements as they relate to their chosen entry point(s), and the extent of the regulation varies. At a very high level, the requirements are most stringent for institutions holding customer funds on deposit or providing consumer credit.
  - 17.2 Among other obligations, ASB is subject to RBNZ prudential requirements in relation to holding capital, costs associated with regulatory compliance (e.g. the CCCFA), maintaining and developing infrastructure (including core banking platforms), and financial crime detection and response. While ASB understands that these regulatory requirements reflect the view in New Zealand of the appropriate balance between ensuring stability of New Zealand’s banking sector and encouraging new competition, the obligations placed on registered banks is a significant business cost which has implications for competition and innovation.
  - 17.3 For example, RBNZ’s BS11 (outsourcing policy) which is a condition of registration for banks with over \$10bn in liabilities, required a significant financial outlay for ASB to implement. Further, when ASB contracts with third parties, supplier onboarding and due diligence requirements are significant in order to meet regulatory obligations. This can slow collaborations down, as potential counterparties are often unable to quickly respond to the level of information required by ASB, and ASB cannot forgo its regulatory compliance obligations.
  - 17.4 Such costs are not required to be borne by smaller banks, or providers that are not registered as deposit-takers. To the contrary, companies like Revolut that are not registered as deposit-takers in New Zealand and are not regulated by the RBNZ, nor are they required to hold capital as a buffer to backstop New Zealanders’ deposits. Similarly, massive global players such as Apple (with Apple Pay) and Google (with Google Pay) have far fewer regulatory requirements to meet.
  - 17.5 Currently, BNPL products are not subject to the CCCFA because they do not charge interest, credit fees or take a security interest over goods. While there are proposed regulations that may soon see BNPL providers classified as consumer credit providers and subject to certain obligations under the CCCFA, the BNPL payments industry in New Zealand continues to record strong growth.<sup>57</sup>
  - 17.6 Ultimately, entrants will need to weigh the costs of regulatory compliance with the expected returns of entering the New Zealand market.

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<sup>57</sup> For further information, please refer to: <https://www.businesswire.com/news/home/20230317005170/en/New-Zealand-Buy-Now-Pay-Later-Market-Report-2023-A-2.41-Billion-Market-by-2028-Featuring-OpenPay-Afterpay-humm-Laybuy-Zippay-Payright-Genoapay-Art-Money---ResearchAndMarkets.com>.

18. **How do you expect proposed open banking reforms to affect conditions of entry and expansion in the personal banking sector? Please explain your reasoning.**
- 18.1 For the reasons canvassed elsewhere in this response, customers can and do switch between / try services from providers of personal banking services with comparative ease. Furthermore, many of the factors that caused a perceived stickiness of customers in overseas countries are not present in New Zealand.
- 18.2 That said, to the extent there remains any perceived or real impediments to switching, then a carefully designed open banking framework has the potential to reduce any such friction, and therefore enhance competition. However, we need to be realistic about what such a framework may achieve in a country like New Zealand where, as noted, there are already a host of systems and processes in place to allow customers to search out and efficiently switch to / try alternatives.
- 18.3 A carefully designed CDR is a critical first step in terms of open banking. For instance, any mandating of API's should only occur as part of a well-designed CDR framework with a Digital ID to improve the efficiency of the system generally (and which, in relation to banking, would address several challenges related to safety and onboarding of customers), given one of the cornerstones of CDR should be to ensure third party recipients are subject to appropriate privacy safeguards.
- 18.4 On 24 July this year ASB submitted on MBIE's CDR Discussion Document. ASB's submission is publicly available, but in summary ASB supports the objective of providing New Zealanders with greater transparency and control over their data and improving their financial wellbeing. ASB also supports new initiatives which promote competition within the financial services sector and facilitate innovation of, and improvements to, consumer products and services. A well-designed CDR has the potential to do this.
- 18.5 With those objectives in mind, the opportunities (in terms of competition and ultimately the long term consumer benefit) *and* the risks of a proposed CDR should be carefully considered so that an appropriate balance is struck. In practical terms, this means the Draft Bill and related regulations (and any Commission recommendations in this space) should be carefully designed to ensure that consumer benefits are maximised, in a way which appropriately protects customers' privacy, while providing clarity for participants in a CDR regime and avoiding unnecessary or duplicative compliance costs. ASB submits that any CDR regime should:
- (a) **Protect customer information and money:** The Commission will have seen the explosion in the number of people impacted by increasingly sophisticated frauds and scams in New Zealand and elsewhere. To suitably protect consumer data from fraud and scams and to mitigate the risk of privacy breaches or unauthorised access, it is critical to ensure that robust data security standards apply for all accredited requestors. While this may mean progress may be slower than some may hope, in ASB's view getting this aspect right is critical to maximising the long-term interests of kiwi consumers. International experience suggests that trying to build in the necessary resilience after the initial implementation is difficult. As noted earlier, a single entity overseeing all aspects of cyber security should be preferred.
  - (b) **Minimise regulatory overlap:** To avoid duplicative compliance requirements and unnecessary complexity, it will be important to minimise any potential overlap between the proposed CDR regime and other legal frameworks, e.g. Privacy Laws, Consumer Credit Laws, Financial Services Regulations, AML obligations, IP laws, and the Commerce Act (e.g. to avoid any inadvertent issues arising from the sharing of information).
  - (c) **Impose reciprocal obligations:** The obligations to provide customer data should be reciprocal as between data holders and accredited requestors. As in the Australian CDR regime, accredited requestors should be required to share customer data as if they were also designated data holders. Reciprocal data flows are necessary to facilitate fair competition in the financial services sector, enabling a wider range of innovations by both data holders and others who provide data-enabled products and services, and creating greater benefits for customers.

