MARKET STUDY INTO PERSONAL BANKING SERVICES

PRELIMINARY ISSUES PAPER

ANZ BANK NEW ZEALAND LIMITED SUBMISSION

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INTRODUCTION

1 ANZ Bank New Zealand Limited (**ANZ**) welcomes the opportunity to comment on the New Zealand Commerce Commission (**Commission**) Preliminary Issues Paper for its market study into personal banking services (**Study**).[1] We acknowledge that New Zealanders are experiencing the adverse effects of inflation and higher interest rates, and it is crucial they have confidence that the banking sector is providing the best services at competitive prices. The Study is an important opportunity to test, and hold providers to account for, the competitiveness of personal banking services.

2 ANZ responds to the questions set out in the Preliminary Issues Paper in **Appendix 1**. At the outset, we consider it worth highlighting three points:

2.1 there is strong competition for personal banking services in New Zealand

2.2 ANZ believes that its profits – and the profits of New Zealand banks generally – are:

(a) at a level that is consistent with there being a strongly competitive banking market in New Zealand, and

(b) consistent with the profits earned by its international peers, and

2.3 the regulatory environment is central to understanding and assessing competition to supply personal banking services and in our view this feature has been underemphasised in the Preliminary Issues Paper. Similarly, competition and market outcomes are influenced by the economic environment and again we consider this influence has been underemphasised.

There is strong competition to supply personal banking services

3 We welcome the Commission's work to test competition and whether recommendations could be made to improve it. In our experience there is strong competition for personal banking services in New Zealand.

4 ANZ competes particularly closely with four other larger providers of personal banking services (ASB, BNZ, Kiwibank and Westpac), which offer a full range of home lending and deposit options for all types of customers. Smaller banks and non-bank providers of home lending and deposit products and services also represent a meaningful competitive constraint. The intensity of competition is illustrated by:

4.1 *strong price competition*. In July 2023, just over $1 billion worth of home lending (20.9% of the total mortgage monies advanced) switched in the home loan market,[2] and 80% of customers surveyed in April 2023 would consider switching purely based on interest rate considerations.[3] A 2019 research report found that two out of three savings account holders would decide to

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1 Commerce Commission, *Market study into personal banking services: Preliminary Issues paper* (10 August 2023) (**Preliminary Issues Paper**).

2 RBNZ, *Bank Financial Strength Dashboard*.

3 [REDACTED]

switch based solely on rates.[4] If our pricing is not competitive our customers will switch

4.2 *non-price competition*, including new product types, self-service features, credit policy and service quality. For example, we continually monitor and respond to our customers' changing preferences, which means increasing the activities that can be conducted online, balanced by maintaining appropriate physical presence and telephone contact for customers with different needs and preferences, and

4.3 *innovation* in our products and services to meet our customers' evolving expectations, and to stay ahead of our competitors. Examples include our market-first partnership with Apple to launch 'Apple Pay' in a digital wallet and also 'View Bills', where joint customers of ANZ and our partner billers can view and pay their third-party bills within our banking app, ANZ goMoney app (**goMoney**).

5 More information and evidence about these dynamics is provided in **Appendix 1**, particularly in our response to Questions 9 to 11 and 25.

ANZ's profits are consistent with comparable overseas banks and reflect normal returns

6 We acknowledge that 'comparative indicators of bank financial performance' is included in the terms of reference for the Study, and that therefore it is a matter the Commission will consider.

7 From our perspective, profitability is an *outcome* of the competitive process and it is well recognised and accepted that caution is needed when trying to draw inferences about the level of competition from profitability measures. The key focus for a market study should be the factors that may affect competition for the supply or acquisition of goods or services,[5] i.e. the underlying competitive conditions themselves.

8 That said, we welcome the Preliminary Issues Paper setting out some preliminary views and preliminary analysis of New Zealand banks' financial performance, and the opportunity to respond at this early stage. In this regard, of course, total profit is not the relevant measure – total profit simply reflects the scale of a business. What matters is unit profitability, and in the banking context in particular, return on equity. In providing our comments, we recognise that the analysis in the Preliminary Issues Paper is largely based on existing work conducted by the RBNZ and the World Bank.

9 To assist the Commission, **Annex 1** is a report by Incenta Economic Consulting (**Incenta**), which comments on the preliminary analysis contained in the Preliminary Issues Paper.

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4 [REDACTED]

5 Commerce Act 1986, section 48.

10 Incenta's conclusion is that the analysis in the Preliminary Issues Paper does not support a position that the New Zealand banking sector has persistently high profitability when compared to international banking sector peers.

11 In summary, Incenta explains that the analysis in the Preliminary Issues Paper does not appropriately compare New Zealand bank returns to those of comparable overseas banks. In particular, the analysis is:

11.1 an aggregate country versus country comparison, rather than a firm-to-firm comparison, which the Commission has undertaken in previous market studies and which is a more appropriate and robust way of comparing returns, and

11.2 an 'apples with oranges' comparison because it includes banks that are not comparable to New Zealand's banks, in (at least) two ways, namely that the analysis includes banks:

(i) from countries whose banks have experienced deep-seated banking crises (the European Union, the United Kingdom and Japan). We do not consider it appropriate to include comparators that have a materially higher probability of default when considering the performance we aspire to, or expect from, our banks. New Zealanders benefit from reliable and resilient banks,[6] and

(ii) provide services beyond core banking services such as investment banking and complex instruments – which, New Zealand banks do not provide.

12 Incenta has also undertaken a firm-to-firm comparison of ANZ's returns (as a proxy for New Zealand banks) to provide an 'apples with apples' comparison of New Zealand bank returns with comparable overseas banks. In doing so, Incenta has followed the approach the Commission has taken in previous market studies when conducting its own firm-to-firm comparisons.

13 Incenta's analysis shows that ANZ's average post-tax return on equity over the 2010 to 2021 period – 12.3% – is materially the same as the average post-tax returns of its peer group of international banks – 12.2% – when compared on a like-for-like basis.

14 This is inconsistent with the view that New Zealand bank returns are persistently high compared to comparable overseas banks. Rather, it is suggestive of normal returns.

15 Incenta has also compared ANZ's returns to New Zealand banks' cost of equity over this period. This is analysis the Commission has undertaken in previous market studies. Indeed, in the grocery market study, the Commission focused on its bottom-up estimates and expressed doubt about the validity of international comparisons.[7]

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[6] See the Preliminary Issues Paper at [45] and [48], and below at paragraph 1919.

[7] Commerce Commission, *Market study into the retail grocery sector: executive summary* (8 March 2022), page 8; compare Commerce Commission, *Market study into the retail grocery sector: final report* (8 March 2022), 3.58 onwards.

16 Incenta calculated the cost of equity for New Zealand banks for the periods as being in a range of 12.1% to 12.8%. ANZ's return on equity (12.3%) is toward the lower end of that range.

17 Incenta's analysis is, again, consistent with ANZ's profits being normal over the period. It is inconsistent with the preliminary view that ANZ's profits are 'high', or 'persistently high'.

The regulatory environment is central to understanding and assessing competition to supply personal banking services

Personal banking market outcomes are influenced by the regulatory environment

18 Customers of personal banking services need to enjoy the price, innovation and quality benefits that competition can provide. ANZ acknowledges this is at the heart of the investigation and analysis the Commission will be carrying out during the Study.

19 It is also of critical importance to New Zealanders that personal banking services are available, secure and reliable. ANZ agrees with the Commission that:

19.1 New Zealanders need access to personal banking services because 'personal banking services allow people to be paid and pay for things securely and quickly and, more generally, to participate in the modern economy,'[8] and

19.2 New Zealanders need to be able to rely on their banks because 'firms that provide personal banking services form an important part of the financial system, and their actions can have important economic consequences that can affect financial stability, their customers and the broader economy.'[9]

20 Reflecting its critical importance to individuals and the health and functioning of New Zealand's economy, banking necessarily operates under a regulatory framework designed to minimise systemic risks to New Zealand. In many cases competition objectives may be recognised and preserved as far as possible within that framework. For example, the Commission is a member of, and brings a competition lens to, the Council of Financial Regulators, and the Reserve Bank (**RBNZ**) states (emphasis added):[10]

> We protect and promote the stability of New Zealand's financial system by developing policy that:
>
> - addresses prudential risks and market failures
> - **supports competition and innovation**.

21 Still, the regulation we are subject to has important objectives other than (or in addition to) competition, and in some cases such regulation results from policy trade-offs, whether made explicitly or not, between objectives that are focused on protecting the financial system and the objectives of competition policy. Simply put,

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8 Preliminary Issues Paper, at [45].

9 Preliminary Issues Paper, at [48].

10 RBNZ, *Our approach to policy*.

regulatory objectives for banking may enhance competition, impede it or be a mix of the two.

22 The regulatory environment can materially shape market outcomes, including by affecting providers' ability and incentives to offer products and services, and the cost of participating in relevant markets. To illustrate, the following are examples of regulations with important objectives, and which also have some trade-offs with competition objectives:

22.1 prudential regulation affects the ability of new banks to enter the market and the costs of participating in the market:

(a) prudential regulation is designed to ensure a stable and trusted banking system, which plays a critical role in the economy. This regulation has ensured that New Zealand has not been exposed to bank failures in the way other jurisdictions have (the United States and Switzerland most recently)

while at the same time

(b) the requirements deliberately impose a high standard on established financial institutions, as well as potential entrants

22.2 regulation creates friction for customers seeking to switch:

(a) anti-money laundering (**AML**) rules and other regulations help ensure that New Zealand is considered a safe place to do business and that there is confidence in our financial system. In addition, one of the objectives of the Credit Contracts and Consumer Finance Act (**CCCFA**) is to ensure that customers do not sign up to unaffordable loans

while at the same time

(b) these regulations result in some hurdles for consumers seeking to switch or join personal banking providers. For example, when potential customers seek to join the bank and open accounts with us, we are required to undertake due diligence on customers and source of funds. When customers apply for loans we are required to undertake prescriptive affordability assessments under the CCCFA, and

22.3 regulation can influence banks' ability to compete for certain customers:

(a) loan to value ratio (**LVR**) restrictions support the stability of the home lending market and help reduce the risk of impacts if there is a sharp change in house prices, and the rigorous affordability assessments required under the CCCFA aim to ensure that customers do not sign up to unaffordable loans

while at the same time

(b) the LVR restrictions operate by restricting supply of loans to customers with a high LVR, and affordability assessments also operate to limit who can obtain a loan, which can affect customers' willingness and ability to obtain banking services and switch providers.

23 While we acknowledge the Commission addresses the regulatory framework in its Preliminary Issues Paper, we consider its importance is underemphasised. In our view the regulatory framework creates incentives and mandates conduct in many aspects of the supply of personal banking services.

24 The relationship between competition, stability and economic growth is not straightforward – in some instances these concepts may be mutually reinforcing, and there can also be tension between them. We encourage the Commission to take account of the full range of regulations that affect market outcomes, and acknowledge their various objectives, when considering recommendations that might advance the objectives of competition. The balance between the desirable objectives of financial system regulation and the impact that regulation has on competition is delicate and small changes in one area may have large, unexpected outcomes in another.

Regulation is an important part of our environment, even where it doesn't directly shape competitive conditions

25 Regulation, and ongoing changes in the regulatory environment, also have indirect impacts on competition and market outcomes that we believe are relevant to the Commission's assessment.

