FINANCE AND EXPENDITURE COMMITTEE

INQUIRY INTO BANKING COMPETITION

SUBMISSION BY ANZ BANK NEW ZEALAND LIMITED

25 September 2024

ANZ NZ's whakatauākī

Tākiri ā Rangi
Tākiri ā Nuku
Tākiri Te Awatea
Kia Puāwai Ki Te Ao
Te Kare A Roto E

Introduction

Well-functioning, safe, stable and profitable banks are critical to New Zealand's economic well-being.

Banking is fundamentally about managing risk. The difference in pricing between sectors and customers is largely driven by their risk profiles and the capital required to be held against those loans.

ANZ NZ's returns at about 12% are similar to comparable banks internationally. This is important as ANZ NZ competes internationally to attract capital for investment into New Zealand.

Most banking markets have four to five large players with many other smaller and specialist providers. New Zealand is no different and is just as competitive.

ANZ Bank New Zealand (**ANZ NZ**) has been in New Zealand since 1840. We take our social licence very seriously and are proud of the role we have played as the nation has grown, evolved and prospered.

Almost one in two New Zealanders have some kind of banking relationship with ANZ NZ through a mortgage, a personal or business loan, a term deposit, a transaction account, a credit or debit card and/or a KiwiSaver account.

With our network of banking specialists and experts spanning close to 30 markets around the world, ANZ NZ helps with the nation's trade and capital flows, getting exporters into global markets and businesses and investors into New Zealand.

ANZ NZ employs about 8,000 staff nationwide. We pay about $900m a year in corporate tax, $1b a year in salary and wages to staff, and over $500m a year to contractors and suppliers.[1] We spend about $20m a year on sponsoring sport, the arts, charities, and community activities and groups.

ANZ Group[2] has about half a million shareholders worldwide, including about 16,000 individual New Zealanders and many KiwiSaver and managed funds in New Zealand. Those shareholders have invested about $17b into ANZ NZ making us, we believe, one of the biggest importers of foreign capital into the country. With that capital ANZ NZ is able to raise billions of dollars more from deposits and overseas funds to help New Zealanders into homes, to start and grow their businesses and to trade with the world.

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1 ANZ NZ Media Release, 7 May 2024. Available at: https://news.anz.com/new-zealand/posts/2024/05/ANZ-New-Zealand-delivers-solid-first-half-year-result.

2 Australia and New Zealand Banking Group Limited (**ANZ Group**) spans close to 30 markets around the world, with an on-the-ground presence in more than 10 markets across Asia. The ANZ Group operates in geographies that represent 75 per cent of global trade flows: Australia, New Zealand, Asia, the Pacific, United Kingdom, Europe, North America and the Middle East.

Our ability to raise funds offshore means banks generally help finance the country's current account deficit.[3]

In return for that $17b investment from our shareholders, ANZ NZ makes just over $2b a year in net profit after tax. While that is a big headline number, it is about a 12% return on equity, which is middle of the road for a publicly listed company in New Zealand and effectively the same as the average return of comparable banks overseas.

We also need to be secure and stable; banks hold customers' money and we need to keep those deposits safe. The stability of the financial system as a whole can be threatened by the failure of both large and small deposit takers.

Banks are the bridges between people, businesses and countries, and their aspirations. They also help people protect and grow their wealth.

That is why strong and profitable banks are the enablers in well-functioning and modern economies like New Zealand.

As the recent Commerce Commission (**Commission**) market study into personal banking services (**market study**) showed, the regulatory environment banks operate in is critical to how the banking market operates, and ANZ NZ believes that is worth debating.

There is a balance to be had between stability of the financial system and competition, and regulators and legislators need to carefully decide where that pendulum sits. ANZ NZ welcomes the opportunity to be part of that discussion.

We have included text in blue boxes throughout the submission on possible solutions, or actions ANZ NZ is undertaking which are relevant to the scope of this inquiry.

3 We acknowledge the recent increase in the current account deficit has been funded by Government debt rather than by the banks.

ANZ NZ's key points

AGRI BANKING

- *ANZ NZ is the country's largest lender to agri businesses.[4] With lending of close to $15b to the sector, we bank more family-owned farming businesses than any other bank.[5] Our staff are distributed throughout the country, with many located in regional New Zealand.*

- *The agri banking market is highly competitive on price and non-price features and is served by five larger banks, several smaller market participants and a number of agri lending specialists, particularly for farm equipment and livestock.*

- *We look to build strong, cross-generational relationships with our agri customers. We use our expertise and experience to support agri customers through economic cycles.*

- *While our agri customers may pay more than homeowners for lending (reflecting higher risk), agri consistently remains our lowest returning segment.*

- *Agri customers feel the impact of rate increases and decreases sooner than most parts of the economy because many choose variable pricing structures.*

- *ANZ is committed to improving the simplicity and transparency of how we communicate pricing to our agri customers. We will increase efforts to help customers understand the tangible steps they can take to optimise their pricing outcomes.*

- *As it stands, neither the Reserve Bank of New Zealand's (**RBNZ**) approach to greenhouse gas emissions risk, nor ANZ's own environmental and sustainability policies, have resulted in increased interest rates for the agri sector.*

BUSINESS BANKING

- *ANZ NZ supports New Zealanders starting, running and growing businesses. A major part of that is providing approximately $26b in business lending.[6]*

- *Pricing for business customers is bespoke and takes into account a number of factors, including risk.*

- *The business banking sector is diverse and competitive, with banks, bespoke providers, and fintechs competing strongly on price and non-price features for business lending. Kiwibank is exhibiting disruptive characteristics and international banks have increased their presence. We are also seeing fintechs being increasingly active.*

- *While branches are not critical for the provision of services to most businesses, our substantial physical presence nationwide supports face-to-face interactions. Larger*

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4 RBNZ Dashboard, including lending to large institutional agri customers.

5 Based on main bank share, being 30%. See RBNZ Dashboard, including lending to large institutional agri customers.

6 RBNZ Dashboard, including lending to large institutional customers.

customers have a dedicated relationship manager who may visit their premises. We also have a dedicated business contact centre with business specialists.

CLIMATE CHANGE

- *International consumers, producers and trading partners are increasingly demanding sustainable products and information from global food and fibre businesses. This demand is an opportunity for New Zealand farmers and agri businesses.*

- *We see our role as working alongside our customers on their climate journey. That is why we are investing in staff training, product development and partnerships with third parties to help customers wanting to reach environmental sustainability goals to compete locally and internationally.*

- *We have invested in innovation-focused fund AgriZero^{NZ} and have developed lending products that give practical support to customers transitioning to a low emissions future.*

LENDING TO MĀORI

- *ANZ NZ has long-standing relationships with Māori businesses and organisations, and lending to larger iwi and Māori asset holders has at least doubled over the last 10 years. We have made firm commitments to assist the Māori economy as set out in our Te Ao Māori Strategy, 'Tākiri-ā-Rangi'.*

- *We acknowledge that some Māori customers may experience disproportionate and unique barriers to accessing banking services. In particular, there are structural and regulatory processes that continue to act as barriers to accessing capital.*

- *The disparity in average household incomes and lower home ownership rates has a limiting effect on the ability of Māori to borrow.*

- *Because iwi and Māori land trusts are typically widely held, they are subject to onerous customer due diligence and anti-money laundering (**AML**) requirements.*

- *It appears to us that there is a willingness across the industry, the Government, and regulators to resolve these challenges. The Select Committee may wish to direct that advice and consideration be given to whether there are improvements that can be made which better enable Māori land owners to own and manage their whenua, whether that be through improvements to the Māori Land Court processes and/or resourcing, or amendments to the Te Ture Whenua Act.*

- *As recommended by the Commission, we are committed to continuing to work with the RBNZ and industry to reduce barriers to lending on Māori freehold land, and we will explore participation in the Kāinga Whenua Loan Scheme in 2025.*

PERSONAL BANKING

- *ANZ NZ engaged meaningfully throughout the Commission's market study, recognising the importance of the market study to the banking industry, our customers, and to New Zealand as a whole. While we do not agree with the Commission's conclusions about the relative strength of competition - we think the Commission underestimated the existing level of competition – ANZ NZ broadly agrees with the Commission's recommendations. We think those changes would further lift competition, and we welcome that.*

- *In our experience, competition in personal banking is intense, with continual and effective price competition among banks, as well as important non-price competition.*

- *Kiwibank exhibits the disruptive characteristics the Commission identified in Macquarie Bank in Australia. Kiwibank has also had significant growth at the expense of larger banks. Its share of the home loan market is about 8%*[7] *(by comparison, Macquarie currently has a share of about 5% in Australia).*[8]

- *Those customers who do wish to switch banks can do so easily, with an active portion of the market switching providers regularly. 26.2% of total home loan commitments disclosed to the RBNZ in July 2024 involved a customer that has changed loan provider.*[9] *It is also important to remember that many customers multi-bank and move between providers for different products.*

- *ANZ NZ is present in communities across New Zealand – both physically and digitally, with about 100 branches across the country.*

OPEN BANKING

- *ANZ NZ supports open banking and is proud of the industry's efforts to implement it in the absence of regulation.*

- *We see the value of open banking as it allows us to partner with smart providers of innovative products and services for our customers. Industry participants, the Government and regulators are all seeking the same outcome with open banking. With right-sized and appropriate regulation, including centralised accreditation, we can ensure a coordinated development of open banking in New Zealand.*

- *We have had a number of data share arrangements with fintechs for some years that have been negotiated on a bilateral basis.*

CAPITAL

- *It is a matter for the RBNZ, but ANZ NZ considers there may be merit in the Commission's recommendation that more granular risk weightings be introduced for the standardised approach, such as those developed by the Basel Committee on Banking Supervision (**BCBS**). This proposal would allow the risk weightings of banks using the standardised approach to 'match actual risks more closely'*[10] *and could have a positive impact for agri customers of both internal ratings-based (**IRB**) and standardised approach banks.*

- *As a domestically-systemically important bank (**D-SIB**), ANZ NZ is required to hold additional capital (versus smaller, non-D-SIB banks) and is subject to stringent and comprehensive regulation.*

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7 RBNZ Dashboard.

8 Macquarie Group, 2024 Annual Report (year ended 31 March 2024). Available at: https://www.macquarie.com/assets/macq/investor/reports/2024/macquarie-group-fy24-annual-report.pdf.

9 RBNZ C33 data. C33 splits all the funds under management (**FUM**) commitment data into four purposes, one of which is "change in loan provider", i.e., lending that was switched from one provider to another.

10 Commission, *Final report*, at [7.42].

- *Despite recent growth in the home loan market, we still have more capital invested in New Zealand businesses and agri than home lending. Our agri banking segment consistently provides the lowest returns to ANZ NZ.*

- *Although the increased capital requirements for agri lending are a factor for pricing, there are a number of misconceptions about their impact. The difference in home and agri lending rates is less significant than perceived. The increased capital requirements for agri have not driven a shift to home lending. The higher pricing for agri does not mean ANZ NZ is earning higher returns from this sector.*

PROFITABILITY

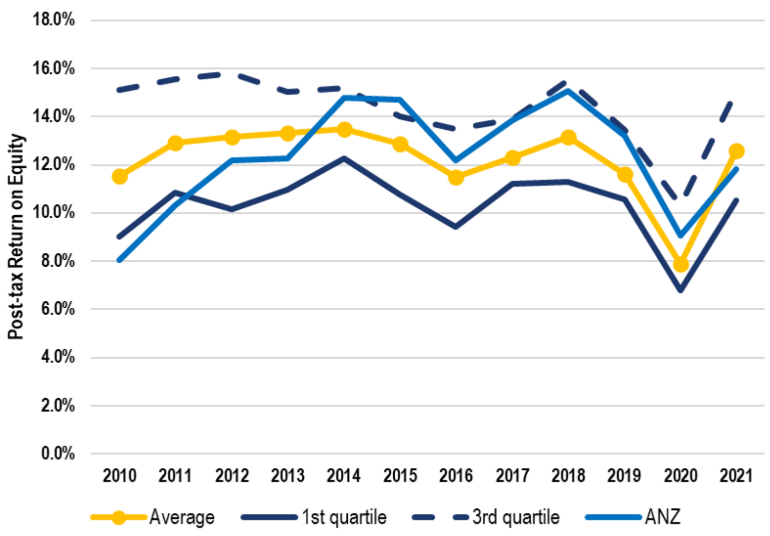
- *ANZ NZ's profits are normal both when compared to international comparators and when assessed against an estimate of its cost of capital.*[11]

- *Looking at total dollar amounts does not say much about profitability because ANZ NZ is a very large business. Robust ratios are a more meaningful measure of profitability. These ratios demonstrate that:*

    - *ANZ NZ's cost of capital*[12] *over the 2010-2021 period, based on a bottom-up assessment was 12.1%-12.8%, with ANZ NZ's actual post-tax return on equity (**ROE**) of 12.3% within the range of normal returns, and*

    - *ANZ NZ's ROE over the same period was 12.3%, which is effectively the same as the average return on equity of 12.2% of an appropriately identified and adjusted international benchmark of banks.*

Figure 1: ANZ's performance against Incenta Economic Consulting (Incenta)'s peer firms (2010-2021)



Source: ANZ, Bloomberg and Incenta analysis

11 As the Commission says, '*Investors have choices, and will not invest in an asset unless the expected return is at least as good as that they would expect to get from a different investment of similar risk. The cost of capital is an estimate of that rate of return*'. Available at: https://comcom.govt.nz/news-and-media/media-releases/2014/commission-releases-expert-reports-about-the-wacc-percentile.

12 See footnote 11.

- *ANZ NZ's net interest margin (**NIM**) of 2.56% for New Zealand Personal and Business & Agri businesses is comparable to the combined margin of ANZ's Retail and Commercial businesses in Australia, which is 2.52%.*

- *The Commission's Final report in the market study concluded that 'the profitability of the New Zealand banking sector is high relative to banking sectors in peer nations'. However, we believe that in coming to this conclusion, the Commission did not consider whether we would want profitability of New Zealand banks compared to countries in their sample. In many of the countries chosen by the Commission there have been extended banking crises, starting with the global financial crisis; interest rates have been very low for an extended period reflecting poor economic conditions; banks are not earning their cost of capital (as reflected in the fact that banks are trading at less than their book values), which is of concern to regulators;[13] and banks are trading at below book value, meaning if the banks were liquidated investors would get a better return than the current market price.[14]*

- *First and foremost, we need to keep depositors' money safe. Commentary about banks unduly profiting at the expense of customers does not take the above factors into account and can lead to an erosion of trust in banking institutions that support a secure and stable financial system for New Zealanders.*

REGULATION

- *The regulatory environment for financial market participants is complex. Regulation is enacted to achieve important policy goals. Regulatory change, and the work and investment required to comply with it, also impacts our ability to do other activities, including innovation for customers.*

- *We support the Government's desire to review complex, duplicative and burdensome regulation. It should be avoided or removed.*

- *We would support the Ministry for Regulation undertaking regular reviews of financial regulation to ensure it is working as expected and achieving its desired aims with the least cost to the New Zealand economy.*

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13 'The many roads to return on equity and the profitability challenge facing euro area banks', speech by Andrea Enria at the 26th annual financials CEO conference. Available at: https://www.bankingsupervision.europa.eu/press/speeches/date/2021/html/ssm.sp210922~df2b18acb9.en.html.

14 For example, the Commission included euro area countries such as Germany and France which were affected by two banking crises in close succession (the GFC in 2008-09 and the EuroZone Crisis of 2010-late 2010s), and Japan which has still not recovered from its housing bubble and banking crisis from early 1990s to mid-2000s.

Contents

Agri banking

ANZ NZ is the country's largest lender to agri businesses.[15] With lending of close to $15b to the sector, we bank more family-owned farming businesses than any other bank.[16] Our staff are distributed throughout the country, with many located in regional New Zealand.

The agri banking market is highly competitive on price and non-price features and is served by five larger banks, several smaller market participants and a number of agri lending specialists, particularly for farm equipment and livestock.

We look to build strong, cross-generational relationships with our agri customers. We use our expertise and experience to support agri customers through economic cycles.

1 ANZ NZ defines the agri sector to include customers who are land-based primary producers such as dairy, beef, sheep, horticulture, and forestry. Different banks may define the agri sector differently.

2 Lending to the New Zealand agri banking sector is large, totalling around $62b, while deposits are significantly lower at around $9b.[17] Dairy lending accounts for around 60% of the agri lending market, sheep and beef around 25%, and horticulture and other around 15%.[18]

Competition in agri banking

3 Competition for agri customers is strong, with the exception of customers that are in a distressed state (noting ANZ NZ works with our customers to avoid distress, and we provide specialist support to customers in distress, see further paragraphs 48.2 – 48.3). ANZ NZ must compete hard on both price and non-price features to try to maintain and grow its market share. The competitiveness of the market can be evidenced by Kiwibank's recent statement that it does not have plans to enter the 'crowded' agri lending market.[19]

4 Research on agri banking customers has shown that non-price competition holds significance for them. Examples of our non-price offerings in the agri sector include our start-up and succession planning support, and our investment in an ESG information system (refer to paragraph 44), which can provide agri customers valuable insights about their business. These examples, and others, are described at paragraphs 38 - 46.