- (d) **Exclude “derived” data:** Derived data is the result of intricate analysis of data using proprietary methodologies developed by businesses. It often represents a significant investment of time, resources, and expertise. Including such data within the scope of the CDR regime risks undermining intellectual property rights in derived data, and may have the unintended consequence of stifling innovation.
- (e) **Set practical standards:** ASB is pleased to see that the Discussion Document recognises the value of ensuring that technical standards for the banking sector are consistent with existing industry standards (including the Payments NZ API Centre Standards), but we believe data holders should be expressly included in the list of stakeholder groups, given that – as the parties who ultimately have to implement those standards – they are likely to be the best placed to comment on the design of standards.

18.6 In relation to open banking more generally:

- (a) as is the case with the CDR aspects, data security and guarding against frauds and scams must be front and centre, and embedded in the wider framework from the outset;
- (b) there are substantial costs to design, build and implement an open banking framework, which will ultimately be borne by consumers. By way of example, it has been estimated that the cost incurred in the UK to design the mandated infrastructure was £1.5bn;<sup>58</sup>
- (c) care must also be taken to ensure the costs of complying with standards do not unduly contribute to the already heavy compliance burden; and
- (d) from an end user perspective, existing product offerings, such as those provided by the likes of InvestNow, already provide many of the benefits open banking is said to generate for end consumers.

19. ***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.***

19.1 ASB refers the Commission to its responses to questions 1 and 9 above where it has outlined the recent entry and expansion of various innovative competitors, including Sharesies’ new savings account and the entry of Revolut and InvestNow into New Zealand, as well as the expansion of competitors like Kiwibank. The international experience suggests this trend will only continue.

19.2 Regarding the Commission’s reference to the withdrawal of ASB’s BankDirect brand in 2017, BankDirect was a sub-brand of ASB, rather than a separate registered bank. Its initial point of difference was that it was an online bank, which it lost over time, with the result that ASB redirected that investment into digital and innovation for the primary ASB brand.

19.3 In regard to HSBC, ASB sees from public sources that HSBC said it could “*no longer justify investing into the business [Wealth and Personal Banking] given the changing operating requirements in the market and scalability of the business*”.<sup>59</sup> Further, in its media release announcing the wind down HSBC said “*the decision has come after a strategic review of the business and reflects the rapidly evolving commercial, regulatory and technology environment for running a sustainable retail business*”.<sup>60</sup>

19.4 Reuters also reported that HSBC said that in closing branches and/or selling its business in multiple countries, HSBC was responding to customer behaviour, with more people banking online.<sup>61</sup>

<sup>58</sup> See <https://www.ukfinance.org.uk/press/press-releases/uk-finance-proposes-next-steps-for-open-banking>.

<sup>59</sup> See HSBC’s webpage: “*Latest updates on the New Zealand wind-down*” (available [here](#)).

<sup>60</sup> See the media release (available [here](#)).

<sup>61</sup> <https://www.reuters.com/markets/hsbc-eyes-sale-new-zealand-retail-business-2022-11-30/>.

- 19.5 It was announced on 1 September 2023 that Australian non-bank lender Pepper Money was going to acquire HSBC's \$1.4bn mortgage portfolio.<sup>62</sup> ASX listed Pepper Money is one of Australia's leading non-bank lenders. It has been active in New Zealand since it acquired GE Capital's Australian and New Zealand home lending business in 2011. CEO Mario Rehayem has said that the acquisition "*is a further step in our growth strategy*" and that it will see Pepper Money "*continue to build scale in New Zealand, a market which we understand well having serviced mortgages and delivered compelling customer service since 2011*".<sup>63</sup> The acquisition is consistent with a dynamic market in which various business models enter and expand in response to opportunities.
- 19.6 ASB notes that these comments regarding HSBC's exit are consistent with the broader themes outlined in this PIP response. That is, providers are increasingly finding consumers are moving to online and mobile banking, which is driving technological cost and greater competition from nimble online-focused competitors and new entrants, and that regulatory cost is a significant factor in the ability of banks to compete.

