

MARKET STUDY INTO PERSONAL BANKING SERVICES

Westpac New Zealand Limited's
Response to the Preliminary
Issues Paper.

7 September 2023



**TOGETHER
GREATER**

Executive summary

1. The New Zealand personal banking industry is highly competitive and the financial returns of its participants reflect the performance of many aspects of New Zealand's economy. Westpac New Zealand Limited (**Westpac**) looks forward to working constructively with the Commerce Commission (**Commission**) during the Market Study to continue to improve access to banking services and support an environment that is conducive to innovation.
2. **Improving access to personal banking services for New Zealanders:** For most New Zealanders, the banking industry serves their needs. However, for a small subset of New Zealanders, having no bank account is a daily reality. Without a bank account, these individuals struggle to receive income, pay bills and save for the future. Westpac agrees with access to banking being identified as an issue in the Preliminary Issues Paper and considers this an important area of focus for the Commission. Westpac has implemented several initiatives to address this issue. However, this issue is bigger than what any one bank, or even all the banks working together, can solve and requires a consolidated effort from the sector and government agencies to fix. Westpac welcomes the Commission's independent assessment of:
 - (a) Whether legislation or regulation is making it more difficult for some New Zealanders to access banking services;
 - (b) What can be done to improve financial literacy so that all New Zealanders can actively engage with their financial service providers; and
 - (c) What arrangements can be put in place to give banks greater confidence to lend for homes on whenua Māori.
3. **Optimising regulatory settings to maximise innovation:** Given the critical role of banks in a well-functioning economy, Westpac recognises there is an important role for regulation in driving optimal outcomes for government and communities. Consumers rely on the stability and security of their banks every day. It is therefore critical that structural safeguards are in place to reduce risks to consumers and mitigate potential adverse consequences for the wider economy. However, it is important that any regulation is proportionate and that unintended consequences are managed. Historically, New Zealand's financial and banking sectors were seen as highly innovative. More recently, however, there have been significant changes to the regulatory framework that have coincided with slowing rates of innovation as more resources are reallocated by banks to day-to-day regulatory compliance. Westpac invites the Commission to consider:
 - (a) The introduction of a regulatory sandbox to provide businesses with an opportunity to test new products and services and have certainty over how existing regulation will be applied to their products and services in development;
 - (b) The development of a longer-term regulatory roadmap so both potential new entrants and incumbents have certainty over the rules that will apply in the future so that products and services can be developed with greater certainty;
 - (c) Whether there are opportunities for greater efficiency and alignment between the three main regulators that supervise the banks (being the RBNZ, FMA and the Commission); and
 - (d) The establishment of a development roadmap for the Consumer Data Right (**CDR**) that prioritises areas that will have the most impact for consumers. The CDR is only one aspect of open banking. One of the keys to unlocking open banking is the introduction of a centrally administered digital identification system using a unique identifier that links bank accounts.

4. **The New Zealand personal banking industry is highly competitive:** Banks compete aggressively with each other on price, product features and service. A large number of Westpac customers have a relationship with another bank and so are well-placed to switch providers to take up better offers if Westpac is not competitive. Westpac acknowledges that some changes are required to ensure all New Zealanders can access banking services and are equipped to engage with their banks to benefit from the competition in the market. However, the competitive fundamentals of the market are sound and, in Westpac's view, do not require radical reform.
5. **Westpac's observations on bank profitability in New Zealand:** The long-term financial success of banks gives New Zealanders confidence that their money is safe and enables banks to support their customers through the economic cycle. As a starting point for understanding the profitability of New Zealand banks, it is important to recognise that New Zealand has experienced significant economic growth over the Commission's assessment period (2010-present). With the growth over this period has come greater economic prosperity for many New Zealanders, including through low levels of unemployment and a strong housing market. While we acknowledge that these benefits are difficult for some to access and are not shared equally (particularly with the more recent cost of living crisis), many New Zealanders have enjoyed increasing levels of prosperity at a rate which is relatively higher than many of New Zealand's international counterparts.

1. Improving access to personal banking services for New Zealanders

- 1.1 The New Zealand personal banking services industry is highly competitive, with banks, non-bank lenders and non-bank deposit takers competing with each other to retain existing customers and win new customers. For most New Zealanders, the industry serves their banking needs. However, Westpac is aware that there is a small group of people who are unable to access personal banking services that do not benefit from this competition. The World Bank estimates that 1.25% of people 15 years and over in New Zealand do not have a bank account, meaning that potentially tens of thousands of adult New Zealanders are impacted.¹ In particular, based on the findings of research commissioned by Westpac, a high proportion of those New Zealanders who experience difficulty in obtaining access to personal banking services are from vulnerable communities who have complex needs and face various other disadvantages.²
- 1.2 Westpac believes that access to personal banking services is important for these vulnerable communities. Without access to basic services such as a bank account, it is difficult to fully participate in society and to access other types of social services and entitlements. To enable everybody to fully participate and engage in New Zealand society, it is essential that the potential barriers to servicing these customers are urgently addressed.
- 1.3 Westpac welcomes access to banking being identified as an issue in the Preliminary Issues Paper and agrees this is an important area of focus for the Commission.

