Bank of New Zealand submission

on the Finance and Expenditure Committee’s Inquiry into banking competition

CEO foreword

Bank of New Zealand has a clear ambition to serve all our customers consistently and brilliantly.

We are very proud of our hard-earned reputation as the bank for New Zealand business owners. This is a reputation built through our 160 year history of supporting businesses in towns, cities and on farms throughout Aotearoa to grow and thrive.

Today, BNZ remains the leading investor in New Zealand's productive sectors (business and agriculture), with 40% of all BNZ's lending going to businesses large and small. This support has continued over the past year with almost half of New Zealand's total $2.7 billion of lending growth to the business and agriculture sectors coming from BNZ.

Given our long history, we've been through all the toughest of times that New Zealanders have endured. We've been there with our customers through the good times and through the bad times.

The support BNZ offered customers during the big storms of 2023 illustrates our commitment, with BNZ establishing a **$1 billion** recovery fund and providing over **$50 million** in customer support. A significant proportion of that funding has gone to our rural customers and the communities that we are privileged to support.

We have 1,300 BNZers connecting with our customers and communities based out of our 127 branches and Partners Centres from Kaitaia to Invercargill. By the middle of next year, all our branches will be open to customers at least 5 days a week.

As we look to the future it's clear that banking in New Zealand and the way New Zealanders interact with their bank and the wider financial sector is changing.

With 27 registered banks, New Zealand is already well serviced by a competitive banking sector, but as BNZ plays its role to grow a thriving Open Banking sector, we see the range of innovative products and services available to customers increasing dramatically, like those already being accessed by approximately 250,000 BNZ customers through our suite of APIs.

So, while we look back with pride at BNZ's 160 years serving New Zealand and New Zealanders, we also look forward to a future focused on continuing to serve our customers and their communities as they grow and thrive.

Dan Huggins,

Chief Executive Officer
Bank of New Zealand

The state of competition in banking, including:

The price of banking services, with a particular focus on business and rural lending products.

At BNZ we pride ourselves on listening to and understanding our customers. We are well known as the bank for business, and we know that businesses and business owners are all unique, whether they own a transport firm providing crucial logistic services; are a business just starting out; or are farming New Zealand's premium beef; at BNZ we work with each customer on a one-to-one, case-by-case basis to help them grow and thrive.

BNZ is the leading banking sector investor in New Zealand businesses with 40% of our lending going to businesses large and small, and 56% going to home owners.[1]

This strong mix of productive sector (business and agriculture) lending, combined with support for home owners, helps to ensure we are a stable, strong bank.

Competition is intense, with 27 registered banks, 14 non-bank deposit taking institutions, and numerous fintechs.

They all have different approaches, for example some of our largest competitors in agribusiness lending are focused just on that sector (e.g. Rabobank),[2] some focus on enabling agribusiness lending via digital channels (e.g. Heartland),[3] while others have a focus on particular regions (e.g. SBS in Southland, TSB in Taranaki).[4] These differences mean that customers can choose the banking provider that meets their needs and how they engage with them.

While we work hard with our customers through both good times and bad, the fact remains that there is inherent risk in operating a business.

This means when we support a business customer to invest in their business or farm enterprise, to setup a new business, or to buy a business, we're taking a higher level of risk than we do for home lending. There are a lot more risks for a business than for a customer who buys a house. Whether those risks relate to the climate, global or domestic economies, the local regulatory environment, the sector the business is in or are management related.

That risk is reflected in the numbers - BNZ's recently reported agribusiness loan default rate, or agribusinesses that could no longer meet their repayment schedule, is approximately 1.3% (of total agribusiness loans), compared to home loan default rates of approximately 0.6%.[5]

In dollar terms, this meant for the quarter ending June 2024, of BNZ's total agribusiness loan book of $13.5 billion, non-performing loans amounted to $174.3 million.[6]

The higher risks associated with agribusiness lending, compared to home lending, and how that risk is impacted by macroeconomic conditions and commodity prices, are illustrated in the following chart.

[1] (June 2024). Reserve Bank. Bank Financial Strength Dashboard: Bank of New Zealand – Asset Quality. Retrieved from: https://bankdashboard.rbnz.govt.nz/orgs/BNZ The other 4% of our lending is comprised of credit card lending, overdrafts, and securitisation.

[2] https://www.rabobank.co.nz/agribusiness/banking-with-us

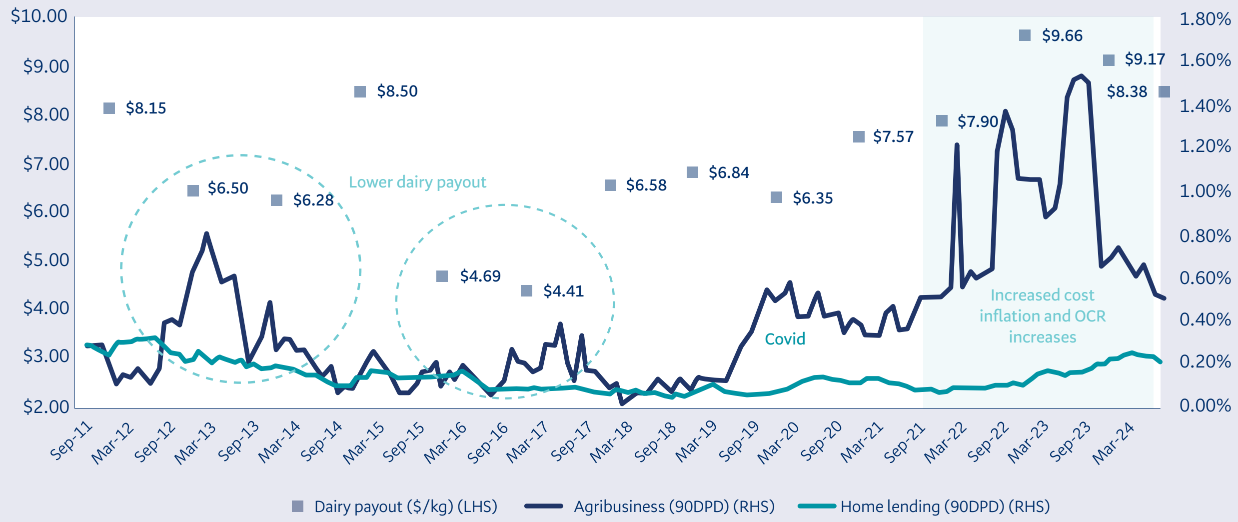
[3] (9 December 2020). Heartland launches farm term loan with self-serve online application. https://www.heartland.co.nz/about-us/news/heartland-launches-farm-term-loan-with-self-serve-online-application

