

Repurposing Kiwibank

The Green Party will strengthen Kiwibank so that it can better compete with the big four foreign-owned banks. Greater competition will drive the banks to cut lending rates more aggressively and pass on millions of dollars of savings to households and businesses sooner.

To achieve these savings, Kiwibank will need to grow faster. The Green Party will:

1. Inject a further \$100 million of capital in Kiwibank to facilitate its expansion into commercial banking;
2. Allow Kiwibank to keep more of its profits; and,
3. Change NZ Post Group's Statement of Corporate Intent to make market leadership for Kiwibank a higher priority.

Under our plan, a first home buyer in Auckland with a \$500,000 mortgage could save \$690 per year, meaning they pay off their mortgage earlier. Across the entire economy, this translates into savings of \$312 million per year.¹

Strengthening Kiwibank so it can create greater competition in the banking sector is the smartest solution to ensure Kiwis get the best deal possible from their banks.

A banking sector dominated by four foreign banks

Our banking sector is amongst the most profitable in the developed world.² Four foreign-owned banks control 87 percent of New Zealand's banking industry — a situation ratings agency Standard & Poor's describe as "oligopolistic".³

By holding back Kiwibank's ability to grow quickly and compete, the Government has let the big four banks make excessively large profits off Kiwis. When the Reserve Bank moved recently to cut the Official Cash Rate (OCR) by 25 basis points, three of the big four banks passed on only 10 basis points of those cuts. The banks behaved similarly during the Global Financial Crisis, failing to pass on the full extent of OCR cuts to businesses and households.⁴ The high profitability and moves to increase margins during a severe recession highlights a lack of real competition in our banking sector.

The Government has a market mechanism to promote competition in the banking sector in New Zealand; it's called Kiwibank.

Promoting greater competition in the banking sector is a better option than talking to the banks (National) or threatening legislation (Labour) to force banks to pass on interest rate savings to borrowers.

The solution: repurposing Kiwibank

The Green Party will repurpose Kiwibank for public good, once again driving greater competition in our banking marketplace.

Active competition in the banking sector will lead to lower interest rates for borrowers, passing on millions of dollars of savings to mortgage holders and businesses rather than having them go offshore as foreign bank super-profits. Active competition is also good for savers, leading to higher interest rates on their savings.

To achieve these economy-wide savings, Kiwibank will require a capital injection of \$100 million and a change in its Statement of Corporate Intent.

The capital injection will enable Kiwibank to move more quickly from being a retail banker to become a full commercial bank, able to lend to large businesses and become the Government's own banker. More competition in this area will save businesses money by lowering their lending costs.

Kiwibank was originally started with the goal of serving a public interest — to offer low fee, accessible banking to everyday New Zealanders and compete in an uncompetitive banking market. Today, Kiwibank's purpose has become indistinguishable from the goals of a private enterprise.⁵

It's time to repurpose Kiwibank for public good.

Kiwibank's shareholding Ministers (the Minister of Finance and State Owned Enterprises) can explicitly direct Kiwibank to:

- Retain and reinvest more of its profits;
- Aggressively expand its commercial banking operations; and,
- Lead the market in passing on interest rate cuts.

The benefits of greater competition

1. Greater competition in the banking sector leads to lower interest rates for borrowers and higher interest rates for savers.
2. Lower borrowing costs leave businesses and households with more money in their pockets to invest and save. Exporters, in particular, will benefit.
3. Greater competition in the banking sector also leads to lower bank fees and higher levels of service and banking innovation.

4. A bigger New Zealand-owned banking sector will see more profits retained in New Zealand rather than being sent off-shore. The profits of the big four Australian banks represent the single biggest capital drain in our economy.
5. Kiwibank can, in time, become the Government's banker.

Why Kiwibank was originally founded

Kiwibank was founded in 2001 with the goal of serving a public interest — to offer low fee, accessible banking to everyday New Zealanders and compete in an uncompetitive banking market.

At the time, the big four Australian banks were acquiring their competitors, closing branches in rural towns, and increasing bank fees as a new way to increase their already high profit margins. Remember the days of \$3 monthly base fees and transaction fees of up to \$1 just to deposit money into your account? The arrival of Kiwibank changed all that.

