PERSONAL BANKING SERVICES MARKET STUDY

Westpac New Zealand Limited's Response to the Draft Report

18 April 2024

TOGETHER GREATER

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1. Thank you for the opportunity to comment on the Commerce Commission's (**Commission**) draft report on the Personal Banking Services Market Study (**Draft Report**).[1] Westpac New Zealand Limited (**Westpac**) looks forward to continuing to work constructively with the Commission to improve access to banking services, support innovation, and to deliver good customer outcomes.

2. Westpac welcomes the direction and intent of the Draft Report, particularly where it relates to reducing barriers to access and switching. Westpac considers there is an opportunity for the Commission's final report to further explore how customer engagement can be improved to promote higher levels of switching in the market.

3. The Draft Report highlighted that the extent of customer engagement in a market affects competition, as engaged customers are more willing and able to shop around to find the best deals and are more likely to respond to competitive offers in the market. The Commission further observed that many New Zealand customers could be described as "disengaged".[2]

4. Westpac considers that customer engagement (or disengagement) is central to the analysis of competition in the market for personal banking services and should be the main thread running through any recommendations made by the Commission. The final report should give more specific attention to how increasing customer engagement could address the concerns the Commission has raised in its Draft Report (and include recommendations for how to achieve this).

5. Westpac considers that improving customer engagement requires three key elements:
   (a) higher rates of financial literacy;
   (b) reduced friction (both real and perceived) when switching providers; and
   (c) enhancing consumer confidence and trust in the financial sector.

6. The following paragraphs provide Westpac's observations on each of these elements.

Improving financial literacy is critical to increasing customer engagement and promoting better outcomes

7. Westpac considers there is further scope for the final report to meaningfully consider the importance of financial literacy and how further investment in this area can benefit customers and improve competition. In Westpac's view this is a critical factor to improving customer engagement with personal banking services. Westpac agrees that competition alone may not meet the needs of vulnerable customers, however improved financial literacy will drive competition by empowering more customers, including the vulnerable and the disengaged.

8. Westpac has invested in improving the financial literacy of the community through its Managing Your Money initiative.[3] However, meaningful change requires higher levels of investment and coordination by industry and Government.

9. While the Commission has, rightly in Westpac's view, focused on "empowering customers", all six of the recommendations made under that heading are aimed at supply-side reforms. Westpac considers

1 Terms defined in this submission have the same meanings as in the Draft Report unless otherwise expressly defined in this submission or the context otherwise requires.

2 Draft Report at 2.13 – 2.15.

3 For more detail, please see Westpac New Zealand Limited's Response to the Preliminary Issues Paper 7 September 2023 at page 7.

that there is an opportunity to suggest ways customers can be more directly empowered. By focusing on lifting financial literacy rates, many of the concerns raised in the Draft Report would be, at least partially, addressed.

10. Westpac invites the Commission to consider the views of the United Kingdom Treasury which remarked that:[4]

> **Regulation may protect consumers from making bad decisions, but it cannot empower them to make good ones.** Transparency and disclosure may protect providers from future mis-selling claims, but they may not necessarily help the consumer to make good decisions unless they have the background knowledge to take disclosure on board and the motivation to do so. **Interventions to increase competition will have limited success if consumers are reluctant to shop around**, and are insensitive to price and quality when they do so. [emphasis added]

11. The need to improve financial literacy rates should not be lost amongst regulatory changes, and the value of improving financial literacy should not be underestimated. This point was made well by the RBNZ:[5]

> By underpinning stronger market disciplines, financial literacy enables a somewhat less intensive approach to the regulation and supervision of financial institutions. It therefore plays a part in reducing compliance costs and regulatory distortions that can arise under a more intensive form of financial sector regulation and supervision.

12. The same RBNZ report outlines a number of government initiatives in overseas jurisdictions that are aimed at raising levels of financial literacy, such as mandating school systems to deliver financial education, delivering media campaigns and supplying free online educational materials. The overarching goal is to "equip individuals with sufficient knowledge to make sense of financial activities, seek out appropriate information, feel able to ask relevant questions, and be able to understand and interpret the information that they subsequently acquire".[6]

Friction contributes to low customer engagement

13. Smoothing friction points (both real and perceived) should be an enduring priority of industry and Government. To achieve this:

    (a) regulation should be balanced to ensure any resulting friction is justified by the priority of financial stability and security; and

    (b) banks should continually look for ways to streamline the customer experience and mitigate friction.

Regulation can cause friction that disincentivises customer engagement

14. There is a fine balance between regulation that maintains financial stability and customer safety, and regulation that does not impose unnecessary barriers to switching.

15. Banks play a systemically crucial role in the economy, both in the provision of essential services to customers and in facilitating and underwriting economic growth in New Zealand. For this reason, it is appropriate that banks are well-regulated. However, New Zealand banks face some of the highest regulatory burdens in the world which impacts competition in the sector.

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4 HM Treasury *Financial Capability: the Government's long-term approach* (January 2007) at 2.37.

5 Widdowson and Hailwood *Financial Literacy and its role in promoting a sound financial system* (Reserve Bank of New Zealand: Bulletin Vol 70, No 2, 37) at page 40.