26 All regulatory change creates uncertainty, about impacts to operating costs and about how regulation will be implemented or enforced. But complying with the changing regulatory landscape not only directly affects competition to supply personal banking services, it often requires significant system and process changes within ANZ. It demands non-discretionary technology (and other) investment that could otherwise be spent on other innovations. Again, these demands are typically imposed for important policy reasons.

27 A recent example is the RBNZ's outsourcing policy (**BS11**). The main objective of BS11 is to ensure that outsourcing arrangements entered into by a large bank do not compromise the options available for resolving bank failures, including the bank's ability to be effectively administered under statutory management. Implementing BS11 has been approximately a five-year programme of work for ANZ at a cost of over $580m. [REDACTED] Another key example is the 2021 changes to the CCCFA, which took well over 2 years and cost ANZ approximately [REDACTED] to implement.

The economic environment shapes competition and market outcomes

28 Competition and market outcomes are also materially shaped by geopolitical and economic conditions and disruptions, as well as resulting monetary policy. These features are underemphasised in the Preliminary Issues Paper and should be taken into account when assessing market outcomes and competitive conditions.

29 Interest rates, influenced by monetary policy and the expected level and direction of the official cash rate (**OCR**), affect demand for and supply of personal banking products. The RBNZ has an important role in managing New Zealand's monetary and financial system, and its policies have an impact on factors including inflation and unemployment in the New Zealand economy. The OCR is one of the key levers available to the RBNZ to keep inflation down.

30 But other monetary policy tools, such as quantitative easing, may also be used by the RBNZ to foster economic stability and this activity influences market outcomes in less straightforward ways. For example, quantitative easing was used by the RBNZ to respond to the economic instability caused by the Covid-19 pandemic. The RBNZ purchased approximately NZ$53 billion worth of bonds from the secondary market in return for newly issued New Zealand dollars i.e. there was a significant cash injection into the economy, and, on the flip side, consumers were generally growing their savings. One of the consequences was that ANZ (and other banks) held a surfeit of funding putting downward pressure on deposit interest rates.

31 Further, changes in wholesale market interest rates, whether driven by the OCR or other external economic factors, impact the interest rates banks offer to borrowers and depositors. Monetary policy and wholesale market interest rates impact the demand for borrowing and therefore the level of lending growth and interest income for banks, as well as demand in relation to deposits.

32 The Commission does not specifically canvas in the Preliminary Issues Paper the way economic conditions, including changes in monetary policy and responses to the Covid-19 pandemic, affect competition and market outcomes – ANZ considers it important that these factors are considered in any analysis.

ANZ's detailed comments on the Preliminary Issues Paper

33 Our more detailed comments on the Preliminary Issues Paper and competition to supply personal banking services are provided in response to the Commission's consultation questions, in **Appendix 1**.

34 We make three preliminary comments in relation to the Commission's process:

34.1 first, we agree with the Commission's intent to limit the scope of the study to deposit accounts[11] and home loans, and our response to the Preliminary Issues Paper is focussed on those banking services. The Commission should consult with stakeholders if it intends to widen the scope of the Study

34.2 second, we acknowledge that there have been multiple studies into competition in banking markets in different jurisdictions throughout the world. While those can provide useful reference points, we encourage the Commission to exercise caution in drawing conclusions from studies in other jurisdictions. While markets may seem similar at first glance, each banking market in each jurisdiction is different. For example, each will have different regulatory environments that will influence competition and market outcomes (e.g. the way fees are regulated in consumer credit contracts differs between countries) and different consumer preferences (e.g. the proportion of home loan customers on fixed or floating rates differs markedly between New Zealand and Australia). Those differences can be important influences on competition and market outcomes and can create significant variation between jurisdictions – any conclusions and any recommendations should be grounded in the particular circumstances in New Zealand, and

[11] In this document, references to 'deposit accounts' include overdraft facilities, as indicated in the Commission's definition of 'deposit accounts' in the Preliminary Issues Paper at page 5, i.e. 'includes transaction, savings, and term deposit accounts, as well as any associated overdraft facilities…'.

34.3 third, in relation to the consumer survey that the Commission describes at paragraph 206 of the Preliminary Issues Paper, the nature and quality of the information that can be elicited from the survey depends on the framing of the questions and the way concepts are defined. To maximise the insights gained, and ensure the legitimacy of the survey results, ANZ asks that key market participants be given the opportunity to provide feedback on the draft survey questions.

APPENDIX 1: LIST OF QUESTIONS IN THE PRELIMINARY ISSUES PAPER

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

1 We broadly agree with how the Commission describes the personal banking sector, noting we consider some elements would benefit from additional information and clarification.

2 We agree that registered banks are currently the main suppliers of the services that the Commission intends to focus on. We consider that the banking sector's structure is characterised by five larger banks and references to the larger banks should include Kiwibank. Kiwibank recently reported its market share in the home loan market as 7.5%.[12]

3 Non-bank participants, individually and cumulatively, also exercise meaningful and, in some cases, increasing constraint on some products. We encourage the Commission not to discount or ignore this constraint. Further there are several new entrants and we have not yet seen the full impact of their presence (see our response to Question 19).

4 In addition:

4.1 we comment on the regulatory environment in more detail in response to Questions 2 and 3

4.2 we comment on aspects of competition in the personal banking sector which impact Māori in response to Question 4

4.3 we comment on the Commission's preliminary observations of bank financial performance data and the factors influencing performance of New Zealand personal banking service providers in response to Questions 5 and 6, and

4.4 we comment in more detail about digital innovation and disruption in response to Question 7.

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

5 We do not consider that there are any key New Zealand participants or stakeholders that play a major role in the sector that the Commission does not mention in the paper.

6 However, we consider Australian regulators play an important role for participants in the New Zealand market that have Australian owners. We explain this further in our response to Question 3.

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[12] Business Desk, *Kiwibank senses opportunity as Aussies slow down* (interview with Kiwibank CEO Steve Jurkovich) (25 August 2023).

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

7 As the Commission recognises, market share estimates are not a definitive indication of the health of competition in a market.[13] An analysis of the underlying conditions of competition is required.

8 However, what concentration/market share figures can show is that New Zealand's banking market is less concentrated than many other markets in New Zealand. It is certainly less concentrated than the wholesale fuel and supermarket markets the Commission considered in its first two market studies. It is also less concentrated than the markets the Commission examined in its Building Products market study (plasterboard, cement (considered as part of the ready-mix concrete), and structural timber).

9 The New Zealand market is no more concentrated than many other banking markets internationally, as shown by the World Bank CR3 ratios.[14] From a commercial perspective, we monitor changes in market share. For example, in measuring our commercial performance we look at:

9.1 lending and deposit share as reported in the RBNZ Balance Sheet Survey each month

9.2 share of registration, which measures a provider's share of registrations of new home loans, and

9.3 share of commitments, which measures a provider's share of firm offers of finance to a mortgage applicant, using the RBNZ definition of when the provider sends loan documents to the applicant or the applicant's solicitor.[15]

10 These metrics are tracked by third parties (both Valocity and the RBNZ).

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

11 ANZ agrees that the regulatory instruments the Commission identifies in Tables 1 and 2 of the Preliminary Issues Paper are central to the regulatory environment in which banks operate and provide personal banking services.

12 As described in more detail in the Executive Summary to this response, the regulatory environment is central to understanding and assessing competition to supply personal banking services. We consider that the influence of the regulatory environment on competition and market outcomes has been underemphasised in the Preliminary Issues Paper.

13 Further, the Commission's focus on prudential or sector-specific regulation is too narrow to fully encapsulate the impact of the regulatory environment on banks'

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[13] Commerce Commission, *Mergers and Acquisitions Guidelines*, May 2022, at [13] - [14].

[14] World Bank, *The World Bank Databank: Global Financial Development*.

[15] See for example: RBNZ, *Framework for Restrictions on High LVR Residential Mortgage Lending: Prudential Supervision Department Document BS19* (January 2018).

conduct, and competition to supply personal banking services. This narrow focus overlooks instruments in the wider regulatory environment. Australian regulation applies to some New Zealand banks through their parent companies, which have a material effect on the markets in personal banking, either directly or by adding material cost or occupying material resources. See our response to Question 3 for a description of key regulatory instruments not currently included which are relevant to understanding competition in the personal banking sector.

14 One important feature of the regulatory framework, which directly impacts on our income and its source, is the CCCFA. The CCCFA requires, in essence, that fees charged on home loans and overdrafts closely reflect lenders' cost recovery with no ability to price on commercial terms that incorporate a profit margin. The statutory scheme is designed to aid transparency and to enable consumers to use the annual interest rate (rather than, say, a comparison rate as used in Australia) to compare the cost of a loan. The CCCFA has contributed to the trend of reducing the amount and number of fees charged on personal banking products, including home loans. As a consequence, the earnings that we derive from products that are subject to the CCCFA tend to be limited to those we earn through the interest rate (with the exception of fees that are subject to the reasonableness limitation). This feature of our regulatory environment has implications for our Net Interest Margin (**NIM**), as set out in more detail in our response to Question 5.

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

15 Table 1 below shows regulation that is not included in Tables 1 and 2 of the Preliminary Issues Paper but which ANZ considers relevant to understanding competition in the personal banking sector, because it directly affects how we compete. We also summarise the objective of the relevant regulation, since this is critical to weighing the significance of any impact on competition.

16 The table does not include all regulation that affects the supply of personal banking services, only those instruments that ANZ considers key to understanding competition to supply personal banking services.

Table 1: Additional information on current regulation relevant to personal banking services

Regulation and its purpose	Relevance to personal banking services	Key regulatory agency
Australian Prudential Regulatory Authority (**APRA**) rules, specifically Prudential Practice Guides (**PPGs**) PPGs provide guidance on APRA's view of sound practice in particular areas. PPGs frequently discuss statutory requirements from legislation, regulations or APRA's prudential standards, although do not themselves create enforceable requirements.	Our Australian parent company is responsible to APRA for ensuring it and its subsidiary companies comply with APRA rules and PPGs, and this responsibility in many instances has flow-on implications for us. While not directly enforceable, APRA's PPGs reflect APRA's interpretation and likely enforcement approach to the relevant regulations. New Zealand-owned banks that do not have an Australian parent do not experience the same impact. APRA regulatory requirements cover a range of issues including risk management arising out of lending secured by mortgages, credit quality, governance, outsourcing and vendor management.	APRA

Regulation and its purpose	Relevance to personal banking services	Key regulatory agency
The Common Reporting Standard (**CRS**), implemented through the Tax Administration Act 1994. The CRS is an international reporting standard used to monitor the tax compliance of overseas tax residents. It is imposed on financial institutions that offer deposit products caught under the regime.	The CRS requires financial institutions to implement and maintain extensive reporting regimes to collect tax residency information and provide this information to Inland Revenue. The extensive information that must be compiled about customers, including underlying beneficiaries or those who control accounts, affects the requirements for, and how long it takes to complete, customer onboarding, including where customers are switching from another bank, and the ongoing management of customer relationships.	Te Tari Taake | Inland Revenue Department
Foreign Account Tax Compliance Act (**FATCA**) (US) As for CRS but focused on US tax compliance.	Like the CRS, FATCA is a reporting regime used to monitor the US tax compliance of American citizens and/or people with American bank accounts. Financial institutions are required to provide specified identity and financial information to Inland Revenue which is then provided to the United States of America. As with CRS, this legislation is relevant to customer onboarding and switching.	Te Tari Taake | Inland Revenue Department

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

17 ANZ acknowledges Te Tiriti O Waitangi and the promise, hope and aspiration fulfilling its obligations brings to all people in Aotearoa. ANZ would welcome any additional insight the Study can bring to this area.

