

23 August 2013

Murray Sherwin  
Chair  
New Zealand Productivity Commission  
PO Box 8036  
The Terrace  
Wellington, 6143

Dear Murray

### **Submission on Services Sector 1<sup>st</sup> Interim Report**

Bank of New Zealand ('BNZ') wishes to make a submission on the 1st Interim Report of the Services Sector inquiry. BNZ welcomes this opportunity to provide feedback and acknowledges the hard work of the Productivity Commission ('the Commission') in preparing this report. We wish to focus on the Financial and Insurance Services section.

Firstly, BNZ agrees with the Commission's assessment that the banking industry's key role in the economy is as an "enabler of economic exchange". Banks can boost an economy's productivity by lowering the costs of the free flow of capital.

Barriers to entering the banking industry are obviously significant; however, as highlighted in the report, not insurmountable. But competition is more than just bringing new entrants to market, competition between banks is vigorous. This manifests itself to customers in a number of ways, not least competition for a customer's business who already has multiple banking relationships, therefore avoiding the costs of establishing a new relationship.

The majority of New Zealand's banks, including BNZ, are foreign-owned. Being part of a larger corporate brings benefits to New Zealand consumers through greater pooling of risk and resilience to external shocks, as illustrated through the Global Financial Crisis. Compared to the experiences in the United States, the United Kingdom, and Europe; our banking industry has performed well aiding confidence in the New Zealand economy.

Prudential regulation of banking services is solely managed by the Reserve Bank without oversight from other government agencies such as the Treasury. While BNZ agrees with the Commission's analysis, the ability of the Reserve Bank to implement policies such as "Open Bank Resolution" (OBR) must be balanced with clear communication and informed public debate. Because, as the Consumer Law Reform Bill also illustrates, all reforms bring cost to the sector slowing productivity growth. This is not an argument against regulatory reform, but reinforces the need for regulatory reform to be justified through rigorous cost-benefit analysis.

Information technology continues to revolutionise the customer experience. New ways of doing things are constantly being developed to enhance the way customers interact with, or consume services. For example, BNZ's YouMoney product allows customers to set up personalised accounts, bank intuitively with a drag-and-drop interface, and easily set and track savings goals. In addition, BNZ is making a significant investment in NextGen, a wide ranging project to boost productivity within the bank by improving core banking systems and ultimately transforming customer experience.

Providing consumers with as much information as possible to drive competition is paramount for a well functioning market. However, replicating a 'What's my number' style campaign for KiwiSaver funds will actually deprive consumers of the most useful information needed to choose between providers. KiwiSaver is not comparable to electricity as a commodity; the products and services are more complicated, and the effort required to differentiate between providers is higher. Consumers need to consider KiwiSaver within the context of their own financial situation and by assessing their own tolerance to risk. It is for this reason that the Financial Advisers Act lists KiwiSaver as a 'Category 1' product – rating it as a complex product. The recent KiwiSaver reporting reform should help to ensure consumers are able to easily compare fees and returns for funds, enabling them to make more informed, performance based decisions about whether to remain or switch to another scheme.

Thank you again for the opportunity to participate in the Services Sector inquiry.

Yours sincerely

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Government Relations Manager