



## COVERSHEET

<b>Minister</b>	Hon Dr Duncan Webb	<b>Portfolio</b>	Commerce and Consumer Affairs
<b>Title of Cabinet paper</b>	Initiating a Market Study into Personal Banking Services	<b>Date to be published</b>	28 June 2023

### List of documents that have been proactively released

<b>Date</b>	<b>Title</b>	<b>Author</b>
May 2023	Initiating a market study into personal banking services	Office of the Minister of Commerce and Consumer Affairs
29 May 2023	Initiating a market study into personal banking services: CAB-23-MIN-0193 Minute	Cabinet Office

### Information redacted

**YES**

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Some information has been withheld for the reason of Confidential advice to Government.

**In confidence**

Office of the Minister of Commerce and Consumer Affairs  
Chair, Cabinet

**Initiating a market study into personal banking services**

**Proposal**

- 1 This paper outlines my intention to require the Commerce Commission (the Commission) to undertake a competition study into any factors that may affect competition for the supply or acquisition of personal banking services.

**Relation to government priorities**

- 2 Supporting New Zealanders in response to increasing costs of living is a priority for this Government. I consider a competition study into personal banking services fits with this objective, as a check on whether competition in this market is working well for consumers and if not, how it could be enhanced.

**Executive Summary**

- 3 The Commission can, under the Commerce Act 1986 (the Act), carry out studies into any factors that may affect competition for the supply or acquisition of goods or services. These studies may be either self-initiated by the Commission or carried out by the Commission at my direction, as Minister of Commerce and Consumer Affairs, if it is in the public interest to do so.
- 4 I intend to require the Commission to undertake a competition study into any factors that may affect competition for personal banking services. For the purposes of this study, personal banking services are banking services ordinarily acquired for personal, domestic, or household use. Such services will include current, deposit, and overdraft account services, personal loans, and mortgage and credit card lending. A proposed notice for the study is attached as Annex 1.
- 5 I consider that a competition study into personal banking services is in the public interest due to the significant role that personal banking plays in the broader economy and its impact on household spending and saving. There are some clear signs that the market may not be working well for consumers. Major banks have recently posted record profits, at a time when New Zealanders are facing a cost-of-living crisis.
- 6 A competition study will help identify whether there are competition concerns in personal banking services and may provide recommendations to address any concerns identified for the long-term benefit of consumers.
- 7 The Commission will require 14 months to complete the study, given the breadth of personal banking services, the need for wide and in-depth stakeholder engagement, and the range of concurrent regulatory initiatives currently underway in the financial services sector. A 14-month timeframe will also provide sufficient time to undertake

the study in a robust and comprehensive manner, in accordance with my Letter of Expectations to the Chair of the Commission dated 30 March 2023. I intend to require that the Commission publish its final report by 31 July 2024.

- 8 I am satisfied that conducting a full 14-month competition study is the best option for understanding what are likely to be complex and long-term issues in the banking sector. This will allow sufficient time for broad engagement and in-depth analysis of the many products that fall within scope of personal banking services. However, I propose that steps can be taken ahead of the final report due in July 2024.
- 9 As a first step, I expect that, consistent with previous competition studies, the Commission will produce a preliminary issues paper. I anticipate this paper will be published by the end of August 2023. I expect this paper will describe the structure of the industry and provide early indications on the nature of competition. It will set a clear signal of direction for the study and may uncover discrete issues which the Government could take steps to resolve, ahead of the final report.
- 10 I am also prioritising development of the Consumer Data Right (CDR) framework, which will make it easier for consumers to compare and switch products, including banking products. I intend to bring a paper to Cabinet this June, seeking authorisation to release a draft Bill for public consultation in July.
- 11 Confidential advice to Government  
[Redacted]
- 12 I do not support an expedited review of bank profits. Unlike the broad-based competition study proposed, I consider that a narrow profitability study done at pace, is unlikely to reveal the core issues which may need to be addressed for better consumer outcomes.

## Background

*A competition study is a tool for in-depth, competition-focussed assessment*

- 13 A competition study is an assessment tool set out in the Act. It provides an avenue for an in-depth and independent study into the factors affecting competition for particular goods or services, to find out how well competition is working and if competition could be improved. If the Commission identifies issues with competition, it may make recommendations to improve competition.