5 Our role is more than lending money at competitive prices. We compete based on our ability to support agri customers to be in a good position to succeed, now and in the future. We use our expertise and experience to support agri customers through

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15 RBNZ Dashboard, including lending to large institutional agri customers.

16 Based on main bank share, being 30%. See RBNZ Dashboard, including lending to large institutional agri customers.

17 RBNZ Dashboard, including lending to large institutional agri customers.

18 RBNZ Dashboard, including lending to large institutional agri customers.

19 Kiwibank's lending in this sector is small, and it stated, "we currently have no plans to enter the rural lending market". Farmers Weekly, *Kiwibank denies rural lending ambitions* (5 September 2024). Available at: https://www.farmersweekly.co.nz/news/kiwibank-denies-rural-lending-ambitions/

economic cycles and getting their balance of debt/equity right.[20] We actively monitor customer satisfaction data, which we use to improve our service.

6 We have learned from mistakes we have made in the past (such as lending based on land value rather than business strength).

Rabobank is a large and disruptive provider in the agri sector

7 The agri sector is served by five larger banks, several smaller market participants, and a number of agri lending specialists, particularly for farm equipment and livestock. Examples include UDC Finance, StockCo, John Deere, and PGG Wrightson.

8 ANZ NZ competes most closely with Rabobank, ASB, BNZ, and Westpac for agri customers. Rabobank has had strong and sustained growth in the agri sector. Rabobank is now the second largest rural banking lender and has increased its market share to 21.68% over the last four years, from 18.32% in June 2020.[21] Rabobank accounted for 41% of all new rural lending during the period January to June 2024.[22]

9 Heartland Bank also provides lending for land purchases, farm development, livestock and equipment, as well as transition loans for retirement.

10 We see disruption from Heartland, particularly through the fintech Figured, which provides farm financial management software. Figured partnered with Heartland Bank in 2022. It offers loan pre-approvals within 24 hours, on up to $100,000, with products including seasonal working capital facilities, invoice financing, and asset financing. Figured also assists agri customers with accounting, budgeting, and forecasting.

11 Examples of non-bank competition in this sector include:

11.1 UDC, which provides asset-backed finance for all types of agricultural vehicles and equipment. Formerly owned by ANZ NZ, UDC is now a subsidiary of Japanese financial institution, Shinsei Bank,

11.2 PGG Wrightson Limited, which is one of the major suppliers of seeds, grains, livestock and farm equipment in New Zealand but also provides financing. It enables farmers to free up capital by purchasing and owning livestock, with farmers receiving a net trading margin when the stock is sold, without any capital outlay,

11.3 StockCo, which is a livestock finance provider. It funds up to 100% of the purchase price of livestock, with no capital outlay required from the farmer. StockCo's additional offerings include funding to support breeding livestock and advances on current values of stock for cashflow purposes, and

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20 For example, 10 years ago, over 80% of lending to large parts of the agri sector was on interest-only terms. Farmers improved their balance sheets, and by the end of 2021, only 34% of ANZ NZ agri customers were on interest only. Today, that percentage has risen to over 50% of agri customers (and approximately 55% of sheep and beef customers), which is providing the working capital as farmers work through a downward cycle. Reducing debt at the appropriate time increased their resilience, giving them more options if they came under financial pressure.

21 RBNZ Dashboard, including lending to large institutional agri customers

22 RBNZ Dashboard, including lending to large institutional agri customers

11.4 John Deere NZ, which offers equipment financing to borrowers wanting to purchase or lease new and used John Deere equipment.

12 Kiwibank's lending in this sector is small and, according to public statements, it has no plans to enter the agri lending market.[23] Apart from ANZ, ASB, BNZ, Rabobank and Westpac, no other multinational banking groups compete to provide agri lending in New Zealand. We believe this is due to higher costs and comparatively low returns in the sector (see paragraph 167), the value farmers place on existing close relationships, and the on-the-ground presence of their banks.

Pricing for the agri banking sector

While our agri customers may pay more than homeowners for lending (reflecting higher risk), agri consistently remains our lowest returning segment.

Agri customers feel the impact of rate increases and decreases sooner than most parts of the economy because many choose variable pricing structures.

ANZ is committed to improving the simplicity and transparency of how we communicate pricing to our agri customers. We will increase efforts to help customers understand the tangible steps they can take to optimise their pricing outcomes.

As it stands, neither the RBNZ's approach to greenhouse gas emissions risk, nor ANZ's own environmental and sustainability policies, have resulted in increased interest rates for the agri sector.

We value open communication with our customers regarding pricing. Our desire is to have our customers better understand the tangible steps they can take to get the best products and pricing for their situations. That's why:

1. we will publish a guide on our website setting out the actions our business and agri customers can take to improve their risk profile; and
2. for business and agri customers who have a specific relationship manager, we will look to have interest rate conversations that touch on ways in which those customers can improve their risk profile.

The above commitments need to be balanced with the additional capital we are required to hold each year until 2028, which will have an increasing impact on pricing. We commit to continuing to be transparent about these capital changes, too.

13 The price (interest rates) of lending and deposits across the business, agri, and personal banking sectors is influenced by factors including competition, economic conditions, regulatory settings (such as capital requirements), monetary policy (including the expected and actual level and direction of the official cash rate (**OCR**)), wholesale funding markets, and shareholder return.

14 Lending interest rates should not be considered separately from deposit interest rates. Attracting deposits is crucial for banks to fund their lending. Banks need to

[23] Farmers Weekly, *Kiwibank denies rural lending ambitions* (5 September 2024). Available at: https://www.farmersweekly.co.nz/news/kiwibank-denies-rural-lending-ambitions/

find a balance between loan and deposit growth, and the respective interest rates offered must be managed to ensure sustainable funding and compliance with prudential and liquidity requirements. This ultimately ensures banks' financial stability.

15 Like many countries, New Zealanders' borrowings exceed their deposits. That means New Zealand banks must obtain funding via other sources such as wholesale markets, to fund lending. Investors in wholesale markets will consider environmental factors along with the underlying strength of the bank looking for investment. Investors require a sufficient return for the perceived risk. The perceived risk of major New Zealand banks and their operating environment is evident from the lower credit ratings they are prescribed compared to their Australian parents on a standalone credit rating basis. New Zealand banks pay on average 5-30bps (0.05-0.30%) more than their Australian parents to attract wholesale funding in international markets.

16 The RBNZ's changes in the OCR, including expected future changes, influence wholesale market interest rates and, therefore, impact the interest rate environment and banks' cost of capital.[24] Changes in wholesale market interest rates, whether driven by the OCR or other external economic factors, impact the interest rates banks offer to borrowers and depositors.

17 Over the last three years, higher interest rates on lending (and deposits) have been primarily driven by increases to the OCR, which increased 5.25% between October 2021 and May 2023. It has taken until August 2024 for the OCR to reduce, by 0.25%.

Bespoke nature of pricing for agri customers

18 Lending interest rates for agri customers are influenced by the factors described above. Some costs are relevant for all lending interest rates, such as funding costs, liquidity, and operating costs.

19 While base rates[25] for agri customers are advertised on our website, actual interest rates are set individually.[26] Factors include customer risk, level of security, loan term, and whether the rates are fixed or floating.

20 In addition, agri is subject to sector-based risks, which impact many customers. These include:

20.1 access to markets,

20.2 volatility in global export markets,

20.3 commodity/farmgate prices,

20.4 a changeable New Zealand dollar,

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24 Cost of capital is the financial return investors require from an investment given its risk. See also footnote 11.

25 ANZ NZ base rates are the underlying interest rate to which a discount or margin is applied to arrive at a customer's interest rate. Base rates vary across different loan types, including between fixed and floating loans and overdrafts.

26 Available at: https://www.anz.co.nz/rates-fees-agreements/agri/.

20.5 inflation,

20.6 crop or animal diseases (mBovis is a recent example, as well as PSA in kiwifruit, and foot-and-mouth disease could be catastrophic),

20.7 environmental costs,

20.8 weather events,

20.9 income and/or input costs. For example, whereas in other sectors, a change in economic circumstances tends to impact a small proportion of customers (for example, in personal banking there is risk that a relatively small number of home loan customers could lose their job), in the agri sector, one change can impact a large part of the sector – for example, sheep and beef meat commodity downturn could impact 25% of agri customers at once, and

20.10 insurance. Not all on-farm risks can be insured, or they are prohibitively expensive to insure. For example, loss of income through drought is uninsurable in New Zealand. Where severe drought impacts income, ANZ NZ will provide cashflow and long-term funding to support recovery, which often lasts several seasons. In contrast to the Christchurch earthquakes, which were insurance-funded recoveries, the recent North Island weather events were a debt-funded recovery, due to the uninsurable assets (such as land, trees, and planting) adversely impacted by flooding and slips.

21 These weather events, income, and insurance risks are reflected in the risk profile of customers and this led to us launching the ANZ Business Regrowth Loan (see paragraph 47). Some agri customers have used the ANZ Business Green Loan to assist with planting reinstatements (see paragraph 42).

22 This increased risk means more capital needs to be held against agri lending, putting interest rates generally higher than those charged for home loans (see paragraph 152).

23 Different sectors experience changes to levels of interest rates at different times. Most home loan customers choose a fixed interest rate in New Zealand, so do not feel the impact of increasing or decreasing rates until their term ends. Agri customers, in contrast, mostly choose variable pricing structures and feel the impact of rate increases and decreases sooner.

24 ANZ NZ data shows 74% of our loans by value to the agri sector have a floating rather than fixed interest rate.[27] In terms of agri loan customers, 69% are on floating interest rate loans only. An additional 18% of customers have a mix of floating and fixed interest rate loans. This contrasts with home loans, where less than 10% are on floating rates.

25 Having variable pricing structures often reflects agri customers' need for flexibility. With cashflows fluctuating from season to season a fixed pricing structure may be harder to service.

[27] BKBM is included in fixed lending for this data.

Overdrafts

26 A smaller proportion of ANZ NZ lending to agri customers – approximately 2% – is in the form of overdrafts. These overdrafts often have interest rates that are higher than floating loan rates. While a loan is designed for capital investment on a farm (or in a business), overdrafts may be used as working capital support for customers to manage their cashflow. Overdrafts can often be unsecured and do not typically have structured repayment plans, which increases the risk of lending, the capital impost and interest rates reflect these factors.

How ANZ NZ offers prices to agri customers

27 ANZ NZ's pricing for agri customers is agreed by frontline relationship managers, guided by our business lending pricing tool. Reviews of the business lending pricing tool occur regularly and incorporate changes in capital requirements.

28 The nature of agri lending means the information exchange between agri customers and ANZ NZ is more complex than for home lending. While some agri customers use consultants to provide analysis and advice, brokers play a much smaller role than they do in home lending.

29 The same customer may receive different interest rate offerings between banks. This reflects each bank's risk appetite, its assessment of the customer's risk profile and competition. ANZ NZ believes we are transparent with agri customers about our offers.

30 We value open communication with our customers regarding pricing and, in our experience, most agri customers are well equipped to compare offers. We will, however, continue to improve our efforts to help customers understand the tangible steps they can take to optimise their pricing outcomes. We will also look to ensure our relationship managers can better respond to pricing questions.

Climate issues facing our agri customers

31 As it stands, neither the RBNZ's approach to greenhouse gas emissions risk, nor ANZ NZ's own environmental and sustainability policies, have resulted in increased interest rates for the agri sector. Please also refer to the Climate Change section of this submission.

Products and support for the agri banking sector

Relationships and service

32 Our overarching focus is to enable customers to contact us via their channel of choice, which could be digital, voice, or in person. We believe our presence in communities and capability to reach rural customers nationwide, for those who prefer in-person interactions, is a significant competitive advantage. It is the connection, rather than branches, that customers value, as shown by the highly competitive Rabobank no-branch model.

33 We constantly strive to improve customer experience through our in-depth knowledge of sectors and our customers. ANZ NZ benefits from its sector experts and specialist bankers, who are dedicated to understanding customer needs.

34 ANZ NZ has a substantial physical presence nationwide for customers requiring in-person banking services. We have about 100 physical branches throughout New

Zealand, with 45 within the Auckland, Hamilton, Tauranga, Wellington, Christchurch, and Dunedin boundaries, and the rest in the regions. We have over 300 relationship managers based across 32 branches specialising in either business or agri.[28]

35 We have not exited a regional town in three years and have committed not to do so for another three years. Our agri bankers frequently travel to meet with customers at their home or other premises.

36 The distribution of our agri banking staff across branches throughout the country, establishes a substantial connection to our customers and their communities. Our free phone line is also available to customers 13.5 hours a day, recognising the extended hours our agri customers operate.

37 Access to banking for customers living rurally, including cash, is further addressed at paragraphs at 129 - 132, in the personal banking section of this submission.

Product offerings

38 We provide tailored support to our agri customers with start-up and succession planning.

39 We are one of the few banks offering a targeted start-up package to support those starting their farming journey, such as contract milkers, share milkers, and farm lessees. This package includes access to unsecured lending, and business planning tools that support financial resilience. ANZ NZ has local managers across the country who specialise in supporting start-up farmers.

40 Many of ANZ NZ's farming customer relationships are intergenerational. For the mature end of our agri sector, we provide people and capital to support their transition to the next generation or out of farming entirely. Our agri customers also work with our Private Banking specialists on wealth generation.

41 ANZ NZ is also developing tailored financial products to help customers invest in projects that reduce emissions or improve sustainability. While we are at an early stage, we are looking at innovating and evolving our suite of products to support this transition and meet customer demand.

42 An initial example of this innovation is the ANZ Business Green Loan, which was launched in late August 2022 and provides eligible businesses (including agri businesses) the opportunity to borrow up to $3m at a discounted rate. The ANZ Business Green Loan is designed to support eligible business customers to finance or refinance assets or projects associated with energy efficiency, renewable energy, green buildings, plantings, sustainable water and wastewater, clean transportation, and pollution prevention and control.

43 The discounted rate for lending is intended to incentivise uptake of initiatives that reduce emissions or improve sustainability.

Digital offerings

44 ANZ NZ has invested in an innovative 'ESG information system' (**ESGIS**) designed to consolidate and analyse climate-related data. In time, ESGIS will enable us to

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[28] We have an additional 47 relationship managers specialising in corporate and institutional (where our customers are larger businesses with more complex needs, some of which are publicly listed).

provide customers with valuable insights that may help guide discussions about enhancing their business resilience, managing asset risks due to climate impact, and boosting sustainability. This may help customers make decisions on what climate change adaptation and mitigation measures they could use to future-proof their business.

45 ANZ NZ has partnered with third parties like Xero and Farm Focus to help our agri customers with digital solutions for the accounting and financial information sharing requirements.

46 We also provide a number of digital channels for our agri customers, as described in paragraph 75.

Wider support

47 Natural disasters and extreme weather have had a major impact on the agri sector in recent times. That is why we launched the ANZ Business Regrowth Loan in July 2023, as a low-interest loan aimed at those needing finance following extreme weather events. We also participated in the Government's North Island weather events loan guarantee scheme between August 2023 and June 2024 to provide relief to businesses significantly affected by the Auckland Anniversary floods and Cyclone Gabrielle.

48 ANZ NZ's wider support for agri customers includes:

48.1 *specialist insights*: ANZ NZ has an insights team and an in-house ESG expert, who supports a network of banker 'ESG champions' operating across every region. The insights team collaborates with agri bankers and industry to understand customer challenges, and to offer educational resources. This team regularly hosts events and produces industry insights, financial benchmarking reports and various performance analyses for the dairy, red meat, and horticulture sectors,

48.2 *working with customers to avoid distress*: It is not in ANZ NZ's interests for our customers to be in distress or default. We promote principal repayments so agri customers can lower debt during periods of strong performance, boosting financial resilience for customers and the sector. Even customers with 90% equity might still struggle to pay interest if costs across the business are high. ANZ NZ prioritises a customer's ability to service loans to minimise financial distress; assessing security provided by a farm is a secondary measure,

48.3 *providing specialist support for customers in distress*: Higher risk customers are managed by a specialist advisory team, called Lending Services, which is made up of some of our most experienced bankers. Distressed farming businesses have unique challenges like cyclical patterns, weather impact, and long-standing ties to land. ANZ NZ works collaboratively with customers in distress, using various strategies such as changing farm intensity, cutting costs, or selling assets. A tool that has been used a lot recently is to move customers to interest only repayments. We also facilitate other external advice when required. More intensive customer support may include farm advisors, accountants, and lawyers. We support the work of organisations such as the Rural Support Trust and its Time-Out Tours. The Farm Business Advice Fund, managed by the Rural Support Trust, offers financial assistance to farmers experiencing financial difficulties, and

48.4 *supporting initiatives and innovations for emissions reduction*: ANZ NZ recognises that affordable and scalable solutions for reducing agricultural greenhouse gases, especially biogenic methane, are still emerging. We are engaging with the agri sector and other stakeholders to better understand potential solutions to reduce these emissions. ANZ NZ has made submissions about needing to support the agri sector to transition, and the investment needed in technology to enable this.[29]

49 ANZ NZ recognises that we can help by supporting scientific developments. Recently, we invested in AgriZero^{NZ},[30] a public-private joint venture between the New Zealand Government and industry stakeholders to fund technologies that will help pasture-based farmers reduce their biogenic methane and nitrous oxide emissions. This collaboration is a practical commitment to support the development of technologies to reduce emissions.