6 Widdowson and Hailwood *Financial Literacy and its role in promoting a sound financial system* (Reserve Bank of New Zealand: Bulletin Vol 70, No 2, 37) at page 44.

16. The Draft Report identified that the Credit Contracts and Consumer Finance Act 2003 (**CCCFA**) and the Anti-Money Laundering and Countering Financing of Terrorism Act (**AML/CFT Act**) create friction for customers seeking to switch providers. Westpac supports proposed reviews of these regulatory regimes to assess the balance between financial stability and security, on one hand, and competition on the other.

Improving customer perceptions of switching would support the steps banks are taking to reduce friction

17. To remain competitive, Westpac is continually looking for ways to improve its customer experience and reduce friction. For example, Westpac has dedicated resources to support Easy Switch, offers cash incentives to motivate home loan switching, and has implemented initiatives to bank vulnerable customers and improve access to lending on whenua Māori.

18. An additional element for success in this space is improving customer perceptions of the switching process. Many customers perceive that the time and effort involved in shopping around is not worthwhile.[7] This is contrary to most customers' actual experience of the effort involved.[8] This 'perception gap' has possibly resulted in customers being more sensitive to friction that does exist, reducing motivation to switch. Westpac would therefore support initiatives to improve customer perceptions of switching, such as additional promotion and performance monitoring of the existing Easy Switch service.

Consumers must trust the financial system to fully engage with it

19. Consumers must have trust in the stability and security of their financial service providers (or potential providers), and in New Zealand's financial sector as a whole, before they will fully engage.

20. For example, recent research by NTT Data UK&I demonstrates there is still a lack of consumer understanding of and trust in open banking in the United Kingdom, even five years after implementation.[9] This experience in the United Kingdom demonstrates that understanding and trust can correspond with engagement and uptake.

Trust in the open banking ecosystem will promote customer engagement and uptake

21. Westpac is committed to enhancing customer outcomes and to the successful and timely establishment of open banking. However, open banking is an example of an initiative that is creating new functionality before introducing specific legislative protections. Therefore, to optimise value and utilisation of open banking, it is important that consumer confidence and trust is fostered in parallel with its implementation.

22. To foster trust in the open banking ecosystem, the potential benefits of accelerated open banking should not be idealised without having regard to the increased risk of financial crime, fraud, and data breaches in New Zealand. Westpac and the wider industry are working hard to protect consumers by combating the increasing sophistication of fraudsters including through the development of a New Zealand Anti-scam Centre. Without appropriate protections in place, open banking could expose consumers to higher fraud risk (including data privacy concerns, unauthorised Application Programming Interface access, fraudulent applications, and leaks of credentials), undermining industry efforts and costing consumers. Although speed of implementation is important, it must never be at the expense of consumer trust or the stability of the system, which are key pillars of a successful open banking ecosystem.

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7 Draft Report at 8.8.1.

8 Verian *Personal banking services market study – Research report* (Commerce Commission, February 2024) (Verian Report) at page 28.

9 "Five years on and 60% of consumers still don't understand what Open Banking is" (26 January 2023) NTT Data UK&I **https://uk.nttdata.com**

Westpac's response to each recommendation in the Draft Report

Recommendation 1: The Reserve Bank should review its prudential capital settings to ensure they are competitively neutral and smaller players are better able to compete.

23. Westpac agrees that prudential capital requirements should be competitively neutral where possible. However, it is important that any changes to capital settings do not undermine the protection and promotion of a stable financial system.[10] The RBNZ is best placed to design prudential settings in a way that fosters competitively neutral outcomes, while also protecting the structural safeguards critical to protecting consumers and the wider economy.

24. Westpac supports exploring additional measures to enhance competitively neutral outcomes. However, any such measures must not threaten the efficiency or stability of the financial system. For example:

    (a) Once the Capital Review decisions are fully implemented in 2028, New Zealand will, relative to comparable countries, have the most conservative capital settings in the world. If capital requirements are increased even further to achieve competitively neutral outcomes, there is greater risk of introducing avoidable inefficiencies into the financial system.

    (b) If the RBNZ relaxes the internal ratings-based accreditation criteria (as suggested by the Commission) the RBNZ must consider the differences in systemic risks between different banks. Doing otherwise would potentially undermine the safeguards protecting the financial system.

25. For these reasons, it is important to emphasise that financial stability must not be overlooked when seeking competitively neutral outcomes.

Recommendation 2: Kiwibank's owner should consider what is necessary to make it a disruptive competitor, including how to provide it with access to more capital.

26. Kiwibank is an effective competitor in the provision of personal banking services with continuing growth in market share. For example, Kiwibank recently reported growth in its home lending business at a rate of one and a half times the growth rate of the mortgage market more generally.[11] How Kiwibank operates and how much capital it has access to are ultimately decisions for its management and shareholders.

Recommendation 3: The Government should set clear deadlines and work with industry to ensure opening banking is fully operational by June 2026.

