

Summary of views expressed

FinTechNZ/Commerce Commission workshop

Competition for personal banking services in New Zealand

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About this document

This document summarises views expressed at the FintechNZ/Commerce Commission workshop on competition for personal banking services.

Workshop on competition for personal banking services

On 27 November 2023, the Commerce Commission (Commission), in association with FintechNZ, hosted a virtual workshop (Workshop) to capture feedback from the fintech community on our personal banking services market study. We primarily sought feedback on conditions for entry and expansion, and impediments to innovation, in the personal banking services sector.

The Commission would like to thank all attendees for their time and for the experiences and insights they shared.

The Workshop was attended by over 40 members of the fintech community, including fintechs and other financial service providers, as well as interested consultants.

Workshop format

Dr John Small (Chair of the Commission), alongside Jason Roberts of FintechNZ, facilitated the event. Anne Callinan (Deputy Chair of the Commission), Bryan Chapple (Commissioner), Tristan Gilbertson (Telecommunications Commissioner), and Rakihia Tau (Associate Commissioner) also attended, as well as Commission staff.

Following an initial presentation from the Commission, participants were split into six breakout rooms to discuss three broad questions:

- What's working well for competition for personal banking services, and what **opportunities** do you see?
- Are there **challenges** you face in competing for personal banking services? If so, what?
- What are possible **solutions** to generate better competition for personal banking services?

The breakout rooms were hosted by Commissioners and Commission staff. After the breakout session, each breakout room reported back to the wider group on key themes discussed during the breakout.

We have summarised feedback in this document according to the three breakout room questions. We have summarised feedback at a high level without attributing feedback to individual participants. Specific insights are not recorded in this document.

Question one - What's working well for competition for personal banking services, and what opportunities do you see?

Consumer access to personal banking services in New Zealand is generally good

Participants said that overall access to banking services in New Zealand is high, with no large unbanked population. Consumers can easily access a bank account and transfer money. Opening an account for individuals appears easy if “know your customer” (KYC) documentation is available.

Digital services provide good banking functionality. Most consumers are tech savvy and digitally engaged, which can support demand for innovative products.

Opportunities to provide new services through innovation

Participants observed that, in general, there are opportunities for innovative providers where consumers face challenges in the market today. There was mention that high profit margins in New Zealand can provide opportunity for entrants.

Consumer awareness of innovations overseas may support adoption here in New Zealand.

Gap in market or lack of innovation creates opportunities

It was raised that although there is not much competition in the market for personal banking services overall there are gaps, in that some product markets may be more competitive than others, which creates opportunities for innovative participants (current or prospective). Specifically in the home loan market, participants observed that while there is high concentration of market share held by the major large banks with low levels of switching, there has not been much innovation or changes to home loan products – and competition within that market continues to occur on interest rate rather than product features.

Open banking an opportunity for innovation

Open banking presents an opportunity to unlock more competition and innovation in New Zealand, through improved access to consumer data by providers of personal banking services, and through giving consumers better control over their data with the ultimate consequence of better enabling customers to switch personal banking service providers. It was noted that open banking innovations may be complementary to, rather than in direct challenge of, incumbent banks' offerings.

Regulatory change

It was noted that there is currently a large amount of regulatory change occurring in the personal banking services regulatory environment. Participants largely saw this change as positive, and a sign from regulators that they recognised the need for change. Participants noted that engagements with regulators have been positive.

However, it was questioned whether current regulatory change would lead to meaningful outcomes for fintechs, as a specific group of providers of personal banking services (as opposed to, for example, regulatory change leading to meaningful outcome for deposit takers).

Question two - Are there challenges you face in competing for personal banking services? If so, what?

Slow pace of development of open banking in New Zealand is potentially limiting competition

The slow pace of development of open banking was raised by many participants as limiting competition and innovation for personal banking services. Participants noted that the development of APIs by Payments NZ API Centre has been progressing slowly.

Participants agreed that API standardisation and documentation is important, and it was noted that currently, the large banks each have bespoke APIs and platforms that are not standardised or consistent.

It was suggested that Payments NZ's incentives and governance structure are not well aligned for delivering APIs.

Fintechs face particular challenges as startups in the personal banking services sector

A range of themes were discussed that relate to the specific challenges faced by fintechs when establishing their business.

Access to a bank account is very difficult for fintechs

Participants stated that a key challenge for fintechs is opening a bank account, which is a key and necessary input for their business. Fintechs told us that it can be difficult to open an account, and fintechs often need to depend on prior business relationships and goodwill with bank management (if they are fortunate enough to have these prior relationships) to overcome challenges in opening an account.

Fintechs expressed that in general, there is a lack of transparency with regards to banks' decisions to onboard (or not onboard) fintechs as customers. Anti-money laundering (AML) requirements were suggested as a reason for banks declining to provide a bank account to a fintech – but it was suggested that AML requirements may be used as an excuse for another reason not to onboard a fintech.