[4] (18 April 2024). Deloitte Access Economics. Personal banking services market study: Review of the Commerce Commission's draft report. Report prepared for BNZ. Retrieved from: https://comcom.govt.nz/__data/assets/pdf_file/0018/350910/BNZ-Submission-on-Market-study-into-personal-banking-services-Draft-report-18-April-2024-Attachment-A-Deloitte-report.pdf

[5] (June 2024). Reserve Bank. Bank Financial Strength Dashboard: Bank of New Zealand – Asset Quality: Agricultural Loans and Housing Loans. Retrieved from: https://bankdashboard.rbnz.govt.nz/orgs/BNZ

[6] (June 2024). Reserve Bank. Bank Financial Strength Dashboard: Bank of New Zealand – Asset Quality: Agricultural Loans. Retrieved from: https://bankdashboard.rbnz.govt.nz/orgs/BNZ Non-performing loans are loans that are recognised as impaired (an event causes a lender to believe they will not be fully repaid) or where payment is at least 90 days past due.

Figure 1 – BNZ agribusiness and home lending – 90 days past due over time (tracked against dairy payouts per kgMS)[7]



The different amount of risk taken, is in turn reflected in the pricing of loans. Higher risk loans will require more capital, which will increase the interest rate. This, when combined with the cost associated with sourcing the money being lent from domestic and international depositors, and costs associated with running the bank, help determine the final pricing of a loan.

Profitability in banking, how it has changed over time, and how it compares to other OECD economies.

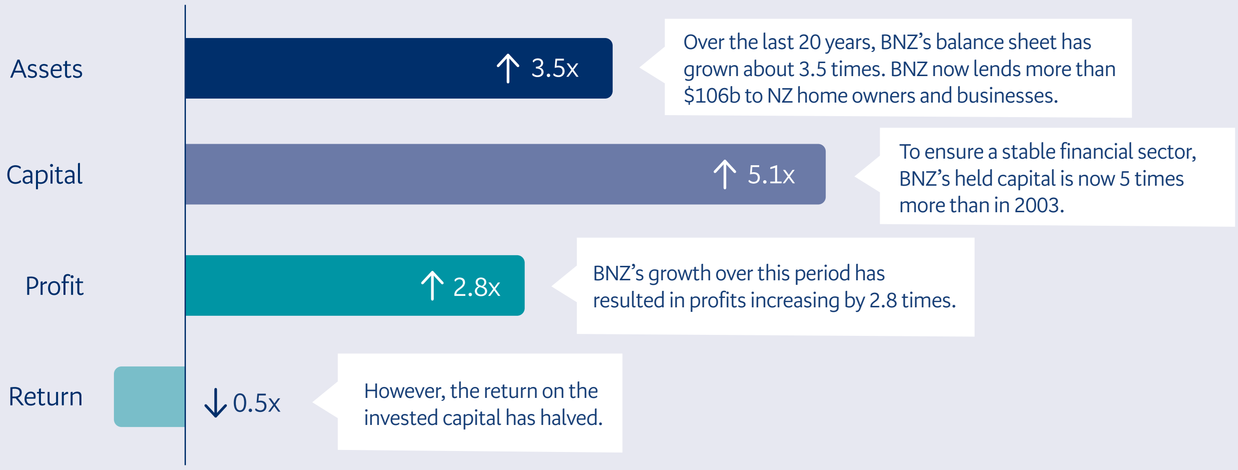
We understand that bank profits have always been a source of discussion. BNZ is one of the largest businesses in New Zealand and currently has over $106 billion invested in supporting New Zealanders through its lending.

BNZ's profitability has changed over time, in part due to our commitment to continue to invest in New Zealand. However, the regulatory environment has also changed in New Zealand, and as part of the Reserve Bank's capital requirements, BNZ today holds 5 times more capital than it did in 2003. In that same 20-year period, BNZ's lending has increased 3 and a half times but BNZ's profit has increased less than 3-fold.

This shows that while BNZ's profits have increased over this period, that has been as a result of BNZ's substantial and growing support of New Zealand's economy, and when compared to the level of capital BNZ has had to hold to underpin that support, its return on capital has in fact decreased.

[7] In this chart "dairy payout" is milk price + dividend per kgMS.

Figure 2 - BNZ growth over the last 20 years

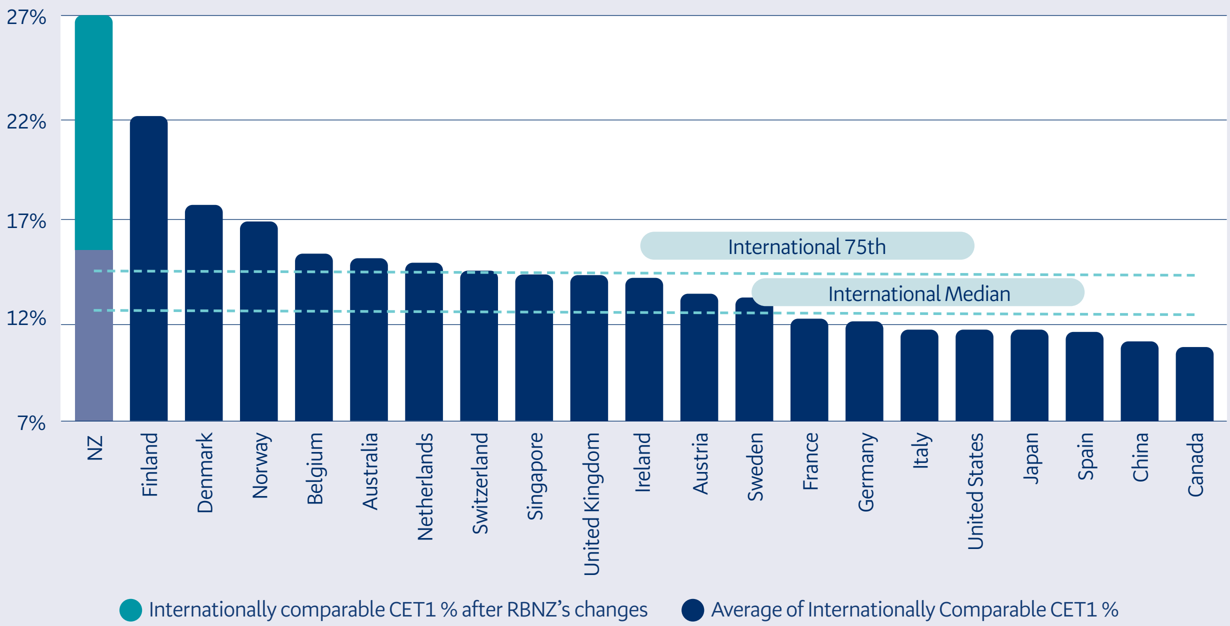


Internationally, there is a diverse range of economic, regulatory and societal differences that means relevant and informative comparisons between countries are difficult to make, even across OECD members.

