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To whom it may concern,

Thank you for considering our submission on the Personal Banking Services Market Study. This submission is made by Rewiring Aotearoa New Zealand, which is a non-partisan non-profit organisation that believes electrification has major economic and environmental benefits. Our mission is to rapidly reduce New Zealand's emissions, improve affordability, and increase our resilience by electrifying the millions of small fossil fuel machines in our homes, communities, small businesses and on our farms.

At Rewiring Aotearoa, we work for electrification win-wins between household cost saving and reducing New Zealand's dependence on greenhouse gas emissions. Access to finance is key to enabling this electrification. Competition driven innovation in the personal banking sector could be a catalyst for greater uptake of electrification (and therefore the decarbonisation of our economy) through greater accessibility of green lending products for households.

Our recent 'Electric Homes'¹ report tells us that 31% of NZ domestic emissions are household or 'dinner table' decisions that we currently have the technology to reduce (or abate). We believe that this review into New Zealand's personal banking system represents an opportunity for a win-win - for the customer, your average New Zealander but also to electrify (and decarbonise) our economy.

It's important the Commission think beyond competition merely as a driver for innovation, to consider the *outcomes* from innovation for the long term benefit for New Zealanders.

This Personal Banking Services Market Study (the / this Study) was an opportunity to consider whether competition in personal banking is promoting outcomes that benefit New Zealand consumers over the long term. However, it is not possible to consider long-term value to New Zealanders without accounting for the real costs of climate change². Rising domestic energy costs are primarily being driven by global climate change impacts³, supply chain disruptions, policy decisions, and geopolitical conflict such as the Russia-Ukraine war. These impacts disproportionately impact the most vulnerable. This challenge represents a

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<https://www.rewiring.nz/electric-homes-report#:~:text=The%20report%20finds%20that%20electrification,domestic%20emissions%20for%20these%20households>.

² The cost of living is fundamentally linked to the cost-of-living crisis.

<https://www.beehive.govt.nz/release/tackling-cost-living-and-climate-change-together>

³ <https://e360.yale.edu/features/how-climate-change-is-disrupting-the-global-supply-chain>

significant opportunity for financial innovation for the New Zealand banking sector, and demand side electrification (decarbonisation) for Aotearoa.

We urge the Commerce Commission (the Commission) to explore this further.

The statutory objectives of the Commission are :

- *“consumers are protected, and clear and accurate information is provided to them*
- *there is a level playing field for competitors – the rules are known and players are monitored*
- *competition in a market is not substantially lessened by the conduct of firms with substantial market power*
- *cartel behaviour is addressed*
- *the level of competition in a market is not substantially lessened by mergers or agreements between businesses*
- *poor, misleading or unbalanced information affecting competition in the market is addressed*
- ***regulated businesses face incentives to provide long-term benefits for consumers.”***

It is clear that an objective of the Commission is to provide *long term benefits for consumers* (which are everyday New Zealanders). We currently have concerns on the Commission's ability to deliver on this statutory obligation for the following reason:

- **Green loans** must be explicitly considered in the innovation landscape, as they represent a significant intervention point to deliver public value through decreasing the cost of living and reducing Aotearoa New Zealand's domestic emissions.
- Capital treatment needs to better consider **long term risk and opportunity** in the personal banking market, including the acknowledgement of the increased resilience of enabling “climate-ready” investment (easy wins are things like ensuring that the duration of green lending can map the lifespan of the technology which is being invested in or lent against).
- **The Commission and Government have key roles** to play in shaping the personal banking market to deliver equitable outcomes for all New Zealanders across the cost-of-living crisis and the climate emergency.

Innovation in the personal banking market must include green loans (or adequate or longer duration)

International research shows that ‘the market structure of the banking system can be key to facilitating a green economic transition⁴’ and that banks involved in providing environmentally sustainable products ‘might have a competitive advantage over the banks that are not⁵’.

Rewiring Aotearoa draws the link here between market competition and innovative finance products that deliver value (both public good and monetary value) for New Zealanders, and

⁴ Degryse, Hans; Roukny, Tarik; Tielens, Joris (2020) : Banking barriers to the green economy, NBB Working Paper, No. 391, National Bank of Belgium, Brussels <https://www.econstor.eu/bitstream/10419/238178/1/wp391en.pdf>

⁵ https://onlinelibrary.wiley.com/doi/epdf/10.1002/bse.2622?saml_referrer

calls upon the Commerce Commission to place greater emphasis on this intersection in their final report.