Increasing inclusion and access to banking through partnership

- 1.4 Westpac has made good progress in fostering financial inclusion and is committed to making further progress. At the core of Westpac's work in this area is a desire to address the underlying systemic issues that prevent certain law-abiding individuals and groups from accessing banking services (and receiving the associated benefits of that access).
- 1.5 Partnership is required between Government, industry and community organisations to overcome some of these issues to achieve meaningful change for all New Zealanders. Westpac has identified the following challenges where more work is required to improve access to banking:
 - (a) **Barriers to access basic banking services such as a bank account:** The requirement to have a valid form of identification and address verification details, which can be difficult for some people to obtain, can lead to unintended consequences such as individuals being unable to access personal banking services. In particular, the introduction of the Anti-Money Laundering and Counter Financing of Terrorism Act 2009 (**AML/CFT Act**) has increased the requirements on banks when opening bank accounts for new customers (see *Bank accounts for young people in care* on page 6).³
 - (b) **Barriers to home ownership:** Westpac is aware that many New Zealanders are finding it relatively more difficult to secure a mortgage and own their own home,⁴ with Māori and Pasifika peoples over represented. People who are excluded from the housing market may also be excluded from other benefits such as wealth accumulation, better health outcomes, and improved wellbeing by living in their community of choice. To reduce barriers to home

¹ World Bank "The Global Findex Database" (2021).

² ThinkPlace "Westpac NZ Access to Banking in Aotearoa Report" (April 2023) at page 33.

³ ThinkPlace "Westpac NZ Access to Banking in Aotearoa Report" (April 2023) at page 5.

⁴ Stats NZ "Homeownership rate lowest in almost 70 years" (8 December 2020).

ownership, innovative solutions are required that challenge the “all or nothing” concept of home ownership (see *Innovative papakainga shared-equity model for whānau* on page 7).

- (c) **Ensuring there is support for vulnerable customers:** This includes the need to provide additional support to customers who need extra care in circumstances which make them more susceptible to harm, loss or disadvantage (personal or financial). Westpac provides this support through its Extra Care team. It is important that all New Zealanders have the support they need to access banking services in a safe and effective way that suits their individual needs.
- (d) **Opportunities to engage with banking specialists in person beyond branches:** As society moves towards a digital environment, particularly for transactional banking services, it is important that customers still have the ability to get in person support. As banking is changing, the ways to access banking are changing, and personal engagement is no longer limited to a traditional branch environment. Examples of successful community-based banking assistance include the NZBA regional hubs and informal Westpac service centres in locations such as a library or retirement village.

1.6 Westpac is proud of our work to improve access to personal banking services for all New Zealanders, and some examples of this work are set out on pages 6 and 7. However, it is not possible for Westpac to bring about significant and long-lasting change on its own. To do this, all stakeholders need to come together as part of an industry-wide effort, with support and input from Government agencies. This approach could facilitate a clearer understanding of the key barriers to accessing personal banking services, and a pathway to addressing these issues.

Potential ways to improve access to banking

1.7 Westpac invites the Commission to consider the following opportunities when undertaking the Market Study to ensure that the benefits of the competition between banks reaches all New Zealanders:

- (a) **Working in partnership with Māori and iwi to support lending for homes on whenua Māori:** Westpac is a strong advocate for working with Māori and iwi to expand existing programmes that allow lending directly to whānau for homes on whenua Māori using alternative forms of security. However, this is difficult to achieve given that western concepts of lending and security do not easily transpose onto Māori concepts of land and its importance to iwi and Māori. See *Te Kaarearea* and *Innovative papakainga shared-equity model for whānau* for examples of where Westpac has partnered with iwi and Government to structure lending to support their bespoke needs. While each programme has its unique characteristics, the key to success in this area is the partnership between the banking industry, Māori, iwi and Government.
- (b) **Creating more opportunities for home ownership:** Banks’ ability to address broader systemic issues with housing affordability is limited, but more work can be done to encourage banks to create opportunities for more New Zealanders to get on the housing ladder. Westpac’s Affordable Housing Program seeks to bridge the gap and assist entry into home ownership through rent-to-own programmes, lending on alternative tenure such as leasehold, shared equity programmes, and family investment/guarantee arrangements. Demand for these programmes has grown significantly, with Westpac’s lending growing by almost \$100 million in the last year. Westpac sees the Progressive Home Ownership Fund as a great example of enabling improved access to housing, and we have seen strong demand from customers via this programme.
- (c) **Reform of the CCCFA:** Westpac supports the recently announced review of the Credit Contracts and Consumer Finance Act 2003 (CCCFA). Westpac considers that a return to a principles-based regime and removal of prescriptive requirements would lead to better

customer outcomes including easier access to credit from banks for a wider range of customers. This may also facilitate the introduction of more innovative products and services.