27. Westpac is committed to the successful and timely establishment of open banking. The initiatives which underpin open banking, such as the Consumer Data Right (**CDR**), represent a significant

10 Deposit Takers Act 2023, s 3. See also Banking (Prudential Supervision) Act 1989, s 68 which provides that the purpose of prudential regulation is to promote the maintenance of a sound and efficient financial system.

11 Rob Stock "Kiwibank posts 34% increase in profit" (24 August 2023) Stuff **https://www.stuff.co.nz**

opportunity for the industry to optimise value and unlock greater choice for customers. However, it is important that there is a balanced approach to avoid the risk of losing consumer trust and engagement. For example:

(a) **The acceleration of open banking initiatives must not undermine consumer confidence, a key pillar of a successful open banking ecosystem.** The increasing prevalence of financial crime and sophisticated frauds, both globally and in New Zealand, make this particularly important.[12] There are significant industry efforts underway to counter these developments, including through the establishment of a New Zealand Anti-scam Centre.[13] Industry and Government must continue to work together (alongside other stakeholders, including social media companies and telcos) on these measures to maintain New Zealand's reputation as having a stable and safe financial system. It is important that open banking initiatives align with the purpose of this work.

(b) **A holistic regulatory framework such as the CDR is required to ensure that consumers and businesses have trust and confidence to participate in the open banking ecosystem.** Westpac welcomes the introduction of the Consumer Data Right Act and considers that this is a critical element in ensuring that consumer privacy and safety are maintained, and that industry guidance is clear. As Minister Bayly rightly notes, open banking can only be achieved through the establishment of consumer data rights, proper identification of consumers and the safe transfer of data.[14] Careful consideration of the implementation of the CDR, and its interoperation with the Digital Identity Services Trust Framework Act and AML/CFT Act is required, and should be supported with coordinated guidance and supervision by the relevant regulators.

(c) **New Zealand should look to overseas jurisdictions that have implemented open banking to ensure that it is delivered successfully in a way that benefits consumers.** The Government should undertake a careful review of the rollout of open banking in other countries, including approaches to governance, to enable New Zealand to implement a world-leading open banking regime. For example:

    (i) The Australian Government has temporarily suspended the rollout of CDR to certain sectors, as it was decided that "further time is needed to allow the CDR to mature" in the banking and energy sectors, with a reassessment scheduled for the end of 2024.[15] This highlights the need to have a clear and well-considered open banking roadmap.

    (ii) In the United Kingdom, recent research by NTT Data UK&I demonstrates there is still a lack of consumer understanding of and trust in open banking in the United Kingdom, even five years after implementation.[16]

Recommendation 4: The Government should reduce the barriers imposed by the AML/CFT regime on banks working with fintechs.

28. Westpac agrees that certain elements of the AML/CFT regime can impede the effective delivery of personal banking services. For further detail, please see the Westpac NZ Access to Banking in Aotearoa Report.

12 "Fraud and deception crime nearly doubled through 2022 - Crime and Victims Survey" (28 June 2023) Radio New Zealand https://www.rnz.co.nz
13 "Anti-scam centre to be established to capture scams and fraud" (21 December 2023) New Zealand Banking Association https://www.nzba.org.nz
14 "No silver bullet to make banking sector more competitive – banking expert, minister" (21 March 2024) Radio New Zealand https://www.rnz.co.nz
15 Data Standards Advisory Committee, Meeting Minutes (10 May 2023) https://consumerdatastandards.gov.au
16 "Five years on and 60% of consumers still don't understand what Open Banking is" (26 January 2023) NTT Data UK&I https://uk.nttdata.com

AML/CFT regime

29. Any changes to the AML/CFT regime must not undermine the primary purpose of the AML/CFT Act, which is to detect and deter money laundering and the financing of terrorism.[17] If AML/CFT requirements are relaxed, weaknesses in AML/CFT processes may be targeted and exploited especially in relation to high-risk customers.

30. The Draft Report identifies fintechs as high-AML/CFT-risk customers that may face challenges in opening and maintaining a bank account. Fintechs are indeed higher-risk customers as they are susceptible to fraud and identity theft because of their digital-only nature, rapid onboarding processes, and fast transaction capabilities. Accordingly, the AML/CFT Act appropriately requires enhanced due diligence and ongoing account monitoring of fintechs.[18]

31. Nonetheless, there is potential scope to make it easier for fintechs to operate. Westpac supports the Ministry of Justice's (**MoJ**) review of the AML/CFT regime and the proposed switch to a risk-based approach. In particular, Westpac supports recommendations 48 and 92 of the MoJ report which, respectively, propose that:[19]

    (a) AML/CFT supervisors develop a code of practice for businesses (particularly banks) to rely on when onboarding high-risk businesses and customers; and

    (b) a licensing regime for high-risk sectors be added to the AML/CFT Act.

32. A code of practice (linked to a statutory safe harbour) would enable banks to be confident that their own compliance with the AML/CFT Act would not be compromised by the actions of the relevant fintech. In addition, a licensing regime would provide banks with greater confidence of a high-risk entity's compliance with its own obligations under the AML/CFT regime. Westpac would support the MoJ expediting the implementation of both a code of practice and a licensing framework to safely reduce a potential regulatory barrier for fintechs.

e-Money regulations

33. The Commission should also consider the United Kingdom e-Money regulations, which were introduced to establish a formal regime for fintechs offering certain types of payments. These e-Money regulations gave banks greater confidence to work with fintechs without being exposed to greater regulatory liability for doing so.

