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Te Whare Māngai o Aotearoa

**Finance and Expenditure Committee**  
Komiti Whiriwhiri Take Pūtea, Take Whakapaunga Pūtea

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## **Inquiry into banking competition**

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Presented to the House of Representatives  
by Cameron Brewer, Chairperson

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# Inquiry into banking competition

## Summary of recommendations

The Finance and Expenditure Committee has conducted an inquiry into banking competition and makes the following recommendations.

Most recommendations received unanimous support. For some recommendations (specifically recommendations 3, 5, 6, and 13), Opposition parties have expressed differing views and nuanced qualifications, or disagree that some of these are priorities for improving competition.<sup>1</sup>

### Chapter 1: State of competition in banking

#### 1. Standardise credit information and make it easier to compare loans

We recommend banks standardise processes for residential, business, and rural customers by agreeing on standard financial information and using digital technologies so it is easier for all customers to compare products and loan options across banks (for example, by encouraging multi-bank credit applications).

#### 2. Open the door to more overseas banks and fintechs

We recommend the Reserve Bank of New Zealand consider lowering barriers for overseas banks and fintechs to enter New Zealand and offer banking services, to create more competition.

#### 3. Strengthen Kiwibank through investment

We recommend Kiwibank's parent company continues to seek further ways of increasing capital to strengthen Kiwibank's retail and business banking.

#### 4. Review fees and profits on everyday accounts

We recommend the Financial Markets Authority investigate transaction account pricing by using fair conduct principles, and request banks disclose profitability on transaction, on-call, and savings accounts to provide more transparency and incentive to do better.

### Chapter 2: Barriers preventing competition in banking and impact of the regulatory environment

#### 5. Revisit Reserve Bank prudential settings

We recommend the Government strengthen supervision of the Reserve Bank's prudential role, for example by:

- reinstating "market efficiency" as a key objective of the bank in the Reserve Bank of New Zealand Act 2021

<sup>1</sup> Opposition members have a differing view on Recommendation 3, which is set out in [section 1.2](#), in the Labour Party's differing view (pp 76–77), and in the Green Party's differing view (pp 78–79).

The Labour Party has a differing view on Recommendations 5 and 6, which is set out in [section 2.4](#) and in the Labour Party's differing view (pp 76–77).

The Labour Party and Green Party have a differing view on Recommendation 13, which is set out in [section 3.2](#), in the Labour Party's differing view (pp 76–77), and in the Green Party's differing view (pp 78–79).

- appointing new members to the Reserve Bank board with noted prudential regulation expertise
- establishing a dedicated Prudential Policy Committee (comparable to the Monetary Policy Committee) with responsibility for the Reserve Bank's prudential policy
- requiring regular independent external reviews that monitor the Reserve Bank's prudential performance.

## 6. Evaluate capital settings

We recommend the Reserve Bank include in its 2025 capital review and other workstreams:

- risk-weighted asset calculations and how they affect businesses and rural lending
- capital ratio requirements and compliance settings for smaller banks and regional banks, compared to the Big 4 banks<sup>2</sup>
- other settings to support market entry of additional banks (e.g. the \$30 million initial capital requirement and the requirement for banks to hold additional Tier 1 capital)
- the overall risk tolerance underpinning decisions taken in the Reserve Bank's 2019 capital review.

## 7. Broaden the “regulatory sandbox” trial

We recommend the Financial Markets Authority broaden its “regulatory sandbox” trial and explore a single licensing model to cut red tape for innovative financial services.

## 8. Cut Council of Financial Regulators overlap

We recommend the Council of Financial Regulators prioritise removing regulatory duplication and streamlining processes between agencies to lower costs for banks and lenders, and focus on minimising compliance costs and regulatory impact on new technology plans, allowing firms to innovate.

## 9. Make climate lending rules clear and consistent

We recommend the Reserve Bank develop transparent national guidelines for banks on the application of climate-related risk weighting and pricing, regarding how it influences subsequent lending practices across different sectors.

## 10. Push for real-time payments

We recommend banks invest in global standard, next-generation payment infrastructure to work towards real-time payments at a national and international level.

## 11. Improve Payments New Zealand

We recommend the board of Payments New Zealand improve its governance structure to better support new entrants (such as fintechs) and announce next steps to improve transparency and competition.

## 12. Address limits on growth of non-bank deposit takers and fintechs

We recommend the Reserve Bank emphasise competition in its ongoing policy work on restricted terms such as “bank” and “banking”.

<sup>2</sup> The “Big 4 banks” refers to ANZ, ASB, BNZ, and Westpac. The Reserve Bank of New Zealand has classified these banks as “domestic systemically important banks”.

## Chapter 3: Rural and business banking

### 13. Cease capital increases for banks

We recommend that, effective immediately, the Reserve Bank cease the planned incremental increases to capital requirements.

### 14. Review rural requirements

We recommend the Reserve Bank review the capital requirements for rural lending and that any changes are monitored and publicly reported on.

### 15. Formal disclosure of factors

We recommend agricultural lenders formally disclose to customers the specific factors they take into account when calculating their risk margin and pricing.

## Chapter 4: Lending to Māori asset holders, organisations, businesses, and individuals

### 16. Set voluntary Māori banking service standards

We recommend banks jointly adopt voluntary service standards to better meet the banking needs of Māori, like the Banking Code of Practice in Australia.

### 17. Remove anti-money-laundering (AML) roadblocks for Māori land trusts

We recommend the Government remove unnecessary anti-money-laundering compliance barriers faced by Māori land trusts and Māori organisations with multiple owners when accessing banking services.

### 18. Enable Māori co-investment in infrastructure

We recommend the Government enable further opportunities for Iwi and Māori organisations to invest as co-owners or capital providers, for example through infrastructure projects.

### 19. Create Māori-focused lending products

We recommend banks create and offer more lending products that meet the unique needs of Māori freehold landowners.

## Next steps: ensuring change is delivered

### i. Seek Government comment

We recommend the Government respond to all recommendations in our report including those not directly addressed to it, such as recommendations to the Reserve Bank (2, 6, 9, 12, 13, and 14) and recommendations to other entities (1, 3, 4, 7, 8, 10, 11, 15, 16, and 19).

### ii. Track progress at regular intervals

The Finance and Expenditure Committee, and the Primary Production Committee, will request six-monthly updates from banking regulators and entities identified in this report including, but not limited to, the following:

- their progress implementing the changes recommended above
- other ways they are improving competition, rural lending, and Māori access to banking
- their engagement with fintech start-ups, including the number of partnerships initiated, timelines from engagement to implementation, and outcomes of pilot projects

- their delivery of open banking to help accelerate implementation, drive consumer uptake, and ensure greater competition in the sector
- disclosure from banks of profitability and transparency improvements of transaction accounts
- the work the Reserve Bank is currently assessing lending optionality to Community Housing Providers (CHPs) within the prudential framework and await clarity around potentially a new category of exposure for such lending in the standardised approach or that it may also be possible to extend this category to the banks using IRB models, with specified risk weights.

The Primary Production Committee will request six-monthly updates from the Reserve Bank on rural lending.

## Introduction

This inquiry by the Finance and Expenditure Committee, with significant input from our colleagues on the Primary Production Committee, seeks to examine the state of banking competition in New Zealand. It aims to extend work undertaken by the Commerce Commission, which focused on personal banking services, by also covering rural banking services and Māori access to capital.

In June 2023, the Commerce Commission was tasked with carrying out a 14-month study into any factors that may affect competition around personal banking services in New Zealand. The Commerce Commission published its final report on 20 August 2024, with 14 recommendations.<sup>3</sup>

In line with the coalition agreement between National and New Zealand First to establish a select committee inquiry into banking competition, the Minister of Finance wrote to the chairs of the Finance and Expenditure Committee and the Primary Production Committee asking us to open an inquiry into banking competition. We received the letter on 13 June 2024.<sup>4</sup>

Whereas the Commerce Commission's study focused on personal banking services, we decided it was important to get a wider view of how the banking sector in New Zealand is operating. We therefore also looked at competition in the provision of banking services to rural, business, and Māori communities.

## Our view of the problem

This report summarises the information we have gathered through our inquiry. Much of the information we received is similar to submissions made in the Commerce Commission's inquiry, albeit with a focus on the wider banking sector. This has, ultimately, led to us reaching many of the same conclusions as the Commerce Commission.

We know that our summary of some of the key issues will not be new information to the finance sector. Our recommendations are also unlikely to be a silver bullet for competition, and it now falls to the various government agencies to determine how to implement and respond to our recommendations.

However, the benefit of this parliamentary inquiry has been in reaching political cross-party support for many of these ideas, and communicating them to the public. We are also committing to ongoing monitoring of this issue as a cross-party committee, which we hope will emphasise a parliamentary view that competition is not working and needs to be strengthened.

<sup>3</sup> [Market study in personal banking services | Commerce Commission](#), Executive summary pp 8–9.

<sup>4</sup> [Inquiry requested into rural banking | Beehive.govt.nz](#).

## Parliamentary process and terms of reference

### Terms of reference

The full terms of reference developed by our two committees are set out in Appendix B. The following were our main areas of focus:

- The state of competition in banking
- Barriers preventing competition in banking
- Any possible impact of the regulatory environment on competition and efficient access to lending
- Rural banking
- Lending to Māori asset-holders, organisations, businesses, and individuals.

### Process

On 14 August 2024, we opened for public submissions on the inquiry with a deadline of 25 September 2024. (See Appendix B for the text of the call for submissions.)

We spoke with banks, non-bank deposit takers, financial regulators, and submitters from the public at hearings between October 2024 and April 2025. These hearings supplemented the written information we received. We thank all members of the public who generously took the time to provide us with information in writing or in person. We resolved to have *Hansard* transcripts produced of our hearings with banks. (See Appendix A for weblinks.)

We appointed the Treasury, the Ministry of Justice, and the Ministry of Business, Innovation and Employment as advisers on the inquiry. They attended public hearings and our private consideration. We appointed Murray Sherwin to provide independent specialist advice. We thank all our advisers for their work on this important matter.

Our discussion of information from the public is brief and gives only a high-level summary of what we broadly see as the main themes. Any readers who wish to know more about the full range of views expressed by submitters can access all of the written and oral submissions on the Parliament website. Similarly, our discussion of the information provided by advisers is only an overview. All of the advice we received can also be accessed on the Parliament website. (Refer to Appendix A for weblinks.)

# 1 State of competition in banking

New Zealand currently has 27 registered banks and 15 licensed non-bank deposit takers (NBDTs). There are numerous other non-bank providers of banking services, which include non-bank deposit takers (NBDTs) such as credit unions and building societies, financial technology companies (fintechs), finance companies, peer-to-peer lenders, and other providers of different types of credit and payment services.

The four largest banks in New Zealand, measured by total assets, are ANZ Bank New Zealand (ANZ), ASB Bank (ASB), Bank of New Zealand (BNZ), and Westpac. ANZ, ASB, BNZ, and Westpac (the Big 4) are all Australian-owned. The fifth largest bank is Kiwibank, which was founded in 2001 as a subsidiary of NZ Post.

Combined, the Big 4 banks own almost 90 percent of the total banking system assets in New Zealand. The Reserve Bank of New Zealand has classified the Big 4 banks as “domestic systemically important banks” (D-SIBs).<sup>5</sup>

This chapter provides an overview of the state of competition in the New Zealand banking market and discusses the role of Kiwibank as a potential market disrupter.

## 1.1 Profitability in the banking sector

### Conclusions of the Commerce Commission’s market study

The Commerce Commission’s market study extensively discussed bank profitability and came to the following conclusions:

- New Zealand’s Big 4 banks, which are Australian-owned, have consistently achieved higher average returns on equity than New Zealand-owned banks. The Big 4 do not appear to face strong competition when providing personal banking services.
- There is a two-tier market, with the Big 4 banks sitting in the first tier, and smaller providers sitting in the second tier. Kiwibank currently sits between these two tiers.
- Profitability in New Zealand’s banking sector is high relative to peer nations.
- New Zealand banks focus on lower-risk activities and so should have lower profits than they do.
- Some of this banking profitability is explained by the market power of the major banks. Possible non-competition explanations do not explain the profitability since 2010.

The Commerce Commission received submissions from the Big 4 banks that disagreed with its conclusions regarding profitability, and the methodology used to determine those conclusions. The Big 4 banks made the same points to us when submitting on this inquiry. For example, ANZ took different views on appropriate peer nations and the riskiness of the loan portfolios of the major banks.

<sup>5</sup> Requirements for domestic systemically important banks | Reserve Bank of New Zealand - Te Pūtea Matua.

## Main points made in submissions on our inquiry

The submissions we received discussed two contrasting perspectives, outlined below, on whether bank profits are fair and justifiable.

### ***The Big 4 earn excessively high profits and do not face competition:***

Many submitters agreed with the Commerce Commission's findings that the Big 4 banks do not face strong competition when providing personal banking services, and earn excessively high profits compared to smaller local banks and international peers.

We heard that the Big 4 banks benefit from economies of scale, lower funding costs, and a dominant market position. Some submitters argued that large banks do not face competition due to their size and the ease with which they are able to access capital and meet compliance costs. Smaller banks and NBDTs, on the other hand, face higher costs when trying to access capital and meet compliance requirements, which affects their ability to compete and generate profit.

Some submitters noted that the Big 4 banks make high and steady profits regardless of economic conditions. We heard claims that the Big 4 banks have focused on maximising short-term returns over investing in customer service and technology improvements.

### ***Large bank profits are reasonable:***

Submissions from the Big 4 banks and others argued that large bank profits are reasonable given their high capital strength and the financial stability they provide to the economy. We heard that this high profitability has not resulted in new market entrants and, therefore, current profits are not excessive. Some submitters claimed that high profits are needed for sustainability and investment in innovation.

## Information from the Treasury

The Reserve Bank's six-monthly financial stability reports discuss profitability and competition in the New Zealand financial system. The Reserve Bank's view broadly aligns with the findings of the Commerce Commission.

The May 2023 Financial Stability Report presented a detailed analysis of trends in bank profitability in New Zealand.<sup>6</sup> It concluded that, compared to international peers, the profitability of major banks may reflect a lack of competition in the New Zealand market. However, it noted several other potential drivers of profitability, including:

- superior cost efficiency of large New Zealand banks
- differences in the tax treatment of returns to shareholders in New Zealand and Australia
- differences in the operational structure of banks in different countries (for example, lack of comparability between the predominantly retail banks in New Zealand and investment banks, which are more common in some global markets).

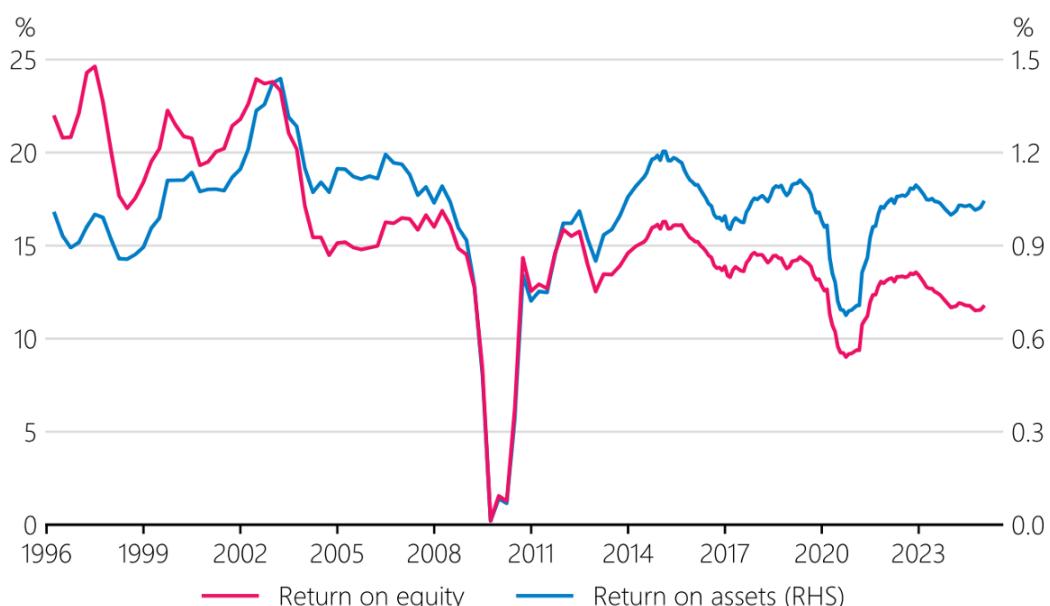
<sup>6</sup> Financial Stability Report May 2023 | Reserve Bank of New Zealand - Te Pūtea Matua, pp 22–25.

More recently, the Reserve Bank published its May 2025 Financial Stability Report, which stated that “Banks have increased their financial buffers to manage losses. Profitability remains robust and bank capital ratios have continued to increase.”<sup>7</sup>

### Measuring bank profitability in New Zealand

The combined return on equity for New Zealand banks has declined over the past three decades, while their return on assets has remained stable (Figure 1).<sup>8</sup> An important driver of that reduction has been regulatory requirements to hold more capital. The Treasury advised that this is consistent with a banking system that is safer and where required-risk compensation for shareholders is lower.

**Figure 1: bank profitability measures**



Source 1: Reserve Bank of New Zealand Income statement survey; Treasury's Departmental Report, p 16.

### International comparisons

New Zealand's banking sector is weighted more towards traditional retail banking than in many peer nations. These retail banking activities tend to be lower risk, and should, therefore, see returns lower than those of peer nations. However, New Zealand's larger banks typically achieve a higher return on equity, as seen in Figure 2. This is partly because they have lower cost ratios. The larger banks have been very effective in driving costs down relative to their business size and, as a result, achieving lower unit costs. Importantly, the Treasury noted that New Zealand's Big 4 are owned by Australian parent banks, which may enhance their scale efficiencies and contribute to their strong return on equity. We note that

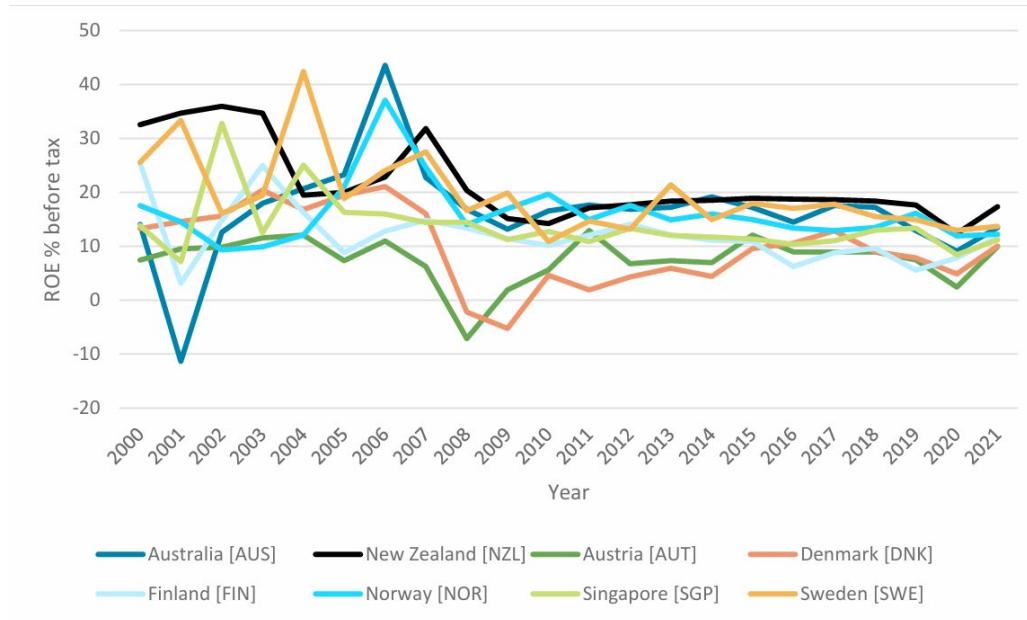
<sup>7</sup> Financial Stability Report May 2025 | Reserve Bank of New Zealand - Te Pūtea Matua, p 2.

<sup>8</sup> **Return on assets**, or ROA, is the ratio of profit after tax to average total assets over the quarter. It is a standard indicator of how efficiently a bank uses its assets to make profits. For most banks, loans to customers are the most common type of asset on their balance sheet.

**Return on equity**, or ROE, is the ratio of profit after tax to average equity over the quarter. It is a standard indicator of how efficiently a bank uses shareholder funds to make profits.

the graph only runs until 2021, and we therefore do not have the most recent return on equity data.

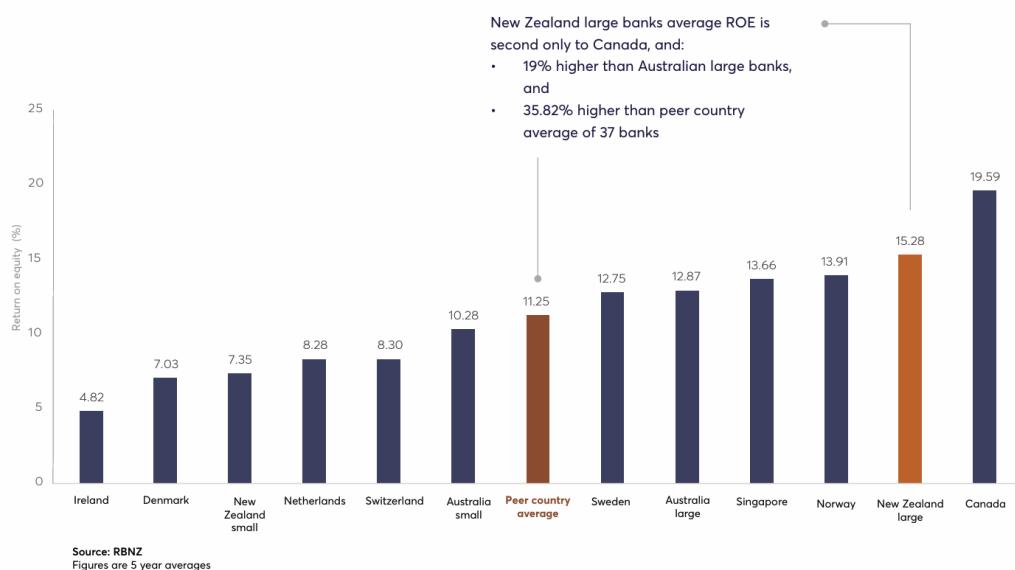
**Figure 2: Cross-country comparison of bank return on equity**



Source 2: Reserve Bank, World Bank; Treasury Issues Paper 1 (Profitability of the banking sector in New Zealand), p 5.

