

Unclassified

English - Or. English

24 November 2025

**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
COMPETITION COMMITTEE**

**Balancing Prudential Regulation and Competition Considerations in Banking – Note by
New Zealand**

5 December 2025

This document reproduces a written contribution from New Zealand submitted for Item 10 of the 147th OECD Competition Committee meeting on 4-5 December 2025.

Antonio CAPOBIANCO
Antonio.Capobianco@oecd.org, +(33-1) 45 24 98 08

JT03577354

New Zealand

“Our work has led us to question whether there could be a better balance between financial stability and competition outcomes – both of which have important benefits for the economy and consumers.” - NZCC Personal Banking Services Market Study, Final Report (August 2024)

Introduction

1. This paper is a contribution to the OECD Competition Committee’s Roundtable on Balancing Prudential Regulation and Competition Considerations in Banking to be held on 5 December 2025.
2. The New Zealand Commerce Commission’s (NZCC) observations on the New Zealand experience of this topic are drawn primarily from a market study into personal banking services carried out from June 2023 to August 2024.¹ We note that this paper has been prepared by, and only reflects the views of, the NZCC.
3. Over the course of that study, we examined a range of matters including the industry structure and the nature of competition in personal banking, the conditions of market entry and expansion, consumer behaviours and preferences, and impediments to new or innovative banking products or services, business models or disruptive firms.
4. We found that New Zealand’s four major banks – ANZ, ASB, BNZ and Westpac – do not face strong competition. We saw the market as a stable two-tier oligopoly with no disruptive “maverick” and sporadic price competition.² However, the degree of market concentration in New Zealand does not appear unusual given our relatively small market size. We made a suite of recommendations for improving competition, designed to work together to support new entry and expansion, reduce the regulatory barriers to competition and to empower consumers to get better prices and services.
5. We said that if New Zealand is to have a more competitive banking sector, the regulatory environment needs to better support competition. Regulation shapes competition in banking and, while the regulatory burden affects all providers, it affects the smaller providers disproportionately more than the major banks due to lack of scale. Among the regulatory factors affecting competition we found that prudential capital requirements had, for a substantial period, given the major banks a material competitive advantage. However, we acknowledge the importance of the financial stability in underpinning a competitive financial system.
6. In this paper, we firstly outline the history and evolution of prudential regulation in New Zealand’s banking sector. We then discuss our market study. We also touch on a subsequent Parliamentary Select Committee Inquiry into rural and business banking which also considered prudential regulation and competition in banking.

¹ <https://www.comcom.govt.nz/regulated-industries/projects/market-study-into-personal-banking-services/>

² A fifth large bank, Kiwibank, sits between the two tiers. The four major banks in the first tier have high and largely stable market shares and, between them, hold 85-90% of the assets of all registered banks in New Zealand.

1. History of prudential regulation in New Zealand's banking sector

7. In New Zealand, prudential regulation of registered banks is the domain of the Reserve Bank of New Zealand - Te Pūtea Matua (RBNZ), who is the operationally independent prudential regulator of deposit takers. The RBNZ is also responsible for the prudential regulation of non-bank deposit takers (NBDTs), licensed insurers, and designated financial market infrastructures. The history of prudential capital requirements in New Zealand's banking industry reflects a steady evolution shaped by both domestic policy shifts and global financial developments.

1.1. Basel Principles

8. The RBNZ historically aligned its bank capital adequacy framework with international standards set by the Basel Committee on Banking Supervision.³ New Zealand adopted the Basel II framework in 2008, which introduced a more risk-sensitive approach to capital adequacy through its three pillars: minimum capital requirements, supervisory review, and market discipline. Banks used either a 'standardised' approach or an Internal Ratings-Based (IRB) modelling approach to calculate their capital needs. These methods were formalised through specific policy documents and registration conditions, ensuring consistency and transparency in how banks assessed and disclosed their risk exposures. The four major, domestic-systemically important banks (D-SIBs) elected to implement IRB modelling.