34. Some fintechs, such as digital wallet providers or other payment system providers, may operate business models where the bank account is held in the name of the fintech, but the funds in the account are owned by the fintech's underlying customers. This creates challenges and risks for banks by creating a significant transaction monitoring obligation. For example, if the relevant fintech fails to deal with the customer money in accordance with the terms of each underlying customer's account (which the bank cannot monitor) and the underlying customers suffer losses, the bank could be exposed to significant reputational (and possibly legal) risks.

35. In New Zealand, these risks are exacerbated since fintechs are not subject to any licensing obligations. There is an obligation to be registered on the Financial Services Provider Register, but this is a basic registration and does not involve any active supervision of registered fintechs. New Zealand is an outlier in this respect, and many comparable jurisdictions have specific regulatory regimes for fintechs of this type.

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17 Anti-Money Laundering and Countering Financing of Terrorism Act 2009, s 3.

18 Anti-Money Laundering and Countering Financing of Terrorism Act 2009 Act, ss 22 and 31 .

19 Ministry of Justice *Report on the review of the Anti-Money Laundering and Countering Financing of Terrorism Act 2009* (July 2022).

36. Under the United Kingdom regime, e-money institutions (**EMI**)[20] are required to be registered and comply with capital, safeguarding, outsourcing, record-keeping, and audit requirements for money held in bank accounts maintained by the EMI.[21] The regulations also provide rules for issuing and redeeming e-moneys, meaning funds held by the EMI are not held on trust. This allows banks to deal only with the EMI.

37. If New Zealand established a similar e-money regime it would mitigate some of the risks involved in banking fintechs, giving banks significantly more confidence to do so. For example, the risk that a fintech fails to deal with customer money in accordance with the terms of the underlying customer's account would be mitigated by the formal safeguarding, record keeping, and audit requirements of the e-money regime.

38. The regulatory burden and compliance costs associated with an e-money regime could be minimised through a simple regulatory approach, which should be significantly outweighed by the benefits to the relevant fintechs in their dealings with other financial markets participants. Being a licensed EMI will provide benefits to fintechs not just in their dealings with banks, but also in relation to their dealings with other payment system participants such as the major card schemes. It will also align New Zealand's regulatory landscape with comparable jurisdictions.

Recommendation 5: The RBNZ should use its new decision-making framework under the DT Act to explicitly and transparently consider competitive effects.

39. Westpac agrees that the RBNZ should consider the potential impacts on competition when making policy decisions, provided this does not undermine the main purpose of prudential regulation which is to protect and promote the stability of the financial system.[22]

40. The Deposit Takers Act 2023 (**DT Act**) requires the RBNZ to take into account:

(a) the need to maintain competition within the deposit-taking sector; and

(b) the desirability of taking a proportionate approach to regulations and supervision.

41. The RBNZ has published a proportionality framework that sets out how it will take the proportionality principle into account when developing standards.[23] Westpac considers that the proportionality framework will largely address this recommendation.

42. Westpac considers that the RBNZ's recent consultation documents have well-articulated how it is applying the principles under the DT Act when making policy decisions.

Recommendation 6: The RBNZ should explicitly and transparently articulate how it is applying the purposes and principles of the DT Act to its Deposit Compensation Scheme levy advice.

43. Westpac agrees that the RBNZ should articulate its assessment of how different levy methods may impact competition in its advice to the Minister of Finance. The principles that the Minister must have regard to when making the levy regulations include (among other things) the effect that the obligation to pay a levy is likely to have on the soundness of deposit takers of a particular class.[24] We

20 E-money is defined by the regulations as monetary value represented by a claim on the issuer that is stored electronically (including magnetically), issued on receipt of funds for the purpose of making payment transactions and accepted as a means of payment by persons other than the issuer.

21 The Electronic Money Regulations 2011 (UK).

22 Deposit Takers Act 2023 Act, s 3(1).

23 Reserve Bank of New Zealand *Proportionality Framework for Developing Standards under the Deposit Takers Act* (March 2024).

24 Deposit Takers Act 2023, s 239(b)(iv).

would expect that the impact of the levy on a deposit taker's ability to compete will form part of the RBNZ's consideration of "soundness". The RBNZ is currently undertaking its second consultation on this point.[25] We note the RBNZ's main conclusion is that it is difficult to model the impact of levies on a deposit taker's soundness given it depends on the uncertain behavioural response (i.e. does the deposit taker absorb or pass on the levy?).