We have received evidence from the Banking Reform Coalition that suggests banks' average return on equity over five years has been higher than international comparators, and highlights this problem even more. We intend to seek official statistics from Treasury as part of our ongoing monitoring of the sector.

**Figure 3: Banking Reform Coalition's cross-country comparison of return on equity**



Source 3: Banking Reform Coalition submission, p 4.

### Attributing profit to deposit and lending activities

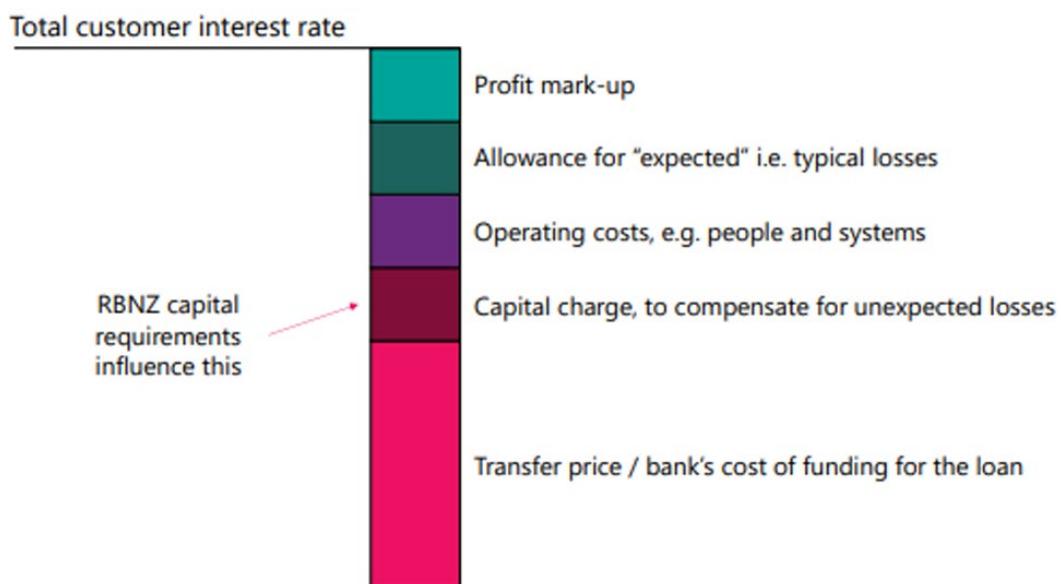
The Treasury found that profits on lending are sometimes surprisingly low.

Banks use “funds transfer pricing” rates to assign a cost to their lending. These rates typically closely relate to the banks’ borrowing rates in wholesale markets but are likely to exceed the official cash rate. When pricing a typical loan, the funds transfer pricing rate is the first segment of that pricing. Various other costs are added to account for expected losses, unexpected losses, and operating costs. After that, banks apply a profit mark-up. Operating costs can differ significantly across market segments.

If, for example, a 4.99 percent 2-year mortgage rate (as of March 2025) has a funds transfer pricing rate of 4.2 percent (a typical 2-year term deposit rate at the same time), the costs of administering the mortgage, as well as impairments and returns on capital must be met out of the 0.79 percent difference. The Reserve Bank’s submission to the inquiry provided a stylised illustration of the main components for pricing a typical loan (Figure 3).

Banks provided us with their overall return on equity figures. However, for commercial sensitivity reasons, they would not provide breakdowns of return on equity for different loan types. They told us that their internal estimates suggested that return on equity was similar across lending markets.

**Figure 4: Components of loan pricing (stylised)**



Source 4: Reserve Bank; Departmental Report, p 21.

### Increasing share of lending to residential mortgages

The Treasury advised us that the growing share of residential mortgages on bank balance sheets is not because direct returns on residential mortgage loans are higher. It is instead because house prices and population growth have driven stronger and more consistent demand for residential mortgages compared to other lending options, such as rural or business lending.

Regulatory risk weights are lower for residential mortgages than for business and rural loans. However, even without regulatory requirements, lenders would view residential lending as lower risk and therefore be able to allocate less capital to them. This is discussed further in section 2.4.

### **Significance of non-lending products (such as low-rate deposits) for profitability**

Banks price their lending to maintain a margin over the average cost of funds. For remunerated deposit accounts, such as savings accounts, depositors earn interest rates that are lower than the cost of funds. For unremunerated deposit accounts, such as chequing accounts, depositors receive no interest.

The Commerce Commission estimated that there is approximately \$58 billion in unremunerated deposits—around \$11,000 per New Zealander—based on 2023 disclosure statements for the Big 4 banks and Kiwibank. If, for example, the cost of funds is 4.2 percent, this level of unremunerated deposits would generate around \$2.5 billion in interest margin for these banks. Data collected by the Reserve Bank suggests that a majority of unremunerated deposits belong to households (around 60 percent), but a significant portion (around 35 percent) are business accounts.

Unremunerated balances are large but come with substantial operating costs. Although fairly stable in aggregate, individual balances can vary, and banks need to factor that into liquidity management strategies. Despite this, it seems that low-rate and unremunerated deposits are likely a significant source of profit for banks.

### **Key conclusions from the analysis**

The Treasury’s analysis shows that New Zealand banks’ combined return on equity has declined over the past three decades, while their return on assets has remained stable. The New Zealand banking sector is more heavily weighted towards traditional retail banking activities than many peer nations. These retail banking activities tend to be lower risk; therefore, returns in New Zealand would be expected to be lower than peer nations on average. Despite this, banks’ profitability has remained high compared to peer countries. However, we acknowledge the point made by our independent specialist adviser that banks have a legitimate argument about which peer countries are used in these comparisons.

Overall, these findings are consistent with the Commerce Commission’s view that “there is no observable tendency towards strong competition” and that the “sector has sustained high levels of profitability relative to international peers”.

Within traditional retail banking, demand for residential mortgages has been strong. Therefore, this lending has become a much more significant share of banks’ balance sheets. If major banks see residential mortgages as profitable and safe, they may have less interest in other lending markets as a result.

The Big 4 banks have found scale efficiencies and reduced their cost-to-income ratios to levels that smaller competitors are unlikely to achieve. On the other hand, regulatory requirements for firms that do not have full deposit-taking licences are much simpler. It is therefore possible to compete with key aspects of the Big 4 banks’ business without operating under the full deposit-taking regime for banks and NBDTs.

## Information from our independent specialist adviser

For a small market, New Zealand is somewhat unusual in having four major banks. This is largely a by-product of the Australian “four pillars” policy, which ensures the retention of the four large incumbent banks in their home market but also makes their presence in the New Zealand market viable.

Although the Commerce Commission does not observe consistent strong rivalry between the Big 4 in the local personal banking market, we were advised that it would be a mistake to conclude that the wider banking system is a “cosy cartel”. There have been shifts in market share in particular markets. Obvious examples include:

- Kiwibank’s growing share of residential mortgages
- Rabobank’s sharply increased share in rural lending
- the activity of international banks in the large commercial lending market.

A key indicator of competitive pressures is the profitability of the large banks. Profits matter to support a robust and healthy banking system. Over the last 30 years, the Big 4 banks have seen returns on equity slide from levels of about 20 percent to now approximately 12 percent. An important driver of that reduction has been regulatory requirements to hold more equity capital. Returns on equity for the Big 4 banks are now approaching levels that could be regarded as reasonable and sustainable in the long term. However, smaller banks continue to struggle to reach levels of profitability that cover their cost of capital and support growth.

## Committee opinion

We endorse the Commerce Commission’s findings that there is no observable tendency towards strong competition and the New Zealand banking sector has sustained high levels of profitability relative to international peers.

We discussed potential policies aimed at increasing competition that the Government could consider. They include:

- recommending that banks standardise processes for residential, rural, and business customers by agreeing on standard financial information and using digital technologies to facilitate comparisons of products and loan options. This would make loan choices easier and encourage genuine competition between banks.
- recommending that the Financial Markets Authority consider conducting a formal review of transaction account pricing using fair conduct principles.
- requesting that banks report to the Finance and Expenditure Committee every six months and disclose their profitability on transaction accounts, to provide more transparency and incentivise better competition.
- recommending that the Reserve Bank consider lowering barriers for overseas banks and fintechs to enter New Zealand and offer banking services. This is discussed further in Chapter 2.

### Differing views

Labour Party and Green Party members support standardising credit information and transparency in pricing, with a focus on fairness for savers. The Labour Party's members' differing view is set out further on [pages 76–77](#). The Green Party members' differing view is set out further on [pages 78–79](#).

## 1.2 Role of Kiwibank

Kiwibank was set up in 2001 to challenge the dominant position of the Big 4 Australian-owned banks. It is owned by the New Zealand Government. The Government's ownership of Kiwibank was first through NZ Post. In 2016, NZ Post sold 47 percent of its shares to the New Zealand Superannuation Fund (25 percent) and ACC (22 percent)—both of which are in turn Government-owned. The ownership arrangements were simplified in 2022, making the Crown's 100 percent ownership in the Kiwibank holding company (Kiwi Group Capital) a direct ownership interest.

Although Kiwibank is owned by the Government, it is held "at arms-length" from the Government through a holding company, Kiwi Group Capital Limited. This means that Ministers do not make operational decisions for Kiwibank. Kiwibank and Kiwi Group Capital both have independent boards to make decisions in the best commercial interests of the company.

We note that on 30 July 2025 the Government announced that Cabinet has given approval for Kiwibank's parent company, Kiwi Group Capital, to raise up to \$500 million of capital to fund the bank's growth.<sup>9</sup> We discuss this in the committee opinion subsection below.

### Public support of Kiwibank as a disrupter

Several submitters were in favour of increasing Kiwibank's capital so that it can better compete with the Big 4 banks. Some submitters expressed concern that capitalising Kiwibank would simply add another big bank to the existing Big 4 banks, and suggested that a better solution would be more support for smaller players to operate in the market.

Some submitters recommended that the Government direct Kiwibank to actively enter the agricultural lending market. Kiwibank said it has no plans to enter the rural lending sector in the short term.

### Information from the market study and the Treasury

The Commerce Commission's market study found that, of the smaller market participants, Kiwibank has the greatest potential to constrain the major banks in the near term. However, it does not have the scale or resources to challenge the "two-tier" structure of the market. The Commission recommended that 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.

The Government has agreed with this recommendation. In December 2024, the Minister of Finance directed Kiwi Group Capital and the Treasury to undertake a study into the

<sup>9</sup> [Kiwibank gets green light to grow | Beehive.govt.nz](#) and [Kiwibank Capital Q&A.docx](#).

feasibility study of raising up to \$500 million from suitable New Zealand KiwiSaver funds, New Zealand institutional funds, and New Zealand professional investment groups as a potential first step. Following the feasibility study, Kiwi Group Capital's shareholding Ministers reported to Cabinet that capital raising was feasible. In July 2025, Cabinet approved Kiwi Group Capital raising up to \$500 million before 30 June 2026, subject to final transaction approval by shareholding Ministers.

### **Information from our independent specialist adviser**

Kiwibank has been repeatedly cited by the Big 4 banks as a very real competitor in personal banking services. Kiwibank has claimed around 25 percent of all new mortgages written in recent quarters. Apart from continuing to build its presence in retail banking, Kiwibank's chief executive has indicated that the bank intends to lift its presence in business banking and believes it can bring significant additional competitive pressure to that segment.

To provide an enduring competitive challenge to the Big 4 banks, Kiwibank will need ongoing access to substantial additional equity capital from stable and committed partners. It will also need to bring its cost structure down to be fully competitive with the major banks.

We were advised that this does not make Kiwibank a market disrupter, much less a "maverick disrupter". Rather, it provides an alternative with perhaps a different culture and different view of its place in the New Zealand market—useful but not transformative.

### **Committee opinion**

We agree with advisers that Kiwibank is not the silver bullet to fixing banking competition in New Zealand. However, because Kiwibank is Government-owned, it is comparatively easier to empower it to have a stronger market presence. Although we disagree on whether Kiwibank has the potential to be a market disrupter, we broadly agree that capitalising Kiwibank would help to improve competition in the New Zealand banking sector.

On 30 July 2025, the Government announced that Cabinet has approved Kiwibank's parent company, Kiwi Group Capital, to raise up to \$500 million of capital to fund the bank's growth.<sup>10</sup> This follows advice that providing Kiwibank with reliable access to growth capital will support it to grow at above market rates and to make it more competitive with the major banks.

We had intended to recommend that the Government encourage the Kiwi Group Capital and Kiwibank boards to seek ways of increasing capital to strengthen Kiwibank in its retail and business banking presence. We therefore welcome this announcement.

The Government has approved measures to safeguard Kiwibank's New Zealand identity by requiring:

- at least 51 percent government ownership of Kiwi Group Capital to be maintained for the foreseeable future
- a majority of the directors of Kiwi Group Capital to be normally resident in New Zealand
- Kiwibank to retain its current company name and trading name

<sup>10</sup> [Kiwibank gets green light to grow | Beehive.govt.nz](#) and [Kiwibank Capital Q&A.docx](#).

- Kiwibank to maintain its principal place of business in New Zealand.
- any potential future foreign investors to be limited to a maximum of 20 percent of Kiwibank's shares
- Kiwibank's head office to remain in New Zealand.

This decision comes following market testing, in which Kiwi Group Capital engaged with leading New Zealand KiwiSaver funds, investment institutions, and professional investor groups including Māori institutions. The study concluded that there was sufficient interest to proceed to the next phase of the process.

Importantly, this is not a State asset sale: all funds raised are for Kiwibank's future business growth. There is no return on capital to the Crown to deploy elsewhere, and the Crown itself would not sell any shares.

Although we welcome this announcement, we encourage the Government to explore further options to increase its capital, such as from non-government sources, in order to strengthen its retail and business banking offerings. We recommend that Kiwibank use any new capital raised to strengthen its retail and business banking offerings.

### **Differing views**

Labour Party, Green Party, and Te Pāti Māori members have stated firmly that Kiwibank should be permanently retained as a Crown-owned entity and that any capital for Kiwibank must be raised from public sources. Labour Party members strongly support measures to strengthen Kiwibank, but have a firm view on public control and Kiwi ownership. The Labour Party's differing view is set out further on [pages 76–77](#). Green Party members' differing view is set out further on [pages 78–79](#).

## **1.3 Recommendations**

### **1. Standardise credit information and make it easier to compare loans**

We recommend banks standardise processes for residential, business, and rural customers by agreeing on standard financial information and using digital technologies so it is easier for all customers to compare products and loan options across banks (for example, by encouraging multi-bank credit applications).

### **2. Open the door to more overseas banks and fintechs**

We recommend the Reserve Bank of New Zealand consider lowering barriers for overseas banks and fintechs to enter New Zealand and offer banking services, to create more competition.

### **3. Strengthen Kiwibank through investment**

We recommend Kiwibank's parent company continues to seek further ways of increasing capital to strengthen Kiwibank's retail and business banking.

### **4. Review fees and profits on everyday accounts**

We recommend the Financial Markets Authority investigate transaction account pricing by using fair conduct principles, and request banks disclose profitability on transaction, on-call, and savings accounts to provide more transparency and incentive to do better.

## 2 Barriers preventing banking competition, and impact of the regulatory environment

Many submitters highlighted New Zealand's regulatory environment as an impediment to competition and as the main barrier to entry and expansion for non-bank deposit takers (NBDTs), smaller banks, and financial technology companies (fintechs).

This chapter combines two parts of our terms of reference:

- barriers preventing competition in banking
- any possible impact of the regulatory environment on competition.

It covers a wide range of topics related to competition and regulation, including:

- an overview of the financial regulators and whether the regulatory environment can be simplified ([section 2.1](#) and [section 2.2](#))
- the role of prudential regulation and its effects on smaller banks and NBDTs ([section 2.3](#))
- discussion of capital requirements and the Reserve Bank's capital review ([section 2.4](#))
- the role of conduct regulation and its impact on competition ([section 2.5](#))
- climate-related disclosures ([section 2.6](#))
- the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 and regime ([section 2.7](#))
- any limits on the growth of NBDTs ([section 2.8](#))
- any restrictions on overseas investment or new entrants, including fintechs ([section 2.9](#))
- any outstanding constraints on the use of technology and open banking ([section 2.10](#)).

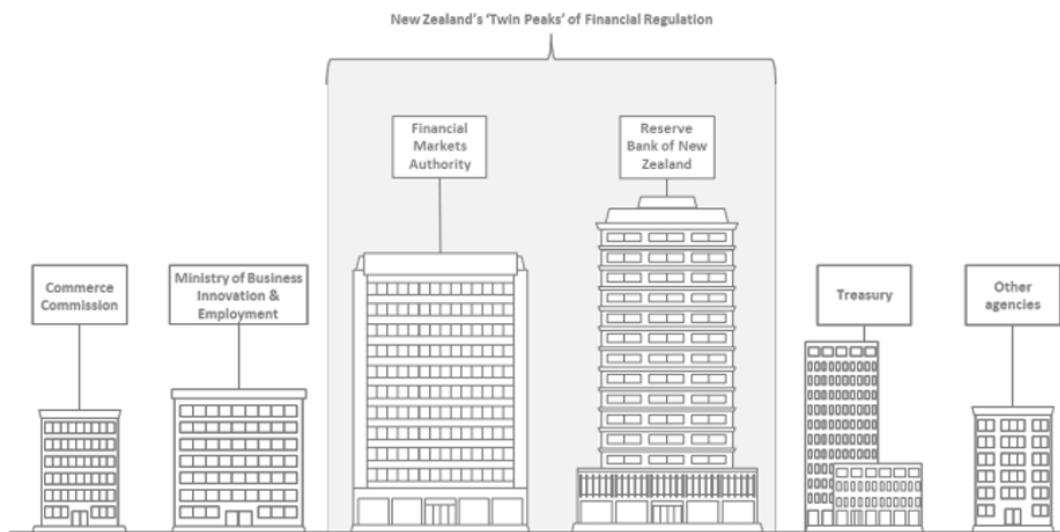
### 2.1 Overview of financial regulators and agencies in New Zealand

According to the Treasury, New Zealand's "twin peaks" model splits financial sector regulation into two broad functions: prudential regulation and conduct regulation.

- **Prudential regulation** aims to ensure that institutions adequately manage both their own financial risks and the risks they collectively pose to the financial system and wider economy. In New Zealand, the Reserve Bank is responsible for prudential regulation.
- **Conduct regulation** focuses on behaviours in financial markets. It aims to ensure that consumers are adequately informed and treated fairly, and that regulated entities act with integrity. In New Zealand, the Financial Markets Authority is responsible for financial market conduct.

The Reserve Bank and the Financial Markets Authority are complemented by other government agencies and financial regulators, as illustrated by Figure 4.

**Figure 5: Key agencies in New Zealand's financial regulatory system**



Source 5: Departmental Report, p 30.

Several countries have “twin peaks” regulatory models, including the United Kingdom and Australia. However, in Australia, the responsibility for prudential regulation sits with the Australian Prudential Regulatory Authority (APRA), which is separate from Australia’s central bank.

## Responsibilities of the financial regulators and government agencies

The financial regulators and government agencies operating in New Zealand’s financial regulation sector each serve different functions and undertake certain responsibilities. An overview of the regulators and entities is provided below.

### Reserve Bank of New Zealand

The Reserve Bank of New Zealand is New Zealand’s central bank. It operates under the **Reserve Bank of New Zealand Act 2021** (RBNZ Act), which specifies its purposes and functions. It may only engage in activity that aligns with these statutory purposes and functions. These functions are crucial to New Zealand’s regulatory framework.

Most relevant to this inquiry, the Reserve Bank is responsible for the licensing, regulation, and supervision of registered banks under the **Banking (Prudential Supervision) Act 1989**. It also licenses and regulates non-bank deposit takers (NBDTs) under the **Non-Bank Deposit Takers Act 2013**.

Both Acts are in the process of being replaced by the **Deposit Takers Act 2023** (the DTA). The DTA will modernise the regulatory framework to ensure the safety and soundness of deposit takers. It is being implemented in sections and is expected to be in full effect by July 2028.<sup>11</sup> The Deposit Takers Act includes a range of principles that the Reserve Bank must take into account when setting prudential policy.

<sup>11</sup> [DTA timeline - Reserve Bank of New Zealand | Te Pūtea Matua](#).

Under the **Financial Market Infrastructures Act 2021**, the Reserve Bank and the Financial Markets Authority are joint regulators of most financial market infrastructures. Under the Financial Market Infrastructures Act, the Reserve Bank is the sole regulator of pure payment systems. A pure payment system is a designated settlement system that provides solely for the transfer of funds.

The Reserve Bank also operates the Exchange Settlement Account System (ESAS) and NZClear.

### **Financial Markets Authority**

The Financial Markets Authority has a statutory objective to promote and facilitate the development of fair, efficient, and transparent financial markets. It is responsible for regulating most conduct in financial markets, to promote the confident and informed participation of businesses, investors, and consumers in the financial markets, by:

- licensing a range of firms and professionals to provide certain financial products and services
- supervising and enforcing activities that enable better outcomes for consumers and markets
- independently monitoring and enforcing the climate-related disclosures regime.

### **Commerce Commission**

Of most relevance to this inquiry is the Commerce Commission’s role in enforcing laws related to competition, fair trading, the retail payment system, and (currently) consumer credit contracts. It carried out the initial market study into personal banking services.

### **The Treasury**

The Treasury is responsible for ensuring that the Reserve Bank’s institutional settings remain fit for purpose, to enable the Reserve Bank to successfully perform its role as New Zealand’s central bank and prudential regulator, in line with its statutory objectives. It also:

- provides “second opinion” advice to the Minister of Finance on the Reserve Bank’s sectoral legislation
- participates in reviews of the operational objectives of monetary policy and financial policy
- advises the Minister of Finance on the Reserve Bank’s funding and financial resources and relevant appointments processes
- is responsible for the Statement of Funding Approach—the funding strategy for the Depositor Compensation Scheme.

