NZ regulator recommends Kiwibank take on Aussie Big 4

Australia's Big Four banks are exploiting New Zealand for lazy profits with the bare minimum of service, according to the financial regulator, which is calling for the government-owned Kiwibank to step up competition against them.

New Zealand "is unusual globally", wrote James Eyers in the 20 August *Australian Financial Review*, "in not having its own large domestic banks. Instead, it relies on the subsidiaries of Australia's big four".

But according to the final report of an inquiry by the New Zealand Commerce Commission (NZCC), released on 20 August, those Australian banks are doing the bare minimum to service our neighbours across the ditch. In June 2023 the Commission had been tasked by the previous Chris Hipkins government to examine competition in the market for personal banking services in NZ. Eyers summarised the impetus behind the report: "Regulators have been concerned NZ is not receiving the same focus and investment."

The report concluded that NZ is victim to "a stable oligopoly" where the Big Four control 85-90 per cent of assets of all registered NZ banks. Competition is merely "sporadic", it ruled. The banks match each other's prices, reducing incentives to compete.

Furthermore, the report revealed, "We have been surprised by the limited investment by the major banks and Kiwibank in upgrading to modern core banking systems and the low prioritisation given to this." This "sustained under-investment" reflects, it said, "a lack of competitive pressure". This is despite NZ banks performing in the upper quartile among peer nations on equity, asset and net interest margin returns—that is, raking it in.

There is "no maverick provider", says the report, aggressive or innovative enough to disrupt this game.

Only, NZ does have another bank—the public Kiwibank. "Kiwibank imposes some constraint on the major banks", the report said, "but lacks the scale and capital backing to consistently drive stronger competition." Smaller providers "are not regarded as a significant competitive threat" by the major banks.

Like Australian regions and Pacific Island nations, many in New Zealand have experienced "financial exclusion", finding it difficult to even access a basic bank account, the inquiry found.

To support an expansion of bank providers, among its recommendations the NZCC calls for expanded capitalisation of Kiwibank: "The Government, as Kiwibank's owner, should consider what is necessary to make Kiwibank a disruptive competitor, including how to provide it with access to more capital. In the shorter term, capitalising Kiwibank appears to have the greatest potential to constrain the major banks and disrupt a market that is otherwise stable due to lack of competition." This is in keeping with the agency's April interim report which called for the government to consider "a strategic refocus of Kiwibank's efforts ... to maximise its potential as a disruptive competitor". ("NZ regulator endorses public Kiwibank as champion against Australia's Big Four", 10 April 2024.)

Is more capital required?

It is past time for governments to provide essential services such as banking, creating real competition that will pull the private banks into line. Doing so, however, is not primarily a function of money. When Denison Miller, the first head of Australia's government-owned Commonwealth Bank, opened its doors in 1913, he proclaimed that "This bank is being started without capital, as none is required at the present time, but it is backed by the entire wealth and credit of the whole of Australia." He shocked a roomful of bankers in London, in the 1920s, when he reiterated that the Bank could meet every demand upon it because it had the entire capital of the country backing it!

In his famous five-hour speech to Parliament calling for the bank in 1909, Commonwealth Bank founder King O'Malley observed that a government bank need only utilise the same credit creation capacity as private banks. But, he exclaimed, "We have no public institution in Australia that can lend the people or the State credit, or can help the State in a time of trial." By establishing a "national postal bank", the government can "exercise the banking function" to rectify this. The bank "should hold the reserves of all the other banks, and those reserves should constitute a credit on the ledger of the national bank; and under such an arrangement there never could be another crisis in the Commonwealth."

"It is not more capital, or more wealth", he observed, "that we require to make this country a great financial centre. What we need is at thoroughly organised national banking system."

Australia saves Pacific bank branches … from China

The Australian government intervened in March to delay the closure of Nauru's last bank (Bendigo Bank) after learning that the Bank of China was discussing banking solutions with Nauru. Bank of China had already set up in Papua New Guinea. As *AAS* reported in July ("Chalmers flaunts hypocrisy at Pacific Banking Forum, *AA*S, 24 July), the government sought an alternative for Nauru but expressed concern that
ANZ and Westpac, which have the greatest Pacific presence, were winding down their operations. The ANZ had already closed 10 Pacific branches in five years. Earlier this month it was revealed the government was in talks with the Commonwealth Bank to fill the gap. But that "is unlikely to occur without taxpayer support", reported the *AFR* on 6 August. Morningstar analyst Nathan Zaia told the financial rag that "they would have to be forced to do it. The potential return for shareholders is minuscule."

Other Pacific nations such as Vanuatu may soon be in the lurch. *AFR* reported ANZ is the only Australian bank still operating there, with only a single branch left. CEO Shayne Elliott told Reuters that only government support would allow it to keep its Pacific business going.

By Elisa Barwick, Australian Alert Service, 28 August 2024