*Required criteria for undertaking a competition study*

- 14 The Act states that a competition study is a ‘study of any factors that may affect competition for the supply or acquisition of goods or services’. It may be carried out if either the Commission or the Minister considers it is in the public interest to do so.

- 15 What is in the public interest is not defined in the Act, but it should be interpreted as being consistent with the purpose of the Act, which is to promote competition in markets for the long-term benefit of consumers in New Zealand.
- 16 Consistent with other recent competition studies, I consider a competition study into personal banking services is likely to be in the public interest where it promotes the purpose of the Act and some or all of the following (non-exhaustive) criteria are met:
- 16.1 there are existing indications of possible competition problems in the market (such as high prices, low levels of innovation, low levels of service, and/or a lack of dynamism between market participants)
  - 16.2 the market is of strategic importance to the New Zealand economy or businesses, or of significant importance to consumers
  - 16.3 it is likely that there will be viable solutions to any issues that are found
  - 16.4 a formal study by the Commission would add value above work that could be done by other agencies.

*Key process steps*

- 17 In conducting a competition study, the Commission may use its information gathering powers under the Act if it is necessary or desirable for the purposes of carrying out the study and preparing its associated reports. The Commission must prepare a draft report and release it to the public for consultation. It must allow a reasonable time for comments on the draft report and must have regard to any comments received on it before finalising its final report for the study. The final report must include the Commission's findings and may include recommendations. Any recommendations are non-binding, but the Government must respond within a reasonable time.

*Previous competition studies*

- 18 The Commission has so far completed three competition studies into key areas of the economy, all of which I consider have been well received:
- 18.1 *Retail fuel competition study: December 2018 – December 2019.* This study looked into factors that may affect competition for the supply of retail petrol and diesel used for land transport throughout New Zealand. It resulted in the Fuel Industry Act 2020 to promote competition in engine fuel markets for the long-term benefit of users.
  - 18.2 *Retail grocery sector competition study: November 2020 – March 2022.* This study looked into any factors that may affect competition for the supply or acquisition of groceries by retailers. The Commission made 14 recommendations to improve competition. The study led to the enactment in June 2022 of the Commerce (Grocery Sector Covenants) Amendment Act to ban restrictive land covenants and exclusive covenants in leases used by major grocery retailers to impede the development of land or use of a site for a competing retail store. In November 2022, the Grocery Industry Competition Bill was introduced. The Bill includes several measures to improve

competition and efficiency in the grocery industry for the long-term benefit of consumers. The Bill is currently progressing through the Committee of the Whole House.

- 18.3 *Residential building supplies competition study: November 2021 – December 2022.* This study looked into any factors that may affect competition for the supply or acquisition of key building supplies used to build the major components of residential buildings. The Commission made nine recommendations to increase competition and ultimately bring down costs for consumers. Public announcements on the Government response to the study were made on 17 May.

## Analysis

### *Scoping and scaling requirements for competition studies*

- 19 Competition studies are best used where it is uncertain if the market is working as competitively as it can be. Rather than focussing on specific participants, the terms of reference for a competition study must describe its scope and specify the goods or services to which the study relates.
- 20 To support an appropriate depth of analysis and engagement, a competition study must also be appropriately scaled for the required timing (14 months in this instance) and have sufficient funding available (from a funding envelope of approximately \$3 million per annum, from the Commission’s dedicated appropriation).

### *Proposal to progress a personal banking services competition study*

- 21 In keeping with necessary scoping requirements, I propose to request the Commission carry out a competition study into any factors that may affect competition for the supply or acquisition of personal banking services.
- 22 The proposed study aims to provide a rich, overall perspective of how consumers’ diverse needs for personal banking services are being met. It adopts a broad, consumer lens, that brings into consideration lending, payment, and deposit-related consumer products and services. The proposed terms of reference for the study have been drafted flexibly to allow consideration of further products and services as appropriate, e.g. to inform broad, cross-portfolio assessments of banks’ financial performance. I also note that section 51A(4) of the Act empowers the Commission to exercise its discretion in relation to any ancillary matters that are related to, but not explicitly covered by, the terms of reference.
- 23 Personal banking services for the purposes of the study (as set out in the terms of reference) will include current, deposit, and overdraft account services, personal loans, and mortgage and credit card lending. Services such as institutional, corporate, commercial, and small to medium enterprise (SME) banking services, will be outside of the scope of the study except to the extent necessary to analyse financial performance such as profitability, which will likely need to be considered on a cross-portfolio basis. Some customers may use personal banking services for business purposes – e.g. residential mortgages as security to finance business borrowing. Such activity would be within the scope of the study but is not expected to be a focus.