### **Ministry of Business, Innovation and Employment**

The Ministry of Business, Innovation and Employment (MBIE) provides policy advice on a range of issues relating to the financial markets regulatory system, including the Financial Markets Conduct Act 2013; regulation of financial advice; regulation of the conduct of banks, NBDTs, and insurers; international financial reforms; and climate-related disclosures.

MBIE is also the monitoring agency for the Financial Markets Authority and the Commerce Commission.

### Other agencies

- The **Ministry of Justice** is the policy agency for the anti-money-laundering and countering financing of terrorism system.
- Most relevant to this inquiry, the **External Reporting Board** is responsible for preparing and issuing accounting standards for climate-related disclosures under Part 7A of the Financial Markets Conduct Act 2013.
- The **Council of Financial Regulators**' function is to facilitate co-operation and co-ordination between members to support effective and responsive regulation of the financial system in New Zealand. It is made up of the Reserve Bank, the Financial Markets Authority, the Commerce Commission, MBIE, and the Treasury. The Council meets quarterly to discuss regulatory issues, risks, and priorities for financial markets.

### Information from our independent specialist adviser

Our independent specialist adviser considered that the complexity of regulatory regimes, and the resources needed to support them, have grown enormously in New Zealand and internationally. Major international events such as the global financial crisis have inevitably driven regulatory responses. Increasing international standards have placed pressure on New Zealand to conform to new regulatory efforts and developments.

However, having multiple agencies that interact with market participants in different ways has increased compliance costs. Market participants are not convinced that the costs and benefits of the regulatory regime are in reasonable balance. The rise in compliance costs and effects on innovation and competition have been major concerns for submitters in this inquiry.

### Background

In 1984, the Reserve Bank established a “Banking System Department”. Prior to this, it had no designated personnel committed to prudential policy or regulation. The 1986 amendment to the Reserve Bank of New Zealand Act established a bank registration regime and limited the use of the term “bank”. This marked the beginning of a more formal approach to prudential supervision.

By the mid-1990s, the Banking System Department focused on establishing a light-touch disclosure-based regime for banks. There was also some oversight of non-bank foreign exchange dealers and other non-bank entities. The Reserve Bank’s explicit focus was on safeguarding the integrity of the banking system but not propping up individual banks.

The Basel Committee was established in 1974 by the central bank Governors of G10 countries after serious disturbances in international currency and banking markets.<sup>12</sup> It was concerned about oversight gaps for banks operating across international borders. In 1975, it

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<sup>12</sup> [History of the Basel Committee | bis.org](http://bis.org).

published principles for supervising foreign banking subsidiaries and branches and later promoted a standard minimum capital ratio of 8 percent of risk-weighted assets.

Over the following years, reviews by the OECD and the International Monetary Fund's Financial Sector Assessment Program<sup>13</sup> found that New Zealand was not supervising to international standards. Our adviser noted that IMF and OECD reviews can be heavily influenced by larger jurisdictions, and the standards could be excessive for New Zealand's market. However, New Zealand faces strong pressure to conform to international supervisory practice.

The Reserve Bank's register of banks was first opened in 1987.<sup>14</sup> Since then, 37 banks have registered and subsequently surrendered their registration and exited the market. The last departure occurred in 2016.

A brief timeline of changes in the system since the bank registration regime began includes:

- 1987 eight (out of 10) regional Trust Banks amalgamated to form Trust Bank NZ
- 1989 DFC failure
- 1990 BNZ near collapse and recapitalisation
- 1992 National Australia Bank purchases Bank of New Zealand (BNZ)
- 1994 ANZ Bank purchases Post Office Bank
- 1994 National Bank of New Zealand purchases Rural Bank
- 1995 Commonwealth Bank of Australia purchases Auckland Savings Bank (ASB)
- 1996 Westpac purchases Trust Bank NZ
- 2001 Kiwibank registered
- 2003 ANZ purchases National Bank of New Zealand
- 2011 Co-Operative Bank registered
- 2013 Heartland Bank registered.

Beyond the registered banks, 67 finance companies collapsed between 2006 and 2012, with estimated losses over \$3 billion, affecting 150,000 and 200,000 depositors and creditors. At the time, these finance companies were very lightly regulated.

As our adviser noted, some pertinent lessons can be taken from this brief history of New Zealand's banking system:

- Failure is not a remote or distant possibility. There have been significant and damaging collapses over the past four decades.
- Required capital ratios have grown substantially from low levels. This is partly a response to financial sector collapses and local and international market shocks. But it is substantially a response to changing international standards in prudential regulation and pressure on New Zealand to conform.
- To thrive and enable growth, smaller banks need reliable access to capital that supports robust balance sheets worthy of depositors' trust.

<sup>13</sup> [Financial Sector Assessment Program \(FSAP\) | imf.org](#).

<sup>14</sup> [Registered banks in New Zealand | Reserve Bank of New Zealand - Te Pūtea Matua](#).

- The experience of both Trust Bank NZ and ASB illustrates the challenge of growing into the top tier of banks without substantial external support.
- After a period of considerable structural change, the banking system has been quite stable over the past decade. Within that, there have been substantial shifts of market shares in residential mortgage lending, rural lending, and business lending.

### **Australian influence**

The Reserve Bank of New Zealand and the Australian Prudential Regulatory Authority operate under a formal Memorandum of Understanding covering roles and responsibilities in supervision of banks and insurers.<sup>15</sup> The Reserve Bank supervises the New Zealand subsidiaries of the Big 4 banks.

The Australian banking sector is underpinned by the “four pillars policy”. Successive Australian Governments have effectively banned mergers or acquisitions between the four banks. This unwritten policy is regularly criticised in Australia for inhibiting competition. Australian Ministers and key officials appear to have concluded that, in times of crisis, having four strong and well-capitalised banks is a more secure, manageable, and competitive market setting than having just two or three. Developments in Australia will continue to strongly influence how the New Zealand banking system evolves.

Banking risks and market conditions in New Zealand are similar, but not identical, to those in Australia. New Zealand regulators may choose to vary local requirements, but the reasons for those variations should be clearly articulated and justified. The 2019 capital review in New Zealand appears to have shifted emphasis away from doing so.

### **Increasing competition in the New Zealand banking system**

Substantial work programmes are already under way which should support the drive for increased competition and innovation in the financial system by easing the path for new entrants and new business models.

We were advised that the following initiatives provide scope to increase competition and have the potential for smaller banks and NBDTs to benefit substantially:

- widening access to ESAS accounts (see [section 2.8](#), below)
- reviewing use of the terms “bank” and “banking services” ([section 2.8](#))
- reviewing and reducing the minimum capital required—currently \$30 million—to become a registered bank ([section 2.4](#))
- the introduction of the Depositor Compensation Scheme
- progressing the development and implementation of a fully functional open banking regime ([section 2.10](#)).

We were advised that the biggest competitive opportunities in banking services are likely to emerge with the introduction of fintechs. To support their innovation and added competitive impact, New Zealand’s regulatory models must be open to innovation and be subject to proportionate regulation ([section 2.9](#)).

<sup>15</sup> [Australian Prudential Regulation Authority | Reserve Bank of New Zealand - Te Pūtea Matua](#).

## 2.2 The role of bank regulators, and whether the regulatory environment can be simplified

The Reserve Bank regulates and supervises banks, insurers, and financial market infrastructures. It also regulates and licenses non-bank deposit takers.

### Conclusions of the Commerce Commission's market study

The Commerce Commission's market study found that the regulatory burden on personal banking service providers is high. Its report discusses how regulatory requirements impose substantial fixed costs on market participation, which limits the ability of smaller banks, NBDTs, and fintechs to compete. Regulation costs impose a disproportionately greater drain on smaller providers' resources because their businesses do not have the scale of the Big 4 banks and Kiwibank.

Before the Reserve Bank's 2019 capital review, prudential capital requirements gave the major banks a material competitive advantage over Kiwibank and smaller providers.<sup>16</sup> The capital review addressed this by setting different levels for capital requirements: smaller providers do not have to hold as much capital as large providers. However, the Commerce Commission found that the Reserve Bank could do more within its current legislative framework to level the playing field when implementing prudential capital requirements and other policies within its remit. It suggested that the Government may need to amend legislative settings if it prefers a different balance between competition and financial stability.

### Main points made in submissions on our inquiry

Many submitters agreed with the Commerce Commission's findings that the overall regulatory burden is high and affects competition.

Submitters told us that New Zealand's approach to regulation is conservative, fragmented, and has unnecessary overlaps. We heard that the overlaps in regulation create higher costs and inefficiencies. Although larger players can meet these higher costs, the regulatory burden tends to fall on smaller players. NBDTs told us that much of their recent capital investment has gone towards regulatory compliance. For example, some have spent substantial amounts on professional and legal advice to ensure they are meeting upcoming regulatory requirements, such as those in the Deposit Takers Act.

We heard that New Zealand's regulatory settings are a barrier to entry into the market. Submitters told us that simplifying the settings and applying them proportionately would allow smaller players to compete without being subject to the same level of prescription as the large banks. The Big 4 banks and the Financial Markets Authority supported simplifying the regulatory landscape.

The Reserve Bank does not consider regulatory settings to be the primary barrier to competition. It did accept that compliance could be costly for smaller entities.

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<sup>16</sup> 2017–2019 Capital Review | Reserve Bank of New Zealand—Te Pūtea Matua.

## Information from the Treasury

The banking industry has had to deal with a raft of changes in recent years, particularly in prudential and conduct regulation. Many of these changes have brought New Zealand in line with comparable jurisdictions. However, implementing these changes has imposed a high cost on industry and, as the Commerce Commission found, may have reduced the resources available to smaller players to allow them to compete.

## Committee opinion

We agree with the Commerce Commission and the Treasury that the Reserve Bank should broaden the way it undertakes competition assessments under the Deposit Takers Act and focus more on reducing barriers to entry and expansion in the banking sector.

We agree with the Commerce Commission and submitters that New Zealand's current regulatory environment places a high cost on industry and may be reducing resources available for smaller banks and NBDTs to compete. Labour Party and Green Party members of the committees agree in principle but emphasise that consumer protections must be retained.

We understand that the New Zealand approach to regulation has overlapping requirements that may be creating higher costs and inefficiencies. We recommend that the Council of Financial Regulators prioritise cutting this regulatory duplication and streamlining processes between agencies to lower costs for banks and lenders.

We also understand that the current requirements may be deterring fintechs from entering the market. We recommend that the Council of Financial Regulators focus on minimising compliance costs and the regulatory impact on new technology plans, allowing firms to innovate. We also recommend that the Council of Financial Regulators develop a five-year plan, in consultation with industry, to provide more certainty to the market and investors. We note that this approach is used in both Australia and the UK. Labour Party and Green Party members of the committee agree with these recommendations but think that this plan must prioritise access and inclusion, not just industry certainty.

## 2.3 The role of prudential regulation

The primary purpose of prudential policy is to protect and promote the stability of New Zealand's broader financial system. It aims to ensure that institutions adequately manage their own financial risks and the risks they collectively pose to the financial system and wider economy.

## Conclusions of the Commerce Commission's market study

The Commerce Commission's market study found that prudential requirements provided a material advantage to the Big 4 banks from 2008 to 2022. It recommended that the Reserve Bank broaden the way it assesses competition and place greater weight on competition in its decisions about prudential regulation under the Deposit Takers Act.

## Main points made in submissions on our inquiry

In its submission on the inquiry, the Reserve Bank told us that, as a prudential regulator, its focus on financial stability is the best contribution it can make to the wellbeing and prosperity of New Zealanders. However, many other submitters told us that the Reserve Bank's focus on stability is preventing a competitive banking market. Some submitters stated that, if banks were not required to hold such high levels of capital, their overall cost of borrowing would reduce. They called for an independent review of the Reserve Bank's prudential settings—particularly the 2019 decision to increase bank capital requirements. Other submitters worried that lower capital requirements could lead to riskier lending practices, which would threaten the stability of New Zealand's financial system.

### One-in-200-year risk tolerance

The Reserve Bank's current prudential capital requirements for banks are set at a level that would ensure that the broader financial system could cope with a one-in-200-year economic shock. Some submitters thought that this one-in-200-year test was overly conservative and suggested that the Reserve Bank adopt a one-in-100-year tolerance. We heard that Reserve Bank stress tests have consistently shown that, even for severe economic shocks, banks would not have failed under the previous requirements.

### Removal of the Reserve Bank's statutory "efficiency" objective

According to some submitters, the removal of the Reserve Bank's statutory "efficiency" objective has allowed the Reserve Bank to ignore the negative effects of its regulatory overreach. They recommended that the "efficiency" objective be reinstated. However, the Reserve Bank told us that in the recent review of the RBNZ Act 2021, stakeholders supported replacing the "soundness and efficiency" objective with a singular and clear focus on financial stability.

### Strengthening monitoring of the Reserve Bank's performance

Some submitters suggested there is a need to strengthen monitoring of the Reserve Bank's performance. We heard that the Reserve Bank board does not currently have sufficient experience in prudential policy. Suggestions from the public to strengthen monitoring of the Reserve Bank's performance include:

- establishing a Prudential Policy Committee within the Reserve Bank similar to the Monetary Policy Committee
- giving the Treasury the responsibility and resources to review the performance of the Reserve Bank's board, the Monetary Policy Committee, and, if established, the Prudential Policy Committee, and to report annually on this to the Minister of Finance and Parliament
- undertaking independent audits of the Reserve Bank every three to five years
- requiring the Reserve Bank, in legislation, to report annually to the Finance and Expenditure Committee on its application of the proportionality framework.<sup>17</sup>

<sup>17</sup> Under the Deposit Takers Act's proportionality framework, standards may be tailored differently across three groups of deposit takers (determined by asset size) to better reflect the diversity of the deposit-taking sector. This is intended to avoid a "one-size-fits-all" approach which might otherwise be detrimental for competition and not proportionate to the financial stability risks of different-sized deposit takers.

## Information from the Treasury

Prudential policy and regulation are designed to protect the stability of New Zealand's financial system. This helps maintain public trust and confidence in New Zealand's banks, insurers, NBTDs, and financial market infrastructures. It also reduces the risk of a financial crisis that could seriously damage the economy.

The Reserve Bank has a work programme that focuses on financial stability while considering how to support efficiency and competition. This includes implementing recommendations made in the Commerce Commission's market study.

### Reserve Bank of New Zealand Act 1989 review

In 2017, the Reserve Bank began working with the Treasury on a comprehensive review of the Reserve Bank of New Zealand Act 1989.<sup>18</sup> This review considered removing "efficiency" from the Reserve Bank's objectives. The Treasury's departmental report for the Finance and Expenditure Committee at the time gave the following reasons for doing so:

- it is critical that the Reserve Bank has clear goals and objectives
- the current efficiency objective has created ambiguity
- the inclusion of an efficiency objective is unusual from an international perspective.<sup>19</sup>

Phase 1 of the RBNZ Act review resulted in the creation of a Monetary Policy Committee, replacing the single decision-maker model (the Governor of the Reserve Bank). As part of Phase 2 of the review, the Minister of Finance considered establishing a statutory Prudential Policy Committee but decided against doing so in legislation. A governance board was established that is responsible for prudential policy.

Following the review, the Government decided to replace the Act with two new pieces of legislation: the Reserve Bank of New Zealand Act 2021 and the Deposit Takers Act 2023. The Deposit Takers Act includes a range of principles that the Reserve Bank must take into account in setting prudential policy. They include principles related to competition and proportionality.

### New standards for deposit takers

The Reserve Bank is currently developing standards for deposit takers under the **Deposit Takers Act 2023**. It is being implemented in sections and is expected to be fully implemented by July 2028.<sup>20</sup> The Deposit Takers Act modernises New Zealand's regulatory framework by:

- providing a single, coherent regulatory regime to enable robust regulation of financial institutions that engage in the business of borrowing and lending
- providing for new inspection powers to monitor compliance against prudential requirements, more graduated enforcement powers to address and sanction non-compliance, and the framework for managing and resolving a deposit taker in financial distress.

<sup>18</sup> [Reserve Bank Act Review - Reserve Bank of New Zealand - Te Pūtea Matua](#).

<sup>19</sup> [Reserve Bank of New Zealand Bill Departmental Report pp 15–16 | parliament.govt.nz](#).

<sup>20</sup> [DTA timeline—Reserve Bank of New Zealand | Te Pūtea Matua](#).

- introducing the Depositor Compensation Scheme so that, in the event of a deposit taker's failure, their deposits are eligible for compensation of up to \$100,000 per depositor, per institution. The Depositor Compensation Scheme took effect on 1 July 2025.

The Deposit Takers Act envisages a “proportionality framework”, whereby different standards would apply to different tiers of deposit takers, based on asset size. This proportional approach would better reflect the diversity of the deposit-taking sector.

### **Committee opinion**

It is important to strike an appropriate balance between financial stability, efficiency, and competition when setting prudential policy and regulations.

Our independent specialist adviser told us that the perception that the Reserve Bank has been overly conservative in assessing risk is sufficiently widespread and credible to warrant further examination. Given the concerns raised by the Commerce Commission and submitters, we agree that the Reserve Bank's prudential role could benefit from enhanced scrutiny. Some ways the Government could take action to strengthen the Reserve Bank's prudential role include:

- amending the RBNZ Act to restore “market efficiency” as a key objective of the RBNZ Act
- amending the RBNZ Act to establish a new Prudential Policy Committee within the Reserve Bank to independently monitor the Reserve Bank's prudential regulation process and its progress in achieving market efficiency
- requiring regular independent external reviews to monitor the Reserve Bank's prudential performance and its progress in achieving market efficiency
- requesting that the Government prioritise prudential policy expertise when appointing new members to the Reserve Bank board.

Since the RBNZ Act 2021 and the Deposit Takers Act 2023 are relatively new pieces of legislation, we think it is appropriate for the Government to keep them under review to ensure the rules and settings balance financial stability with fair competition. We would like to see the Treasury consider these issues in reviewing the implementation of the RBNZ Act 2021. We would also like the Reserve Bank to report to us on its progress every six months.

## **2.4 Effect of capital requirements on lending, risk allocation, smaller banks, and Non-Bank Deposit Takers**

New Zealand banks and deposit takers are required to hold minimum levels of capital as part of the Reserve Bank's capital requirements. These are called capital ratios. Capital requirements encourage responsible management of banks and provide a buffer to absorb financial losses.

In 2017, the Reserve Bank launched a comprehensive review of its capital framework for banks and decided to increase the minimum levels of capital that deposit takers must hold.

The first changes from the capital review came into effect on 1 October 2021, with further changes set to be gradually phased in until 2028.

## Main points made in submissions on our inquiry

Submitters told us that changes from the Reserve Bank's 2019 review of capital requirements have been overly conservative and suggested reviewing this requirement. We heard that the level of capital held against certain loan products (known as **risk-weighted assets**) may be hindering lending to business and agriculture, leading to a rise in lending into less productive areas, such as residential lending.

Residential lending has grown as a percentage of total loan assets in recent years. ANZ's lending to business, agriculture, and institutional sectors totalled 28 percent of its total loans in 2024, compared to 42 percent in 2015. ANZ and Westpac told us that changes in the proportion of lending to the productive sector relative to residential mortgage lending are primarily driven by customer demand for lending.

We heard that current capital requirements have affected customer prices and limited competition by creating an uneven playing field. Submitters recommended that **standardised** risk weightings should be reviewed to address the competitive advantage of the Big 4 banks, who use **internal-ratings-based** risk weightings. Submitters suggested that, for lending to small and medium-sized enterprises (SMEs) and rural lending, banks should use standardised and more granular risk weightings that better align with the actual underlying risk. We heard that the risk weightings applied to NBDTs are even more conservative than those applied to small banks, which distorts the capital ratios of NBDTs and makes it uneconomic for them to lend to SMEs and the agricultural sector.

## Reserve Bank review of capital requirements

In its 31 March 2025 hearing with us on the inquiry, the Reserve Bank announced that it will be initiating a review of its capital requirements. The review will build on current work to review more granular risk weights for residential mortgages and corporate lending (including rural), community housing, and whenua Māori lending. The review will expand the Reserve Bank's work programme to include:

- reviewing submissions or statements made to this inquiry regarding the capital framework
- an assessment of how the Reserve Bank's capital settings compare internationally
- a reassessment of the appropriate risk appetite for capital settings in New Zealand
- reviewing the degree of proportionality in the framework
- considering the balance between "going concern capital" and "gone concern capital" and the role of "Additional Tier 1" capital.<sup>21</sup>

During its submission, the Reserve Bank noted that capital requirements are only one part of the variation in interest rates borrowers face. For example, on average, farm lending interest rates in June 2024 were around 1.7 percent higher than residential mortgage interest rates, but only around 0.6 percent of this can be explained by the difference in regulatory capital

<sup>21</sup> [RBNZ outlines work to support competition | Reserve Bank of New Zealand - Te Pūtea Matua](#).

requirements for these two categories. Variation in lending rates is also influenced by operating costs, provisioning for risk, and other factors.

## Information from the Treasury

Higher capital requirements and changes to risk weights affect interest rate costs, and the volume and structure of lending. Risk weights may potentially affect the supply of credit provided by banks and the interest rate charged to customers for different types of loans, such as mortgages or business lending.

The amount of capital required is set as a ratio of a bank's **risk-weighted assets (RWA)**, which is a measure of the risk the bank faces across three categories:

- **credit risk**—the risk of loss arising from a borrower defaulting on their loan
- **market risk**—the risk of loss a bank faces due to movements in market prices, such as interest rates, exchange rates, and equity values
- **operational risk**—the risk of loss resulting from inadequate or failed internal systems or from external events.

## International comparisons

New Zealand and Australia have similar overall capital requirements, but Australia allows a substantially higher proportion of capital to come from Tier 2 capital, made up of subordinated debt.

**Tier 1 capital** is the primary funding source of a bank and consists of shareholders' equity and retained earnings. **Tier 2 capital** is a supplementary layer of bank capital comprising revaluation reserves, general provisions, subordinated term debt, and hybrid capital instruments. Tier 2 capital is considered less secure than Tier 1 capital because it is more difficult to liquidate. Tier 1 capital is more expensive but having more of it is likely to enhance New Zealand's perceived risk profile over time, enhance a bank's credit rating, and influence its debt funding costs. The Reserve Bank considers the impact of this compositional decision on lending to be relatively small.

