



FINANCIAL SERVICES FEDERATION

14 February 2025

Financial Markets
Building, Resources and Markets
Ministry of Business, Innovation & Employment

By email: financialmarkets@mbie.govt.nz

Enabling KiwiSaver investment in private assets

The Financial Services Federation (FSF) is grateful to the Ministry of Business, Innovation and Employment (MBIE) for the opportunity to comment on the discussion document: Enabling KiwiSaver investment in private assets.

By way of background, the FSF is the non-profit industry association representing specialist lenders operating in Aotearoa New Zealand, with a collective customer base of over 1.7 million consumers and businesses. A list of our current members is attached at Appendix A.

FSF members provide crucial competition to traditional banks through innovation, agility, and the ability to be closer to their customers. Members include finance, leasing and credit-related insurance providers, several credit unions and building societies, fintech firms, and the finance arms of global motor vehicle brands.

FSF members prioritise compliance, support consumer protection enforcement, and advocate for balanced regulations that ensure New Zealanders can access responsibly provided credit. Data relating to the extent to which FSF members (excluding Affiliate members) contribute to New Zealand consumers, society and business is attached as Appendix B.

The FSF has welcomed the Commerce Commission's market study and the select committee enquiry into competition in New Zealand's traditional banking market for both consumers and businesses. FSF's specialist lending members provide opportunities for this much-needed competition. This includes providing specialist finance options to small and medium size businesses using the asset being purchased as the means to secure the loan (as opposed to taking a mortgage over the family home).

Specialist lenders also support consumers with innovative products in areas such as housing lending, motor vehicle lending, point of sale finance, and so on. The specialist lending sector exists largely because there are sectors of our community and society that are not able to be as well served by the registered banks.

However, they are hamstrung in their ability to do this at scale by limitations in access to funding lines to finance their loan books. FSF members fund themselves in one or more of the following ways:

- By taking deposits from the public – i.e. by being a Non-Bank Deposit Taker (NBDT).
- Parent company funding – i.e. funding emanating from a global parent which is the case for many of the FSF's members operating a global brand.
- Shareholders' funding.
- Securitisation vehicles – where parcels of loans are “warehoused” and sold to investors.
- Wholesale funding lines provided by the major banks.

There are limitations to all of these funding methods and also some significant disadvantages to the specialist lender as a result of their having to rely on such means of raising capital.

For example, being an NBDT comes at a significant compliance cost to be able to be licensed to take funds from the public. An NBDT has to be licensed by the Reserve Bank who is also the supervisor of the NBDT's prudential capital and liquidity requirements. They have also to hold a license from the Financial Markets Authority with respect to their conduct programme. And they will be required to start paying a levy to the Depositor Compensation Scheme to provide insurance to their depositors under the Deposit Takers Act 2023.

As an alternative to the compliance costs associated with being an NBDT, many specialist lenders seek wholesale funding lines from one or other of the large banks. The major disadvantage to this funding method is that the banks are motivated by making a profit on this form of lending which means that the specialist lender is not able to compete with the banks when it comes to pricing.

Lack of access to capital to provide for growth is a major inhibitor to specialist lenders being able to scale up to provide the necessary funding to consumers and businesses for them to be able to grow and thrive. With a strong government agenda for increased growth and productivity in the New Zealand economy, the time is right for specialist lenders to step up and provide the capital to fuel this – if only they had access to the capital required to be able to do so.

It is on this basis that the FSF will be responding to the discussion document. The FSF does not represent any KiwiSaver providers amongst its membership, so it is not appropriate for us to comment or answer any questions from their perspective.

Obviously, the FSF is very supportive of the proposal to allow KiwiSaver providers to invest some of their funds into private assets from the perspective of this hopefully providing an alternative capital stream to fund their lending activities. We believe that this will allow for more investment in New Zealand for New Zealand purposes.

However, we are also supportive of the proposal from the perspective of allowing fund managers greater diversity in the way in which they invest KiwiSaver money for their

investors. Ultimately the money in New Zealand KiwiSaver schemes belongs to New Zealand investors.

We would caveat the above however with the proviso that greater diversity can come with more risk and there is a need for more investors to understand the need for sound financial advice to ensure they are investing according to their personal risk profile and timeframe until the funds are required. It will be important therefore for the financial advice community to upskill themselves appropriately in order to understand the risk and the benefits of diversifying their clients into an allocation in private assets.

Overall, however, the FSF welcomes the proposal to allow KiwiSaver funds to invest in private assets and can only see upside for investment into New Zealand for growth and increased productivity and greater investment choice for KiwiSaver investors.

Thank you again for the opportunity to provide this feedback. Please do not hesitate to contact me if you have any questions.