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29 ANZ NZ, *Submission on Action for Healthy Waterways* (21 October 2019). Available at: https://news.anz.com/content/dam/news/New-Zealand/2019/October/ANZ%20Action%20on%20Healthy%20Waterways%20Submission.pdf.

30 See at: https://news.anz.com/new-zealand/posts/2024/04/AgriZeroNZ-investment-boosts-farm-emissions-reduction-research.

Business banking

ANZ NZ supports New Zealanders starting, running and growing businesses. A major part of that is providing approximately $26b in business lending.[31]

The business banking sector is diverse and competitive, with banks, bespoke providers, and fintechs competing strongly on price and non-price features for business lending. Kiwibank is exhibiting disruptive characteristics and international banks have increased their presence. We are also seeing fintechs being increasingly active.

While branches are not critical for the provision of services to most businesses, our substantial physical presence nationwide supports face-to-face interactions. Larger customers have a dedicated relationship manager who may visit their premises. We also have a dedicated business contact centre with business specialists.

50 ANZ NZ's references to the business sector include small, medium and large businesses, including local privately-owned businesses. Different banks may define business banking differently.

Competition for business banking services

51 The business banking sector is large and competitive, and we closely monitor market conditions and competitor propositions to ensure we remain competitive. ANZ NZ-commissioned research shows that smaller businesses with simpler needs tend to prioritise price over non-price elements, so it is crucial that we price competitively. At the same time, research on business banking customers has shown that several aspects of non-price competition hold significance for all business banking customers. This is particularly the case for larger and more complex customers, as they tend to highly value relationships, solutions, and flexibility.

52 In addition to competing on pricing, ANZ NZ looks to compete to gain new customers and retain existing ones through relationships and service (whether in branches or contact centres, or through in-person visits), product offerings and structuring options, digital services, and other innovations. Examples include services such as the HOWTWO Small Business Programme, and digital offerings including ANZ FastPay Tap, a mobile payment solution for businesses. Investing in our data abilities is increasingly important to customers, as AI capability and performance expands. These examples, and others, are described at paragraphs 68 - 76.

53 We aim to provide comprehensive banking services and support focused on helping customers start, run, and grow successful businesses. This includes providing insights to customers to help them make more informed decisions, as well as supporting business customers to be resilient and providing assistance when the unexpected happens (see paragraphs 77 - 79). We actively monitor customer satisfaction data, which we use to improve our service.

Strong growth and disruption from Kiwibank and others

54 ANZ NZ competes most closely with ASB, BNZ, Kiwibank and Westpac for business customers. Other banks such as Rabobank, Heartland, the Bank of China, and the

[31] RBNZ Dashboard, including lending to large institutional customers.

Industrial and Commercial Bank of China, as well as bespoke fintech providers including Emerge, Prospa, and Taxi have demonstrated they are strong competitive threats. These fintech providers offer specific products or services that they compete with to win customers, meaning they can target the most profitable parts of the value chain. In the business sector, we also see disruption from 'Big Tech' companies such as Google, Apple and Amazon, which are growing in the provision of digital payment experiences and data.

55 As with personal banking, Kiwibank exhibits disruptive characteristics in the business sector, particularly for small business customers. Kiwibank has almost doubled its share of business lending in the last four years, lifting from 2.12% to 4.10% market share.[32] While the market share for Kiwibank still appears small, this is $2.6b of lending growth, equivalent to 23% of all business lending growth in the period.[33]

56 Market share held by banks other than ANZ, ASB, BNZ, Kiwibank, and Westpac has also increased materially in the last four years. Lending has increased by 53% ($5.6b) with share of total business lending growing from 9.73% to 13.5%.[34] The increase is largely due to growth of the Bank of China, the Industrial and Commercial Bank of China, and Rabobank.

57 Together, business lending by Kiwibank and 'other banks' as described above now comprises $21b of business lending in New Zealand, amounting to 17.6% of the market.[35] This is a significant increase, compared with 11.85% four years ago (i.e., equivalent to 72% of all business lending growth in the period). Against this strong growth, ANZ NZ must compete hard to maintain and grow our market share.

58 We see fintechs present in New Zealand in large numbers. The Technology Investment Network (**TIN**), New Zealand Fintech Insights Report 2024 illustrates this point in Figure 2 below. In that report, the TIN describes the 'rapid ascendency' of fintech in New Zealand, with the sector recording 'ten-year annual compound growth of 32% - four times higher than the growth of the wider tech industry'.[36]

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[32] RBNZ Dashboard. 'All business lending' on the RBNZ Dashboard includes lending to large institutional customers, which Kiwibank do not have the capability to support at this stage. That being the case, Kiwibank's market share of the business sector excluding institutional customers would be higher.

[33] RBNZ Dashboard. 'All business lending' on the RBNZ Dashboard includes lending to large institutional customers.

[34] RBNZ Dashboard. 'All business lending' on the RBNZ Dashboard includes lending to large institutional customers.

[35] RBNZ Dashboard. 'All business lending' on the RBNZ Dashboard includes lending to large institutional customers.

[36] Technology Investment Network, *New Zealand Fintech Insights Report 2024*, at page 5.

Figure 2: TIN infographic of fintechs in New Zealand

59 There are a number of fintechs that offer strong propositions for the business market in New Zealand, both established (such as Xero) and newer (such as Stripe, which has a large overseas presence and has launched in New Zealand recently). Emerge has launched itself successfully as a digital solution for small businesses, offering accounts, cards, payments, and other functionality. Prospa has focussed on online lending for small businesses needing to borrow up to $500,000 and expanded from Australia into New Zealand.

60 ANZ Group recognises the competitive and innovative propositions that fintechs present. It has created 1835i Group Pty Ltd, an external innovation partner that invests in and partners with fintechs that are focused on homeowners, small and medium-sized businesses, trade and capital flows, and transforming businesses through data, analytics, and digital technologies. ANZ Group has also acquired Dot Data Limited; a company providing data insights and solutions to New Zealand businesses.

Pricing for the business banking sector

Pricing for business customers is bespoke and takes into account a number of factors, including risk.

We value open communication with our customers regarding pricing. Our desire is to have our customers better understand the tangible steps they can take to get the best products and pricing for their situations. That is why:

1. we will publish a guide on our website setting out the actions our business and agri customers can take to improve their risk profile, and
2. for business and agri customers who have a specific relationship manager, we will look to have interest rate conversations that touch on ways in which customers can improve their risk profile.

The above commitments need to be balanced with the additional capital we are required to hold each year until 2028, which will have an increasing impact on pricing. We commit to continuing to be transparent about these capital changes, too.

Our offers to business customers are bespoke

61 While base rates for lending to business customers are advertised on our website,[37] actual lending interest rates for business customers are set individually.

62 As with agri customers, some factors are relevant for all interest rates, such as funding costs, the cost of holding liquid assets, and operating costs, meaning base rates can change even when the OCR remains the same.[38]

63 Other factors differ based on customer-specific factors. Customer-specific factors include customer risk, level of security, loan term, and whether the rates are fixed or floating. In relation to risk, business lending often carries more risk than home lending as customers are reliant on domestic and global markets, and economic conditions. Businesses are often first to feel the impacts of lower economic performance, and typically have security that is less liquid than home loan security. ANZ NZ notes that in tough economic times there is a higher prevalence of businesses becoming insolvent, with outstanding debts exceeding business assets, leading to losses for banks and impacts on the business owners. Interest rates

[37] Available at: https://www.anz.co.nz/rates-fees-agreements/business/.

[38] For example, prior to the OCR reduction in August 2024, ANZ NZ had reduced its business base rate prices by 0.15%. Following the OCR reduction, ANZ NZ has reduced the business base rate prices 0.15% taking total reduction for business base rate to 0.30%.

charged on business lending are generally higher than home loan rates due to the higher risk and, therefore, higher capital requirements.

64 The nature of business lending means the information exchange between business customers and bank is more complex than for home lending.

65 While accountants often provide information to banks on behalf of customers, brokers play a much smaller role helping them compare pricing in business lending than they do in home lending. Business customers may also perceive that it is easier to deal directly with a bank. Larger business customers use competitive tender processes or 'requests for proposals' (**RFPs**), to get an accurate view of available banking products and services and promote competitive offers.

66 As with agri lending, we believe we are transparent with business customers about the reasons a customer has been given a particular offer. But we are committed to listening to points of concern from customers, and considering ways in which we can improve the simplicity and transparency of how we communicate pricing.

67 ANZ NZ's deposit interest rates for businesses are often priced individually on a customer-by-customer basis, similar to lending. Some influencing factors specific to deposit pricing include size of deposit, and any customer-specific liquidity requirements.

Products and support for the business banking sector

Relationships and service

68 We work hard to understand and meet our customers' needs in terms of their relationship with us and the service we provide to them, including enabling them to contact us via their channel of choice (digital, voice, or in-person). We highly value insights into our customers, their businesses, and their goals.

69 We know our business customers value being able to speak to a person, and place value in having a personal relationship with their bank.

70 ANZ NZ has a substantial physical presence nationwide for customers requiring in-person banking services. We have over 300 relationship managers based across 32 of our branches, specialising in either business or agri, and available to visit our customers' premises. We also have seven separate business banking centres.

71 For many business customers, while branches can be useful, they are not necessarily critical for the provision of business services, as evidenced by the branchless fintech service proposition.

Product offerings

72 In addition to continually investing in our relationships with customers, ANZ NZ provides specific products and services aimed at business support services. We have a range of products, including transaction accounts, debit cards, credit cards, investment options and loans.

73 We provide targeted products and services for start-ups, as the first two years is often a critical time for small businesses. Our packages focus on assisting customers with that start-up journey include our HOWTWO small business support programme. Small businesses can sign up to this programme to receive products, support, insights and other tools to help them succeed beyond their second year. ANZ NZ is

committed to promoting the availability of this support, evidenced by our significant investment in promoting the HOWTWO Programme. We also offer the ANZ Business Green Loan for this sector (see paragraph 42).

Digital services

74 We aim to stand out in our digital offerings. We know that customers' digital experience is important to them, with research showing the importance of internet banking and mobile app safety and security, and internet banking ease and navigation.

75 We offer digital channels to suit our customers' needs with:

75.1 the ANZ goMoney app and internet banking for smaller businesses, which enables customers to view accounts and make payments remotely,

75.2 the ANZ Direct Online (**ADO**) for commercial businesses, which enables customers to manage domestic and international payments, view detailed transaction reports and audit history, and manage user access to accounts, and

75.3 ANZ Transactive Global, which is our intuitive, secure, and configurable digital banking platform designed for institutional, corporate, business, and agri customers with more complex digital needs.

76 We have also developed ANZ FastPay Tap and ANZ goBiz:

76.1 ANZ FastPay Tap is a mobile payment solution that lets our business customers accept EFTPOS, Visa, Mastercard and UnionPay payments on the go. This provides an affordable solution for small to medium sized businesses processing low volume transactions, and

76.2 ANZ goBiz is a portal developed with third party provider Demyst that enables customers to apply online for a business overdraft or loan and upload their key financial information direct from their accounting platform (Xero or MYOB).

Wider support

77 We provide support focused on helping customers start, run, and grow successful businesses, which includes:

77.1 publishing data and insights (e.g., benchmarking, market intelligence reports, insight papers and economics updates/reports) for business customers,

77.2 providing webinars and in-person event for business customers. We cover topics such as sustainability, economic, legal and insurance updates, and sector-specific insights in areas such as food and beverage, agriculture, Māori in business, and more,

77.3 using our scale and geographical reach to connect businesses to opportunities and support services. This includes utilising the breadth of expertise we have in ANZ NZ (from home lending to Private Bank and transaction banking specialists) and key organisations in local communities, 77.4 providing support on other important industry topics (e.g., sustainability, trans-Tasman exporting), support through thought leadership papers on our website, and

77.5 running the Business Boost competition, where ANZ NZ selects five businesses to support in areas they lack skills in, such as marketing and online expertise.

78 We also support business customers to be resilient, and assist them when the unexpected happens.

79 During Covid, we offered a range of support to customers including deferring loans and providing interest-only options, waiving and reducing merchant fees (including contactless payments), removing and reducing various fees on consumer and business products, and reducing interest rates across range of personal and business lending. We also participated in the Government's business finance guarantee scheme.

Climate change

International consumers, producers and trading partners are increasingly demanding sustainable products and information from global food and fibre businesses. This demand is an opportunity for New Zealand farmers and agri businesses.

We see our role as working alongside our customers on their climate journey. That is why we are investing in staff training, product development and partnerships with third parties to help customers wanting to reach environmental sustainability goals to compete locally and internationally.

We have invested in innovation-focused fund AgriZero^{NZ} and have developed lending products that give practical support to customers transitioning to a low emissions future.

80 ANZ NZ has invested significant resource into how we can help ourselves and our customers face into climate risks and opportunities. ANZ NZ issued its first voluntary climate-related disclosure (**CRD**) in February 2024. This comes ahead of our first mandatory CRD for the year ending 30 September 2024.

Climate-related disclosures

81 Like other climate reporting entities (**CRE**), ANZ NZ is required under Part 7A of the Financial Markets Conduct Act 2013 to publish annual climate statements that comply with the Aotearoa New Zealand Climate Standards (**Climate Standards**).

82 The CRD regime requires detailed disclosure of information about the current and future impacts of climate change on the operations of CREs.

83 We do not consider CRD obligations impact competition or impact our customers' ability to access funding from ANZ. The CRD analysis helps ANZ NZ better understand climate-related risks (both physical and transition risks) as well as potential opportunities to grow our customer propositions.

84 For example, our voluntary CRD in the 2023 financial year showed that of the emissions we financed, approximately 64% came from the agri sector. Our analysis also provided an early indicative view of the risk to our residential mortgage portfolio from coastal and inland flooding. This analysis is important work that we will look to delve into in more detail in the coming years.

International customers and legislation look for climate sustainability

85 Multi-national customers and trading partners are increasingly demanding sustainable products and information from New Zealand suppliers. For example, in August this year, Nestlé announced dairy farmers were not moving fast enough to meet their demands of reducing emissions, adding pace is necessary to 'remain attractive to Nestlé'.[39] That statement is consistent with what we are seeing across the industry.

86 In addition to being driven by customer demand, an increasing number of countries have (or are introducing) climate reporting requirements which is expected to have

[39] See at: Nestlé cautions NZ dairy farmers to improve efficiency (farmersweekly.co.nz).

a flow-on impact to New Zealand suppliers, through local purchasers.[40] These trends may already be impacting our large primary sector export companies, and requirements are being passed through to their suppliers.

How climate-related legislation affects our lending

87 We aim to support our customers to meet these demands and remain competitive. We see our role as working alongside our customers to ensure their ongoing and sustained financial viability. Our processes, policies and products are aligned to the role we play in supporting our customers.

88 We are actively reducing our lending exposure to institutional businesses with a large percentage of revenue generated from upstream fossil fuels. We are working with businesses using a high proportion of fossil fuels for process heat to support their transition to alternative forms of energy. We do not currently apply restrictions to businesses with a high proportion of agricultural greenhouse gases (i.e., biogenic methane). We acknowledge this may change in the future if we are required to manage climate transitional risk.

89 We have been working with some of our institutional, business and agri customers to help strengthen their balance sheet positions to enable them to lean into the cost of transitioning their businesses to low emissions positions. It has been a learning journey for both ANZ NZ and our customers.

90 At this stage, we have concluded it is not currently appropriate to set an emissions reduction pathway and target for the agri sector. Instead, we are seeking a deeper understanding of the options for farmers, and we are working on ways we can help them to lower emissions from their farming practices. We are also gathering customer emissions data to help inform the products and services we develop to support them.

91 As part of our lending due diligence, we require all business and agri customers – regardless of sector – to confirm they comply with relevant local and national environmental regulations.

Supporting initiatives and innovation for emissions reduction

92 ANZ NZ intends to continue working with industry bodies and customers to support emissions reduction.

93 We intend to fully understand the complexities involved, consulting widely with industries and ensuring our frontline bankers are trained to assist. Any changes to ANZ NZ's policies will be guided by a close assessment of industry practice and options.

94 Technologies and practices to effectively reduce agricultural emissions are still evolving. In addition to engaging closely with industry to better understand the challenges and solutions, we advocate for supportive policy change. For example,

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40 The Aotearoa Circle, *Protecting New Zealand's competitive advantage* (April 2024). Available at: https://static1.squarespace.com/static/62439881aa935837b9ad6ac9/t/662ed7f15007411f9c72366a/1714346011917/2024_The+Aotearoa+Circle+Report_Protecting+New+Zealands+competitive+advantage.pdf.