## Capital requirements and risk weights work together

Capital requirements interact with risk weights that are applied for different underlying lending risks by sector. There are three types of risk weighting:

- Most banks are required to use **standardised risk weightings** developed by the Reserve Bank.
- The Big 4 banks are accredited to use internal models to calculate their own risk-weighted capital requirements (**internal-ratings-based (IRB) models**).
- NBDTs take a different approach, which we do not cover in detail in this summary.

Risk weights represent the likelihood of a certain loan type defaulting—the higher the risk weight, the more likely that loan type is to create unexpected losses and so the higher the capital a bank must hold in reserve.

**Table 1: Illustrative impact of risk weights**

Loan size	Risk weight	Capital requirement	Total capital required to be held
\$1 million	100%	18%	\$180,000
\$1 million	25%	18%	\$45,000

Source 6: Departmental Report, p 46

The Reserve Bank has approved the Big 4 banks to assess the risk of individual loans using IRB models. IRB models typically apply lower ratings than the standardised weights used by other banks. This means that the Big 4 banks could hold up to 45 percent less capital than other banks for the same loan. However, the Reserve Bank mandates that IRB models cannot set capital requirements more than 15 percent below the standardised risk weight model; this is lower than the international standard of 27.5 percent.

The standardised approach uses broad “buckets” to set risk weights for different types of loans. It is simpler to implement than IRB but is not as easy to fine-tune. Under the standardised approach, lower risk weights apply for residential mortgages and loans to highly rated banks, corporations, government entities (including state-owned enterprises), public sector enterprises, and central banks. For other categories, such as business lending without a credit rating, a 100 percent risk weight applies.

## **Key conclusions from analysis**

The Treasury advised us that the lack of consensus on capital settings and substantive questions raised during this inquiry, as well as broader developments in the regulatory landscape since 2019, suggest that a thorough, evidence-based review of the Reserve Bank’s capital requirements is timely.

Although the Reserve Bank’s capital requirements appear to be within the range of international practice, they appear relatively conservative compared to other jurisdictions.

The planned capital changes from the 2019 review are still being rolled out, with the next planned increase on 1 July 2026. The Reserve Bank intends to conduct the review promptly to allow for any changes to be well signalled ahead of next year’s scheduled increase, and to minimise the impact on the implementation of the Deposit Takers Act.

## **Committee opinion**

We welcome the Reserve Bank’s announcement that it will undertake a review of capital settings, taking into account submissions and evidence from our inquiry. During our hearing on the May 2025 Financial Stability Report, the Reserve Bank told us that it will be consulting on the review in August and September 2025, and aims to complete this work by the end of 2025.

We recommend that the Reserve Bank specifically consider the following areas:

- risk-weighted asset calculations and how they may be hindering lending to businesses and rural communities

- capital ratio requirements and compliance settings for smaller banks and regional banks compared to the Big 4 banks—New Zealand’s domestic systemically important banks (D-SIBS)—for this country’s overall system
- other settings to support market entry of additional banks, such as the \$30 million initial capital requirement and the requirement for banks to hold additional Tier 1 capital
- the overall risk tolerance underpinning decisions taken in the Reserve Bank’s 2019 capital review.

We encourage the Reserve Bank to look at settings that would encourage offshore banks to enter the market, and mechanisms that would support lending to a wider range of consumers. We also recommend that it promote regulatory settings that would better support smaller banks and NBDTs already operating in New Zealand.

### **Risk weights for Community Housing Providers**

In the Reserve Bank’s written response to our post-hearing questions, it told us that it is considering a range of approaches to incorporate lending to Community Housing Providers (CHPs) and housing cooperatives within the prudential framework, and to ensure the approach matches the risk of such lending. It told us that one option it is assessing is to create a new category of exposure for such lending in the standardised approach. This could see CHPs and cooperative lending receive similar risk weights to residential mortgage lending in the standardised approach. The Reserve Bank told us that it may also be possible to extend this category to the banks using IRB models, with specified risk weights.

We await updates from the Reserve Bank on this work programme.

### **New Zealand Labour Party differing view**

In a banking inquiry which affirmed the Commerce Commission findings about the profitability and market dominance of the Big 4 banks, it should be straightforwardly agreed that the Reserve Bank’s prudential settings are not the thing holding back cheaper home loans or affordable banking services for New Zealanders. We do not agree with National’s proposal to create a Prudential Policy Committee within the Reserve Bank because the evidence, including stress testing, does not suggest it is needed. It is not a proposal that will address competition concerns and is a distraction. We also disagree with Government MPs that climate-related disclosures are anti-competitive. Supporting Kiwibank’s lending to households and small businesses and easing entry for fintechs and innovators in specific services could have been the focus of this work. Prudential supervision should continue to protect the public while fostering a genuinely competitive market, not reform serving the interests of the largest banks.

The Labour Party’s differing view is set out further on [pages 76–77](#).

## **2.5 The role of conduct regulation and any impact on competition**

Conduct regulation focuses on behaviours in financial markets. It aims to ensure that consumers are adequately informed and treated fairly and that regulated entities act with

integrity. The Financial Markets Authority (FMA) is responsible for financial market conduct regulation in New Zealand.

## Information from the public

### Credit Contracts and Consumer Finance Act 2003 (CCCFA)

Submitters welcomed recent and planned changes to the CCCFA. We heard that many banks have difficulty complying with the CCCFA, and that it should be simplified to create retail competition. The NBDTs' joint submission told us that compliance with the CCCFA has resulted in lenders withdrawing from or not entering the consumer lending market. It recommended overhauling the CCCFA regime, particularly the disclosure requirements.

We also heard that the focus on socially responsible lending has also led to situations where some people, such as disabled people, are unable to access credit when they otherwise might have been able to.

### Financial Markets (Conduct of Institutions) Amendment Act 2022 (CoFI)

The FMA told us that the CoFI Act brings New Zealand into line with international norms for conduct regulation. The FMA also said that the Act gives it powers to help address some of the issues identified in the Commerce Commission's market study.

Some submitters told us that CoFI has created a regime where lenders require multiple licences that cover many of the same activities. The FMA said it supports simplifying licensing and fair conduct programmes under the CoFI Act.

## Information from the Treasury

A significant programme of work is aimed at streamlining the regulatory landscape of financial services, alongside removing unnecessary compliance costs for industry.

In March 2025, the Government introduced three bills to reform financial services regulation:

- Credit Contracts and Consumer Finance Amendment Bill
- Financial Markets Conduct Amendment Bill
- Financial Service Providers (Registration and Dispute Resolution) Amendment Bill

The purpose of the amendment bills is to streamline obligations, remove unnecessary compliance costs, and improve outcomes for consumers. The bills were referred to the Finance and Expenditure Committee on 20 May 2025. We will be reporting to the House on the bills by 20 October 2025.

### About the Financial Markets (Conduct of Institutions) Amendment Act 2022

The CoFI Act established a principle that financial institutions must treat consumers fairly and have fair conduct programmes in place to ensure this.

The CoFI regime originated in response to reviews by the FMA and the Reserve Bank which found that New Zealand banks and insurers had weak systems and controls for managing conduct risks for customers. It brought New Zealand closer to alignment with conduct regimes in comparable jurisdictions. It is designed to be competitively neutral. Smaller,

simpler businesses are likely to need a less complex fair conduct programme than larger businesses.

### **Changes to the CoFI Act and regime**

The proposed changes in the **Financial Markets Conduct Amendment Bill** are intended to strengthen the conduct of financial markets by making it easier for participants to comply with the financial markets' regulatory system and for the FMA, its administrator, to administer it. The bill would:

- simplify CoFI obligations on financial institutions
- consolidate multiple financial service licences into a single licence
- change the Financial Markets Authority's regulatory toolkit to further ensure it can take a risk-based and proportionate approach to enforcement
- make several technical changes to reduce costs and improve how the legislation works.

Because most stakeholders agreed that the overall framework and intent of CoFI is sound, the Government has decided to amend and simplify the regime, rather than repeal it.

Industry feedback suggested that some requirements were duplicative, prescriptive, and created unnecessary compliance costs. These views informed the proposed changes.

The changes should contribute to competitive business settings by allowing more flexibility in how institutions draft, maintain, and comply with their fair conduct programmes. It will strengthen the CoFI Act's principles-based approach and help smaller financial institutions to apply the obligations in proportion to the nature of their business, products, and customers.

### **Changes to the Credit Contracts and Consumer Finance Act**

The CCCFA imposes obligations on lenders that protect the interests of consumers. Its purpose includes promoting fair, efficient, and transparent markets for credit. Responsibility for the CCCFA currently sits with the Commerce Commission.

Some changes to the CCCFA have already been made under phase one of the Government's financial services reforms. The changes removed detailed requirements in regulations for lenders to assess the affordability of a loan.

The Government has introduced the **Credit Contracts and Consumer Finance Amendment Bill**, which would:

- transfer responsibility to the Financial Markets Authority to reinforce the "twin peaks" model, given that consumer credit law is considered a form of financial markets conduct regulation
- better align aspects of the CCCFA with the regulatory model used for other financial markets and remove a "due diligence" duty and associated personal liability, which is thought to have contributed to overly conservative decision-making
- limit consequences for lenders that have breached certain disclosure requirements by:
  - better ensuring that lenders do not face liability for trivial or harmless disclosure breaches (under new agreements)
  - ensuring that the courts can determine what redress is appropriate for disclosure breaches over the period 2015–2019 (a retrospective change).

Other targeted improvements would be made to disclosure requirements that do not affect consumers' access to information they may need to make good decisions.

### **Changes to the Financial Service Providers (Registration and Dispute Resolution) Act**

All financial service providers that provide services to retail clients must belong to an approved dispute resolution scheme. There are four approved schemes, including the Banking Ombudsman Scheme, of which all banks are members.

The Banking Ombudsman Scheme can consider a wide range of complaints about financial services provided by banks, including those related to credit facilities, insurance, investments, and payment systems. It can also address complaints about a failure to provide these services.

### **Dispute resolution changes**

The Government has introduced the **Financial Service Providers (Registration and Dispute Resolution) Amendment Bill**, which aims to strengthen the effectiveness and independence of the four approved financial dispute resolution schemes. The amendments will give the Government additional monitoring and oversight so that New Zealand consumers can have greater confidence in the resolution of financial services disputes.

### **Committee opinion**

We note the Government's work programme to enhance conduct regulation settings. We look forward to scrutinising the bills before us.

## **2.6 Climate-related disclosures**

The climate-related disclosures regime requires certain entities to prepare annual climate statements that detail their climate-related risks and opportunities. Registered banks, building societies, and credit unions must prepare climate statements if they held total assets of more than \$1 billion on their two preceding year-end balance dates.

The purposes of the climate-related disclosures regime are to:

- ensure that the effects of climate change are routinely considered in business, investment, lending, and insurance underwriting decisions
- help reporting entities better demonstrate responsibility and foresight in their consideration of climate issues
- lead to smarter, more efficient allocation of capital, and help smooth the transition to a more sustainable, low-emissions economy.

Climate statements must be prepared in accordance with standards issued by the External Reporting Board. The Financial Markets Authority is responsible for monitoring and enforcing the regime.

### **Public criticism of climate-related disclosures**

Several submitters commented that banks are not environmental experts, and that banks (and the Reserve Bank) should not be involved in policies related to climate change or emissions. One submitter suggested that the outdated emissions-accounting methods being

used for mandatory climate-related disclosures discourage banks from lending to businesses that are deemed to be adding to climate change, which causes a real risk to New Zealand's agriculture sector. Others told us that these policies drive up costs for farmers through higher interest rates and compliance costs to meet banks' requirements. These submitters recommended that the climate-related disclosures regime be reconsidered or removed.

The Financial Services Federation and Kiwibank commented that the climate-related disclosures regime adds considerable complexity and expense to smaller players. The Financial Markets Authority agreed that the costs for smaller banks and building societies are likely to be proportionally higher than for larger banks.

### **In favour of climate-related disclosures**

Conversely, other submitters told us that climate-related risk disclosures are in the best interests of the New Zealand economy and are not unique to New Zealand. They noted that consumers, locally and globally, are increasingly demanding low-emissions and environmentally sustainable products.

The External Reporting Board said that the New Zealand regime is more principles based and flexible compared to other jurisdictions' regimes. We heard that New Zealand businesses may face difficulties accessing international capital, or exporting goods, without the support of a climate-related disclosures regime that aligns with international best practice.

The Financial Markets Authority told us that the climate-related disclosures regime is about mandatory disclosures, not mandatory action. Banks are not required under the climate-related disclosures regime to implement policies that affect access to lending but may make different lending choices based on better information or awareness of their climate-related risks and opportunities.

The Parliamentary Commissioner for the Environment said that the Reserve Bank's climate stress test is a way of ensuring that this country's banking system would be resilient if climate-related disasters were to occur. Its standardised risk weightings assign greater risk to business loans, including agribusiness, based on this modelling. He commented that banks have a right to take a view on future risks, to determine their own strategic direction, and to choose to not lend to high-emissions businesses.

The Reserve Bank told us that identifying and analysing climate-related risks is prudent risk management. It has not released any prudential standards or capital requirements relating to climate emissions risks and does not consider that its approach has influenced lending rates.

The Big 4 banks submitted that they see their role in reducing emissions as supporting their customers to meet government requirements and transition to low-emissions operations.

### **Information from the Treasury**

Banks and other climate-reporting entities are not required to reduce emissions, improve climate resilience, or take other particular action based on their climate-related disclosures reporting. However, banks may adopt new policies because of being better informed about their climate-related risks and opportunities. These policies may affect customers.

The climate-related disclosures regime's effects on banking competition include the following:

- Banks, building societies and credit unions that do not meet the \$1 billion threshold do not need to prepare annual climate statements, and, therefore, do not have to bear the costs of preparing those statements.
- Smaller banks that are above the reporting threshold have disproportionately higher costs than larger banks. However, the cost of producing climate statements is expected to reduce over time.
- The regime will not affect new lenders entering the market, even if they meet the reporting threshold, for at least two financial years.

Countries that have or are developing climate reporting regimes include Australia, Singapore, Hong Kong, and the European Union. Over 80 percent of New Zealand's exports go to markets that have, or are proposing, mandatory climate-related disclosures.

The Reserve Bank has issued non-binding guidance for banks and other financial entities it regulates to manage climate risks. To align with Australia, this guidance was based on APRA's guidance on climate-related financial risks. The External Reporting Board has committed to beginning a post-implementation review of the climate standards by December 2025 and has established a multi-year effectiveness evaluation of the climate-related disclosure framework.

### **Committee opinion**

Some of us questioned the need for the climate-related disclosures regime, given that it requires reporting but not action. However, we note that the regime may inform the climate policies of banks and other reporting entities.

We note that MBIE has recently consulted on adjustments to the climate-related disclosures regime, but no Cabinet decisions have been made on these matters. We endorse the FMA's approach to tailoring requirements and removing unnecessary regulations where appropriate.

We recommend the Reserve Bank develop transparent national guidelines for banks on the application of climate-related risk weighting and pricing, regarding how it influences subsequent lending practices across different sectors.

### **Differing views**

Labour Party members had a differing view, which is set out further on [pages 76–77](#). Green Party members also had a differing view, which is set out on [pages 78–79](#).

## **2.7 Anti-money-laundering and countering financing of terrorism regulation**

The Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (AML/CFT Act) provides a framework for detecting, deterring, and combatting money laundering, terrorist financing, and serious and organised crime by making it harder for illicit financial activity to

occur. The Act aims to achieve these outcomes by imposing obligations on businesses that provide certain financial and non-financial services.

## **AML/CFT requirements may be limiting access to banking services**

Some submitters told us that the AML/CFT requirements are outdated, impractical, and create barriers for people trying to access banking services. For example, a homeless person or someone who has just been released from prison cannot meet address verification requirements. Other submitters told us that the AML/CFT requirements and CCCFA can prevent access to banking services for not-for-profit organisations, young people, and foreign residents. We were also told that AML/CFT requirements impose an unjustified level of scrutiny on Māori land trusts (this is discussed further in [section 4.6](#)).

## **Compliance with AML/CFT requirements**

One submitter told us that, of the proposed 25 further changes to the AML/CFT legislation, four are focused on reducing the regulatory burden, while the rest would increase legislation.

Kiwibank commented on the complex due diligence requirements to open business accounts. It recommended considering how the role of the Companies Office could be expanded to better capture and verify AML information in a way that could be reused for customers looking to switch banks.

ANZ noted that it is a complex regime and said it does not add to the complexity with additional processes. It suggested that address verification be removed. BNZ told us that it is not aware of anything it does that is above and beyond the legal requirements. ASB noted that New Zealand has a big opportunity to consider a different approach.

## **Information from the Treasury**

New Zealand's AML/CFT regime is assessed against international standards. New Zealand has been a member of the Financial Action Task Force since 1991. The Task Force sets international standards and monitors countries' AML/CFT systems to ensure they are compliant. All countries are evaluated, and follow-up monitoring is applied depending on results. Countries found to have significant strategic deficiencies are placed on a public grey-list and are intensively monitored to ensure these are addressed. Grey-listing triggers other jurisdictions to impose restrictions on financial dealings with that country.

In 2021, the Financial Action Task Force identified deficiencies in the New Zealand system. It is important that New Zealand remains compliant with Financial Action Task Force standards to avoid serious economic harm from grey-listing.

## **AML/CFT reform programme**

Recent reviews of the AML/CFT Act have proposed amendments that would deliver regulatory relief, better tackle organised crime, address concerns raised by businesses, and improve international compliance. Cabinet recently approved an AML/CFT reform programme guided by findings from the AML/CFT statutory review, which reflects the Commerce Commission's market study. The work programme is set out in Table 2.

As well, the Council of Financial Regulators is seeking input on options to make basic transaction accounts widely available, in line with recommendation 14 from the Commerce Commission's market study. Basic transaction accounts provide vital banking services to individuals who may have difficulty accessing traditional banking services, such as young people, disabled people, and people who have recently been released from prison.

**Table 2: AML/CFT work programme**

Workstream	Description
Part 1: immediate relief to businesses via two amendment bills	<p>The Statutes Amendment Bill is currently awaiting its second reading. The Anti-Money Laundering and Countering Financing of Terrorism Amendment Bill is currently before the Justice Committee.</p> <p>These bills would make address verification only required in cases of higher risk, and would remove requirements for enhanced customer due diligence for lower-risk trusts.</p>
Part 2: effective and efficient structures	<p>Part 2 aims to improve system efficiency and effectiveness by creating an improved risk-based supervisory structure and establishing a sustainable funding model for the system.</p> <p>In October 2024, Cabinet agreed to consolidate the responsibilities currently divided among the Reserve Bank, Financial Markets Authority, and Department of Internal Affairs. The Department of Internal Affairs will become the sole AML/CFT supervisor. Simplified supervisory arrangements will increase the ability of the system to issue and update guidance so that obligations on businesses better reflect their AML/CFT risks.</p> <p>Cabinet also agreed to amend the AML/CFT Act to enable the establishment of an industry levy to recover the costs of the AML/CFT system. The levy will be linked to the development of an AML/CFT national strategy and work programme, so the levy supports a flexible and coordinated AML/CFT system, with benefits for the sector.</p>
Part 3: Enhanced Regulatory Settings	<p>Cabinet has agreed to regulatory changes to implement international standards and a more risk-based AML/CFT system. As part of this programme, Cabinet will consider advice on improvements in several areas, including:</p> <ul style="list-style-type: none"> <li>• compliance settings for designated business groups</li> <li>• customer due diligence requirements</li> <li>• ensuring that the system's offences and penalties are proportionate and dissuasive</li> <li>• transparency for beneficial ownership information</li> <li>• the approach to financial sanctions and proliferation financing.</li> </ul>

Source 7: Departmental report, p 59.

## Committee opinion

We note that it is essential New Zealand remains compliant with Financial Action Task Force standards to avoid economic harm from grey-listing.

We note the current AML/CFT regulation reform that is under way. We recommend that the Council of Financial Regulators monitor the effect of the AML/CFT reforms to ensure they increase efficiency, reduce regulatory burden, and overcome the access barriers identified by submitters, such as the barriers faced by Māori land trusts ([section 4.6](#)).

The Labour Party's differing view is set out further on [pages 76–77](#).

## 2.8 Limits on the growth of NBDTs

The NBDTs' joint submission told us that limitations on their growth and the impact of prudential regulation are intertwined. They highlighted the regulatory environment as the biggest constraint on competition for NBDTs (addressed in [section 2.2](#) and [section 2.3](#)).

This section of the report is focused on two other issues that NBDTs have identified as limits on their growth:

- access to the Exchange Settlement Account System (ESAS)
- restrictions around the use of the term “bank”.

### Access to the Exchange Settlement Account System

ESAS is New Zealand's wholesale real-time settlement system for payments. It is owned and operated by the Reserve Bank and processes and settles bulk payments between banks and other financial institutions. ESAS was introduced in 1998 to reduce the risks associated with the settlement of high-value interbank payments.

The purpose of ESAS is to provide reliable and final settlement so that resources can be used efficiently across the economy. ESAS helps the Reserve Bank promote the soundness of the financial system and implement monetary policy. Account holders earn interest on their overnight balances at or near the official cash rate (OCR).

Until recently, only banks could open ESAS accounts. Banks could put their spare money in ESAS accounts and earn OCR interest. NBDTs had to hold overnight balances in bank accounts, which banks were able to earn margin on. NBDTs called on the Reserve Bank to allow access to ESAS accounts for all prudentially regulated entities. They also recommended that the Reserve Bank provide liquidity facilities to all prudentially regulated entities, not just banks.

Other submitters commented that the lack of ESAS availability is a barrier preventing competition and is a direct driver of higher consumer prices. They felt that broader access to ESAS would allow a wider range of financial service providers to provide better interest rates to consumers.

The Reserve Bank announced its new ESAS access policy and criteria on 7 April 2025.<sup>22</sup> Since then, licensed NBDTs can apply for ESAS accounts so long as they meet two eligibility criteria. They must:

- be engaged in business activities that align with the purpose of ESAS
- have an acceptable risk profile, including AML compliance and meeting prudential, governance, and operational requirements.