### Questions on consumer search and switch

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

#### Home loan customers

- 20.1 Home loan customers are increasingly considering a wider range of lenders for their home loans. [Redacted]

#### **Figure 15: Average number of lenders seeking pre-approval form across range of lenders**

[Redacted]

[Redacted]

- 20.2 Further, borrowers are also placing increasing emphasis on recommendations from brokers ([Redacted] of ASB's new home loan business originates via broker) or advisers, and incentives / offers from lenders compared to five years ago, [Redacted].

#### **Figure 16: Top 10 drivers for motivating choice of mortgage lender**

[Redacted]

[Redacted]

#### Transaction and deposit account customers

- 20.3 Consumers are also increasingly considering interest rates available and services aspects, like mobile banking apps, when considering providers for savings accounts compared to five or more years ago.

#### **Figure 17: Why customers opened PSA with current provider**

[Redacted]

[Redacted]

- 20.4 [Redacted]

- 20.5 [Redacted]

<sup>62</sup> For further information see <https://www.interest.co.nz/banking/124074/australian-non-bank-lender-pepper-money-acquiring-14-blm-nz-mortgage-portfolio-hsbc>.

<sup>63</sup> [Pepper Money buys HSBC's NZ residential mortgage portfolio \(businessnewsaustralia.com\)](https://www.businessnewsaustralia.com/pepper-money-buys-hsbc-nz-residential-mortgage-portfolio)

**Figure 18: Establishment of relationship with main bank**

[Redacted]

[Redacted]

21. **How often and why do personal banking consumers:**

- **search for a new service provider? [21.1]**
- **switch to a new service provider? [21.2]**

Home loan

21.1 [Redacted]

**Figure 19: % of home loan borrowers likely to switch lenders in next 12 months**

[Redacted]

[Redacted]

21.2 [Redacted]

Transaction and deposit accounts

21.3 [Redacted]

General points regarding switching

21.4 Another factor frequently cited by customers as triggering a switch are key milestones in their lives (e.g. study, employment migration, relationships, acquisition of assets).

21.5 In summary, the discussion above reveals there is a wide range of reasons consumers switch / try new products, which can be leveraged by current and potential competitors looking for an opportunity to enter and expand.

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

22.1 See also responses to question 21 above.

22.2 Customers have a wide range of product-types to choose from and switching between these banks is quick and easy for customers.

22.3 All major banks offer a free switching service for customers which includes moving customers' recurring payments such as automatic payments and direct debits. This is as simple as a customer advising their new bank to complete a switch.

22.4 However, with all major banks offering free accounts and simple online joining processes, many customers do not need to 'switch' in a traditional sense to take advantage of opportunities. Rather, they already hold accounts with multiple institutions and simply pick and choose which product from which provider best suits their needs at a moment in time, at a product-by-product level, generally leaving their account open at the bank from which they previously acquired that product. For example, consumers may have savings accounts with two banks and switch funds according to the bank offering the higher interest rate, or a transaction account with one bank and credit card with another, switching spend to best maximise returns from each. This is evidenced by the fact that ASB has [Redacted] personal customers over the age of 18, but [Redacted] are considered to have their main banking relationship with ASB.

- 22.5 While information is readily available to customers, the likes of InvestNow<sup>64</sup> and competitor comparison websites further facilitate the ease with which customers can shop around for the best deal and then switch some or all of their business. This means ASB (like all banks) must continually ensure it best meets the needs of existing and potential customers, or risk losing them to a competitor.
- 22.6 The Deposit Takers Act will further increase competition in regards to savings and deposits by reducing the risk of investing with smaller less well-known institutions.
- 22.7 In terms of potential impediments, the extent of the AML verification impacts the ease of switching for consumers. The RBNZ had indicated the requirement that customers be address verified as a component of AML compliance was likely to change for most or all customers by the middle of 2023, which would further speed up the switching process. However this has since been delayed as it requires a law change and no new timeframe has been communicated.
23. ***What tools are available to help consumers search, compare, and switch providers of personal banking services?***
- 23.1 All providers generally display on their websites deposit and lending rates. In addition, interest.co.nz provides a comprehensive view of all providers in the market and their rates for savings and deposit accounts and home loans. There are also various other online comparison sites for consumers to access, including:
- (a) Mortgagerates.co.nz;
  - (b) Goodreturns.co.nz;
  - (c) Moneyhub.co.nz; and
  - (d) Canstar.co.nz (which also rates and awards best offerings).
- 23.2 InvestNow is a New Zealand-based investment platform that launched in 2017. It acts as an online intermediary offering customers a way to access KiwiSaver, Managed Funds and Term Deposits from leading fund managers and banks from around the world. Customers can move their money between the product offerings of various providers, without having to actively switch, and therefore build and manage their investment portfolios using the InvestNow online portal.
- 23.3 InvestNow currently offers term deposits from a number of banks, including ANZ, BNZ, Bank of China Construction Bank, Heartland Bank and SBS Bank, and the range of banks it works with is growing. [Redacted]
- 23.4 InvestNow also summarises on its website the best term deposit rates from its partner banks (see an example below), linking also to [interest.co.nz](https://interest.co.nz) for the full rate comparison table, assisting customers to compare providers easily. Additionally, InvestNow supports [MoneyHub's term deposit rates guide](#) – which provides term deposit deals currently available.

