Government Response to
Report of the Finance and Expenditure Committee
on the
inquiry into banking competition

Presented to the House of Representatives

In accordance with Standing Order 256

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Introduction

1 The Government welcomes the Finance and Expenditure Committee's report on its inquiry into banking competition, which represents a major contribution to ensuring that New Zealand has a competitive banking sector that meets the needs of New Zealanders and supports economic growth.

2 The Government responds to the report in accordance with Standing Order 256.

3 The inquiry was initiated on 14 June 2024 and was conducted by the Finance and Expenditure Committee and the Primary Production Committee. The purpose of the inquiry was to examine the state of competition in banking, identify barriers preventing competition, review the impact of the regulatory environment on competition, and focus on lending to businesses, the rural sector, and Māori.

4 The Government is supportive of and has responded to all of the recommendations made by the Committee. The Committee's recommendations will require cross-government action to drive further progress in improving the state of competition in New Zealand's banking sector.

5 Recommendations in the Committee's report span competition issues, rural and business banking, and lending to Māori. Most of the Committee's recommendations endorse work that is already underway, including work that is part of the Government's response to the Commerce Commission's market study into personal banking services.

Recommendations and government response

Chapter 1: State of competition in banking

6 **Recommendation 1: Standardise credit information and make it easier to compare loans** – 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

7 **Response**: Agree.

7.1 The Government will write to industry to encourage them to consider standardising financial information and using digital technologies where changes would be effective for helping customers to compare products and loan options across banks.

7.2 The Government's work to mandate open banking will also help to streamline product and loan comparisons and applications.

8 **Recommendation 2: Open the door to more overseas banks and fintechs** – 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.

9 **Response**: Agree.

9.1 The Government supports the RBNZ considering options for lowering barriers to entry for overseas banks and fintechs. The RBNZ:

9.1.1 is undertaking a review of capital requirements for deposit takers

9.1.2 has commissioned a targeted market study to understand perceptions of the relative attractiveness of the New Zealand banking market, including views on any regulatory barriers preventing overseas deposit takers from entering the market;

9.1.3 has announced its decision to reduce the minimum capital requirement for deposit takers from $30m to $5m; and

9.1.4 has broadened access to ESAS to make it easier for overseas banks, payments service providers and Financial Market Infrastructures to directly access the payments system in New Zealand.

9.2 The Government also recognises that the Ministry of Business, Innovation and Employment (MBIE) could support this recommendation through conduct policy development. Regulations to enable open banking will also allow businesses to operate in New Zealand which have thus far been locked out.

10 **Recommendation 3: Strengthen Kiwibank through investment –** Recommend Kiwibank's parent company continues to seek further ways of increasing capital to strengthen Kiwibank's retail and business banking.

11 **Response**: Agree.

11.1 The Government agrees that Kiwibank should be strengthened through additional investment.

11.2 In July 2025 the Government approved Kiwibank Group Capital (KGC) to undertake a capital raise of up to $500 million to fund the growth of Kiwibank. Further opportunities to increase capital are a matter for the KGC board to consider.

11.3 The Government requests that the Treasury monitors the capital raise process and future KGC Board decisions as it provides oversight in relation to Kiwibank initiatives in retail and business banking.

12 **Recommendation 4: Review fees and profits on everyday accounts** – 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.

13 **Response:** Agree.

13.1 The Minister of Commerce and Consumer Affairs will write to the Financial Markets Authority (FMA) to ask it to consider a response to the recommendation to investigate transaction account pricing. The FMA will consider this recommendation as it relates to its regulatory remit under the Conduct of Financial Institutions (CoFI) regime and its regulatory priorities. MBIE and the FMA will monitor the effectiveness of the CoFI regime.

13.2 The Government is supportive of transparency in banking and initiatives that support this. For example, the FMA encourages banks to provide greater price transparency by publishing data on how and when they pass through changes to the Official Cash Rate (OCR). It also monitors how banks ensure the ongoing suitability of their products and services to meet consumer needs and requirements.