44. Westpac supports the RBNZ's preferred method for setting the Depositor Compensation Scheme (**DCS**) levy which is a risk-based composite approach. A composite risk indicator will better reflect the risk each deposit taker poses to the DCS (i.e. the likelihood of the RBNZ issuing a specified event notice in relation to each deposit taker) and mitigate any moral hazard risk arising from the DCS (i.e. the transfer of risk to the DCS may incentivise depositors to invest in higher-returning products than they otherwise would which could, in turn, drive those deposit takers towards higher-risk lending to fund those deposits). The potential market distorting impacts of the DCS were illustrated when the Crown Retail Deposit Guarantee Scheme was introduced during the Global Financial Crisis which resulted in significant growth in deposits held at higher-risk NBDTs many of whom later failed.[26]

45. Westpac also notes that the risk multipliers (based on the outcome of the composite risk indicator) proposed in the DCS consultation documents for the riskier "buckets" of deposit takers is lower relative to the risk they would pose to the DCS based on the default rates published by credit rating agencies. This suggests that competition has already been considered by the RBNZ. The size of the levies imposed on deposit takers, which will have the predominant impact on the soundness of each entity, will depend on the target size of the depositor compensation fund and the time to build the fund. This is subject to a separate consultation by the Treasury.

Recommendation 7: The Reserve Bank should consider broadening access to ESAS accounts.

46. Westpac supports the objective of broadening access to Exchange Settlement Account System (**ESAS**) accounts but achieving that objective must not undermine the integrity and reliability of ESAS.

47. Westpac agrees with RBNZ's statements in its recent consultation paper that ESAS participation is currently only granted to financial institutions that:[27]

    (a) meet stringent requirements regarding soundness and efficiency of the financial system;

    (b) have legitimate business interests; and

    (c) minimise any potential reputational impacts for the RBNZ.

48. Any new ESAS participants must have robust operational, liquidity, risk management, and risk mitigation arrangements, as well as regulatory supervision.

Recommendation 8: The Government should amend the DT Act to allow the Reserve Bank to promote competition, rather than maintain competition.

49. The RBNZ is required to take the principles in s 4 of the DT Act into account in achieving the main purpose of protecting and promoting the stability of the financial system. Westpac considers that, in applying these principles, the RBNZ may find "promoting competition" to be more difficult to reconcile

25 Reserve Bank of New Zealand *Levy Framework for the Depositor Compensation Scheme* (July 2023) at page 17 and Reserve Bank of New Zealand *Depositor Compensation Scheme Regulations: Consultation Paper* (March 2024) at pages 11 – 19.

26 Office of the Auditor General *The Treasury: Implementing and managing the Crown Deposit Guarantee Scheme* (September 2011) at 5.31 to 5.36.

27 Reserve Bank of New Zealand *ESAS Access Review: Risk Assessment Framework for ESAS* (June 2023) at page 9.

with its main purpose than "maintaining competition", potentially creating legal uncertainty for the RBNZ. In particular, a principle of promoting competition could lead to the RBNZ deprioritising, and potentially risking, financial stability in the interests of trying to achieve both principles.

Recommendation 9: The Government and policy makers should seek competitive neutrality across banks and other providers in their decision-making wherever possible.

50. Westpac supports a level playing field where like-for-like business models that carry the same level of operational and systemic risk are treated equally. Westpac is therefore supportive of the Government and policy makers considering "competitive neutrality" in decision-making, provided this is not interpreted as a mandate to treat all market players and business models the same irrespective of the degree of risk involved.

51. Westpac would be concerned if any "competitive neutrality" mandate became a distraction or interfered with the ability of financial regulators to discharge their main statutory objectives. Only where a regulator's objectives can be met through more than one solution should the solution that better adheres to the principle of competitive neutrality be preferred. To illustrate, in the case of the RBNZ, the following objectives must not be superseded by competitive neutrality:[28]

    (a) achieving and maintaining stability in the general level of prices over the medium term;

    (b) protecting and promoting the stability of New Zealand's financial system; and

    (c) acting as New Zealand's central bank in a way that promotes the prosperity and well-being of New Zealanders and contributes to a sustainable and productive economy.

Recommendation 10: The CCCF Act should be competitively neutral with respect to home loan refinancing to make it easier for consumers to switch providers.

52. Westpac supports the recommendation that the CCCFA should be competitively neutral, including in the context of home loan financing. However, a much broader review of the CCCFA is required to reduce the regulatory burden and support an enhanced customer experience.

53. Westpac supports the Government's announcement to review the CCCFA and considers that a return to a principles-based regime, removal of prescriptive requirements, and a more balanced liability regime, would lead to better customer outcomes (including easier access to credit from banks and more innovative products and services). It is important that the review gives close consideration to customer experience and the unintended consequences of the regime. Westpac will continue to engage with regulators and Government on potential customer enhancing changes to the CCCFA that support better customer outcomes.

Recommendation 11: Industry should create an enhanced switching service with appropriate Government oversight.

54. Westpac supports finding ways to reduce barriers (both real and perceived) to switching transaction accounts. This includes making sure that customers understand the benefits of switching, as well as the resources that are available to them to assist with switching.

28 Reserve Bank of New Zealand Act 2021, s 9.

55. There are a number of reasons why customers may choose to stay with their existing provider. Some of the key factors that may influence a customer's decision to stay include:

(a) **Low levels of financial literacy.** In our view, this is the most significant factor affecting customer engagement with switching services (as well as contributing to customer "inertia" in personal banking services more generally). Customers with higher levels of financial literacy may be more likely to switch (or consider switching) to another bank to obtain a better rate, consider alternative financial products to those products traditionally offered by banks, and actively manage their money to maximise returns. Without a working knowledge of how to navigate the financial system, customers will not be able to effectively compare and assess offers or make informed choices about what suits them best.