In September 2025, the Reserve Bank will open the second phase of the ESAS application process, which will allow applications from other interested entities, such as payment service providers and overseas deposit takers.

### **Use of restricted words: “bank”, “banker”, and “banking”**

In their joint submission, NBDTs commented that they suffer from a lack of recognition as an adequate alternative to main banks because they cannot call themselves banks. This is despite their prudential and supervision requirements being similar to banks.

Entities registered under the Banking (Prudential Supervision) Act 1989 can use restricted words like “bank” to describe themselves. NBDTs cannot be authorised under that Act to use restricted words. Nor are there any avenues under the Non-Bank Deposit Takers Act 2013 for NBDTs to use restricted words or seek authorisation to use these words.

The Deposit Takers Act 2023 will allow the Reserve Bank to authorise the use of restricted terms, such as “bank”, for non-bank entities, such as non-bank deposit takers, overseas licensed banks, and financial service providers. Financial service providers could include entities that fall outside the regulatory perimeter of the Deposit Takers Act. Registered banks under the Banking (Prudential Supervision) Act will have a grand-parented ability to use restricted words, regardless of the scope of any authorisation under the Deposit Takers Act. The Reserve Bank is currently considering the scope of entities that will be permitted to use the restricted words “bank” and “banking” in their name or title under the Deposit Takers Act.

### **Committee opinion**

We welcome the changes to the ESAS settings and look forward to the Reserve Bank publishing the phase 2 access criteria in September 2025.

It can be confusing for customers when non-banks perform banking activities. We agree that allowing NBDTs and fintechs to use terms like “bank” and “banking” may increase competition by encouraging more consumer confidence and uptake in this part of the sector. We recommend that the Reserve Bank focus on emphasising competition in its ongoing policy work on restricted terms such as “bank” and “banking”.

### **Differing views**

Labour Party members had a differing view, which is set out on pages 76–77.

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<sup>22</sup> [ESAS access policy and criteria - Reserve Bank of New Zealand - Te Pūtea Matua](#).

## 2.9 Any restrictions on overseas investment / new entrants including fintechs

This section focuses on specific barriers for fintechs (financial technology companies) that have not been discussed in earlier sections of this chapter.

### Information from the public

One submitter told us that a barrier to entry included access to capital for investment in fintech, and that access to capital is an economy-wide challenge. It recommended removing barriers and facilitating investment into fintech entities.

The Australian Securitisation Forum commented that there must be a broader choice of lenders and residential loan products for consumers. For this to happen, the non-bank lending institutions that provide consumer choices must be able to grow. However, without a liquid securitisation market, this continues to present a real challenge.

Access to capital and securitisation is discussed further in [section 3.5](#).

### Information from our independent specialist adviser

We were advised that fintechs are likely to provide the biggest competitive opportunities in banking services. These companies often provide innovative, mostly online, financial services that appeal to different market segments. Most do not offer the full services of the standard bank model. Fintechs that operate successfully in other countries could expand into New Zealand, and others may be homegrown. To gain the benefit of their innovation and added competitive impact, New Zealand's regulatory models must be open to innovation and proportionate regulation.

### Committee opinion

We recommend that the Government consider ways to reduce barriers for overseas banks to operate in New Zealand with a full range of banking services. For example, the Government could ask the Reserve Bank to lower barriers for overseas banks to enter the New Zealand market.

### Differing views

Green Party members had a differing view, which is set out on [pages 78–79](#).

## 2.10 Outstanding constraints on the use of technology and open banking

Open banking allows customers to securely share their financial data with authorised, third-party financial service providers (for example, fintechs or other banks) through secure digital channels called Application Programming Interfaces (APIs). This enables these providers to offer different services which may include streamlined loan approvals, budgeting and comparison tools, or new payment services, potentially with lower fees and surcharges.

Under an open banking regime, consumers could choose to share their financial transaction data (for example, purchasing preferences, spending or savings history) or their financial products (for example, interest rates paid and fees charged) with third parties who might

offer better alternatives. An open banking regime enables consumers to share that data in consistent, machine-readable formats for ease of processing by the third party. Open banking is not without risks, and overseas jurisdictions have introduced safeguards to ensure that customer data is adequately protected.

Open banking was initiated in the UK in 2017 by the Competition and Markets Authority following an investigation into retail banking.

## **Conclusions of the Commerce Commission's market study**

The Commerce Commission concluded in its market study that, in the medium to long term, open banking has the greatest potential to promote ongoing disruptive competition. However, without a strong focus on implementation, it noted that open banking could risk “further entrenching the existing major banks’ position rather than stimulating competition”.

## **Public support for open banking**

Many submitters, including banks, supported open banking as a means of lowering barriers to entry and fostering competition in the banking industry. Federated Farmers commented that it supports the implementation of open banking regulations to ensure banks are transparent with fees and policies and make it easier for rural businesses to switch providers. One submitter told us that innovation mainly comes from large banks with broader customer bases and investment capacity and, therefore, the focus should be on encouraging innovation within larger institutions that have the resources to lead sector-wide change—such as the adoption of safe and secure real-time payment systems and open banking.

## **Payments New Zealand**

Payments New Zealand is the governance organisation responsible for New Zealand’s payment system. Its shareholders are ANZ, ASB, BNZ, Citibank, HSBC, Kiwibank, TSB Bank, and Westpac. Payments New Zealand established the API Centre to develop processes (such as consent, partnering, and registration) and technology (such as standardised APIs that enable secure data transfers) that are needed to support open banking.

One submitter expressed concern that fintech access to Payments New Zealand’s open banking APIs will be constrained or limited entirely. They said that bilateral agreements need to be replaced with industry-wide arrangements which ensure that all financial service providers face equal and fair access to open banking.

Some submitters questioned the current role of Payments New Zealand. They recommended looking at the structure of Payments New Zealand and considering whether it has hindered or helped the development of a truly competitive marketplace. The Banking Reform Coalition recommended that an independent entity, rather than Payments New Zealand (whose shareholders are banks) should develop and control open banking standards and infrastructure.

## Information from the Treasury and MBIE

The five largest banks have agreed time frames for their implementation work in the Minimum Open Banking Implementation Plan.<sup>23</sup> While the five largest banks have agreed time frames, the industry-led work still presents challenges. For example, fintechs, or others who wish to access data, must still negotiate individual agreements with each bank.

Since the Commerce Commission completed its market study, the Government has passed the **Customer and Product Data Act 2025** (CPD Act) and has agreed to apply the Act to the banking sector. The CPD Act:

- sets an economy-wide framework for bringing in a new “consumer data right” in chosen sectors designated by regulation
- provides a standardised and secure way for customers to access and use their customer data, to access product data, and for actions to be performed on their behalf by accredited third-party data requestors
- builds on industry-led work for open banking while mitigating the risk of an industry-led regime being too slow, restrictive or expensive to access
- through accreditation of data recipients, removes the need for separate due diligence, and for high costs of negotiating bilateral agreements
- provides privacy safeguards that complement existing protections in the Privacy Act 2020 to protect privacy and data security.

Regulations will be used to provide sector-specific detail on how obligations from the CPD Act must be met. Banks, as the first sector to be designated under the Act, will be required to comply with the consumer data right (and various regulations and standards to be issued under the CPD Act) by 1 December 2025.

## Open banking: international comparison (Australia and UK)

Australia’s open-banking regime has faced challenges with low adoption due to prescriptive requirements, lack of alignment with existing regulatory regimes, a requirement of reciprocity, and limited functionality.

The UK regime has experienced much stronger uptake than Australia’s. By 2023, there were 339 accredited fintech companies enrolled in open banking. Many provide mobile applications or websites that help consumers manage their finances. Others are consumer credit firms who use open banking to access account information for affordability checks and verification. As of 2024, an estimated 10 million UK consumers and small businesses regularly use open banking.

New Zealand’s open-banking regime has been designed with settings more like the UK’s than Australia’s to encourage uptake while maintaining privacy protections.

## Key conclusions from analysis

The Treasury found that an open banking regime can increase banking competition and innovation in three ways:

<sup>23</sup> [Minimum Open Banking Implementation Plan | API Centre](#).

- **New entry and choices**—Digitally enabled financial, accounting, and payment service providers can more easily enter the market with access to secure and standard APIs for customer data, rather than needing to negotiate bespoke data arrangements with banks. More providers mean greater choice for consumers and more competition between existing providers to provide high quality services at low cost.
- **Reduced transaction and compliance costs**—Open banking may reduce transaction and compliance costs by making some processes easier for consumers and businesses. For example, when processing a loan application, financial providers may have easier access to a comprehensive view of a consumer's financial status.
- **Improved information access**—Open banking eases access for consumers to information about their finances across multiple accounts and information related to their finances such as fees and interest rates. This enables consumers to make more informed decisions, which helps to increase competition in the financial sector.

## Information from our independent specialist adviser

We were advised that the introduction of innovative new platforms that meet customer needs and preferences has the possibility to significantly disrupt particular segments of the market. These emerging platforms have the potential to be maverick disruptors, and to bring the kind of innovation into New Zealand's banking services that the Commerce Commission has highlighted is missing.

It is likely that these products will, at least initially, be focused on specific market segments. However, as customers adopt emerging technologies, major banks are likely to respond with their own innovations for financial services. Our adviser emphasised that New Zealand's regulatory regime must remain agile, assess innovations, and provide room for them to succeed or fail on their own merits.

## Committee opinion

We note the progress that is under way, and we look forward to open banking launching in New Zealand.

We agree with the Commerce Commission's recommendation that government should be an early adopter of open banking. We asked our advisers about ways that it could do so. We were told that several government departments accept payment for services, such as passports and driver licences. These could move to open banking alternatives, rather than relying on existing payment methods. Also, Inland Revenue recently issued a request for information about open banking solutions to common payment issues experienced by taxpayers. Inland Revenue is exploring options for making it easier to pay tax and to ensure that tax refunds are paid to the correct bank account.

Our independent specialist adviser told us that initiatives such as the FMA's regulatory sandbox and Payments New Zealand's API Centre are particularly important as fintechs and others explore how to bring new business models to market.

The FMA launched the pilot phase of its “regulatory sandbox” in January 2025. The regulatory sandbox allows firms to test innovative products, services, and business models in a controlled environment. It is open both to new entrants and to firms that already have a

market presence. We recommend that the FMA broaden its “regulatory sandbox” trial and explore a single licensing model to cut red tape for innovative financial services.

We note that some submitters are concerned about Payments New Zealand’s governance structure. We recommend that the board of Payments New Zealand prioritises its governance review and announce next steps to improve transparency of decision-making, processes, and market information.

## 2.11 Recommendations

### 5. Revisit Reserve Bank prudential settings

We recommend the Government strengthen supervision of the Reserve Bank’s prudential role, for example by:

- reinstating “market efficiency” as a key objective of the bank in the Reserve Bank of New Zealand Act 2021
- appointing new members to the Reserve Bank board with noted prudential regulation expertise
- establishing a dedicated Prudential Policy Committee (comparable to the Monetary Policy Committee) with responsibility for the Reserve Bank’s prudential policy
- requiring regular independent external reviews that monitor the Reserve Bank’s prudential performance.

### 6. Evaluate capital settings

We recommend the Reserve Bank include in its 2025 capital review and other workstreams:

- risk-weighted asset calculations and how they affect businesses and rural lending
- capital ratio requirements and compliance settings for smaller banks and regional banks, compared to the Big 4 banks
- other settings to support market entry of additional banks (e.g. the \$30 million initial capital requirement and the requirement for banks to hold additional Tier 1 capital)
- the overall risk tolerance underpinning decisions taken in the Reserve Bank’s 2019 capital review

### 7. Broaden the “regulatory sandbox” trial

We recommend the Financial Markets Authority broaden its “regulatory sandbox” trial and explore a single licensing model to cut red tape for innovative financial services.

### 8. Cut Council of Financial Regulators overlap

We recommend the Council of Financial Regulators prioritise removing regulatory duplication and streamlining processes between agencies to lower costs for banks and lenders, and focus on minimising compliance costs and regulatory impact on new technology plans, allowing firms to innovate.

### 9. Make climate lending rules clear and consistent

We recommend the Reserve Bank develop transparent national guidelines for banks on the application of climate-related risk weighting and pricing, regarding how it influences subsequent lending practices across different sectors.

### 10. Push for real-time payments

We recommend banks invest in global standard, next-generation payment infrastructure to work towards real-time payments at a national and international level.

**11. Improve Payments New Zealand**

We recommend the board of Payments New Zealand improve its governance structure to better support new entrants (such as fintechs) and announce next steps to improve transparency and competition.

**12. Address limits on growth of non-bank deposit takers and fintechs**

We recommend the Reserve Bank emphasise competition in its ongoing policy work on restricted terms such as “bank” and “banking”.

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## 3 Rural and business banking

This chapter provides an overview of recent trends in rural banking in New Zealand, with a specific focus on agri-business and farming. It covers:

- the overall state of competition in the sector
- the cost of lending in the rural/agri-business sector
- sustainable loan products offered by lenders
- the changing nature of banking services and rural banking.

This chapter also addresses submissions about business banking.

Although this inquiry is led by the Finance and Expenditure Committee, it has received significant input from the Primary Production Committee, particularly in this chapter. The recommendations in this chapter reflect the cross-committee consensus that we were able to achieve. We thank that committee for the expertise it was able to bring to issues around rural lending.

### 3.1 State of competition in rural banking

#### Information from the public

Submitters considered that several factors have led to lower bank competition and therefore higher interest rates, including:

- higher capital requirements driving up the cost of lending
- reduced rural bank branch presence
- reduction in risk appetite from banks
- more attractive relative returns in other lending segments
- reduced access to foreign direct investment.

We heard that this has led to decreasing viability in the rural sector and an inability to access the right long-term funding for rural businesses.

However, the Big 4 banks and Rabobank told us that there is strong competition in the rural banking market and that it is not dominated by a single bank. We heard that, day to day, these banks experience intense competition to attract and retain customers. Rabobank told us that its profitability is comparatively lower than its competitors, and that a key driver of its lower return on equity is the Reserve Bank's capital requirements. Although unwilling to disclose specific profit results by sector, the Big 4 told us that agricultural lending tends to have lower returns than the average across other business lines.

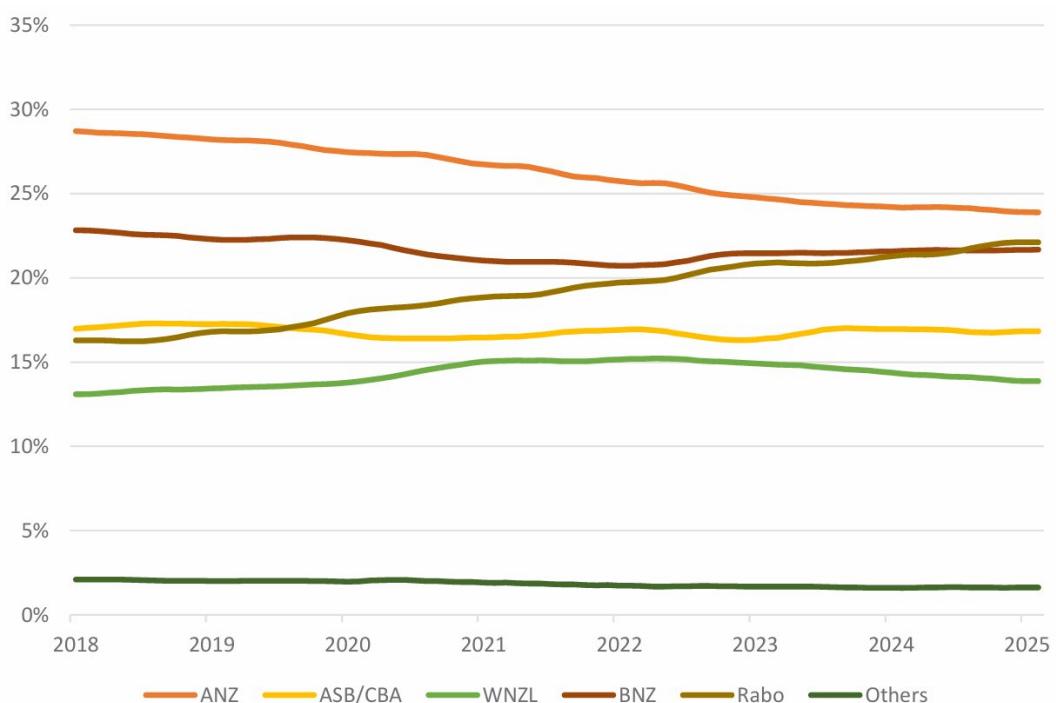
Several participants and representatives of the rural sector recommended that the Government direct Kiwibank to enter the agricultural lending market. Kiwibank told us that it does not have plans to enter the agri-lending market in the foreseeable future due to a lack of capability.

A number of submitters recommended changes to the Overseas Investment Act 2005 to increase options for the rural sector. We heard that the 2017–2018 changes to the Overseas Investment Act have restricted foreign direct investment into New Zealand farmland. One submitter suggested reviewing the overseas investment rules to encourage international finance and banks with expertise in agri-lending to enter the market. Another submitter recommended a review of the Overseas Investment Act's public benefit test to allow foreign investment on farms.

### Information from the Treasury

The Treasury found evidence of some competition in rural lending, with Rabobank increasing its market share constantly over the last six years and a corresponding decline in ANZ's position. The other main banks have a fairly stable share of the agri-banking sector.

**Figure 6: Agricultural Lending Market Shares**



Source 8: Reserve Bank; Departmental Report, p 72.

New Zealand's primary sector, like those in most developed economies, is characterised by an increasing proportion of business owners aged 60 or older. Generational change is expected to put pressure on the system of financing agriculture over the next 5–10 years. It is possible that demand for rural lending will increase as existing farm owners retire and younger farmers, including children of existing farm owners, look for funding to buy into the industry.

The Treasury advised us that further competition is likely to be constrained by the fixed costs of entering the market that small- to medium-sized banks contemplating entry would face. There would also be some regulatory barriers.

Reducing barriers to entry for banking overall will help competition in rural banking. Reducing barriers for small- to medium-sized banks and NBDTs scaling up will also help.

### **Information from our independent specialist adviser**

In contrast to the growth seen in residential mortgage lending, rural lending has faced headwinds. With sheep numbers down and land use moving to forestry, dairy has been the major target for rural lending. However, growth in the dairy sector has plateaued, and farmer decisions to reduce debt may have also limited rural lending growth.

Some segments of the horticulture sector have provided lending growth opportunities, but market and climatic conditions can be quite variable and require specialist management of exposure and loans. It is difficult to grow rural lending portfolios when the necessary growth dynamics are not at play in the sector. It is also the case that when rural loans go bad, realising value from the property can be much more difficult than with residential mortgages.

Rural lending accounts for roughly the same share of bank assets as business lending (about 25 percent). Contrary to what some submitters told us, there is no obvious indication that rural lending is more profitable than other types of lending. We were advised that it is possible that rural lending is less profitable, as suggested by the return on equity record of Rabobank.

### **Committee opinion**

Although we acknowledge the differing views about direct overseas investment in farmland that we heard from submitters, we see that as a different matter, and not something we are advocating in this inquiry. We note that the Government has introduced a bill to amend the Overseas Investment Act. It is currently with the Finance and Expenditure Committee. We encourage the Government to continue revisiting regulation to reduce barriers to accessing capital for farmers.

Some submitters suggested that Kiwibank should enter the rural lending market. However, Kiwibank told us it is not currently positioned to do so. Instead, we recommend empowering Kiwibank to expand its business lending options, particularly for small- to medium-sized enterprises. If Kiwibank is able to capture more business customers, it may free up capital in the wider lending market that could be put towards rural lending. We hope that Kiwibank's recently announced \$500 million capital raising will allow it to capture more business customers. Some of us would like to see Kiwibank eventually offer lending to the rural sector. Some of us would also like to see legislative changes that enable the re-establishment of not-for-profit community- and-iwi owned trustee banks, modelled on the Irish legislation.

## **3.2 Cost of lending**

### **Information from the public**

Several submitters talked about the higher loan rates and difficulty accessing credit in the agricultural and business sector. Many felt that there was no clear reason why loans for the agricultural sector were considered more risky and, therefore, more costly, especially when actual bank losses in the sector appear to be relatively low.

Banks and the Reserve Bank told us that agricultural and business lending customers pay more for lending than homeowners due to the higher risk associated with the businesses. Loans to the rural sector represent a significant exposure for banks in New Zealand, primarily due to the volatility of international commodity pricing, such as those for dairy, meat, and wool.

Although some submitters accepted that residential mortgage lending was likely lower risk, they had concerns around the effect of limited business or agricultural credit availability on economic development. Submitters, including Fonterra, Horticulture New Zealand, and Federated Farmers told us that the high cost of lending and barriers to accessing credit are stifling innovation in the agricultural sector and discouraging young, motivated farmers.

Some submitters told us there was a lack of transparency in the rates being charged to the rural and business sector. They suggested that banks should be required to be more transparent in how they price products. Larger banks told us that the bespoke nature of pricing in both the rural and small business sectors prevents them from providing greater transparency.

### **Information from the Treasury**

Agricultural and business lending is higher risk compared to residential mortgage lending. However, limited transparency means that it is difficult to attribute specific causes to the higher rates charged by banks for agricultural and business lending, and, therefore, difficult to assess what is justified in terms of risk pricing.

The agriculture sector is a vital part of New Zealand's economy. The sector is also associated with greater risk for lending. The Treasury advised us that, over time, the level of non-performing loans in the agriculture sector has been higher than other areas of lending for banks. A "non-performing loan" is a loan classified as default because the borrower has missed scheduled payments for a defined period (typically 90 or 180 days). During periods of economic crisis, such as during the global financial crisis, agriculture had significantly greater losses. Partly as a result, banks apply a greater risk weighting and cost to lending in the agriculture sector. However, we note that the data the Treasury supplied to us only goes until 2021.

The data that banks use to determine risk is not widely available. Whether current risk weightings overstate actual risk is difficult to determine. Although the terms of reference for the Reserve Bank's capital review do not explicitly include scope to determine whether current risk-weightings overstate actual risk, we hope to see this issue meaningfully covered in the review.