9. In response to the global financial crisis and evolving financial risks, the Basel III framework was introduced in 2010, aiming to strengthen the definition of regulatory capital, raise minimum capital requirements, and introduce buffers to enhance banks' resilience. The RBNZ adopted these reforms with modifications tailored to New Zealand's financial landscape. This included phased increases in capital requirements and stricter definitions of capital instruments. The implementation was guided by a comprehensive Capital Review initiated in 2017, as outlined below, culminating in decisions being announced in December 2019. These decisions built upon Basel III principles while addressing local considerations, such as the quality of capital and the need for robust buffers.^{4 5}

10. From Basel II adoption to the nuanced application of Basel III, the RBNZ has aimed to ensure that banks maintain sufficient capital to absorb losses, promote financial stability, and support economic growth. For example, the RBNZ requires a locally incorporated bank to have a minimum of \$30m in capital from when it is first registered, to ensure that the bank has sufficient substance to carry on business as a registered bank and to demonstrate that the owners have made a reasonable commitment to the business.⁶

³ The Basel Committee has established a series of international standards for bank regulation, most notably its accords on capital adequacy which are commonly known as Basel I, Basel II and Basel III. <https://www.bis.org/bcbs/history.htm>

⁴ <https://www.rbnz.govt.nz/regulation-and-supervision/oversight-of-banks/how-we-regulate-and-supervise-banks/our-policy-work-for-bank-oversight/how-the-basel-framework-underpinned-our-bank-capital-requirements>

⁵ <https://www.treasury.govt.nz/sites/default/files/2018-06/rbnz-3924759.pdf>

⁶ <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/banks/banking-supervision-handbook/bpr100-capital-adequacy-1-july-2024pdf.pdf>

1.2. RBNZ Capital Review

11. A key development in prudential regulation in New Zealand occurred between 2017 and 2019 when the RBNZ undertook a comprehensive Capital Review to reassess the capital adequacy framework for locally incorporated registered banks. The review aimed to ensure that banks held sufficient capital to withstand financial shocks and maintain stability in the banking system. When reviewing the appropriate level of capital for New Zealand banks to hold, the RBNZ adopted the goal of banks withstanding a one in 200-year crisis.⁷ The RBNZ concluded that higher capital levels would enhance the resilience of New Zealand’s financial system, reduce the likelihood of bank failures, and better align incentives for bank owners.

12. The final decisions from the review,⁸ released in December 2019, included raising minimum capital requirements to 18% of risk-weighted assets for the largest banks and 16% for others, phased in gradually until 2028. Implementation began in October 2021, and assessments since then have shown that banks are meeting the new requirements without market disruption.⁹

13. As explained in our banking market study, the RBNZ increased overall capital requirements while retaining the dual approach of IRB modelling for large banks and standardised risk weightings for smaller ones. To address the widening gap between these methods—which had allowed D-SIBs to hold significantly less capital—the RBNZ introduced an IRB scalar, an output floor, and a D-SIB buffer. These measures were intended to rebalance capital settings between large and smaller banks, though we observed in our report that smaller banks still face relatively higher regulatory burdens, which remain a constraint on competition.¹⁰

1.3. Deposit Takers Act 2023

14. Another major recent development was the passing of the Deposit Takers Act 2023 (DTA) in mid-2023. The DTA significantly reshapes New Zealand’s prudential framework for deposit takers by establishing a unified framework for regulating and supervising all deposit-taking institutions including banks, credit unions, building societies, and retail-funded finance companies. It replaces the previous separate prudential regulatory frameworks for registered banks and NBDTs respectively with a single regime that integrates and consolidates prudential oversight under the RBNZ (the RBNZ previously regulated but did not supervise NBDTs). The DTA enhanced the RBNZ’s powers to set and enforce prudential standards covering governance, capital adequacy, liquidity, risk management, and disclosure. It also contains more modern supervisory and enforcement powers to monitor and sanction non-compliance, introduces a Depositor Compensation Scheme to protect depositors from loss, while strengthening the framework for resolving a

⁷ <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/banks/review-capital-adequacy-framework-for-registered-banks/decisions/capital-review-guide.pdf>

⁸ <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/banks/review-capital-adequacy-framework-for-registered-banks/decisions/capital-review-decisions.pdf>

⁹ <https://www.rbnz.govt.nz/regulation-and-supervision/oversight-of-banks/how-we-regulate-and-supervise-banks/our-policy-work-for-bank-oversight/capital-review>

¹⁰ See Chapter 7, NZCC final market report into personal banking services: https://www.comcom.govt.nz/__data/assets/pdf_file/0019/362035/Final-report-Personal-banking-services-market-study-20-August-2024-Amended-27-August-2024.pdf

deposit taker in financial distress.¹¹ The DTA is coming into effect progressively and will fully take effect from December 2028.