18 We agree that Māori can face several distinct challenges in the personal banking sector and experience financial exclusion as a result. We consider there are several aspects of competition likely to contribute to this, including:

18.1 the design of personal banking services and products including standardised rules around use of credit reports and the difficulties of certain models of land ownership including under Te Ture Whenua Māori Act 1993

18.2 financial institutions' generally limited understanding of Māori culture and lack of reliable data regarding Māori customers, reducing financial institutions' ability to engage with Māori customers effectively or produce offerings that target the Māori economy

18.3 access to digital banking services and limitations on digital infrastructure in rural areas, which is of increasing importance as financial institutions seek to keep pace with competitors and customer needs in the digital services space, and

18.4 geographic barriers and proximity to local branches.

19 We acknowledge that financial institutions in New Zealand must continue to work to rebuild trust with Māori and we are committed to improving Māori engagement, financial inclusion, and wellbeing within the personal banking sector.

20 ANZ's Te Ao Māori Strategy, 'Tākiri-ā-Rangi', sets out our commitment to work for a better future for Māori, rebuild trust, and empower Māori and everyone in Aotearoa. Our strategy focuses on institutional improvements, like improving ANZ's cultural competency, Te Reo language skills, and Māori representation within ANZ. It also focuses on changes in services and product offerings, like changing our risk appetite and policies to enable Māori to leverage and better use collectively owned land.

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

21 We do not agree with the Commission's preliminary observations. We provide at **Annex 1** a report prepared by Incenta, which comments on the Commission's preliminary observations of publicly available performance data particularly whether:

21.1 inferences regarding competition in the market can be drawn from an analysis of profitability (and under what conditions)

21.2 the Commission has benchmarked New Zealand banks' profitability against appropriate comparators, and

21.3 the Commission should undertake a bottom-up cost of capital estimate for New Zealand banks compared to actual returns.

22 Our summary of, and comments on, Incenta's analysis are provided above at paragraph 10 to 17 of the Introduction section. Our additional comments follow.

23 *Comparison with other NZX companies:* the average return on equity of the New Zealand banking sector is less than the average return on equity of NZX 50 Index companies. The Financial Institutions Performance Survey undertaken by KPMG concluded that when compared against the NZX 50 Index, the New Zealand banking sector had a return on equity of 13.40% while the average return on equity of NZX 50 Index companies was 15%.[16]

24 *Use of NIM as an indication of earnings:* the Commission has used NIM as an indication of earnings. In ANZ's view, NIM is 'raw' and by itself a poor indicator – risk adjusted NIM is a better indicator. That is, a bank can increase NIM by increasing riskier lending with higher interest rates, but that does not mean the bank is more profitable.

25 Figure C3 and Table C5 of the Preliminary Issues Paper show a recent increase in NIM across banks:

25.1 this is not surprising in a rising interest rate environment as The Treasury has indicated below. Deposits and loans are separate markets, and for deposits there has been an excess of supply (due to increased Government spending including the wage subsidy scheme, and consumers generally growing their savings, during the Covid-19 pandemic), at the same time as a reduction in

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[16] KPMG, *Financial Institutions Performance Survey: Banks – Review of 2022* (March 2023), page 21.

demand by banks for deposits (due to Large Scale Asset Purchase (**LSAP**) programme), both of which put downward pressure on deposit interest rates (i.e. the price paid for deposits):

> 81. Rising interest rates can support net interest margins. Because banks have significant amounts of transactional deposits earning low interest, sharp increases in interest rates often boost short-term profitability. This effect may have been amplified by higher liquid assets / settlement cash than is typical due to the LSAP programme.[17]

25.2 this period also coincides with the timing of the RBNZ's new capital requirements, which began to be phased in from 1 October 2021 with increases in capital phased in over a seven-year period. The RBNZ expected an increase in NIMs following the implementation of the new capital requirements:

> The Reserve Bank proposed a significant increase to the minimum capital ratio because it believed that New Zealand's banking system could be made more resilient to financial and economic shocks that may come our way. While we acknowledged that making New Zealand's banking system more resilient could not be done without cost – namely, an increase in the interest rates that banks charge their customers – we assessed that the benefits of these changes would outweigh the costs.[18]

25.3 the RBNZ's estimate of the impact on lending rates of the 2019 reforms was 20.5 basis points,[19] and

25.4 more generally, in conducting any analysis of NIMs, particularly international comparisons, it is important to keep in mind that New Zealand has moved towards a model of low to no fee banking and that New Zealand banks rank lowest by some distance globally on the measure of non-interest income as a percentage of total income. As noted above, this trend is partly driven by the CCCFA.

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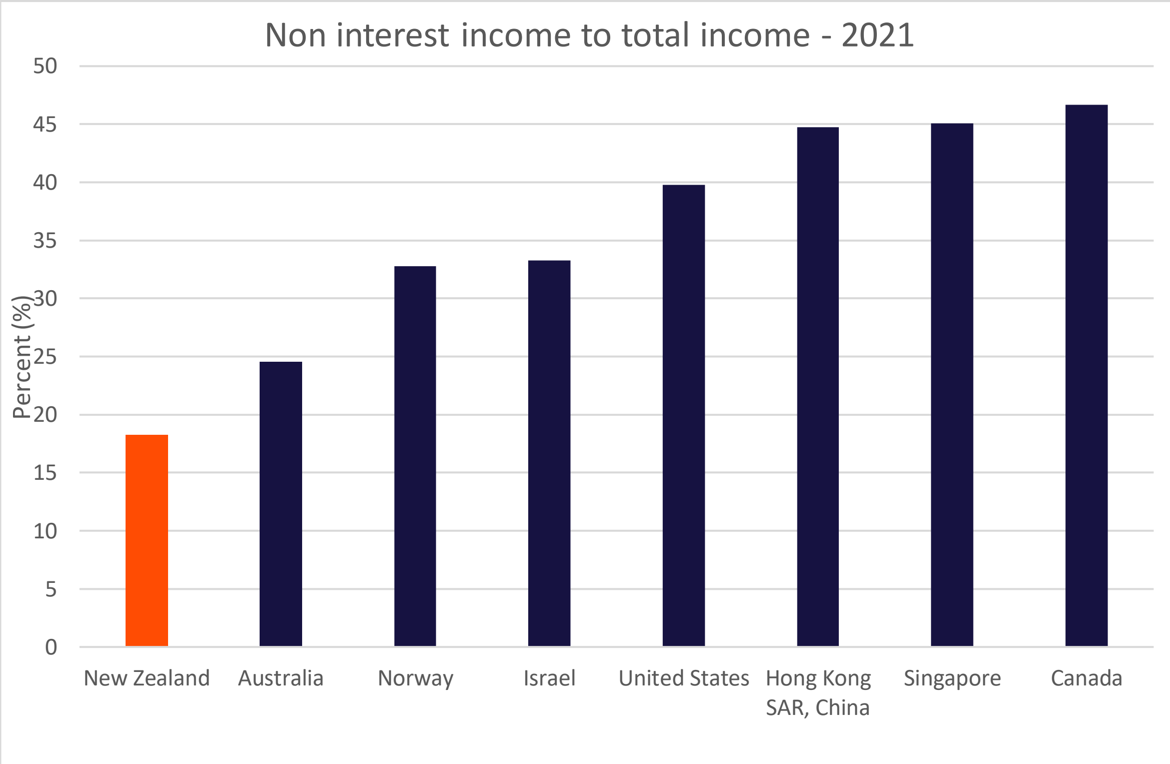
17 The Treasury, *Report: Windfall gains in the New Zealand banking sector, and responses* (10 February 2023), at [81].

18 RBNZ, *Capital Review: Decisions 2019*, page 2.

19 RBNZ, *Capital Review: Decisions 2019*, at [54].

Figure 1: non-interest income as a percentage of total income[20]



26 *The presence of goodwill:* as noted in Incenta's report, ANZ's equity value includes a goodwill component, associated with the acquisition of the National Bank in 2003. The RBNZ and World Bank data used by the Commission in its preliminary observations also includes goodwill in its denominator, which is appropriate. The Commission has previously expressed a view that goodwill should not be included in the denominator when carrying out profitability analysis on the basis that goodwill is not an asset employed in generating earnings.[21] We disagree with the Commission's view, *in a context* where goodwill represents assets legitimately employed in generating earnings. The goodwill ANZ booked in its acquisition of National Bank represented the value of intangible assets associated with operational capability and similar items it was purchasing, that is, assets legitimately employed in generating earnings.

27 In support of this view, the Commission cleared ANZ's acquisition of National Bank on the basis it would not be likely to result in a substantial lessening of competition in any market, suggesting the goodwill did not include any capitalised market power rents. That being the case, it would be incorrect to remove the goodwill element.

28 In any event, this issue does not affect our overall conclusions regarding profitability. When Incenta provides all firms with an allowance for intangible assets that is equivalent to the goodwill on ANZ's balance sheet, and allowing for other

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20 Data source: World Bank, *The World Bank Databank: Global Financial Development*. The World Bank data is at country level, the bank level data is not available, so it is not possible to control for bank type.

21 Commerce Commission, *Market study into the retail grocery sector: Final Report* (8 March 2022), at [3.33].

adjustments, ANZ's average post-tax return on equity of 12.3% over the period 2010 to 2021 is materially the same as those of the comparator set over the same period (average post-tax return of 12.2%).

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

29 To assist the Commission to consider financial performance (including the factors that affect it), see the report prepared by Incenta at **Annex 1**.

Competition

30 Like all firms our financial performance relies on us competing as effectively as we can in the markets banks operate in. If we do not compete effectively, our financial performance will deteriorate. How banks compete is described in more detail elsewhere in this submission, in particular in response to Questions 10, 11 and 25.

Monetary policy

31 Monetary policy refers to the actions taken by the central bank to influence monetary conditions in the economy. It impacts money supply, interest rates and credit availability. The RBNZ can influence these factors through changes in the OCR. Changes in the OCR, including expected future changes, influence wholesale market interest rates and therefore impact the interest rate environment banks operate in and banks cost of capital, and will incentivise different consumer behaviours.

32 Changes in wholesale market interest rates, whether driven by the OCR or other external economic factors, impact the interest rates banks offer to borrowers and depositors. As such, monetary policy and wholesale market interest rates impact the demand for both borrowing and lending, and therefore the level of volume growth and interest income for banks.

Economic conditions

33 Economic conditions affect the financial performance of banks in a range of ways in addition to monetary policy. For example, in a rapidly rising interest rate environment asset quality may deteriorate and credit provision increase, while high inflation adds to operating costs. In an economic downturn, unemployment may increase and house prices may decline leading to a loss of customers' equity in their homes, an increasing number of customers under pressure and increasing delinquencies.