- 24 Of the services that are in scope, the Commission may exercise discretion as to which services it focusses its study on. In addition, the proposed terms of reference allow for consideration of the role and influence of additional players (e.g. non-banks and mortgage brokers) in personal banking services. I would envisage a primary focus on personal banking services such as current, deposit, and overdraft account services, personal loans, and mortgage and credit card lending, and less of a focus on financial services such as KiwiSaver, wealth management, insurance, and foreign exchange.

*Case for progressing a personal banking services competition study*

- 25 I consider there is public interest in carrying out a personal banking services competition study. With reference to the public interest criteria outlined above, I consider that:

25.1 The market share of the four largest banks, though seemingly not out of step with other OECD countries, appears significant.<sup>1</sup> The major four banks make about 85 per cent of both mortgage and other lending, and a 90 per cent share of total bank deposits.<sup>2</sup> Loans by smaller lenders are growing, but remain comparatively small.<sup>3</sup> We also have the following indicators suggesting a possibility of competition problems in the market:

25.1.1 Research into the banking sector's profitability gives some evidence of high and increasing profit margins over variable costs, limited susceptibility of profits to fluctuate with higher costs, and greater lending margins and profitability with higher short-term interest rates.<sup>4,5,6</sup> There is also an apparent lack of responsiveness of deposit interest rates to changes in the Official Cash Rate, compared to a high responsiveness (in an upwards direction) of lending interest rates to changes in the Official Cash Rate. The profit returns made by the four largest banks in the past five years are above several of their international peers.<sup>7</sup>

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<sup>1</sup> We can make only tentative observations from the sparse cross-country research into market shares in the banking sector. In particular, the OECD research that our observations are based on assesses market shares for the largest three banks only in each country. See for further details,

[https://www.theglobaleconomy.com/rankings/banking\\_system\\_concentration/](https://www.theglobaleconomy.com/rankings/banking_system_concentration/).

<sup>2</sup> From December 2022, Reserve Bank of New Zealand data, available: [Balance sheet \(rbnz.govt.nz\)](https://www.rbnz.govt.nz/balance-sheet/).

<sup>3</sup> With, for example, loans from non-bank lenders (deposit takers and non-deposit takers) accounting for approximately 7 per cent of new mortgage loans, on November 2022 estimates – up from approximately 4 per cent five years earlier. Refer for further details: <https://www.rbnz.govt.nz/hub/publications/financial-stability-report/2022/nov-2022/fsr-nov-22>.

<sup>4</sup> I.e., assessed from a grouped measure (ANZSIC06) for the whole of the financial and insurance services sector that includes insurance and superannuation funds as well as the banking sector. Further break downs of these estimates are not available. On the profit elasticity measure this study estimates, banking and financial services falls within the upper third of least-competitive industries.

<sup>5</sup> <https://www.productivity.govt.nz/assets/Documents/competition-in-new-zealand/75b795cc4f/NZPC-Competition-in-New-Zealand-highlights-from-the-latest-data.pdf>.

<sup>6</sup> Kumar V, Acharya S, and Ho Ly T.H (9 June 2020) 'Does Monetary Policy Influence the Profitability of Banks in New Zealand?'. International Journal of Financial Studies, 2020, 8(2), 35; Available at:

[https://www.mdpi.com/2227-](https://www.mdpi.com/2227-7072/8/2/35#:~:text=In%20addition%20to%20monetary%20policy,of%20banks%20in%20New%20Zealand.)

[7072/8/2/35#:~:text=In%20addition%20to%20monetary%20policy,of%20banks%20in%20New%20Zealand.](https://www.mdpi.com/2227-7072/8/2/35#:~:text=In%20addition%20to%20monetary%20policy,of%20banks%20in%20New%20Zealand.)