The regulatory environment alone sets New Zealand apart. For example, New Zealand banks are in the top quartile of global comparisons for capital retained (see Figure 3).

We are also a unique, small economy that relies heavily on exported agricultural commodities, the prices of which are impacted by global markets. New Zealand also imports significant amounts of capital to fund the financial sector as it lends to the economy.

Figure 3 - Average Common Equity Tier 1 (CET1) capital requirements[8]



[8] (17 May 2019). PWC. International comparability of capital ratios of New Zealand's major banks – update paper. Prepared for the New Zealand Bankers' Association. Retrieved from: https://www.nzba.org.nz/wp-content/uploads/2019/05/Appendix-Two-International-comparability-of-capital-ratios-2019.pdf

BNZ's treasury and investment team regularly visit our international investors, and the feedback they get is generally positive in terms of how investors view both BNZ and New Zealand as an investment destination. For example, European credit investors note that BNZ and the other large New Zealand banks are amongst the best capitalised banks in the world. United States investors also comment positively about New Zealand's prudent lending practices and high-quality balance sheets.

While we don't seek to compare our returns globally, the economic consultancy, Incenta, attempted to do so against comparable overseas markets during the Commerce Commission's recent market study. Incenta applied the Commission's methodology from previous market studies and its analysis showed that large New Zealand banks (using ANZ as a proxy) are not making high returns relative to comparable global peers.[9]

The return on capital from business, rural, and residential mortgage lending; the level of interest rates charged to each sector; and an assessment as to why there has been a change in the proportion of lending to the productive sector relative to residential mortgage lending.

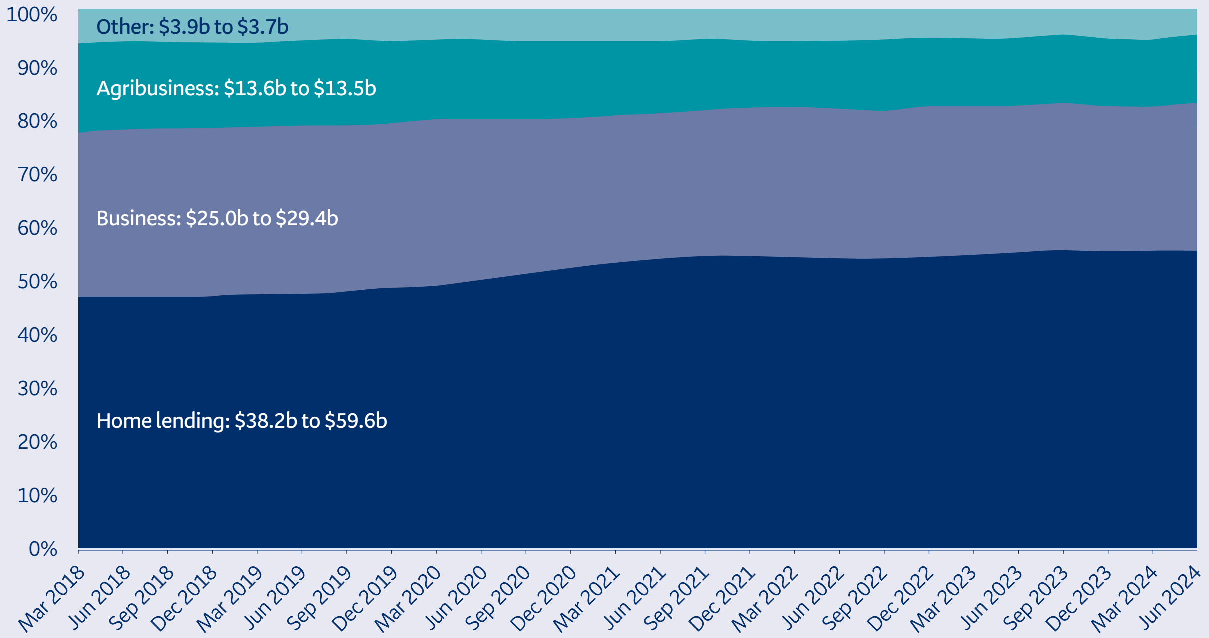
BNZ is the largest investor in New Zealand businesses across the banking sector with 40% of our lending going to large and small businesses, and 56% being provided to home owners.[10]

In banking terms this is a very balanced book and this strong mix of productive sector (business and agriculture) lending, combined with home lending, ensures we are a stable, sound bank.

Figure 4 shows that over the past 6 years the dollar amount that BNZ continues to invest in the agricultural sector has remained consistent at around $13.5 billion while lending to other businesses has increased to $29.4 billion. This illustrates that an increase in lending on housing hasn't come at the expense of lending to the business sectors.

BNZ does not differentiate the "return on capital" that is required between business, rural or residential mortgage lending. While the "amount" of capital that is required to support loans will differ for each unique loan - the return required for each dollar of capital does not change.