34 The quality of the loan portfolio can be strongly influenced by the economic environment and tends to be cyclical. This occurs in two ways:

34.1 asset quality and loan portfolio impact the level of credit risk weighted assets and therefore are a factor when calculating the minimum regulatory capital banks are required to hold, and

34.2 asset quality has a direct impact on credit provision charges. Provisions are raised for anticipated losses and costs incurred to manage customers in hardship. When the economy is in a downturn, banks tend to increase the level of provision charges as the probability of future losses increases.

Regulatory settings

35 Regulatory settings impact banks' financial performance by directing and constraining their capital holdings and activities, and by imposing costs and diverting resources.

36 For example, capital requirements for New Zealand banks are progressively increasing each year up to and including 2028. The changes will result in a material additional ~$20billion of capital to be sourced over the seven-year transition period, which will be sourced across all banks.[22] Capital is the most expensive funding available to banks and so holding more capital increases the weighted average cost of funding. As noted above, the RBNZ expected the impact of these changes to be an increase of 20.5bps on average on lending interest rates.[23]

Other elements of a bank's activities

37 *Leverage:* the cost of equity, and therefore overall financial performance, is impacted by the level of financial leverage – see Incenta's report at **Annex 1**.

38 *Balance between loans and deposits:* the composition of loans and deposits on the balance sheet influences financial performance, and during the economic cycle customer demand will vary between wanting to increase savings more than borrowing or vice versa. The balance between loan and deposit growth needs to be managed so banks are able to sustainably fund themselves and meet prudential funding and liquidity requirements on an ongoing basis.

39 A bank's ability to effectively manage its interest rate risk will impact its financial performance. For example, loans and deposits have different tenures (loans are typically longer tenure on average than deposits) and that generates interest rate risk to be managed. Banks actively manage interest rate risk by hedging in wholesale markets. Ineffective interest rate risk management can have serious consequences to the liquidity of a bank (e.g. the collapse of Silicon Valley Bank).

40 *Trading and investment activities:* banks including ANZ earn non-interest income from trading and investment activities in wholesale markets, so their performance in these activities affects overall financial performance. This includes investment activities in a portfolio of securities to meet prudential liquidity requirements. The income (or cost) generated from these activities is in turn impacted by a range of factors including economic conditions, and wholesale market volatility and liquidity.

41 *Cost structure and cost efficiencies:* financial performance is influenced by the cost structure of a bank and will be driven by factors such as staff to deliver customer service; support functions and costs; distribution coverage including number of

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[22] New Zealand Bankers Association, *Submission to the RBNZ on the Consultation Paper: How much capital is enough?* (17 May 2019), at Appendix A of Appendix 1.

[23] RBNZ made this assumption in 2019, when it published the final requirements. The final calculation for ANZ is unknown, as:

- it will depend on the size and quality of ANZ's balance sheet in 2028, and
- interest rates have significantly increased since the RBNZ published the figure, so the cost of capital will have also increased.

branches; cost to maintain technology and innovate; and ability to leverage economies of scale given the size of the organisation.

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

42 There is significant innovation in the New Zealand banking industry, as described in our response to Questions 25 to 29.

43 The Commission in the Preliminary Issues Paper discusses the role of 'digital disruptors'.[24] We recognise the role of digital disruptors in banking, in New Zealand and overseas, and that disruptive competitors can encourage innovation. But we also consider that, irrespective of the presence of new or particularly disruptive competitors, innovation – including digital innovation – has and will continue to occur due to the intensity of competition, the demands of our customers and other factors. In that sense, all existing market participants – including all the banks – play and will continue to play a role as digital disruptors.

44 Insofar as the Commission sees 'digital disruptors' as a particular type of new competitor, we disagree that they have a more customer-centric approach than existing participants, including banks.[25] There may be aspects of certain digital disruptors that appeal to certain customers (for example, payment sharing apps often target and are quickly adopted by a younger population, to facilitate payments between friends or for international travel). But there may also be aspects of customer preferences that digital disruptors do not address (see further Question 15). For example, those who seek or need a physical business presence, those who prioritise an established and resilient financial provider, or those who prioritise trust and confidence in information and data security. Many factors feed into a customer's experience.

45 We also caution against a view that digital innovation and digital disruption are the only forms of innovation. Innovation is broad and is evidenced in many areas of the provision of personal banking services, including improved customer service (e.g. Banking Hubs) as well as digital innovations – see our response to Questions 25 to 29 – and new products (e.g. the Good Energy Home Loan).

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

46 We agree with the Commission's intent to focus on deposit accounts and home loans. ANZ characterises these products as 'core' personal banking services so, from our perspective, this focus reflects the intent of the terms of reference.

47 Further, we consider it appropriate to focus the market study to properly assess competition in the timeframe allocated. Each product category the Preliminary Issues Paper identifies, outside those ANZ regards as 'core', is likely to involve different markets with different industry participants (including non-banks),

24 Preliminary Issues Paper at [123].

25 Preliminary Issues Paper at [125].

substitutable services, or other factors impacting the competitive environment (including regulatory schemes with different objectives). For example:

47.1 there are many non-bank Kiwisaver providers and the Commission would need to consider their role in the market together with industry specific regulation

47.2 the RBNZ has licenced approximately 86 insurance companies, none of which are banks. Assessing competition in personal insurance would need to consider those providers, and the impact of the RBNZ's regulation and supervision of the sector, and

47.3 assessing competition for credit cards would need to consider non-bank providers, substitutable services like buy-now-pay-later schemes and store cards, and the expected effects of the newly introduced Retail Payment System Act on the market.

48 In ANZ's view, it would not be feasible to accurately assess competition for each product category in the timeframe available.

49 As a result of the Commission's proposal to focus on deposit accounts and home loans we have focused our response to the Preliminary Issues Paper on these products. If the focus shifts or expands to include other personal banking products, it is important that we have the opportunity to provide preliminary comments on issues relating to those other products.

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

Home loans

50 ANZ considers ASB, BNZ, Kiwibank and Westpac to be its closest competitors in the supply of home loans. Like ANZ, these banks offer a range of home lending options for customers across a spectrum of loan size, and their target market overlaps significantly with ANZ's. These larger banks account for most new mortgage registrations.

51 However, other providers (including smaller banks and non-banks) accounted for 16.43% of new registrations in July 2023, up from around 13% in October 2020.[26] ANZ considers these providers to be a significant competition factor.

52 Home loan competition is strong and is driven by customers engaging in the market and seeking the most attractive offers, on price and other terms. Customers obtain information about offers in different ways including directly from banks, from bank advertising campaigns, through brokers and by using comparison sites. [

REDACTED
]

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26 [REDACTED
]

Deposit accounts, including transaction accounts, savings accounts and term deposits

53 There is strong competition for deposits among banks (particularly the larger banks, as for home loans) evidenced by customers' willingness to switch (see our response to Question 21). The competitive price level for deposits also varies with the alternative funding options available to banks, as this will shift their demand for deposits (see our response to Question 10).

54 While not as close competitors as other larger banks, ANZ also considers non-bank deposit takers (**NBDT**) to be a significant competition factor. In ANZ's view, customers tend to perceive NBDTs as less safe or of lower quality than banks (evidenced, for example, in lower credit ratings), and often expect a higher return from those providers to account for their perceived risk.

55 Customers can also put their money in alternative funds management or investment options of which there are many to choose from. At a given price differential, there will be customers who naturally use those providers and so such providers still represent a meaningful competitive constraint.

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

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

56 We put significant effort into gaining and retaining customers. The main way we compete for both is by developing propositions that meet customer needs, including product and service offerings, digital channels, and price.

Competition to gain customers

57 ANZ competes to gain new customers through our competitive pricing, service and quality (discussed in response to Question 11), ongoing product and other innovations (discussed in response to Question 25) as well as brand, advertising, and business development activity.

58 Brand and advertising activity may target customers who have products with other providers, for example customers who have accounts with us that may have home loans elsewhere. We regularly run campaigns focused on customer acquisition with product and price offers, for example:

58.1 our 'Join' campaign offered $50 to new customers (over 18) when opening an everyday account with an ANZ Visa Debit card during April – June 2023

58.2 our home loan refinance campaign that ran from April to August 2023 offered a home loan check-in and a commitment to match other larger banks advertised fixed rates, and

58.3 our ongoing cash contribution offers for eligible customers taking out a qualifying home loan with us which can help with switching costs, the costs of moving house, or other costs.

Competition to retain customers

59 Our competitive pricing, quality, service, innovations and brand activity also operate to retain customers. In addition, ANZ has established customer retention programmes to increase customer engagement, improve their financial wellbeing, and grow our relationship with them. Our programmes provide timely and relevant messages. They use channels customers prefer to interact through, ensuring they benefit from our services. For example:

59.1 communications to new-to-bank and new-to-product customers to get them set up and informed about how to use our digital channels and self-service options effectively

59.2 communications to existing Serious Saver customers to ensure they understand the features of the product and use it effectively to maximise their savings goals

59.3 communications using product suitability triggers, to explain to customers how to avoid unnecessary fees or how to manage debt sustainably

59.4 guiding customers through each stage of the home buying journey

59.5 reminding customers and providing information when fixed-rate periods on home loans are about to expire, and providing competitive pricing in digital channels for those customers who want to re-fix

59.6 supporting customers showing signs of financial difficulty because of rising rates, costs of living, or other extreme events such as Covid-19 or weather events, through our ANZ Assist contact programme

59.7 supporting young adult customers (aged 18 to 24) through our financial wellbeing programme, which encourages positive financial behaviour, and

59.8 streamlining our range of products and reducing fees charged on those products to provide a simplified experience for customers and develop our propositions to meet customers' needs.

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

60 Competition is strong for all the personal banking services we offer and we do not observe any meaningful difference in the intensity of competition.

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

61 A strong brand is important in competing for personal banking services.

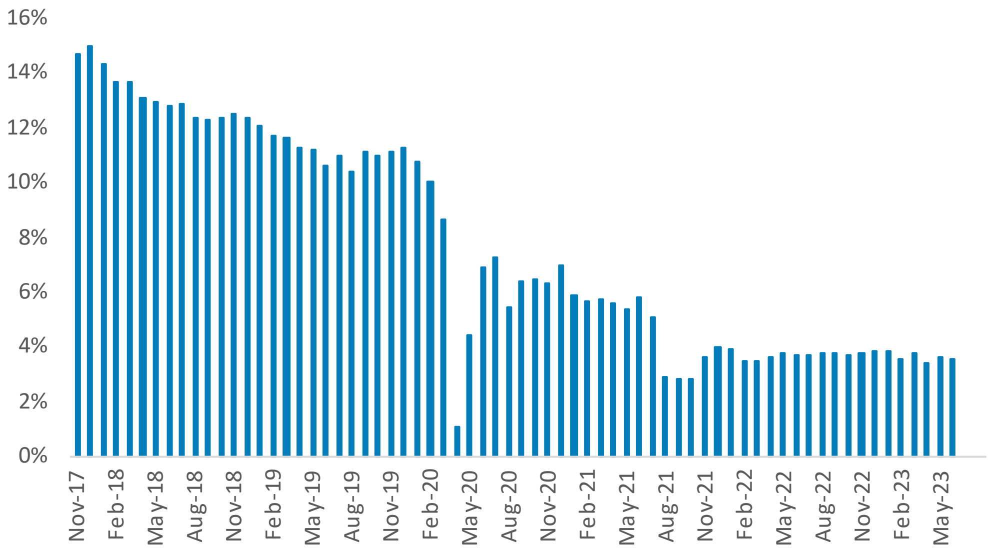
62 A customer's consideration of a brand – the likelihood they will choose a brand – is a key driver of success in competing for personal banking services. For example, trust is a key attribute in brand choice for personal banking services, particularly for deposits. For example, ANZ spends approximately [REDACTED] of our marketing budget on brand building initiatives, including sponsorship and brand advertising.