15. A key innovation of the DTA is the proportionality principle,¹² which requires the RBNZ to tailor prudential requirements and its approach to supervision based on the size, complexity, and risk profile of each institution. This approach supports a diverse and inclusive financial sector while maintaining systemic stability. It 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. The RBNZ published a Proportionality Framework in March 2024, which outlines its approach to the proportionality principle when developing standards under the DTA.¹³

16. In developing its Proportionality Framework, the RBNZ interpreted “proportionality” consistent with the Bank for International Settlements’ definition of proportionality: ensuring that applicable rules and supervision practices are consistent with banks’ systemic importance and risk profile and are appropriate for the broader characteristics of a particular financial system.¹⁴

17. Applying its Proportionality Framework, the RBNZ views locally incorporated deposit takers as comprised of three groups for the purposes of developing standards:

- Group 1: deposit takers with total assets of NZ\$100 billion or more. These are the D-SIBs, which are the four major banks;
- Group 2: Deposit takers with total assets of NZ\$2 billion or more but less than NZ\$100 billion. These are the non-D-SIB banks;
- Group 3: Deposit takers with total assets of less than NZ\$2 billion. These are all the current NBDTs and two of the smallest registered banks.

18. The DTA also helped to refocus the RBNZ’s primary financial prudential policy objective away from the previous objective of promoting the “maintenance of a sound and efficient financial system”¹⁵ (which had previously guided regulatory decisions) to promoting the stability of the financial system.^{16 17} The previous objective had historically allowed for some consideration of competition and innovation within prudential regulation and supervision. The DTA also lists some additional purposes, supporting the main purpose of financial stability, such as promoting the safety and soundness of each deposit taker.¹⁸

19. The DTA lists principles that must be taken into account by the RBNZ when achieving the purposes of the DTA,¹⁹ although these are ‘principles’ and not ‘purposes’,

¹¹ <https://www.rbnz.govt.nz/regulation-and-supervision/deposit-takers-act/overview-dta>

¹² Deposit Takers Act, s4(b).

¹³ <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/dta-and-dcs/the-proportionality-framework-under-the-dta.pdf>

¹⁴ <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/deposit-takers-act/proportionality-framework-for-deposit-takers.pdf>

¹⁵ Reserve Bank of New Zealand Act 1989, s68.

¹⁶ Reserve Bank of New Zealand Act 2021, s9.

¹⁷ Deposit Takers Act, s3(1).

¹⁸ Deposit Takers Act, s3(2).

¹⁹ Deposit Takers Act, s4.

and are secondary considerations in the hierarchy to financial stability. One of these principles is “the need to maintain competition within the deposit-taking sector”²⁰ when the RBNZ sets core standards and other policies.²¹ So while financial stability remains the core purpose of the legislation and the primary driver for the RBNZ when making prudential policy decisions under the DTA, maintaining competition is a principle that must be taken into account. We note that an obligation to “maintain” competition contrasts with the purpose of New Zealand’s competition laws which is to “promote” competition.²²

20. Further, the Minister of Finance is legislatively required to issue a Financial Policy Remit (FPR) that specifies matters the RBNZ must “have regard to” when pursuing its financial stability objective and implementing prudential regulation.²³ The current FPR²⁴ places strong emphasis on fostering competition in the financial system, alongside promoting an innovative regulatory system and financial inclusion. Accordingly, when designing new prudential standards under the DTA, the RBNZ must deliver the statutory purpose of financial stability, while tempering its approach through the statutory principles and considering the Government’s priorities and risk appetite expressed in the FPR.

21. Since the DTA was enacted in 2023, the RBNZ has been engaged in a multi-year programme of work to put in place the standards and the regulations to support the DTA. Standards to be set have included “core” and “non-core” standards for deposit takers. Among the core standards is a capital standard.

22. In the executive summary to the RBNZ’s core standards policy proposals consultation paper, the RBNZ explained the relevance of minimum levels of capital to financial stability, acknowledging that capital has a cost and that there are complex trade-offs. It included a discussion of the proportionality, diversity and competition principles. It is useful to set some of that out here:

Considering competition

90. Competition is an important consideration in our prudential decision making, as it has a strong connection to efficiency. Moreover, as outlined above, the need to maintain competition within the deposit-taking sector is one of the principles we need to consider when developing standards under the DTA. We consider that the need to maintain competition is always a relevant principle, given all prudential regulation tends to have some impact on competition (even if it is minimal), such as through altering compliance costs the setting of capital or liquidity requirements, or through other mechanisms. Consideration of competition is also closely linked to some other principles, such as avoiding unnecessary compliance costs, proportionality, and the desirability of the deposit-taking sector comprising a diversity of institutions. In some circumstances a prudential requirement may have a marginal negative impact on competition, but this will be justified on a net

²⁰ Deposit Takers Act, s4(b).