The study finds weak competition within the personal banking sector in Aotearoa New Zealand. This is a concern, as International research shows that access to financing for households is the key barrier to uptake of green home upgrades⁶. Taken together, we can see that a lack of innovation within the personal banking sector may impact households' ability to electrify and unlock energy bill savings as well as contribute to New Zealand's decarbonisation goal.

Home loans are key financial products for New Zealanders both on the customer and bank sides. Furthermore, home loans are becoming increasingly important products for banks: between December 2016 and December 2023, the share of housing lending has increased from 56.19% to 62.82%. Given that this represents the majority of banking portfolios, there is an opportunity for a win-win: to decarbonise the sector's assets (decreasing financial exposure to climate related risks) and provide green products that better suit New Zealander's needs, in both the short and long term.

New Zealand is lagging behind in the range of innovative green lending products that it offers. As outlined in Figure 2.4 from the study, two key issues here is diversification in lending duration (e.g green finance lending periods typically 1-3 years rather than the warranty of the technology, some solar panels now have 25 year + warranty and lifecycles), and that the majority of this green lending are "top up" loans, which assumes an existing loan, and therefore disincentives or excludes access to all New Zealanders.

Australia's inquiry (2018) into the financial system found a similar oligopoly of four major banks⁷, but from 2020-2022 there were 14 corporate green loans developed in Australia and only 2 in Aotearoa New Zealand⁸.

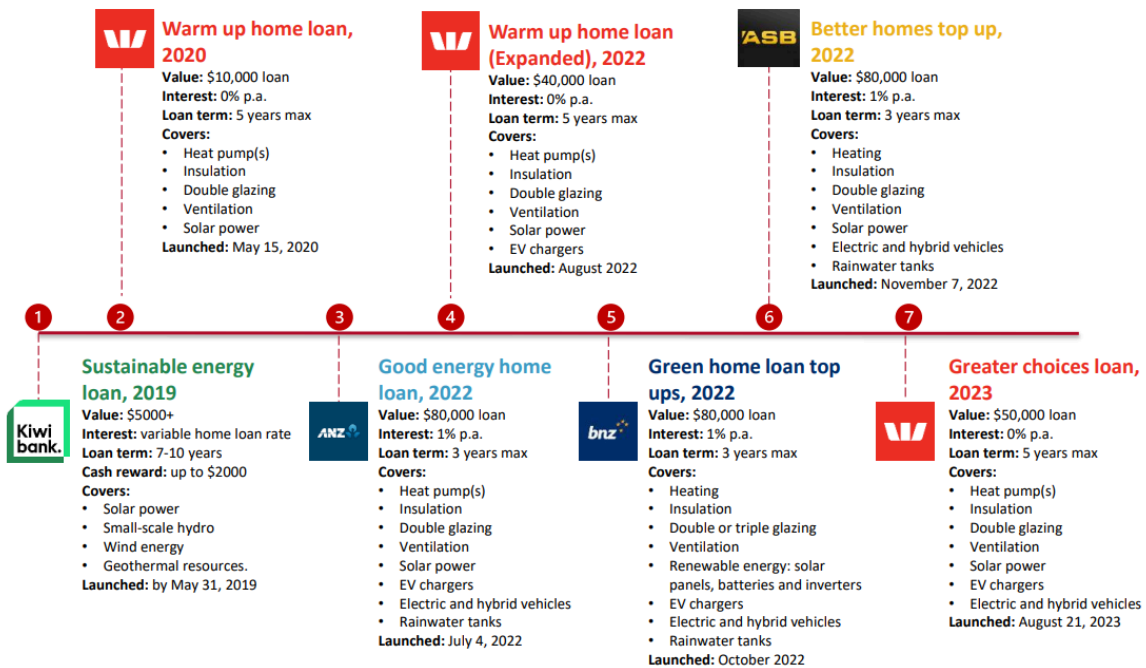
⁶Nesta's study finds access to finance is a key barrier to green home upgrades.

https://media.nesta.org.uk/documents/All_the_things_I_could_do_final.pdf

⁷ <https://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system-overview.pdf>

⁸ Climate Bonds Initiative <https://www.climatebonds.net/files/reports/cbi-green-loans-aus-nz-final-14102020.pdf>