13.3 The Government will write to banks to encourage them to consider disclosing profitability on transaction, on-call, and savings accounts.

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

14 **Recommendation 5: Revisit Reserve Bank prudential settings** – Recommend the Government strengthen supervision of the Reserve Bank's prudential role, for example by:

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

14.2 appointing new members to the Reserve Bank board with noted prudential regulation expertise

14.3 establishing a dedicated Prudential Policy Committee (comparable to the Monetary Policy Committee) with responsibility for the Reserve Bank's prudential policy

14.4 requiring regular independent external reviews that monitor the Reserve Bank's prudential performance.

15 **Response:** Partially agree.

15.1 The Government agrees that prudential settings should be monitored to ensure an appropriate balance between financial stability and market competition and efficiency.

15.2 To this end, the Minister of Finance has commissioned advice from the Treasury on the statutory objectives in the RBNZ Act 2021.

15.3 After consultation with the Minister of Finance, RBNZ is currently considering changes to its governance structure to bring in more prudential expertise at the decision-making level. Government will consider whether future appointments to the RBNZ board itself can complement those changes by adding further prudential policy expertise.

15.4 The Government considers that the proposed RBNZ changes can achieve the governance aspects of this recommendation without the need to legislate for a separate Prudential Committee.

15.5 After the changes currently under consideration by the RBNZ are embedded, the Government will consider the timing of any further independent reviews, noting the RBNZ will also continue to be scrutinised by the FEC, the Treasury, and periodically by international organisations like the International Monetary Fund.

16 **Recommendation 6: Evaluate capital settings** – Recommend the Reserve Bank include in its 2025 capital review and other workstreams:

16.1 risk-weighted asset calculations and how they affect businesses and rural lending

16.2 capital ratio requirements and compliance settings for smaller banks and regional banks compared to the Big 4 banks

16.3 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)

16.4 the overall risk tolerance underpinning decisions taken in the Reserve Bank's 2019 capital review.

17 **Response:** Agree.

17.1 The Government welcomes the RBNZ review of capital settings for deposit takers to ensure an appropriate balance between financial stability and market efficiency.

17.2 The RBNZ review considers the matters outlined in this recommendation. The consultation paper released on 25 August proposes changes related to:

17.2.1 more granular risk weights to align with actual risk, including in areas of corporate and agricultural lending, and that would also narrow risk weight gaps between internal ratings-based banks and others;

17.2.2 proposed options that put more emphasis on proportionality for capital ratio requirements; and

17.2.3 proposed options are calibrated to a higher risk appetite than in 2019.

17.2.4 The Government also notes that RBNZ has announced its decision to reduce the minimum capital requirement for deposit takers under the Deposit Takers Act to $5m.

18 **Recommendation 7: Broaden the "regulatory sandbox" trial** – Recommend the Financial Markets Authority broaden its "regulatory sandbox" trial and explore a single licensing model to cut red tape for innovative financial services.

19 **Response:** Agree.

19.1 The Minister of Commerce and Consumer Affairs will write to the FMA asking it to consider whether broadening the regulatory sandbox trial is warranted. The FMA will consider a response.

19.2 Acknowledging the FEC's recommendation, the FMA is currently evaluating the sandbox pilot which will help shape the future direction of the sandbox. The FMA is also working on a longer-term strategy to encourage responsible innovation in financial services.

19.3 The Ministry of Business, Innovation and Employment will continue to follow developments in the sandbox trial to inform its related workstreams.

19.4 The Government notes that work is underway on the Financial Markets Conduct Amendment Bill (currently progressing through Parliament), which will require the FMA to issue a single licence to firms, rather than issuing a separate licence for each market service the firm provides under Part 6 of the Financial Markets Conduct Act 2013. The FMA has already commenced work to make operational changes to streamline the standard conditions, licence application process and regulatory returns to better harmonise these across the various market services.

20 **Recommendation 8: Cut Council of Financial Regulators overlap** – 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.

21 **Response:** Agree.

21.1 The Government supports the recommendation to reduce regulatory burden and compliance costs for financial service providers.