Lyn McMorran
EXECUTIVE DIRECTOR

Appendix A



FSF Membership List as at January 2025

Non-Bank Deposit Takers, Specialist Housing/Property Lenders, Credit-related Insurance Providers	Vehicle Lenders Finance Companies/ Leasing Providers	Finance Companies/ Diversified Lenders	Finance Companies/ Diversified Lenders <u>contd.</u> Insurance Premium Funders	Insurance Premium Funders <u>contd.</u> / Social Impact Lenders / Affiliate Members	Affiliate Members <u>contd.</u>
<u>Non-Bank Deposit Takers</u> Finance Direct Limited ➤ Lending Crowd General Finance (BB) Gold Band Finance (B+) ➤ Loan Co Mutual Credit Finance (B) <u>Credit Unions/Building Societies</u> First Credit Union (BB) Nelson Building Society (BB+) Police and Families Credit Union (BB+) <u>Specialist Housing/Property Lenders</u> Basecorp Finance Limited First Mortgage Managers Ltd. Liberty Financial Limited Pepper NZ Limited Resimac NZ Limited <u>Credit-related Insurance Providers</u> Protecta Insurance Provident Insurance Corporation Ltd	Auto Finance Direct Limited BMW Financial Services ➤ Mini ➤ Alpha Financial Services Community Financial Services Go Car Finance Ltd Honda Financial Services Kubota New Zealand Ltd Mercedes-Benz Financial Motor Trade Finance Nissan Financial Services NZ Ltd ➤ Mitsubishi Motors Financial Services ➤ Skyline Car Finance Onyx Finance Limited Scania Finance NZ Limited Toyota Finance NZ ➤ Mazda Finance Yamaha Motor Finance <u>Leasing Providers</u> Custom Fleet Euro Rate Leasing Limited Fleet Partners NZ Ltd ORIX New Zealand SG Fleet	<u>Finance Companies & Diversified Lenders</u> AfterPay Avanti Finance ➤ Branded Financial Basalt Group Blackbird Finance Caterpillar Financial Services NZ Ltd Centracorp Finance 2000 DebtManagers Finance Now ➤ The Warehouse Financial Services ➤ SBS Insurance Future Finance Geneva Finance Harmony Humm Group Instant Finance ➤ Fair City ➤ My Finance John Deere Financial Latitude Financial Lifestyle Money NZ Ltd	Limelight Group Mainland Finance Limited Metro Finance Nectar NZ Limited NZ Finance Ltd Personal Loan Corporation Pioneer Finance Prospra NZ Ltd Speirs Finance Group (L & F) ➤ Speirs Finance ➤ Speirs Corporate & Leasing ➤ Yoogo Fleet Turners Automotive Group ➤ Autosure ➤ East Coast Credit ➤ Oxford Finance UDC Finance Limited Yes Finance Limited Zip Co NZ Finance Limited <u>Insurance Premium Funders</u> Arteva Funding NZ Ltd Elantis Premium Funding NZ Ltd Financial Synergy Limited	Hunter Premium Funding IQumulate Premium Funding Rothbury Instalment Services <u>Social Impact Lenders</u> Money Sweetspot Ltd <u>Affiliate Members</u> Alfa Financial Software American Express AML Solutions Limited Buddle Findlay Chapman Tripp Credisense Ltd Deloitte EY FinTech NZ Finzsoft Happy Prime Limited IDCARE Ltd KPMG Loansmart Ltd Match me Money Ltd	Motor Trade Association Odessa Technology Inc. One Partner Limited PWC Sense Partners Simpson Western Summer Lawyers <u>Symphonix</u> <u>Credit Reporting, Debt Collection Agencies</u> Centrix Credit Corp ➤ Baycorp ➤ Collection House Debtworks (NZ) Limited Equifax Gravity Credit Management Limited Illion Quadrant Group (NZ) Ltd Recoveries Corp NZ Ltd Total 99 members



FINANCIAL SERVICES FEDERATION (FSF)

THE NON-BANK FINANCE INDUSTRY SECTOR - 2024



49%

NON-BANK

BANK

of personal consumer loans are financed by the **non-bank sector** represented by FSF members.

Setting industry standards for responsible lending, promoting compliance and consumer awareness.

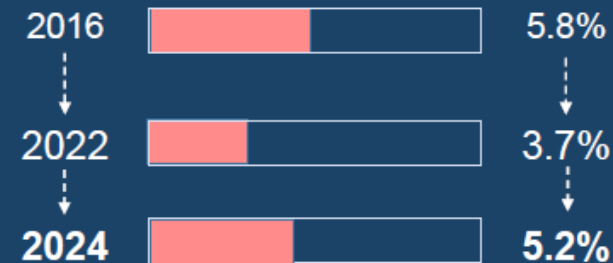
Only **6** dispute resolution complaints upheld or partially upheld from 1 April 2023 to 31 March 2024

Percent of Loan Requests Approved

48%



Percent of Loan Book in Arrears



KEY FACTS: THE NON-BANK FINANCE INDUSTRY SECTOR

FSF Members (as at 31 Mar 2024)

Number of Members	97
Number of Employees	3,353
Applications Processed	1,102,266
Loan Requests Approved	527,382
Percent of Loan Book in Arrears	5.2%
Loan Disputes Upheld	6

Bank Sector (as at 31 Mar 2024)

Value of Mortgage Loans	\$352B
Value of Consumer Loans	\$7.7B
Value of Business Loans	\$125B

Non-Bank Sector Share (as at 31 Mar 2024)

% of Total Mortgage Loans	0.3%
% of Total Consumer Loans	48.5%
% of Total Business Loans	8.7%

Insurance Credit Related (as at 31 Mar 2024)

Number of Employees	250
Number of Policies	300,209
Gross Claims (annual)	\$22.1M

Consumer Loans (as at 31 Mar 2024)

Total Value of Loans	\$8.2B
Number of Customers	1,537,502
Number of Loans	1,735,718
Average Loan Size	\$4,746

Total Value of Loans:

Mortgage	\$979M
Vehicle Loan	\$4,036M
Unsecured	\$2,129M
Other Security	\$361M
Lease Finance	\$733M

Average Value of Loan:

Mortgage	\$134,675
Vehicle Loan	\$13,337
Unsecured	\$1,588
Other Security	\$4,245

Business Loans (as at 31 Mar 2024)

Total Value of Loans	\$11.9B
Number of Customers	131,161
Number of Loans	202,921
Average Loan Size	\$58,894

Total Value of Loans:

Mortgage	\$4,092M
Vehicle Loan	\$2,989M
Unsecured	\$262M
Other Security	\$2,846M
Lease Finance	\$1,763M

Average Value of Loan:

Mortgage	\$766,527
Vehicle Loan	\$37,362
Unsecured	\$48,107
Other Security	\$54,724
Lease Finance	\$29,308