- (d) **Enhancements to AML/CFT compliance for basic bank accounts:** Westpac would like to see 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 placed on the amount that can be deposited into and/or transferred/spent from the account.
- (e) **Improving financial literacy:** 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. Westpac works with its customers through its Managing Your Money programme to improve the financial literacy of its customers (see *Managing Your Money workshops* on page 7). Having seen the benefits of this programme, Westpac would support the inclusion of financial literacy in school curriculums to ensure that all New Zealanders are able to actively engage with their banks.
- (f) **Using insights to assist customers to make informed decisions:** Westpac provides a range of prompts to its customers based on customer insights, including monthly reminders to help customers earn bonus interest on their deposits. Westpac intends to increase the number and scope of these prompts to assist customers to make more informed decisions. This also aligns with the principles of the Conduct of Financial Institutions legislation.

Bank accounts for young people in care.

Young people who lack support from older family members are a group that is particularly impacted by banking inaccessibility. This is because missing out on banking services from a young age can have significant long-term effects on a person's level of engagement with important social institutions and, as a result, affect their future prospects in life (such as the ability to secure a job). These young people struggle to satisfy the identification and proof of address requirements for banks to take them on as new customers. Westpac has sought to address some of the disadvantages faced by this group by partnering with Oranga Tamariki and VOYCE Whakarongo-Mai to pilot a programme that enables youths aged 15-17 to access a bank account and financial education.

Te Kaarearea.

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.

Innovative 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.

Managing Your Money workshops.

Westpac recognises the importance of growing the financial capability of its customers and the broader community. Since 2006, Westpac has run free workshops in person and online to help New Zealanders feel more confident about making decisions about money. We also partner with a range of organisations such as schools, employers and community groups to help them deliver effective money management skills for their people. The workshops cover a range of topics, including budgeting, KiwiSaver and buying your first home. Over 30,000 people have participated in Westpac-facilitated workshops since 2021. This programme enables Westpac to help New Zealanders make better financial decisions.

2. Optimising regulatory settings to maximise innovation

2.1 Westpac recognises the importance of the banking industry to the functioning of the wider economy. New Zealanders depend on banks and other financial institutions for a range of essential services, including to receive income, pay bills, and save for the future. Because of the high degree of reliance that consumers have on these services, it is crucial that there are structural safeguards in place to protect consumers and mitigate any potential flow-on effects for the wider economy. For this reason, banks need to be appropriately regulated. As well as actual safeguards, the visibility of regulation also gives consumers greater confidence to engage in commerce and contribute to economic activity.

Westpac supports balanced intervention

2.2 However, when designing regulation, it is equally as important to ensure that its scope is proportionate to the adverse outcomes that it seeks to remedy. Where regulation is too broad or stringent, it can have unintended consequences for customers which negate some of the benefit. For example, regulation may unnecessarily increase the barriers for firms to enter a market or expand and, as a result, inadvertently reduce competition.

2.3 In this context, Westpac believes that New Zealand would benefit from a more targeted regulatory framework. The effect of the current framework is that Westpac, other market participants, and new entrants struggle to innovate at the rate that would be optimal. Westpac considers that steps could be taken to optimise the incentives to innovate. In particular, we are aware of innovations in overseas markets, such as the United Kingdom, which have not arrived in New Zealand as quickly as could be expected. For example, there are a range of opportunities for competitors in the personal banking sector to leverage digital identification technology, which could create significant benefits for consumers such as increased fraud protection, additional payments innovation, easier switching and enhanced financial insights.

2.4 Historically, New Zealand has experienced strong levels of innovation in the financial sector, with consumers having enjoyed the benefits of digital banking for a number of years.⁵ However, recent significant changes to the regulatory framework have coincided with less rapid innovation, as resources across the banking market (particularly experienced employees) are focused on meeting banks' regulatory compliance obligations. While some of the regulatory reforms are similar to those in the UK, New Zealand is a much smaller market, meaning the regulatory burden is harder to digest.

2.5 We consider that by optimising the existing regulatory settings, there is an opportunity to further enhance competition without sacrificing the financial stability of the banking sector.

⁵ Deloitte Digital and FintechNZ "New Zealand Fintech Pulsecheck: Open Banking and Beyond" (2022) at page 9.