ANZ NZ has submitted on the need for transition support for agriculture, including investment in technology.[41]

95 We have also invested in innovation-focused fund AgriZero^{NZ} and have developed lending products that give practical support to customers transitioning to a low emissions future (as described at paragraphs 41 - 43).

96 As the country's largest agri banker,[42] we want to help our agri customers take advantage of the changing demands of international producers and consumers. This is a significant opportunity for New Zealand's primary sector and we see our role as working alongside them on their climate journey.

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[41] Submission on Action for Healthy Waterways – ANZ NZ (dated 21 October 2019).

[42] Based on market share of 30%. Source: RBNZ Dashboard.

Lending to Māori

ANZ NZ has long-standing relationships with Māori businesses and organisations, and lending to larger iwi and Māori asset holders has at least doubled over the last 10 years. We have made firm commitments to assist the Māori economy as set out in our Te Ao Māori Strategy, 'Tākiri-ā-Rangi'.

We acknowledge that some Māori customers may experience disproportionate and unique barriers to accessing banking services. In particular, there are structural and regulatory processes that continue to act as barriers to accessing capital.

The disparity in average household incomes and lower home ownership rates has a limiting effect on the ability of Māori to borrow.

Because iwi and Māori land trusts are typically widely held, they are subject to onerous customer due diligence and AML requirements.

It appears to us that there is a willingness across the industry, the Government, and regulators to resolve these challenges. The Select Committee may wish to direct that advice and consideration be given to whether there are improvements that can be made which better enable Māori land owners to own and manage their whenua, whether that be through improvements to the Māori Land Court processes and/or resourcing, or amendments to the Te Ture Whenua Act.

As recommended by the Commission, we are committed to continuing to work with the RBNZ and industry to reduce barriers to lending on Māori freehold land, and we will explore participation in the Kāinga Whenua Loan Scheme in 2025.

As recommended by the Commission, we are committed to continuing to work with the RBNZ and industry to reduce barriers to lending on Māori freehold land, and we will explore participation in the Kāinga Whenua Loan Scheme.

Tākiri-ā-Rangi – ANZ NZ's Te Ao Māori Strategy

97 ANZ NZ's Te Ao Māori Strategy, 'Tākiri-ā-Rangi' was launched in June 2022 and sets out our commitment to work for a better future for Māori. Our strategy, which is out to 2040, has two broad aims - lifting internal cultural competency and capability in the bank, and helping with the economic development of Māori.

98 We have been proud of our results so far. They include:

98.1 currently 1,168 employees actively participating in our Te Reo Māori programme,[43] Te Waka Ā Reo,

98.2 incorporating Te Ao Māori concepts internally and increasing use of Te Reo in internal and external documents,

98.3 adopting Māori design elements into ANZ NZ's buildings and branch network,

[43] As of 20 September 2024.

98.4 changing our risk appetite and policies to enable Māori to leverage and better use collectively owned land, and

98.5 creating educational material to encourage Māori into business.

99 In ANZ NZ's view, there are specific barriers across the banking industry that may disproportionately or uniquely impact Māori businesses, organisations, and individuals:

99.1 the disparity in average household incomes and lower home ownership rates has a limiting effect on the ability of Māori to borrow,

99.2 we believe that financial institutions' limited understanding of Māori culture and lack of reliable data regarding Māori customers reduces their ability to engage with customers effectively or produce offerings that target the Māori economy,

99.3 because iwi and Māori land trusts are typically widely held, they are subject to onerous customer due diligence and AML requirements, and

99.4 access to digital banking services and limitations on digital infrastructure in rural areas is also a limitation for many Māori.

100 ANZ NZ is working with the RBNZ and industry to improve access to banking services for Māori. Tāwhia, the Māori Bankers Rōpū, provides a network in the banking sector to share ideas and deepen the collective understanding of key issues for Māori in the sector. Tāwhia provides a forum for identifying opportunities for improvement and possible solutions to support positive change. The current areas of focus for Tāwhia are:

100.1 Te Pou Kaiāwha - bolstering access to capital for under-developed Māori land and housing,

100.2 Te Poutokomanawa - contributing to the financial literacy of Māori, and

100.3 Te Pou Tū-a-Rongo – working with the financial sector to boost Māori employment in the banking sector.

ANZ NZ is committed to supporting the Māori economy

101 Iwi (organisations and asset-holders) and Māori (asset-holders and businesses) play an important role in the overall economy and have been an important customer group for ANZ NZ for many years. In 2011 we established a Head of Māori Relationships role as part of an increased commitment to supporting Māori development. We believe banks compete strongly to provide products and services to Māori businesses and organisations.

102 ANZ NZ is fortunate to have a broad network of long-standing relationships with Māori businesses and organisations, which are:

102.1 substantial property owners and developers providing important infrastructure for commercial and retail purposes as well as housing and retirement villages,

102.2 large primary sector companies in regional New Zealand, including in fisheries, agriculture and horticulture, 102.3 renewable energy businesses,

102.4 health, social services and education providers, and

102.5 small to medium-sized private enterprises owned by Māori operating across a wide range of industries.

103 We provide a wide range of broader support to Māori businesses including:

103.1 specialist contact points, including regional champions whose role is to facilitate, coordinate and enable all frontline teams to deliver outcomes for Māori businesses,

103.2 a Māori business website, and a 'Māori in Business' webinar series, offering business support specifically targeted at Māori businesses,

103.3 prioritising research into Māori consumers and economy, including the publication of our annual Te Tirohanga Whānui Iwi investment insights reports,

103.4 hosting events specifically focused on Māori business affairs such as our annual Māori investor forum and Te Kahui Rangatira,

103.5 creating video content to profile Māori business success stories,

103.6 hosting Māori businesses on ANZ NZ-led offshore missions and participating in ministerial Māori business delegations to China to help connect Māori businesses to ANZ NZ clients in Asia, and

103.7 engaging on climate change issues and sustainable finance options.

ANZ NZ's lending policies provide for borrowing against Māori freehold land

104 ANZ NZ put in place its Māori residential lending policy over 20 years ago. In 2023, we amended our Māori business and agri lending policy to provide greater consistency in our approach to lending to Māori landowners.

105 In our experience, lending against multi-owned Māori freehold land is easiest where the following factors exist:

105.1 *clarity:* we can be sure there is clear consensus and direction from all landowners. For example, challenges arise for larger owner groups without a trust/incorporated structure, or where multiple owners struggle to arrive at a consensus,

105.2 *security*: landowners are willing to provide their land as security. For example, challenges arise where no freehold or leasehold mortgage is available or provided over the land. Third party credit enhancements could assist further here, with examples including iwi guarantees, the Kāinga Whenua Loan Scheme, or other forms of Government credit enhancements, and

105.3 *affordability:* there is sufficient cashflow that we can rely on to service debt. In relation to housing, leasehold and shared equity can help to lower the total debt and improve affordability.

106 That said, there remain challenges including:

106.1 legislative processes (for example, the Te Ture Whenua Māori Act regime),

106.2 Māori Land Court processes (although ANZ NZ acknowledges the Māori Land Court's recent practice note has been a helpful contribution to work in this area), and

106.3 regulatory issues, specifically AML processes.

There is a willingness across the industry, Government, and regulators to resolve these challenges. The Select Committee may wish to consider whether improvements can be made to help Māori landowners to own and manage their whenua through changes to Māori Land Court processes and/or resourcing, or amendments to the Te Ture Whenua Act. ANZ NZ would welcome a review of the Māori Land Court processes and/or the Act to identify how these can be improved. This could include how to speed up the timeframes for the Māori Land Court to approve changes of trustees of Māori Land Trusts and registration of mortgages over Māori freehold land. ANZ NZ is willing to assist this process with its practical experience in this area.

107 Under Tākiri-ā-Rangi we remain committed to continuing to look for ways to enable Māori landowners to access finance.

ANZ NZ is working to help increase Māori home ownership rates, despite existing socioeconomic disparities

108 In our view, the biggest driver of low rates of Māori home ownership is disproportionately low Māori household incomes. ANZ NZ recognises it has a role to play to help improve Māori home ownership. The steps we have taken to date include:

108.1 establishing an internal ANZ NZ affordable housing forum to prioritise housing initiatives such as existing Māori-led shared equity pilots. We will also explore participation in the Kāinga Whenua Loan Scheme in 2025, and

108.2 creating the role of Kairangahau Matua (Principal Researcher) this year to undertake research to understand Māori housing aspirations, realities, and barriers. These findings will be used to inform what policy and product changes are needed to better support Māori home ownership.

109 Te Kupenga Te Kokohi is ANZ NZ's Māori and Pasifika talent strategy and consists of three key areas. Ngā Aho (recruitment), Whiria (retention) and Ngākau (promotion) for Māori and Pasifika people. It is designed to add cultural enhancements to the recruitment process, connect and mentor Māori and Pasifika and create pathways for promotion. It directly aligns to our equity, diversity, and inclusion (**EDI**) priorities and to Tākiri-ā-Rangi Ngā Tukutuku Tau Tuatahi (Kia Hanga I Te Whare) and Tau Tuarua (Ngā Tupua). It is understood that by 2030, 35% of the potential workforce will identify as Māori. Currently, Māori and Pasifika employees are under-represented in ANZ NZ. We have a commitment through our priority diversity targets to increase our representation, not only to positively promote equal outcome opportunities, but also to build a workplace with a more diverse workforce that is representative of our nation.

110 ANZ NZ acknowledges there is more that can be done to improve Māori home ownership. We are committed to working with industry, the Government, and iwi/Māori groups to find solutions that we can replicate or scale up. Sharing of knowledge is crucial.

Personal banking

ANZ NZ engaged meaningfully throughout the Commission's market study, recognising the importance of the market study to the banking industry, our customers, and to New Zealand as a whole. While we do not agree with the Commission's conclusions about the relative strength of competition - we think the Commission underestimated the existing level of competition – ANZ NZ broadly agrees with the Commission's recommendations. We think those changes would further lift competition, and we welcome that.

In our experience, competition in personal banking is intense, with continual and effective price competition among banks, as well as important non-price competition.

Kiwibank exhibits the disruptive characteristics the Commission identified in Macquarie Bank in Australia. Kiwibank has also had significant growth at the expense of larger banks. Its share of the home loan market is about 8%[44] *(by comparison, Macquarie currently has a share of about 5% in Australia).*[45]

Those customers who do wish to switch banks can do so easily, with an active portion of the market switching providers regularly. 26.2% of total home loan commitments disclosed to the RBNZ in July 2024 involved a customer that has changed loan provider.[46] *It is also important to remember that many customers multi-bank and move between providers for different products.*

ANZ NZ is present in communities across New Zealand – both physically and digitally, with about 100 branches across the country.

We agree with the recommendations set out in the Commission's Final report on competition in personal banking:

- We are identifying next steps to address the improvements that the Commission has recommended to support mortgage advisers and banks promoting price competition and choice for home loans. Standardising of application systems and forms will require an industry approach.
- We are also considering how best to progress the recommendation that home loan providers should present offers in a readily comparable manner, particularly incorporating the effect of cash contributions over the clawback period. This will also require an industry approach. Banks currently offer cash contributions on different terms and the industry will need to be careful from a Commerce Act perspective about the scope of discussion.
- We are investigating technology, systems and document changes to allow us to pro-rate clawbacks of commissions from advisors and cash contributions from consumers, on a diminishing linear basis and calculated monthly.

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44 RBNZ Dashboard.

45 Macquarie Group, *2024 Annual Report* (year ended 31 March 2024). Available at: https://www.macquarie.com/assets/macq/investor/reports/2024/macquarie-group-fy24-annual-report.pdf.

46 RBNZ C33 data. C33 splits all the FUM commitment data into four purposes, one of which is 'change in loan provider', i.e., lending that was switched from one provider to another.

- We will engage with the industry on making basic bank accounts widely available.

Competition in personal banking is intense

There is continual and effective price competition among banks

111 In our experience, there is strong and sustained price competition for home loan and deposit account customers among ANZ, ASB, BNZ, Kiwibank and Westpac. While the Commission underestimated the existing level of competition, it acknowledged that those banks closely monitor each other's rates.[47]

112 ANZ NZ must compete hard to maintain and grow market share. For example, for both home loans and personal deposits, we broadly need to win one in three transactions just to stand still.

113 In relation to transactional accounts, the fact that they are largely free is a strong indicator of price competition. These fees have effectively been competed away. The Commission in its Final report observed that 'there has been a decline in fees on transaction accounts in recent years, and we have observed a shift towards removing deposit account fees more broadly'.[48] The Commission presents data showing that transaction and call deposit account fees have fallen from more than 0.4% of average balances to around 0.1% from 2014 to 2022.[49] This is consistent with competition to attract retail deposits in the context of retail deposit customers' price sensitivity.

Non-price competition is also important

114 In ANZ NZ's experience, non-price competition is important, and sustained. It needs to be considered together with price competition in any assessment of competition. The Commission acknowledged in its Final report that non-price features are important to consumers.[50] For example, the Commission recognised that 'innovations like mobile applications [can] help attract customers away from major banks'.[51]

115 Banks compete on non-price measures including their products and product innovations, service, perceptions of trust and security, credit settings, turnaround times (particularly for home loan applications), digital capabilities, and brand awareness. We actively monitor customer satisfaction data, which we use to improve our service.

Kiwibank is a disruptor

116 Kiwibank is a close competitor to ANZ NZ, shown by the fast growth it has achieved and our projections of its future growth. Kiwibank exhibits disruptive characteristics, most obviously demonstrated by its growth at the expense of larger banks. In relation to home lending portfolio growth, the Commission acknowledged that

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47 Commerce Commission, *Final Report* at [5.39].

48 Commerce Commission, *Final Report* at [5.22].

49 Commerce Commission, *Final Report* at Figure 5.1.

50 Commerce Commission, *Final Report* at [2.122].

51 Commerce Commission, *Final Report* at [7.24.3.2].

Kiwibank stands out as the only provider that has grown consistently at or above system growth over the four-year period from Q1 (March) 2019 to Q3 (September) 2023.[52]

117 The most recent RBNZ dashboard data (April to June 2024) shows that Kiwibank continues to grow above system. Its growth relative to market has been the highest of all banks for the last four quarters in a row. Over the last nine months, Kiwibank grew its home lending $1.8b; this was jointly the second highest growth in the market (level with BNZ), 22% of the market growth during that period.

Figure 3: Quarterly home loan growth compared to system growth[53]

Home loan lender	Sept 2023	Dec 2023	March 2024	June 2024
ANZ	1.72x	1.76x	0.96x	0.91x
BNZ	1.24x	1.68x	0.91x	1.43x
Westpac	0.16x	1.98x	1.09x	0.4x
ASB	-0.25x	-0.63x	0.67x	0.86x
KiwiBank	**2.77x**	**4.36x**	**2.34x**	**2.61x**
Other smaller banks	1.79x	-6.45x	0.64x	0.62x

118 Kiwibank's share of the home loan market is now about 8%.[54] Macquarie Bank, which the Commission describes as having had 'rapid growth in home lending in Australia over the last decade where it has emerged as a competitive maverick',[55] currently has a share of about 5% in comparison.[56]

Customers are engaged in the market

We are working to implement the Commission's recommendations that industry should invest in making improvements to its switching service by:

(a) considering ways to enhance promotion of the Payments NZ switching service, and

(b) supporting Payments NZ to investigate improvements to the service, such as moving direct debits and enhancing the service to support increased switching volume.

119 The consumer survey undertaken by Verian for the Commission as part of its market study (**Consumer Survey**) found that 62% of people have not considered switching banks in the past three years, with the majority of those customers content with their current provider. ANZ NZ-commissioned research shows that 88.4% of customers view their bank as good, very good, or excellent.

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52 Commerce Commission, *Final Report* at [2.12.2].

53 RBNZ Dashboard.

54 RBNZ Dashboard. See further, recent Kiwibank CEO statements, available at: https://www.1news.co.nz/2024/09/15/kiwibank-ceo-questions-whether-100-local-ownership-needs-to-stay/.

55 Commerce Commission, *Final Report* at [4.32].

56 Macquarie Group, *2024 Annual Report* (year ended 31 March 2024). Available at: https://www.macquarie.com/assets/macq/investor/reports/2024/macquarie-group-fy24-annual-report.pdf.

120 But those customers who do wish to switch banks can do so easily. Only 8% of respondents to the Consumer Survey who had switched in the last three years found switching to be difficult. ANZ NZ agrees with the Commission's view that the ability to switch easily is critical to competition working well and acknowledges the Consumer Survey's findings that there are perceptions that it can be difficult.

121 But switching data, by itself, understates customers' engagement with competition for personal banking services. For example, joining another provider often does not involve 'switching' in the sense of leaving one bank and joining another. Rather, as the Commission has acknowledged, 'multi-banking' is common and increasing.[57] In any event, there is an active portion of customers switching providers already. Around 20% of total home loan commitments disclosed to the RBNZ in a given month involve a customer that has changed loan provider (the most recent figure is 26.2% in July 2024).[58]

Home loan pricing

122 As already mentioned, lending pricing for business and agri customers is determined on a case-by-case basis, linked to their unique circumstances and the capital related to those sectors / loans (see further paragraphs 152 - 156). In the case of home lending, pricing is less bespoke.