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

63 The importance to ANZ of a physical presence when competing for personal banking services is diminishing, as customers increasingly engage with digital channels. For example:

63.1 in late 2017, branch over-the-counter transactions accounted for only 15% of our total payments. By June 2023 that had reduced to 4% (see Figure 2 below). 61.7% of sales are now digitally originated, up from 38% in 2020

Figure 2: Branch OTC as a percentage of total payments



63.2 68% of ANZ customers say they use a branch only once or twice a year, or less,[27] and

63.3 our customer research shows that the three biggest drivers for customers considering ANZ are customer service, making banking simple and mobile (i.e. digital) banking. For example, research shows that a good, friction-free mobile experience is essential for Gen Z, and mobile usage is their default method to transact, accounting for much of their day-to-day banking.[28]

64 ANZ has responded to our customers' changing preferences. For example, the ANZ contact centre has grown in order to support customers, both in relation to service and solutions. ANZ's contact centre staff has grown approximately [REDACTED]. In this period, as our FTE increased, we added business units and channels to the contact centre, so contact centre staff could respond to the needs of additional customer groups including merchants, migrants and business customers. Additionally, ANZ has a growing suite of mobile mortgage managers, who will visit customers' homes, or a place of their choosing, to discuss their home loan needs.

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27 [REDACTED]

28 NCR Corporation, *Generation Z spending habits are different than any other generation. What does this mean for business?* (21 December 2020).

65 There are now fewer matters that require customers to attend a physical branch when they open or manage deposit accounts or home loans. AML requirements can be met online for most New Zealand customers who have appropriate identification (although not all – see below). Accounts can be opened through our internet banking platform and app, and ANZ is starting to roll out eSign initiatives. Customers can have virtual appointments with frontline staff and can access services through our contact centre or through our bank mail system.

66 That said, a customer may need access to a physical branch to perform transactions, such as setting up mandates on accounts, setting up 'complex' customer profiles (like family trusts), or to meet AML requirements if they do not have the type of identification we can use in our online process. Customers also require access to a smart ATM to make cash deposits outside of visiting a branch.[29]

67 We recognise that a physical branch network also provides a social benefit, allowing customers who are not digitally active to use personal banking services. For example, we have agreed, with six banks in the regional banking hub trial, not to close regional branches until the end of this year.[30] We refer also to our response to Question 15.

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

68 We do not vary our competitive approach between regions from a marketing, pricing, or service perspective and believe this is also true for our key bank and non-bank competitors. For example, all our marketing campaigns have a national media buy. Our spend does skew towards the main metropolitan areas, as this is where we get the most reach given the population.

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

Home loan products

69 Banks and non-bank providers differentiate their services on:

69.1 price (they compete to offer more attractive interest rates on their loans), and

69.2 non-price factors, such as new product types, self-service features, credit policy and service quality.

70 Providers offer floating rates and fixed rates with a range of fixed-rate periods available. The points of difference between providers for home loan products may include the rates themselves, the perceived quality of the provider, and the

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29 ANZ has 52 off-site Smart ATMs i.e. ATMs that are not connected to a branch.

30 New Zealand Banking Association, *Regional Banking Hubs pilot*.

provider's service proposition. There are several differentiated features of home loan products that tend to be offered by one or more providers, for example:

70.1 *revolving or flexible home loans:* a revolving credit facility on a customer's transaction account allows customers to pay money into it whenever they like and redraw it if they need to, which potentially reduces the interest they are charged every month

70.2 *off-set accounts:* allow customers to offset the balance of their loan against other accounts, potentially reducing the interest they are changed every month.

70.3 *features allowing borrowers to progressively draw their loan:* enable customers to save on interest. For example, customers building a new home who want to progressively access the loan funds as the build progresses, rather than needing all the loan at once, and

70.4 *low cost top-up loans:* most providers now offer discounts on loans where borrowers will use the part of the loan for which a discount is provided for specific purposes. For example, ANZ was a 'first mover' with its Good Energy Home Loan, which allows borrowers to receive a significantly discounted interest rate on a top-up of their home loan when purchasing energy efficient, renewable energy, sustainable water, or clean transportation upgrades. Other banks have developed discount offerings on loans for sustainable energy purposes which directly compete with ANZ's product.

71 ANZ (and some of our competitors) also seek to differentiate home loan offerings by service quality, particularly technology offerings. See our response to Question 25 as to some of the most recent innovations.

Deposit account products

72 ANZ's observation is that most providers offer transaction accounts and also savings and term deposit account products that allow customers to invest for a specific timeframe – typically one month to five years.

73 Key focuses of competition to supply these products are price (interest rates or fees, depending on the product), timeframes and quality i.e. the resilience of the financial institution, which is a particular focus for customers of deposit products. For transaction accounts, customer experience and ease of banking services is key. Most account fees have been removed over time, reflecting the strength of competition in the market and ANZ's response to customer sentiment.

74 Differentiation for these products also arises from specialised service offerings, such as the ability to conduct more activities online and additional features such as pay-to-mobile features on banking apps, internet banking, and spending trackers. These enhancements and aspects of differentiation are the outcome of intense competition between financial institutions for household deposits.

75 For savings accounts, there are also other forms of differentiation, including certain account features to support customers' saving objectives.

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

76 ANZ engages with competitors in large events or forums, and in some cases to jointly consider regulatory changes:

76.1 *business forums:* business forums, such as meetings of BusinessNZ, involve members gathering to hear updates about topical issues across the economy, such as industrial relations or the Government's Covid-19 response. Guest speakers, including politicians or Government officials, often form part of the agenda. Such forums may include representatives from our bank and non-bank competitors as well as, in many cases, other participants.

76.2 *events:* events can include functions at Parliament or one-off industry-related initiatives, such as the launch of the television documentary about scams, which was hosted at TVNZ in June 2023, and attended by bank representatives, consumer groups, technology firms, regulators and Police

76.3 *industry bodies:* the New Zealand Bankers' Association (**NZBA**) and Financial Services Council convene industry meetings or calls of members to discuss responses to Government consultation documents, proposed legislation, or more generic requests for information. Such meetings typically include representatives from bank regulatory affairs, legal, and corporate affairs teams. Some ANZ staff also take an active role in Payments New Zealand and its API Centre, which plays a key role in New Zealand's payments systems, and

76.4 *other forums:* ANZ staff may participate in other forums, subject to ANZ's internal Competition Register process as set out further below. For example, ANZ staff attend the Ministry of Business, Innovation, and Employment's Responsible Lending Code Advisory Group on behalf of the NZBA, or the RBNZ Central Bank Digital Currency Forum. And ANZ staff attend forums with the Banking Ombudsman Scheme on topics impacting the industry, including the response to scams.

77 There are appropriate measures in place within industry bodies to address the risk of bringing competing industry participants together. ANZ's Competition Policy and Code of Conduct requires staff attending other forums to apply for and obtain approval from a senior manager and the ANZ Competition Risk team through ANZ's internal Competition Register process before attending. In approving, we consider what the forum does, who is likely to attend, and what measures are in place to address competition risks.

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

78 Mortgage brokers, more commonly known as mortgage advisers, can help consumers navigate the market, including facilitating 'shopping around'. In turn, their activities promote competition between banks for home loan services. Recent data shows that 57% of new lending to ANZ has come through a broker.[31]

[31] ANZ, *2023 Half Year Results: Results presentation and investor discussion pack* (5 May 2023), page 134.

79 Brokers gather information about the customer's financial circumstances, requirements, and objectives, and use that information to obtain offers from different providers. They can therefore can play a role in reducing search costs for consumers seeking to compare competing home loan offers. Brokers help consumers with new loans and to switch providers (see Question 23).

80 Brokers do not charge consumers for the services they provide. Rather, brokers are remunerated through commissions paid by the ultimate loan provider.

81 Brokers provide their services online and by phone, meaning consumers do not need to visit them in person. Accordingly, the broker channel is available to all consumers.

82 In New Zealand, mortgage brokers, as financial advisers under the Financial Markets Conduct Act 2013, are subject to several duties including a requirement to give priority to their clients' interests when providing their services.

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

83 We segment our customers in several ways. Segmentation allows us to better understand our customer base, engage effectively with various parts of it, target messaging appropriately, and identify and provide suitable products. First, we segment our customers along internal business lines — identifying customers as personal, business, or institutional customers. Within these segments, we can identify customers according to more detailed sub-segments.

84 [
REDACTED
]

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

85 ANZ supports the Commission in considering this question and the steps being taken to ensure that all New Zealanders can access personal banking services and fully enjoy the benefits of competition in those markets.

86 We acknowledge that there may be some population groups in New Zealand who are not experiencing all the benefits that the strong competition for banking services is providing.

87 As a provider of personal banking services, ANZ is working to improve the experiences of rural, Pacific, older, and Māori populations and improve their access to and engagement with personal banking services:

87.1 we have an ongoing relationship with Age Concern and help them support older customers (including by funding training programmes)

87.2 we actively and extensively support customers use of digital channels, including:

(a) 'how to' resources and presentations on use of digital channels and fraud and scam prevention to retirement villages and community groups across the country, and

(b) enhancements to digital channels to improve useability and inclusion, such as the ability to use Te Reo macrons in internet banking

87.3 we have established systems to ensure that our contact centre staff can take the necessary time and care when supporting older customers, particularly with self-service enquiries

87.4 we ensure that we have staff with a range of language capabilities in the call centre in case a customer wants to speak with someone in a particular language such as Te Reo, Samoan or Mandarin

87.5 we have formalised our commitments through an Accessibility and Inclusion Plan. We also employ a dedicated Digital Accessibility Adviser to ensure that our digital services are accessible

87.6 our pricing is agnostic of location, for example, a person in Gore can access the same pricing as someone in Auckland

87.7 we provide financial literacy services:

(a) ANZ partners with Private Training Establishments (**PTEs**) and community organisations across New Zealand to deliver our MoneyMinded financial literacy programme as part of other courses or wrap-around services. Our lead partner is Solomon Group, a Māori PTE based in Auckland and Northland providing education to prepare people for employment. Solomon Group delivers MoneyMinded within an educational programme focussed on building literacy, numeracy, life skills, and personal confidence. Almost 700,000 people have taken part in a MoneyMinded course across the Asia Pacific region since 2002, and

(b) ANZ's Staff Foundation supports charities including those whose work promotes financial literacy. The Staff Foundation also supports charities that provide opportunities for all New Zealanders to achieve economic and social independence, access learning opportunities that prepare people for meaningful work and a higher quality of life, and create viable and secure communities. Since inception in 2000, the Staff Foundation has distributed over $9 million in community grants to more than 1,000 charities and community projects nationwide

87.8 we consider ethnicity, diversity and inclusion when we conduct product reviews

87.9 we have developed and are implementing our Te Ao Maori Strategy 'Tākiri-ā-Rangi' (see our response to Question 4 for more information)

87.10 we are developing an information hub for staff to provide them with guidance and tools on how to recognise customer vulnerability. This hub includes policies and procedures to help staff effectively respond to customer vulnerability and includes referral processes for complex cases. Among the experiences we look to identify, like physical and mental health, are financial resilience (low savings or income loss), life events (recent migration), capability (language barriers), access issues, or low financial confidence, and

87.11 we seek to ensure that we communicate with customers and potential customers in clear and simple language. We require all our personal customer-facing material to be in plain English, with our major consumer contracts and terms carrying the WriteMark plain English standard.