Potential regulatory changes to increase innovation

- 2.6 Westpac considers that the following changes could increase competition and, as a result, deliver more innovative products and services to consumers:
- (a) **Introduce a regulatory sandbox:** The development of new products and services within banks comes with a high degree of uncertainty as to whether those products and services will comply with applicable regulation. In this respect, a number of overseas jurisdictions have introduced a “regulatory sandbox”, which is a framework for allowing businesses to test certain innovative financial products and services without first obtaining full licencing or regulatory approvals.⁶ The benefit of establishing a regulatory sandbox in New Zealand is that it could provide all financial service providers (including both incumbent banks and potential new entrants) with greater confidence to develop and launch new products and services, given the regulatory risks associated with novel product ideas would be substantially lessened.
 - (b) **Develop a longer-term regulatory roadmap:** The New Zealand banking industry is subject to significant, ongoing regulatory reform. The uncertainty as to the long term “rules of the road” creates a barrier for both incumbents looking to introduce new products and services and new entrants looking to enter. In this respect, Westpac has in recent years been focused on implementing regulatory change projects, with considerable time and resource dedicated to those projects which could not be applied to innovation. Westpac believes that there would be merit in developing a longer-term regulatory roadmap which outlines the timing, sequencing and coordination of regulatory change. This would enable strategic delivery of regulatory change in a way that allows banks to maximise investment leading to enhanced customer outcomes.
 - (c) **Enhance regulator alignment:** Westpac considers that there are opportunities for greater efficiencies in the way that banks currently engage with the three main industry regulators (being the RBNZ, the Commission and FMA). Improving regulator alignment by considering the role of each of the regulators and reducing existing overlap in their roles and responsibilities in the market would lead to a more effective and efficient regulatory landscape. These increased efficiencies would ultimately lead to greater innovation by banks and other financial institutions.
 - (d) **Consider transferable AML/CFT:** Allowing mutual recognition of AML/CFT customer due diligence across banks would enhance the switching process for customers. This would remove a perceived barrier to switching between banks and allow challenger banks to rely on the customer due diligence that has already been undertaken by the incumbent bank.
 - (e) **Open banking is the future:** Westpac supports the introduction of open banking initiatives to enhance customer outcomes. The CDR represents a significant opportunity to offer value to customers through an integrated data ecosystem. For CDR to deliver its true potential for all customers, it is important that the CDR regime, and the broader set of initiatives which will underpin the wider open banking framework, are well thought out with clear objectives to minimise unintended consequences. Although speed of implementation is important, it must never be at the expense of customer trust or the stability of the system. Banks and other financial service providers should be invited to work collaboratively to develop potential use cases for the CDR so that the regulatory regime facilitates innovation and other customer benefits whilst maintaining consumer confidence in the system. CDR is not the only necessary prerequisite for delivering a successful open banking framework. One of the foundations of

⁶ For example, the Australian Securities & Investments Commission (ASIC) has the “enhanced regulatory sandbox” which allows businesses to test a broad range of financial services and credit activities for up to 24 months. The UK Financial Conduct Authority also has a regulatory sandbox.

real open banking is a centrally administered digital identification system, as this technology is fundamental to ensuring that open banking can be leveraged in a safe manner and in a way that enables customer data to be kept secure. In addition, implementing digital identification technology ensures that on-boarding processes for customers are efficient, making it easier for customers to access different banking service providers in a seamless way. It therefore has the potential to drive forward the uptake of open banking across the sector, by making it far easier for customers to prove their identity and link numerous accounts across different providers to one unique identifier.

- 2.7 Taken together, these proposed arrangements have the potential to create a substantial shift of bank resources towards product innovation and development. Importantly, while there are already significant levels of actual and potential customer switching between banks, the impact of greater innovation would be to further incentivise customers to consider whether better offerings are available in the market, and to switch providers where superior products and services are identified. This increased frequency of switching would further increase competition between banks and other financial service providers.