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<sup>64</sup> See <https://investnow.co.nz/>.

Figure 20: InvestNow term deposit rates screenshot

Today's best term deposit rates from our partner banks:

Term	1m	3m	6m	9m	12m	18m	2y	3y	4y	5y	Date effective
Rates % p.a.	3.90%	4.70%	5.95%	6.00%	6.10%	5.95%	5.65%	5.20%	5.20%	5.20%	23 August 2023

If you can't see all the rates and terms, just scroll to the right.  
Please note that Terms & Conditions for each specific bank apply. For details please visit our [Legals](#) page.  
To invest in these term deposits [log in](#) or [create an online account](#) with us.

The above rates are per annum figures. They are recent rates offered by the banks on InvestNow, but are not live and may have been recently updated. To see the live rates currently available to InvestNow customers, please login to your InvestNow account and select the Term Deposits page. InvestNow earns a distribution fee for the Term Deposits service (see [FAQ](#) for details).

- 23.5 As set out in response to question 13 above, brokers can assist customers to shop around between providers, with [Redacted] of ASB's home loan lending originating via brokers.
- 23.6 ASB has also created an Advice Tool which has been designed and developed by ASB to assist its frontline teams in giving high quality and consistent advice across its network. This ensures customers are recommended the right product to suit their needs.
- 23.7 In terms of implementing the actual switch, as noted above, switching is easy for customers, with all major banks offering a free switching service for customers which includes moving customers' recurring payments such as automatic payments and direct debits.
24. ***Please identify any personal banking services that are either tied or bundled with other services. Please describe the impact on competition.***
- 24.1 In general, ASB does not bundle or offer personal banking services that are only available in conjunction with other products and services it provides, or which are available to customers on better terms when purchased in conjunction with other products or services.
- 24.2 There are a few exceptions to this.
- When a customer takes out two or more general or life insurance policies, such as Motor and Home insurance, or Life Insurance and Income Protection, they are eligible for a discounted price on those policies, known as a multi-policy discount.<sup>65</sup> This is a market-wide approach to general and life insurance.
  - ASB offers preferential pricing products/packages for certain customer segments, such as Tertiary, Graduate, Job Starters, Headstart (School Banking) and Friends and Family, among others. However, there is no requirement for multiple products to be taken by a customer to receive preferential pricing. The term 'package' when used in this context describes how the product propositions are presented to these customer groups, with the intention being to offer benefits they can choose to take up.
  - While customers borrowing from ASB can choose to have their salary and other income deposited into an account of their choice (at ASB or elsewhere), their loan repayments must technically be made from an ASB transactional account. For those customers who would not otherwise have an ASB transactional account (e.g. because they use another bank for day-to-day transactions), ASB provides a transaction account for this technical purpose, free of charge.
  - Similarly, a transaction account (which is provided without charge) is required for an overdraft account service, when moving money overseas and for customers with a Visa Debit card to make payments from.

<sup>65</sup> ASB is a distributor of insurance, not an underwriter.



## Questions on innovation

25. ***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.***

- 25.1 ASB has observed some key trends and developments that have occurred internationally and which are being echoed in New Zealand above in response to question 1.
- 25.2 Significant innovations by existing providers have been deployed in New Zealand over the past five years, not just in new products (e.g. new transaction accounts) but also in services to support customers as they access products. For example, ASB has continued to make significant investment in online and mobile to allow customers to access their (now free) transactional accounts on the go, via self-service, and other initiatives aimed at making everyday banking quick and simple.

### Focus on supporting digital

- 25.3 The rise of simple, intuitive and innovative digital experiences has resulted in a significant increase in customer expectations for all digital interactions. Customers expect ASB to provide experiences that equal those offered by leading global digital players. Digital is ASB's largest distribution and service channel by volume, with [Redacted] of ASB product sales volume and more than [Redacted] of financial transactions completed via digital.<sup>66</sup> Changes impacting digital banking continue to accelerate with regulatory focus often considering digital interactions, new technologies constantly superseding existing solutions, new competitors entering the market and increasingly sophisticated security threats.
- 25.4 ASB mobile became ASB's most popular channel in June 2018 when it surpassed FastNet Classic (ASB's internet banking) in terms of monthly active users. Since 2017, ASB's digital focus has been to enable simple and easy digital experiences in a connected and consistent way, helping ASB's customers progress by putting them in control. This means rebuilding legacy experiences, particularly those that customers use most often, with deeper customer insights, consideration of whole of financial life, and a focus on reducing effort. ASB Mobile underwent a full redesign in 2019.
- 25.5 ASB is continuing to invest in its digital services, aiming to offer highly personalised, intuitive and conversational experiences, differentiated through seamless connections to ASB people. In June 2023, 90% of personal customers who were active with ASB were digitally active in that month (i.e. using either online banking or ASB Mobile).