<sup>7</sup> Trends in bank profitability - Reserve Bank of New Zealand - Te Pūtea Matua (rbnz.govt.nz).

- 25.1.2 Indications of subdued innovation and limited variation in products and services. As examples, New Zealand banks provide only a closed set of fixed-rate mortgage term options of up to 5 years only. ‘Offsetting products’, allowing interest deductions for savings, are offered only by selected banks.
- 25.1.3 Anecdotal consumer stickiness and subdued switching, given the complexity in shifting banking and mortgage accounts. Consumers with mortgages are also typically required to have their mortgage bundled with a current account where salary and wages must be deposited, limiting consumer choice and ability to spread their products and services with competing providers.
- 25.2 The banking sector is of strategic importance to the New Zealand economy and consumers. In 2021, 98.75 per cent of New Zealand households had a bank account,<sup>8</sup> 57.21 per cent had a credit card<sup>9</sup> and 96.41 per cent had a debit card.<sup>10</sup>
- 25.3 The residential mortgage market accounts for \$346 billion in overall lending.<sup>11</sup> Monetary policy responses to inflation and recent growth in house prices are continuing to increase lending costs, making a competition study into the personal banking services sector particularly timely.
- 25.4 Around 32 per cent of New Zealand adults hold residential mortgages.<sup>12</sup> Although fewer people hold mortgages than other personal banking products, their servicing represents a large proportion of affected individuals’ income and expenditure.<sup>13</sup> Furthermore, mortgage costs will at least partially flow through to the cost of rent for non-homeowners.
- 25.5 Similar studies overseas indicate there are likely to be feasible policy options to address competition issues that might be identified in the sector, though the nature of these options will depend on the specific issues identified through the course of the study.
- 25.6 The Commission has in previous competition studies demonstrated good capability in finding workable solutions to competition concerns. I consider

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<sup>8</sup> [https://www.theglobaleconomy.com/New-Zealand/percent\\_people\\_bank\\_accounts/](https://www.theglobaleconomy.com/New-Zealand/percent_people_bank_accounts/).

<sup>9</sup> [https://www.theglobaleconomy.com/New-Zealand/people\\_with\\_credit\\_cards/](https://www.theglobaleconomy.com/New-Zealand/people_with_credit_cards/).

<sup>10</sup> [https://www.theglobaleconomy.com/New-Zealand/people\\_with\\_debit\\_cards/](https://www.theglobaleconomy.com/New-Zealand/people_with_debit_cards/).

<sup>11</sup> From February 2023, Reserve Bank Data, available: Registered banks and non-bank lending institutions: Sector lending (C5) - Reserve Bank of New Zealand - Te Pūtea Matua (rbnz.govt.nz).

<sup>12</sup> Year ended 30 June 2021: <https://www.stats.govt.nz/news/mortgages-and-other-real-estate-loans-drive-household-debt-up/>.

<sup>13</sup> From latest Statistics New Zealand 2023 March Quarter Data, mortgage interest payments (i.e. for debt servicing only, separated to exclude repayments of loan principal expenses) make up from between 4.7 per cent of expenses for the average household to 7.4 per cent for the top 20 per cent of spending groups. See for further details: Household living-costs price indexes: March 2023 quarter | Stats NZ. Further increases are anticipated in these expenses, with the increases in interest rates which have happened in the intervening period.

the Commission can add value in progressing this study, including through addressing specific information gaps.

- 26 I recognise that the initial brief is wide, however, the Commission will be able to adjust its focus as the study progresses should it identify problems deserving particular attention.
- 27 Overseas, the banking and lending services sector has been similarly prioritised for competition study assessment. These studies include:
- 27.1 2013-2017 work by the Competition Markets Authority in the United Kingdom into the supply of retail banking to consumers and small-to-medium enterprises (SMEs)
  - 27.2 2016-2019 work by the Financial Conduct Authority in the United Kingdom considering consumers' ability to make informed mortgage choices
  - 27.3 2017-2018 price inquiry into residential mortgage products led by the Australian Competition and Consumer Commission (ACCC)
  - 27.4 2019-2020 market study led by the ACCC into home loan pricing and impediments to switching
  - 27.5 2023 price inquiry led by the ACCC into retail deposit interest rates.

