

# Personal banking services market study

**Draft report – abridged version**

**(Executive summary, chapter summaries, and draft recommendations)**

Date: 21 March 2024





## Contents

<b>Executive summary .....</b>	<b>4</b>
The major banks do not currently face strong competition .....	4
Four main factors are limiting competition .....	6
Multi-faceted solutions are needed to improve competition .....	8
Next steps and how you can have your say.....	9
<b>Chapter summaries .....</b>	<b>10</b>
Chapter 1 Introduction and purpose   <i>Whakatakinga me te koronga</i> .....	10
Chapter 2 The nature of competition in personal banking   <i>Ko te āhua o te whakataetaetanga i roto i te pēke whaiaro</i> .....	11
Chapter 3 Māori perspectives on competition for personal banking services   <i>Ngā tirohanga Māori mō te whakataetaetanga mō ngā ratonga pēke whaiaro</i> .....	12
Chapter 4 Competition for home loans   <i>Te whakataetaetanga mō ngā pūtea tārewa kāinga</i> .....	13
Chapter 5 Competition for deposit accounts   <i>Te whakataetaetanga mō ngā kaute whakaputu</i> .....	14
Chapter 6 Profitability of New Zealand’s banking sector   <i>Te whiwhinga huamoni a te rāngai pēke ki Aotearoa</i> .....	15
Chapter 7 Regulatory factors affecting competition   <i>Ngā pānga ā-ture mai ki te whakataetaetanga</i> .....	16
Chapter 8 Consumer search and switching behaviour   <i>Te rangahau kaiwhakapeto me te panoni o te whanonga</i> .....	17
Chapter 9 Digital disruption and impediments to innovation   <i>Te tauwhatinga matihiko me ngā ārai ki te auahatanga</i> .....	18
<b>Chapter 10 Draft recommendations   <i>Ngā tūtohinga hukihuki</i>.....</b>	<b>19</b>
Introduction   <i>Whakatakinga</i> .....	20
Improve the capital position of smaller providers and Kiwibank   <i>Kia whakapai ake te tū haupū rawa o ngā kaituku iti me Kiwibank</i> .....	20
Accelerate progress on open banking   <i>Whakatere ake i te kauneke o te pēke tuwhera</i> .....	23
Ensure the regulatory environment better supports competition   <i>Me whakarite kia pai ake i tā te taha ture tautoko i te whakataetaetanga</i> .....	25
Empower consumers   <i>Te whakakaha kaiwhakapeto</i> .....	30
Improving competition will require multi-faceted solutions   <i>Mā ngā rongoā maha e pai ake ai te whakataetaetanga</i> .....	38

## Executive summary

Our draft report for the personal banking services market study sets out our preliminary findings on factors affecting competition, and draft recommendations to improve competition.

The draft report is the result of a detailed process of information gathering and engagement with a wide range of stakeholders, including providers of personal banking services, consumers and Māori. We thank all parties for the information they have provided and for their ongoing engagement in this study.

### **The major banks do not currently face strong competition**

Our preliminary view is that New Zealand’s four largest banks – ANZ, ASB, BNZ and Westpac (the major banks) – do not face strong competition when providing personal banking services.

The major banks and Kiwibank are the main providers of personal banking services, particularly for the products that we have focused on in the study (home loans and deposit accounts).<sup>1</sup> Between them, the major banks hold around 90% of the assets of all registered banks in New Zealand.

Competition between the major banks is sporadic rather than strong and sustained.

### **There is a stable oligopoly with no “maverick” provider**

The four major banks have high and stable shares of supply for personal banking services, particularly for deposit accounts and home loans. There is a two-tier market, with the major banks in a stable oligopoly at the first tier, smaller providers in the second tier, and Kiwibank “stuck in the middle”.

No new entrants have meaningfully increased competition faced by the major banks since the establishment of Kiwibank in 2001. None of the existing smaller providers, including smaller banks, non-bank deposit takers and financial technology companies (fintechs), have been able to exert any meaningful constraint on the major banks.

Kiwibank imposes some constraint on the major banks but currently lacks the capital backing to consistently drive stronger competition in the market.

There is currently no “maverick” – a particularly aggressive or innovative provider – that exerts disruptive competitive pressure on the major banks. Smaller providers lack the scale to compete with the major banks and tend to focus their effort on specific regions, products or consumer groups. The major banks typically do not closely monitor these providers, indicating that they are not regarded as a significant competitive threat.

---

<sup>1</sup> We have focused on deposit accounts (transaction, savings, and term deposits) and home loans because they are focal points for competition in personal banking services and because they matter to many New Zealanders.

### **Competition is sporadic, not sustained**

Competition amongst the major banks and Kiwibank appears to be sporadic for deposit accounts and home loans. We have observed some periods of relatively intense competition, and other periods where some or all of the major banks pull back and put more focus on maintaining profit margins than seeking to gain market share.

The major banks have broadly similar cost structures and can see and respond rapidly to each other's changes in interest rates and other credit settings. We have seen a willingness to match (rather than beat) each other's offers (for example, discretionary discounts for home loans) to maintain market share.

Established patterns of price matching behaviour reduce the incentives to compete hard on interest rates. Providers know that if they introduce a new promotion or better interest rate, this will likely be quickly matched by competitors (limiting the gains from the offer).

For home loans, discretionary discounting and price matching enables banks to selectively compete to win or retain more valuable customers, while increasing their interest rates for less price-sensitive customers. This means that the benefits of competition only accrue to those customers who are willing and able to shop around for the best deals – but people seldom do.

### **Limited investment in innovation by the banks**

We have been surprised by the limited investment by the major banks and Kiwibank in their core banking systems and the low prioritisation given to this. Legacy systems constrain the ability of these banks to innovate and compete. They also limit the role of fintechs, who generally need to interface with banks' systems.

As a result, we have seen limited innovation across the industry. Innovation has tended to occur "around the edges" of the customer experience, such as enhancements to mobile apps, rather than at the core of product and pricing structures. In a competitive market we would expect to see greater investment in innovation so competitors could stay ahead of their rivals.

The major banks have told us that their limited investment in core systems is largely due to the need to keep pace with changing regulatory requirements. While we acknowledge the pace of regulatory change and the associated need for investment, fully depreciated core systems indicate sustained under-investment. This appears to reflect a lack of competitive pressure over an extended period.

### **The NZ banking sector has sustained high levels of profitability**

The major banks make significant profits each year. However, the dollar value of profits (on its own) tells us little about competition, because the major banks are among New Zealand's largest companies.

Measures of profitability (ie, returns in percentage terms), on the other hand, can provide an indication of the intensity of competition.

The New Zealand banking sector has demonstrated sustained high levels of profitability relative to international peers. Between 2010 and 2021, New Zealand's banking sector has, on average, performed in the upper quartile relative to peer nations on three important measures: return on assets, return on equity, and net interest margin.

We consider that at least part of the profitability we have observed is explained by the market power of the major banks. New Zealand's banking sector is relatively low risk because it is more heavily weighted towards traditional ("vanilla") banking activities (like home lending) than many peer nations which have a greater proportion of institutional and investment banking. Because these activities are lower risk, if competition was working well, we would expect the New Zealand banking sector to derive lower returns relative to riskier banking sectors overseas.

New Zealand's major banks have also experienced high average returns on equity relative to other New Zealand banks since 2018, and in most cases have performed well on return on assets. This is consistent with the two-tier market we have observed.

### **Some groups are not well served by competition alone**

Some consumers are particularly vulnerable to financial exclusion and find it difficult to access personal banking services, like a basic bank account.

We have also heard about barriers to accessing personal banking services that are unique to Māori. These include lack of Māori representation in the banking sector and difficulty accessing finance for housing on Māori freehold land.

### **Four main factors are limiting competition**

We have identified four main factors which are limiting competition. These factors overlap and can be mutually reinforcing.

#### **Structural advantages of the major banks**

The major banks have scale, scope and funding cost advantages, which make it very challenging for smaller providers to compete with them. They also have nationwide networks with broad reach and established brand recognition. Consumers perceive large banks as safer and more stable, so are more likely to trust them to look after their money.

Retail deposits (funds held in deposit accounts) are crucial to bank funding and are typically the lowest cost source of funding available to banks. Because the major banks hold a higher proportion of deposits in transaction accounts (which generally do not pay interest), they have a significant funding cost advantage over smaller banks. This reflects advantages the major banks have in winning and maintaining "main bank" relationships.<sup>2</sup>

---

<sup>2</sup> Main bank relationships (where customers do most of their day-to-day banking) are valuable for providers. Our consumer survey (undertaken by Verian) found that 92% of customers consider one of the five largest banks (the major banks and Kiwibank) to be their main bank.

## **Regulatory barriers to entry and expansion**

Regulation shapes competition in personal banking. The banking sector is highly regulated and we have heard that regulation is the single most important factor constraining providers' ability to enter and compete. New entry at scale from traditional offshore banks is unlikely because of the cost and time it would take to build sufficient market share to become profitable, particularly given the dominant position of the major banks. Smaller providers who do enter have been disproportionately adversely affected by the overall regulatory burden due to their lack of scale.

Bank prudential capital requirements are the most significant regulatory barrier and have limited competition by constraining entry and particularly expansion. Since 2008, the Reserve Bank's prudential capital requirements have allowed the major banks to hold significantly less capital than smaller banks for some lending with a similar risk profile. This has given the major banks a material and entrenched competitive advantage over Kiwibank and smaller providers for the past 15 years.

## **Barriers to consumer switching and engagement**

Our consumer survey (undertaken by Verian) found that consumers of personal banking services tend to be "sticky" – they often remain inactive or disengaged, never having switched banks.<sup>3</sup> This favours the major banks who hold most of the main bank relationships with customers.

It can also be hard to find the best deals. Comparing offers from different banks is challenging for consumers due to the various strategies employed by banks to market their interest rates, fees, cash back incentives, and quality of mobile apps.