(b) **They may be happy with their current provider.** The majority of transaction account customers (69%) that have not considered switching in the last three years say it is because they are happy with their current provider.

(c) **They may already receive services from multiple providers.** The Commission should not underestimate the distortion of switching figures caused by customers "silent switching" or multi-banking, nor the flexibility it gives customers to quickly swap between providers. Most Westpac customers (approximately [[redacted]) have a relationship with another bank. These customers are well placed to consider the different offers of their incumbent providers and change between them when a better deal is presented.

(d) **They may perceive that switching is more challenging than it is in reality.** The Verian Report found 62% of customers who have switched providers in the last three years reported it to be easy or very easy. For those customers who used the Easy Switch service, we expect that the number would be much higher. In comparison, only 36% of customers that considered switching (but did not) thought it would be easy or very easy to do.[29] As noted by the Commission, the differences in how customers think about the switching process suggests a 'perceptions gap' where the process is merely perceived by some customers to be more difficult than it is in practice.[30] We include more detail below on the challenges resulting from this gap.

Easy Switch is already improving the switching experience but awareness levels are low

56. The current functionality of the Easy Switch service reduces friction for customers looking to switch providers, and gives them confidence to take up better offers if their existing bank is not competitive. The service has created a largely consistent switching experience across the industry, with robust standards and protocols in place to align approaches between providers. The commitment by banks to maintain dedicated switching teams and complete switches within five business days reduces disruption or delay for customers when they decide to switch providers.

57. However, as recognised by the Draft Report, there are challenges with the current Easy Switch service. These must be addressed through a coordinated and industry-led approach. The key challenges relate to awareness and performance measurement of the service:

(a) There is low awareness of Easy Switch and the benefits it offers. For example, the Verian Report found the top two reasons customers did not follow through with switching was 'Too much time/effort' (42%) and 'Don't want to set things up again' (18%) – two perceptions that are not reflective of the practical reality of Easy Switch.

29 Verian Report at page 28.

30 Draft Report at 8.43.

(b) The industry does not currently have measures in place to record customer engagement with Easy Switch. This makes it difficult to assess how customers are finding the service and whether it is effective.

58. To address the challenge of low awareness, Westpac's view is that transaction account providers should be required to prominently display the Easy Switch service (including its features) on their respective digital platforms to promote uptake. 58% of customers use their existing provider or the new provider as a source of information when switching transaction accounts.[31] This approach to promotion is a relatively simple means of reaching those customers that are most likely to switch, increasing the rate of completed switches.

59. In parallel, and to encourage less engaged or dissuaded customers to switch, the industry should work together to financially support an increase in the level of advertising of Easy Switch to the wider public, particularly vulnerable customers and those with low financial literacy. Westpac considers Easy Switch is an impactful but under-utilised tool for enhancing competition, and that public awareness must be increased to address the perceptions gap and encourage customers to regularly pursue the best deals.

60. Performance measurement of Easy Switch is another necessary aspect to support strategic planning and future proofing of the service. Measurement of uptake and customer advocacy of Easy Switch would help confirm the extent to which Easy Switch continues to meet the needs of customers and identify where functionality could be enhanced to better meet those needs. Westpac considers that Easy Switch performance indicators should be publicly defined, and banks should report on those targets. Westpac considers, similar to the approach in the United Kington (**CASS**), that the Easy Switch performance indicators should include a target for switches made within five working days, a customer satisfaction rating target, an awareness target, and a confidence index.

61. Taken together, these initiatives would build awareness of Easy Switch, reduce the perceived barriers to switching, and provide a basis for data-driven decisions to target future investment into Easy Switch where it is required to match continually evolving customer needs. Westpac considers focusing on these areas will promote higher uptake of Easy Switch and will ensure that investment in the service is directed towards a future-fit solution for switching.

The cost of investment into Easy Switch functionality should be outweighed by the benefits

62. The Commission's proposed Easy Switch functionality appears to be closely modelled on CASS. While the satisfaction rates and customer experience of CASS are admirable, Westpac notes that, despite the costly investment in CASS, it has seen no clear evidence suggesting CASS has increased overall switching rates in the United Kingdom. Therefore, the significant investment into replicating CASS in New Zealand may be better spent on promoting the service or other innovations for customers.

63. A key benefit of Easy Switch is that it is not reliant on the existing account being closed, thereby enabling higher levels of multi-banking. The large majority of CASS users, on the other hand, elect to close their original account (a pre-requisite for qualifying for the guarantee and transaction re-direction). As highlighted above, Westpac maintains that multi-banking is a considerable competitive constraint on banks and features of Easy Switch should enable the switcher to elect to keep their original account.

31 Verian Report at page 29.

Recommendation 12: Home loan providers should present offers in a readily comparable manner.

64. Westpac agrees that customers should be able to readily compare different offers and select the best provider for their personal situation, however, any attempt to improve comparability needs to be simple to understand and contribute to improved customer outcomes.