88 More generally, our view is that the continued development and improvement of digital personal banking services has resulted in positive and material benefits for many customers, across different population groups in New Zealand. The Net Promoter Score for customers who use our banking app, goMoney is higher than those that do not.[32]

89 Moving forward, digital services offer a significant opportunity to improve different population groups' access and use of personal banking services, providing more equitable outcomes for consumers. We see the need for a joined-up approach across the New Zealand economy (not just in banking) to ensure that all benefit from the opportunities digital innovation presents.

90 However, we recognise that one outcome of customers increasingly engaging through digital channels is decreased use of branches. As use of branches decreases, it drives reducing branch networks (see also our response to Question 10.4).

91 We acknowledge that where consumers face challenges accessing digital services those consumers may be worse off when branch networks reduce. In ANZ's experience, cost and more effective alignment to customer channel preference do act as an incentive to reduce the size of branch networks as usage falls. However, we have sought to actively balance that pressure with the broader social needs of consumers. We try to maintain physical banking services and branch network coverage to support access to personal banking services. The banking sector has developed 'banking hubs' and smart ATMs that accept cash deposits to help balance these competing considerations. ANZ further notes that, when it does close a branch, it tends to relocate many of the branch staff to the Contact Centre i.e. the closure represents more of a re-alignment or optimisation of resources than a reduction in FTE.

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

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

92 In ANZ's view, the regulatory environment is the most significant condition of entry and expansion in the personal banking sector. So, we have chosen to answer Question 16 and Question 17 together.

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32 [REDACTED]

The regulatory environment is the most significant condition of entry and expansion

93 As noted above, prudential regulation sets requirements to ensure the stability of providers, ensuring the stability of the financial system. This objective is highly valued, given the importance of banks to New Zealanders and the wider economy.

94 Prudential regulation also imposes significant requirements on entry, at least as a registered bank. A good example is the minimum capital ratios registered banks must meet to ensure they can absorb certain levels of losses. The RBNZ acknowledged when setting the requirements that they were conservative compared to other countries' minimum capital ratios, but considered this was needed to reflect the risk profile of New Zealand.[33]

95 There are an extensive set of requirements to comply with for registering as a bank or non-bank deposit taker.[34]

96 These requirements have consequences for the ease of entry by a new bank (or a move from a NBDT to become a registered bank). The market impacts of these regulatory conditions of entry are also more broadly felt. Many of the new entrant providers of certain personal banking services do not offer services that give rise to higher regulatory burdens (see also our response to Question 7).

Other relevant conditions of entry

97 There are several other considerations relevant to the conditions of entry, such as credit rating and brand familiarity, but these are not significant or insurmountable in comparison to regulatory restrictions. See also our response to Question 18 regarding the expected effects of open banking on entry and expansion in the personal banking sector.

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

We consider open banking is likely to positively impact the supply of banking services

98 We do not consider customer data access, in and of itself, will have any material impact on the prospect of large-scale entry, for the reasons set out above in response to Question 17.

99 That said, in our view open banking has the potential to do the following:

99.1 allow the automation of aspects of the digital switching process, which is likely to improve customers' ability to share personal information including account information, payees, and regular/automatic payments. We expect new market entrants, and existing bank and non-bank competitors, will look to capitalise on these advancements, and

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33 RBNZ, *Capital Review: Go-to-Guide 2019*, page 7.

34 RBNZ, *Applying for Bank Registration*; RBNZ, *Applying for a non-bank deposit takers licence*.

99.2 facilitate additional innovation, including new banking-adjacent services and innovations to address customers' financial needs. Through secure and consented sharing of customer data held by banks, fintechs, large technology-based businesses and related industries can develop innovative or ameliorated services.

100 It is critical to ensure that any regime is effective and secure (particularly considering the sensitivity of the information handled) in order not to create privacy or data security issues.

The prospects of success of open banking depend largely on its settings

101 Based on overseas experience, we are aware that development and uptake of open banking may be slow.

102 We understand that the Australian consumer data right (**CDR**) regime has cost Government and the major banks well over $1bn to implement, and still faces serious issues with adoption.[35] We understand that accreditation costs, timelines, and ongoing participation costs were cited as key barriers to adoption. Given the issues observed, the Australian Government has announced a 'pause' in rolling out the CDR to more sectors, until the issues with banking (and energy) are resolved.

103 In Europe, after a slow beginning, we understand uptake is increasing. In the UK, there were 173 accredited parties with offerings in the market at the end of 2022, and the UK estimates that 10 to 11% of digitally enabled consumers and small businesses have now used open banking, five years after it went live.[36] Implementing open banking also appears to have been costly in the UK, with Lloyds Banking Group PLC estimating the industry had invested up to GBP1.5 billion in open banking to the end of 2019.[37]

104 We are working closely with the Government and industry to implement the reforms to maximise their prospects of success in New Zealand.

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

105 Recent examples of entry and expansion include the following:

105.1 *Revolut:* launched in New Zealand in 2023 offering payments services. Revolut also offers cards and bill payment services that are likely to be launched in New Zealand soon

105.2 *Sharesies:* in 2023, Sharesies began to offer a savings account service alongside its investment services (which it launched in 2016)

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[35] The Hon Stephen Jones MP, Assistant Treasurer and Minister for Financial Services, *Address to the Committee for Economic Development of Australia* (7 June 2023): 'If I can be blunt: the Federal Government has already spent more than $200 million on this. This is a lot, but a fraction of what the designated industries have spent.'; WS02, *Cost-effective Open Banking Compliance for Australia* (3 January 2019): Westpac estimates cost of CDR compliance to be $200m.

[36] Open Banking Limited, *New Impact Report sees significant growth in open banking payments and increased business use* (30 March 2023).

[37] Lloyds Banking Group PLC, *Response to CMA consultation* (April 2020).

105.3 *Square One:* launched in 2021, Square One is an app that provides savings account and payments services for children, aiming to foster their financial literacy and wellbeing (see also paragraph 152.12)

105.4 *Dosh:* launched in 2021. It allows users to make payments, and use 'stashes' (like transactional accounts) to organise their money and it offers a Dosh visa debit card

105.5 *Simplicity:* in 2019, Simplicity introduced a home loan offering alongside its existing Kiwisaver services

105.6 *Wise (formally Transfer Wise):* introduced its borderless account product to New Zealand in 2018. In 2019 Wise launched its New Zealand debit Mastercard which is linked to a customer's Wise account

105.7 *Squirrel*: which previously focused on home loans, in 2023 introduced an on-call account which ANZ understands is held on trust in a BNZ account, and

105.8 *Industrial and Commercial Bank of China Limited:* registered as a bank in New Zealand in 2020, and

105.9 *Pepper:* on 1 September 2023, it was announced that Australian non-bank lender Pepper Money had agreed to acquire HSBC's New Zealand mortgage portfolio, adding to Pepper's existing business providing home loan options for customers who do not meet banks' lending criteria.[38]

106 We are not aware of notable exits in the sector beyond those identified in the Preliminary Issues Paper.

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

107 While there may be other unique circumstances, ANZ identifies that broadly three segments of the population are in the market to select their *first* bank.

108 Usually, a person's first bank will be chosen by and opened by their parents or guardian, frequently with the parents' or guardian's primary provider. Well over half of children have a savings account by the age of 10, while over half have a transaction account by the age of 17.[39]

109 Most customers then tend to choose their own provider in their mid-twenties to mid-thirties, peaking between the ages of 23-27.[40] The trigger for joining another bank is often a life event, such as starting work, entering a relationship, or returning from overseas, or alternatively may be linked with linked with obtaining a credit card or buying a house. Note, as set out further below, that joining another provider often does not involve 'switching' in the sense of leaving one bank and joining another – rather, 'multi-banking' is common.

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38 Interest.co.nz, [Australian non-bank lender Pepper Money acquiring $1.4 bln NZ mortgage portfolio from HSBC](#) (1 September 2023).

39 [REDACTED]

40 [REDACTED]

110 Migrants are the other group of consumers that choose a first bank. Migrants' primary driver of choice is word of mouth recommendations from friends or relations already in New Zealand.[41]

Q21 How often and why do personal banking consumers:
Q21.1 search for a new service provider?
Q21.2 switch to a new service provider?

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

111 How often and why personal banking customers search and switch providers is intrinsically linked to factors that prompt or hinder searching or switching. So, we have chosen to answer Question 21 and Question 22 together.

112 When analysing switching, it is important to bear in mind that customers do not often switch banks completely. For example, only 6% of people under 34 change their main bank in any year.[42] But they do switch home loans or term deposits to seek better deals, and shift their transaction intensity. Customers frequently 'multi-bank' – approximately every second person has accounts with more than one bank.[43]

113 We also note that switching data is a poor proxy for customers' engagement with competition for their personal banking services. Even if a customer stays with the same bank, this does not imply that they have not benefitted from the ability to switch.

How often and why customers search or switch home loans

114 The end of a fixed rate interest period is a key prompt for customers to engage in the market. Most ANZ customers have fixed, rather than floating, interest rates on their home loans. As of July 2023, 89% of ANZ Home Loans were on fixed rates and 11% had floating rates,[44] Accordingly, at any given time, there are many customers engaging in the market, prompted by the end of their fixed rate approaching.

115 For example, in a recent survey, 15% of customers with a fixed rate period ending in less than a year said they were extremely likely to switch in the next 12 months.[45] This figure was 7% and 9% for those customers with fixed rate periods ending in the next 1-2 years and more than 2 years respectively.[46]

116 A customer's change in personal circumstances can also prompt them to search or switch providers. Selling a property and buying a new one can prompt customers to

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41 [REDACTED]

42 [REDACTED]

43 [REDACTED] RBNZ dashboard data shows that in July 2023, just over $1 billion (20.9% of the total mortgage monies advanced) represented mortgages that were switching in the home loan market.

44 ANZ, *2023 Half Year Results: Results presentation and investor discussion pack* (5 May 2023), page 134. ANZ confirms this remains correct as of July 2023.

45 [REDACTED]

46 [REDACTED]

switch providers. A need to restructure a loan or access equity can also be a prompt.

117 Pricing is often key for our customers; it serves as both a prompt and a reason to switch. Pricing is particularly important for customers in the current economic climate. Many customers experience significant changes to their repayments when their fixed rate periods end, causing them to be price sensitive. 80% of customers surveyed in April 2023 would consider switching purely based on interest rate considerations. That number has increased from 54% in October 2021[47] when interest rates were at much lower levels.