### Key innovations

- 25.6 ASB has a proud history of innovation. ASB sets out in the following list a summary of some key ASB innovations (aside from the investments in online banking and mobile described above).
- (a) **ASB ID to verify identity:** ASB customers, whether joining or existing, can verify their identity and address digitally using the ASB ID app. Using facial biometrics, the app compares a photo of themselves and a photo of their eligible driver licence or passport, without having to go into a branch. This innovative capability (introduced in 2018) received a Canstar Innovation Excellence Award in 2019. ASB has continued to invest in this technology, increasing success rates and the number of eligible customers. For example, ASB has updated it to read passport chip using NFC, and added support for existing customers who need to re-verify their identity. Importantly, this helps ensure ASB meets its AML obligations.<sup>67</sup>

<sup>66</sup> Finalta's 2017 benchmark put ASB first in Australia and NZ, and 2nd globally (of 200 banks), for digital activity amongst personal customers at 77%. This figure is now higher.

<sup>67</sup> See <https://www.asb.co.nz/banking-with-asb/asb-id-app.html> and <https://www.canstar.co.nz/online-banking/asb-wins-2019-canstar-innovation-excellence-award/>.

- (b) **Financial Wellbeing in digital:** five years ago ASB had a very limited digital offering to support financial wellbeing. Over the past financial year 404,000 customers used ASB digital financial wellbeing tools (up 39% on FY22).
- (c) **Digital messaging:** ASB introduced Josie the chatbot in the ASB mobile app in 2020 to give customers another way to get help and support for frequent questions. This uses conversational AI. Since 2022, the chatbot can also hand over queries to two-way messaging so the ASB team can provide more personalised help in ASB Mobile.
- (d) **Fraud protection:** ASB has made a significant investment in education and new digital tools to protect customers from fraud. Examples include mobile push notifications for security alerts, 2-step verification, and online security check-ups.
- (e) **Education and support:** ASB has invested in education and support so all customers can access digital banking. For example, it's not just younger customers using digital, 71% of bank active customers over 65 years of age were digitally active in June. ASB has prepared [How-to guides](#) and provided in-person Better Banking Workshops (as set out above), to help customers use self-service banking options with confidence.<sup>68</sup>
- (f) **Other tools launched**
  - (i) In 2021 ASB launched the Support Finder tool in the ASB Mobile app to help customers find government support they may be eligible for.
  - (ii) In 2020 ASB launched the Home Loan Explorer tool. This tool brings together many complex elements of the home ownership journey to help guide great conversation between the lender and customer.
  - (iii) ASB has offered Apple Pay and Google Pay since 2019, and Garmin Pay and Fitbit Pay since 2018, giving ASB customers a full range of 'ways to pay' across wearables, iPhone and Android devices.

25.7 ASB also highlights and provides additional detail on a few of the many innovative players already active in New Zealand in this space below, but there are many more.

#### Home Lending and Home Lending Brokerage

- (a) Aera is a non-bank lender offering attractive annual savings rates for home loan deposit savers, positioned specifically against the larger New Zealand Banks. This offering appears to be the first 'integrated proposition' from savings to home ownership in New Zealand.
- (b) Simplicity, with alternative funding from funds and / or other financial sponsors. Simplicity uses the fixed income portion of Simplicity funds to offer mortgages.
- (c) Heartland Bank, providing online only distribution (i.e. application and approval) which is a growing area overseas, aligned with the general customer shift to online.
- (d) NZHL, Loan Market and Squirrel: growing forces in brokerage leading to bank disintermediation and commoditisation and facilitating switching.
- (e) Tella (a digital broker) and Neo (a digital non-bank home lender) which have both recently entered New Zealand. These providers focus on providing an easy fully-digital experience where a customer can complete the process end to end without having to engage with staff assisted channels. However, they do maintain 'specialist lending support' if the customer requires it.

<sup>68</sup> <https://www.asb.co.nz/contact-us/branch-changes-workshop.html>

Digital banking (digital personal and digital home lending, and neo-banking)

- (f) Harmoney is an online investment and lending marketplace that provides risk-priced, unsecured personal loans. Launched in 2014, Harmoney was the first company to receive a P2P lending license in New Zealand.<sup>69</sup>
- (g) Sharesies, known for its consumer-friendly share trading platform, has recently expanded into savings accounts. Sharesies' new savings account offers an attractive interest rate with no fees or minimum deposit. Deposits are held in a trust by an undisclosed New Zealand bank. Sharesies states it has over 500,000 customers across Australia and New Zealand.
- (h) Revolut, which has its headquarters in London, recently launched in New Zealand.<sup>70</sup> Revolut is a registered digital financial services provider that claims to offer free deposit accounts and cheaper money transfers and foreign exchange.<sup>71</sup> Its users can hold five major currencies (NZD, AUD, GBP, EUR, USD) and instantly download and activate a digital payment card which they can use to transact in more than 200 currencies. Revolut is expected to eventually introduce open banking features, loan partnerships and apply for a New Zealand banking license as it has done overseas. Since Revolut registered as a financial service in New Zealand in 2021, 26,000 New Zealanders signed up to the waitlist over a 12-month test period prior to Revolut's official launch on 3 July 2023.<sup>72</sup>