65. The New Zealand housing market differs from some other jurisdictions in that establishment fees and account fees are largely absent from the market. The Draft Report has correctly highlighted cash contribution and interest rate as two key components for price competition between home loan providers. However, price is just one component of comparability and there remain differences in features between products and lenders that also form part of the offer selection process for customers.

66. Westpac is supportive of working with industry and Government to provide simple mechanisms for customers to understand and compare pricing offers. To support success in this space, industry and Government should:

    (a) form a clear and evidence-based understanding of what information customers find challenging to compare;

    (b) design a solution that is simple and, before implementation, properly test it with consumers to ensure it is easy to understand and will deliver them material benefits;

    (c) work together to improve financial literacy outcomes rather than relying on a simplified price comparison metric (to empower customers to make informed decisions based on a combination of interest rates and product features); and

    (d) promote/adopt a balanced approach to regulatory oversight to prevent increasing the regulatory burden.

Recommendation 13: Mortgage lenders should pro-rate all clawbacks for broker commissions and cash incentives.

67. Westpac is supportive of pro-rating (linearly on a monthly basis) clawbacks for mortgage advisor commissions and cash incentives to address any risk such arrangements create barriers to switching.

68. Westpac notes, however, that it has not seen this switching barrier theory play out in practice. In practice, a borrower who is looking to switch to a new provider is likely to be offered a new cash incentive to switch (and typically a lower interest rate) which would at least partially offset any clawback of the original incentive.

Recommendation 14: The FMA should produce guidance and monitor mortgage advisors' compliance with their duties under the Financial Markets Conduct Act.

69. Westpac considers it best practice for regulators to issue guidance to support compliance with the legal duties they oversee and is therefore supportive of the FMA in producing further guidance to assist mortgage advisors in complying with the Financial Markets Conduct Act.

70. Westpac would have serious concerns if any of its customers, or potential customers, were victims to the types of conduct that the Commission has raised concerns about. However, this is not Westpac's experience and the Draft Report does not substantiate the Commission's concerns. This suggests

that these are theoretical risks, rather than there being evidence of systemic misconduct by mortgage advisors.

71. Westpac has a Code of Conduct that mortgage aggregator networks and individual mortgage advisors must comply with to distribute Westpac home loans. This supports the FMA's routine monitoring of mortgage advisors' compliance with their duties. Westpac's Code of Conduct was "designed to support the professionalism of the financial services industry" by "being committed to creating greater accountability, transparency, and trust with our customers and the broader community".[32] Westpac routinely monitors the mortgage aggregator networks and mortgage advisors to confirm they are acting in the best interests of customers and takes action where issues are identified, including communicating with the FMA where appropriate. This ensures mortgage advisors maintain high standards of conduct and behaviour.

72. Westpac also considers that higher rates of financial literacy will improve competitive outcomes by empowering consumers with the requisite knowledge to ask the right questions and take control of their personal finances.

Recommendation 15: Industry and Government should prioritise work to reduce the barriers to lending on Māori freehold land.

73. Westpac is a strong advocate for Māori and iwi to create their own mana motuhake through utilising resources like whenua. Westpac acknowledges that we had initially overestimated the complexity of lending on Māori freehold land. However, beginning with our first programme in partnership with iwi Ngāti Koroki Kahukura in 2019, we developed a sustainable model to help whanau own their own homes.

74. Utilising this model, Westpac has now provided over $120 million in home loans to more than 300 borrowers (as at June 2023). We are committed to continuing to support new and innovative ways to lend on whenua Māori, and to share this knowledge with the wider industry to facilitate the building of homes on whenua Māori throughout the country.

75. We see that the keys to successful partnership with Māori and iwi are:

(a) understanding what they are looking to achieve with each specific lending programme;

(b) an internal team of experts from Relationship Management and Credit Management who are skilled at deal structuring, credit policy, are knowledgeable about Te Ture Whenua Māori, and can build policies, templates and documents which can be repeated and leveraged for scale within a business-as-usual programme; and

(c) a network of skilled and culturally confident bankers, geographically spread, to build local relationships, understand local needs, and apply learnings from previously successful programmes.

76. Rather than establishing new products, it is entirely practical to utilise existing products and credit structures to set up enduring lending programmes on whenua Māori. What is necessary is a clear understanding and agreement of the roles and responsibilities for each party in the event of a default.

32 Westpac Code of Conduct at Schedule D.

77. Examples of some of our recent successful programmes include:

(a) **Te Kaarearea partnership with Waikato-Tainui Iwi and NZ Housing Foundation:** Westpac partnered with Waikato-Tainui Iwi and the New Zealand Housing Foundation to create a shared equity programme to help iwi members to buy their own home in a new iwi development in the Waikato. The housing development includes 80 residential properties – a mix of public and private housing, whereby everyone who is living in the cul de sac is Waikato-Tainui whānau. By working in partnership with different stakeholders, the programme has enabled whānau to own new homes. It has also resulted in better utilisation of the land, which had been previously tagged for commercial development.