Figure 2.4 Timeline of “green home loan top-up” offers



Source: Commerce Commission.¹¹³

As your study outlined “a near homogenous set of offers from the four major banks. Incentives to innovate and produce offers like the green loan might be dampened by the knowledge that competitors will quickly follow”.⁹

While innovation will likely deliver a greater range of financial products to consumers, there are many New Zealanders who won’t be able to access this benefit. We know the most vulnerable in society (lower income groups, and many iwi/Māori and Pasifika) need support to make such upfront investments to electrify.¹⁰ Innovative financial products delivered through the personal banking sector must provide for *all New Zealanders* to unlock energy and emissions savings through electrification. The Commission could play a key role in ensuring fair access over longer repayment timeframes for consumers to these products, but there needs to be adequate consideration of long term risk and opportunity in order to deliver greater outcomes for New Zealanders.

Long term risk and opportunity in capital treatment for banks

New risks and radical uncertainty pose novel challenges to the ways that banks operate, and challenge the temporal horizons traditionally used in the banking sector. Banking decisions need to take into account long term risk and opportunities beyond just upfront capital investment through mechanisms like green loans.

Green buildings are sometimes perceived to be riskier and more costly to finance than traditional ones, which in New Zealand sometimes sees higher rates for these kinds of

⁹ Commerce Commission study into Personal Banking, 2024.

¹⁰ Rewiring Inequity - Productivity Commission submission: A Fair Chance for All.

<https://www.productivity.govt.nz/assets/Submission-Documents/a-fair-chance-for-all/DR-128-Rewiring-inequity.pdf>

investments.¹¹ but the public good, emissions reduction opportunity and longer term viability of these builds creates lots of opportunity which is not that visible in current decision making approaches.

Banks are required to hold the same amount of capital to finance climate investment as they do fossil-fuel investment.³ This creates no incentive for banks to deliver public value through innovative products that support household electrification. Comparatively, European central banks have adjusted risk weightings of capital that has to be held against a certain asset to encourage greater investment in climate positive outcomes³. Toitu Tāhua Centre for Sustainable Finance also identified the need for the RBNZ to undertake research to better understand the link between bank's sustainable lending and longer-term risk reduction, and consider amending capital adequacy recommendations and guidance to account for this.¹² We encourage the Commission to support addressing this identified need.

The Commission has a role to play in ensuring that long term benefits are realised for consumers, and helping to reshape how the system thinks about long-term lending and benefits for consumers (now and into the future).

The Commission has a key role in shaping the personal banking market to deliver equitable outcomes for New Zealanders

The High Court has defined competition as '*... a practical description of the state of an industry where government intervention to make the market work better is not justified because the socially desirable outcomes generated by competition already exist to a satisfactory degree*'¹³

As the study identifies, there are New Zealanders excluded from the financial system, while high earning individuals have greater access to loans. Further, home ownership rates are the lowest they've been in over 70 years, and 1/3 of New Zealand households rent, with renters struggling most with the burden of housing costs¹⁴. The Commission's vision states: 'New Zealanders are better off because markets work well'. However, clearly socially desirable outcomes are not being met by current levels of personal banking market competition, and thus the Commission has a critical role in intervention.

In the UK, this has generally taken the form of direct grants and loans from the government for government facilitated finance of household green upgrades.

Example one: Scotland's Green Heat Finance Taskforce found that one option for green home upgrades would be green loans as secured lending to appropriate sectors, or to support and facilitate growth of private green loans. This could allow discretionary interest

¹¹ MBIE. (2022). What would it take to mobilise investment to achieve New Zealand's climate goals.

<https://www.mbie.govt.nz/dmsdocument/25667-what-would-it-take-to-mobilise-investment-to-achieve-new-zealands-climate-goals-findings-from-key-informant-interviews>

¹² Toitu Tāhua Centre for Sustainable Finance Roadmap Recommendation 10.

<https://static1.squarespace.com/static/637d83c964e50e3125f983aa/t/64c42550cd137874d31a3919/1690576208396/SFF+Roadmap+Recommendation+10.pdf>

¹³ Wellington International Airport Ltd and Others v Commerce Commission [2013] NZHC 3289 at para 13-15, 18 and 22.