123 Home loan pricing is influenced by market factors, including global and domestic markets, economic conditions, wholesale interest rates, and competition (as explained further in paragraphs 13 - 17).

Personal banking products and support

Innovative products that meet our customers' needs

124 We offer customers a variety of transaction, saving and lending products to meet their needs. We seek to offer innovative products that target particular customer circumstances and goals, such as:

124.1 the Good Energy Home Loan, which provides a low interest rate for customers wanting to increase the energy efficiency of their home or upgrade to cleaner transport options, and

124.2 the Blueprint to Build Loan, offering discounted interest rates for customers building a new home, who need to progressively drawdown the loan funds rather than needing all of the loan at once.

Supporting our customers with their personal banking needs

125 In conjunction with product offerings, we invest significantly in technology, staff development, and processes to offer our customers services and tools that assist them with their personal banking needs, such as:

125.1 digital innovations for on-boarding, e-signatures, and AML requirements, to improve our customers' experience,

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57 Commerce Commission, *Final Report* at [8.3].

58 RBNZ C33 data.

125.2 advancements in fraud detection and card management services, to better protect our customers and their data and transactions,

125.3 voice biometrics and security with contact centre operations, such as ANZ NZ's enhanced payment solution that makes it easier for customers to make high value payments in goMoney securely by using voice identification as a payment authentication option,

125.4 offering alternative ways to engage with ANZ NZ, such as providing video conferencing, to allow our customers to interact with us in the way that works for them, and

125.5 digitisation and personalisation. Our mobile app and other payment and data sharing innovations have had significant investment and development.

126 Separately, when working with our personal customers who are in arrears, we take proactive steps to try and keep people in their homes. Our actual number of mortgagee sales is low, and we prefer to work collaboratively with our customers who are in financial difficulty. We have a number of strategies such as proactively contacting customers who may require additional support, and we have a number of hardship solutions we employ to allow customers the time and/or opportunity to work through their situations.

Ensuring access to personal banking services

127 We are focused on enabling customers to contact us via their channel of choice. We are aware of criticism that banks are not accessible for rural customers and other customers who are not digitally active. ANZ NZ is present in communities across New Zealand – physically and digitally. We continually monitor and respond to our customers' changing preferences, which means increasing the activities that can be conducted online, balanced by maintaining appropriate physical presence and telephone contact for customers with specialised needs and preferences.

128 Most customers do their banking digitally rather than visiting a branch. Fewer matters require customers to visit a branch when they open or manage deposit accounts or home loans. Most New Zealand personal customers with appropriate identification can satisfy AML requirements online, although there are exceptions. Customers can open accounts using our online banking platform and mobile app, and ANZ NZ is introducing electronic signature (eSign) features. Customers can have virtual appointments with frontline staff and access services through our contact centre or secure bank mail system.

129 We recognise the social benefit of having a physical branch network, enabling customers who are not digitally active to access personal banking services. We participated in the regional banking hubs trial with ASB, BNZ, Kiwibank, and Westpac. The trial has ended, and five hubs continue to provide basic transactional services. As part of the trial concluding, we extended our commitment not to close regional branches for the next three years.

130 ANZ NZ currently offers 448 ATMs, being:[59]

130.1 206 standard ATMs, i.e., for withdrawals only, of which 11 are in branches and 195 are offsite. 127 are in metro areas, and 79 are in regional areas, and

130.2 242 Smart ATMs, i.e., for withdrawals and deposits of notes, of which 196 are in branches and 46 are offsite. 132 are in metro areas, and 110 are in regional areas.

131 ANZ NZ also offers:

131.1 39 coin deposit machines, i.e., for deposits of coin, all of which are in branches,

131.2 14 cash exchange machines, i.e., for change orders, all of which are in branches, and

131.3 approximately 50 24/7 lobbies, which contain Smart ATMs and Fast Deposit Boxes.

132 Prior to Cyclone Gabrielle, ANZ NZ was in the trial stages of a planned and funded branch network uplift for resiliency, using a change in technology stack. The trial was deployed in the Gisborne/Hawkes Bay region and then applied to all other branches. That project has now been completed across ANZ NZ's branch network to provide greater network options for data connectivity. Further solutions are being trialled, using satellite communications to run branch functions in crisis situations, and other alternative 'direct to cell' options.

[59] As at 20 August 2024.

Open banking

ANZ NZ supports open banking and is proud of the industry's efforts to implement it in the absence of regulation.

We see the value of open banking as it allows us to partner with smart providers of innovative products and services for our customers. Industry participants, the Government and regulators are all seeking the same outcome with open banking. With right-sized and appropriate regulation, including centralised accreditation, we can ensure a coordinated development of open banking in New Zealand.

We have had a number of data share arrangements with fintechs for some years that have been negotiated on a bilateral basis.

133 ANZ NZ wants to advance open banking in New Zealand. We believe that open banking has the potential to facilitate more innovation by both existing market participants and new entrants. As the Commission observed in its Final report '[t]here is near universal support for the proposal that open banking is an opportunity to promote competition for personal banking services.'[60]

134 ANZ NZ (and other market participants) have undertaken significant work over many years to progress open banking. We are proud that, apart from Singapore, New Zealand is the only country where banks have proactively developed open banking allowing third parties to access customer data and make payments before regulation. ANZ NZ is continuing to progress open banking, including by:

134.1 implementing and developing industry/API Centre standards. ANZ NZ remains on track to enable data sharing in November and work has already begun on the next version of the standards,

134.2 committing to work with API/Payments NZ and fintechs to progress development to more standardised access terms and an accelerated accreditation framework for onboarding third parties to access open banking services,

134.3 continuing to onboard third parties to ANZ NZ's open banking services, and

134.4 participating in the Commission's proposed steering group established to develop an industry roadmap.

135 Open banking is an evolving concept – there was no 'switch on'. We are already 'on' in certain aspects and there is no state which is likely to be considered 'fully operational'. The extent of operations will continue to change and grow over time and new options and mechanisms will develop.

We agree with the Commission that in order to continue to develop open banking, Government and industry must work together with right-sized regulation to ensure a coordinated development of open banking, a digital identity framework and innovation in the payments system.

60 Commerce Commission, *Final Report* at [10.9].

Open banking – the regulatory framework

136 The Commission and Government are already taking steps which should help the market and participants to move more efficiently towards an open banking environment, including:

136.1 the Customer and Product Data Bill which will provide a trusted framework for data sharing and will extend beyond banking into other industries. MBIE released a discussion paper on 28 August 2024 addressing the potential Customer and Product Data regulations for the banking sector. ANZ NZ will give input to MBIE within the submission time frame,

136.2 the Commission issuing a determination granting Payments NZ's application for an authorisation for joint development of an accreditation framework. The Customer and Product Data Bill will take time to enact and implement, but this authorisation allows for immediate collaboration on standardisation, priorities and desired outcome developments, as the roadmap progresses, and

136.3 the Commission recommending to the Minister to designate the interbank payments network under the Retail Payment System Act 2022. The Commission appears to envisage the designation as complementing Payments NZ's authorisation and similarly providing an immediate avenue to progress open banking while the Customer and Product Data Bill progresses.[61]

137 In addition, the Commission has called for coordinated work between industry and Government to progress open banking to ensure it is 'fully operational' by June 2026.

138 We agree that cooperation across the sector will be necessary to drive open banking, and that it is important to maintain momentum in developing safe open banking. There was widespread agreement during the market study that open banking needs to be done 'right', with a focus on customers and achieving this aim requires a detailed and considered roadmap. We support the Commission's recommendation for the establishment of a working group to progress the envisaged roadmap.

Risks and areas for improvement in the regulatory framework

139 New Zealand should ensure its approach benefits from the lessons of overseas experience. As the Chair of the Commission, Dr John Small, observed, Australia and the UK do not provide a picture of 'roaring success' for open banking.[62] We agree that New Zealand should progress open banking in a better, more informed way, and put appropriate safeguards in place so users trust and use the ecosystem.

140 Safe and secure sharing of banking information is critical to creating a trusted open banking environment where consumers are willing to participate. ANZ NZ stressed this feedback in submissions to MBIE regarding the Customer and Product Data Bill. For that legislation to have a positive impact, it must strike the right balance

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[61] Commerce Commission, *Final Report* at [9.147]-[9.148].

[62] See at: https://www.interest.co.nz/banking/129365/whilst-big-bank-bosses-wont-be-quaking-their-boots-commerce-commissions-bank.

between safety/trust and effectiveness. ANZ NZ is concerned that as currently drafted it does not strike that balance. For example:

140.1 it does not specifically address the issue of unaccredited entities using intermediaries to access data, and

140.2 it does not provide a safe harbour for entities that have shared data under the regime, providing that if the entity met certain requirements before customer information was shared, that it would not face liability for misuse or breach of that customer data.

141 If there is uncertainty or a lack of security in the model, then there is a dual risk of high security risks and therefore low adoption.

142 It is also important that the new regulatory framework does not create new regulator overlap. Under the current draft of the Customer and Product Data Bill, it is proposed that MBIE manage the centralised accreditation process. ANZ NZ sees merit and efficiency in MBIE taking on the role of regulator for open banking, with appropriate input from specialist regulators such as the Commission, Financial Markets Authority and the RBNZ. If the Minister also designates the interbank payment network (and the Commission oversees this), it will be important that the roles and responsibilities of the different regulators are clearly delineated to ensure they provide a united and consistent framework.

143 Finally, we consider that the implementation of the Bill should require reciprocity for data providers, encouraging early participation. In Australia, to ensure parties who 'take' data will also 'give' data, banks could only receive information if they were participating in the open banking regime. This led to a number of banks participating ahead of a requirement to do so. For example, Kiwibank has indicated that it wishes to retain its existing 2026 timeframes to meet the API Centre requirements. If that happened, under this model it would be allowed to take additional time but would not be allowed to take data until it is ready to also give data.

We believe the Customer and Product Data Bill should address the role of intermediaries, and provide a safe harbour. Open banking regulation should also clearly delineate the responsibilities of MBIE (as open banking regulator) and the Commission (as regulator for the interbank payment network), and require reciprocity for data providers.

Capital

It is a matter for the RBNZ, but ANZ NZ considers there may be merit in the Commission's recommendation that more granular risk weightings be introduced for the standardised approach, such as those developed by the BCBS. This proposal would allow the risk weightings of banks using the standardised approach to 'match actual risks more closely'[63] and could have a positive impact for agri customers of both IRB and standardised approach banks.

As a D-SIB, ANZ NZ is required to hold additional capital (versus smaller, non-D-SIB banks) and is subject to stringent and comprehensive regulation.

Despite recent growth in the home loan market, we still have more capital invested in New Zealand businesses and agri than home lending. Our agri banking segment consistently provides the lowest returns to ANZ NZ.

Although the increased capital requirements for agri lending are a factor for pricing, there are a number of misconceptions about their impact. The difference in home and agri lending rates is less significant than perceived. The increased capital requirements for agri have not driven a shift to home lending. The higher pricing for agri does not mean ANZ NZ is earning higher returns from this sector.

RBNZ's capital requirements and credit risk models

144 The RBNZ requires banks to meet minimum capital ratios. These are calculated as the amount of capital that each bank must hold in relation to its risk-weighted assets. Capital requirements are a key element of New Zealand's prudential framework and a core part of maintaining financial stability.

145 Risk-weighted assets (**RWA**) are the loans and other assets of a bank weighted to reflect their respective level of risk of loss to the bank. The greater the amount of higher risk assets and loans, the greater a bank's RWA, and the higher the amount of capital it must hold.

146 Capital held acts as a protective layer to ensure any losses made by a bank are borne by shareholders in the first instance and do not impact the ability for depositors to access their money.

147 Banks in New Zealand calculate their RWA according to either a standardised approach or an IRB approach. ANZ NZ uses an IRB approach. The distinction between the two approaches can be summarised as follows:

147.1 the standardised approach is a simpler model and lacks granularity of risk weights, developed by the BCBS and interpreted by prudential regulators for their jurisdiction. It is used by banks which may not have the resources or scale to develop their own IRB models. The broad nature of the standardised model means it may not reflect the current economic environment, and

147.2 IRB models are more sophisticated and are developed by a bank, based on its own data and information, with the explicit approval of the bank's prudential

[63] Commerce Commission, *Final Report* at [7.42].

supervisor (in our case, the RBNZ[64]). This process can take years. It requires considerable investment by banks to develop, maintain, monitor and validate IRB models. Banks consult with the RBNZ on the model structure, methodology, the output estimates, long run trends, and the expected risk-weights. The RBNZ must approve each IRB model. Banks need to demonstrate to the RBNZ that their IRB models are appropriate and that they continue to perform when they are in use. The RBNZ can, and does, require changes to be made to the IRB model before it is approved (and this may increase the conservatism in the model). Once implemented, the IRB approach involves a more granular risk assessment, taking into account a wider range of factors to more accurately identify risk. For riskier loans, IRB risk-weights can exceed standardised risk-weights.

It is a matter for the RBNZ, but ANZ NZ considers there may be merit in the Commission's recommendation that more granular risk weightings be introduced for the standardised approach, such as those developed by the BCBS. This proposal would allow the risk weightings of banks using the standardised approach to 'match actual risks more closely'[65] and could have a positive impact for agri customers of both IRB and standardised approach banks.

Comparison of capital requirements for home and agri loans

148 We recognise that the balance between prudential regulation and competition is difficult and complex. New Zealand's level of tolerance for a bank failure is at the heart of the considerations involved in prudential regulation and is a complex matter with significant and wide-ranging implications.

149 ANZ NZ acknowledges that the RBNZ's decision to set its risk tolerance at a 1-in-200-year chance of financial crisis (as well as its pre-existing capital adequacy minimum of $30m) came following an extensive, multi-year review. The RBNZ was aware during the review that its capital requirements involved a calibration of competition with regulation.[66]

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64 RBNZ, *Banking Prudential Requirements* *BPR134 IRB Minimum System Requirements*.

65 Commerce Commission, *Final Report* at [7.42].

66 By way of example only, in its Capital Review decisions paper, the RBNZ concluded that it had adequately taken competition into account:

> *61. Views on the 2018 proposal to increase the risk weights applied by the large four banks were mixed. Small banks objected that the measures did not go far enough to reduce the unintended and uneven impact on competition coming from regulation. In contrast, the large banks said the models they use provide robust estimates of risk making the 2018 risk weight-related proposals unnecessary.*
>
> *62. The Reserve Bank is of the view that the risk weight-related aspects of the 2018 proposal (retained in the 2019 reforms) strike a satisfactory balance, retaining risk sensitivity in the large banks' models whilst reducing the unintended uneven impacts of regulation on competition.*

RBNZ, *Submission on Draft report* (18 April 2024) at page 9:

> *As highlighted by the capital review, competition has been an important consideration in our prudential decision making previously. The need to maintain competition within the deposit-taking sector is helpfully even more explicit as one of a number of principles we need to take into account when developing standards under section 4 of the DTA.*
>
> *Our policy consultation material on the DTA standards, which will set out our proposed prudential requirements, will outline our analysis of the policy proposals against the relevant*

150 ANZ NZ also acknowledges that the amount of capital that must be held for a particular type of lending should reflect the risk of loss.

151 As noted above, ANZ NZ uses an IRB approach, approved by the RBNZ, for calculating the risk-weighted assets for loans. The performance of agri businesses can fluctuate and are impacted by many factors outside the sector's control (see paragraph 20). These fluctuations and factors present risks, which are reflected in the risk-weight for agri loans.

152 The table below shows the RWA required under both the ANZ NZ IRB model and RBNZ standardised model for home loans and corporate (including agri) loans. Due to the higher level of risk, the RWA (and therefore capital) required for an agri loan is more than two times higher than a home loan.[67]

Loan type	IRB RWA risk weight%	Standardised RWA risk weight%
Home loan	26%[1]	35%[2]
Corporate (inc. agri)[3]	70%[1]	100%[4]

1 These are ANZ NZ's portfolio averages.

2 This is the lowest standardised RWA for home loans.

3 ANZ NZ's IRB RWA risk-weight for agri, as an individual segment within the commercial model, is confidential and commercially sensitive. ANZ NZ would be happy to provide this risk-weight to the Select Committee on a confidential basis.

4 This is the standardised RWA for corporate (including agri) loans not rated by external agencies such as S&P, which is the vast majority of agri loans.

153 We have set out below a worked example of how the capital requirements impact agri loans in comparison to home loans.

Impact of capital requirements on agri pricing

154 Our agri and business lending is priced on an individual customer basis (i.e., lower-risk customers pay lower interest rates than higher-risk customers). To demonstrate the impact of the capital requirements, we have calculated the illustrative interest rate differential for two different scenarios – Farmer A and Farmer B:

154.1 Farmer A reflects a typical lower-risk customer. The farming business has been consistently profitable in the last three years, and the customer has more than 60-70% equity in the business (i.e., lower debt) and consistently manages liquidity within pre-arranged debt limits, and

154.2 Farmer B reflects a typical higher-risk customer. The farming business has made losses in two of the last three years, the customer has 30-40% equity

DTA principles, including the need to maintain competition within the deposit taking sector. All principles will be taken into account when policy decisions are made following consultation.