(b) **Papakainga shared equity model for whānau:** A significant barrier to home ownership for Māori is the requirement to meet specific lending criteria and credit risk requirements. In November 2017, having already asked four other banks for help without success, Ngāti Koroki Kahukura approached Westpac with a proposal for a shared home ownership model to enable whānau to live in homes on their ancestral land. Westpac worked with the iwi to design a shared equity programme which met the aspirations of the iwi and whānau, while also satisfying bank lending requirements. To date, 11 whānau have reoccupied their whenua through the shared equity model with Westpac and significant increases in the value of the homes has provided whānau with greater financial security for the future.

(c) **Ngāti Whātua Ōrākei Whai Rawa Iwi housing initiative:** Westpac partnered with Ngāti Whātua Ōrākei Whai Rawa on an iwi housing initiative that will initially provide 24 new whānau homes in Ōrākei in Tāmaki Makaurau Auckland. This funding model has the potential to deliver papakāinga housing at scale on subsequent projects. Under this new funding model,[33] whānau who meet standard home-lending criteria can secure a loan for papakāinga housing at standard interest rates on land owned by Ngāti Whātua Ōrākei. The freehold interest in the land importantly remains with Ngāti Whātua Ōrākei and each participating whānau member obtains a long-term leasehold interest with security of tenure to own their own whare. The scheme has been designed to maximise the benefits of papakāinga housing to all stakeholders while, at the same time, delivering a product which is able to be financed by a commercial bank using standard home-lending criteria.

78. These initiatives demonstrate that perceived barriers to lending directly on whenua Māori can be overcome. Westpac is happy to continue working with the sector, Māori, iwi, and Government to explore different ways of encouraging further growth of personal banking services for Māori.

Recommendation 16: Industry and Government should prioritise ensuring widespread availability of basic bank accounts.

79. Westpac is pleased to see the Commission's draft recommendation for the industry to work to ensure widespread availability and awareness of basic bank accounts. Separate to this market study, Westpac has advocated for greater action to make it easier for vulnerable New Zealanders to access a bank account.

33 This is a collaboration between Bank of New Zealand, Westpac, and the central Tāmaki tangata whenua, Ngāti Whātua Ōrākei.

80. The most common barriers to obtaining a bank account in New Zealand, as identified in the "Westpac NZ Access to Banking in Aotearoa Report" are:

(a) a lack of ID documents and proof of address;

(b) bankruptcy or insolvency;

(c) poor credit ratings;

(d) financial and digital literacy;

(e) fear of judgement;

(f) anti-social behaviour; and

(g) location of bank branches.

81. Westpac has taken, or is in the process of implementing, the following initiatives to combat these barriers but considers that more needs to be done at an industry level to effect change at scale:

(a) Launching 'New Start' with the Department of Corrections, helping soon-to-be-released prisoners to access ID, a bank account, and a debit card;

(b) partnering with Oranga Tamariki and VOYCE Whakarongo-Mai to help young people aged 15 – 17 in care access a bank account and financial education;

(c) introducing a new process to better assess bank account applications for individuals who may have previously been declined due to their high-risk status (e.g. individuals with a history of bankruptcy); and

(d) making branches more welcoming for vulnerable customers by introducing additional training for staff and security guards, as well as other measures.

82. While industry can work together to progress initiatives to support access, to make a meaningful difference, Westpac encourages the Commission to take its recommendation for increasing availability of basic bank accounts further in three ways:

(a) **Financial literacy uplift:** Key to unlocking the benefits of basic bank accounts is the parallel uplift in unbanked New Zealanders' financial literacy to increase awareness of basic bank accounts and to empower those customers to make better financial decisions. Westpac considers there is an integral missing piece to the solution recommended by the Commission, being collaboration between financial service providers, Government, and community organisations to provide financial literacy training to unbanked New Zealanders.

(b) **An industry wide shared commitment:** An industry solution should be supported by a consistent approach and a shared commitment. In particular, the Commission should:

(i) Outline in more detail in the final report the specific functionality of a basic bank account considered necessary to maximise impact on access without compromising the AML/CFT regime. The level of government involvement required will depend on the functionality to qualify as a basic bank account and the necessary restrictions to be placed over the account to minimise risk of abuse (i.e. if basic bank accounts are exempted from certain aspects of the AML/CFT rules).

(ii) Explore ways to hold banks accountable to banking their fair share of New Zealand's unbanked population (i.e. via an industry led reporting commitment). The approach to accountability adopted in the United Kingdom could be drawn from – the nine largest personal account providers have agreed to report data on basic bank accounts and personal current accounts to the Treasury for annual publication.[34] Westpac considers this approach would incentivise banks to contribute to the solution for banking the unbanked.

(c) Legislative change addressing systemic challenges: Westpac encourages the Commission to consider the benefits of an exception to the extensive customer due diligence requirements for the provision of basic bank accounts. To mitigate the risk of these accounts being misused for money laundering or financing terrorism, restrictions could be imposed on the account (including the amount that can be deposited into and/or transferred/spent from the account per month).

34 HM Treasury "Collection: Basic Bank Accounts" (24 February 2024) United Kingdom Government https://www.gov.uk

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