3. The New Zealand personal banking industry is highly competitive

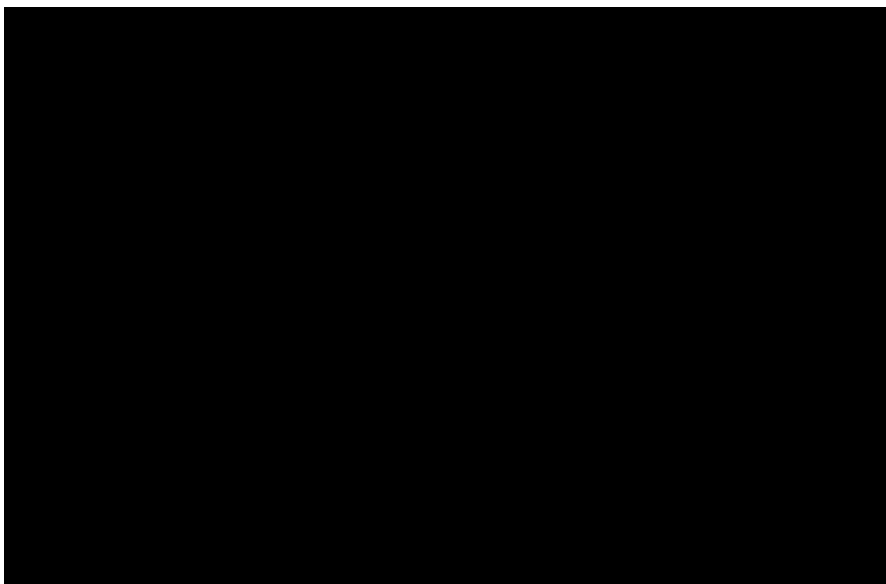
3.1 The New Zealand personal banking industry is highly competitive, and Westpac sees competition as an important feature of a well-functioning market. Westpac’s observations on certain traditional measures of competition are set out below.

- (a) **The market for personal banking services is competitive:** The personal banking industry is highly competitive, with a range of registered banks, non-bank lending institutions, non-bank deposit taking institutions, non-deposit taking finance companies and financial technology (**Fintech**) providers offering similar services (or a subset of them) to those services offered by banks. If Westpac fails to meet the demands of its customers (in respect of either price, quality, or customer experience) customers can, and do, make use of more attractive offers by our competitors.

In addition, the emergence of Fintech providers means that customers can choose new, innovative banking products and services over the more traditional banking products and services offered by banks. Fintech providers are accelerating the disruption of how banking services are delivered, and Westpac’s expectation is that this will continue to make the personal banking industry more competitive.

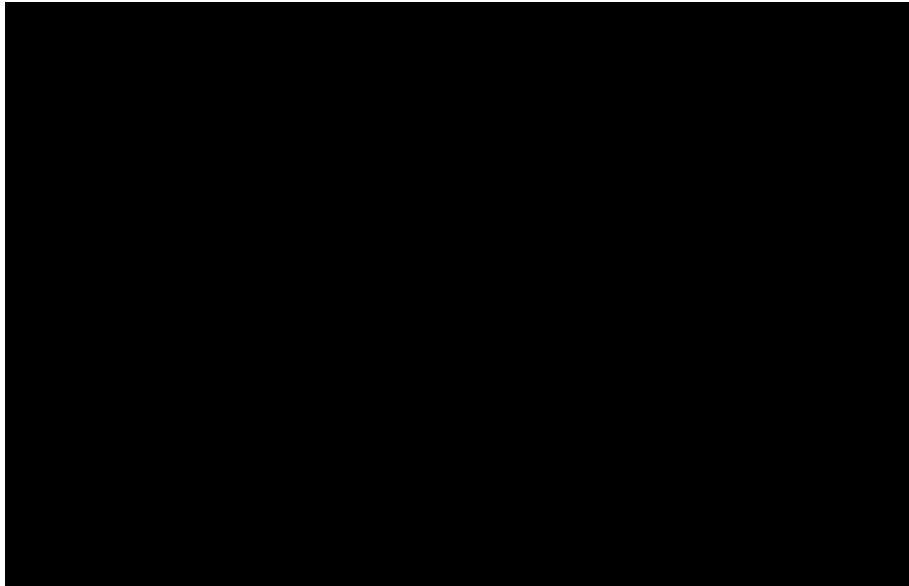
- (b) **Market shares are not static:** All New Zealand banks compete aggressively with each other to win new business. Westpac’s share of market growth for home loans is not static and has ranged from █% to █% each month over the last five years (based on the value of home loans written) (see *Figure 1* below). This demonstrates that if Westpac does not offer competitive home loan products and services, it will lose market share.

Figure 1: Westpac’s share of home loan market growth, 2018-2023



Similarly, Westpac’s share of market growth for household deposits is not static and has ranged from █% █ to over █% each month over the last five years (see *Figure 2* below). This demonstrates that if Westpac does not offer competitive deposits products and services, it will lose market share.

Figure 2: Westpac’s share of household deposits market growth, 2018-2023⁷



- (c) **Customers are well-placed to switch providers:** Research shows that approximately █% of Westpac customers have a relationship with another bank.⁸ This indicates that a large number of Westpac’s customers are already well-placed to switch providers (or consider switching) for different products or services. To retain customers, Westpac’s interest rates, product features and service offering must be competitive. For customers who want to switch providers, the process is relatively straightforward and is supported by a dedicated Westpac switching team.