²¹ Certain other principles are also relevant to competition, such as: i) the proportionality principle (the desirability of taking a proportionate approach to regulation and supervision), ii) the desirability of the deposit-taking sector comprising a diversity of institutions to provide access to financial products and services to a diverse range of New Zealanders, and iii) the need to avoid unnecessary compliance costs.

²² Commerce Act 1986, s 1A.

²³ Reserve Bank of New Zealand Act 2021, s203.

²⁴ <https://www.rbnz.govt.nz/about-us/corporate-publications/our-financial-policy-remit>

benefit basis when considering the societal costs of deposit taker failure, the risks to the DCS funds and in light of our financial stability objective.

91. We consider that the DTA and, by extension, the DTA standards will have both positive and negative impacts on competition in the deposit-taking market. Some positive effects include the benefits that smaller players receive by having their relative risk (as compared with larger deposit takers) reduced through the DCS, the reduction in the risk that larger deposit takers pose to smaller deposit takers through enhanced prudential regulation, and the greater chance of smaller and more vulnerable deposit takers surviving a banking crisis because of enhanced regulation putting them in a better prudential position. Another benefit to competition will come from reducing expansion costs from the single regime for all deposit takers under the DTA. (For example, under the DTA standards we are proposing that risk weights for credit risk will be calculated in the same way for Group 2 and Group 3, reducing the costs for Group 3 entities transitioning into Group 2.) We are also proposing a more unified disclosure regime, which should better drive competition and help consumers make more informed decisions.

92. However, there may be some negative effects (the magnitude of which are uncertain). These include:

potentially higher DCS levies for smaller and riskier entities because of higher relative risk (albeit offset by the benefit of the DCS protection)

regulatory transition costs for existing NBDTs that may adversely affect their ability to compete in the short term

higher costs of participating in the market in the long term, potentially deterring new entrants who could otherwise have more disruptive effects on competition in the deposit taker market.

93. Given these competing factors it is difficult to assess the overall impacts of the change in both the near term and in the long term, and we are interested in your views on the impact of the DTA standards on competition.²⁵

23. Briefly summarised, the core capital standard proposed for the three groups, applying the RBNZ's Proportionality Framework, were:

- For Group 1 deposit takers (D-SIBs): to carry over to the capital standard most aspects of the existing capital requirements (including the decisions made as a result of the Capital Review such as the 1.2x scalar, the 85% output floor and the 2% D-SIB buffer).
- For Group 2 deposit takers (non-D-SIB banks): to carry over to the capital standard most aspects of the existing capital requirements.
- For Group 3 deposit takers (NBDTs): closer alignment with the capital requirements for Groups 1 and 2 "but applied in a proportionate way". The effect of the proposals would require the Group 3 deposit takers to increase the capital they hold compared to existing requirements, but this would be offset with a reduction in risk weights (which the RBNZ estimated to be around 10–30%), reducing the impact of higher capital requirements. It was also proposed to

25

https://consultations.rbnz.govt.nz/dta-and-dcs/deposit-takers-core-standards/user_uploads/deposit-takers-core-standards-consultation-paper-1.pdf

introduce a minimum capital requirement for the Group 3 deposit takers, in the range of NZ\$5m to \$10m (down from NZ\$30m).

2. Recent studies of prudential regulation and competition in New Zealand

24. Following the passing of the DTA, there have been two major studies touching on prudential regulation and competition in New Zealand’s banking sector. These are (1) our market study into personal banking services, and (2) a Parliamentary Select Committee Inquiry into banking competition with a broader focus that included rural and business banking.

2.1. Commerce Commission market study

25. At the New Zealand Government’s direction, the NZCC carried out a 14-month long market study into factors that may affect competition for the supply or acquisition of personal banking services in New Zealand. We published a final competition report in August 2024.²⁶

26. We found that New Zealand’s four major banks – ANZ, ASB, BNZ and Westpac – do not face strong competition. We saw the market as a stable two-tier oligopoly with no disruptive “maverick” and sporadic price competition. We made a suite of recommendations for improving competition, designed to work together to support new entry and expansion, reduce the regulatory barriers to competition and to empower consumers to get better prices and services.