118 Service is also important as a reason and a prompt for switching. Dissatisfaction with service is a driver for switching, particularly for older customers. A 2022 survey found 20% of customers who switched providers cited dissatisfaction with their previous lender as a key reason for switching.[48]

Factors that may hinder customers searching or switching for home loans

119 ANZ and, in our observation, all banks, try to make switching as easy as possible, as it is in our interests to gain customers that are looking to switch banks. And in general, switching (or at least, taking up services from a new provider) is readily achievable.

120 The economic environment can create challenges. For example, a high interest environment may make it more difficult for a consumer to pass affordability checks and other credit requirements with a new provider.

121 In this respect, there are several regulatory features that make switching more complex for some products or may reduce consumers' incentives to shop around. For example, after the CCCFA changes in December 2021 introduced strict affordability inquiries, we observed lower switching rates for home lending (down approximately 20% on average, comparing pre-December 2021 and post-December 2021, although this dip has subsequently reduced). This drop may have been because of an increase of the switching burden on customers caused by the new affordability rules, as well as the inability to pass those new affordability tests.

122 As the Commission is aware, a constrained exception for switching was introduced in the CCCFA in May 2023. If another provider can offer a customer a better rate on an existing loan amount, the customer can switch without the new bank being required to complete the affordability inquiries in the Regulations (although reasonable inquiries are still required). This exception may ultimately reduce the impact for customers and allow them to switch more readily - but only in simple transactions. The exception does not apply where a customer wishes to increase their lending - even by a small amount. Despite the law changes, it is also possible that customers may perceive there to be a risk that they will not be able to get lending elsewhere, which could constrain them searching or switching.

123 In April 2023 we launched a pilot, Simple Switch, to gauge whether we could offer a streamlined switching process under the CCCFA exception for customers looking to refinance their existing lending. The pilot was carried out over six weeks. Only 2.3% of re-financing applications we received over that time were put through the Simple

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47 [REDACTED]

48 [REDACTED]

Switch process. We received a lot of feedback from staff that the criteria for meeting the CCCFA exemption were too strict. Many customers were seeking to refinance with additional lending, meaning that a full affordability assessment was required.

124 Other regulatory features place administrative burdens on the customer (for important reasons). For example, AML identification requirements can make switching more difficult for people. If customers do not have the appropriate identification to join online, they must visit a branch in person.

125 Process issues may also hinder switching. Customers need to instruct solicitors to discharge their existing bank's mortgage and register a new mortgage. Although ANZ does not charge specific home lending switching fees, there may be costs to discharge a mortgage or release other security (ANZ's mortgage discharge fee is $100).

126 There may be other costs associated with switching, where a customer has benefited from a discount or other advantage in return for a commitment, if the customer wishes to switch before the end of the commitment. For example, ANZ customers may need to pay an Early Repayment Recovery if repaying a home loan during a fixed rate period. That Early Repayment Recovery compensates ANZ for the cost of changing hedging arrangements (e.g. interest rate swaps) that were in place but are no longer required.

127 Customers leaving in advance of a specified commitment period may also need to repay any cash contribution received from ANZ. That said, ANZ understands that in many cases the costs for a customer of repaying a loan early, repaying a cash contribution, or paying discharge or other fees, are often met by a cash contribution offer from their new bank.

How and why customers search or switch for deposit accounts

128 ANZ does not hold current data about switching trends for deposit accounts. We hold information about how many customers use our switching process (see response to Question 23), but this is not a reliable indicator of how many or how often many customers search or switch for new deposit account providers. A key reason for this is that money moves between transaction accounts, savings accounts, and to a lesser extent term deposits, without the customer closing any account. This movement of funds is switching, even if the customer does not formally close their account. Even for people who do 'switch' completely, many do so without using our switching process, by closing their existing account and opening a new one themselves.

129 Savings account holders are price sensitive. A 2019 research report found that two out of three savings account holders would decide to switch based solely on rates. The remaining 35% indicated they were likely to consider service and quality in making switching decisions.[49]

130 Life changes (starting Kiwisaver or obtaining a home loan) may also prompt customers to switch providers.

[49] [REDACTED]

Factors that may hinder customers searching or switching for deposit accounts

131 As noted in response to question 23, a Switching Request form is available to transfer automatic payments and direct debits. This process is currently available for 16 banks, as set out further in response to Question 23, but is not available for customers switching to/from other banks. A customer will also have to manually update their card details in any service where their old card was on file. This could include apps, websites, charitable donations and shopping services.

132 We do not consider pricing transparency is a barrier to searching or switching. Fees for transactional accounts are very low across the industry, reducing the need for customers to consider how they will use an account to calculate cost. Some savings accounts require customers to use them in a particular way to achieve bonus interest, but these terms are simple and transparent.

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

Switching for transaction accounts and deposits

133 Switching banks in New Zealand is simplified by the industry standards and protocols that Payments New Zealand has put in place for transferring accounts and reoccurring payment instructions from one bank to another. As a result, reoccurring payments can be moved quickly from a customer's old bank to their new banks.[50]

134 As noted above, this is currently possible for 16 banks – these are shown below in Table 2. Those banks are either Payments NZ members that participate in industry account switching arrangements via registration on the Payments NZ Account Switching Notifications Register, or non-member banks that have agency banking arrangements via a Payments NZ member. New current or savings account customers seeking ANZ's help in switching from the banks listed in Table 2 can do so using the Switching Request Form. Use of the form facilitates the switch (including transferring automatic payments and direct debits, where the customer wishes). Standard service times are typically five to 10 working days and ANZ does not charge any fee for this inward or outward switching – see further our response to Question 22.

135 Where customers wish to switch to or from a bank that is not listed in Table 2, they open and close the accounts themselves, and move their payments themselves.

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[50] Payments NZ, *Switching banks*.

Table 2: participants in industry switching arrangements

Participants	
ASB (Auckland Savings Bank)	BNZ (Bank of New Zealand)
SBS (Southland Building, Land and Investment Society)*	Westpac
NBS (Nelson Building Society)*	Kiwibank
TSB (Taranaki Savings Bank)	The Cooperative Bank
Heartland Bank*	RABO Bank*
ANZ Bank	Bank of China
China Construction Bank (NZ) Ltd	Citibank
HSBC	ICBC (NZ) Ltd

*****Participate via agency banking arrangements

136 ANZ notes that the service described above is used in only low volumes. ANZ surmises that many people choose instead to 'multi-bank' rather than switch, or to conduct the switching administration themselves.

Switching for home loans

137 ANZ provides a range of help for customers refinancing their home loans from other banks to ANZ. An overview of the process is accessible here. Specific switching assistance includes:

137.1 opening the new account and setting up home lending

137.2 setting the customer up with ways to bank, including ANZ Internet Banking and goMoney

137.3 liaising with the customer's current bank on their behalf

137.4 transferring the customer's balance to their new accounts

137.5 transferring any existing payments, automatic payments, direct debits, and bill payments to the customer's new accounts, and

137.6 closing the customer's old accounts.

138 There are no costs or fees that ANZ charges for switching – see further our response to Question 22. The process can take up to 14 calendar days to complete (depending on the complexity of the lending arrangements), but for simple loans switching to us or from us the process typically takes two days.

Other tools for searching and comparing

139 There are numerous services that help consumers to search and compare different personal banking services. Alongside banks themselves and their websites, some of the more common services include:

139.1 *Canstar:* provides comparison and rating services across a range of products including banking. Consumers can compare home loans, everyday accounts, savings accounts and term deposits across 11 bank lenders. Canstar also provides star rating and awards to different products and banks

139.2 *Interest.co.nz:* provides consolidated home loan interest rate data for banks, building societies, credit unions, crown entities and other non-bank entities including floating rates and fixed rates for 6 months and 1 to 5 years. The site also provides mortgage calculators and break fee calculators alongside home loan non-rate incentives data. The website also includes comparator information for savings accounts and term deposits across banks, peer-to-peer institutions, fund managers, investment brokers, building societies, credit unions and finance companies as applicable

139.3 *Consumer.org.nz:* carries out annual customer satisfaction reviews to identify which bank has the highest customer satisfaction results. The survey measures, amongst other things, interest on savings and home loan interest rates

139.4 *Moneyhub.co.nz:* provides comparison tables across a wide range of products including home loans, current accounts, savings accounts, term deposits and a wide range of other products

139.5 *Moneycompare.co.nz:* provides comparison tools for financial services in New Zealand including home loans

139.6 *Finance.co.nz:* provides product guides and comparisons for a range of products including home loans, savings accounts and term deposits

139.7 *Mortgages.co.nz:* provides information and guides relating to mortgages as well as comparison data, calculators and services to connect consumers to brokers, and

139.8 *Citizens Advice Bureau:* provides information on a range of topics relating to banking including guides relating to the process of switching to another bank.

140 In relation to home loans, a further tool to help consumers search, compare, or switch home loans are mortgage brokers (refer to our response to Question 13).

141 Finally, upcoming regulatory changes in relation to open banking will further enhance customers' ability to switch, as set out in response to Question 18.

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

142 Most ANZ personal banking services are available on a standalone basis with some very limited exceptions. Those very limited exceptions have no impact on competition.

143 ANZ requires home loan customers to have a transaction account with us that we will take their regular loan repayments from. Customers can choose the type of transaction account that suits them and ANZ offers free account options.

144 Customers are asked to have a transaction account with us because our home loan system is not currently set up to allow funds to be paid directly ('pushed') to the home loan account. Loan payments must be taken, or 'pulled', from an ANZ transaction account through an auto-debit process. The auto-debit process means customers do not need to alter their payment arrangements whenever their regular loan payments change (for example, because of changes in interest rate or other loan changes). This removes the risk that customers underpay or overpay their loan.

Underpaying a loan may increase the interest payable on a loan. Overpaying may deprive a customer of additional funds. The system ensures we draw the right amount from the customer's account at the right time, which is a benefit to customers.

145 This requirement does not prevent customers from multi-banking, including for transaction accounts. Generally, customers do not need to use their ANZ account as their 'primary' bank account, rather they may use another provider's account for this purpose.

146 Where customers receive a special interest rate on a home loan, ANZ may impose a condition on the lending that the customer's salary must be direct credited to an ANZ account.

147 For completeness, ANZ also offers some banking 'packages' in limited circumstances. For example:

147.1 *Healthy Home Loan package:* the package provides interest rate discounts, transaction fee waivers, and credit card fee waivers. To qualify, customers must have a home with a Homestar rating of 6 or higher, and

147.2 *Blueprint to Build package:* the package offers discounted interest rates, a two-year credit card fee waiver, and transaction account fee waivers. It is available to customers building a new home or purchasing a turnkey property.

148 For each package above, the product offers that form part of the package are not tied and do not form a true bundle. Customers are not required to acquire or maintain all products included in the package to obtain the benefits. For example, a customer who is building a home can access the advantageous interest rates as part of the Blueprint to Build package without acquiring a credit card or opening the relevant transactional accounts.

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

149 The New Zealand banking sector has a history of innovation, both in respect of personal banking and other areas of banking, and that innovation is continuing. The last five years is only a snapshot and does not provide an appropriate impression of the significant innovation that has occurred in the market.

150 In our view, the supply of personal banking services is vibrant and innovative. Reflecting that view, ANZ continually invests in significant innovation, and also observes innovations from its competitors. Innovation is evident in the transformation of banking operations, the evolution of innovative products and services and the continued investment in improving customer propositions. In many cases innovations are not obvious to consumers (e.g. advanced fraud detection capabilities are not immediately obvious as a customer experience).