There are both real and perceived difficulties with the logistics of switching providers, which reduce the competitive pressure on the major banks. The industry-led account switching service is not working well. Some consumers are also deterred by regulatory requirements driven by the Anti-Money Laundering and Countering Financing of Terrorism Act (AML/CFT Act) and/or the Credit Contracts and Consumer Finance Act (CCCF Act). This includes the customer identification processes to open a new account or processes to demonstrate affordability of a loan.

## **Impediments to innovation by fintechs**

Fintechs are a potential source of innovation and competition, but they face a number of impediments such as: opening and maintaining a business bank account, meeting the costs and complexity of regulatory requirements, obtaining sufficient capital, and gaining access the consumer data they need to provide their services.

Open banking has helped tip the scale for fintechs in the UK and Australia. However, progress towards open banking in New Zealand has been too slow because the major banks have been left to set the nature and the pace of change. As a result, New Zealand is falling behind other countries.

---

<sup>3</sup> Our consumer survey found that 54% of respondents have never switched their main bank.

## **Multi-faceted solutions are needed to improve competition**

There is no single quick fix to improve competition. Overseas experience suggests that the scale and brand advantages of large banks and consumer inertia are difficult to overcome, even where open banking is well-established.

A multi-faceted approach to lifting competition for the long-term benefit of consumers is required. This is reflected in the range of our draft recommendations, which are grouped into four themes.

### **Improve the capital position of smaller providers and Kiwibank**

Access to capital is one of the key constraints affecting the ability of smaller providers and Kiwibank to grow and compete. The Reserve Bank should review its new prudential capital settings to take account of competition, which may include levelling the playing field when it comes to the capital required to be held for some types of home loans.

Standing back, Kiwibank has the greatest potential to be a disruptive competitor in the short to medium term. Kiwibank appears to be best positioned to put more competitive pressure on the major banks because it is already materially larger than the smaller providers. Smaller providers also often have structures that limit their ability to attract capital (for example being trust owned) and new entry at scale from offshore banks is unlikely.

However, Kiwibank is not yet positioned to disrupt the major banks. To change this, Kiwibank's owner should consider increasing its access to capital and supporting a strategic refocus of Kiwibank's efforts (which could involve significant systems development) to compete more strongly with the major banks.

### **Accelerate progress on open banking**

Open banking has the potential to revolutionise banking by driving ongoing innovation and competition in personal banking. Fintechs are a potential source of disruptive innovation and competition over the medium to long-term, and are important to realising the full benefits of open banking.

Steps are underway to create an open banking eco-system that will enable fintechs to compete, but progress to date has been too slow compared to Australia and the UK.

There are some minimum requirements for open banking to become fully operational. These include the development of standardised application programming interfaces (APIs) to enable the exchange of information between banks and fintechs, the agreement of commercial partnering terms with banks and the development of a trusted digital identity for consumers.

Setting a clear deadline and having regulatory backstops available so these minimum requirements are delivered will support the acceleration of open banking. We recommend that the Government target having open banking fully operational by mid-2026.

We also recommend the Government do more to reduce the barriers imposed by the AML/CFT regime on banks working with fintechs.



## **Ensure the regulatory environment better supports competition**

Regulatory policy impacts competition. Policy makers and regulators responsible for the personal banking sector should explicitly and transparently consider the competitive effect of their decisions. This will reduce the risk of unintended consequences of decisions on competition, which we have seen with the historic approach to prudential capital requirements.

This would include the Reserve Bank placing a competition lens in its final decisions on how to fund the new Depositor Compensation Scheme and whether it could provide wider access to its exchange settlement account system (ESAS) – both of which may assist smaller providers to compete.

We also recommend that the Government amend the Deposit Takers Act (DT Act) to require the Reserve Bank to take into account the promotion of competition, rather than the maintenance of it.

## **Empower consumers to better access the benefits of competition**

Lifting consumer engagement and confidence is an essential part of improving competition. Consumers will directly benefit from reduced barriers to switching, including better tools and services to help them find the best deal, and an enhanced switching service. Several of our proposed recommendations have this focus.

We also propose draft recommendations aimed at ensuring mortgage advisors help consumers get the best deal and support greater competition for home loans.

For consumers who may be marginalised, ensuring widespread availability to basic bank accounts is important.

For Māori specifically, we recommend more active promotion and development of the initiatives to unlock the use of Māori freehold land for housing, including simplification of the burden on Māori trusts from the AML/CFT Act. We encourage initiatives by providers to build trust and confidence by Māori in the banking sector, particularly through Māori-led solutions.

## **Next steps and how you can have your say**

We invite feedback on our draft report. You can have your say by emailing us at [marketstudies@comcom.govt.nz](mailto:marketstudies@comcom.govt.nz) or by completing the feedback form that will be on our website shortly. Written submissions are due by **4pm, Thursday 18 April 2024**.

We will hold a conference in central Auckland and online to discuss the draft report in the week beginning Monday 13 May 2024. After a further opportunity for post-conference submissions, we will finalise our report by 20 August 2024.

For more information on how to make a written submission, and on the conference, see Attachment A of the draft report.

## Chapter summaries

### Chapter 1 Introduction and purpose | *Whakatakinga me te koronga*

#### Summary of preliminary findings

- **This draft report contains our preliminary findings regarding factors that, in our view, are affecting competition in personal banking and outlines options for recommendations to improve competition.** The aim of a market study is to promote competition for the long-term benefit of consumers in New Zealand.
- **We must carry out this study in accordance with the terms of reference issued by the Minister.** We may also consider any ancillary matters that are related to, but not explicitly covered by, the terms of reference.
- **We have focused on deposit accounts and home loans because they are focal points for competition in personal banking services and because they matter to many New Zealanders.** We have, however, considered a wider range of personal banking services in some aspects of our analysis.
- This market study is the first opportunity to consider and evaluate in-depth whether competition in personal banking is promoting outcomes that benefit New Zealand consumers over the long-term.
- **Over 20 years on from the last merger where we considered competition in the banking sector (the ANZ/National Bank merger), we observe a different competitive dynamic.** None of the major banks appears currently to be acting as a disruptor in a sustained way.
- **While our focus is on competition, we are conscious that there are other important policy objectives in a well-functioning banking system.** For example, in some cases trade-offs may need to be made between competition, financial stability and consumer protection. However, financial stability and competition are not necessarily opposed, and we have not found compelling evidence of greater competition negatively affecting financial stability.
- **We have not undertaken cost-benefit analysis when developing our draft recommendations.** Formal cost-benefit analysis falls outside the scope of our study. Policy makers may undertake that analysis while developing, or giving effect to, any of our final recommendations the Government wishes to take forward.
- **We invite market participants and interested parties, including members of the public, to comment on the preliminary findings and draft recommendations in this draft report.**

## Chapter 2    **The nature of competition in personal banking |** *Ko te āhua o te whakataetaetanga i roto i te* *pēke whaiaro*

### Summary of preliminary findings

- **The major banks, ANZ, ASB, BNZ and Westpac, do not currently face strong competition when providing personal banking services.** This is evidenced by their high and largely stable shares of supply, barriers to entry and expansion, lack of entry and disruption, limited constraint from smaller providers, sporadic price competition, a lack of consumer switching, lack of investment in innovation (including core systems), and the high and sustained profitability of the sector.
- **Providers of personal banking services can be split into two-tiers.** The first tier comprises the four major banks. The second tier comprises the smaller registered banks and non-banks. Kiwibank is ‘stuck in the middle’ of these two-tiers; being larger than the smaller providers but having less scale than the major banks.
- **Banks’ customers tend to be ‘sticky’.** ‘Main bank’ relationships (held predominantly by the four major banks) are beneficial because these customers often default to their existing service provider when adding or renewing services. Once a customer is committed to the same provider for several services, they are significantly more likely to stay with that provider. This is reinforced by switching barriers and the tendency of the major banks to only offer the best deals to customers who shop around.
- **Competition between the major banks and Kiwibank appears to be sporadic and limited, for deposit accounts and home loans.** We observe some periods of relatively intense competition, and other periods where some or all of the major banks pull back and are more focused on maintaining their profit margins.
- **The second tier of providers does not exert significant competitive pressure on the larger banks due to lack of scale, higher cost of funding, weaker brand awareness and smaller shares of main bank customers.**
- **There is a degree of non-price competition on metrics like brand reputation and service. The strong brands of the major banks reinforce the current market structure, whereas customer service levels do not appear to materially impact shares of supply.** Smaller providers have less resource to invest in brand development and non-price offerings, limiting their ability to exert significant competitive pressure on the major banks.
- **There is a risk of accommodating behaviour (or tacit coordination).** The major banks have broadly similar cost structures, can readily observe and respond to each other’s pricing, interact regularly across a range of services, and the threat of disruption by smaller providers or new entrants is low. These features of the sector potentially make it prone to accommodating behaviour between the major banks, and we cannot rule out the possibility that tacit coordination may be occurring.
- **Some consumer groups are not well-served by competition alone.** For some this is having an unintended consequence of financial exclusion, with issues accessing even a basic bank account. Possible solutions can be shared with New Zealand policy makers, regulators, and industry for collective social impact and increased financial inclusion.