### **Proposed timings**

- 28 I am satisfied that conducting a full 14-month competition study is the best option for understanding what are likely to be complex issues within the banking sector. It allows time for broad engagement, and in-depth analysis of the considerable number of products that fall into personal banking services. Fourteen months broadly matches the timeframes for the previous competition studies completed by the Commission. It also factors in the capacity constraints of stakeholders over Christmas and New Year.
- 29 However, it may not be necessary to wait until the final competition study report is produced. I am noting some interim steps, which will occur in the study and also recommending specific additional work in the sector, which I consider should be taken ahead of the completion of the competition study.

### **Interim steps and additional related work**

#### *Early issues paper by August 2023*

- 30 Consistent with timings in previous competition studies, I expect the Commission will produce a preliminary issues paper into the sector by the end of August 2023. This paper will describe the structure of the industry and provide early indications on the nature of competition.
- 31 I consider that producing this paper will be a sensible first step, which will set a clear signal of direction for the study. It may also uncover discrete issues which the Government or the sector itself could take steps to resolve, ahead of the final report.

32 As with other competition studies, the Commission may also follow up its preliminary issues paper with provisional working papers, for additional early testing on specific matters, e.g., profitability.

**Additional related work**

*The proposed competition study follows progress in other related programmes of work*

33 A competition study into personal banking services will follow the progress of work in other important areas seeking to improve how competition is working for consumers in the banking and finance sector.

34 These areas include, as an example, work by the Commission to implement the new Retail Payment Systems Act in 2022, with the objective of promoting competition and efficiency in retail payment systems for the long-term benefit of merchants and consumers. Already, this has resulted in decreased merchant fees for accepting Visa and MasterCard payments, and the Commission is currently working on limiting surcharges so that this benefit will be passed onto consumers. The Commission is also working on stimulating innovation in payments using its existing powers, and anticipates this work will lead to new, faster low-cost payment methods.

35 I consider key next areas of work should include a prioritised focus on open banking  
Confidential advice to Government

*I recommend prioritising driving forward open banking to ease informational barriers and increase consumer choice*

36 Progress on open banking is an integral means of increasing competition in the sector. A fully operational open banking system will make it easier for consumers to compare products and services and switch to alternative providers. It also will drive innovation, which will lead to an increase in more affordable products and services.

37 To help support open banking, I am recommending Cabinet prioritises the development of the consumer data right (CDR) framework which will unlock the potential in the data that banks hold about their customers.

38 I intend to bring a paper to Cabinet in June seeking authorisation to release a draft Bill for public consultation in July. This will allow the CDR framework to be tested to address any significant issues before the Bill is introduced to Parliament.

39 Though it will take time before legislation is in place, there are some early steps which industry could be taking towards open banking, with additional clarity and direction.

40 In line with these aims, I will shortly be writing to Payments New Zealand, to emphasise the priority of their work on standardised terms and conditions for system interfaces, known as application programming interfaces (APIs), needed to enable open banking. I am also currently considering options to engage early with senior industry leaders on the next stages of developing a CDR for New Zealand.

Confidential advice to Government

[Redacted]

*I do not recommend a separate, expedited review of bank profits*

43 I have also considered the option of a rapid review of bank profits, but do not recommend this course of action. Analysis of bank profits, on its own, is unlikely to reveal the core issues which may need to be addressed to promote better outcomes in the banking industry for consumers.

**Notice to initiate competition study**

44 In line with the requirements of the Act, I have prepared a draft notice (terms of reference and timeframe) for a study into any factors that may affect competition for the supply or acquisition of personal banking services. I have also consulted with the Commission on the draft notice. The proposed notice is attached as Annex 1.