Kiwibank challenged this cosy oligopoly and put pressure on the profit margins of the big four banks. Freed of having to pay a dividend to the Crown, Kiwibank aggressively went for growth and market share by offering better lending and savings rates than its competitors. The then Labour Government injected more capital, enabling Kiwibank to grow faster and squeeze the interest margins in retail banking.

This pressure effectively shifted money that would otherwise be transferred offshore, in the form of foreign bank dividends, into the pockets of domestic borrowers, through lower interest rates.

However, this has all changed; the National Government treats Kiwibank primarily as a source of revenue, above any other public good considerations.

National have consistently refused to invest more capital into Kiwibank to help it take the next important step — to become a sophisticated commercial bank to compete away excess margins in the business lending sector.

After 14 years, Kiwibank is still too small to be the banker of its parent company, New Zealand Post.

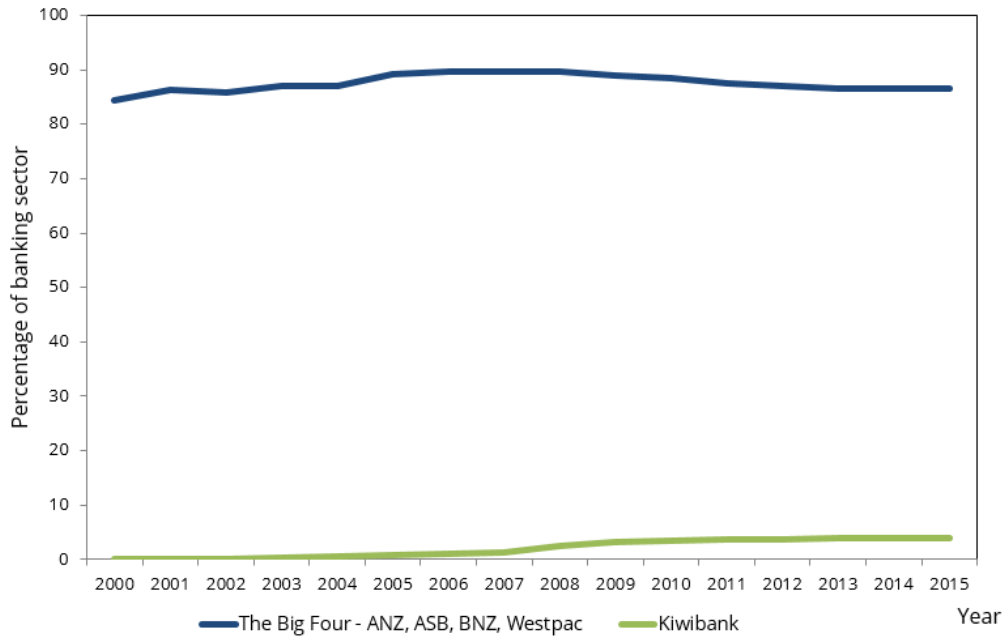


Figure 1: Bank market share in New Zealand. Kiwibank’s growth has been spectacular but it is still small compared to the big four Australian banks — ANZ, ASB, BNZ, and Westpac — and still only represents four percent of the New Zealand banking sector.

The Green Party want to build Kiwibank into a sophisticated retail and commercial bank, with the scale needed to be a market leader, and to ultimately manage the biggest bank accounts in the country — the Government’s. Across the entire country, this will save New Zealand households and businesses hundreds of millions of dollars each and every year.

¹ Parliamentary Library figures, based on a 20 basis point interest rate saving on \$213 billion of outstanding household mortgage lending.

² Source: <http://www.stuff.co.nz/business/industries/69798890/Australias-big-four-banks-most-profitable-in-developed-world-BIS>

³ Source: <http://www.stuff.co.nz/business/industries/77152685/Record-bank-profits-threatened-by-dairy-downturn-rising-house-prices-S-P>

⁴ The 2009 *Parliamentary Inquiry into Banking* estimated that the Big Four banks failed to pass on 60-70 basis points of OCR cuts on to borrowers. Source: http://img.scoop.co.nz/media/pdfs/0911/report_of_the_parliamentary_banking_inquiry.pdf, p27.

⁵ Source: <https://www.nzpost.co.nz/sites/default/files/uploads/shared/statement-corporate-intent/statement-of-corporate-intent-2012-2015.pdf>, p1.