67 As this is an illustrative example, we have provided the RWA risk weights without applying the 85% floor. This provides that ANZ NZ's IRB RWA risk weight must be at least 85% of the standardised RWA risk weight (at a portfolio level, not on an individual loan or segment level). We are happy to provide further information on this if that would be helpful.

in the business (i.e., higher debt), there have been increases to seasonal limits and occasional excesses above arranged facility limits.

155 As can be seen in the table below:

155.1 for Farmer A, the risk-weighting and level of capital are at a similar level to that of a home loan, and pricing would reflect this comparable level of risk. For example, if a home loan had an interest rate of 6%, ANZ NZ would only receive the same level of return for Farmer A if it achieved an interest rate of 6.15%, and

155.2 for Farmer B, ANZ NZ is required to hold almost four times the amount of capital in comparison to a home loan due to the relative risk factors. This means that a higher interest rate would be needed if ANZ NZ were to generate the same level of return for the agri loan as the home loan. For example, if a home loan had an interest rate of 6%, ANZ NZ would only receive the same level of return for Farmer B if it achieved an interest rate of 8%.

156 We note that:

156.1 the interest rate differential does not increase at the same ratio as the capital requirements increase (i.e., Farmer B has a 2% interest rate differential, but almost four times the capital required) because certain components of the interest rate remain unchanged (such as funding costs), and

156.2 this is an illustrative example and accordingly we have simplified the capital requirements calculation.[68] Actual interest rates are also impacted by broader factors than just capital requirements.

	Home loan	Farmer A	Farmer B
Loan size	$1,000,000	$1,000,000	$1,000,000
IRB RWA risk weight	25%	27%	103%
IRB RWA *(loan x RWA risk weight)*	$250,000	$266,000	$1,028,000
ANZ NZ IRB capital required *(13.5% of IRB RWA)*	**$34,000**	**$36,000**	**$139,000**
Capital required vs home loan		1.1x	3.9x
Interest rate differential to home loan (see [155]-[156])		~0.15%	~2.0%

68 For example, as this is an illustrative example, we have provided the RWA risk weights without applying the 85% floor. This provides that ANZ NZ's IRB RWA risk weight must be at least 85% of the standardised RWA risk weight (at a portfolio level, not on an individual loan or segment level). We are happy to provide further information on this if that would be helpful.

Misconceptions about agri lending

157 Although the increased capital requirements for agri lending are a factor for pricing, there are a number of misconceptions about their impact:

157.1 although lending interest rates for home loans may be lower than for agri and business, the difference in rates is less significant than as is commonly perceived, particularly given the different capital requirements,

157.2 we do not believe that the increased capital requirements for agri are the primary driver for the shift in lending towards home loans, and

157.3 the higher pricing for agri (and business lending) does not mean these earn ANZ NZ higher returns.

158 We discuss each of these misconceptions below.

Misconception: agri and business lending interest rates are significantly higher than home loans

159 There is a common misconception that agri and business lending rates are significantly higher than home loans. This may be in part caused by the higher proportion of agri customers using floating loan rates, which are higher for all customers than fixed rates (see paragraph 24). The table below sets out the average customer interest rate of new and repriced loans for August 2024 (i.e., the interest rates for new loans written August 2024, and the existing loans which have had an interest rate re-price in August 2024 (e.g., by re-fixing)).

160 As can be seen in the table, although the agri and business loans are generally higher than home loans, which reflects the level of lending portfolio risk and capital required for these loans, the differences are not as as significant as is commonly perceived.

	Fixed rate	Floating rate	Overdraft[2]
Home lending	6.66%	7.99%	16.27%[3]
Agri lending	7.13%	7.94%	11.04%
Business lending[1]	7.87%	8.35%	12.91%

1 Business relates to the small and medium business portfolio only.
2 These are the relevant portfolio averages.
3 Personal customer overdrafts, which are all unsecured.

161 As pricing for agri and business customers is bespoke, in the table below we have provided the 10th and 90th percentile numbers to give an indication of the range:

Agri range	Fixed	Floating
Agri 10th percentile	6.42%	7.60%
Agri 90th percentile	8.10%	9.06%

Business range	Fixed	Floating
Business 10th percentile	7.08%	7.76%
Business 90th percentile	8.87%	9.95%

Misconception: Capital requirements are the primary driver for the shift in lending towards home loans

162 There is a misconception that banks have 'favoured' home loans over business and agri loans, as home loans have lower capital requirements. We believe that economic factors have primarily driven the change in the proportion of lending to the productive sector relative to residential mortgage lending, rather than capital requirements:

162.1 home lending growth accelerated during FY20 and FY21, in particular in the very low interest rate environment following COVID, increasing demand from customers and increasing property values. As interest rates increased home lending growth slowed, and

162.2 business and agri lending increased at a slower pace than housing. During COVID, many business and agri customers chose not to increase debt due to the uncertain economic environment. During the low interest rate period some business and agri customers took advantage of the lower interest rate environment to reduce debt levels, rather than increasing debt. ANZ NZ saw an increase in agri loan amortisation during this period as customers built a more sustainable balance sheet. As interest rates have increased, agri customers have moved to interest-only loans to mitigate the impact of high on-farm (operational) and interest costs. Paying down debt during the low interest rate environment provided the buffer that has allowed customers this option.

163 As a result, home lending has increased from ~58% of the total bank lending at September 2019 to ~64% of bank lending at June 2024. We believe the change in mix is primarily driven by customer demand and economic factors rather than capital settings. **Despite recent growth in the home loan market, we still have more capital invested in New Zealand businesses and farms than home loans.**

Misconception: Higher pricing for agri means they present higher returns

164 Pricing for banking services is determined by a number of factors and reflects the costs and risks associated with those services as well as competition. Agri customers

can face higher prices than personal banking customers (see paragraph 22). There is a misconception that these prices translate into higher returns for banks. This is not correct.

165 It is important to note that although banks will each internally assess their profitability in a number of segments beneath whole-of-bank, these assessments may not be comparable between banks. Banks will have unique approaches to transfer pricing, allocating costs, segmenting units and products, and pooling source funding. Partly because of these material limitations, the Commission rightly elected to review profitability measures at a whole-of-bank level.[69]

166 ANZ NZ manages profitability at a whole of bank level and returns fluctuate between segments over time. For example, economic conditions will directly impact the level of provisioning and RWA, while competition, wholesale interest rates, and funding requirements will impact revenue for lending and deposits differently.

167 ANZ NZ has segmented its customers for ROE analysis: personal (including funds), agri/rural, and business (including institutional customers).[70] Although the returns from each of the segments fluctuate over time, **agri has been the lowest returning segment over at least the past four years**. The ROE relative to ANZ NZ's ROE for the most recent reporting period (six months ended 31 March 2024 (**1H24**)) for these segments is set out below:[71]

	ANZ NZ	Personal	Agri	Business
ROE: 1H24	11.7%	Higher*	Lower*	Higher*

* In comparison to total ANZ NZ 11.7% ROE

[69] Commerce Commission, *Final report* at [6.15]-[6.18].

[70] For completeness, this differs to ANZ's internal segments as we have broken out agri/rural for this analysis.

[71] We are happy to provide the actual numbers over a period of time on a confidential basis to the Select Committee, but these are commercially sensitive.

Profitability

ANZ NZ's profits are normal both when compared to international comparators and when assessed against an estimate of its cost of capital.[72]

Looking at total dollar amounts does not say much about profitability because ANZ NZ is a very large business. Robust ratios are a more meaningful measure of profitability. These ratios demonstrate that:

- *ANZ NZ's cost of capital*[73] *over the 2010-2021 period, based on a bottom-up assessment was 12.1%-12.8%, with ANZ NZ's actual post-tax ROE of 12.3% within the range of normal returns, and*
- *ANZ NZ's ROE over the same period was 12.3%, which is effectively the same as the average return on equity of 12.2% of an appropriately identified and adjusted international benchmark of banks.*
- *ANZ NZ's NIM of 2.56% for New Zealand Personal and Business & Agri businesses is comparable to the combined margin of ANZ's Retail and Commercial businesses in Australia, which is 2.52%.*

The Commission's Final report in the market study concluded that 'the profitability of the New Zealand banking sector is high relative to banking sectors in peer nations'. However, we believe that in coming to this conclusion, the Commission did not consider whether we would want profitability of New Zealand banks compared to countries in their sample. In many of the countries chosen by the Commission there have been extended banking crises, starting with the global financial crisis; interest rates have been very low for an extended period reflecting poor economic conditions; banks are not earning their cost of capital (as reflected in the fact that banks are trading at less than their book values), which is of concern to regulators;[74] *and banks are trading at below book value, meaning if the banks were liquidated investors would get a better return than the current market price.*[75]

First and foremost, we need to keep depositors' money safe. Commentary about banks unduly profiting at the expense of customers does not take the above factors into account and can lead to an erosion of trust in banking institutions that support a secure and stable financial system for New Zealanders.

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72 As the Commission says, '*Investors have choices, and will not invest in an asset unless the expected return is at least as good as that they would expect to get from a different investment of similar risk. The cost of capital is an estimate of that rate of return.'* Available at: https://comcom.govt.nz/news-and-media/media-releases/2014/commission-releases-expert-reports-about-the-wacc-percentile.

73 See footnote 72.

74 'The many roads to return on equity and the profitability challenge facing euro area banks', speech by Andrea Enria at the 26th annual financials CEO conference. Available at: https://www.bankingsupervision.europa.eu/press/speeches/date/2021/html/ssm.sp210922~df2b18acb9.en.html.

75 For example, the Commission included euro area countries such as Germany and France which were affected by two banking crises in close succession (the GFC in 2008-09 and the EuroZone Crisis of 2010-late 2010s), and Japan which has still not recovered from its housing bubble and banking crisis from early 1990s to mid-2000s.

Profitability comparisons to Australia

168 Commentators often point to the shape of New Zealand's banking sector while claiming our banks' profits are not normal. However, New Zealand is not out of step with other countries. Internationally, it is common that there are four to five large banks operating in a country (for example Ireland, Canada and Australia).

169 In addition, while it is not the only factor at play, that profits are not excessive is consistent with the lack of entry (or indications that entry is desirable) by large international banks and, in fact, the recent exit by HSBC. Further, it is notable that of the four largest Australian banks, the bank with the highest price-to-book ratio (CBA – ASB in New Zealand) has the lowest relative exposure to New Zealand. Conversely, the bank that trades with the lowest price-to-book ratio (ANZ) has the highest absolute and relative exposure to New Zealand. This demonstrates the market is not placing a premium on exposure to New Zealand.

170 As a subsidiary of an Australian-owned bank, ANZ NZ recognises it is natural to ask whether the New Zealand operation is earning higher profits than its Australian parent. A way to do this is to compare NIM. A bank's NIM is broadly the difference between the interest rate it gets from lending money to customers, and the interest rate it pays to customers to hold their deposits. A straight comparison of interest rates will not reflect the different costs and other elements making up those rates.

171 ANZ NZ's NIM is comparable to ANZ Australia's. For the six months ended 31 March 2024, our last reporting date:

171.1 ANZ NZ's NIM was 2.56%, and

171.2 ANZ's Retail and Commercial businesses in Australia was 2.52%.[76]

172 The NIM differential may grow in the future due to the higher levels of capital ANZ NZ must hold. The RBNZ estimated the impact on lending rates of the 2019 reforms to be 20.5 basis points, using what it considered to be conservative assumptions.[77]

ANZ NZ's profitability is normal

173 ANZ NZ and expert economists believe the profitability numbers provided by the Commission are impacted by the banking crises affecting comparator countries that do not apply to New Zealand (and we would not want to apply to New Zealand). It is critical that any analysis of profitability for New Zealand banks is robust.[78] The profitability of our banks is treated as important evidence for how competitive, and fair, banking markets are, so it forms the basis for policy discussion and public debate.

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[76] Some commentators have incorrectly asserted that ANZ's NIM in New Zealand for the first half of the FY24 financial year was materially higher than ANZ's NIM in Australia of 1.56%. However, the 'Australia' NIM of 1.56% was for ANZ's global operations in ~30 countries, including our global markets business, which has a large and fluctuating negative impact on overall NIM. In contrast, the 'New Zealand' NIM of 2.56% is for our New Zealand personal and business and agri businesses. The accurate comparison to that New Zealand NIM is the combined margin of ANZ's Retail and Commercial businesses in Australia, which is 2.52%.

[77] RBNZ, *Capital Review Decisions 2019* at [54].

[78] We agree with the Commission that a profitability analysis requires an analysis of profitability ratios, not a review of profit numbers. The major banks are large businesses. ANZ's returns are the equivalent of a business with $100,000 of equity making a profit of $12,000.

174 The Commission's usual, tried and tested, method to assess profitability is to:

174.1 estimate an entity's cost of capital (a 'bottom up' assessment). The cost of capital is the financial return investors require from an investment given its risk. As the Commission says, 'Investors have choices, and will not invest in an asset unless the expected return is at least as good as that they would expect to get from a different investment of similar risk. The cost of capital is an estimate of that rate of return'.[79] The purpose of estimating an entity's cost of capital is to allow the Commission to take a view on whether it is earning a 'normal' return, or more than it is required to earn to attract investment (i.e., 'excess' profits). The Commission did not undertake a bottom-up assessment in the personal banking market study, and

174.2 compare an entity's returns with firms overseas. The purpose of comparing New Zealand banks' profits to the profits of those overseas is to establish whether our banks' profits are reasonable, or 'normal'. The fact they are higher or lower than bank profits in any given country is not meaningful unless the returns of the banks in those countries are at a level that is considered reasonable or normal. So, a critical step in carrying out an international comparison is to identify a group of overseas *entities* whose returns are within a normal range. The Commission did not do this: instead, it compared the returns of New Zealand banks with a group of overseas *countries* that included those undergoing banking crises i.e., countries whose banks were earning well below normal or even sustainable levels over an extended period of 12 years (2010-2021).[80] It is not surprising that New Zealand banks' returns would look higher than average against such a comparator.

175 In carrying out its international comparison, the Commission compared New Zealand banking sector ROE to returns in 20 countries without providing commentary on whether we would aspire as a nation to be comparable to those countries:

175.1 many banks in those countries trade at below book value (which is the value of assets on its balance sheet net of liabilities), meaning if the banks were liquidated investors would get a better return than the current market price,

175.2 consistent with this observation, Incenta confirmed that in two of the crisis countries (the United Kingdom and France) the ROE for the banking sector as a whole averaged well below the cost of capital over the entirety of the assessment period, and inferred that this was likely to be the case in other crisis countries, and

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[79] See at: https://comcom.govt.nz/news-and-media/media-releases/2014/commission-releases-expert-reports-about-the-wacc-percentile.

[80] As noted above, the Commission included euro area countries such as Germany and France which were affected by two banking crises in close succession (the GFC in 2008-09 and the EuroZone Crisis of 2010-late 2010s), and Japan which experienced a housing bubble and banking crisis in the 1990s.

175.3 the banks in 5 out of the 20 countries used by the Commission earned returns, on average across a 12-year period, below the average New Zealand 10-year Government bond yield (or risk-free rate[81]) of 3.4%.

176 For the same reason, it is not appropriate to compare New Zealand banks' returns to OECD countries without removing countries that have undergone a long-term banking crisis.[82] There is a large overlap between the countries included in the Commission's analysis and the OECD. Once countries which are not comparable are removed (principally, banks suffering from a long-term crisis[83]), and appropriate adjustments are made to the dataset to ensure consistency for comparative purposes, Incenta have identified that compared to this sample of countries, **the average returns of the New Zealand banks (12.61%) is only marginally higher than the median return of the OECD comparators (12.13%), and is well below the upper quartile (13.72%)**.

177 The profitability of crisis countries is of real concern to relevant regulators internationally. For example, Andrea Enria, chair of the supervisory board of the European Central Bank between 2019 and 2023 observed that euro area banks struggled with 'average profitability … unsustainably low levels for longer than a decade', and commented that:

> Banks' profitability is a key driver of capital strength, financial stability and resilient financial intermediation. … Whatever choices they make, banks need to ensure their business model performance is sustainable throughout the cycle, including in challenging business environments, such as those that followed on from the great financial crisis, the sovereign debt crisis and, more recently, the coronavirus (COVID-19) pandemic.

178 New Zealand should not aspire to achieve returns of countries suffering from *'unsustainably low'* profits for more than a decade.

179 The Commission further suggested ANZ NZ is over-compensated for the level of risk it takes, i.e., New Zealand banks are lower risk. In fact, the riskiness of ANZ NZ's overall asset mix is demonstrably very similar to Incenta's benchmark sample.[84] In addition to Incenta's calculations, New Zealand is a small country with a small population, isolated from trading partners, heavily reliant on the rural sector and tourism and therefore exposed to external influences, with a growing propensity to natural disasters. In our experience, shareholders and investors consider these factors when assessing risk and therefore return.

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81 The risk-free rate is the rate of return that an investor would expect on an investment with zero risk. Any investment with a risk level greater than zero (e.g., a bank) must offer a higher rate of return.