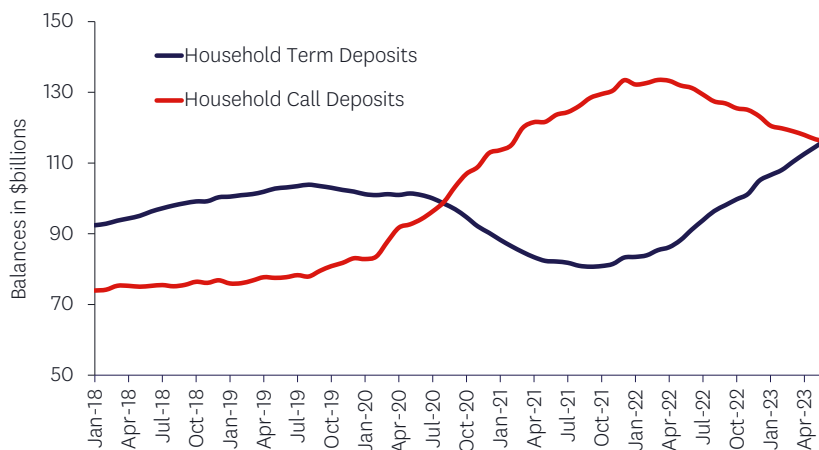
Westpac has observed that competition for new home loan customers is particularly intense and existing home loan customers rolling off fixed term interest periods are generally offered rates that are comparable to those rates offered to new customers given the perceived threat of switching (i.e. existing customers also benefit from the intense competition for new home loans). In Westpac’s experience, this has resulted in an overall relatively low level of home loan switching.

- (d) **Depositors switch products and services within banks:** Depositors actively manage their funds and do respond to banks’ pricing incentives. *Figure 3* below shows the value of funds held in household term deposits and in on call accounts by registered banks in New Zealand from 2018 to present. At the start of this period, interest rates for term deposits were relatively high and depositors favoured term deposits. However, when interest rates began to fall in response to the global pandemic, customers switched from term deposits to on call accounts. Similarly, depositors are now reverting to term deposits as interest rates rise. This demonstrates a level of active management by depositors.

⁷ The missing data points reflect time periods where market balances have decreased.

⁸ █

Figure 3: Household term vs call deposits market balances, 2018-2023



Source: RBNZ

- (e) **Banks compete aggressively on price:** Banks in New Zealand compete on advertised rates as this is often the first impression that many customers have of whether banks are offering value for money. There are a number of sources of information online which customers can use to compare advertised bank rates and related services. In addition, unlike other industries, many bank customers are not simply price-takers who accept the advertised rates. In Westpac’s experience, customers can and do negotiate more competitive rates.

The competitiveness of the home loan market is increased by the broker channel, which currently originates approximately ████% of Westpac’s home lending. Brokers can help customers get the best deal and increase competition in the market.

- (f) **Customers can choose between more than one product to meet their needs:** In many cases, customers have the choice of more than one product to meet their needs. For example, a customer with available funds is not restricted to depositing those funds at a bank. There are a number of different investment products and services that appear on a risk/return continuum, of which only some products and services (e.g. term deposits) are offered by banks. If Westpac’s rates are not competitive (based on a risk/return trade-off) with these alternative investment products, customers can and do invest their funds elsewhere. Other non-bank providers of consumer investment products include Fisher Funds, Milford Asset Management, AMP, Simplicity and others.

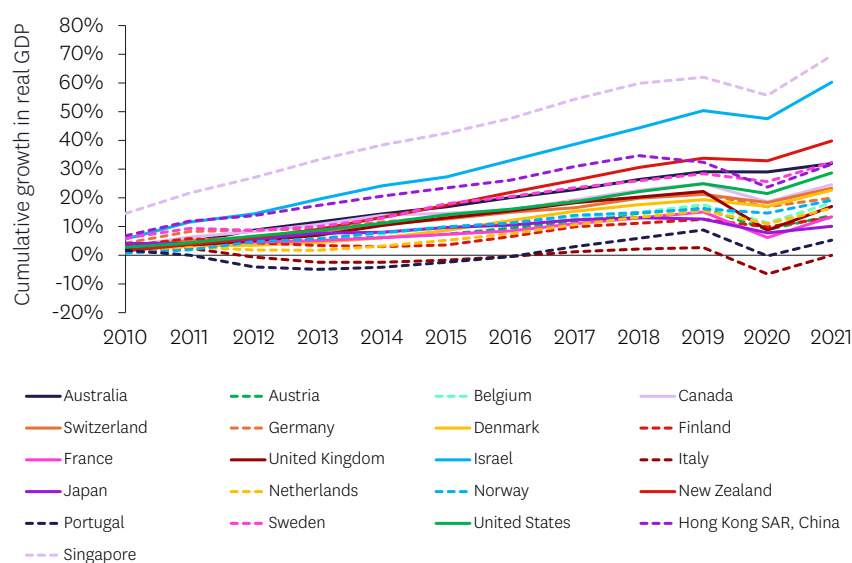
4. Westpac’s observations on bank profitability in New Zealand

4.1 A substantial proportion of the Issues Paper is devoted to assessing the profitability of New Zealand banks.⁹ The banks operate in a way that supports New Zealand’s economy. The long-term financial success of the banks gives New Zealanders confidence that their money is safe and enables the banks to support customers through the economic cycle. However, Westpac recognises that these broader objectives must not be at the expense of a competitive market and customers must have confidence that the banks are delivering value for money.