## Chapter 3 Māori perspectives on competition for personal banking services | *Ngā tirohanga Māori mō te whakataetaetanga mō ngā ratonga pēke whaiaro*

### Summary of preliminary findings

- **‘Access’ was a key theme that emerged from our engagements to understand Māori perspectives and interactions with personal banking services.**
- **Māori are a diverse group.** While many Māori may be satisfied with their access to personal banking products and services, we heard from stakeholders that, for some Māori, access to personal banking services can be disproportionately limited by factors such as location (with rural areas having fewer physical branches and ATMs) or limited access to online services, exclusion from basic banking services, or lower financial literacy and confidence engaging with providers.
- **We also heard about barriers to accessing personal banking services that are unique to Māori.** These include perceptions of racism and bias towards Māori from banks, lack of Māori representation in the banking sector, lack of understanding regarding Māori cultural and whānau dynamics, lack of data on Māori demographics, Māori SMEs, and the Māori economy, difficulty accessing finance for housing on Māori freehold land. These barriers, whether individually or together, can prevent Māori benefiting from the value and choice competition offers and make it more difficult for Māori to switch providers or assess the services that best meet their needs.
- **There are initiatives underway by Māori groups, government, and industry to address some of these challenges.** Although the efficacy of some of these initiatives is uncertain, we support continued efforts to overcome challenges specific to Māori. We are particularly supportive of initiatives where they align with solutions identified or endorsed by Māori.
- **One of the more prominent and unique issues affecting Māori is access to capital for housing on Māori freehold land.** About 5% of New Zealand is Māori freehold land, and this can provide a place for Māori to build homes. However, the legal restrictions on the land (which are in place to prevent the land being alienated from Māori ownership) make using it as security for loans more difficult and expensive.
- **To address these issues, a small number of bespoke home loan products have been created for Māori seeking to build papakāinga housing on Māori freehold land.** For example, the Kāinga Whenua Loan Scheme, leasehold lending supported by a partnership agreement, or shared equity arrangements. These products are typically created as partnerships between iwi, service providers, and/or government.
- **The uptake of these products has been limited to date.** It is not clear what is causing this, but it may be a combination of whether the product is attractive to Māori consumers, the high cost to banks to provide bespoke products and limited promotion of the products.
- **We support reducing the barriers Māori face when seeking access to personal banking services,** particularly initiatives to make home loan products for Māori freehold land more readily accessible.

## Chapter 4 Competition for home loans | *Te whakataetaetanga mō ngā pūtea tārewa kāinga*

### Summary of preliminary findings

- **Home lending is the most important personal banking product for providers, due to both the size of the portfolio and its contribution to overall revenue.** Home lending customers also tend to be valuable and ‘sticky’.
- **The vast majority of home lending is provided by the major banks and Kiwibank, collectively representing around 95% of all home lending by registered banks.** ANZ has the largest home lending portfolio with around 30% of lending, followed by ASB (21%), Westpac (19%), BNZ (17%), and Kiwibank (7%). These shares have been very stable in recent years, partially reflecting the long-term nature of home lending portfolios.
- **Competition between the major banks is sporadic.** Each of the major banks has a greater or lesser growth ambitions at any point in time, but none are consistently offering ‘best in market’ home lending interest rates.
- **The major banks and Kiwibank do not face strong competition from smaller banks and other lenders.** When setting interest rates, the major banks and Kiwibank focus largely on each other, with little or no regard to the pricing decisions of smaller lenders.
- **Kiwibank’s portfolio has grown steadily and at a faster rate than the major banks over the last five years, but from a much lower base.** Its growth has not been fast enough for Kiwibank to be a significant competitive disrupter.
- **Established patterns of price matching behaviour reduce the incentives to compete hard on interest rates, because the larger providers know that if they introduce a new promotion or lower interest rate, it will quickly be matched by competitors.** We are concerned that this could have the effect of muting price competition overall.
- **Discretionary discounting and price matching enable banks to selectively compete to win or retain more valuable customers, while increasing their interest rates for less price sensitive customers.** An important consequence of these price matching strategies is that the benefits of competition accrue only to those customers who are willing and able to shop around for the best deals.
- **Although the best way to negotiate a good deal is to shop around, customers seldom do.** Around half of customers considered only one bank when they first chose their home loan provider. This inertia serves to re-enforce the market positions of the major banks over the other providers.
- **As well as inertia, some features of home lending inhibit switching** – such as the prevalence of splitting loans into tranches of different durations, cashback offers with corresponding lock in periods, and mortgage advisor commissions with corresponding clawback periods if the customer refinances away from the bank.
- **Mortgage advisors are an increasing feature of the market and have the potential to be pro-competitive.** However, some arrangements appear to be inhibiting this potential, including commissions that align the incentives of advisors with home loan providers (rather than with their customers), practices that tend to favour incumbent providers, and limitations in the monitoring of whether advisors are acting in the best interests of their clients.

## Chapter 5 Competition for deposit accounts | *Te whakataetaetanga mō ngā kaute whakaputu*

### Summary of preliminary findings

- **Deposit accounts include transaction accounts, savings accounts, and term deposits.** Transaction accounts form the basis of main bank relationships, which are an important focus for competition in personal banking.
- **Retail deposits (funds held in deposit accounts) are crucial to bank funding.** They are typically the lowest cost source of funding available to banks and represent approximately 65% of funding for the major banks and Kiwibank, and 80% of funding for smaller banks.
- **Transaction deposits are particularly valuable, as a significant portion of transaction deposits are non-interest bearing.** Overall, the major banks and Kiwibank hold approximately \$58b of non-interest bearing deposits.
- **The major banks have been able to attract a greater proportion of transaction deposits than small NZ banks.** This reflects advantages the major banks have in winning and maintaining main banking relationships.
- **Because they hold a higher proportion of transaction deposits, the major banks and Kiwibank on average pay between 50-60 basis points less for retail deposits than the small New Zealand banks.** Given the major banks and Kiwibank have a total deposit balance of \$395b, this presents a substantial cost advantage. While the major banks have better access to wholesale funding sources, small NZ banks rely more heavily on retail deposits.
- **This difference in the cost of funds limits the ability of small banks to competitively constrain the major banks in home loan and other lending markets.** For example, we have found that the major banks can, at their discretion, match and outlast the promotions of smaller providers. Over the long-term, this contributed to entrenching the stable two tier oligopoly market structure.
- **Competition amongst the major banks and Kiwibank for deposit funds is sporadic.** We have seen some evidence that the intensity of competition can flip between lending and deposit sides of the market, depending on a range of external market factors and internal bank strategy.
- **Generally there are no (or low) fees on transaction accounts** (and no price competition in that sense) reflecting the position of transaction accounts as key products to main bank relationships. Given the high volume of payment activities in transaction accounts, non-price factors such as quality of service are likely to be more important to consumers than seeking an interest return. Switching transaction account providers can be particularly challenging, compared with savings or term deposits.
- **The major banks and Kiwibank typically set prices for savings and term deposit accounts with regards to one another,** having limited regard to smaller providers. Incentives to engage in strong price competition appears to be limited, and major banks tend to match each other's offers rather than compete intensely on price.

## Chapter 6 Profitability of New Zealand's banking sector | *Te whiwhinga huamoni a te rāngai pēke ki Aotearoa*

### Summary of preliminary findings

- **The major banks make significant profits each year, however, they are among New Zealand's largest companies, so the dollar value of profits (on its own) tells us little about competition.** Measures of profitability (ie, returns in percentage terms), on the other hand, can provide an indication of the intensity of competition.
- **The profitability of the New Zealand banking sector is high relative to banking sectors in peer nations.** Between 2010 and 2021, New Zealand's banking sector profitability has, on average, performed in the upper quartile relative to peer nations on three important measures: ROA; ROE; and NIM.
- **New Zealand's major banks have also experienced high average returns on equity relative to other New Zealand banks.** The majority of the major banks (ASB, ANZ, and BNZ) have similarly performed well on ROA. This is consistent with the major banks being in tier one of a two tier structure as described in Chapter 2.
- Our findings support the conclusions reached recently by both the Reserve Bank and Treasury that the profitability of the New Zealand banking sector is high relative to peer banking sectors, and that the large New Zealand banks have been more profitable than the rest of the New Zealand banking sector.
- **We have been offered and considered a range of explanations for the New Zealand banking sector's recent levels of profitability.** We acknowledge that factors such as a relatively high-risk-free rate compared to other countries in our sample, the Australian ownership of New Zealand's major banks, and recent regulatory interventions in New Zealand may—at least partially—explain relatively high profitability in New Zealand.
- **The focus of New Zealand banks on lower risk activities means we would expect the sector to deliver lower returns relative to riskier banking sectors overseas.** This is because, all things being equal, a business that takes on higher risk can typically expect to earn higher profitability on average over time. The New Zealand banking sector is relatively low-risk in nature because it is more heavily weighted towards traditional (“vanilla”) banking activities than many peer nations. On average over our analysis period, New Zealand's proportion of non-interest income to total income was the lowest of our peer country sample at 22%, indicating that New Zealand's banking sector has a greater focus on traditional interest bearing banking activities.
- **Based on our analysis of the evidence, we are not satisfied that the factors identified by the major banks fully explain the profitability of the New Zealand banking sector since 2010.** We therefore consider that, at least part of the profitability we observe is explained by the market power of the major banks and that New Zealand's banking sector profits are higher than what would be expected if they faced greater competition.
- Our preliminary findings on banking sector profitability corroborate and reinforce our findings elsewhere in this report that competition is sporadic and limited for personal banking services in New Zealand.