82 There is a large overlap between the countries included in the Commission's analysis and the OECD. Of the 20 countries in the Commission's principal sample, 18 were OECD members (Hong Kong and Singapore made up the remaining two).

83 Incenta also considers that Turkey is not an appropriate comparator because of its exceptional economic circumstances (which includes an exceptionally rapid GDP growth rate of 6 per cent and an inflation rate of over 10.9 per cent on average during 2010-2021).

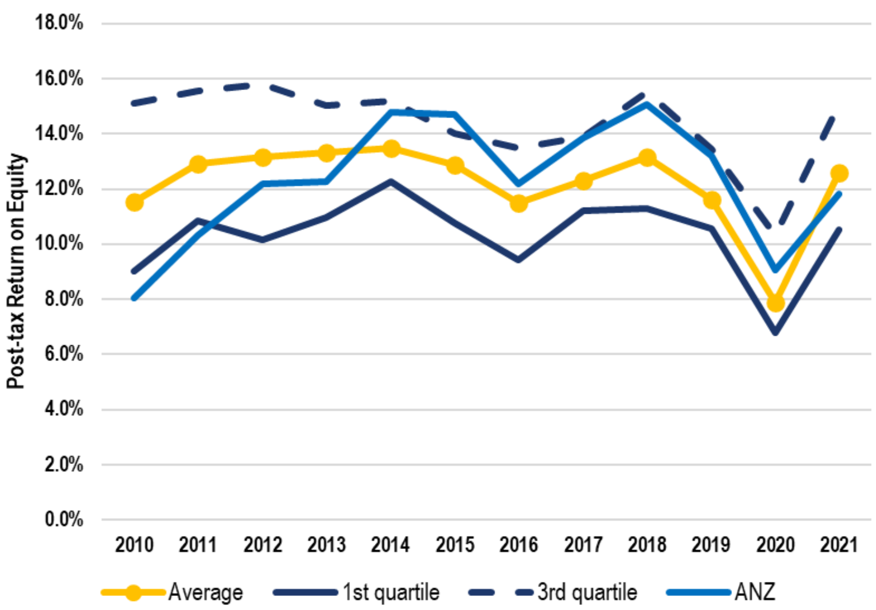
84 Based on risk weighted assets / total assets, a more comprehensive assessment than the Commission's observation that NZ banks have a higher proportion of home loan assets (a partial measure).

180 Expert economists Incenta applied the methodology the Commission usually adopts to measure profitability:

180.1 Incenta found that ANZ NZ's return on equity over the 2010-2021 period was 12.3%, which is effectively *the same* as the average return on equity of 12.2% of an appropriately identified and adjusted international benchmark. Incenta's results are summarised in the graph below, and

180.2 Incenta also calculated ANZ NZ's cost of capital based on a bottom-up assessment as 12.1%-12.8%, with ANZ NZ's actual post-tax ROE of 12.3% within the range of normal returns.

ANZ NZ's performance against Incenta's peer firms (2010-2021)



Source: ANZ NZ, Bloomberg and Incenta analysis

181 We are happy to provide more detail on this analysis if that would aid the Select Committee.

The importance of earning normal returns

182 ANZ NZ needs to make sufficient returns to attract capital so that we can help New Zealanders into homes, start and grow their businesses and trade with the world. As noted above at paragraph 179, investors consider various factors and risks when assessing an investment. They require returns that are sufficient to offset those risks. Those are the returns we aim to provide. We think this is appropriate because:

182.1 banks need capital investment, including from overseas investors. New Zealand's banking sector is a very large beneficiary of foreign direct investment. If this capital is not available because returns are perceived as inadequate (below cost of capital), New Zealand banks will not have the capital to support lending activities,

182.2 banks are required to continually innovate, including upgrading and replacing our systems and technology. This is expensive, and banks need to earn a sufficient rate of return to invest back into their businesses, 182.3 banks hold customers' money – they need to be safe, secure and stable. If a bank were to fail, ordinary New Zealanders' savings would be threatened, and

182.4 the stability of the financial system can be threatened by the failure of both large and small deposit takers, as was seen with finance companies in New Zealand following the Global Financial Crisis, and overseas more recently.

Regulation

The regulatory environment for financial market participants is complex. Regulation is enacted to achieve important policy goals. Regulatory change, and the work and investment required to comply with it, also impacts our ability to do other activities, including innovation for customers.

We support the Government's desire to review complex, duplicative and burdensome regulation. It should be avoided or removed.

We would support the Ministry for Regulation undertaking regular reviews of financial regulation to ensure it is working as expected and achieving its desired aims with the least cost to the New Zealand economy.

183 Understanding the regulatory environment is central to understanding the banking services market. The regulatory environment can materially shape market outcomes, including by affecting providers' ability and incentives to offer products and services, and the cost of participating in relevant markets.

184 Regulation in the financial sector is needed to manage risks to the New Zealand economy and ensure that financial markets and services, including banking services, are available, secure and reliable. Regulation is implemented to achieve a variety of important policy goals, such as consumer protection, preventing/ identifying crime, or promoting and maintaining financial stability. Promoting competition in markets is also for the long-term benefit of customers within New Zealand.

185 In many cases regulation involves a trade-off, whether made explicitly or not, between objectives that are focused on protecting the financial system and the objectives of competition policy. In some situations, a tension can arise when calibrating competition with the policy goal(s) underlying regulation in situations where these financial stability and competition goals are in tension with one another. Simply put, regulatory objectives for banking may enhance competition, impede it or be a mix of the two. There are at least some areas where regulation is unduly duplicative or burdensome, or where it unnecessarily hinders competition.

Regulatory change impacts innovation

186 The Council of Financial Regulators maintains a Regulatory Initiatives Calendar, which sets out the expected timing for all regulatory initiatives planned or underway (i.e., it is not the full list of regulations in force but simply the current initiatives). We have included the Q2 2024 version to this submission at the end of this section. As this calendar shows, the upcoming regulatory implementation burden is very significant.[85]

187 Ongoing changes in the regulatory environment can create uncertainty around impacts to operating costs and how regulation will be implemented or enforced. Complying with changing regulation often requires non-discretionary investment in significant system and process adjustments, taking resource away from other areas such as investment in innovation for customers. For example, implementing the revised RBNZ Outsourcing Policy ("BS11") was an approximately five-year programme of work for ANZ NZ, costing more than $580m.

[85] Council of Financial Regulators, Regulatory Initiatives Calendar (Q2 2024).

188 The Commission recognised that banks operate in a highly regulated environment with significant and ongoing regulatory change, and this impacts innovation:[86]

> Overall, the regulatory burden draws resources away from innovation and efforts to compete harder. We have heard that the cost of regulatory compliance consumes providers' physical resources (such as [information technology] systems), financial resources and human resources that may otherwise be available for spending on innovation and growth.

189 Although different providers will have different constraints, all banks have a limit to the volume of change which can be safely managed and absorbed by staff, customers, and technical systems in any given period. We have hundreds of interlinking systems. The more changes we make, the more complex regression testing becomes, and the higher the likelihood of operational incidents. The disastrous information technology upgrade by TSB in the United Kingdom in 2018, which left up to 1.9m customers locked out of their accounts, demonstrates the need for the utmost care when making changes to or upgrading information technology systems.[87]

190 Regulatory change can impact our ability to innovate and improve in other areas, and this trade-off must be considered when introducing or amending regulation.

The regulatory environment is complex and burdensome

191 ANZ NZ supports the Government's desire to review complex and burdensome regulation. We support the Government's aim to reduce overlapping regulations and duplicative regulator scope. We believe that achieving these aims should reduce the regulatory burden, without negatively impacting the stability of the financial system or consumer protection.

192 Financial market participants are impacted by many overlapping regimes and obligations such as:[88]

192.1 the Credit Contracts and Consumer Finance Act 2003 (**CCCFA**),

192.2 the Financial Markets Conduct Act 2013 (**FMCA**), including the conduct of financial institutions (**CoFI**) regime, and financial advice provider (**FAP**) obligations,

192.3 the Financial Service Providers (Registration and Dispute Resolution) Act 2008 (**FSPR**),

192.4 prudential regulation and licensing by the RBNZ,

192.5 Australian Prudential Regulatory Authority (**APRA**) rules, specifically Prudential Practice Guides,

192.6 AML/CFT obligations,

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86 Commerce Commission, *Final report* at [7.133].

87 See at: https://www.theguardian.com/business/2018/jun/06/timeline-of-trouble-how-the-tsb-it-meltdown-unfolded.

88 See also: Commerce Commission, *Final report* at [7.153]-[7.156].

192.7 the Retail Payment System Act 2022,

192.8 when it is brought into force, the Customer and Product Data Bill, and

192.9 those under general law including contract law, the Privacy Act 2020, the Contracts and Commercial Law Act 2017 (**CCLA**), Fair Trading Act 1986 (**FTA**) Consumer Guarantees Act 1993, and tax reporting regimes including the Common Reporting Standard (**CRS**), implemented through the Tax Administration Act 1994 and Foreign Account Tax Compliance Act (**FATCA**) (US). If it is introduced, legislation regarding Modern Slavery will add another layer of regulation.

193 These overlapping regimes also result in overlapping regulator responsibilities, leading to compliance uncertainty.

ANZ NZ believes the impact of overlapping regimes should be reviewed, either as part of the Government's current financial services reforms to streamline financial services, or by the Ministry for Regulation.

ANZ NZ also believes there is a role for the Ministry of Regulation to carry out regular reviews of financial regulation to:

- ensure it is working as expected and achieving its intended aims, and
- analyse whether it has unintended consequences or could be otherwise improved.

In the Appendix, we have also set out some further, specific, areas of regulation which ANZ NZ considers should be reviewed to identify areas for improvement. We would be happy to have a separate discussion with the Select Committee, or the Ministry for Regulation on these suggestions.

The Depositor Compensation Scheme levy

194 Financial stability can be threatened by failures of both small and large deposit takers, as was seen recently in the US with Silicon Valley Bank, and New Zealand's own experience in the Global Financial Crisis with finance companies. The failure of a small deposit taker will obviously have significant consequences for its customers (even once the Depositor Compensation Scheme (**DCS**) is in place), and it can also create contagion risks among other deposit takers, particularly if they are seen as being subject to lighter regulation.

195 ANZ NZ considers that context is important when considering the RBNZ's proposed levy for the DCS. The RBNZ has expressed a preference for a simplified composite risk-based approach,[89] whereas the Commission prefers a flat-rate levy (per dollar of insured assets).[90] ANZ NZ agrees with the RBNZ's approach because:

195.1 there was a broad spectrum of views on whether the current proposed levy framework is pro-competitive, or anti-competitive. ANZ NZ considers that the

89 Under a simplified composite risk-based approach levies would be calculated based on three risk indicators: capital, liquidity and business model and management (proxied by profitability). Following that calculation, deposit takers will fall into one of four levy risk buckets, which will act as a multiplier (from 1 to 4 times) for the levy calculated based on the above risk indicators. Commerce Commission, *Final report* at [7.78].

90 Commerce Commission, *Final report* at [7.94].

levy framework proposed by the RBNZ is pro-competitive. The smaller entities are those that are most likely to benefit from the DCS. Based on credit ratings, a deposit taker with a 'B' credit rating is considered 10 to 12 times more likely to default and call upon the DCS than an 'A' rated deposit taker. But under the proposed framework the levy for deposit takers with the lowest credit rating (which includes unrated deposit takers) is no more than four times higher than the large banks,[91]

195.2 as ANZ NZ noted at the market study conference, it is not considered likely that there will ever actually be a pay-out under the DCS for the large banks as they would be put into 'resolution' instead.[92] Although the DCS fund may be used to contribute to the resolution of one of the D-SIB banks, estimates provided by Treasury during the consultation process suggest that the estimated maximum contribution the DCS fund would make to the resolution of a large bank is broadly equivalent to the upper end of the range of use of the fund that would be required to pay out depositors of one medium-sized bank,[93] and

195.3 as was shown by the spectrum of views in submissions on the Draft report, and at the conference, the competitive effects of the proposed levy are being explicitly and transparently discussed by participants in the RBNZ's process and will therefore be factored in its decision making.[94]

The DCS levy should be calculated on a simplified composite risk-based approach.

AML/CFT and the fintech industry

196 The Commission has recommended the Government prioritises competition concerns when reforming the AML/CFT regime including exploring ways to reduce the actual and perceived risks to banks when providing bank accounts to fintechs.[95] ANZ NZ does not consider the AML/CFT legislation acts as an obstacle to fintechs because:

196.1 the term 'fintechs' is broad and could include a multitude of business propositions – for example, offering an international payment service, operating a crypto-currency proposition, or operating an accounting app platform linked to other financial service providers, and

196.2 each institution dealing with a fintech must assess the risks in accordance with its processes and guidance. ANZ NZ assesses fintechs on a case-by-case basis, depending on the nature of their business and their risks, using the same assessment we conduct for other businesses that are similarly classified. Some fintechs present a high risk to the economy and our

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[91] Commerce Commission, *Session 2 Transcript* at page 20, lines 2-7.

[92] Commerce Commission, *Session 2 Transcript* at pages 20-21, lines 8-34 and 1-2 respectively.

[93] The Treasury, *Statement of Funding Approach (SoFA) – Consultation* at page 7.

[94] Commerce Commission, *Session 2 Transcript* at page 20, lines 2-7 (ANZ); at page 22, lines 1-26 (Unity); at pages 22-23, lines 28-19 (General Finance); at pages 23-24, lines 21-2 (TSB); ASB, *Submission on Draft report* at [3.8]-[3.15]; and NBDT, *Joint Submission on Draft report* at [11]-[14].

[95] Commerce Commission, *Final report* at Recommendation 8.

community and it is important that we are able to apply a risk-lens under the AML/CFT regime.

Comments if the Commission's recommendation is adopted

197 ANZ NZ does not believe there is any policy justification for fintechs warranting a bespoke broad-brush treatment under the AML/CFT regime. However, should the Select Committee propose adopting the Commission's recommendation it should consider the following:

197.1 *code of practice*: although a Code of Practice may be a useful tool for reporting entities, we consider that a reporting entity will still need to retain its own freedom whether to commence a customer relationship in any given situation – consistent with the risk-based nature of the regime. New Zealand's AML/CFT regime sits within an international context, and different financial institutions may interact with different and multiple international jurisdictions, which may impact AML/CFT decisions, and

197.2 *Licensing*: a licensing framework may assist by reducing the risks presented by a licensed fintech but should not overrule a reporting entity's ability to make its own risk-based assessments. A licensing framework is a complex notion which would require some extensive public consultation. Matters that would need to be addressed include:

(a) a licensing framework that is robust and can be relied on,

(b) the licensing body holding the appropriate level of responsibility for that licensing – both (i) in the initial stage of licensing and (ii) in an ongoing review of that to ensure the licensing remains current,

(c) the licensing body being properly accountable for its decisions, including the introduction of a liability framework for the licensing authority, and

(d) a safe harbour for those relying upon the licences.

Any AML/CFT reform should:

- continue to allow entities to make their own decision whether to commence a customer relationship in any given situation, and
- ensure a licensing framework does not overrule an entity's ability to make risk-based assessments.

ANZ NZ remains happy to engage with the Government and AML/CFT supervisors about further developments.