27. We said that if New Zealand is to have a competitive banking sector, the regulatory environment needs to better support competition. Regulation shapes competition in banking and while the regulatory burden affects all providers it affects the smaller providers disproportionately more than the major banks due to lack of scale. Among the regulatory factors affecting competition we found that prudential capital requirements had, for a substantial period, given the major banks a material competitive advantage.

2.1.1. Prudential capital, IRB modelling, risk weights and competition effects

28. Our report pointed to the effect on competition from the disparity in capital requirements between the four major (D-SIB) banks and Kiwibank,²⁷ the other smaller domestic banks and NBDTs. The D-SIBs have since the adoption of Basel II been permitted to use IRB models to calculate their risk weightings for prudential capital requirements, which typically result in lower capital holdings against residential mortgage exposures. In contrast, smaller institutions have been required to use the standardised approach to risk weightings which, by design, is conservative because it is trying to cater for all outcomes. This generally demands higher capital levels for similar exposures, disadvantaging smaller providers and potentially impacting their ability to expand.

29. This disparity had been particularly pronounced prior to the RBNZ’s 2019 Capital Review. Between 2008 and 2022, and during periods of rapid housing market growth, the lower capital requirements for the four major banks provided them with a competitive

²⁶ https://www.comcom.govt.nz/__data/assets/pdf_file/0019/362035/Final-report-Personal-banking-services-market-study-20-August-2024-Amended-27-August-2024.pdf

²⁷ Kiwibank, a fifth large bank, does not have D-SIB status.

advantage, enabling more aggressive lending and market share expansion. As noted, the RBNZ sought to address these imbalances as part of the Capital Review.

30. In our report, we acknowledged that changes made by the RBNZ through the Capital Review had reduced, but not eliminated, this advantage.

31. The major banks' position during our study was that the Capital Review changes (the increase in the scalar and the introduction of the 85% output floor) had reduced the gap in outcomes such that there is now much less difference between the capital a large bank and a smaller bank must have for a particular loan. They maintained that the remaining funding cost advantage was small and that the funding cost advantage is removed by the impact of the 2% D-SIB buffer. In essence, the Capital Review changes had "evened out" the capital stacks of the D-SIBs versus others.

32. The smaller/non-D-SIB banks maintained that, if the purpose behind the D-SIB buffer was to reflect systemic risk, there should be equivalence in capital requirements for assets with the same or similar risks before the 2% D-SIB buffer is applied. They suggested that, in order to achieve this, the RBNZ should disallow IRB modelling of credit risk in favour of a single 'standardised' methodology for all banks.

33. In our report, we concluded that:

- Ultimately, this comes down to differences of view as to the purpose and effect of the 2% D-SIB buffer and the extent to which lower capital requirements are an incentive for the D-SIB banks to maintain IRB modelling.
- While the two policy choices effectively net out, they were introduced for different purposes: the IRB approach to encourage a more sophisticated understanding of risk and closer (more efficient) matching of capital held against those risks, and the D-SIB buffer to reduce the likelihood of failure of D-SIBs.

34. Rather than recommending doing away with IRB modelling in favour of a single 'standardised' approach, to further reduce the advantage we recommended that the Reserve Bank permit smaller providers to use more granular standardised risk weightings. That would allow them to match the risk weightings they apply more closely to the actual risks their loans create and likely reduce the capital they need to hold.

2.1.2. Prudential regulation and competition assessments

35. Beyond these gnarly and technical issues of capital ratios and risk weightings, our most significant recommendation to the RBNZ was that it should review and broaden the way it assesses the competition impacts of its policy decisions.

36. The RBNZ's primary focus is, as noted above, on stability of the financial system, including the soundness of each deposit taker. That said, its new regulatory framework under the DTA requires it to take account of secondary considerations, including those related to competition, proportionality and diversity.

37. We acknowledged that the RBNZ had done a great deal of work in developing its Proportionality Framework and applying it in its core standards proposals. We observed, however, that its competition assessments placed a heavy emphasis on individual entity soundness and protecting firms from the risk of failure. That, we said, was only consistent with maintaining competition in the sense that the providers that are able to meet the resulting regulatory requirements, are unlikely to fail. But it does not maintain competition if a smaller provider exits as a consequence of being unable to meet these requirements, and more generally, such an approach will tend to weaken competition by excluding some innovative entrants.