Payments (BNPL, digital wallets and merchant payment solutions)

- (i) Apple and Google Pay (also known as Android Pay or GPay) have been in New Zealand for a number of years, with Apple launching in 2016.<sup>73</sup> Apple Pay and Google Pay are mobile payment service providers that allow users to save their credit or debit card details onto their mobile phone devices and make payments via contactless point-of-sale terminals in stores or purchase items through apps.<sup>74</sup> Apple Pay has surpassed Mastercard in total transaction value worldwide<sup>75</sup> and in New Zealand now represents 5% of total credit card spending and 10% of debit card spending.<sup>76</sup>
- (j) BNPL is a purchasing scheme that allows consumers to access goods and services now, but pay for them later through a series of flexible payment instalments. While it is a relatively new product, it has turned into a fast-growing credit alternative in New Zealand with a number of players (e.g. Afterpay).
- (k) Worldline (previously called Paymark) first launched EFTPOS in 1989 and now specialises in payment solutions that help businesses grow – in-store, online and via mobile. Worldline provides EFTPOS in stores and online, allowing customers to make secure online payments from a smartphone.<sup>77</sup>

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

26.1 A 2022 World Bank publication, "Global Patterns of Fintech Activity and Enabling Factors", involved a "multivariate cross-country regression analysis for the sample of 125 countries with

<sup>69</sup> For further information, please refer to: <https://www.fma.govt.nz/news/all-releases/media-releases/fma-issues-new-zealands-first-licence-for-peer-to-peer-lending-services/>.

<sup>70</sup> For further information, please refer to: <https://www.revolut.com/en-NZ/news/revolut-launches-in-new-zealand/>.

<sup>71</sup> For further information, please refer to: <https://www.revolut.com/en-NZ/about-revolut/>.

<sup>72</sup> <https://www.revolut.com/en-NZ/news/revolut-launches-in-new-zealand/>

<sup>73</sup> For further information, please refer to: <https://www.financemagnates.com/fintech/payments/apple-pay-launches-in-new-zealand-now-available-in-11-countries/>.

<sup>74</sup> For further information, please refer to: <https://www.nzbusiness traveller.co.nz/apple-pay-comes-new-zealand/>

<sup>75</sup> See: <https://www.forbes.com/sites/billhardkopf/2022/09/08/this-week-in-credit-card-news-apple-pay-overtakes-mastercard-most-online-shoppers-make-mobile-purchases/>.

<sup>76</sup> As at June 2023.

<sup>77</sup> For further information, please refer to <https://www.paymark.co.nz/about-us/our-story/>.

*data on [its] fintech activity index*".<sup>78</sup> That analysis ranked New Zealand fifth of 74 countries in its "Aggregate Fintech Activity Index", which was an average of four "pillars", being: Equity Investments in Fintech Companies, Usage of Fintech Credit, Digital Payments, and Finance Mobile App Downloads. The analysis also assessed the position if the Finance Mobile App Download pillar was excluded (which increased the eligible countries to 125). On that metric New Zealand placed fourth out of 125 countries.

26.2 These are extraordinarily strong rankings in terms of the level of fintech activity in New Zealand relative to overseas countries.

26.3 Looking beyond "fintech", New Zealand has been a leader in many aspects of payments and innovation. For examples of this ASB refers the Commission to the Payments NZ "Benchmarking New Zealand's payment systems" report dated May 2016<sup>79</sup> which details areas where New Zealand led the world. The Payments NZ report states that "*New Zealand (NZ) is renowned for having one of the most developed and dynamic payment systems in the world. Those systems are considered efficient, safe and secure and are highly regarded internationally.*"<sup>80</sup>

26.4 In summary, the report found that:

- (a) New Zealand was a 'leader' in the following areas:
- (i) debit & credit card transactions per capita: NZ had the highest number of cards transactions per capita in the study;
  - (ii) people per Point of Sale (POS) terminal: NZ had 29.7 people per POS terminal, just behind Australia;
  - (iii) POS overall utilisation: highest POS utilisation per terminal per capita among countries benchmarked;
  - (iv) value of card payments vs. cash in circulation: NZ led the world, followed by Sweden;
  - (v) overall ATM utilisation: 2nd highest per capita ATM utilisation per machine;
  - (vi) ATM withdrawals vs. all retail payments: 2nd lowest ATM withdrawals relative to other retail payments;
  - (vii) ATM withdrawals vs. cash in circulation: high levels of ATM withdrawal values relative to cash in circulation;
  - (viii) cash in circulation relative to GDP: lowest level of active cash in circulation relative to GDP; and
  - (ix) retail payment instruments per capita: NZ retail payments volume per capita led the countries surveyed; and
- (b) New Zealand was also 'strong' in a number of areas, such as POS terminal fleet usage, Average combined card spend (USD), Total card volumes vs. all retail payments, Count of ATM withdrawals per capita, Credit transfers per capita, Combined credit transfers & direct debits and Credit transfer average value (\$USD).