## Chapter 7 Regulatory factors affecting competition | *Ngā pānga ā-ture mai ki te whakataetaetanga*

### Summary of preliminary findings

- **Competition amongst personal banking service providers has not been meaningfully affected by new entry or expansion of smaller providers since the establishment of Kiwibank in 2001.** No smaller provider has been able to grow to achieve the scale or scope needed to effectively compete with the major banks. Even Kiwibank has not been able to expand to match the scale of the major banks.
- **Personal banking services and providers (especially banks) are highly regulated in the interests of financial system stability, consumer protection and other policy objectives.**
- **Regulation is a condition of market entry.** It has been a universal theme of our engagement with providers that regulation shapes competition in personal banking, and is the single most important factor constraining new entry and the ability of existing providers to expand and compete.
- **Bank prudential capital requirements in particular have limited competition by constraining entry and expansion.** Since 2008, the Reserve Bank allowed major banks to hold significantly less capital than small banks for lending with a similar risk profile. Capital requirements reduce the level of retained earnings available to banks to fund growth and have had the unintended effect of constraining the growth of smaller banks relative to the major banks during a period of strong demand for lending.
- Together with less capital being available to smaller banks and their costs of capital being higher, the difference in capital requirements has given a material and entrenched competitive advantage to the major banks for the past 15 years or so.
- **Aside from capital requirements, the overall regulatory burden is very high and imposes a significant barrier to new entry.** For all existing providers, it has constrained growth and innovation due to resources being deployed to keeping up with regulatory change. Kiwibank and smaller providers have been affected by this change more than the major banks because they lack the same scale, meaning that proportionately more of their limited resources must be directed towards regulatory compliance. This has directly constrained their ability to expand.
- **Regulatory policy and design have not sufficiently taken into account the effect of regulation (in terms of both pace and extent) on providers' ability and incentives to compete.** The effect of regulation on competition for personal banking services should be explicitly and transparently considered. The Reserve Bank has a critical opportunity to consider competition impacts as it works to implement the bank capital and Depositor Insurance Scheme funding components of the Deposit Takers Act.



## Chapter 8 Consumer search and switching behaviour | *Te rangahau kaiwhakapeto me te panoni o te whanonga*

### Summary of preliminary findings

- **There is a significant degree of customer inertia in personal banking.** Our survey found that customers have relatively low levels of confidence in their ability to access information in the market, assess that information to decide on a provider, and to act on that information by switching.
- **There are barriers for consumers in shopping around and in switching between providers. These barriers limit competition.** For transaction accounts, it is primarily the hassle factor associated with opening new accounts and re-organising the direction of salary and other regular payments. For home loan customers, there is a range of potential switching costs including the cost of instructing solicitors, bank fees to discharge a mortgage, the repayment of cash contributions, early repayment fees (if customers want to break a fixed-term home loan), and fees from mortgage advisors. Switching costs for savings accounts and term deposits are generally lower.
- **Compounding these barriers are two pieces of legislation** that create friction for customers seeking to switch home loan providers: (i) the AML/CFT Act, and (ii) the CCCF Act.
- **The industry-led switching service for transaction accounts is not working well.** None of the major banks actively recommend this Payments NZ service to their customers. Awareness and take-up of the switching service are low, and there are operational issues in practice such as inability to ‘forward on’/redirect payments. Unlike other jurisdictions, such as the UK, no independent agency or body has the mandate to encourage, monitor or report on the performance of the switching service across the industry.
- **Smaller and newer providers face greater challenges with building customer bases.** Our survey found that the vast majority of people considered only the major banks and Kiwibank when taking out their home loan. Similarly, when prompted about which banks, they might consider in the future for their main banking provider, our survey found that nearly half (42%) of New Zealanders would only consider ANZ, ASB, BNZ, Westpac or Kiwibank.
- **Barriers to searching and switching reduces competitive pressure on the major banks.** These impediments to consumers switching exacerbate the difficulties faced by new entrants and smaller providers in expanding their operations organically and building their customer bases. This reduces the competitive pressure they can exert on the major banks in personal banking.

## Chapter 9 Digital disruption and impediments to innovation | *Te tauwhatinga matihiko me ngā ārai ki te auahatanga*

### Summary of preliminary findings

- **We have been surprised by the limited investment by the major banks and Kiwibank into core banking systems and the low prioritisation given to it.** Legacy systems constrain the ability of the major banks and Kiwibank, as well as fintechs, to innovate and compete. As a result, we have seen limited levels of innovation across the industry in personal banking services. Innovation has tended to occur “around the edges” of the customer experience rather than at the core of product and pricing structures.
- **We question whether the limited investment in core systems to date is explained by the need to keep pace with changing regulatory requirements.** Comparable change has also occurred in Australia, where there has been a higher level of innovation by the parents of the four large New Zealand banks. While we acknowledge the pace of regulatory change and the associated need for investment, fully depreciated core systems indicate sustained under-investment and, for the major banks, appear to indicate a lack of competitive pressure over an extended period.
- **Due in part to the disproportionate cost of regulatory change, smaller banks have faced comparatively higher constraints to innovate.** This enables the major banks’ service offering to stay ‘just ahead’ of smaller banks, countering the ability of the smaller banks to compete for main bank relationships.
- **We have not seen disruptive innovations observed overseas from fintechs** such as Revolut, Monzo, and Rocket Mortgage, as fintechs here face a range of impediments entering and expanding. Nor do we observe the sort of innovative responses seen in Australia by the parents of the major banks, for example with digital-only subsidiaries or “flanking brands” (like ubank by NAB and Unloan by CBA).
- **Impediments that fintechs face in entering or expanding in New Zealand limit the extent of competitive pressure they can exert on incumbent banks currently.** These impediments are a combination of structural, regulatory, and strategic in nature. Simply opening a business bank account, as well as an ongoing risk of being ‘de-banked’, are key risks that fintechs face.
- **Progress towards open banking has been too slow.** Open banking will help tip the scale for smaller challengers overseas and can be expected to boost innovation and competition for personal banking services. However, progress in New Zealand has been too slow, because the major banks have been left to set the nature and the pace of change. As a result, New Zealand is now falling behind the rest of the world. Progress towards open banking needs to be maintained and accelerated within a clear regulatory framework and with government-set deadlines.

## Chapter 10 Draft recommendations | *Ngā tūtohinga hukihuki*

### List of draft recommendations

#### Improve the capital position of smaller providers and Kiwibank

1. The Reserve Bank should review its prudential capital settings to ensure they are competitively neutral and smaller players are better able to compete.
2. Kiwibank's owner should consider what is necessary to make it a disruptive competitor, including how to provide it with access to more capital.

#### Accelerate progress on open banking

3. The Government should set clear deadlines and work with industry to ensure opening banking is fully operational by June 2026.
4. The Government should reduce the barriers imposed by the AML/CFT regime on banks working with fintechs.

#### Ensure the regulatory environment better supports competition

5. The Reserve Bank should use its new decision-making framework under the DT Act to explicitly and transparently consider competitive effects.
6. The Reserve Bank should explicitly and transparently articulate how it is applying the purposes and principles of the DT Act to its Deposit Compensation Scheme levy advice.
7. The Reserve Bank should consider broadening access to ESAS accounts.
8. The Government should amend the DT Act to allow the Reserve Bank to promote competition, rather than maintain competition.
9. The Government and policy makers should seek competitive neutrality across banks and other providers in their decision-making wherever possible.
10. The CCCF Act should be competitively neutral with respect to home loan refinancing to make it easier for consumers to switch providers.

#### Empower consumers

11. Industry should create an enhanced switching service with appropriate Government oversight.
12. Home loan providers should present offers in a readily comparable manner.
13. Mortgage lenders should pro-rate all clawbacks for broker commissions and cash incentives.
14. The FMA should produce guidance and monitor mortgage advisors' compliance with their duties under the Financial Markets Conduct Act.
15. Industry and Government should prioritise work to reduce the barriers to lending on Māori freehold land.
16. Industry and Government should prioritise ensuring widespread availability of basic bank accounts.

## Introduction | *Whakatakinga*

10.1 Our preliminary view is that New Zealand’s four largest banks – ANZ, ASB, BNZ and Westpac (the major banks) – do not face strong competition when providing personal banking services. There are limited constraints from outside the four major banks, and competition between the majors is sporadic. This chapter describes opportunities we have identified to disrupt the status quo and promote competition for personal banking services for the long-term benefit of consumers in New Zealand. Our recommendations are arranged into four themes.

### **Improve the capital position of smaller providers and Kiwibank | *Kia whakapai ake te tū haupū rawa o ngā kaituku iti me Kiwibank***

#### **Draft recommendation 1 – the Reserve Bank should review its prudential capital settings to ensure they are competitively neutral and smaller players are better able to compete**

- 10.2 We have explained in our draft report how important the Reserve Bank’s prudential capital settings are to the ability of all other banks to compete with the major banks. It is helpful that the Reserve Bank has a new decision-making framework for prudential regulation under the 2023 DT Act that allows it to take account of competitive effects and the desirability of a proportionate approach to regulation and supervision. However, the implementation of this framework will determine how effectively it promotes competition.
- 10.3 We have identified two opportunities in the near term for the Reserve Bank to adopt prudential capital settings that are more competitively neutral than the current requirements. The first relates to the impact of the IRB regime on the ability of all other banks to compete effectively with the major banks, the second relates to the impact on NBDTs of bringing their prudential regulation under the DT Act.
- 10.4 Our preliminary view is that these opportunities have the potential to improve competition from many of the smaller providers of personal banking services without compromising the financial stability of New Zealand’s financial system. We invite the Reserve Bank to give these options serious consideration and transparently and explicitly work through the competition impacts.
- 10.5 As noted in Chapter 7, the Reserve Bank has acknowledged that the effect of its IRB regime since 2008 has been that IRB accredited banks (which are the major banks) have held less prudential capital than non-IRB accredited banks, for assets with similar risk.<sup>4</sup> This differential has given a material and entrenched competitive advantage to the major banks, and limited all other banks’ ability to compete and grow, in particular smaller banks that focus on providing home loans.

---

<sup>4</sup> Reserve Bank “Capital Review: Go-to-Guide 2019” (2019), at p. 7, available at: <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/banks/review-capital-adequacy-framework-for-registered-banks/decisions/capital-review-guide.pdf>.