Figure 4 - BNZ lending composition



[9] (September 2023). Incenta Economic Consulting. Benchmarking the profitability of the New Zealand banks against international peers. Report for ANZ. Retrieved from: https://comcom.govt.nz/__data/assets/pdf_file/0025/329029/ANZ-Submission-on-Market-study-into-personal-banking-services-Preliminary-Issues-paper-7-September-2023-Annex-1.pdf

[10] (June 2024). Reserve Bank. Bank Financial Strength Dashboard: Bank of New Zealand – Asset Quality: Agricultural Loans and Housing Loans. Retrieved from: https://bankdashboard.rbnz.govt.nz/orgs/BNZ

Interest rate differentials across lending type

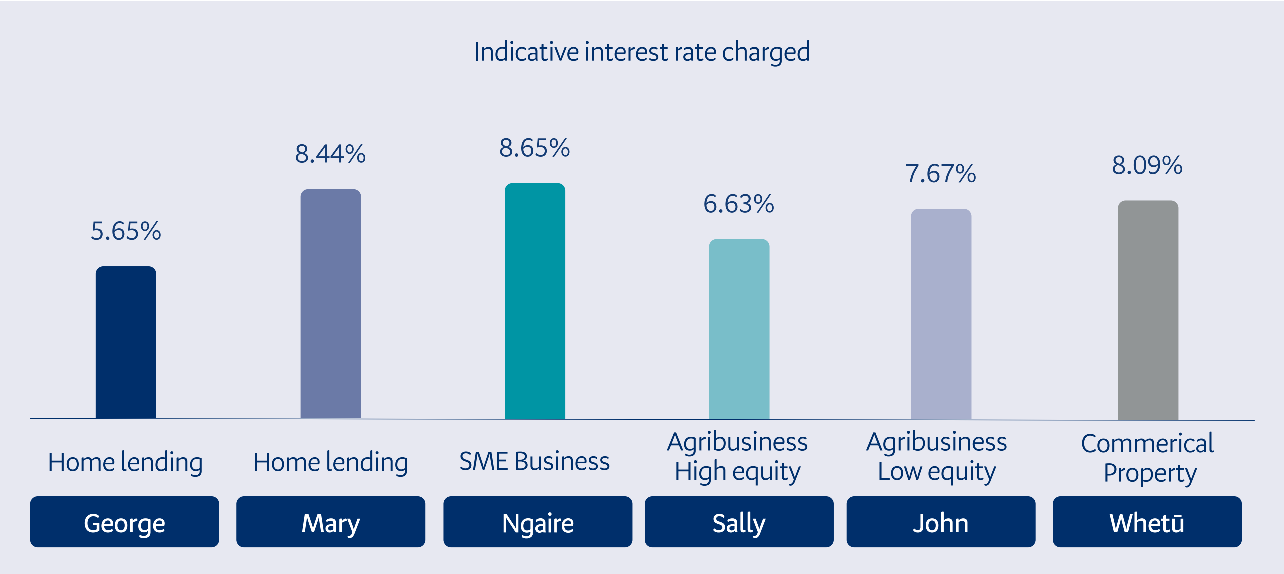
As we covered earlier, the risk-based approach to lending, and the individualised approach that we take to supporting our customers' lending requirements, along with other factors, make it challenging to compare interest rates between customer types.

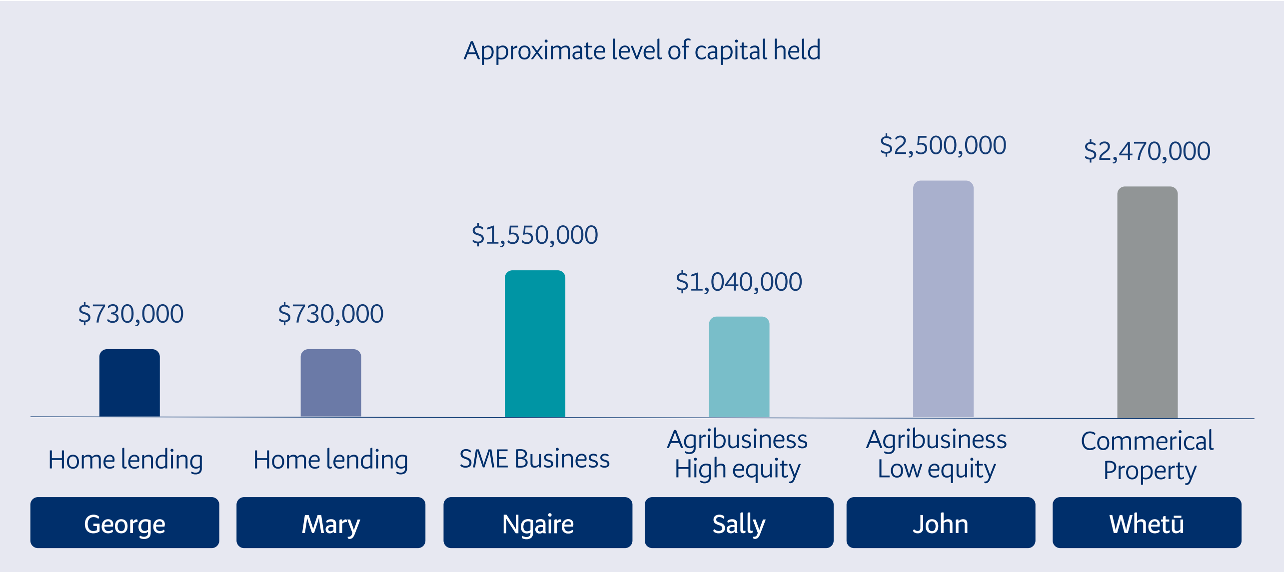
However, to help support the Committee's understanding of how these factors interrelate and impact customers at a repayment and interest rate level, we provide the following case study to illustrate the different outcomes for our customers.

These scenarios cover home lending on a residential property, business lending to a small to medium business as well as to a commercial property owner, agribusiness lending on a farm where the customer has a high level of equity, and agribusiness lending on a farm where the customer has a lower level of equity.

1. **George** has saved $500,000 for a deposit and needs to borrow $2,000,000 to purchase a property. George would like to fix his interest rate for 3 years to have certainty of his repayments during the fixed term.
2. **Mary** also has $500,000 saved for a deposit and needs to borrow $2,000,000 to purchase her home. Mary thinks interest rates will reduce and has decided on a variable rate and will look to fix later in the year.
3. **Ngaire** is a looking to purchase a small business. She has $1,000,000 saved for a deposit and needs to borrow a further $2,000,000. Ngaire is looking at a floating rate product.
4. **Sally** runs a medium sized dairy farm which she has owned outright for several years. She is looking to expand and purchase the adjoining farm for $2,000,000. Her existing farm is valued at $4,000,000 and therefore Sally has a high amount of equity.
5. **John** is a dairy farmer and is refinancing his loan with BNZ. He has $1,000,000 of equity and is looking to refinance $2,000,000 of borrowing.
6. **Whetū** is a commercial property owner with $2,000,000 of borrowing and $1,100,000 of equity.