A direct pricing comparison between agri-lending and residential lending is complicated by differences in the structure of loans. Many in the agriculture sector fix for shorter periods than is standard in residential lending. Many agricultural loans are structured to the specifics of the borrower, meaning there are fewer standard loan structures in agri-lending.

Interest rates for business loans are also higher than borrowing for housing, for similar reasons to agri-loans. The higher administration and monitoring costs of lending to businesses, compared to residential mortgages, will also be part of the higher pricing.<sup>24</sup>

A significant share of business lending by value is in the form of commercial property mortgages. However, over 80 percent of firms do not have mortgage loans. Since these loans do not have collateral that is easy to sell or repurpose, these loans are riskier for the lender and cost more.

### **Impact of capital requirements on agricultural and business loan pricing**

The level of capital that the Reserve Bank requires from lenders when providing riskier loans will be higher on average but may be particularly high for deposit takers outside the Big 4 banks. The indicative standardised risk weights for farm and business lending are significantly higher than for the Big 4 banks, which use IRB risk weights. There is a minimum floor on risk weights that would moderate the impact of farm and business lending for deposit takers outside the Big 4 banks. (See [section 2.4](#) for more information about risk weights).

### **Switching banks**

Submitters from the agricultural sector told us that it is hard to change banks and that they feel stuck with their incumbent. Data provided by banks to the inquiry on the rate of switching was limited and described as “commercially sensitive”. The data provided suggested higher levels of switching than identified in the Commerce Commission’s market study, but it is not clear if this data is representative or comparable to that collected by the Commission. However, we note that the inability to easily switch banks does not seem to have stopped Rabobank from increasing its market share in rural lending, even though it does not offer the full suite of transaction services to farmers.

### **Committee opinion**

Rural business is incredibly important to the New Zealand economy. The Ministry for Primary Industries’ June 2025 Situation and Outlook for Primary Industries publication shows that New Zealand’s food and fibre sector earned \$59.9 billion in export revenue and accounted for 82.5 percent of goods exports.<sup>25</sup>

Because rural business relies on international commodity prices, which can be volatile, banks consider lending to the rural sector to be higher risk than some other types of lending. We understand that loan losses on rural lending are higher than for residential mortgages and are therefore subject to higher risk-weighted capital requirements.

Total agricultural lending in New Zealand sits at around \$61 billion. We note that in 2019, the Reserve Bank expressed some concern about how the planned implementation of increasing capital requirements from 2022 would affect rural lending. In 2019, the Reserve Bank stated that “banks estimate farm re-pricing of 50 bps to 120 bps”.<sup>26</sup> It had concerns

<sup>24</sup> [How risk weights affect bank lending - Reserve Bank of New Zealand - Te Pūtea Matua](#).

<sup>25</sup> [Situation and Outlook for Primary Industries | NZ Government](#), p 4.

<sup>26</sup> [Part 9 \(Briefings for MoF\) capital review](#).

that banks may be using the bank capital review as a cover to expand rural lending margins to an unreasonable degree. Although concerns about the accelerated implementation of the capital requirements have been previously raised, we see no evidence that this has been monitored.

In its written submission to the inquiry, the Reserve Bank reports that the new capital requirements have increased the risk weights for farm lending by between 0.91 and 1.17 percent. This means that, due to the capital requirement, between \$555 million and \$714 million is being spent by the sector on interest payments each year, instead of being able to be reinvested in farms.

The higher cost of rural lending imposed by the Reserve Bank's 2019 increases to capital requirements may be deterring new farmers from entering the market. To reduce the financial burden on farmers, we recommend that the Reserve Bank:

- effective immediately, cease the planned incremental increase to capital requirements
- review the capital requirements for rural lending and that any changes are monitored and publicly reported on
- require agricultural lenders to formally disclose to customers the specific factors they take into account when calculating their risk margin and pricing.

Submitters raised concerns that there is a lack of transparency when it comes to calculating the price of rural lending. We acknowledge that many rural lending arrangements are bespoke. However, we agree that rural borrowers deserve to know how their loans are calculated. To increase pricing transparency, we recommend the Reserve Bank require banks to disclose sector pools at the lending pool level, by both aggregated sector and disaggregated sector, providing the pricing, lending flows, risk weightings, and credit impairments, to be updated at six-monthly intervals.

Overall, we want farmers to be better positioned to understand the basis of lending rates that they are paying and to have the ability to negotiate what they are paying or undertake practices on farms that could change their risk weightings.

Some of us would also like to recommend that the Government regulate a maximum permissible risk margin on all business lending secured against real estate, to reflect the low risk provided by the security of lending against property in the rural sector. Restricting General Security Agreements and similar security provisions to no more than 100 percent of the lending advanced would also have benefits throughout the lending market, over and above the rural and business sectors.

We understand that it can be costly and time-consuming to apply for rural lending from different providers. We support moves towards open banking for the rural sector so that information from banks can be easily compared and borrower information can be shared across banks. To make the application process easier and cheaper, we recommend that banks facilitate multi-bank credit applications (for example, by standardising the required financial dataset and automating uploads) for rural businesses and customers.

We also recommend that the Reserve Bank update Parliament (for example, during select committee appearances related to financial stability) on the risk weight review and the

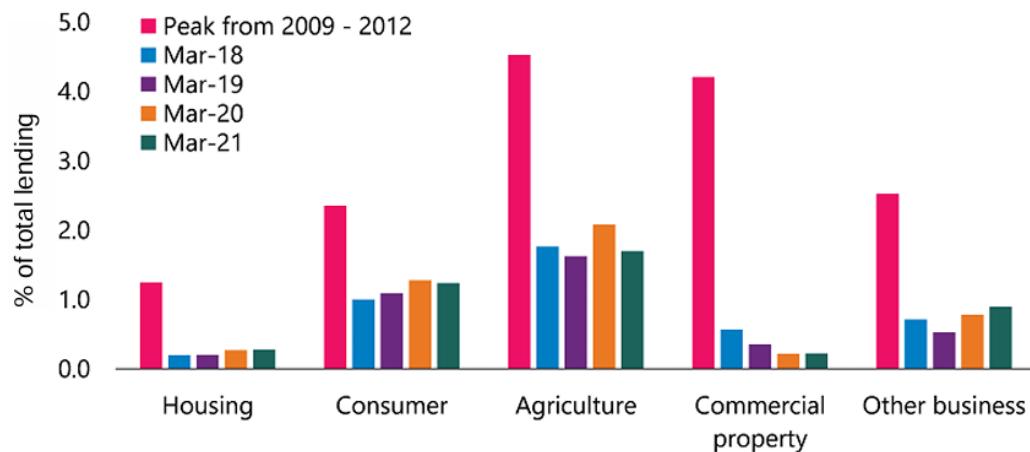
impact on agricultural loans. The Primary Production Committee intends to invite the Reserve Bank to discuss rural lending once a year, and this could be discussed then.

### New Zealand Labour Party differing view

Labour has remained open minded about whether reviewing incremental capital requirement increases would support small businesses owners and farmers, who are systemically important to our economy. However, National's proposal would benefit the largest banks, and we remain sceptical about how much this will help anyone who wants a loan or has one to pay back. Our view is that rural lending challenges arise less from prudential settings than from the high barriers some farmers face when they go to switch banks, alongside the complexity of managing risk, and increasingly normalised need for brokers and expensive specialist financing advice. Regulatory reform should focus on why there has been a need for the growth of intermediaries in rural lending. Government can support farmers to manage those underlying risks.

The Treasury presented us with a graph and its advice stated that the level of non-performing loans in the agriculture sector has been higher than other areas of lending for banks. Coalition members objected to including this graph in the committee view section. We include it below to illustrate our concerns.

**Figure 7: Non-performing loans (percentage of total lending)**



Source 9: Reserve Bank—Bank Balance Sheet survey, private reporting; Departmental Report p 22.

### 3.3 Sustainable loan products

Banking practices are evolving rapidly with respect to environmental sustainability. These practices often involve managing multiple objectives, including credit risk. Climate-related disclosures are intended as a tool to increase transparency and improve prudent management and market access risks.

#### Information from the public

As noted in [section 2.6](#), some submitters were concerned that emissions-related policies, such as climate-related disclosures, are driving up costs for farmers through higher interest rates and compliance costs to meet banks' requirements. Other submitters noted the

importance of climate-related disclosures for financial risk management and told us that they are in the best interests of New Zealand's economy.

Some banks discussed the sustainability loan products that they offer to the agricultural sector, with positive incentives such lower interest rates in their terms and conditions. We heard that these types of loan products are popular and cover a substantial part of their loan book in the rural sector. Westpac told us that 43 percent of its loan book is now provided via this type of product.

## Information from the Treasury

In terms of environmental sustainability objectives, banking practices are evolving rapidly. Individual eligibility for sustainability loan products is difficult to compare. However, it appears that, for various products on offer, customers are either:

- incentivised to improve their performance against pre-determined environmental or social metrics that they themselves have selected as material for their business (BNZ and Westpac)
- required to demonstrate a minimum reduction in expected energy use and carbon emissions, providing information during the loan application, and confirmation in writing from an acceptable engineer or external consultant that the project has been completed in accordance with design phase specs (ANZ).

It is not clear how New Zealand banks determine the lending rates associated with their sustainability-linked loans. Improved transparency by the banks on how the cost of sustainable lending products is derived would assist the sector and government to better understand these lending products.

Several banks told us that the criteria for these products make the borrowers a more sustainable business, with flow-on reductions in credit risk, which may affect pricing for sustainability loans. Banks told us they were unlikely to be cross-subsidising sustainability products from other borrowers or funders. They also said they were not restricting their lending to agricultural borrowers who did not wish to use these products.

Some banks also have emissions-reduction targets. Most banks, except ANZ and Heartland, told us that they have agricultural emissions-reduction targets, which are intensity based, and mostly target the dairy sector.

## Committee opinion

While our members hold different views on the nature and importance of these kinds of products, we agree that greater transparency about climate-related disclosures and green lending products is needed.

Borrowers should be able to understand the costs associated with climate-related risks and opportunities. Visibility of the specific risk factors could encourage borrowers to make changes to their practices that mitigate these risks, and in turn reduce their cost of borrowing. Greater visibility also allows borrowers to compare loan offerings from lenders and make their choice of lender accordingly. Some of us would like to see the alternatives and comparisons to other products be made clear. We agree that transparency of any risk

assessment is important so that farmers and agri-business know what they can change about their practices to secure different lending rates.

We recommend that the Reserve Bank require banks to provide greater clarity around interest rates connected to any natural hazards, climate-related disclosures, and green lending products.

Some of us have the view there was insufficient evidence presented that these requirements increased interest rates; in fact, the evidence was these disclosures brought down lending costs for loan holders in some instances.

### 3.4 Changing nature of banking services and rural banking

#### Information from the public

Many submitters commented on the difficulty of accessing banking services due to branch closures and the move towards online-only services, which disproportionately affect the rural sector and vulnerable communities. This also affects Māori communities, which is discussed in [section 4.3](#).

Some submitters told us that the rural branch closures contributed to a loss of relationships between banks and rural businesses, as well as banks' understanding of the rural sector. The development of rural hubs by the New Zealand Banking Association received mixed feedback.

Banks have emphasised the widespread availability of online banking without the need for high-speed internet. Some banks have specific goals of increasing facetime with agricultural customers, and emphasise rural banking specialists and community bankers as other key relationship options.

#### Information from the Treasury

Banks have significantly reduced the span of their branch network in the last two decades. Data from Statistics New Zealand shows that the number of deposit-taking premises has declined by 43 percent across New Zealand between 2000 and 2024. Some protection for rural areas was created by a 2019 commitment by the Big 4 banks and Kiwibank to not close regional bank branches. The commitment was recently extended until 2027.<sup>27</sup>

Newer data shows that rural communities appear to be particularly exposed to challenges facing the cash system: they are more likely to use cash and they are more likely to struggle to find somewhere to withdraw cash.

The Reserve Bank has responsibilities related to ensuring that the public's needs for cash are met. The Reserve Bank has a significant work programme under way to address the risks in declining access to cash. It is currently assessing the adequacy of cash infrastructure by considering bank branch and ATM locations alongside the location of the population and transport routes.

<sup>27</sup> [Banks extend commitment to keep regional branches open for three more years | New Zealand Banking Association](#).

The Reserve Bank plans to conduct community cash trials in 8–9 rural towns across New Zealand, beginning in 2025. These trials will inform the options available to deliver local cash services across New Zealand and aid the Government's assessment of who should bear the costs of the cash system. These trials are distinct from the New Zealand Banking Association's regional banking hubs.

### **Committee opinion**

We intend to monitor the Reserve Bank's work programme related to access to cash and rural communities.

## **3.5 Availability of business banking**

### **Information from the public**

Submitters noted the elevated cost of business lending and linked it to the lower risk weights on residential mortgage loans. Other submitters noted the difficulty of obtaining bank loans without mortgage collateral, telling us that specialist non-bank lenders were more likely to lend against cashflow or non-mortgage collateral. We heard that a similar issue had been identified in Australia in the OECD 2021 country report.

The Big 4 banks told us that there is a healthy level of competition in the business lending sector, specifically referencing the market share growth of Kiwibank and overseas banks in the last five years or so. Kiwibank told us that its strong recent growth in business banking can be continued with the right support, which includes providing it with access to more capital (see [section 1.2](#)).

The Big 4 banks told us that it is more expensive to provide business banking services, which often include bespoke relationship management, and these additional costs are passed on the borrower. In comparison, the cost to provide residential mortgages is much lower, as there is much less relationship management involved. In addition, the information that borrowers must compile for lenders is likely to create additional costs for borrowers.

The Reserve Bank told us that business banking spans a wide range of customers, from sole traders borrowing against their house to fund their business, to large corporates needing a complex range of financial services. Within the business subsectors, banks choose to compete more or less aggressively, based on a range of factors, including:

- views on the long-term economic prospects and demand for credit in that sector
- how their exposure or concentration in that sector aligns to their risk appetite and comparative advantages
- credit demand and supply dynamics and the impacts they have on relative lending margins, including the impact of competing sources of business finance, such as equity investment and non-bank credit.

Some submitters told us that certain businesses appeared to be having difficulty accessing funding and banking products for reasons related to emissions reduction. Kiwibank and Westpac told us they have policies that restrict them from lending to firms that are involved

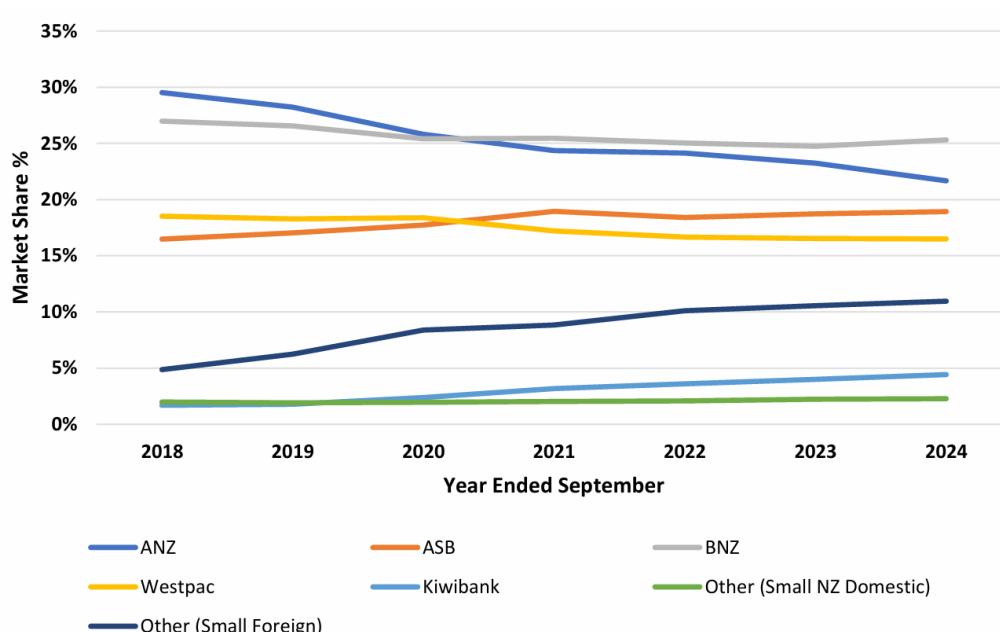
in coal mining. BNZ said it was seeking to reduce its exposure to firms that sell fossil fuels, which it said was a commercial decision based on risk.

Aside from lending, several banks said they were willing to provide non-lending services like deposit accounts to businesses as long as they were legal and operating in compliance with relevant regulations.

## Information from the Treasury

As with other types of lending, the Big 4 banks dominate the market, with approximately 78 percent of all business lending. However, competitor banks, particularly Kiwibank, have been rapidly growing their business loan books.

Figure 8: Business Banking Market Share 2018–2024



Source 10: Reserve Bank; Departmental Report, p 80.

Kiwibank's market share has grown from 1.7 percent in 2018 to 4.4 percent in 2024. As well, foreign banks operating in New Zealand held a combined market share of 11 percent in 2024, up from 4.9 percent in 2018.

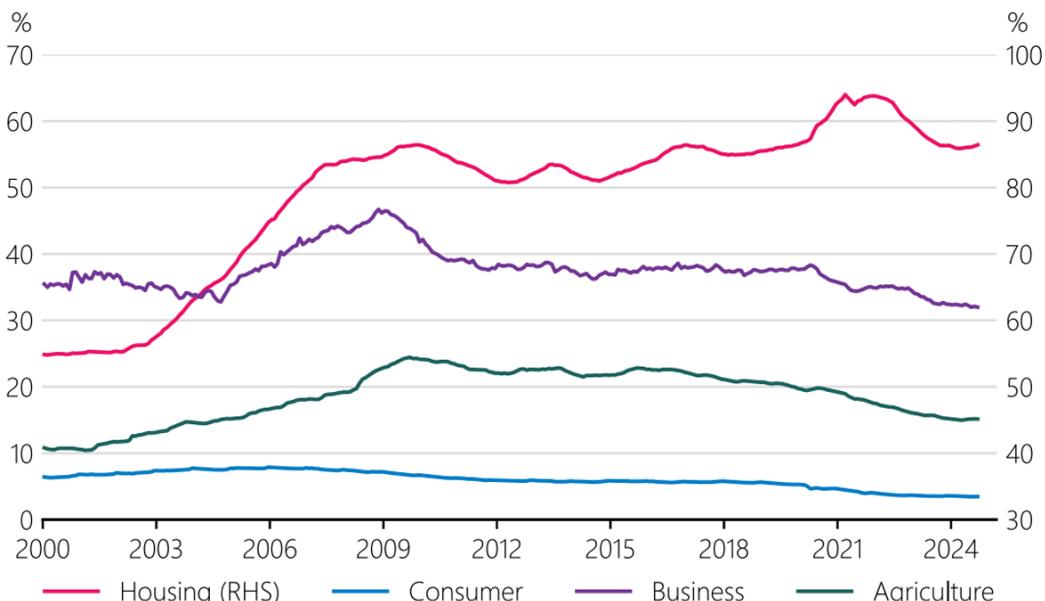
## Lending by sector

As a share of overall lending, lending to businesses and agriculture has been falling as a share of GDP since 2009, and particularly since 2020. Banks appear to have had a relatively high proportion of non-performing loans in their business and agricultural books after the global financial crisis. It is possible that lenders thought that some customers had too much leverage before the global financial crisis, and maintained tightened credit criteria since.

Banks' responses to the Reserve Bank's Credit Conditions survey in 2024 highlighted that many businesses were delaying capital expenditure, which was reducing demand for credit,

particularly from smaller businesses. The decline in business debt relative to GDP since early 2020 suggests reduced leverage overall and greater financial resilience.<sup>28</sup>

**Figure 9: Credit by sector as a share of GDP**



Source 11: Reserve Bank, Stats NZ; Departmental Report, p 81.

### Overall access to business capital

New Zealand's capital markets are less developed than the banking sector in New Zealand. For example, the New Zealand banking system is approximately four times larger than the New Zealand stock exchange (NZX). In contrast, bank assets in Australia, at about \$3 trillion, are similar to the total Australian Securities Exchange (ASX) market capitalisation. Equity markets have not been as readily available as a source of capital for New Zealand firms.

For firms that are listed, Chapman Tripp found that the second 25 of the NZX 50 firms rely heavily on bank debt as their primary source of funds. In contrast, the ASX Top 50 have a spectrum of debt products available to them.<sup>29</sup> This partly reflects the size of the smaller NZX 50 firms compared to the equivalent group in Australia and that country's relative capital market development, discussed above.

The 2023 Business Operations Survey saw a decline in businesses reporting that they could access debt finance on acceptable terms. More than 1 in 4 businesses requested new or additional debt or equity finance in 2023 and only around 70 percent of them reported that the debt funds they requested were available on acceptable terms. This is a significant decline from what was reported in typical years between 2007 and 2021. The 2023 result may be related to the sharp increase in interest rates between 2021 and 2023.

<sup>28</sup> Reserve Bank of New Zealand, Fiscal Stability Report May 2024.

<sup>29</sup> Chapman Tripp | Top 25 NZX companies not reliant on banks for funding.

### Access to business banking for small- and medium-sized enterprises

Small- and medium-sized enterprises (SMEs) play an important role in New Zealand's business sector as a major source of innovation, employment, and economic dynamism. They make up a large proportion of all New Zealand businesses and are a key contributor to GDP growth.

A small business is typically started using the individual savings of owners and funds they can borrow themselves, such as by offering their house as collateral. They can face challenges trying to expand and grow their business. A 2021 MBIE Cabinet paper suggests that banks tend to be the main source of external finance for SMEs, likely because there are few other known or widely used alternatives.<sup>30</sup> These banks typically only lend against positive cash flow or for non-niche capital expenditure, secured by personal guarantees or shareholder assets (such as the owner's house).

Micro firms and SMEs may not present well to banks due to less reliable cash flow and, if they also lack sufficient collateral, may be unable to borrow. Due to the small average size of loans and the disproportionate costs of obtaining information and administering a loan, it is also potentially unprofitable for banks to lend to this segment.