*Judgements in developing the draft notice*

- 45 In developing the draft notice for this competition study, I have made the following judgements:
- 45.1 The terms of reference should adopt a balanced approach in setting personal banking services as the scope of the study while also building in appropriate flexibility for the Commission to consider broader intersecting services and products (e.g. broad, cross-portfolio assessments may be necessary into banks' financial performance, including profitability).
  - 45.2 I have included a list of matters that the Commission may consider in carrying out the study. This includes any impediments to new or innovative banking products and services, conditions of entry and expansion, and barriers to consumers comparing bank offers or switching banks, including the extent to which products or services may be tied or bundled.
  - 45.3 These specific matters are not to the exclusion of other areas, which will be kept under review through initial scoping and consultation, including early consultation by the Commission on preliminary issues identified. Though not listed specifically, I expect the Commission will look to identify and assess how well competition is working across different consumer segments and

demographic groups – particularly groups who are disproportionately excluded from access to financial services.

- 45.4 The competition study is to be completed over fourteen months by 31 July 2024, to give time for detailed upfront scoping work and to avoid constraints of the calendar year-end period.
- 45.5 No particular consultation requirements with departments, agencies or class of persons are specified in the draft notice. I expect the Commission will carry out an open and transparent competition study process, including liaising as appropriate with the other Council of Financial Regulators (CoFR) agencies.<sup>14</sup> I also expect the Commission will consult with Māori and communities who may be underserved by the banking sector, including rural communities, disabled people, older people, and people that may have limited access to financial products.
- 45.6 There are multiple regulatory and legislative changes in train in relation to the financial services sector (see paragraph 46 below), including the development of a CDR scheme for the banking sector to facilitate open banking. As an independent study, the Commission will have the flexibility to touch on these policy initiatives to the extent that they are considered relevant, but will be expected to maintain a central focus on the conditions of entry and expansion, any barriers to consumer searching or switching, and the other matters as set out in the draft terms of reference.
- 45.7 The multiple concurrent ongoing regulatory initiatives in the financial services sector also provides a rationale for an extended timeframe for the competition study, as the sector will have to simultaneously deal with a range of regulatory initiatives and the Commission will need flexibility to build its consultations with the sector around this.

*Impact on business*

- 46 Regulatory changes are continuing for the financial services sector, e.g. from:
- 46.1 the development of a new CDR scheme, currently being designed by MBIE
- 46.2 higher capital requirements, from changes made by the Reserve Bank of New Zealand continuing over the next five years
- 46.3 the new Conduct of Financial Institutions Regime, bringing in new licensing arrangements in mid-2023 and a full roll out of remaining elements in early 2025.
- 47 Further changes are also forthcoming, including new requirements for deposit takers, from the Deposit Takers Bill, which has now moved out of select committee and is expected to receive Royal Assent in July or August 2023, and a new Depositor

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<sup>14</sup> The Council of Financial Regulators (CoFR) member agencies are: The Treasury, Reserve Bank of New Zealand, Ministry of Business, Innovation and Employment, Commerce Commission, and Financial Markets Authority.

Compensation Scheme, expected to be introduced in 2024. These will involve significant work for industry as they are finalised and start to be implemented.

- 48 The Deposit Takers Bill also requires the Reserve Bank to take into account a number of principles when performing its regulatory functions, including the need to maintain competition within the deposit-taking sector. The changes in the Bill could also affect the competitive landscape in other ways – e.g. by making it easier for smaller deposit takers to attract retail funding once deposits are insured.
- 49 The significant amount and range of concurrent regulatory initiatives in the financial services sector is likely to lead to concerns from market participants about the additional compliance and engagement a competition study will involve. The Reserve Bank of New Zealand, Financial Markets Authority, Commission, Treasury, and MBIE are working together, as CoFR, to ease the transition process for the sector. I have considered the impact of these changes in the timeframes I have proposed for the competition study.
- 50 I note that similar studies in other countries have occurred while the industries there were going through various regulatory or other changes. For example, the Australian Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (December 2017 to February 2019) and subsequent policy changes coincided with the Australian Productivity Commission’s study into competition in the Australian financial system (May 2017 to June 2018).
- 51 The competition study may impose some additional costs on smaller-scale providers of personal banking services, including outside of the core banking sector, through participation in the study. However, by being a part of the study, these participants can provide useful insights and a clearer picture of competition and competitive tension in the market to support well-informed advice.
- 52 I understand the Commission has taken a proportionate approach to engaging with smaller players in competition studies to date. In line with this, I expect the Commission to take into consideration the cost to businesses when considering issuing mandatory information requests compelling them to participate in the study.