Further, participants stated that once a fintech has opened an account with a bank, there is an ongoing risk of being debanked, which can have significant impact to the fintech. Reasons are not transparent to those who are being, or have been, debanked.

Capital funding for startups is challenging

We heard that, while access to capital for startups can be challenging in New Zealand generally, it is particularly challenging for fintechs. There can be high fixed startup costs for fintechs due to navigating the complex regulatory environment, the competitive landscape (New Zealand's personal banking landscape is dominated by four large incumbents) and/or the nature of their business models. In addition, should a fintech wish to become a bank, capital requirements for a banking licence are very high. We heard from fintechs that, within the investor community, there is a perception that there is a lack of scale and

opportunity in New Zealand which can make it harder to attract investment and raise capital.

The regulatory environment is complex

As noted above, participants expressed that the regulatory environment for personal banking services in New Zealand is complex. There is a lot of legislation, associated regulations, and the roles and boundaries of which are not always well understood. This contributes to an overall high regulatory compliance burden for entering or expanding in New Zealand.

Participants noted that, unlike overseas jurisdictions, there is only one type of banking licence in New Zealand, with no small bank or other type of banking licences.

Participants also stated that there is a lack of regulatory “safe harbour” in New Zealand for fintechs, such as a regulatory sandbox, which can support fintechs to get setup and running.

Challenges in attracting customers

It was observed that there are challenges for consumers switching or comparing offers, and consumers doing so are generally not supported by incumbents. This contributes to low switching rates, and makes it hard for fintechs to attract customers and grow.

Anti-money laundering requirements

AML requirements were raised as a particular issue for consumer switching. Participants said that New Zealand AML legislation has very high requirements, meeting AML requirements can be difficult for some customers, and banks can interpret AML requirements differently. This can be particular challenges for consumers that may not have the right type of documentation (such as proof of address).

Scams and fraud are not well supported

We heard that there is a lack of innovation for scam and fraud protection in New Zealand, and that more could be done to protect consumers. It was suggested that banks may approach the issue with more consideration to their liability than consumers’ best interests. It was also suggested that fraud processes between banks are slow.

Question three - What are possible solutions to generate better competition for personal banking services?

Open banking needs more certainty in delivery

Noting the potential benefits of open banking, participants highlighted the importance of more speed and certainty in the development of APIs. Participants had a desire for clear requirements of what banks need to provide and by when.

It was proposed that development of APIs be mandated to a certain standard, with timeframe for delivery.

It was noted that independent governance of Payments NZ may support the progression of open banking.

Regulatory support for startups

To alleviate the overall regulatory burden that startups face, participants proposed that increased regulator guidance, and regulator coordination on such guidance (to ensure consistency) would help. It was also suggested that the Ministry for Business, Innovation and Employment (MBIE) and the Reserve Bank of New Zealand (RBNZ) coordinate in finding regulatory solutions that would work for fintechs.

Regulatory sandbox

Participants discussed how a regulatory sandbox can provide initial support for startups and foster innovation. It was noted that a clear view of what the sandbox includes will help provide certainty to providers. A sandbox could take risk-based approach, based on the risk a fintech's failure poses to the wider financial system.

Specific regulatory interventions

There was support for legislative change that would allow licencing of different business models, such as small bank or digital banking licences. It was also raised that the timeframes for obtaining a banking licence are too long.

Broadening exchange settlement account system (ESAS) access

Participants recognised RBNZ is currently consulting on ESAS access, and were supportive of broader access to ESAS. Broader access to ESAS would enable more innovation and reduce fintechs' dependency on other banks for agency relationships. It was noted that ESAS accounts provide access to the official cash rate, and broader direct access would enable more competition for savings and deposits.

Solutions for AML requirements

Participants noted that AML identification processes are replicated across different industry participants and suggested the possibility of centralising this process across providers. The Digital Identity Framework was mentioned as potentially making onboarding easier, though

until the detailed rules are released some uncertainty remains about how the Framework will operate in practice.

Access to bank accounts

It was suggested that banks should be required to provide a broader range of banking services to fintechs, and that bank decision making should be more transparent.

Access to funding for lending

It was suggested that there could be alternative funding structures for home loans in New Zealand, such as a regulated bond market for mortgages. An intermediate step towards a regulated bond market could be achieved through cooperation with RBNZ. This would include setting risk weights for new entrant funding that would be preferable to what a bank gets for its own mortgages.

Support consumer switching

Participants referred to the UK switching tool (the current account switching service, or 'CASS'), and that there would be benefits to competition in New Zealand if a similar tool was available. In particular, the service level agreements on banks was highlighted as providing accountability.

Bank account portability, and real-time payments were also noted as supporting consumer switching.