	George	Mary	Ngaire	Sally	John	Whetū
	Home lending	Home lending	SME Business	Agribusiness High equity	Agribusiness Low equity	Commercial Property
Loan size	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Equity	500,000	500,000	1,000,000	4,000,000	1,000,000	1,100,000
Loan-to-Value (LVR)	80%	80%	67%	33%	67%	65%
Loan type	3yr fixed	Floating	Floating	Fixed/Floating	Fixed/Floating	Floating





Observations from the case study

As we’ve previously mentioned, each of our customer’s circumstances are unique to them and we therefore take a risk-based approach on a case-by-case basis. The amount of capital that we hold reflects the risk profile of the customer we are lending to. This includes the amount of equity they have. Higher levels of equity (or a low loan-to-value ratio) means we can hold less capital than for a similar loan with less equity.

For context, the level of equity a customer has is only relevant to the amount they can borrow, as a bank requires security in the case of a default.

An equally important factor is cashflow. Every borrower, regardless of the type of loan, must prove they can service the loan – which means being able to make regular payments. Without cashflow at a level that supports repayments, the loan simply becomes unserviceable - regardless of the level of equity a borrower may have in their home or business.

One other important observation is that businesses, including agribusinesses such as farms, can include their loan repayments as a tax-deductible business expense which lowers the effective interest rate of the loan. The tax deductibility of interest payments is often an important income feature for agribusiness customers but is not something an owner-occupier home loan customer can benefit from.

The effect of any bank lending policies relating to borrowers' emissions that result in additional lending costs and/or lending restrictions.

BNZ supports the wider ambition to transition to a low carbon, electrified future and has specific lending products associated with the country's emissions reduction ambitions, such as BNZ's Sustainability Linked Loan. This type of product is designed to support customers to increase positive environmental and social impacts and reduce any negative impacts, with potential pricing benefits.

Outside of supporting customers with specific products, BNZ has no emissions-based policies that result in additional lending costs or lending restrictions. BNZ has made risk-based decisions to exit or reduce lending to specific sectors (e.g. thermal coal sector).

BNZ (along with certain other lenders in New Zealand) publishes its financed emissions under New Zealand's mandatory climate-related disclosures regime.

The level of customer "switching", how this has changed over time, and how this compares to other countries.

BNZ's experience is that customers can and do switch.

For example, between July 2023 and June 2024 BNZ gained around 85,000 "new" personal banking customers, while around 25,000 switched away. We also find that customers regularly refinance their lending to different banks and that switching is increasing over time (for example, customers refinancing home loans into BNZ represented over 18% of new home loans for BNZ last year compared to 7% in 2020).

Customers often don't close accounts at one bank when they open them in another, meaning customers often maintain multiple banking relationships (the equivalent of having three power companies servicing your home with different products at different times of the day).

Our understanding is that this is different to other countries, because New Zealand banking has fewer fees. In particular, New Zealanders are able to open and maintain a transaction account with no monthly fees – enabling them to effectively 'multi-bank' at no cost.

This all reflects the Commerce Commission's findings that any challenges to switching are more from customers perceiving it is harder than it actually is.

Given this, we support the Commission's views that our sector can improve the rates of switching even further by better promoting the Payments NZ account switching service and monitoring and publishing statistics on how effective that service is.

Barriers preventing competition in banking, including:

Any limits on the growth of non-bank deposit takers.

In New Zealand competition remains intense, with 27 registered banks and 14 non-bank deposit takers (for example, First Credit Union, Nelson Building Society, Xceda Finance, Christian Savings and Liberty Financial).

They all have different approaches, for example some of our largest competitors in agribusiness lending are focused just on that sector (e.g. Rabobank),[11] some focus on enabling agribusiness lending via digital channels (e.g. Heartland),[12] while others have a focus on particular regions (e.g. SBS in Southland, TSB in Taranaki).[13] These differences mean that customers can choose the banking provider that meets their needs and how they engage with them, and that competition is intense.

To ensure a stable and secure banking and financial system for the benefit of all New Zealanders, regulatory requirements put controls on the operations of these providers. Many of those requirements have been informed by the real-life experiences and losses of many New Zealanders who endured the collapse of 51 finance companies between 2006 and 2012.

Any restrictions on overseas investment/new entrants, including Fintechs.

Overseas banks can and do enter New Zealand (for example, Bank of China and ICBC) and achieve material growth (for example, Rabobank is now the third largest agricultural lender in New Zealand).[14] An increasing number of fintechs are also joining the financial services sector (BNZ has already developed APIs to partner with more than 20 fintechs).

We expect the number and range of banks, fintechs and other financial institutions operating in New Zealand will continue to increase as more New Zealanders choose to do their banking digitally (both online and mobile). This is accelerating the opportunities for competition across the sector and means that a physical branch network is no longer a requirement to compete, and will be further enhanced once the Government implements a robust and cohesive Open Banking / Consumer Data Right regime.

In relation to Open Banking, given that relies on the trusted sharing of customer data, we reiterate that a cohesive Consumer Data Right regime is necessary to enable that – including ensuring systems and processes are in place so that customers retain control over when and how their data is used.

[11] https://www.rabobank.co.nz/agribusiness/banking-with-us

[12] (9 December 2020). Heartland launches farm term loan with self-serve online application. https://www.heartland.co.nz/about-us/news/heartland-launches-farm-term-loan-with-self-serve-online-application

[13] (18 April 2024). Deloitte Access Economics. Personal banking market study: Review of the Commerce Commission's draft report. Report prepared for BNZ. Retrieved from: https://comcom.govt.nz/__data/assets/pdf_file/0018/350910/BNZ-Submission-on-Market-study-into-personal-banking-services-Draft-report-18-April-2024-Attachment-A-Deloitte-report.pdf

[14] (15 April 2024). Rabobank opens afresh in central Christchurch. https://www.scoop.co.nz/stories/BU1404/S00432/rabobank-opens-afresh-in-central-christchurch.htm

The role of Kiwibank as a competitor.

It is BNZ's experience that Kiwibank is already a significant competitor in personal banking services.