- 10.6 Following its 2019 Capital Review, the Reserve Bank introduced a ‘floor’ in 2022 to require IRB banks hold at least 85% of the amount of capital that banks using the standardised approach must hold, for assets with an equivalent risk profile. We are concerned the ongoing 15% differential may not be justified in terms of financial stability and will continue to limit smaller banks’ ability to compete.
- 10.7 The IRB regime allows accredited banks to model the risks associated with their lending portfolio. We understand the rationale for this approach when the category of lending has diverse risks, such as for business lending. However, we have not seen a compelling reason to suggest there are material differences in risks between banks for some well-defined categories of home loans (such as first mortgage-backed loans in specific LVR bands), or that the IRB approach results in improved risk management for these assets.
- 10.8 From a competition perspective, unless a different approach is clearly justified, we think all banks should be required hold the same level of prudential capital for loans that have equivalent risks (which we consider includes major categories of home loans).
- 10.9 This draft recommendation includes that the Reserve Bank should review the role and operation of the IRB regime for home loans as part of its upcoming consultation on a new capital standard later this year to ensure that the same level of capital is held where risk is likely to be equivalent. In particular, the Reserve Bank should:
- 10.9.1 **Consider whether the same level of capital should be held where risk is likely to be identical (regardless of whether the lender is IRB accredited):** For example, whether some home loan types should have no difference in capital holdings between the standard and IRB approaches, because such loans are similarly risky irrespective of the lender.
- 10.9.2 **Consider making it easier to acquire IRB accreditation:** Relaxing the criteria for IRB accreditation to allow more smaller banks to take advantage of the IRB approach.
- 10.10 The Reserve Bank has signalled NBDTs will likely have an ‘overall uplift’ in prudential requirements as those entities’ prudential regulation is brought under the DT Act, and that they may need to ‘assess their viability in line with operating in a well-regulated competitive marketplace’.<sup>5</sup> We are not aware the Reserve Bank has articulated what it means by ‘overall uplift’ in requirements, what its concerns are with NBDTs’ current prudential requirements such that an ‘overall uplift’ is necessary, or why this would impact the viability of NBDTs. These issues are discussed in more detail in Chapter 7.

---

<sup>5</sup> Reserve Bank “Proportionality Framework Consultation Paper” (31 July 2023), at p. 6 and 11, available at: <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/deposit-takers-act/proportionality-framework-consultation-paper.pdf>.

- 10.11 Competition could be promoted by the Reserve Bank reducing the uncertainty created by its comments, and increasing transparency around how it will consolidate and apply prudential regulation for all deposit takers that will be subject to the DT Act.
- 10.12 This draft recommendation includes that the Reserve Bank provide further information about its views on the prudential requirements that NBDTs may have under the DT Act, including the policy reasons for any proposed changes to the status quo. In doing so, we recommend the Reserve Bank explicitly and transparently articulate how it is thinking about its role in setting prudential requirements with reference to the purposes and principles set out in the DT Act.

**Draft recommendation 2 – Kiwibank’s owner should consider what is necessary to make it a disruptive competitor, including how to provide it with access to more capital**

- 10.13 In Chapter 2 we explained how the four major banks do not currently face strong competition from smaller providers. The market for personal banking services is split into two tiers. The first tier comprises the four Australian-owned major banks. The second tier comprises the smaller registered banks and non-banks. Kiwibank is “stuck in the middle” of these two tiers; being larger than the smaller providers but having less capital and assets than the Australian-owned banks.
- 10.14 Given the limited prospect of new entrants from offshore into personal banking at scale, the best prospect for more competition in the near term is one or more of the smaller banks or non-banks acting as a disrupter by seeking to grow rapidly.
- 10.15 Most of the smaller providers we’ve heard from are capital constrained due to their ownership structure. Many stakeholders have told us that regulatory capital requirements are the single biggest factor affecting expansion by smaller banks and NBDTs in personal banking. For those providers to grow rapidly they may need to review their legal and ownership structures or consider other ways to reduce scale disadvantage, such as shared services or consolidation.
- 10.16 Kiwibank, which we know is being watched by the four major banks as their next closest rival, appears to have the greatest potential to constrain the major banks in the near term and disrupt a market that is otherwise stable due to lack of competition. However, Kiwibank does not yet have the necessary access to capital backing, or the systems, required to continuously challenge the major banks aggressively. Access to equity is a constraint on how fast Kiwibank can continue to grow.<sup>6</sup>
- 10.17 To change this, Kiwibank’s owner should consider increasing its access to capital and support a strategic refocus of Kiwibank’s efforts to compete more strongly with the major banks (which could involve significant systems development).

---

6

- 10.18 Accordingly, our draft recommendation is that Kiwibank’s owner explores what changes are necessary to maximise its potential as a disruptive competitor.
- 10.19 We see this as the best near term prospect for more robust competition. However, there is also an opportunity to accelerate open banking to increase competition from smaller providers over the medium term and ensure ongoing disruption can drive better consumer outcomes.

### **Accelerate progress on open banking | *Whakatere ake i te kauneke o te pēke tuwhera***

- 10.20 We think it is important to take a multi-faceted approach to improving competition. Open banking has the potential to revolutionise banking by driving ongoing innovation and competition in personal banking. Fintechs are a potential source of more radical and disruptive innovation and competition over the medium to long-term, and are important to realising the full benefits of open banking.

#### **Draft recommendation 3 – the Government should set clear deadlines and work with industry to ensure opening banking is fully operational by June 2026**

- 10.21 Implementing open banking as soon as possible, and in a competitively neutral way, is critical to allowing consumers and businesses to access new and innovative ways to manage their money and make payments. We’ve identified the minimum requirements for open banking in Chapter 9 and noted that competition will be promoted by its continued development and evolution: greater participation by business and consumers, and enhanced functionality.
- 10.22 Work is underway on the Customer and Product Data Bill, initiatives under the Retail Payment System Act, and various other important complementary initiatives including developing a digital identity system.
- 10.23 We see an opportunity to bring forward the benefits of open banking for both consumers and businesses by accelerating these initiatives and ensuring that they occur simultaneously. If done sequentially, open banking will take much longer to be implemented and there is a risk that the various components do not fit well together. For example, if the digital identity framework is developed without close links to how it could be used in open banking, it may need to be adapted later on, causing further delays and cost.
- 10.24 Industry involvement is critical to ensure the solutions developed can be implemented and the technical standards work for both fintechs and existing banks. However, we have heard concerns that banks and Payments NZ do not have the right incentives to develop and deploy functional APIs,<sup>7</sup> and concerns that governance arrangements for the API Centre (which ultimately reports to Payments NZ) are affecting the timeliness and neutrality of industry-led work.

---

<sup>7</sup> An API (application programming interface) is a set of routines, protocols, and tools for building software applications. An API specifies how software components should interact.

- 10.25 Progress by the sector has been too slow, despite repeated undertakings by the sector to advance this work. In particular, we are yet to see all the major banks and Kiwibank partnering with fintechs. Accordingly, government involvement (eg, via regulatory frameworks and backstops) appears necessary if we are to achieve the potential of open banking.
- 10.26 While work on the various initiatives related to open banking is underway, setting clear milestones for progress will help drive momentum. Up until now, it has been too easy for target dates to be missed and New Zealand is falling behind other countries.
- 10.27 Our draft recommendation is that industry and the Government work together to ensure, by June 2026, open banking is fully operational. Setting a clear deadline and having regulatory backstops available will support the acceleration of open banking. Our preliminary view is that meeting this milestone of being fully operational by June 2026 means, at a minimum:
- 10.27.1 **APIs enable a range of products and services:** The design of APIs (both functional and non-functional aspects) should continue to advance, and each of the five largest banks should have deployed the most recent versions. The APIs that are designed and implemented should address use cases that promote competition and include payment initiation, confirmation of payee, account information, product information, and ‘other actions’ initiation such as opening and closing accounts.
- 10.27.2 **Widespread fintech use of APIs:** the five largest banks should each be meeting the minimum requirements we have set with regard to partnering between banks and third party providers.<sup>8</sup> Beyond minimum requirements, we would expect to see widespread partnering between banks and fintechs, including individual fintechs who have agreed commercial terms to partner with each of major banks and Kiwibank.
- 10.27.3 **Active participation in the digital identity market:** the five largest banks should be actively participating in the digital identity market, through both providing verified digital identity credentials and accepting digital identity credentials from a wide range of third parties accredited under the trust framework. Key Government agencies that hold identifying information, like DIA which holds birth certificates and passports, should prioritise providing verified digital identity credentials.

---

<sup>8</sup> These include standardised and reasonable minimum onboarding criteria, a standardised process across banks for agreeing API use, and pricing that enables commercially viable business models. See: Commerce Commission “Retail Payment System – Update on our Payments Between Bank Accounts work” (22 February 2024), paras A10 – A13.



- 10.27.4 **Early adoption by Government:** The Government should take an all-of-government approach to accepting payments enabled by open banking functionality. This will help build confidence in open banking and assist in developing a market for open banking enabled products and services.

**Draft recommendation 4 – the Government should reduce the barriers imposed by the AML/CFT regime on banks working with fintechs**

- 10.28 We have heard from fintechs that one of the biggest barriers and ongoing risks they face is accessing a bank account. Banks’ willingness to provide fintechs with bank accounts is influenced by legal risks associated with the AML/CFT regime and with broader reputational risks. Fintechs have a heightened risk profile under the AML/CFT regime, which impacts banks’ obligations (ie, enhanced due diligence requirements).
- 10.29 Our draft recommendation is that the Government should explore ways to reduce the actual and perceived risks to banks under the AML/CFT regime when providing banks accounts to fintechs. This could include prioritising AML/CFT reforms that seek to address banks’ perception of fintechs as being high-risk.
- 10.30 The MoJ’s 2022 AML/CFT review has already recommended that AML/CFT supervisors develop a code of practice for businesses (especially banks) to on-board high-risk businesses and that there should be a licensing framework applied to high-risk sectors.<sup>9</sup> These recommendations have not been implemented yet, and we think there is merit in expediting consideration of whether there are appropriate ways to reduce this regulatory entry barrier for fintechs.