Kaunihera Kaiwhakarite Ahumoni
Council of Financial Regulators

Regulatory Initiatives Calendar Q2 2024

Formal Consultations

No fly zone 18 Dec-20 Jan

Regulator	Sector	Subject	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	H2 2025	2026
RBNZ	All firms	ESAS Access Review – CP2: Revised ESAS Access Policy (draft)		*Est. release of CP2*					
RBNZ		Central Bank Digital Currency: Consultation Paper – Digital cash in New Zealand	*Consultation paper 17 April & begin engagements*	*Submissions close 26 July*	*Est. summary of submissions released*				
RBNZ & FMA		Consultation on proposed Guidance Note for designations under the Financial Markets Infrastructure Act 2021		*Est consultation and decisions Q3*					
FMA		Consultation on a potential new class exemption for UK advisers providing financial advice to New Zealand clients on UK aspects of UK defined benefit pension transfers to NZ QROPS	*Consultation closed 12 June*	*Est. decision late Q3*					
FMA		Consultation on fair outcomes for consumers and markets		*Est. response Q3*					
MBIE		CCCFA consultation on high cost credit rules	*Consultation closed 19 June*	*See Financial Services Reform Bill (below)*					
MBIE		Consultation on CCCFA reforms – policy changes as a result of change of the credit regulator and other changes eg to the due diligence duty							
MBIE		Consultation on CoFI reforms and the conduct licensing framework							
MBIE		Consultation on improving effectiveness of dispute resolution schemes							
ComCom		Assessing application from Payments NZ Limited seeking authorisation to work with API providers and third parties to develop arrangements that, according to Payments NZ, will facilitate a more well-utilised, secure and innovative open banking framework.		*Decision due July*					
ComCom		Consultation on proposal to recommend designation of the interbank payment network	*Consultation closed 10 May*	*Est. final decision on designation recommendation*					

Regulator	Sector	Subject	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	H2 2025	2026
RBNZ	Banks & NBDTs	Liquidity Policy Review (BS13), third consultation paper (proposed modifications to MMR and CFR, simplified liquidity requirements, qualitative liquidity requirements, proposed liquidity requirements for bank branches)	*Issued 16 May (as part of core standards consultation)*	*Consultation closes 16 August*					
Treasury		*DTA: Second consultation on Statement of Funding Approach*	*Consultation closed 31 May*						
RBNZ		DTA: Standards – First round of consultation *(consultation for 4 core standards covering Capital, Liquidity, Disclosure and Depositor Compensation Scheme.*	*Issued 16 May*	*Consultation closes 16 August*					
RBNZ		DTA: Standards – First round of consultation (consultation process for 9 non-core standards requiring new policy		*Est. issue late August*	*Est. consultation closes November*				
MBIE		*Consultation on banking designation requirements under the Customer and Product Data Bill*		*Est. August-September*					
RBNZ		*Group Supervision Policy – consultation on how to allow RBNZ's prudential framework to be appropriately applied to New Zealand deposit takers operating overseas*			*Est. Q4*				
RBNZ		Crisis Management Framework under the DTA – Issues Paper (initial consultation on development of updated framework for crisis management/resolution under the DTA)		*Est. issue August, submissions due late September*					
ComCom		Consultation on draft self-reporting guidance for lenders	*Published 1 May, consultation closes 28 June*	*Est. final version published*					
FMA	Banks, Insurers & NBDTs	Consultation on regulatory returns for financial institutions (CoFI)			*Est. Q4*				
ComCom	Banks	Market study into personal banking services	*Cross-submissions on draft report closed 30 May*	*Final report released 20 August*					
RBNZ	Insurers	2nd Amendment to Insurance Solvency Standard – consultation, review and exposure draft		*Exposure draft released*	*Publication*	*Effective March*			
RBNZ		Insurance solvency review – solvency capital, capital requirements, reporting and other matters				*Consultation and feedback*			
RBNZ		Insurance solvency review – exposure draft of final standard						*Consultation and Impact Assessment*	
RBNZ		Insurance solvency review – final solvency standard issued							*Standard effective 1 June 26*

Regulator	Sector	Subject	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	H2 2025	2026
FMA	Managed investment schemes (MIS)/ KiwiSaver providers	Consultation on a proposed new class exemption for managed investment schemes in wind-up from certain financial reporting, audit and assurance requirements		*Est. Q3*					
FMA	Listed Issuers, banks	Consultation on a potential new class exemption for certain green, social, sustainability, and sustainability-linked bonds	*Consultation closed 30 April*	*Decision est. late Q3/Q4*					
FMA	Climate reporting entities	Consultation on Information Sheet – references to climate statements in disclosure documents		*Est. July*					
FMA	Listed issuers, clearing and depository participants	Consultation on renewal of two class exemptions on disclosure of relevant interests by directors and senior managers, and the NZCDC Settlement System	*Consultation closed 21 June*						
FMA	Overseas custodians	Consultation of renewal of two class exemptions for overseas providers of custodial services and overseas custodians – assurance engagement		*Est. Q3*					
RBNZ	Cash system participants	Banknote quality standards – exposure draft						*Est. release*	
ComCom	Retail Payment Network Participants	Consultation on opportunities to address identified pricing and access issues		*Publication of request for views paper & consultation period*	*Potential further consultation*				

Engagement

Regulator	Sector	Subject	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	H2 2025	2026
MBIE	All firms	Review of select capital market settings		*Start*					
FMA	Listed issuers and investors	Targeted engagement on requirement to provide Prospective Financial Information in initial public offerings.	*18 April – 7 June*						
RBNZ	Banks & NBDTs	DTA/DCS bilaterals with banks and NBDTs relating to Core and non-Core Standards, DCS operational matters as required		*Est. close*					
RBNZ	Banks & NBDTs	Engagement on visual identity and brand communications for DCS				*Est. close*			
RBNZ	Insurers	Solvency review – Quantitative impact assessment *(to accompany exposure draft of final standard)*						Q3	
RBNZ	Banks	Cash system data collection			*Est. close*				
RBNZ	Banks	Loan Level Data Project (all banks)		*Proof of Concept 2 (POC2) – Data management testing*				*Implementation design*	

Regulator	Sector	Subject	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	H2 2025	2026
RBNZ	Cash system participants	Definition of adequate access to cash services		*Est. start*				*Est. finish*	
CoFR	Industry bodies and banks	Next steps on CoFR payments vision roadmap		*Targeted engagement*					
FMA	Corporate Trustees Association	Forum on Sector Risk Assessment and Entity Risk Assessment and Value for Money Practice Workshop on Performance Fees		*Est. Q3*					
FMA	Managed investment schemes (MIS)/ KiwiSaver providers	Managed funds/KiwiSaver providers' exposure to commercial real estate (CRE) and approach to manage liquidity risks	*May – June*						

Implementation

Regulator	Sector	Subject	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	H2 2025	2026
RBNZ	All Firms	Exposure draft consultation on disclosure changes, to add dual reporting and other consequential changes.	*Changes in force 30 June*						
RBNZ		Macroprudential DTI tool *(changes involve: system/technology, front line management, governance and risk management, non-system and technology)*		*Takes effect 1 July*					
RBNZ		Capital Buffers: Minimum Tier 1 capital requirement increases from 6% to 7%		*Takes effect 1 July*					
RBNZ		Capital Buffers: Minimum Total capital requirement increases from 8% to 9%		*Takes effect 1 July*					
RBNZ	Banks	Capital Buffers: Conservation buffer increases from 2.5% to 3.5%						*1 July*	
RBNZ		Capital Buffers: Conservation buffer increases from 3.5% to 4.5%							*1 July*
RBNZ		Capital Buffers: Conservation buffer increases from 4.5% to 5.5% (1 July 2027)							
RBNZ		Capital Buffers: Countercyclical capital buffer set at 1.5% (1 July 2028)							
RBNZ		Non-qualifying AT1 and Tier 2 instruments fully derecognised (1 July 2028)							
RBNZ	Insurers	Updates to data reporting – accounting, solvency & other changes (changes involve: minor changes to sign-offs for new reporting & minor changes to processes may be needed)					*Est. complete*		
RBNZ	Banks & NBDTs	DTA: Depositor Compensation Scheme (DCS go-live mid-2025; SCV standards by 2026 and full compliance by 2027/2028)						*Go live*	

Regulator	Sector	Subject	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	H2 2025	2026
FMA	Banks, Insurers & NBDTs	Financial institution licence applications open for submissions (CoFI)	*Opened July 2023*						
FMA		CoFI regime will come into force				*31 March*			
RBNZ		Cyber data collection plan (cyber data collection proposals relating to cyber incidents and cyber capabilities)		*Periodic reporting Q3/Q4*					
FMA	Overseas banks and insurers	Class exemption for signing requirements for climate statements of overseas banks and insurers		*Est. July*					
FMA	FMC reporting entities	Class exemption for FMC reporting entities in wind-up or external administration		*Est. Q3*					
FMA	Climate reporting entities	Class exemption for CREs in wind-up, liquidation, receivership or voluntary administration from climate-related disclosures regime		*Est. July*					
FMA		Class exemption for NZX foreign exempt listed issuers from climate reporting duties	*5 April*						
FMA	Managed investment schemes (MIS)/ KiwiSaver providers	Renewal of Financial Markets Conduct (Managed Funds – Loan Disclosure Requirements) Exemption 2019 that provides relief from the requirement for managed funds to disclose individual loan assets)		*Est. July*					
FMA	Managed investment schemes (MIS)/ KiwiSaver providers	Renewal of class exemption for MIS managers where assets do not have an appropriate market index		*Est. July*					
FMA	Supervisors	Guidance on winding-up requirements for registered schemes		*Q3*					
FMA	Crowdfunding, derivatives issuers, DIMS, MIS, peer-to-peer	Standard Condition for business continuity and technology systems for some Part 6 FMC Act licenses to ensure more consistency across licensed entities		*Est. July*					
RBNZ & FMA	Financial Market Infrastructures	Develop joint Supervision Approach and Framework under new regime (includes new monitoring approach, crisis management powers and enforcement powers)	*Commenced April*						
RBNZ & FMA		Develop, consult and Issue new Information Notices to all designated entities		*Consultation closes 1 July, notices issued est. Q3*					

Regulator	Sector	Subject	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	H2 2025	2026
RBNZ	Crypto-asset reporting entities	Stablecoin reporting		*Start*					
RBNZ	Cash service providers	Community cash service trials		*Start*				*End*	

Compliance monitoring and thematic review

Regulator	Sector	Subject	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	H2 2025	2026
RBNZ	Banks & NBDTs	Thematic Review on Financial Inclusion practices in the deposit taking sector	*Desk-based research (Q2). Meetings with selected entities. 17 June – August*		*Publication of bulletin*				
RBNZ		Thematic Review on Risk Management in the deposit taking sector				*Est. Q1 – Q3*			
RBNZ	Banks	Thematic Review on Credit Risk *(Impaired Loans)*						*Est. Q4 2025 – Q2 2026*	
RBNZ	Insurers	Thematic Review on Risk Management in the insurance sector							*Est. Q3 2026 – Q1 2027*
FMA	Selected insurers	Weather events insights project to identify learnings from Auckland Anniversary Flooding and Cyclone Gabrielle		*Est. July – August*					
FMA	CREs	**Monitoring report on climate statements**			*November*				
ComCom	Retail Payment Network Participants	Compliance monitoring of the interchange fee regulation							
ComCom		Performance monitoring – gather and analyse merchant service fee information							
ComCom		Performance monitoring – gather and analyse size and share information of specific networks							

Stress Testing

Regulator	Sector	Subject	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	H2 2025	2026
RBNZ	Banks	Annual Liquidity stress test *(13 banks)*	*Modelling and submissions*	*Publish results FSR/feedback to banks*			*2025 liquidity stress test*		*2026 test*
RBNZ		Climate change scenario stress test (5 largest banks)	*RBNZ review, analysis and publication*						
RBNZ		Annual solvency stress test *(5 or 13 banks)*	*Modelling and submissions (13 banks)*		*Publish results/ feedback to banks*		*2025 solvency stress test (5 large banks)*		*2026 test (13 banks)*
RBNZ		Stress test ICAAP review for smaller banks	*Feedback*						
RBNZ		Bank stress test model review *(5 largest banks)*			*RBNZ review bank mortgage models*				

Regulator	Sector	Subject	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	H2 2025	2026
RBNZ	Insurers	General insurance stress test – every second year	*Modelling and submissions*			*Publish results/feedback to banks*		*2025/26 GI stress test*	
RBNZ		Life/Health Insurance stress test – every second year			*2024/25 LI stress test*				

Policy Reviews

Regulator	Sector	Subject	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	H2 2025	2026
RBNZ	Banks	Connected exposures policy/large exposures survey review	*New definitions took effect 1 April*						
RBNZ	Banks & NBDTs	DTA: Standards issuance *(for core standards)*							*Est. Q4*
RBNZ		DTA: Standards issuance *(for non-core standards) Q1 2027*							
MBIE	Consumer credit providers	Review of high-cost consumer credit provisions in the Credit Contracts and Consumer Finance Act 2003 as per s45L	*Consultation closed 19 June*	*See Financial Services Reform Bill (below)*					
MBIE		Review scope and operation of consumer credit legislation							
RBNZ	Retailers	Mandating cash acceptance		*Start Q3*	*End Q4*				

Legislation (Note: all timings are estimates and subject to change)

Regulator	Sector	Subject	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	H2 2025	2026
MBIE	All firms	Customer and Product Data Bill	*Introduction, awaiting 1st reading*						
MBIE		Regulations under the Financial Service Providers (Registration and Dispute Resolution) Act 2008 *(to set consistent rules for approved financial dispute resolution schemes)*		*Commences 18 July*					
MBIE		Revoke affordability Regulations under the Credit Contracts and Consumer Finance Act 2003	*Consultation*	*Commences 31 July*					
MBIE		Financial Services Reform Bill *(subject to Cabinet decisions, potential omnibus Bill to progress phase 2 – support transfer of CCCFA reg functions to FMA, reforms to CCCFA, high-cost credit reforms, CoFI and conduct licensing framework, dispute resolution schemes)*	*Consultation closed 19 June*	*Policy decisions and potential legislative development*		*Est. Select Committee (if required)*			
MoJ		AML/CFT Regulations (amendments and new)	*Second tranche came into effect on 1 June*						
MoJ		AML/CFT 2009 Act amendments							*Est. introduction Q2*
RBNZ	Banks & NBDTs	DCS regulation made		*Est. Close*					

Regulator	Sector	Subject	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	H2 2025	2026
MBIE	Insurers	Contracts of Insurance Bill	*Select committee submissions close 3 June*	*Select committee report back 3 September*	*Est. enactment*	*Est. implementation*			
RBNZ		Insurance (Prudential Supervision) Act Amendment Bill						*Est. exposure draft*	*Est. 1st Reading*
RBNZ		Final Solvency Standard							*Est. issue H1*
Treasury		Natural Hazards Insurance Act		*NHI Act commences 1 July*					
MBIE	BNLP providers	Credit Contracts and Consumer Finance (Buy Now Pay Later) Amendment Regulations 2022 *(regulations to apply the CCCFA to BNPL)*		*Commences 2 September*					
MBIE	Local authorities & non-FSPs	Credit Contracts and Consumer Finance Amendment Regulations (to broaden the exemptions in regulation 18 and 28)	*Commenced 7 June*						
MBIE	KiwiSaver providers	Legislative amendments to enable KiwiSaver members to invest with more than one provider		*Subject to Ministerial consideration*					
MBIE	Investment Firms	Financial Markets Conduct (Asia Region Funds Passport) Amendment Regulations 2024	*Commences 30 June*						

Appendix: Improvements to specific regulations

The table below sets out some specific items which ANZ NZ considers should be reviewed to identify areas for improvement:

Legislation	Issue	Comment
Anti-Money Laundering and Countering Financing of Terrorism Act 2009	AML presents one of the biggest delays for ANZ NZ in onboarding customers. It takes time to understand a customer's organisation and ownership structures to identify who ANZ NZ needs to perform Know your customer (**KYC**) checks on. The AML/CFT Act can impede the on-boarding process, particularly given the material penalties available for non-compliance.[96]	The Commission has recommended that Government prioritise competition concerns when reforming the AML/CFT regime. ANZ NZ supports efforts to review any requirements in the AML/CFT regime that are unintentional or unnecessary for achieving the purposes of the regime. It is important that the regime should continue to set AML/CFT requirements on a risk-based assessment, so as not to undermine the regime's role in ensuring New Zealand is a safe place to do business. The AML/CFT regime should balance the desire to reduce barriers to competition against the need to ensure the regime is robust. If New Zealand had a digital identity system, allowing central storage of KYC information by the Government, that would make it easier for customers to open accounts and switch banks.
Companies Act 1993	The legislation is out of date and needs modernisation. For example, where companies are struck off assets are vested in the Crown but dealing with those assets	ANZ NZ supports the Government's announced review.

96 One specific example of an issue with the AML regime is that KYC checks are now required on any person with a business credit card; not just the company that we provide the cards to. Many other jurisdictions only require banks to perform KYC on the company itself. This causes frustration for our business and agri customers.

Legislation	Issue	Comment
	(particularly where they involve small amounts) can be difficult and time consuming.	
Contracts and Commercial Law Act 2017	Current restrictions in CCLA around signing documents electronically creates pain points for customers. For example, it is not possible to use electronic signature to sign documents with powers of attorney provisions.	ANZ NZ supports the review of this legislation and modernisation of provisions regarding electronic signatures.
Credit Contracts and Consumer Finance Act 2003	The CCCFA disclosure regime (and accompanying penalty regime for disclosure breaches) needs to be brought up to date and take an evidence-based approach to how customers best make decisions.	Recent changes to the CCCFA have addressed some of the issues that have impacted on a bank's ability to take a sensible and straightforward approach to lending. However, the CCCFA disclosure regime remains outdated and creates significant costs and risks for lenders without clear evidence of a corresponding benefit for customers. There is growing evidence that disclosure has substantial limitations in helping consumers to informed decisions.
Farm Debt Mediation Act 2019	ANZ NZ supports the farm debt mediation scheme but considers there are some practical issues in the application of the scheme that could be improved.	As the scheme has been in place for a number of years, we consider it is timely to review its operation and identify areas for improvement.
Privacy Act 2020	The legislation can obstruct certain innovations proposed to protect customers against frauds and scams - for example, potentially using biometric data in certain ways for fraud prevention and detection.	ANZ NZ supports regulators actively balancing underlying regulatory policy with the need to innovate for the benefit and protection of customers.
Te Ture Whenua Māori Act 1993 / Māori Land Court processes	The timeframes for the Māori Land Court to approve changes of trustees of Māori Land Trusts and registration of mortgages over Māori Freehold Land.	ANZ NZ would welcome a review of the Māori Land Court processes and/or the Act to identify how these can be improved and timeframes sped up for applicants.