Kiwibank is New Zealand's fastest growing major bank in home lending and the fact it's growing faster than the market means it is eating into the market share of other firms.[15]

BNZ recognises that Kiwibank is comparatively smaller in the business banking sector and has chosen not to participate in the rural banking sector. Kiwibank's participation in supporting New Zealand's productive sector is a decision for its board, but the bank has recently commented publicly that it believes the rural lending market is already competitive and that they have no plans to enter this market.[16]

[15] (20 August 2024). Commerce Commission. Personal banking services - Final competition report at [2.12.3]. Retrieved from: https://comcom.govt.nz/__data/assets/pdf_file/0019/362035/Final-report-Personal-banking-services-market-study-20-August-2024-Amended-27-August-2024.pdf

[16] (5 September 2024). Kiwibank denies rural lending ambitions. https://www.farmersweekly.co.nz/news/kiwibank-denies-rural-lending-ambitions/

Any possible impact of the regulatory environment on competition and efficient access to lending, including:

Any impact on the allocation of bank lending by sector, such as business, rural, and residential mortgage.

Impact of the regulatory environment on competition

The tension between financial stability, consumer protection, and competition is a balancing act that our lawmakers and regulators are continually managing.

To be effective, the financial system needs all participants to adhere to the rules set by the regulators, based on international best practice. In terms of the banking sector these rules are designed to achieve a stable and secure banking and financial system that supports the security of the New Zealand economy and protects depositors.

New Zealanders already have five larger banks to choose from (which is similar to the competitive landscape in countries such as the UK), 27 registered banks in total, over a dozen non-bank deposit takers and many non-bank lenders, with fintechs about to get a major boost from the Consumer Data Right legislation.

Impact of the regulatory environment on efficient access to lending

What lending requires first and foremost is access to capital, and how New Zealand is positioned internationally plays an important role in how much interest New Zealanders pay on the money they borrow. New Zealand's sound financial system delivers a stable and secure banking system that protects New Zealanders and is one that investors can have confidence to invest in.

BNZ's AA- rating from Standard & Poors, A1 from Moody's and A+ from Fitch means New Zealand remains an attractive country for investors and means that investment comes at a reasonable price.

If the regulatory environment is relaxed too far in an attempt to enhance competition, our financial system may be seen as less secure and stable. That risks international rating agencies downgrading their ratings, and international investors having less confidence to invest in New Zealand.

A drop in these ratings would increase the cost of our funding from global investors and the cost of loans for New Zealanders. For example, a single notch downgrade could increase the cost of funding (and therefore the interest rates charged on lending to New Zealanders) by 5-10bps.

Alternatively, international investors could choose to invest elsewhere. In that scenario, access to lending in New Zealand would become more restricted and more expensive, which demonstrates that the right stability settings are necessary for access to efficient lending.

The role of prudential regulation and any impacts on risk allocation, smaller banks, and non-bank deposit takers (NBDTs).

The role of prudential regulation is to achieve a stable and secure banking and financial system, the security of the New Zealand economy, and meet expected international standards while at the same time enabling competition.

A prudential regime that delivers this will ensure New Zealand lenders can access wholesale funding markets, to raise the capital to support their customers. It also means that New Zealanders and local businesses who have money placed with their banks and non-bank deposit takers are less likely to suffer losses caused by the failure of one of these entities.

It is necessary for the balance to be struck not just in relation to larger financial institutions, but also smaller ones through a risk-based approach. That is because even smaller deposit takers (if risk is not managed appropriately) can pose significant risks, not only for consumers, but also for the broader economy (e.g. the finance company collapses of 2006 to 2012, and the broader contagion risk that was highlighted by the Silicon Valley Bank collapse in 2023).

In relation to smaller banks specifically, the Reserve Bank has already significantly "levelled the playing field" between larger and smaller providers and continues to do so across all areas of its prudential remit.[17] The approach of considering the risk that an entity poses to financial stability is already factored into the Reserve Bank's policies, and more explicitly so under the Deposit Takers Act regime. The lighter touch approach that applies to smaller banks and non-bank deposit takers applies to both operational matters (such as BS11 Outsourcing policy only applying to the larger banks), as well as core financial resilience settings (such as capital ratios where larger banks must hold a greater capital buffer).

The role of bank regulators (FMA, MBIE, RBNZ) and whether the regulatory environment can be simplified.

It is our view that regulation should be no more restrictive than is required, and where it is required, it should be as easy as possible to understand and enforce. In this regard, overlapping and inconsistent regulation creates complexity and inefficiency that should be avoided.

We therefore support efforts underway to simplify New Zealand's regulatory environment and the overlapping roles of different regulators through the evolution of the Council of Financial Regulators to ensure a coordinated approach to regulations and regulatory priorities.

Coordination at that level will best enable a clear and cohesive regulatory framework that enables participants to compete, while also delivering a stable and secure financial system.

Determine how and to what extent the RBNZ's capital requirements and credit risk models influence lending rates (see emphasis in Rural Banking section).

The Reserve Bank's requirements are aligned to international standards set by the Basel Committee and reflect the underlying risks and losses experienced in lending to different sectors of the economy. These requirements exist to ensure a secure and stable financial system that protects depositors and has access to the capital required to support the economy, including through offshore funding markets.

In relation to the impact of capital requirements on lending interest rates, it is important to note that the main determinant of interest rates on lending is the interest rate that banks must pay on deposits and the other forms of funding that the banks need to have available for lending.

As explained previously, differences in lending rates between different sectors and different customers reflect the different risks associated with different loans.

Climate related disclosures.

Climate related disclosures help organisations like BNZ understand the physical and transitional risks and opportunities associated with climate change.

To build this understanding we need to measure, manage, and disclose the physical changes that come with climate change, like the increased frequency of flooding. Similarly, we need to understand the transition risks, like changes to an industry's access to international markets as our customers' trading partners require higher emission reduction standards.

The understanding that comes from the information means we can manage the risks associated with climate change over a 10-to-30-year timeframe (2030 and 2050 are the key dates).

[17] (18 April 2024). Bank of New Zealand. Submission on the Commerce Commission's Draft Report regarding the market study into personal banking services at [2.7]. Retrieved from: https://comcom.govt.nz/__data/assets/pdf_file/0019/350911/BNZ-Submission-on-Market-study-into-personal-banking-services-Draft-report-18-April-2024.pdf

This requires us to consider climate related risks and opportunities for our operations, our suppliers and our customers. We do this, for example, by considering who we source our electricity from; leasing efficient office buildings; changing fleet cars to electric vehicles; working with our suppliers to reduce their emissions; and working with customers to identify emissions reductions opportunities and supporting them to fund those opportunities. We also use this information to invest in adaptation activities that increase both physical and financial resilience.