21.2 The Government notes that a review of the Council of Financial Regulators (CoFR) is underway with the goal of better enabling it to meet its objective of facilitating co-operation and co-ordination between members of the council to support effective and responsive regulation of the financial system in New Zealand. Government decisions will be forthcoming on the recommendations from the CoFR review.

22 **Recommendation 9: Make climate lending rules clear and consistent** – 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.

23 **Response**: Partially agree.

23.1 The Government agrees that the RBNZ should continue to ensure its rules are clear, consistent and transparent. Current rules allow the biggest banks to use their own internal models to set risk weights. There is scope for these models to consider climate variables if it can be shown that they are a meaningful risk differentiator, subject to RBNZ approval. Smaller banks use standardised risk weights set by the RBNZ. Climate variables have not been used to determine these risk weights. The RBNZ is clear that risk weights are not designed to encourage or discourage New Zealand banks to undertake any particular type of lending to specific sectors or activities, for example to the fossil fuel sector. Regarding climate related pricing, the RBNZ does not provide guidelines as banks make their own pricing and lending decisions.

24 **Recommendation 10: Push for real-time payments** – Recommend banks invest in global standard, next-generation payment infrastructure to work towards real-time payments at a national and international level.

25 **Response:** Agree.

25.1 The Government recognises the importance of modernising New Zealand's retail payments system to drive innovation, productivity and competition.

25.2 Through its Future of Money programme, the RBNZ is developing a strategy to modernise the New Zealand retail payments system. The RBNZ will work closely with government agencies and industry participants to develop a roadmap for improving the efficiency, safety and resilience of retail payments infrastructure and processes in New Zealand.

26 **Recommendation 11: Improve Payments New Zealand** – 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.

27 **Response:** Agree.

27.1 The Government welcomes efforts that would enable Payments New Zealand to support the wider financial services sector to support innovation and competition.

27.2 While Payments NZ is an industry-led and owned organisation, the Government will write to Payments New Zealand to encourage them to respond to this recommendation.

28 **Recommendation 12: Address limits on growth of non-bank deposit takers and fintechs** – Recommend the Reserve Bank emphasise competition in its ongoing policy work on restricted terms such as “bank” and “banking”.

29 **Response**: Agree.

29.1 The Government agrees that the RBNZ should consider options to, within its statutory mandate, remove limits on growth of non-bank deposit takers and fintechs.

29.2 The Government notes that the RBNZ launched public consultation on the restricted words framework on 30 September (including the ability of entities to refer to themselves as a “bank”) later in 2025, with final policy decisions being taken in 2026.

Chapter 3: Rural and business banking

30 **Recommendation 13: Cease capital increases for banks** – Recommend that, effective immediately, the Reserve Bank cease the planned incremental increases to capital requirements.

31 **Response:** Partially agree.

31.1 The Government agrees that capital settings should be reviewed to ensure an appropriate balance between financial stability and market efficiency.

31.2 The RBNZ is undertaking a review of capital settings for deposit takers. The RBNZ’s decisions on the capital review are scheduled to be made by the end of the year before the next increase in capital requirements for banks is set to occur on 1 July 2026.

31.3 The Treasury will monitor RBNZ progress on the current capital review and expects decisions to have been made in advance of the next planned capital increases (July 2026).

32 **Recommendation 14: Review rural requirements** – Recommend the Reserve Bank review the capital requirements for rural lending and that any changes are monitored and publicly reported on.

33 **Response**: Agree.

33.1 The Government agrees that capital settings should be reviewed to ensure an appropriate balance between financial stability and market efficiency.

33.2 The RBNZ is undertaking a review of capital settings for deposit takers. The consultation paper released on 25 August proposes more granular risk weights to align with actual risk, including in agricultural lending. Any changes from the review will be monitored and reported as part of monitoring the Government response to this inquiry.

34 **Recommendation 15: Formal disclosure of factors** – Recommend agricultural lenders formally disclose to customers the specific factors they take into account when calculating their risk margin and pricing.