**Ensure the regulatory environment better supports competition | *Me whakarite kia pai ake i tā te taha ture tautoko i te whakataetaetanga***

- 10.31 Regulation shapes the environment within which competition for personal banking services takes place. Regulation might promote competition, be competitively neutral in effect, or cut across competition to achieve other policy objectives. It can also have unintended consequences.
- 10.32 This section sets out draft recommendations and observations that seek to ensure the regulatory environment promotes competition where possible, limits the negative impact on competition where it is not, and that unintended consequences are minimised.

---

<sup>9</sup> MoJ “Report on the review of the Anti-Money Laundering and Countering Financing of Terrorism Act 2009” (2022), recommendations 48 and 92.

**Draft recommendation 5 – the Reserve Bank should use its new decision-making framework under the DT Act to explicitly and transparently consider competitive effects**

- 10.33 We explained in draft recommendation 1 our suggestion the Reserve Bank apply a competition lens in the near term to specific aspects of the prudential capital settings it imposes on deposit takers. More generally however our preliminary view is that competition in personal banking would be better supported if the Reserve Bank applied the ‘competition’ principle in the DT Act to its decision-making explicitly and transparently. In terms of process, what this could look like in practice includes:
- 10.33.1 articulating the potential effects on competition in different parts of the sector (eg, amongst banks, NBDTs and others) in each of its decisions about prudential regulatory settings;
  - 10.33.2 seeking pro-competitive outcomes where this is not inconsistent with its financial stability mandate;
  - 10.33.3 when consulting stakeholders on its decisions, including how it sees the role that competition plays in those decisions, to minimise the risk of unintended consequences; and
  - 10.33.4 where it considers it must prioritise considerations that cut across competitive outcomes, having regard to the purposes of the DT Act, doing so explicitly so that the trade-offs between policy objectives are clear.
- 10.34 Applying this process would help ensure prudential regulation promotes competition to the greatest extent possible and cuts across competitive outcomes only to the extent necessary. It would also help reduce the risk of unintended impacts on competition. As the competition regulator, we will continue to work with the Reserve Bank and to advocate for competition policy issues to be given adequate weight.
- 10.35 In addition to the points we made concerning capital requirements, we set out below some more specific examples of upcoming opportunities where we think competition in personal banking would be better supported if the Reserve Bank applied the ‘competition’ and ‘proportionality’ principles in the DT Act to its decision-making explicitly and transparently.

**Draft recommendation 6 – the Reserve Bank should explicitly and transparently articulate how it is applying the purposes and principles of the DT Act to its Deposit Compensation Scheme levy advice**

- 10.36 The Reserve Bank is preparing advice to the Minister on what approach to take in setting an industry levy to fund the DCS. Different approaches to imposing the levy could impose a disproportionate cost on smaller providers, potentially significantly adversely affecting their ability to compete for personal banking customers. This issue is discussed in more detail in Chapter 7.

- 10.37 In the publicly available material, it is not clear the extent to which the Reserve Bank is considering competition in preparing its advice to the Minister on how the levy should be set. This is important, given that the Reserve Bank has itself acknowledged that a risk-based approach is likely to result in, on average, smaller deposit takers having higher levies, as a proportion of their covered deposits, than larger deposit takers.<sup>10</sup> We query the Reserve Bank’s apparent view that under a risk-based approach, the smaller providers who are more heavily levied are likely to see a greater net benefit from the DCS. It is also possible that the major banks (who are systemically important) will impose a greater cost on the DCS because of the higher risk of contagion if they fail.
- 10.38 Our draft recommendation is that the Reserve Bank explicitly and transparently articulates how it has applied the purpose and principles under the DT Act to its levy advice. This should include how different levy approaches may impact competition (under the competition principle), the proportionality principle, and how those considerations sit within the overall legal framework for the Reserve Bank’s levy advice.

**Draft recommendation 7 – the Reserve Bank should consider broadening access to ESAS accounts**

- 10.39 In Chapter 9, we discussed how current arrangements for accessing ESAS accounts may be detrimental to competition. Access to an ESAS account conveys a competitive advantage to those providers that have it, and significant disadvantages to those who do not. We think there are benefits to both innovation and competition of broadening access to ESAS accounts, including because it will allow smaller, innovative providers to reduce their reliance on larger bank competitors.
- 10.40 The Reserve Bank is currently reviewing its ESAS access policy and criteria, and contemplating allowing new participants to enter. In response to feedback, it has revised its approach and aims to balance its initial risk-based approach with considering the benefits ESAS access brings, particularly around innovation and competition.
- 10.41 Our draft recommendation is that the Reserve Bank, in its review of ESAS access policy and criteria:
- 10.41.1 place significant weight on the benefits to competition and innovation in the personal banking sector that would result from broadening access to ESAS accounts; and
  - 10.41.2 consider whether the risks it has identified are already present in the system, indirectly under agency banking arrangements, but with less Reserve Bank visibility.

---

<sup>10</sup> Reserve Bank “Depositor Compensation Scheme Regulations – Consultation Paper” (11 March 2024), p 12, available at: [https://consultations.rbnz.govt.nz/dta-and-dcs/dcs-regulations/user\\_uploads/dcs-regulations-consultation-paper.pdf](https://consultations.rbnz.govt.nz/dta-and-dcs/dcs-regulations/user_uploads/dcs-regulations-consultation-paper.pdf).

**Draft recommendation 8 – the Government should amend the DT Act to allow the Reserve Bank to promote competition, rather than maintain competition**

- 10.42 Our draft findings include that competition is sporadic and limited and that the major banks represent a stable oligopoly with no meaningful competitive constraint apart from Kiwibank, which is not currently a disruptive force. Given that, we consider it insufficient for the Reserve Bank to be limited in the DT Act to taking account of the need to ‘maintain’ competition within the deposit-taking sector.
- 10.43 Our draft recommendation is that the Government should amend the DT Act to enable the Reserve Bank to take account of the need to ‘promote’ competition within the deposit-taking sector.
- 10.44 Amending the Act in this way would send a strong signal about the desirability of improving the competitive status quo, to ensure consumers enjoy the value and choice that competition can bring.

**Draft recommendation 9 – the Government and policy makers should seek competitive neutrality across banks and other providers in their decision-making wherever possible**

- 10.45 In Chapter 7 we outline a number of small but pervasive examples where legislation, regulation, and Government decision-making appears to have unintentionally favoured major banks (and disadvantaged other banks and non-bank providers) or ignored the existence of non-bank providers entirely. These include where requirements in legislation are described with respect to the form or regulatory status of an entity, without apparent consideration of the underlying outcomes sought, and where decisions are made under urgency.
- 10.46 These laws and decisions have limited, or are limiting, the ability of smaller providers to compete. Although most of the examples are relatively narrow in scope and it appears the negative effect on competition is unintended, they have had the effect of helping to sustain the current two-tier oligopoly and limiting smaller providers’ ability to compete.
- 10.47 Competition would be promoted by the Government and regulators:
- 10.47.1 considering the effect on competition of all future decisions;
  - 10.47.2 reviewing existing regulation to ensure it is competitively neutral, unless justified by other policy considerations; and
  - 10.47.3 preparing guidance ahead of time for considering the competitive effect of decisions made under urgency.

*There are opportunities for the Credit Contracts and Consumer Finance Act 2003 to better promote competition for personal banking services*

10.48 As noted in Chapter 7, a prominent example we have heard of regulatory burden leading to unintended consequences for competition is the CCCF Act – specifically the costs associated with implementing the prescriptive affordability assessment, the ongoing changes being made to the legislation, and the strict penalty regime. These views appear to be widely held, and the Minister for Commerce and Consumer Affairs has signalled an intention to review the CCCF Act as part of upcoming financial services reforms.<sup>11</sup> We support this review and note the potential benefits to competition of reviewing aspects of the CCCF Act we discuss in our report.

**Draft recommendation 10 – the CCCF Act should be competitively neutral with respect to home loan refinancing to make it easier for consumers to switch providers**

10.49 One opportunity we have identified to increase competition for home loans is to encourage consumers to critically assess if they remain on the best deal for them or would benefit from changing providers during the term of their loan. Currently, consumers refinancing a home loan with a new provider may trigger an affordability assessment under the CCCF Act that would not arise if they stayed with their original loan provider.

10.50 Any new lender is required to make reasonable inquiries to be satisfied that it is likely that the borrower can afford the home loan repayments without suffering substantial hardship.<sup>12</sup> The need to go through this process may deter some consumers from considering their options.

10.51 In addition, the prescriptive affordability assessment obligations under the CCCF Regulations are triggered unless an exception applies. An exception to this requirement, when a new lender refinances existing debt, only applies if the credit limit does not increase and that either the interest rate is lower or that monthly repayments are lower or the same.<sup>13</sup> In practice, these conditions are difficult to meet, particularly in a rising interest environment.

10.52 Neither the general responsible lending affordability assessment obligation, nor the additional prescriptive affordability assessment obligations, are triggered where a consumer remains with their existing home loan provider (eg, where they refix interest rates at the end of a fixed rate period).<sup>14</sup>

10.53 Our preliminary view is that these aspects of the CCCF Act regime appear to create an unnecessary barrier to consumers switching providers of home loans, potentially impacting competition. This problem is discussed in more detail in Chapter 8.

---

<sup>11</sup> See: <https://www.beehive.govt.nz/release/reducing-barriers-financial-services>.

<sup>12</sup> Credit Contracts and Consumer Finance Act 2003, section 9C(3)(a)(ii).

<sup>13</sup> The exception is set out in regulation 4AH(3) of the Credit Contracts and Consumer Finance Regulations 2004.

<sup>14</sup> Unless a “material change” is being made to the home loan agreement. Under section 9C(8) of the CCCF Act, a material change means an additional amount is being advanced (ie, home loan top-up) or an increase to a revolving loan credit limit.