We need to understand climate related risks and opportunities as they impact our whole value chain. As well as our operations, suppliers, and customers, this information is also required by the wholesale market including international funders of BNZ along with international rating agencies. Investors and rating agencies increasingly require information to understand how we are managing climate related risks when compared to other international financial institutions. Failure to adequately illustrate how we are managing climate related risks and opportunities puts at risk efficient access to ongoing funding that allows us to support our customers and the New Zealand economy.

Whether the RBNZ's focus on "financial stability" is impeding the development of competitiveness, particularly amongst NBDTs and existing / potential Fintechs.

New Zealand has 27 registered banks, with an increasing number of fintechs operating in New Zealand. BNZ banks more than 100 customers that we class as fintechs or paytechs[18] and we've developed APIs to partner with more than 20 fintechs.[19]

We expect the number and diverse range of fintechs operating in New Zealand will increase further once the Government has implemented a robust and cohesive Consumer Data Right regime to facilitate Open Banking, and other banks have developed APIs to the same extent and standards that BNZ has achieved.

The promotion of competition must, however, not be at the expense of good customer outcomes, or the financial stability of the sector and the wider New Zealand economy.

The collapse of even small deposit takers for instance can have a dramatic impact on a financial system.

[18] (18 April 2024). Bank of New Zealand. Submission on the Commerce Commission's Draft Report regarding the market study into personal banking services at [3.21] – [3.22]. Retrieved from: https://comcom.govt.nz/__data/assets/pdf_file/0019/350911/BNZ-Submission-on-Market-study-into-personal-banking-services-Draft-report-18-April-2024.pdf

[19] (18 April 2024). Bank of New Zealand. Submission on the Commerce Commission's Draft Report regarding the market study into personal banking services at [2.11]. Retrieved from: https://comcom.govt.nz/__data/assets/pdf_file/0019/350911/BNZ-Submission-on-Market-study-into-personal-banking-services-Draft-report-18-April-2024.pdf

Rural banking:

Determine how and to what extent the RBNZ's capital requirements and credit risk models influence lending rates to agriculture and horticulture businesses.

The Reserve Bank's capital requirements reflect the risks associated with different types of lending. Within that framework we treat all of our customers individually, including how we calculate the level of risk attached to each lending decision, with that true across our home lending, business lending, and agribusiness lending books.

Farmers and growers are businesses, and as we have discussed earlier - businesses are inherently risky.

It is our responsibility to ensure we do the right thing by our customers (making sure they are in the best possible place to service the lending they seek), and to ensure the security and sustainability of our business. We consider a customer's financial characteristics (cashflow, profitability, equity ratio, interest coverage) and non-financial factors (management experience, management track-record and quality, management depth, and our relationship with the customer as a borrower) in making these assessments.

Ascertain whether the RBNZ's approach to greenhouse gas emissions risk, including risk of government policy, has and is likely to result in further increases in lending rates to the agriculture and horticulture sectors.

At this point the Reserve Bank's approach to greenhouse gas emissions risk is noted and forms part of our climate scenario analysis work, though doesn't directly impact our lending rates.

Ascertain whether bank environmental and sustainability policies have or are likely to result in further increases in lending rates to the agriculture and horticulture sectors.

BNZ's environmental and sustainability policies direct us to consider the risk associated with agricultural and horticultural activities, these include resource consent compliance, and animal welfare practise guidelines and compliance.

However, these assessments do not currently include any consideration of on farm emissions and do not directly impact our lending rates.

Ascertain whether there is adequate transparency on lending rates for rural, residential, and business lending.

BNZ works with each individual customer on a one-to-one, case-by-case basis.

This means two customers looking for the same amount of lending, in diverse sectors across rural, residential and business lending may have different lending rates (as demonstrated in our earlier case study).[20]

This risk-based pricing approach means we cannot offer a customer a particular rate until we understand the customer's circumstances, and have a clear picture of the risk that comes with the lending being sought.

Like other banks, once we've made an offer, customers are open to "shopping around" with other banks to have direct comparability on price. Base rates are published but these may then be tailored once each individual customer's circumstances are understood.

It's important to recognise that risk-based pricing is in the best interests of customers as it allows those with strong cashflow and security positions to benefit from lower borrowing costs.

Our focus continues to be on improving the speed and ease at which we can collate customer data to assess a lending opportunity and provide a price and commitment to lend.

[20] Home loan rates may differ between residential borrowers if low equity premiums or other special offers apply.

Access to banking services, including access to cash services, especially in rural areas.

Over the past year we have increased the number of our specialist agribusiness bankers by 16% and now have nearly 300 dedicated lenders and banking associates. Nationwide we also have over 200 Business, Commercial and Small Business Partners out working with business owners to make sure they are getting the support they need.

In addition, BNZ has 127 branches and Partners Centres from Invercargill to Kaitaia, 61 standalone ATMs and 15 24/7 banking lobbies around the country. Our network is supported by nearly 1,300 frontline banking staff providing BNZ customers with convenient nationwide access to banking services.

As we have discussed previously, more and more customers are choosing to do their banking digitally, both online and mobile, which is accelerating the opportunities for competition across the sector. A physical presence, like a branch network, is no longer the price of entry to the banking and finance sector. BNZ invests significantly to enable world class digital access to banking services.

BNZ understands our agriculture sector can be very cyclical in nature - there are annual and multi-year cycles and so we encourage our customers, when the times are good, to manage down that debt to help them ensure they have the foundations to sustain a bad season, or a bad year - maybe longer.

That's what any prudent bank or prudent farmer would be doing.

Our numbers support that, for the small proportion of our agribusiness customers who have reached positions of unrecoverable financial distress, the bank continues to work respectfully with them while they make (and implement) the big decisions about their future, which could include right sizing their business by shrinking their operations or by releasing equity from their business through a full or partial sell down.

Fewer than 40 BNZ agribusiness customers have gone through the farm debt mediation process since its inception in 2019.

When times do get tough BNZ steps up further supporting our customers when they need it. The support we offered customers during the big storms of 2023 illustrates this.

BNZ established a **$1 billion** fund to help accelerate recovery in the aftermath of Cyclone Gabrielle and the North Island floods, and to support Kiwi businesses to invest in their future and become more resilient.

BNZ committed more than **$50 million** in interest relief to existing customers, including a personal temporary overdraft with no application fee. We also provided nearly **$500,000** in cash grants to customers and donated over **$360,000** to charities that helped deliver direct support to communities (Salvation Army, KidsCan, The Foodbank project and Taskforce Kiwi).