Due to this, New Zealand's SMEs are faced with a relatively narrow range of lenders and, according to MBIE, pay internationally high interest rates. They commonly have to risk personal assets to get loans.

### International comparisons and policy work

The financing of business investment attracts policy attention in most OECD countries, often with a particular focus on scaling up SMEs.

The potential gap in New Zealand might be seen as relatively large, given that successive studies have found that the New Zealand economy is relatively capital shallow.<sup>31</sup> This has led to some local initiatives such as government-supported venture capital funds.

The Australian Government has supported the financing of business investment by passing the Australian Business Securitisation Fund Act 2019, which established the Australian Business Securitisation Fund, a \$2 billion fund to increase the availability of finance to SMEs and to reduce the cost of that finance.<sup>32</sup> Securitisations allow business lenders to sell wholesale investors shares in portfolios of business loans that the lender has written so that the lender can recycle the funds into fresh lending. The Australian initiative had clear competitive objectives, based on the idea that enhanced access to funding via securitisation markets enabled smaller lenders to compete more with the larger incumbents.

The Australian Government has also supported the development of the Australian Business Growth Fund. This aims at larger firms that need equity investments to grow to the point where they have enough scale to access public debt markets or bank lending on cashflow.

<sup>30</sup> [Options to Improve Small- and Medium-sized Enterprises' Access to Finance](#) | mbie.govt.nz, p 5.

<sup>31</sup> [Business investment in New Zealand: A literature review](#) | mbie.govt.nz, p 8.

<sup>32</sup> [Background and legislation](#) | Australian Office of Financial Management.

The New Zealand Government explored creating a New Zealand equivalent, but this has not been completed.

### **Access to credit for particular sectors (treatment of climate and emissions risk)**

Lending decisions are long term and need to manage risk. At times, there are likely to be reductions in lending appetite in industries facing transition risk, such as petrol distribution. The Parliamentary Commissioner for the Environment suggested this was inevitable and that banks should not be restricted from revising their risk appetite.

In some cases, the lender may feel adequately protected, despite the transition risk. Examples include petrol stations that sit on land that can be used for a valuable alternative activity, or a retailer that may be transitioning to offer electric charging alongside petrol.

Firms that a bank wishes to reduce exposure to may need time to look for alternative arrangements or to find alternative finance sources. Generally, the bank will have an interest in allowing time for this to occur. Doing so protects the bank's position and avoids the reputational consequences of appearing to strong-arm or disrupt customers.

A blanket restriction on new lending to a sector could work against overall risk reduction. For example, a new buyer who is planning to eventually transform a petrol station network into retail and electric charging might need bank funding but present a better overall credit risk than an existing owner of the network. For this reason, banks are likely to be cautious about ruling out any new lending to sectors they already participate in.

### **Key findings from analysis**

Major banks have been solidly profitable across the different types of mortgage finance; including farm and commercial property lending, as well as small business finance secured on the owner's home. Given this, and their focus on cost control and desire to limit risk, it appears that non-mortgage business credit has not been a focus for major banks.

Although some businesses report an ability to access credit, the relative lack of non-bank business lending options and the diminished appetite of large banks for this market mean that it is hard for some businesses to begin and grow. There is some evidence for this in the deterioration in access to debt finance reported in the Business Operations Survey.

### **Committee opinion**

We recommend that banks explore ways to grow non-mortgage lending options for small- and medium-sized businesses.

## **3.6 Recommendations**

### **13. Cease capital increases for banks**

We recommend that, effective immediately, the Reserve Bank cease the planned incremental increases to capital requirements.

### **14. Review rural requirements**

We recommend the Reserve Bank review the capital requirements for rural lending and that any changes are monitored and publicly reported on.

**15. Formal disclosure of factors**

We recommend agricultural lenders formally disclose to customers the specific factors they take into account when calculating their risk margin and pricing.

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## 4 Lending to Māori asset holders, organisations, businesses, and individuals

Access to capital has consistently been raised as a key factor constraining the ability of Māori to grow their enterprises and to develop Māori freehold land.

This chapter covers a range of topics that affect the Māori economy, including:

- the perceived lack of representation and understanding of Māori financial needs
- rural branch closures and the move towards digital services
- using whenua Māori (Māori land) as collateral
- standardised risk weightings and loan-to-value ratios for Māori land
- how AML/CFT requirements apply to Māori land trusts
- iwi and Māori as capital providers and co-investors.

In April 2025, the Māori Affairs Committee started an inquiry into how financing and capital can be accessed to develop Māori land. We encourage the Māori Affairs Committee to build on the content in this chapter and the wider report as it continues its inquiry.

### 4.1 Overview of the Māori economy

#### Information from the Treasury

Māori businesses and other Māori entities, such as land trusts and iwi organisations, make significant and growing contributions to New Zealand's economy and play an important role in providing employment opportunities. MBIE's *Te Āhangā Māori – The Māori Economy* 2023 report stated that the Māori economy accounted for \$32 billion—or 8.9 percent—of GDP in 2023 and Māori assets totalled \$126 billion.<sup>33</sup>

Despite positive trends in the Māori economy, Māori firms and individuals still face persistent gaps when compared to non-Māori:

- Māori are less likely to own a business. Between 8 and 11 percent of all businesses were owned by Māori in 2021,<sup>34</sup> despite Māori making up over 17 percent of the population.
- Māori firms have lower operating margins and labour productivity than non-Māori firms.<sup>35 36</sup>

<sup>33</sup> [Te Āhangā Māori - The Māori Economy reports | Ministry of Business, Innovation & Employment](#).

<sup>34</sup> [Te Matapaeroa 2021 | tpk.govt.nz](#), p 2.

<sup>35</sup> [Te Matapaeroa 2019 | tpk.govt.nz](#), p 8.

<sup>36</sup> Chen, Lucas (2023). [Do performance metrics of self-identifying Māori firms differ from non-Māori firms? | Open Access Te Herenga Waka-Victoria University of Wellington. Thesis.](#)

- The 2023 census showed that only 30.4 percent of Māori live in dwellings that they own or are owned by a family trust, compared with 58.5 percent for non-Māori.

### Information from our independent specialist adviser

Banks are well aware of the growing commercial heft of Māori asset holders, organisations, businesses, and individuals. They are also well aware of the need to tailor their offerings to better meet the particular and diverse needs of the Māori community.

Most banks have programmes to lift cultural competence, achieve better engagement with Māori customers, and find innovative ways to better meet the needs of those customers. It is difficult to determine how effective those programmes are without access to bank data. Future commercial success and community acceptance will depend on continued constructive progress.

### Committee opinion

#### Differing view

Labour Party and Green Party members of the committee would prioritise the recommendations in this chapter because it is a policy area which desperately needs bipartisan attention. The Labour Party and Green Party members support Māori banking service standards, removing AML barriers, regulatory reform to enable co-investment, and standardising and requiring lending products for Māori landowners. The Labour Party's differing view is set out further on [pages 76–77](#). The Green Party's differing view is set out further on [pages 78–79](#).

## 4.2 Lack of representation and understanding of Māori needs in the financial sector

### Conclusions of the Commerce Commission's market study

The Commerce Commission's market study found barriers to accessing personal services that are unique to Māori, as well as other barriers that are disproportionately faced by Māori. They include:

- perceptions of racism and bias towards Māori from banks
- a lack of Māori representation in the banking sector and a related lack of understanding of Māori cultural and whānau dynamics from banks ([section 4.2](#))
- a lack of relevant data on Māori customers and firms
- challenges with accessing finance for housing on Māori freehold land ([section 4.4](#)).

In addition to these barriers, the market study found that Māori disproportionately face other barriers, such as:

- rural isolation and digital exclusion ([section 4.3](#) and [section 3.4](#))
- difficulty accessing basic banking services
- lower financial literacy
- a lack of transparency around bank processes and criteria.

## Information from the public

One of the themes raised by submitters was the perceived lack of representation and understanding of Māori needs in the banking sector.

The National Iwi Chairs Forum told us that the New Zealand banking system is not designed for the specific needs of the Māori economy. It suggested that the way banks manage risks at an individual person, enterprise, or transaction level does not align with Māori economy thinking, which exists in a framework of collective ownership and responsibility. The First Union and Council of Trade Unions also commented that the lack of tailored products and services for Māori communities, coupled with a reliance on higher-cost lenders, can exacerbate financial inequalities.

## Information from the Treasury

The feedback received from submitters to the inquiry is consistent with the findings of previous studies on the experiences of Māori with banks and the wider financial system.

A 2022 survey undertaken by the Financial Markets Authority about consumers' experiences with the financial sector also highlighted that Māori and those on low incomes are less likely to trust banks than other New Zealanders.<sup>37</sup> The FMA's Consumer Confidence Survey 2024, which looked at ownership of banking products, also found that Māori are less likely to own savings accounts, credit cards, and mortgages.<sup>38</sup>

## Improving Māori access to capital

The Reserve Bank's 2022 issues paper, Improving Māori Access to Capital, found that:<sup>39</sup>

- There is limited understanding of Māori business values within the financial sector. Capital seekers felt that the financial sector lacked an understanding of intergenerational focus and how Māori businesses value strong partnerships with capital providers.
- Several businesses highlighted that their geographical isolation hampered their ability to build strong partnerships with capital providers.
- Māori capital seekers, the financial sector, and government have no forum to discuss and collaboratively address these issues.

The paper also found that Māori firms have characteristics that correlate with higher lending risk, which explains why they face higher costs of capital on debt funding from shareholders. Māori businesses were also more likely to be operating with negative equity and were typically newer than non-Māori businesses.

## Works in progress

The financial sector and the Government have acknowledged these issues, and progress is being made. Most retail banks in New Zealand have dedicated Māori banking advisers. Tāwhia | the Māori Bankers Rōpū, established in 2021, is the first network of Māori bankers,

<sup>37</sup> [Consumer Experience with the Financial Sector Survey | Financial Markets Authority](#).

<sup>38</sup> [Consumer Confidence Survey 2024 | Financial Markets Authority](#), p 5.

<sup>39</sup> [Improving Māori Access to Capital - Reserve Bank of New Zealand - Te Pūtea Matua](#).

and has created a forum for connecting and sharing practices, building capability within their organisations, and attracting more Māori to the financial sector.

Bank submissions highlighted that they are doing to better support their Māori customer base:

- ANZ has specialised contact points (including “regional champions”) to deliver outcomes for Māori businesses, a Māori business website, and a webinar series offering support.
- ASB has various support programmes, such as Te Waka Whaihua and Te Mātahi, to provide tailored support and products for Māori businesses.
- BNZ has dedicated Māori business bankers in its Growth Sector division equipped with the tools, knowledge, and capabilities to support Māori businesses.

In addition, a cross-government work programme was established in 2023 to improve access to capital for different types of Māori entities, including businesses and owners of Māori freehold land. The work programme brings together the Treasury, MBIE, the Reserve Bank, Te Puni Kōkiri, the Ministry for Primary Industries, and the National Iwi Chairs Forum.

## **Key conclusions from analysis**

Although there has been ongoing work by the banks to improve their processes and engagement with Māori customers, issues faced by Māori in the financial sector have been long-standing and will require a systematic, long-term, and collaborative approach. Although the cross-government work programme is a step in the right direction, there should be ongoing monitoring to ensure progress is made. This will require better data collection about Māori customers and businesses to better understand their needs.

Banks do not currently have robust systems to capture information about Māori individuals or entities within their customer databases. These systems would help build insights into wider issues around Māori access to capital, including how banks’ processes and procedures may contribute to disproportionately low Māori homeownership. Banks expressed concerns about collecting this data and potentially infringing on Māori data sovereignty.

The Reserve Bank is creating a dashboard that measures progress on Māori access to capital and financial inclusion across the banking system. It is working with some retail banks on a snapshot, which will go towards a more complete dashboard in the future. The Reserve Bank is also working with Statistics NZ’s Māori Business Definition Standard, where possible, to support better data about Māori customers. Government agencies should be encouraged to collaborate with the financial sector to improve data collection systems. The Reserve Bank published its first snapshot of progress on 26 June 2025.<sup>40</sup>

## **Committee opinion**

We acknowledge the work that the Reserve Bank is doing to improve Māori access to finance. As New Zealand’s central bank, it is important that the Reserve Bank takes a strong leadership role in this area. We encourage it to collect and publish better data relating to Māori access to finance.

<sup>40</sup> [Māori access to capital \(MA2K\) snapshot | Reserve Bank of New Zealand - Te Pūtea Matua](#).

The New Zealand Banking Association's (NZBA) Code of Banking Practice sets out the principles of good banking practice. The NZBA has 17 member banks, which all abide by the Code. However, the Code of Banking Practice does not have any provisions for Māori customers. It is our understanding that Tāwhia | the Māori Bankers Rōpū has a set of priorities to better meet the banking needs of Māori, which are currently:

- improving access by Māori businesses and collectives to banking products and services
- raising the financial knowledge and confidence of whānau Māori
- increasing representation across all levels in the banking sector.

We recommend that New Zealand banks jointly adopt voluntary service standards to better meet the banking needs of Māori, for example, like the Banking Code of Practice in Australia, which has provisions for Aboriginal and Torres Strait Islander customers.<sup>41</sup> Banks could work with Tāwhia to develop a Māori banking code of practice to supplement the work that individual banks are doing. We also encourage banks to collaborate on a joint Māori business development hub to support Māori businesses.

### **4.3 Rural branch closures and move towards digital services**

According to the Commerce Commission's market study, 14.7 percent of Māori live in small urban areas (compared to 10 percent of the total population) and 18 percent live in rural areas (compared to 16.3 percent of the total population). Although we discussed rural branch closures in [section 3.4](#), it is important to note how rural branch closures and the move towards digital services disproportionately affect Māori.

#### **Information from the public**

We heard that rural branch closures and the move towards online-only services disproportionately affect the rural sector and vulnerable communities. This includes Māori and tāngata whaikaha (disabled people), who face a wide range of intersecting barriers, including limited banking services in areas with a high Māori population, and perceptions of racism and bias towards them from banks.

#### **Information from the Treasury**

Data published by Statistics New Zealand showed that 522 deposit-taking premises have closed between 2000 and 2024. Rural branch closures and digitalisation of banking services are likely to disproportionately affect Māori, given that they are more likely to live rurally. The Commerce Commission's market study concluded that location was a contributing factor for some Māori, who face restricted access to personal banking services, with rural areas having fewer physical branches and ATMs, and limited access to online services.

As noted in [section 3.4](#), the Reserve Bank is assessing the adequacy of cash infrastructure by considering bank branch and ATM locations alongside the location of the population and transport routes.

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<sup>41</sup> [The Banking Code | Australian Banking Association](#).

## 4.4 Whenua Māori as collateral

Although Māori land is subject to many of the same laws as other land in New Zealand, Māori land is also different in some key ways. Under **Te Ture Whenua Maori Act 1993** | the **Maori Land Act 1993**,<sup>42</sup> there are significant restrictions on transferring ownership of the land, whether by succession on the death of an owner or through selling or gifting of the land. The Act favours ownership of Māori whenua staying with the owners' whānau and hapū.

The Māori Land Court enforces those restrictions. Most dealings with Māori land are scrutinised by the court and require a court order. For example, the sale of Māori land is not complete until the Māori Land Court issues an order confirming that the sale can proceed.

Because most Māori land has multiple owners, the Act also provides various management structures and other methods that the owners can use to make decisions about the land more effectively. Examples are: forming themselves into an incorporation or putting the land under the care of trustees.

There are two types of Māori land:

- **Māori customary land** is held by Māori in accordance with tikanga and was never converted to Māori freehold land. Māori have the same title to it as they had in 1840. There is very little Māori customary land today.
- **Māori freehold land** is land where Māori customary interests have been converted to freehold title by the Māori Land Court (or its predecessors) by a freehold order. Almost all Māori land is freehold land.

There is also general land owned by Māori—ordinary, privately owned freehold land that is owned by one Māori person or a group of people, the majority of whom are Māori.

### Information from the public

Federated Farmers told us that the restrictions on using Māori freehold land as collateral make it difficult for Māori farmers to access the necessary capital to participate in the agricultural economy. Te Tumu Paeroa | Office of the Māori Trustee and the National Iwi Chairs Forum told us that banks are highly reluctant to become involved in lending to Māori to support them constructing a residential dwelling on their ancestral lands.

Although not resistant to lending to Māori asset-holders, Financial Services Federation members reported that it can become very complicated if payments stop and the lender needs to take recovery action. This makes lenders reluctant to lend to iwi or Māori organisations and asset holders.

ANZ told us that, in situations where a bank has security over whenua Māori, the decision to take recovery action could have reputational impact. It recommended that improvements to Māori Land Court processes or the Act could better enable Māori landowners to own and manage their whenua.

<sup>42</sup> [Te Ture Whenua Maori Act 1993 No 4 \(as at 23 December 2023\), Public Act Contents – New Zealand Legislation](#).

Banks have begun work to address barriers related to whenua Māori:

- Westpac has innovative home ownership programmes, such as its shared home ownership partnership with Ngā Potiki and Te Puni Kōkiri. It also has some products that can be used for lending to Māori and iwi that do not require using land as security.
- BNZ has a new funding framework for lending for housing on inalienable Māori land in collaboration with Ngāti Whātua Ōrākei.
- Kiwibank has removed the requirement for smaller loans to be secured against a business owner's personal property.

## Information from the Treasury

Māori freehold land is generally considered to be underdeveloped relative to equivalent general title land. A 2011 study commissioned by the Ministry for Primary Industries (MPI) suggested that only 20 percent of Māori freehold land was achieving its productive potential at the time.<sup>43</sup> MPI has commissioned updated research into primary sector production on Māori land and the potential to better use this land. The research is expected to be available in September 2025.

Access to capital is key to enabling the further development of whenua Māori. Increasing the primary productivity of land is often dependent on having onsite housing and road access. However, access to capital for land development typically requires using the land as security. The Māori Land Court's 2024 Practice Note for Lending on Whenua Māori<sup>44</sup> was a notable milestone for dispelling common misunderstandings among landowners and lenders. It sets out the steps required to lend and borrow against whenua Māori.

The barriers to using Māori freehold land relate primarily to the willingness of both borrowers and lenders to use the land as security. Capital providers tend to be unwilling to accept whenua Māori as security due to the reputational risks that banks would face if they resorted to a mortgagee sale of whenua Māori and the high transaction costs of this type of lending due to legal requirements. Landowners may also be unwilling to use whenua Māori as security due to a lack of trust in banks, collective ownership issues, risk aversion, or limited financial capability.

Many government initiatives support owners to develop whenua Māori. Kāinga Ora and Kiwibank deliver the Kāinga Whenua Loan Scheme, which uses housing as security, but not the land itself. The loan is underwritten by Kāinga Ora. The scheme is designed to support whānau Māori with their housing goals and remove some of the barriers to accessing finance. However, uptake of the scheme has been limited.

The Government recently began public consultation on proposed changes to Te Ture Whenua Maori Act to make it more efficient, streamlined, and easier to navigate, with the aim of removing legislative barriers to economic development.

<sup>43</sup> [Growing the Productive Base of Maori Freehold Land | mpi.govt.nz](https://www.mpi.govt.nz/growing-the-productive-base-of-maori-freehold-land), p 5.

<sup>44</sup> [Practice Note for Lending on Whenua Māori released | Māori Land Court](https://www.moritakaua.govt.nz/practice-note-for-lending-on-whenua-maori-released).

## Committee opinion

Although banks have made progress in providing tailored products and services to support the development of whenua Māori, uptake is still low. We encourage banks to further explore making products and services for Māori readily accessible through greater promotion and simplified processes. We recommend that banks create and offer more lending products that meet the unique needs of Māori freehold landowners.

The recent changes to the Kāinga Whenua Loan Scheme aim to make it more accessible. We note that the scheme is open for other banks to join, although some banks have decided to focus on their own programmes for lending on whenua Māori. We encourage Kāinga Ora to work with other banks to expand the Kāinga Whenua Loan Scheme. We also encourage Kiwibank to expand its offering.

We note that the Government has begun public consultation on proposed changes to Te Ture Whenua Maori Act that aim to promote the development and retention of whenua Māori.

## 4.5 Standardised risk weighting and loan-to-value ratio for Māori land

### Conclusions of the Commerce Commission's market study

The Commerce Commission's market study found that there is no loan-to-value ratio or standardised risk weight specifically for lending for housing on whenua Māori, which may pose a barrier to banks providing or promoting this lending. There is also no standardised risk weight for lending that supports commercial development of Māori freehold land.

Kiwibank told us that it supports the Commerce Commission's recommendation that the Reserve Bank provide a standardised risk weight and loan-to-value ratio specifically for Māori land to help remove the barrier to access.

### Information from the Treasury

The Reserve Bank has approved two major banks to adjust their credit risk models so that whenua Māori is treated similarly to other types of collateral when assessing a borrower's security coverage and risk weighting. The other two major banks' credit policies already allow for whenua Māori to be recognised as collateral, subject to appropriate valuation.

The Reserve Bank has recently decreased the standardised risk weighting for Kāinga Whenua loans to 20 percent (from 35–50 percent) to account for the assurance that lenders receive from Kāinga Ora. However, this only applies to loans for housing on Māori freehold land. Loans for other developments may be disadvantaged by the lack of granularity of current standardised risk-weight settings.

From a prudential regulation perspective, the Reserve Bank considers that the potential barrier that risk weights were creating for using whenua Māori as collateral are now largely resolved. However, it is considering whether further changes to the standardised risk weightings are necessary to more accurately reflect the risk associated with lending secured by whenua Māori in the standardised approach. This follows a recommendation from the

Commerce Commission's market study. The work will be undertaken as part of the Reserve Bank's broader capital review. We look forward to seeing the Reserve Bank's analysis and conclusions.

## 4.6 AML/CFT requirements for Māori land trusts

The anti-money-laundering and countering financing of terrorism (AML/CFT) requirements (discussed in [section 2.7](#)) pose unique challenges for Māori land trusts.

### Public support for simplifying AML/CFT requirements for Māori land trusts

The Commerce Commission's market study noted that Iwi and Māori land trusts are relatively common. Despite this, they are categorised as "higher risk" under the AML/CFT regime. Te Tumu Paeroa | Office of the Māori Trustee told us that AML/CFT processes have several overlapping requirements due to Māori Land Court processes. We heard that the current AML/CFT regulations are excessively burdensome for Māori trusts wanting to take steps towards self-governance.