151 ANZ regularly gathers information about whether customers' needs are being met, and customers' preferences and suggestions for innovation. ANZ does this to compete to retain existing customers, and attract new customers, by providing products and services that ANZ considers to be at the forefront of digital innovation and development. Much of our innovation is New Zealand specific but, as we have an Australian parent, we also see and benefit from innovations introduced in

Australia and elsewhere in the ANZ Group, where we consider they are likely to be suitable for and attractive to New Zealand customers (see further our response to Question 30). We also keep an eye on developments offshore and consider whether they would work here.

152 Examples of ANZ's innovations over the past five years include:

152.1 payment and data sharing innovations, such as:

(a) *View Bills:* allowing joint customers of ANZ and our partner billers (initially Spark) to view and pay their third-party bills within goMoney

(b) *Open Banking payments:* allowing customers to make payments online straight from their bank account, using an approved third-party payment service, mobile number, and goMoney at checkout

(c) *Seven-Day Payments:* a Payments New Zealand-led initiative to extend domestic banking payments from five to seven days, allowing all consumers to make domestic payments every day of the year,[51] and

(d) *Apple Pay:* partnering with Apple to deliver a digital wallet payment service.

152.2 product innovation, such as:

(a) the Good Energy Home Loan, which provides a low-interest rate for customers wanting to increase the energy efficiency of their home or upgrade to cleaner transport options, and

(b) the Blueprint to Build Loan Discount, offering discounted interest rates for customers building a new home, who need to progressively access the loan funds rather than needing all of the loan at once

152.3 personal financial management tools, including:

(a) financial wellbeing tools to help customers improve their financial resilience and achieve their financial goals, including ANZ's tool to calculate financial wellbeing scores

(b) enabling customers to re-fix their home lending in goMoney and internet banking

(c) providing an easily viewable snapshot of multiple home loans in goMoney and internet banking, and

(d) displaying indicative property values on a customer's home loan screen

[51] Payments NZ, *Payments every day arrives in Aotearoa New Zealand* (22 May 2023).

152.4 advancements in fraud detection and card management services, to better protect our customers, including:

(a) ANZ fraud check, which sends a text message to customers as a real-time alert to help them identify possible suspicious transactions, and

(b) working with a vendor to allow behavioural indicators to be used to identify potential account takeover (such as remote access fraud) in digital channels

152.5 e-sign (allowing the use of e-signatures for loan and other customer contracts), and proof of address changes to allow customers to easily provide proof of their address to other businesses by downloading a PDF from the ANZ app

152.6 'Know Your Client', AML and identity check enhancements (stemming from regulatory requirements), including ANZ using a link to the New Zealand birth certificate database for customers to use as a name verification tool to comply with AML requirements

152.7 card tracker functions to monitor where credit card information is used. ANZ's Card Tracker shows relevant data including a customer's upcoming or long-standing subscription information can also support customers if they need to provide updated card details when replacing their card

152.8 digital onboarding of customers enabling fast and easier access to new banking services. ANZ allows customers to join through goMoney, and allows customers to open new deposit accounts via internet banking and goMoney

152.9 providing video conferencing for those unable to visit a branch in person

152.10 voice biometrics and security with contact centre operations, such as ANZ's enhanced payment solution that makes it easier for customers to make high value payments in goMoney securely by using voice identification as a payment authentication option

152.11 systems innovations such as:

(a) Ngā Tapuwae o ANZ, a transformational multi-year programme underway that includes an update of ANZ's existing legacy technology to provide a new banking platform, and

(b) systems changes and other technological advances to comply with new regulation, some of which are included in the list above (e.g. 'Know Your Client'). Regulatory developments have required process changes within the bank's systems, for example, to comply with the introduction of the financial advice changes in March 2021 and CCCFA changes in December 2021, as well as LVR requirements and debt serviceability restrictions. This work has included a tool to ingest customers' banking statements, and sort and categorise expenses for review in affordability assessments, and customer relationship management tools to capture advice conversations and responsible lending inquiries.

152.12 ANZ's agency banking services: ANZ supplies independent third parties with access to virtual accounts, allowing them to offer transactional and savings accounts to their customers under their own brand. The accuracy and speed of ANZ's solution means it is a market leading offering. For example, Square One uses our offering to supply its own-branded accounts for children

152.13 we actively contribute and engage across the Tech NZ network of membership organisations including FintechNZ, Payments NZ, Digital Identity NZ, and the AI Forum

152.14 ANZ's commitment to developing API standards across payments and data sharing has facilitated the formation of the API Centre, and

152.15 ANZ Group has a venture capital arm, 1835i, to invest in fintech opportunities directly and to support the incubation of start-ups.

153 As well as innovations by its closest bank competitors, ANZ observes innovations emerging from non-bank competitors. Several recent innovations in personal banking services have emerged from industry participants other than banks, and have secured widespread adoption. A recent example is non-bank competition to supply debit cards. Wise (formerly Transfer Wise) has an everyday banking service for consumers in New Zealand, in addition to its international payment and foreign exchange services. Wise has won industry recognition for its domestic service quality (MoneyHub). Revolut has entered New Zealand as a 'fast follower' to Wise, with other non-bank debit card providers include Dosh and pre-paid card providers such as OneSmart Air New Zealand / Travelex.

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

154 As explained above in response to Question 25, ANZ considers there to be vibrant innovation in the supply of personal banking services. ANZ has not seen any basis to view innovation in New Zealand to be less advanced than other countries.

155 It is important to bear in mind that, in addition to local competition, innovation is influenced by several factors including market size, regulatory settings, customer needs and preferences (including cultural factors), and the availability of investment funds. As such it is not appropriate to compare the levels of innovation between countries simply by observing whether specific products or services have emerged in some countries and not others. For example:

155.1 the local regulatory environment influences innovation. The pace, extent and nature of regulatory change varies by jurisdiction, which results in different influences on innovation

155.2 the size and wealth of the population and other cultural factors influence the focus of innovation. For example, in Asia we have observed the rise of 'Superapps', which combine financial services with other apps, such as Alipay, WeChat in China, and Grab in Southeast Asia. To date, we have not seen the same level of interest in these offerings from customers in the US, UK, New Zealand, or Australia. We link the current lack of demand for this type of service to New Zealand not yet embracing a 'digital identity' – see further our response to Question 27 below, and

155.3 levels and types of Government support and investment (regulatory support, programmes such as 'sandboxes', technical standards development and partnering) may influence the nature, extent and direction of innovation, and this feature differs materially between jurisdictions.

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

156 It is difficult for any business to categorically say that there is no latent demand in the market that is not being met. Product and service launches are a process of discovery and often 'latent' demand can only be seen in hindsight, when a new product or service is launched.

157 That said, as set out above in response to Question 25 ANZ seeks to compete to attract and retain customers by innovating and, as such, gathers information about whether customers' needs are being met, and customers' preferences and suggestions for innovation, as well as monitoring innovations in Australia and further afield.

158 In addition to the innovations listed above in response to Question 25, recent examples of how our customer research has led us to innovate include improvements to the account opening process and improvements to our account offerings for children.

159 We expect digital services will increase in number and become more sophisticated over time, and for there to be increased acceptance of New Zealanders having a 'digital identity'. We expect these developments may increase demand for banking services to be embedded into other applications such as alternative payment options, embedded credit alternatives, wider access to data to support onboarding and enablement of associated services such as financial advice and credit assessments, and the ability to aggregate bank accounts from different providers into one digital dashboard view. Such 'Superapps' are described above in our response to Question 26.

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

160 There are two main incentives for providers to innovate in the personal banking sector:

160.1 staying ahead of competitors to retain and attract customers, and

160.2 implementing regulatory changes that require providers to innovate to meet new requirements.

161 In ANZ's experience, both incentives are always operating. As a result, there is a constant need to balance resource allocation. The relative strength of each incentive is also constantly shifting based on external factors.

162 Complying with the changing regulatory landscape can require significant changes within ANZ and demand non-discretionary technology (and other) investment that could otherwise be spent on other innovations. When regulatory compliance is required, it needs to be our priority.

163 At the same time, to retain existing and attract new customers, ANZ must invest in innovations to compete effectively. ANZ's key priorities when acting on its incentive of staying ahead of competitors include:

163.1 *meeting customer expectations:* this requires staying relevant to our customers and monitoring and meeting their expectations – see our response to Question 27 above. It also means fixing what we identify as negative customer experience. Examples of innovations for this purpose include video conferencing for those unable to visit a branch in person, developing online joining processes, and removing the ability for all banks to dishonour electronic credits for insufficient funds – see our response to Question 25

163.2 *business growth, both organisational and economic:* we focus on growing and improving our business for the ultimate benefit of customers. Ngā Tapuwae o ANZ is a current key example – see our response to Question 25

163.3 *meeting competition:* we seek to stay ahead of, and also keep pace with, competitor innovations, requiring us to monitor and research international and domestic trends, as well as customer needs and preferences. We observe our competitors doing the same – for example, our competitors have followed ANZ's Good Energy Home Loan proposition with similar offerings

163.4 *cost savings and efficiencies:* we innovate to save money and time within our own business and for our customers. Examples include e-sign, and proof of address changes – see our response to Question 25, and

163.5 *developing goals and strategies:* our work to develop strategies involves proactively identifying the specific needs of certain communities or population groups as set out in response to Question 15, or themes for the business to focus on, such as better financial management, and investing in innovation targeted at specific outcomes in line with those strategies.

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

164 As noted in our response to Question 25, in our view, New Zealand has a high level of innovation in its personal banking sector.

165 We choose to approach our business with a high degree of risk management. We do this in order to maintain the expected trust and confidence of our customers and the regulators. We also have a broad customer set, ranging from 13 years to over 100 years old, across the entire country, with wide ranging needs and financial positions. When looking at new innovations, ANZ considers how such innovations impact all our customers and how they function within all our various channels.

166 We consider open banking, including secure customer data sharing and a 'digital identity', has the potential to facilitate innovation. As the Commission notes in the Preliminary Issues Paper,[52] established CDR regimes have supported a number of data sharing innovations.

[52] Preliminary Issues Paper, at [132].

167 While we do not yet have such a regime in New Zealand, and therefore some innovations may be impeded, open banking is progressing and innovations are continuing in the meantime. For example, New Zealand's payment industry has proceeded without a CDR regime to create a framework that enables payment initiation and account information sharing possible, using API Standards.

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

168 Having a parent entity with greater capability, size, and expertise allows ANZ to leverage and learn. A current example is where ANZ in Australia has been involved in the Reserve Bank of Australia's Central Bank Digital Asset (**CBDC**) pilot.[53] Many of the use cases for that programme are also applicable to the New Zealand financial services market, such as offline CBDC wallets.

169 ANZ has been able to leverage a number of the technologies, approaches, and relationships utilised by ANZ in Australia and globally, such as cloud computing, partnership agreements, licencing options and customer research (see further our response to Question 25).

170 It is worth noting that, for ANZ, being the subsidiary of an Australian bank also means that ANZ is affected by Australian regulatory requirements, such as regulation from APRA. This adds another level of compliance, costs, and complexity to the company's operation.

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53 Reserve Bank of Australia, *Australian CBDC Pilot for Digital Finance Innovation: project report* (August 2023).