Lending to Māori asset-holders, organisations, businesses, and individuals:

Ascertain what is the experience of Iwi (organisations and asset holders) and Māori (asset-holders and businesses) accessing banking products and services.

Earlier this year BNZ announced a new funding framework for lending for housing on inalienable Māori land in collaboration with Ngāti Whātua Ōrākei.

Historically, providing finance for housing on Māori owned land has been challenging. The unique ownership structure and restrictions on land transferability often meant that it couldn't be used as security for loans, creating a significant barrier for Māori home ownership.

Under the new BNZ model, hapū members who meet BNZ's normal home lending criteria can secure a BNZ home loan for papakāinga housing on land owned by the Ngāti Whātua Ōrākei Trust at standard home loan interest rates.

This has enabled Ngāti Whātua Ōrākei to start construction of 24 whanau homes.

Further bolstering the collaboration with Ngāti Whātua Ōrākei, BNZ has provided a $20 million social loan to support the construction of the homes. Ground has broken on site, with roofing expected to be laid before the summer holidays. Completion of the homes is expected in late 2024.

We believe the framework may hold promise for broader application to larger iwi, and we have shared it with other banks in the hopes it will expand access to finance for development on Māori land.

Investigate whether banks are unreasonably resistant to accepting Māori land as collateral for borrowing.

BNZ fully supports the Commerce Commission's recommendation that the banking sector and Government prioritise work to reduce barriers to lending on Māori Freehold Land (MFL).

BNZ has already taken steps that align with that recommendation.

In 2021, we amended our credit policy to adopt the same security value for MFL as land held in general title (as long as the land has been valued by an acceptable Registered Valuer).

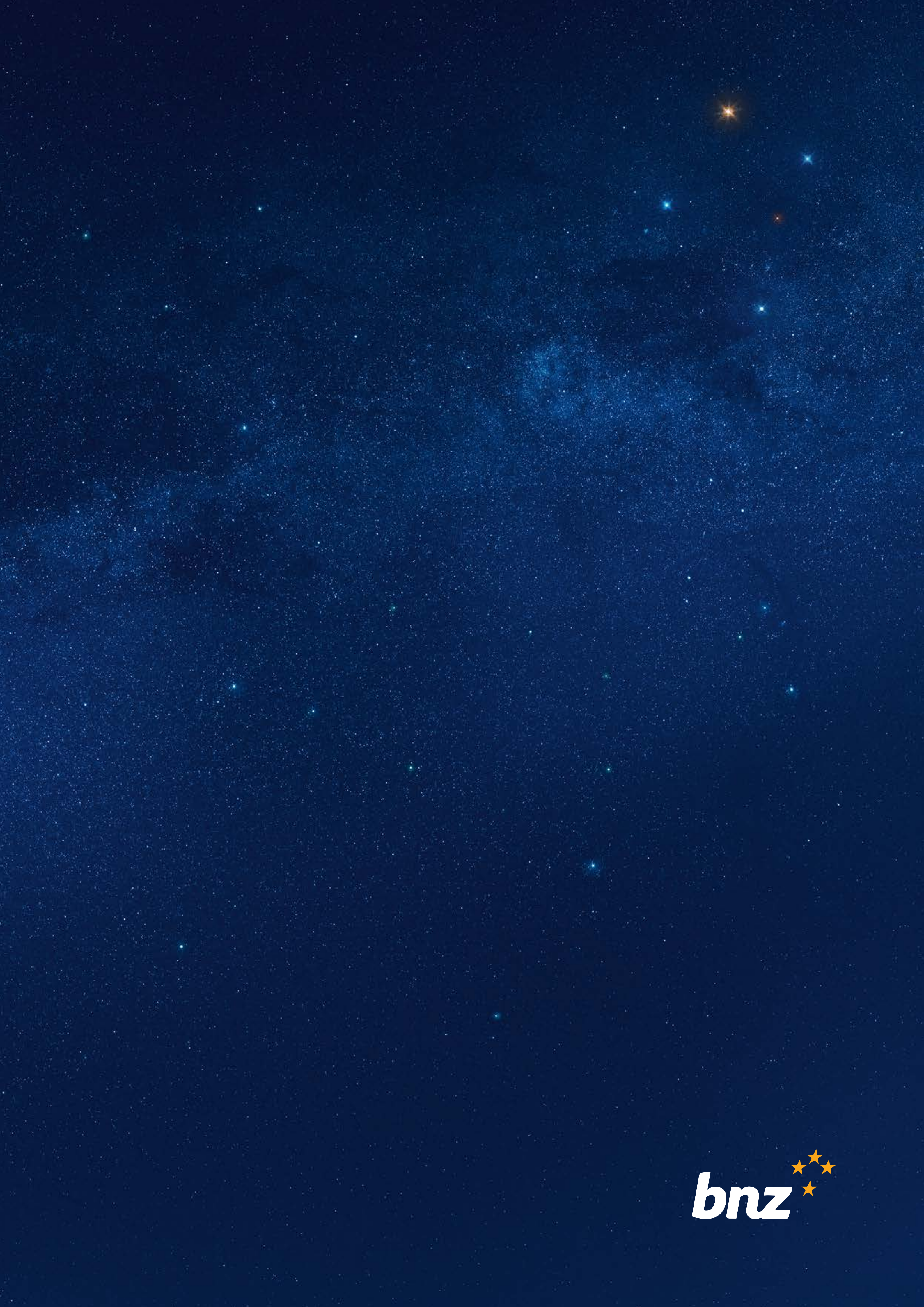
We have already achieved with the Reserve Bank a risk weighting and LVR specifically for MFL and we are also working to remove AML-related barriers to the onboarding of Māori trusts as customers.

Investigate whether banks' processes and procedures contribute to the Māori individuals and households having a disproportionately low rate of home ownership.

We are working with our Māori colleagues, customers and communities to increase Māori financial literacy and engagement with banking services.

We support the focus of Tāwhia (Māori Bankers Rōpū established by the Reserve Bank) on access to capital, financial literacy and sector employment for Māori, noting that the members of this rōpū are aware of the competition law constraints that relate to its operation.

We have shared the feedback from the wananga conducted by the Commerce Commission with our senior Māori leaders. (The wananga related to Access, Provision and Performance: whether competition is working to ensure Māori access to personal banking services; what is the role of Māori owned or led finance providers, and what causes barriers for Māori access to those services.)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