- The Commerce Commission told us that AML/CFT scrutiny of Māori land trusts is unjustifiably high and should be reduced.
- Kiwibank recommended that a more defined AML/CFT requirement for Māori trusts should be established through the Māori Land Court.
- Te Tumu Paeroa | Office of the Māori Trustee suggested that a more efficient system could be created by reducing duplication and complexities for trustees going through the AML/CFT and Māori Land Court processes.

### Information from the Treasury

The AML/CFT requirements can also be difficult for the Kāinga Whenua Loan process. The multi-party agreement that needs to be entered into for a loan requires the trust to go through the due diligence process with the bank, under the AML/CFT Act.

Under the current rules for enhanced customer due diligence, to which all trusts are currently subject, reporting entities need to collect information on all settlors (persons who created the trust) and protectors (persons who have specific powers over the trust's administration).

Following recent reviews, the Government is changing the AML/CFT Act to deliver regulatory relief (see [section 2.7](#)). Some of the proposed changes will likely help reduce the administrative burden for Māori land trusts.

The Government has agreed to remove "mandatory enhanced customer due diligence" requirements from low-risk trusts. This is expected to be progressed through amendments to the Act that are proposed for introduction in 2026.

### Committee opinion

We agree that AML/CFT requirements can be overly burdensome for Māori land trusts. We support removing unnecessary compliance burdens for low-risk lending, such as Māori land trusts. We recommend the Government remove unnecessary AML compliance barriers

faced by Māori land trusts and Māori organisations with multiple owners when accessing banking services.

## 4.7 Iwi and Māori as capital providers and co-investors

### Information from the public

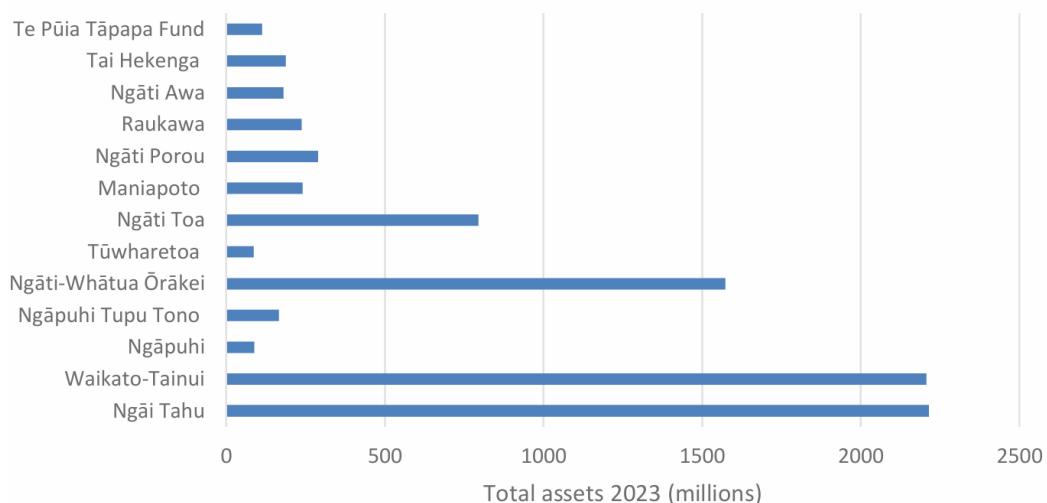
The National Iwi Chairs Forum told us that the needs of Māori are not uniform and that parts of a better system response need to come from the Māori economy itself. Harnessing the collective co-investment power of small- and medium-sized iwi is a key focus for the current National Iwi Chairs Forum | Pou Tahua work programme.

Monopoly Watch New Zealand suggested that Māori should own a bank. It recommended that, with open banking technology and seamless bank account number transfers, Māori should be encouraged and financed to set up their own bank.

### Information from the Treasury

As iwi have settled their historic Treaty settlements, they have grown their financial capability and asset bases. Consulting firm TDB Advisory's 2024 Iwi Investment Report estimates that post-settlement iwi assets total \$12 billion.<sup>45</sup>

**Figure 10: Total assets for selected iwi/Māori groups**



Source 12: TDB Advisory; Departmental Report p 96.

Iwi and Māori have been increasingly diversifying their investment portfolio. Depending on the iwi and the nature of the investment, these are funded by cash, debt, or equity. This means that iwi and Māori are both capital seekers and providers. Many Māori entities are also pooling resources to create investment opportunities that overcome issues of scale (for example, investment syndicates such as Te Pūia Tāpapa Fund and Tai Hekenga). Pooling funds decreases risk by spreading it across multiple participants.

<sup>45</sup> [Iwi investment in 2024 | TDB Advisory](#).

Iwi and Māori entities are increasingly participating in the economy as capital providers and co-investors alongside the government and private investors, although there are significant differences in wealth between different iwi.

The Government has recently released the Going for Growth with Māori | Tōnui Māori framework to boost Māori economic development.<sup>46</sup> One focus of this framework is Infrastructure Investment, where the Government is looking to elevate cross-agency work to bolster iwi and Māori co-investment in infrastructure. This includes facilitating iwi and Māori co-investment in infrastructure, progressing Regional Infrastructure Fund support for regional projects that are iwi- and Māori-led or -partnered, and supporting iwi infrastructure partners, such as the National Iwi Chairs Forum's Rauawa.

### **Committee opinion**

We encourage the Government to continue to explore opportunities for iwi and Māori entities to become capital providers and co-investors (for example, through infrastructure partnerships).

## **4.8 Recommendations**

### **16. Set voluntary Māori banking service standards**

We recommend banks jointly adopt voluntary service standards to better meet the banking needs of Māori, like the Banking Code of Practice in Australia.

### **17. Remove anti-money-laundering (AML) roadblocks for Māori land trusts**

We recommend the Government remove unnecessary anti-money-laundering compliance barriers faced by Māori land trusts and Māori organisations with multiple owners when accessing banking services.

### **18. Enable Māori co-investment in infrastructure**

We recommend the Government enable further opportunities for iwi and Māori organisations to invest as co-owners or capital providers, for example through infrastructure projects.

### **19. Create Māori-focused lending products**

We recommend banks create and offer more lending products that meet the unique needs of Māori freehold landowners.

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<sup>46</sup> [Māori Economic Development | tpk.org.nz](http://maori-economic-development.tpk.org.nz).

## 5 Differing views

This chapter sets out the differing views held by Opposition members of the committee.

### New Zealand Labour Party differing view

Labour believes that while banks operate as private entities, their foundations rest on public power and public trust. When things go wrong, it is the public that bears the cost. Banking requires active, real-time supervision and oversight to prevent problems before they escalate. Public trust underwrites private profit, and with it comes a public responsibility to safeguard stability, fairness, and access for all New Zealanders.

We supported this inquiry because competition and accountability in banking are matters of significant public interest. Labour members have engaged constructively with evidence and with Treasury's recommendations, seeking to identify where consensus could be reached. In contrast, there was limited engagement by Government MPs on the Opposition's proposals, which meant that opportunities for genuine bipartisan discussion were missed, even in areas where agreement was possible. Despite this, the inquiry has surfaced some shared priorities. They warrant further attention.

Labour would have prioritised Māori access to capital as a core outcome. This includes collecting and publishing data on Māori banking access, removing AML/CFT barriers for whenua-based entities, expanding Kāinga Whenua loans, enabling whenua Māori to be used as collateral, supporting Māori-led banking and investment vehicles, and developing a Māori banking code of practice with representation in financial governance. These measures are not currently reflected in the Government's legislative or policy priorities, yet they are critical to supporting Māori economic development and equitable access to financial services.

Labour also remains concerned about other missed opportunities to strengthen competition. We would have focused on the role of Kiwibank as a public banking option and competitor. This means protecting Crown ownership, supporting the state bank's capacity to provide services to underserved communities and groups with systemic importance to our economy as a whole like first home buyers and small businesses, and ensuring it continues to act as a counterbalance to the dominant banks. Reducing public ownership or introducing private control would compromise these objectives.

We are particularly concerned that discussion of capital requirements has become the dominant focus of the inquiry. This narrow emphasis reflects the submissions of the Big 4 banks, whose interests are served by tweaks to the capital rules, rather than a comprehensive assessment of competition or consumer outcomes. While there are gains to be had from reviewing prudential settings, we believe these are to be found in the rules that apply to Kiwibank, which would improve competition in the markets for home loans and small business lending, and potentially agribusiness. Relaxing the capital requirements for the Big 4, in contrast, is unlikely to deliver benefits to consumers.

Labour rejects rollbacks of consumer protection laws, including AML and CCCFA provisions, which would reduce responsible lending obligations and limit redress for borrowers. We remain cautious about relying on foreign capital to solve structural competition issues.

It would have been helpful for more work to be done to explore the emerging consensus that small banks are not the key to driving competition in New Zealand's market for personal banking services. Labour believes an effective path to greater competition on price and range of services is to make it easier for large fintechs to enter and compete on specific banking services, without any expectation on them to provide a full-service offering from the outset. They do not need or want to be called "bank".

In addition to these priorities, Labour has advocated for measures that improve transparency and fairness for savers, such as faster open banking, a deadline for Payments NZ governance reforms and accommodations for fintechs crying out for relief in this forum, and regulatory adjustments that reduce unnecessary barriers to entry for foreign-owned competitors. These reforms would deliver benefits for consumers and communities while promoting a more resilient and competitive banking sector.

Labour would preference strong public oversight, robust consumer protections, support for Māori-led financial institutions, and facilitating new competitive players through fintech innovation. This inquiry has demonstrated that there is genuine potential to advance shared goals in banking regulation and competition, but meaningful progress requires constructive engagement across the House and a focus on outcomes that benefit all New Zealanders.

## **Green Party of Aotearoa New Zealand differing view**

The Green Party welcomed this inquiry as we have long identified that the excessive profitability of Aotearoa New Zealand's banks reflects that they have been prioritising the financial wellbeing of their shareholders over the financial wellbeing of their customers for many years.

Aotearoa New Zealand's banking system must support all sectors of our economy, including farmers and Māori, and not just the segments of our economy, such as the housing market, that are most profitable for the Australian-owned banks.

### **State of competition in banking**

The Green Party is therefore concerned that the committee recommends making it easier for overseas banks to operate in Aotearoa New Zealand as the primary solution to improve banking competition. New Zealanders already see existing banks recording significant profits that are taken offshore, and "opening the door" to more overseas banks will only entrench that flow of profits overseas.

The Reserve Bank should instead be focused on lowering barriers for local banks, including community, iwi, and not-for-profit trust banks, to offer a broader range of banking services. Only through the expansion of not-for-profit banks and community banks will the system better prioritise outcomes for Māori, rural New Zealanders, and the public generally over profit maximisation for overseas shareholders.

We do not support the committee's narrow focus on increasing competition in the banking sector as a silver bullet for profiteering behaviour. Applying structural separation of the retail banks, clearing banks, and the shared banking infrastructure would open significant opportunities for competition and innovation in the banking sector. Structural separation is a key lesson from competition reform in the telecommunications sector that should be applied to the banking sector.

The banking sector needs significant structural reform, stronger regulatory oversight, and greater accountability. Overall, we are disappointed in the lack of ambition presented by the committee to rein in the big banks and ensure our banking system can be genuinely competitive, in the interests of Aotearoa New Zealand and our economic sovereignty. Serious legislative intervention by Parliament is needed.

### **Role of Kiwibank**

To the same end, the Green Party opposes the privatisation of Kiwibank. We support strengthening the role of Kiwibank and are disappointed that the committee failed to recommend alternative methods to strengthen Kiwibank as the public banking option. This is a missed opportunity to recognise the important social function that a state-owned bank like Kiwibank could play, if its mandate were changed from profit-maximising to serving the public good.

## **Barriers preventing competition in banking and impact of the regulatory environment**

The accommodations and support that the Reserve Bank offers for the Australian-owned banks, such as equitable risk analysis, appropriate capital requirements, low barriers to entry, and access to the ESAS system, should be equally extended to other domestic banks. We are pleased that this report takes some tangible steps in that direction.

However, the incumbent banks have spent years impeding the growth of a new generation of FinTech services through their control of Payments NZ. For this reason, we recommend that Payments NZ and other shared banking infrastructure be divested by the incumbent banks, and transferred to regulated independent ownership, similar to the model of Chorus in the telecommunications sector. The big banks must be given strong statutory deadlines for the full, transparent, and zero-cost implementation of open banking standards. Strong deadlines would include the threat of significant fines for non-compliance.

## **Climate-related disclosures**

We reject the committee's recommendations above that seek to limit how banks handle climate-related risk. Climate change is a significant driver of financial instability. Financial institutions must be able to confidently manage that risk. The committee found no evidence that there are issues with climate-related disclosures. This is an ideological red herring that has served as a distraction from the real issues with banking services, particularly for rural communities.

## **Lending to Māori asset holders, organisations, businesses, and individuals**

The Green Party welcomes the committee's recommendations regarding Māori access to finance. We would like to see further obligations on the Reserve Bank and banks to regularly report on their progress to improve Māori access to finance, including for Māori business.

## Appendix A—Committee procedure

### Committee procedure

We met between 14 July 2024 and 20 August 2025 to consider the inquiry. We called for public submissions with a closing date of 25 September 2024.

We received submissions from 216 organisations and individuals and heard oral evidence from banks, regulators, and submitters from the public. We heard evidence in Wellington and via video conference.

We received advice from the Treasury, the Ministry of Justice, and the Ministry for Business, Innovation and Employment. Murray Sherwin served as our independent specialist adviser.

### Committee members

Finance and Expenditure Committee	Primary Production Committee
Cameron Brewer (Chairperson) (from 29 January 2025) Jamie Arbuckle Dan Bidois (from 29 January 2025) Hon Barbara Edmonds Ryan Hamilton Nancy Lu Hon Dr Deborah Russell Stuart Smith (Chairperson and member until 29 January 2025) Todd Stephenson Chlöe Swarbrick Rawiri Waititi Catherine Wedd (until 29 January 2025) Hon Dr Megan Woods	Mark Cameron (Chairperson) Steve Abel Miles Anderson Rachel Boyack (from 12 March 2025) Mike Butterick (from 29 January 2025) Jo Luxton Suze Redmayne Cushla Tangaere-Manuel (until 12 March 2025) Catherine Wedd (until 29 January 2025)

Arena Williams and Francisco Hernandez also participated in this inquiry.

### Related resources

The documents we received as advice and evidence for this inquiry are available on [the Parliament website](#). Links to Hansard transcripts and recordings of our meetings are detailed below.

23 October 2024	<a href="#">ANZ video and Hansard transcript</a>
13 November 2024	<a href="#">ASB video and Hansard transcript</a>
	<a href="#">Public submissions video</a>
6 November 2024	<a href="#">Rabobank video</a>

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20 November 2024	<a href="#"><u>Westpac video and Hansard transcript</u></a> <a href="#"><u>Public submissions video</u></a>
11 December 2024	<a href="#"><u>BNZ video and Hansard transcript</u></a>
18 December 2024	<a href="#"><u>Kiwibank, Heartland Bank, Cooperative Bank, and SBS video and Hansard transcript</u></a>
29 January 2025	<a href="#"><u>TSB and public submissions video and Hansard transcript</u></a>
12 February 2025	<a href="#"><u>Public submissions video and Hansard transcript</u></a>
19 February 2025	<a href="#"><u>Public submissions video</u></a>
10 March 2025	<a href="#"><u>ANZ and BNZ video and Hansard transcript for ANZ and BNZ</u></a> <a href="#"><u>ASB and public submissions video and Hansard transcript for ASB</u></a>
12 March 2025	<a href="#"><u>Public submissions video</u></a>
26 March 2025	<a href="#"><u>Westpac video and Hansard transcript</u></a>
31 March 2025	<a href="#"><u>Reserve Bank of New Zealand video and Hansard transcript</u></a> <a href="#"><u>Parliamentary Commissioner for the Environment video</u></a>
9 April 2025	<a href="#"><u>Financial Markets Authority video</u></a> <a href="#"><u>External Reporting Board video</u></a>

## Appendix B—Terms of reference and call for submissions

*The following is the text of our call for submissions, sent out on 14 August 2024.*

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Public submissions are now being called for on the Finance and Expenditure Committee's Inquiry into banking competition

**The closing date for submissions is 11.59pm on Wednesday, 25 September 2024**

The terms of reference for the inquiry were finalised in consultation with the Primary Production Committee and are as follows:

The state of competition in banking, including:

- The price of banking services, with a particular focus on business and rural lending products.
- Profitability in banking, how it has changed over time, and how it compares to other OECD economies.
- 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.
- The effect of any bank lending policies relating to borrowers' emissions that result in additional lending costs and/or lending restrictions.
- The level of customer "switching", how this has changed over time, and how this compares to other countries.

Barriers preventing competition in banking, including:

- Any limits on the growth of non-bank deposit takers.
- Any restrictions on overseas investment/new entrants, including fintechs.
- Any outstanding constraints on the use of technology and open banking.
- The role of KiwiBank as a competitor.

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.
- The role of prudential regulation and any impacts on risk allocation, smaller banks, and non-bank deposit takers (NBDTs).
- The role of bank regulators (FMA, MBIE, RBNZ) and whether the regulatory environment can be simplified.

- Determine how and to what extent the RBNZ's capital requirements and credit risk models influence lending rates (see emphasis in Rural Banking section).
- Climate related disclosures.
- Whether the RBNZ's focus on "financial stability" is impeding the development of competitiveness, particularly amongst NBDTs and existing / potential fintechs.

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.
- 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.
- 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.
- Ascertain whether there is adequate transparency on lending rates for rural, residential, and business lending.
- Access to banking services, including access to cash services, especially in rural areas.

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.
- Investigate whether banks are unreasonably resistant to accepting Māori land as collateral for borrowing.
- Investigate whether banks' processes and procedures contribute to the Māori individuals and households having a disproportionately low rate of home ownership.

In each of these areas the committee should, where relevant, reference the findings of the Commerce Commission's study into banking competition.

## Appendix C—Timeline of events related to this inquiry

<b>2023</b>	
June 2023	Commerce Commission began work on its market study into personal banking services (20 June).
July 2023	Phase one of new AML/CFT regulations came into effect (31 July).
<b>2024</b>	
March 2024	Commerce Commission published its draft report on its market study into personal banking services (21 March).
June 2024	Phase two of new AML/CFT regulations came into effect (1 June). Minister of Finance wrote to the chairs of the Finance and Expenditure Committee and the Primary Production Committee asking them to open an inquiry into banking competition (13 June)
August 2024	Inquiry into banking competition opened for public submissions (14 August). Commerce Commission published its final report on its market study into personal banking services (20 August).
September 2024	Inquiry into banking competition closed for public submissions (25 September).
October 2024	Hearings on Inquiry into banking competition began (23 October).
<b>2025</b>	
January 2025	Financial Markets Authority launched its “regulatory sandbox” pilot.
March 2025	Consumer and Product Data Act 2025 came into force (30 March). The Government introduced three bills to reform financial services regulation: <ul style="list-style-type: none"> <li>• Credit Contracts and Consumer Finance Amendment Bill</li> <li>• Financial Markets Conduct Amendment Bill</li> <li>• Financial Service Providers (Registration and Dispute Resolution) Amendment Bill (31 March).</li> </ul> Reserve Bank of New Zealand announced during submission on Inquiry into banking competition that it will undertake a review into its capital requirements, which will include reviewing submissions made on this inquiry (31 March).
	Public consultation on Te Ture Whenua Maori Act 1993/Maori Land Act 1993 opened (31 March).

April 2025	<p>Reserve Bank of New Zealand announced its new ESAS access policy and criteria (7 April).</p>
	<p>Hearings on Inquiry into banking competition concluded (9 April).</p>
	<p>Māori Affairs Committee opened an Inquiry into how financing and capital can be accessed to develop Māori land (9 April).</p>
May 2025	<p>Reserve Bank of New Zealand told the Finance and Expenditure Committee it will be consulting on the review in August and September 2025 and intends to complete its review by the end of 2025 (8 May).</p>
	<p>First reading and referral of the following bills to the Finance and Expenditure Committee:</p>
	<ul style="list-style-type: none"> <li>• Credit Contracts and Consumer Finance Amendment Bill</li> <li>• Financial Markets Conduct Amendment Bill</li> <li>• Financial Service Providers (Registration and Dispute Resolution) Amendment Bill (20 May).</li> </ul>
	<p>Public consultation on Te Ture Whenua Maori Act 1993/Maori Land Act 1993 closed (23 May).</p>
	<p>Big 4 banks required to have their Version 2.3 payment initiation implementation plan ready, under the Minimum Open Banking Implementation Plan (30 May).</p>
	<ul style="list-style-type: none"> <li>• Kiwibank extended until 30 May 2026.</li> </ul>
June 2025	<p>Phase three of AML/CFT regulations came into effect (1 June).</p>
July 2025	<p>Depositor Compensation Scheme took effect (1 July).</p>
	<p>Next capital requirement increase took place (1 July).</p>
	<p>The Primary Production Committee sent a letter to the Finance and Expenditure Committee outlining its views and recommendations for the rural banking chapter (24 July).</p>
	<p>Cabinet approved Kiwibank's parent company, Kiwi Group Capital Limited, to raise up to \$500 million of capital to fund the bank's growth (30 July).</p>
August 2025	<p>Finance and Expenditure Committee finalised its report on the Inquiry into banking competition (20 August).</p>
September 2025	<p>Second phase of ESAS application process to open, where applications may also be open to overseas deposit takers.</p>
October 2025	<p>Finance and Expenditure Committee to report to the House on the following bills:</p>
	<ul style="list-style-type: none"> <li>• Credit Contracts and Consumer Finance Amendment Bill</li> <li>• Financial Markets Conduct Amendment Bill</li> </ul>

- Financial Service Providers (Registration and Dispute Resolution) Amendment Bill.

November 2025      Big 4 banks required to have their Version 2.3 account information implementation plan ready, under the Minimum Open Banking Implementation Plan (28 November).

- Kiwibank extended until 30 November 2026.