- 10.54 Competition would be promoted if lenders refinancing a home loan are not subject to additional obligations (in the form of affordability assessments) in comparison to obligations on existing home loan providers in similar circumstances.
- 10.55 Our draft recommendation is that the Government consider amending the CCCF Act to achieve competitive neutrality between existing home loan providers and potential alternative providers in the context of a consumer refinancing a home loan.
- 10.56 Our draft recommendation focuses on refinancing home loans because home loans are important to competition in the personal banking sector, and this is the context in which we have heard the CCCF Act creates a competitive disadvantage for growing providers. We also consider that an amendment to the CCCF Act dealing with home loans has reduced risk of unintended consumer harm because of the lower risk nature of home loans compared to other types of personal lending.

*There are other opportunities to promote competition by reducing the regulatory burden of the CCCF Act*

- 10.57 We have identified other opportunities to promote competition by reducing the regulatory burden of the CCCF Act, while preserving its consumer protection function. We recommend MBIE explore these as part of its review of the CCCF Act.
- 10.58 As discussed in Chapter 7, the penalty regime in the CCCF Act may be incentivising conservative and costly approaches to compliance that are disproportionate to the consumer harm that the Act protects against. Aspects of the penalty regime we think could be explored include restrictions on indemnities and insurance for directors and senior management, and the consequences of failing to fully comply with the disclosure requirements (which can include requiring a lender to refund interest and fees paid by the borrower).
- 10.59 A 'safe harbour' benchmark for expenses, that applies to responsible lending affordability assessments, could reduce lenders' regulatory burden and promote competition. Such a benchmark could reduce the cost and risk to lenders of undertaking an affordability assessment under the CCCF Act.

**Empower consumers | *Te whakakaha kaiwhakapeto***

- 10.60 We observed in Chapter 8 that barriers to consumers shopping around and switching between providers limits competition. This section identifies opportunities to empower consumers to seek out and switch to providers that best meet their needs, and to benefit from the value and choice that competition can bring.

*Improve consumer search and switch*

**Draft recommendation 11 – Industry should create an enhanced switching service with appropriate Government oversight**

- 10.61 The ease which consumers can compare and switch transaction accounts impacts the competitive process.
- 10.62 Costs to consumers associated with switching transaction accounts include the “hassle” associated with opening a new account and moving financial activities to it, as well as perceived risks and lack of confidence around the process. These issues arise independently of the costs associated with opening an account. That is, they arise regardless of whether the customer is ‘multi-banked’ (and is simply transferring financial activities to an existing account) or whether they are also opening a new account. These costs are further discussed in Chapter 8.
- 10.63 Some banks in New Zealand participate in an account switching arrangement established by Payments New Zealand, “Easy Switch”, but we have some reservations about how well this service is working in practice, including that it is not overseen by an independent body with an appropriate mandate.
- 10.64 Our draft recommendation is that industry explore ways to create an enhanced transaction account switching service with the following features:
- 10.64.1 **Better functionality:** The service should enable a comprehensive move from one provider to another including, at a minimum, recurring outgoing payments, incoming payments (including redirection service of at least three years), overdrafts, transaction history, and payment recipients. This would address the major “hassles” we have heard about. Customers should also be able to choose whether to close their old accounts or not.
- 10.64.2 **Guaranteed minimum standards.** This includes guaranteed minimum standards for the timeliness and quality of the switch, backed by an undertaking to provide compensation in the event of loss caused by a failure to meet the guarantee. This would be consistent with the standard of service offered in the UK by the CASS.
- 10.65 The success of any new service will depend on it having a mandate to promote consumer awareness of switching, supported by the appropriate governance structures and accountabilities, including Government oversight. The aim should be to continually improve the service, including through setting KPIs and publishing annual reports. The service will also need sufficient funding to carry out its functions.
- 10.66 Industry and the Government could consider an option similar to that in the UK. This would involve setting up a subsidiary of Payments NZ, similar to the API Centre, with appropriate governance, mandate and resourcing, including Government oversight.

**Draft recommendation 12 - home loan providers should present offers in a readily comparable manner**

- 10.67 In Chapter 4 we explained that the search costs for home loans are significantly increased by opaque pricing, discretionary discounts and other below the line campaigns (such as cashbacks). This means that a customer can only be certain of the terms and conditions of their deal with a particular provider (including interest rate and cashback offer) after going through a full application process. This results in much higher search costs overall, particularly to compare multiple offers (requiring multiple application processes).
- 10.68 Even once an offer is received, it may not be presented in an easily comparable way. For example, cashbacks may make it more difficult to compare offers between providers. If one provider is offering a slightly higher interest rate but a more generous cashback offer, it may not be obvious how to weigh these two factors against one another.
- 10.69 Competition would be promoted by home loan providers giving customers all the relevant information they require to choose the product and provider that best meets their needs.
- 10.70 Our draft recommendation is that home loan providers should present their offers in a way that is easily understood and makes it easy for consumers to compare products and offers across different providers. The information that is presented should be standardised across all providers, and the specific information that must be presented should be informed by consumer testing to ensure it is effective and relevant to consumer switching decisions.
- 10.71 We are sceptical that industry has the right incentives to do this quickly, or in a way that maximises the ability of consumers to compare and switch providers, so regulatory oversight may be necessary.

*Better align mortgage broker incentives with the interests of consumers*

**Draft recommendation 13 – mortgage lenders should pro-rate all clawbacks for broker commissions and cash incentives**

- 10.72 We are concerned that some of the financial costs imposed (directly and indirectly) by lenders when home loan customers switch away ‘early’ may be unjustified and create a barrier to switching to a more suitable lender. These costs relate to ‘clawbacks’ that are common for broker commissions and cashbacks paid by lenders, discussed in Chapter 4.
- 10.73 Our preliminary view is that industry practices around commission clawbacks may be imposing an unjustifiably high financial disincentive on consumers switching home loan providers within the first several years of the loan. Competition would be promoted if consumers faced more certain and lower costs when switching home loan providers. We have similar concerns about industry practices around cash incentive clawbacks.



- 10.74 Our draft recommendation is that industry changes its practices around clawback of commissions and cash incentives so that the clawback amounts recovered from advisors or consumers are pro-rated, diminishing on a linear basis and calculated monthly.
- 10.75 This recommendation will likely require changes to the contractual relationships between the relevant parties (ie, lenders, aggregators, mortgage brokers, and borrowers).
- 10.76 As part of this recommendation, it will be important to benchmark current practices and monitor and confirm whether industry practices are changing, and whether these changes are flowing through to consumers.
- 10.77 If a voluntary approach does not result in the issue being addressed, then we recommend the Government consider ways to intervene directly to ensure these changes are made, so that customers face more certain and lower costs when switching home loan providers.

**Draft recommendation 14 – the Financial Markets Authority should produce guidance and monitor mortgage advisors’ compliance with their duties under the Financial Markets Conduct Act**

- 10.78 We explained in Chapter 4, that mortgage advisors may face a conflict of interest with their clients because they are incentivised to recommend a lender that pays them the best commissions, even if that lender is not the best fit for the borrower.
- 10.79 The Financial Markets Conduct Act 2013 imposes duties on financial advisors, including mortgage advisors, including to prioritise the client’s interests,<sup>15</sup> and to disclose conflicts of interest and how they are being managed.<sup>16</sup>
- 10.80 However, we think that the high level requirements the FMC Act places on mortgage advisors are uncertain and there remains a risk that they are unduly influenced by their own financial interests in receiving commission payments when providing advice. This is a significant concern because taking out a home loan is likely to be the most substantial, long-term, financial decision many consumers make.
- 10.81 Our draft recommendation is that the FMA issues specific guidance on mortgage advisor duties, and monitors the mortgage advisor sector, engaging with advisors and their clients. The particular factors that we recommend the FMA should consider are:
- 10.81.1 Ensuring mortgage advisors disclose the different amounts and structures of commissions offered to them by different providers (eg up-front only or up-front and trail);

---

<sup>15</sup> Financial Markets Conduct Act 2013, section 431K.

<sup>16</sup> Financial Markets Conduct Act 2013, section 431O and Financial Markets Conduct Regulations 2014.

- 10.81.2 The strong interest the customer has in securing the lowest interest rate, as compared to other considerations (eg familiarity with the provider);
  - 10.81.3 Ensuring that mortgage advisors adequately alert their clients to how tranche lending, commission clawbacks, and cash incentive clawbacks can impact their subsequent ability to switch providers;
  - 10.81.4 Ensuring that mortgage advisors are accredited with a sufficient breadth and depth of providers to meet their customers' needs; and
  - 10.81.5 How mortgage advisors should act if they are aware the most suitable product for a customer is not provided by a member of their panel.
- 10.82 Guidance issued by the FMA would assist mortgage advisors to interpret their duties in the context of home loans and support better outcomes for consumers. We consider the FMA is best placed to monitor and to test whether the FMC Act duties are having the intended effect of ensuring quality financial advice and public confidence in advisors.

*Improve competition to meet Māori demand for home loans on Māori freehold land*

**Draft recommendation 15 – industry and Government should prioritise work to reduce the barriers to lending on Māori freehold land**

- 10.83 In Chapter 3 we discuss some of the barriers to providers supplying home loans secured by Māori freehold land. Those barriers increase the cost for providers to supply these loans, reducing competition to supply them and limiting the choice of providers available to Māori.
- 10.84 Our preliminary view is that competition would be promoted by the continued collaboration of home loan providers with Māori, iwi and/or Government to overcome or reduce the barriers to lending on Māori freehold land. We are aware of several recent and current examples, including:
- 10.84.1 Kiwibank, Te Puni Kōkiri, and Kāinga Ora collaborating on the Kāinga Whenua loan scheme. That scheme supports Māori to build, purchase or relocate a house on multiply-owned whenua Māori.
  - 10.84.2 BNZ's collaboration with Ngāti Whātua Ōrākei to build papakāinga housing on whenua Māori.<sup>17</sup>

---

<sup>17</sup>

See: <https://blog.bnz.co.nz/2024/01/unlocking-home-ownership-aspirations-for-iwi-housing-bnz-and-ngati-whatua-orakei-collaborate-on-papakāinga-development>.