¹⁴Housing in Aotearoa. <https://www.stats.govt.nz/reports/housing-in-aotearoa-2020>

rates to be applied, for example providing lower interest rates to those with lower credit scores.¹⁵

Example two: The Development Bank of Wales undertook an exploration with innovation agency [Nesta](#) on what forms of green finance would support green home upgrades¹⁶. While Aotearoa doesn't have a development bank, Kiwibank's unique ownership structure could provide an opportunity to explore something similar in New Zealand, or the NZGIF's mandate could be expanded.

The Commission can support the Government to take a more active role in *derisking* green home upgrades that might be perceived as riskier and more costly by banks. Using its balance sheet, the government could provide banks guarantees to household electrification which might encourage greater finance to flow towards this objective.

The Commission can also draw on international examples as above and encourage greater coordination in the ecosystem to support a transition to a net zero economy. The Commission's role here is to ensure systems settings enable sufficient energy markets and adequate green finance for New Zealand consumers - that *provide long term benefits*.

Our key recommendations for the Commission's Study into Personal Banking Market Competition.

We recommend the Commission:

1. Extend the scope of their research to include **green loans** and **long term risk opportunity analysis** for banking.
2. Advocate for the RBNZ to undertake research to better understand the link between bank's sustainable lending and longer-term risk reduction, and consider amending capital adequacy recommendations and guidance to account for this - to ensure the market is fair and providing long term benefits for customers.
3. Realise its statutory obligation that ***regulated businesses face incentives to provide long-term benefits for consumers but also*** achieving a ***'level playing field'*** through playing a greater role in ensuring access to personal banking services for all New Zealanders.

Specific comments on the study's draft recommendations:

- **Recommendation 2:** We support the recommendation for Kiwibank to explore how it could disrupt the market, as our above recommendation. We believe there is significant opportunity for **Kiwibank** to deliver innovative green lending products, and, due to its unique nature, explore blended public-private finance as was done through the [Kāinga Whenua Loan Scheme](#).
- **Recommendation 8:** We have concern that amending the DT Act to enable the Reserve Bank to promote rather than maintain competition in the market is insufficiently strong wording. We encourage strengthening this to be more explicit

¹⁵ <https://www.gov.scot/publications/green-heat-finance-taskforce-report-part-1-november-2023/pages/10/>

¹⁶ Nesta's research with Wales Development Bank on retrofit upgrades. https://media.nesta.org.uk/documents/All_the_things_I_could_do_final.pdf

about the role of the Reserve Bank in driving, monitoring and evaluating competition outcomes on financial product range and quality that meets the needs of New Zealanders.

- **Recommendation 10:** We agree that we need a neutral CCCF Act, to encourage the reduction of switching costs and barriers to empower consumers to pick and choose different personal banking products as needed. Non-price needs of consumers increasingly include green and sustainability considerations. For example, this would allow a New Zealand household to choose a mortgage with one bank, a green upgrade home loan with another, and an electric vehicle loan with another, and not to be permanently locked into each of these if conditions changed. Interoperability and low switching costs will therefore be critical to enable consumers to easily access loans that suit their needs and are appropriately priced¹⁷.
- **Recommendation 12:** We support transparent comparisons between home loan pricing, and encourage this to include the estimated cost of energy bills, too, in order to accurately draw a comparison across household costs. This is also something that could flow through to renters, as illustrated [here](#).
- **Recommendation 14:** We support the recommendation to produce guidance for mortgage advisors under the FCA, and believe that this should also include guidance on green mortgages and other green lending products that could be linked to a home loan. This guidance should include education on short and long-term cost savings from electrification.

Overall, we encourage the Commission to think beyond competition merely as a driver for innovation, to consider the *outcomes* from innovation for the long term benefit for New Zealanders. Rewiring Aotearoa believes one such outcome from market innovation is supporting the electrification opportunity for Aotearoa New Zealand. The Commission has the opportunity to play an active role in driving this not just through the energy market, but also through the personal banking market. It is important that these functions are not seen in isolation, but as a system, to better realise the Commission's role in delivering on NZ's emissions reduction plan, and 2050 NDC.

We are happy to meet to discuss this submission.

Thank you for your time,



Mike Casey

CEO Rewiring Aotearoa



¹⁷ Australia's Home Loan Price Inquiry.

<https://www.accc.gov.au/system/files/Home%20loan%20price%20inquiry%20-%20final%20report.pdf>