MONOPOLY WATCH NZ
market structure matters

Cross Submission points

5th Oct 2023

Monopoly Watch Submission, Answers and Discussion items

Monopoly Watch NZ (MWNZ) is a NZ evidence based public policy analysis group which wishes to comment on Aotearoa New Zealand's Banking market failure which harms NZ consumers and blatantly transfers wealth to Australia. We want to highlight the clear and present pressure on the Commerce Commission in this study to publish some workable solutions which will fix this broken market.

We thank the Commission for its professionalism and engagement with a wide range of counterparties.

Core points

1) In its draft report the Commission should acknowledge that there is a lack of appropriate and effective research-based advocacy for consumers in New Zealand. In contrast to the well-resourced lobbying, legal, financial economic and other professional services available to businesses in industries that are the subject of market studies, there is no adequately funded group able to advance consumers interests. To avoid an imbalance of information and access that favours vested interests, the Commission needs to see high quality independent submissions and analysis – similar to OECD groups like UK Parliamentary Service

2) Discussions that focus on profitability provide little illumination. "Interim dividends", and the grooming and managing of profitability as a consequence, of credit provisioning, and capex & opex cycles, transfer pricing and invoicing on " intercompany software" all render that measure, as expressed in annual accounts, ineffective as a tool for assessing whether an organisation is extracting excessive profits at the expense of New Zealand consumers. .

3) International benchmarks are crucial to understanding the problem in NZ banking, particularly as the big four banks use "influence swamping" in the media to protect vested interests .

4) We urge the Commission, to acknowledge that New Zealand is so very late in adopting open banking, that a structural catalyst is needed to make it a success . Such a catalyst is needed to stop the "economic dead loss weight of monopoly rents in banking being sent to Australia." We urge it to consider that a break up of ANZ and ASB is warranted to create a scalable challenger. We strongly recommend that the Commission articulate the similarities between between telecommunications number portability and open banking – number portability would not have achieved the substantial benefits subsequently delivered to

consumers if the catalyst of a new like-for-like mobile network had not started simultaneously.

5) We urge the commission to state clearly that the barriers to entry, are scale and market power and that the industry has similarities with other market studies, in terms of what it takes to re create competition after 30 years of benign competition fortifying incumbents' market power
6) Consumers and consumer competition are Impacted by risk and assessment of risk the $85k Govt Guarantee of other banks does not go far enough to unbundle the implied and real Govt Guarantee enjoyed by the big four Australian-owned banks.

7) The big four banks must, in tgheir daily prayers, thank God for fraud, scams, climate change, ESG …. and regulation, for these issues have has given them the perfect backdrop to camouflage their oligopolistic structure an d confuse regulators.

8) Fraud, in part is caused by a massive under investment in online safety by the incumbent banks, a problem which would have been solved by innovation by fintech companies.

9) Triple CFA, has not worked for the consumer benefit, and this needs to be reformed

10) We urge the Commission to talk to S&P, Moodys and Fitch analysts and relationship managers to secure independent 3rd party verification of the banks margins, profitability and risk profile

11) We urge a thorough investigation and review of the UK Government's attempts to improve banking competitiveness and de risk the implied government guarantees *House of Commons - Competition and choice in retail banking - Treasury (parliament.uk)*

12) We note that during the submissions the term "***ASYMMEMETRY of competitive intentions***" was used. It's an economists' neologism, derived from biological sciences, where it describes competition, usually between a pair of species, in which the adverse effect of one species on the other is much greater than the reciprocal effect. Economists use it to describe the scale of asymmetry needed to break the moat around an incumbent's business.

    In banking, regulation, fraud, financial safety, scale technology are all used to ring-fence incumbency, We urge the commission to study this asymmetry and deliver a recommendation in the draft report which allows challenger banks to group themselves into a scalable entity to jump the hurdles

13) We also urge the ***MANDATORY BREAK UP of the NZ Bankers association***, a public policy moat, paid for by the big banks, which acts Like the Telecommunications Cartel Forum (TCF), which promotes the interests of the incumbents because they pay them. We Also urge a review of other Industry groups like INFINZ, and like "group think" organisations .

14) We urge the Commission to consider whether there is an abuse of the legal system when all the big law firms are complicit supporters of the Bankers association. We urge it to consider requiring disclosure of legal fees paid by the big four banks to be expressed as a percentage

of total fees for the legal sector, as many junior lawyers feel the skewing of banking law work to be abuse of the system

15) We urge the Commission to look at the sponsorship of the "clubhouse " of New Zealand's big bank supporters, and to re read the testimony of Kevin van-Hest, CEO and owner of Elephant Board, to the Building Materials Market study. In it he evidenced the sponsorship of seventeen industry groups ((regulators, inspectors, specifiers, building industry advocacy groups,) to sway the business towards Fletcher's monopolised Gib board. To an informed observer. It is an embarrassment and an offence against any notion of fair competition. The same movie, is playing out in banking, the sponsorship of member organisations by Banks dulls down the intellectual and ethical horsepower of these groups.

16) We urge the Commission to comment on the friction-free ease with which retiring Ministers of the Crown and senior officials transition into the private sector, brining with them inside knowledge about government priorities, processes and decision making practices, and fresh high-level relationships with persons of influence. While people are entitle to work and use their skills, the New Zealand taxpayer should invest significantly more in in gardening leave for Ex Ministers so they can pay their bills while they stand down. We urge the Commission comment on the seamless rotation of influence from Cabinet Table to Bank Boards .-

17) We urge the Commission to join the dots on previous market studies and connect the problem points with other severe market aberrations in other Market Studies . We urge the Commission to complete some empirical work about how the extreme level of profitability in mortgages in NZ, to extreme asset allocation of house hold wealth to residential real estate rather than managed funds, but also to " nonsensical cost structures in house construction ."

    None of the Australian Banks would lend into their Brisbane, Aldelaide or Perth customers at the same cost of construction that exists in New Zealand, At the strategic level the banks have engaged in a huge asset valuation risk[1]: essentially ANZ, and CBA, lend into entry level housing projects at $4500 per square metre, when the cost of these same projects are $1,650 per square metre . We urge the commission to link these dysfunctional markets in its draft report and consider how to make some steps forward to international best practice

NZ is 15 years behind the OECD in banking competition and Pension Savings, NZ consumers urgently need a reset in this critical industry, As is the case with all NZ major competition problems, which are pressuring the cost of living crisis the dominant player, didn't earn their market share, they brought it, though acquisitions and mergers, which would not be permitted in most peer group countries .

As in other enquires we urge the commission to undo these market structures and force divestment

Thank you for considering the submission points of Monopoly Watch NZ

[1] Because eventually a cost transformer will come and displace the cost of construction in NZ