4.2 Westpac considers that the focus of the Market Study should be on the actual state of competition in the New Zealand banking industry and whether changes are needed to facilitate more competition. However, if profitability is to be examined as part of the Commission’s analysis, potential explanations for it must be considered. Westpac’s observations in that respect are as follows:

- (a) **Bank performance may reflect the performance of the local economy:** The assessment period for the Commission’s analysis of bank profitability in New Zealand compared to our international peers is 2010-2021. During this period, New Zealand experienced ongoing economic growth, low unemployment, and a strong housing market. While these benefits have been difficult for some New Zealanders to access, it is not surprising that just like many other businesses, the New Zealand banking industry was profitable over this period. Westpac’s observations in this respect are as follows:
 - (i) **New Zealand has had a sustained period of economic growth:** New Zealand recorded the third-highest cumulative year-on-year growth in GDP across the Commission’s assessment period relative to the comparison group of countries used in the Issues Paper (see *Figure 4* below). New Zealand’s strong economic performance relative to the international comparators may provide a partial explanation for the profit differences observed by the Commission.

Figure 4: Cumulative growth in real GDP for comparator countries, 2010-2021¹⁰

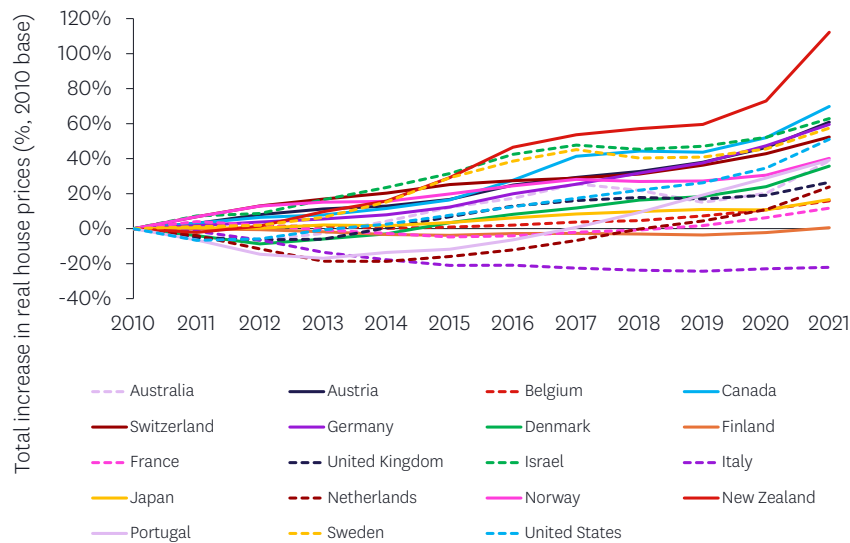


⁹ New Zealand Commerce Commission “Market Study into personal banking: Preliminary issues paper” (10 August 2023) at Attachment C: Bank performance indicators.

¹⁰ World Bank “Global Financial Development Database” Series: GFDD.EI.01, September 2022 Version.

- (ii) **The New Zealand housing market has performed strongly:** As is identified in the Issues Paper, approximately 63% of all registered bank lending in on housing.¹¹ It follows that the profitability of the New Zealand banks is strongly tied to the performance of the housing market. The New Zealand housing market has experienced sustained real price growth over the Commission’s assessment period. *Figure 5* demonstrates the scale of house price growth in New Zealand, which has significantly outperformed the Commission’s comparison group of countries since 2010. The growth of the housing market may provide a partial explanation for the profitability of the New Zealand banks relative to the international comparators.