- 10.84.3 Westpac’s collaboration with several iwi including Ngāti Koroki Kahukura<sup>18</sup> and Waikato-Tainui,<sup>19</sup> to provide shared equity home loans on multiply-owned land.<sup>20</sup>
- 10.85 These examples are described in more detail in Chapter 3.
- 10.86 Our draft recommendation is that industry, Māori, iwi and Government continue to explore ways to replicate and build on the success of these initiatives by expanding their scope, scale and participation.
- 10.87 There is also scope for successful frameworks and models to be shared and used by other providers. BNZ has shared the framework it developed when collaboration with Ngāti Whātua Ōrākei ‘with other banks in the hopes that it will help expand access to finance for development on Māori land across New Zealand’.<sup>21</sup> We are not aware of any restrictions preventing more providers from collaborating with Kāinga Ora on its Kāinga Whenua loan scheme, in which currently only Kiwibank participates.
- 10.88 We appreciate that competition law is sometimes perceived as a barrier to greater cooperation between competing providers on these types of initiatives.<sup>22</sup> On the face of it, we think there is greater scope for cooperation of this nature within the bounds of competition law and the recent collaboration guidelines we have published.<sup>23</sup> For example, publishing high level information about funding frameworks or lending models, or publishing aggregated or high level data and information on the success or otherwise of an initiative.
- 10.89 The MoJ’s 2022 AML/CFT Act review report considered the extent to which the AML/CFT Act supported or undermined the ability of Māori trusts and other Māori governance bodies to operate effectively.<sup>24</sup> A large portion of multiply-owned land is held in a Māori land trust.<sup>25</sup>

---

<sup>18</sup> See: <https://www.westpac.co.nz/rednews/relationship-with-iwi-leads-to-innovative-papakāinga-shared-equity-model-for-whānau/>.

<sup>19</sup> See: <https://www.westpac.co.nz/rednews/waikato-tainui-sign-shared-equity-agreement-to-build-50-homes-for-whānau/>.

<sup>20</sup> [ ].

<sup>21</sup> See: <https://blog.bnz.co.nz/2024/01/unlocking-home-ownership-aspirations-for-iwi-housing-bnz-and-ngati-whātua-orakei-collaborate-on-papakāinga-development>.

<sup>22</sup> [ ].

<sup>23</sup> Commerce Commission “Collaboration and Sustainability Guidelines” (November 2023), available at: [https://comcom.govt.nz/\\_data/assets/pdf\\_file/0033/335985/Collaboration-and-Sustainability-Guidelines-30-November-2023.pdf](https://comcom.govt.nz/_data/assets/pdf_file/0033/335985/Collaboration-and-Sustainability-Guidelines-30-November-2023.pdf).

<sup>24</sup> MoJ “Report on the review of the Anti-Money Laundering and Countering Financing of Terrorism Act 2009” (2022), at p. 101.

<sup>25</sup> See: <https://www.xn--morilandcourt-wqb.govt.nz/assets/Documents/Guides-Templates-Factsheets/MOJ0217.1E-OCT21-Maori-Land-Trusts.pdf>.

- 10.90 The report noted that the level of scrutiny on Māori land trusts imposed by the AML/CFT Act was unlikely to be justified with respect to the money laundering or financing terrorism risks they posed, and that enhanced scrutiny made it hard for such trusts to deal with interests in land and to satisfy banks' AML/CFT requirements.<sup>26</sup>
- 10.91 Our preliminary view is that competition would be promoted by reducing the regulatory burden imposed on Māori land trusts under the AML/CFT Act, to the extent that the current level burden is unjustified with respect to the purposes of the AML/CFT regime.
- 10.92 The 2022 MoJ report makes several recommendations in the context of the unjustified level of scrutiny on Māori land trusts imposed by the AML/CFT regime.<sup>27</sup> Progress on those recommendations is mixed. Some have been implemented, but more impactful ones are yet to be prioritised by Government and require coordination and alignment across Government.<sup>28</sup>
- 10.93 There is a perception amongst some Māori that the recommendations in MoJ's 2022 report didn't go far enough to address the issues, and in any event have yet to make a material change.<sup>29</sup>
- 10.94 Our draft recommendation is that the Government explore ways to reduce the unjustified level of scrutiny on Māori land trusts imposed by the AML/CFT regime, including by:
- 10.94.1 engaging with Māori stakeholders to understand their outstanding concerns and priorities;
  - 10.94.2 considering whether there are other means to address the issue of unjustified scrutiny on Māori land trusts that result in faster and better outcomes for affected Māori; and
  - 10.94.3 prioritising the recommendations in the 2022 MoJ report that seek to address these issues, if that is still considered the most appropriate response. This would include prioritising the necessary policy work and legislative changes to address the issues and ensuring coordination and alignment between the MoJ, MBIE, and AML/CFT supervisors to ensure the recommendations have their intended effect.

---

<sup>26</sup> MoJ "Report on the review of the Anti-Money Laundering and Countering Financing of Terrorism Act 2009" (2022), at p. 101.

<sup>27</sup> In particular recommendations 115, 116-120, and 125-126 are identified as protecting the interest Māori have in the effective and efficient operation of Māori trusts.

<sup>28</sup> [ ].

<sup>29</sup> [ ].

*Improve vulnerable consumers access to basic bank accounts*

**Draft recommendation 16 – industry and Government should prioritise ensuring widespread availability of basic bank accounts**

- 10.95 We discuss in Chapters 2, 3 and Attachment D the barriers some consumers face in accessing bank accounts. Although being ‘unbanked’ is not common in New Zealand, its negative impacts are significant. Not having or using a bank account can have far reaching consequences for people’s lives including difficulty receiving wages, salary and benefits, reduced access to credit, and being vulnerable to exploitation.<sup>30</sup> Lack of access, or reduced access, to personal banking services reduces the choice and value consumers can gain from competition.
- 10.96 Access issues can arise from barriers to opening an account (for example, being unable to provide adequate identification), deterrents to opening an account (for example, distrust of banks), and from underutilisation of existing accounts (for example, if there is poor rural banking infrastructure such as a lack of bank branches and ATMs).<sup>31</sup>
- 10.97 Key drivers of banking access issues in New Zealand include limited competition for vulnerable consumers, supply side issues such as capability of frontline staff and onboarding requirements, as well as demand side issues such as affordability, trust and financial capability.<sup>32</sup>
- 10.98 Our draft recommendation is that industry work to ensure widespread availability and awareness of basic bank accounts. This would include promoting their availability to suitable customers, and ensuring frontline staff are appropriately trained and supported.
- 10.99 We expect this recommendation could be implemented by each provider on a unilateral basis, but also acknowledge there may be benefits to consumers from having minimum standards across industry. This is the approach taken by the Australian Bankers Association, which was granted an authorisation by the ACCC to set minimum standards for basic bank accounts.<sup>33</sup> We have published guidance on the clearance regime for collaborative activities in New Zealand and would welcome a discussion with interested parties.<sup>34</sup>

---

<sup>30</sup> Westpac New Zealand “Westpac NZ Access to Banking in Aotearoa Report” (April 2023), at p. 2, available at: <https://www.westpac.co.nz/assets/Personal/life-money/documents/Westpac-NZ-Access-to-Banking-in-Aotearoa-Report.pdf>;

<sup>31</sup> [ ].

<sup>32</sup> [ ].

<sup>33</sup> See: <https://www.accc.gov.au/public-registers/authorisations-and-notifications-registers/authorisations-register/australian-banking-association-basic-bank-accounts-minor-variation>.

<sup>34</sup> Commerce Commission “Competitor Collaboration Guidelines” (January 2018), available at: [https://comcom.govt.nz/\\_data/assets/pdf\\_file/0036/89856/Competitor-Collaboration-guidelines.pdf](https://comcom.govt.nz/_data/assets/pdf_file/0036/89856/Competitor-Collaboration-guidelines.pdf).

10.100 As part of this draft recommendation we think it is important that progress by industry is closely monitored by the Government, and that it is prepared to step in and regulate if required.

**Improving competition will require multi-faceted solutions | *Mā ngā rongōā maha e pai ake ai te whakataetaetanga***

10.101 Our draft recommendations seek to promote competition by addressing the factors we have identified as affecting competition for personal banking services in New Zealand.

10.102 It is important our draft recommendations are considered as a whole. The current state of competition is being reinforced by several interrelated factors, some of which have been operating for many years. Our draft recommendations are similarly interrelated. Some will have an impact in the shorter term, while others will likely take several years to come into effect. Taken together, we expect them to promote competition in personal banking services, for the long-term benefit of consumers.

10.103 We would also expect our recommendations, if implemented, to reduce the potential for accommodating behaviour (or ‘tacit coordination’) occurring. The most effective way of reducing this risk and disrupting any coordination that is occurring, is to introduce a stronger challenger or challengers, reduce switching barriers, and encourage more consumers to engage and be prepared to change providers. This is what our suite of recommendations is aimed at achieving.

10.104 We are New Zealand’s competition agency, and the focus of our study has been identifying and addressing factors affecting competition. We acknowledge that competition is rarely the only relevant factor when policy decisions are being made. The regulatory environment for the personal banking sector has strong and sometimes conflicting policy goals. We have sought to identify opportunities to promote competition without compromising other policy goals.

10.105 Our suite of draft recommendations is preliminary and subject to consultation through the submissions we are inviting, the consultation conference, and further analysis and deliberation. We may also identify areas where we (or others) could undertake further work in the future. Our recommendations may therefore change in the final report.