<sup>78</sup> World Bank, "Global Patterns of Fintech Activity and Enabling Factors", 2022. Available at <http://documents1.worldbank.org/curated/en/099735504212234006/pdf/P1730060695b370090908c0bf80ed27eba6.pdf>.

<sup>79</sup> <https://www.paymentsnz.co.nz/resources/articles/benchmarking-new-zealands-payment-systems/>

<sup>80</sup> Ibid, p4.

27. ***Please describe any latent demand for new personal banking services that is currently being unmet. Please describe and give examples.***
- 27.1 ASB works hard to ensure the financial needs of New Zealand consumers are well served by its products, tools and services. However, there are a few pockets of demand which may not yet be fully met.
- 27.2 First, changes to the CCCFA have had an impact on customers' ability to access short-term finance from traditional lenders. This form of short-term finance has traditionally been supplied via a:
- (a) short-term overdraft;
  - (b) small credit card loan; or
  - (c) small personal loan.
- 27.3 Additionally, ASB considers there is more that can be done to support vulnerable consumers to access financial services. ASB is exploring using technology to simplify sign up processes for particularly vulnerable customers, recognising that verifying identities and keeping authorised signatures can result in difficulties for those caring for other individuals.
28. ***What are the main incentives for providers to innovate in the personal banking sector? Please describe the nature and strength of these incentives.***
- 28.1 Personal banking markets are dynamic and competition is intense among the five major banks, smaller banks and product-specific and emerging new competitors and technology.
- 28.2 Market participants compete hard on price, service levels, and to offer innovative products and tools to support customers as they access financial products. The survey data in response to question 20 makes clear how important innovative product offerings are to consumers of personal banking services.
- 28.3 More generally, the rise of simple, intuitive and innovative digital experiences has resulted in a significant increase in customer expectations for all digital interactions. In addition to ensuring price competitiveness, ASB believes its focus on innovation was a key part of its success in growing its home loan book over time.
- 28.4 Put simply, history and survey data shows that banks and other market participants who fail to innovate can expect to lose customers to rivals who do, and to win less than their expected share of new customers.
29. ***What are the most significant impediments to innovation in the personal banking sector in New Zealand? Please describe and give examples.***
- 29.1 The key impediments to innovation in the personal banking sector are a combination of:
- (a) a tight labour market; and
  - (b) the regulatory compliance burden for market participants.
- 29.2 These impediments are closely related. ASB must prioritise regulatory compliance matters, and those matters utilise a significant amount of the capacity of ASB's workforce.
- 29.3 ASB funds innovation initiatives as part of its "investment envelope". The investment envelope includes (in order of priority) investments in:
- (a) regulatory compliance;
  - (b) sustaining technology; and

- (c) innovation.
- 29.4 ASB's investment envelope for FY23 was \$[Redacted] million, which acts as an approximate financial ceiling for the envelope. [Redacted]<sup>81</sup>
- 29.5 ASB prioritises how it allocates the investment envelope based on commercial necessity. The bank's regulatory obligations provide a baseline that must be met before it has the opportunity to provide personal banking services. From a resourcing perspective, meeting those obligations requires ASB to maintain compliance with existing obligations, as well as prepare for future regulatory change.
- 29.6 In FY23 alone, ASB spent \$[Redacted] on regulatory initiatives e.g. BS11, CCCFA, financial crime compliance, FSLAA etc. This significant level of regulatory spend has been broadly consistent over recent years with \$[Redacted] in FY22 and \$[Redacted] in FY21 spent on regulatory initiatives. Regulatory spend has increased significantly over the past five years, with over \$[Redacted] spent on regulatory initiatives since 2018, compared to \$[Redacted] in the five-year period prior to that (2013-2017).
- 29.7 There is more change underway or on the horizon, with significant prudential changes, further retail payment reforms, CoFI, Climate Change Reporting, and the CDR. Recently, on 9 August 2023, MBIE released a cabinet paper proposing changes to the CCCFA to ensure that the settings are better targeted to the risk profile of the lending, suggesting that existing settings are wrong.
- 29.8 In FY23, ASB invested \$[Redacted] in sustaining and securing core banking systems (and essential properties work). This investment is peripherally linked to regulatory compliance in the sense that if the bank's technology fails, that failure may result in a breach of a compliance obligation.
- 29.9 Finally, ASB utilises its investment envelope towards innovation projects. The bank's largest innovation in FY23 was \$[Redacted] spent on the One Giant Leap transformation programme, which delivered foundational capability across Cloud, Digital, Data and Identity. This will benefit both ASB's personal and business customers in future years. The remaining \$[Redacted] of the FY23 investment envelope was spent on other innovation initiatives including improving front line experiences across personal and business divisions, automating and streamlining internal processes, and enhancing products and services, such as ASB's current digital capability and cards offering.
30. ***What impact, if any, does ownership structure have on providers' ability and incentive to innovate?***
- 30.1 ASB has a long history of innovation that predates CBA's acquisition of share ownership. Such innovation includes real time settlements and being the first bank to introduce digital banking in New Zealand.
- 30.2 ASB does not believe that the Australian "Four Pillars" policy makes the Australian-owned banks in New Zealand 'complacent'. To the contrary, CBA's ownership has, if anything, supported ASB's ability to continue to innovate. ASB notes that over the past twenty-five years ASB has grown its share of total banking assets from 9% to 18%, and lifted its shareholder equity by \$10 billion to support that growth.
- 30.3 In CBA, ASB has a large parent that has greater resources with which to pioneer innovation. ASB is able to learn from CBA's experimentation and successes, and apply them to its own business as applicable. This de-risks innovation through identifying successful innovations and any appropriate technology, and enables ASB to go to market with proven solutions. One recent example of leveraged innovation is the launch of Support Finder, as noted above.