35 **Response**: Agree.

35.1 While the Government sees value in increasing transparency and competition in agricultural lending, it is a matter for agricultural lenders to decide whether they will formally disclose the factors they take into account when calculating their risk margin and pricing. The RBNZ does not normally require banks to be transparent publicly about the assumptions and calculations underlying their commercial decisions. We recommend the Government write to lenders to encourage industry responses to this recommendation.

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

36 **Recommendation 16: Set voluntary Māori banking services standards** – Recommend banks jointly adopt voluntary service standards to better meet the banking needs of Māori, like the Banking Code of Practice in Australia.

37 **Response:** Agree.

37.1 The Government welcomes industry efforts that are underway to improve Māori access to banking services, including through the work of the New Zealand Banking Association and Tāwhia – Māori bankers rōpū.

38 **Recommendation 17: Remove anti-money-laundering (AML) roadblocks for Māori land trusts** – 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.

39 **Response**: Agree.

39.1 The Government agrees that Māori land trusts and Māori organisations should not face burdensome customer due diligence requirements when accessing banking services if the risk is low.

39.2 The Government is progressing changes to the AML/CFT Act that will enable reporting entities to apply simplified customer due diligence measures in these circumstances.

40 **Recommendation 18: Enable Māori co-investment in infrastructure** – Recommend the Government enable further opportunities for Iwi and Māori organisations to invest as co-owners or capital providers, for example through infrastructure projects.

41 **Response**: Agree.

41.1 The Government agrees there are benefits in enabling Iwi and Māori organisations to invest as co-owners or capital providers, including in addressing New Zealand's infrastructure deficit.

41.2 As part of Going for Growth the Government is supporting Iwi-led system innovation and investment collaboration. The successful Investment Summit in March 2025 also showcased the growing potential for collaboration between international investors and Iwi and Māori businesses opportunities.

41.3 The Government is supportive of and engaged with iwi-led initiatives that could lead to further co-investment opportunities. This includes Rauawa, an iwi-led financial intermediary that facilitates Iwi and Māori co-investment in infrastructure projects, and Tōtara, which builds the collective investment capability of over 20 iwi and Māori entities, enabling their participation in high-value investment opportunities to enhance asset productivity.

42 **Recommendation 19: Create Māori-focused lending products** – Recommend banks create and offer more lending products that meet the unique needs of Māori freehold landowners.

43 **Response**: Agree.

43.1 The Government acknowledges recent efforts by banks and the RBNZ to improve Māori access to capital, including lending on whenua Māori and tools to support monitoring of progress. The Government welcomes further efforts to ensure that bank policies and risk settings adequately allow for lending on whenua Māori and that a wider range of lending options is made available and actively promoted.

43.2 In April 2025, the Māori Affairs Committee opened an inquiry into how financing and capital can be accessed to develop Māori land.

Next steps: ensuring change is delivered

44 **i Seek Government comment** – 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).

45 **Response**: Agree.

45.1 The Government agrees to respond to all Inquiry recommendations except Recommendation 9. The Treasury will lead monitoring and reporting of the Government response in consultation with relevant government agencies and key industry participants.

46 **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:

46.1 their progress implementing the changes recommended above

46.2 other ways they are improving competition, rural, lending, and Māori access to banking

46.3 their engagement with fintech start-ups, including the number of partnerships initiated, timelines from engagement to implementation, and outcomes of pilot projects

46.4 their delivery of open banking to help accelerate implementation, drive consumer uptake, and ensure greater competition in the sector

46.5 disclosure from banks of profitability and transparency improvements of transaction accounts

46.6 the work the Reserve Bank is currently assessing lending optionality to Community Housing providers (CHP) 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.

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

48 **Response:** Agree.

48.1 The Government agrees to provide written six-monthly updates as requested to the FEC and Primary Production Committee.

Conclusion

49 The Government will respond to all the Finance and Expenditure Committee's recommendations on banking competition and agree or partially agree to all of the Committee's recommendations.

50 The Treasury will lead monitoring and reporting of the Government response.