**Implementation**

- 53 I intend to initiate the competition study following consideration by Cabinet. The major milestones for this programme of work are as follows:

<b>Milestone/Activity</b>	<b>Timeframe</b>
Initiation of competition study	End May 2023
Expected release of a preliminary issues paper by the Commission	By end August 2023
Study completed and final report is released to the public	End July 2024
Government response to the final report published	End October 2024

### **Financial Implications**

54 The Commission will fund the costs of this study from existing baselines.

### **Legislative Implications**

55 There are no direct legislative implications arising from this paper.

### **Impact Analysis**

#### *Regulatory Impact Statement*

56 A regulatory impact assessment is not required at this commissioning stage of further work.

### **Climate Implications of Policy Assessment**

57 This paper does not require a Climate Implications of Policy Assessment.

### **Population Implications**

58 There are no direct population impacts arising from this paper.

### **Human Rights**

59 The proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

### **Consultation**

60 I have consulted with the Commission on the draft terms of reference for the competition study, as I am required to do as responsible Minister.

61 The Treasury, Reserve Bank of New Zealand, and Financial Markets Authority have also been consulted on this Cabinet paper and the draft terms of reference. The Department of Prime Minister and Cabinet (Policy Advisory Group) has been informed.

### **Communications**

62 I intend to issue a media statement announcing the initiation of this competition study. The notice for this study will be published in the *New Zealand Gazette* to initiate the study and will also be posted on MBIE's website.

### **Proactive Release**

63 MBIE will publish this Cabinet paper on its website in full within 30 business days of decisions being noted by Cabinet.

### **Recommendations**

The Minister of Commerce and Consumer Affairs recommends that Cabinet:

**IN CONFIDENCE**

- 1 **note** the Commerce Act 1986 gives the Commerce Commission the ability to undertake competition studies;
- 2 **note** the Minister of Commerce and Consumer Affairs intends to require the Commerce Commission to undertake a competition study into any factors that may affect competition for the supply or acquisition of personal banking services, in line with the notice set out in Annex 1;
- 3 **authorise** the Minister of Commerce and Consumer Affairs to make any minor, editorial adjustments as required to the draft terms of reference, ahead of initiating the *New Zealand Gazette* notice for the new competition study;
- 4 **note** the Minister of Commerce and Consumer Affairs intends to require the Commerce Commission to publish its final report for this competition study by 31 July 2024;
- 5 **note** that, consistent with previous market studies, the Commerce Commission will release a preliminary issues paper early in the study, expected to be made available by the end of August 2023;
- 6 **note** that statutory consultation with the Commerce Commission on the notice for the competition study in Annex 1 has occurred;
- 7 **note** the Commerce Commission will publish and consult on a draft report on the competition study several months prior to the publication of the final report, which will provide a strong indication of the Commerce Commission's conclusions;
- 8 **note** that this Cabinet paper and the notice for the competition study will be proactively released in full on MBIE's website.

Authorised for lodgement

Hon Dr Duncan Webb

Minister of Commerce and Consumer Affairs

**Annex 1: Draft notice for a competition study into personal banking services**

I, Hon Dr Duncan Webb, Minister of Commerce and Consumer Affairs, pursuant to section 51 of Part 3A of the Commerce Act 1986, require the Commerce Commission to carry out a competition study into any factors that may affect competition for the supply or acquisition of personal banking services. For the purposes of this study, personal banking services are banking services ordinarily acquired for personal, domestic, or household use.

Matters to be considered in the study may include, but are not restricted to:

- the structure of the industry and the nature of competition
- the conditions for entry by potential competitors and the conditions for expansion
- any barriers to consumers comparing bank offers or switching banks, including the extent to which products or services may be tied or bundled
- any impediments to new or innovative banking products or services
- comparative indicators of bank financial performance (including profitability).

Should the Commission be of the view that one or more matters listed above, or any additional matters not listed, are likely to provide special insight into competition for the supply and acquisition of personal banking services then the Commission may focus on those aspects.

The Commerce Commission should make its report publicly available by 31 July 2024. Consistent with previous market studies, I expect the Commission will produce a preliminary issues paper into the sector by the end of August 2023.