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<sup>81</sup> For the avoidance of doubt, the cost and time associated with responding to allegations of breaches of the bank's regulatory regime is not allocated to the investment envelope (provided that it is outside specific live projects).

- 30.4 CBA can take a long-term view of ASB's future and has the financial resources to provide ASB with financial stability during challenging parts of the economic cycle, enabling ASB to focus on long-term planning for innovation and investment.
- 30.5 In terms of 'non-traditional' ownership structures, a co-operative ownership structure will need to source capital from other means. To the contrary, Government ownership means a shareholder with significant financial resources.
- 30.6 Irrespective of ownership structure, innovation is an important way for financial institutions to maintain a competitive edge that attracts and retains customers through better service and improved product offerings. It has been a key way in which ASB has differentiated itself from its competitors.

#### Questions on other analyses, factors, and priority

31. ***Are there any other analyses or factors not raised in this paper that could be relevant to this study? Please explain your answer.***
- 31.1 Yes, the important role that the large Australian-owned banks play in providing New Zealand borrowers with reliable low-cost foreign funding is a relevant factor.
- 31.2 The four large banks enable New Zealand borrowers to access a greater volume of funds than New Zealand domestic savers can provide and thereby helps fund New Zealand's large current account deficit. Their ability to do this is linked to their size, which enables them to regularly maintain a presence in overseas funding markets.
- 31.3 The support of their parent Australian banks further supports the New Zealand subsidiaries through bolstering their name recognition and through lowering their cost of raising funds. ASB estimates that the four large banks are able to borrow at a lower cost because of the backing of their parents. Without that backing, ASB considers that the four large banks would have a credit rating at least two notches lower (i.e. A instead of AA-) and would currently experience higher funding costs in a range of \$180 - \$270 million, which would otherwise be reflected in the interest costs borne by New Zealand household and business borrowers.
- 31.4 Important considerations for overseas investors in New Zealand bank debt are financial resilience (strong funding, liquidity and capital positions), earnings capacity and stability. The maintenance of financially stable banks helps support the availability of overseas funds, particularly during times of financial market stress, and the cost of funds. It is important that these attributes are maintained in order to preserve the cost and supply benefit to New Zealand borrowers and the wider economy.
32. ***Which analyses and factors do you think should be a priority for the Commission to focus on? Please explain your answer.***
- 32.1 There are a range of important factors for the Commission to work through during this study.
- 32.2 Proper consideration of risk and the cost of equity, as discussed in the Executive Summary and the NERA Report, is critical in relation to any profitability analysis. For instance, the NERA Report highlights the difficulties with trying to isolate critically important factors such as country-specific risk, and the concerns it has with the methodology outlined in the PIP.
- 32.3 ASB considers the implications of the current regulatory framework, especially in light of the relatively small size of the New Zealand economy, should be a focus. In particular, in order to target harm, regulation should focus on the underlying *activity* rather than the entity. Striking the appropriate balance is difficult, but ASB does not believe that current balance is quite right. ASB considers that some changes could be made to the regulatory settings to foster competition without undermining the critical importance of a strong, stable banking system. For example:
- (a) returning to principle-based regulation and less prescription, which would improve access to credit and reduce consumer impacts;

- (b) changing the penalty regime, which is disproportionate and punitive and leads to significant compliance cost and risk averse behaviour impacting consumers. ASB noted above the impact the regulatory burden has on the scope to innovate;
  - (c) simplifying and refocussing the disclosure regime to a principle-based focus on information consumers need at key moments to achieve better outcomes; and
  - (d) removing barriers to innovation, including digital services, by e.g. reconsidering restrictions on fees, which may act to limit product innovation.
- 32.4 Finally, we anticipate the design of any open banking framework will be a key feature of the market study. To suitably protect consumer data from fraud and scams and to mitigate the risk of privacy breaches or unauthorised access, it is critical to ensure that robust data security standards apply to all accredited requestors.