Figure 5: Change in real house prices for comparator countries, 2010-2021¹²



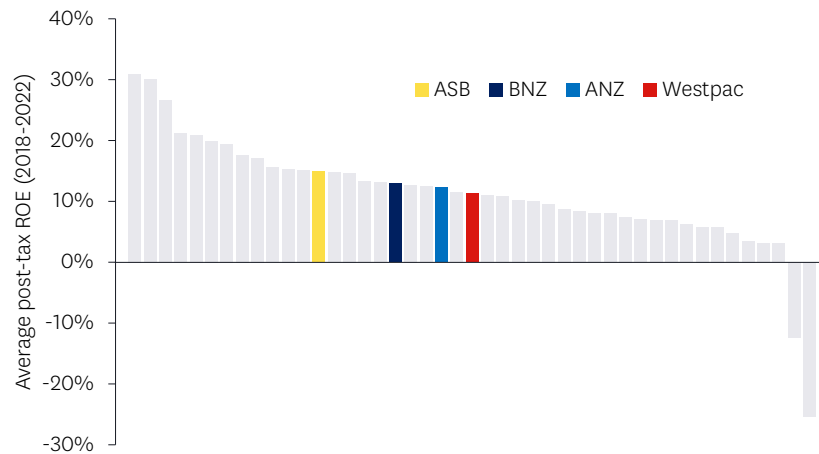
- (iii) **Banks have performed in line with other large New Zealand companies:** There is nothing special about the profitability of New Zealand banks compared with the profitability of other large businesses in New Zealand. The Return on Equity (ROE) of the four largest New Zealand banks is consistent with that of many other large New Zealand companies. *Figure 6* below shows the average pre-tax ROE of the companies that made up the NZX50 for the period 2018-2022.¹³ This demonstrates that the New Zealand banks are not outliers but rather performing at the level that one would expect from large New Zealand companies.

¹¹ New Zealand Commerce Commission “Market Study into personal banking: Preliminary issues paper” (10 August 2023) at page 16.

¹² OECD, housing price data, accessed 29 August 2023. The change in real house prices are indexed relative to a 2010 base year to align with the Commission’s analysis of the World Bank data. Hong Kong and Singapore are excluded from the comparison because OECD data is not available.

¹³ This chart shows the average post-tax ROE of the 41 companies that remained in the NZX50 for the period 2018-2022. The post-tax ROE data is taken from Bloomberg. The post-tax ROE data for each of ASB, ANZ, BNZ and Westpac is taken from the RBNZ dashboard.

Figure 6: ROE for the four largest banks and NZX50 entities, 2018-2022



Source: Bloomberg and RBNZ dashboard

- (iv) **Profitability may reflect the risk profile of the New Zealand economy:** Banking systems reflect the broader economic climate that they operate in. The New Zealand economy may be perceived as a riskier investment proposition than other economies in the Commission’s comparison group of countries. This reflects New Zealand being a small and isolated market that is susceptible to external economic shocks. Investors in New Zealand banks may require a greater return on their investment to reflect this risk exposure, which is an aspect of bank profitability that the Commission may want to explore further.
- (b) **Increased capital requirements expected to impact returns in the future:** The RBNZ’s new capital adequacy framework has increased the amount of capital registered banks are required to hold, with up to \$5.4 billion of extra capital expected to be held across the four largest banks by 2028.¹⁴ While this will increase the resiliency of the banking sector in New Zealand, it is expected to also have an impact on bank returns.
- (c) **The use of “whole of bank” profitability data has its limitations and should be used with caution:**
 - (i) The Issues Paper rightly acknowledges that “whole of bank” data will include activities that do not relate to personal banking services. Different types of banking services can have different levels of profitability, such that the use of an aggregated “whole of bank” figure will not reliably represent a bank’s profitability as it relates to personal banking services.
 - (ii) It is difficult to compare the profitability of New Zealand banks to overseas comparators using “whole of bank” data due to the likely different mix of investment, institutional, corporate, and personal banking services provided by overseas banks to the banks in New Zealand.
 - (iii) As the RBNZ has previously highlighted,¹⁵ New Zealand is the only country in the comparison group where the four largest banks are owned by larger overseas parent banks. It follows that the New Zealand banking sector’s ownership structure is unique by international standards, which may make it difficult to draw direct comparisons with overseas banks.

¹⁴ Ranina Sanglap and Zia Khan, *World’s toughest capital requirements in New Zealand may squeeze credit*, 8 August 2021, S&P Global.

¹⁵ RBNZ, *Trends in bank profitability*, accessed 23 August 2023.

- (iv) While the use of “whole of bank” data has its limitations, Westpac recognises that its use may be unavoidable for the reasons highlighted by the Commission in the Issues Paper.¹⁶
- (d) **Any profitability assessment should be conducted over the long term:** It is difficult to draw meaningful conclusions from relatively short-term assessments of profitability. For example, the principal profitability analysis presented in the Issues Paper as between the New Zealand banks (as distinct from the overseas comparators) is over a 5-year period only. The Commission may want to consider analysing these profitability metrics over a longer period.

¹⁶ New Zealand Commerce Commission “Market Study into personal banking: Preliminary issues paper” (10 August 2023) at Attachment C: Bank performance indicators, paragraph C5.



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