FINANCIAL SERVICES FEDERATION

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FSF submission highlights: Draft Report on Market Study into Personal Banking Services

The Financial Services Federation has submitted on the Commerce Commission's draft report on their market study into banking services, highlighting how the non-bank lending sector can be empowered to provide more competition and Kiwi consumers more choice.

More than 1.7 million consumers choose to work with a non-bank lender represented by the FSF, whose 97 members include the likes of UDC Finance, Avanti Finance, Toyota Finance, Harmoney, MTF, and several credit unions and building societies.

"As the draft report quite rightly points out, the four major banks have the lion's share of the personal banking market in New Zealand by an enormous margin, and it is very difficult for the smaller players to compete with them for the various reasons the draft report has highlighted," says FSF's Executive Director, Lyn McMorran.

"Without sufficient competition and disruption in banking services, New Zealand runs the risk of consumers missing out. We have highlighted our key concerns and recommendations to stop this from happening."

Highlights from FSF's Submission (Attributable to Lyn McMorran, FSF Executive Director)

Or see FSF's full submission here

- ***Home loan competition:*** The cost of capital for smaller players is a key barrier to being able to compete with the major banks. FSF has several non-bank housing loan provider members including credit unions, building societies and specialist housing lenders, some of whom ironically rely on wholesale funding from the major banks to fund their activities, meaning an inability to compete with them particularly on price.

  The New Zealand public is all the poorer for this lack of access to other sources of funding at a reasonable price other than from the major banks. Non-bank providers compete with the banks by offering options to consumers which the major banks cannot because of constraints imposed on them by the Reserve Bank such as LVR restrictions. It is imperative that these are not passed on to non-bank housing lenders in order that they can provide the competitive friction that is needed in the housing lending market. This allows them to service customers who require bridging finance, loans for a home building project, loans to self-employed people, loans with higher LVRs, etc, which the major banks cannot or will not service.

- **Language matters:** The draft report suggests that the four major banks ("tier one") account for 90% of the personal banking market in New Zealand, the remaining 10% ("tier two") is therefore spread across hundreds of small players including Kiwibank, the rest of the registered banks, and the hundreds of small non-bank providers. The FSF is not comfortable with the terms "tier one" and "tier two" as they imply a difference in quality or compliance or reputation that is not justifiable when all players are subject to the same regulatory obligations regardless of their size. We would prefer that, if there is to be differentiation between the market players, the terminology should be "large" and "small".

- ***Competition for deposit accounts:*** Outside of the major banks, the only realistic alternative that exists for deposit accounts are the NBDTs, particularly the credit unions and building societies who are able to offer transaction and savings accounts as well as term deposits.

  FSF's NBDT members have been fully supportive of the introduction of a Depositor Compensation Scheme (DCS) to protect consumers' deposit money, however the Reserve Bank's "risk-based" approach for the setting of levies will disproportionately disadvantage NBDTs. Taking this approach will cost the NBDTs proportionately more than it will the banks and the FSF is struggling to make the Reserve Bank understand that using metrics like return on equity as a measure of default risk is inappropriate when many of the NBDTs are set up as mutuals whose reason for being is not to make large profits for shareholders but to reinvest their profit into their communities and for the good of their members. So, effectively under the current Reserve Bank proposals (they are still in the process of consulting on their proposed approach to setting DCS levies), NBDTs will be further disadvantaged proportionate to the major banks which will do nothing to improve their competitiveness in the deposit-taking space.

- **Not just competition, but *inclusion* for all Kiwis:** It is the experience of FSF's members offering transactional banking services – credit unions and building societies specifically – that there are people who are excluded from participating in society fully and receiving benefits to which they are entitled simply because they are unable to access a basic bank account. The biggest barrier to this group is the **draconian Anti-Money Laundering/Countering Financing of Terrorism requirements** with respect to address verification. It is not possible to verify an address for a person who does not actually have one, such as a homeless person, or a person who has just been released from prison. This requirement is not just affecting people on the margins of society, but also creates difficulty for young people who have just left home but who do not yet have a means to verify their new address. To eliminate this barrier and create increased financial inclusion the FSF supports removing the address verification requirement from the AML/CFT obligations on reporting entities at the earliest possible opportunity.

- ***Profitability of New Zealand's banking sector:*** The FSF believes that profitability in the banking sector is a better option than the alternative. The FSF would rather that New Zealand enjoyed a strong and stable economy and financial system, and much of the commentary around "excessive profits" is highly emotive and not necessarily driven by a deep understanding of how important banks are in achieving this.

- ***Accelerate progress on open banking:*** Successive governments have largely left progress on open banking to the banks rather than legislating for it, and consequently there has been little to no progress to date. It could be interpreted that the slowness of the banks to adopt open banking is because they wish to hang on to the competitive advantage that having access to their customers' transactional banking data provides to them. As much as FSF wants to see open banking become a reality in New Zealand, to be successful and contribute to effective competition, it must come with a comprehensive public awareness campaign on the benefits.

See FSF's full submission here

The FSF will continue to provide consultation to the Commission prior to the final report being published in August 2024.

For further information or an interview request please contact FSF Marketing, Communications, and Events Manager Hannah McKee at hmckee@fsf.org.nz

About the Financial Services Federation:

The Financial Services Federation (FSF) is the non-profit industry association for responsible and ethical finance, leasing and credit-related insurance providers operating in Aotearoa New Zealand. FSF's 97 members touch the lives of more than 1.7 million New Zealanders, and include the likes of Toyota Financial Services, Harmoney, Turners, Avanti Finance, Mercedes Benz Financial Services, MTF Finance, Scania, Custom Fleet, John Deere, Prospa (see the full list here). With 58 years of history, FSF has stringent membership criteria and enforces a Code of Conduct to maintain high standards in responsible non-bank lending. FSF members prioritise compliance, support consumer protection enforcement, and advocate for balanced regulations that ensure New Zealanders have access to responsibly-provided credit.