38. We encouraged the RBNZ to improve the way it assesses and considers the impact on competition of its decisions. We recommended:

1. That the RBNZ use a definition of competition that emphasises competition as a dynamic process, the importance of entry and expansion (including the threat of) and the role of competition in disciplining firms that are inefficient or not otherwise meeting consumer preferences; and
2. That the RBNZ should explicitly and transparently articulate how its actions impact competition and, if they negatively impact competition, explain why such trade-offs are necessary or desirable to achieve a given level of stability.

39. In response to our recommendations, the RBNZ published in October 2025 its own Competition Assessment Guidelines for Prudential Policy.²⁸ The Guidelines outline a process for how the RBNZ considers competition and helps to ensure it factors competition into its policy analysis from the outset. These Guidelines are similar to the Competition Assessment Guidelines the NZCC published in 2022 to assist public officials and others to consider competition at an early stage in decisions and actions that influence markets, such as the making of regulations.²⁹

40. In addition, we recommended that the RBNZ place greater emphasis on competition in specific upcoming decisions:

- To develop more granular standardised risk weightings;
- To set minimum capital requirements at levels that encourage new entry into the sector and do not put existing providers at risk of exit;
- To permit the broadest possible range of providers to use restricted words like “bank” and “banking services”, even if they are may not be (prudentially regulated) deposit takers;³⁰ and
- To broaden access to Exchange Settlement Account System accounts.³¹

41. We did not, however, take a position on the absolute level of capital required across the sector—such as the RBNZ’s ‘1-in-200 year’ loss event setting—because these apply uniformly across the sector. Instead, our focus from a competition perspective remained on the relative differences between groups of providers.

42. One significant issue addressed in the report is the RBNZ’s minimum capital requirement for Group 3 deposit takers. At the time of the market study, the RBNZ was consulting on reducing the minimum capital threshold from NZ\$30 million to a range of NZ\$5-10 million. Since then, the RBNZ confirmed in August 2025 that the minimum

²⁸ <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/dta-and-dcs/competition-assessment-guidelines-for-prudential-policy.pdf>

²⁹ <https://www.comcom.govt.nz/about-us/our-policies-and-guidelines/competition-assessment-guidelines>

³⁰ A consultation on the restriction on the use of the words 'bank', 'banker' and 'banking' under prudential legislation is currently being consulted on by the RBNZ: https://consultations.rbnz.govt.nz/dta-and-dcs/restrictions-on-use-of-the-word-bank-under-the-dta/consult_view/

³¹ The Exchange Settlement Account System is New Zealand’s principal high-value payment system used by banks and other financial organisations to settle transactions in real time.

capital requirement for Group 3 deposit takers will be set at NZ\$5 million once the DTA is fully implemented.³²

43. Our market study findings underscore the importance of regulatory design in fostering a more competitive personal banking sector. While prudential capital requirements are essential for safeguarding financial stability, their design and implementation can have meaningful implications for competition. By deliberately assessing the potential competition effects of different policy options, regulators and policy designers can help reduce barriers to entry and expansion, enabling a broader range of providers to compete effectively and offer innovative services to New Zealand consumers.

44. We also note that while the focus of the Roundtable, and this paper, is on prudential regulation and competition, the market study and our recommendations touched on a wider set of factors affecting competition in personal banking.

45. Such matters included the need to accelerate and co-ordinate progress on open banking to ensure that it is fully operational in New Zealand in 2026. It is measures like open banking³³ that, in the medium to long-term, have the greatest potential to promote ongoing disruptive competition. Such competition is most likely to come from financial technology (fintech) firms that do not resemble traditional banks and may fall outside the perimeter of prudential regulation. The challenge for the RBNZ and policy makers is to look at what can be done from a regulatory perspective to encourage entry and expansion by such businesses, whilst guarding against systemic risk to financial stability.

46. We also directed recommendations to industry to invest in making improvements to its switching service and others that were aimed at empowering consumers to more easily compare home loan offers and to switch providers. When it comes to improving competition in banking, prudential regulation is one piece of a much larger puzzle.

2.2. Parliamentary Select Committee Inquiry into banking competition

47. In late 2024, the Government announced the establishment of a Finance and Expenditure Parliamentary Select Committee (FEC) inquiry into banking competition in New Zealand.

48. The FEC's final report,³⁴ released in August 2025, was consistent with many of our findings and recommendations from the market study and built on the work of the study, including by looking at rural and business banking.

49. Themes traversed in our market study, of the role of prudential regulation and the competition effects of differentials in prudential capital requirements, arose again in the FEC's process.

50. Submitters to the inquiry said that the RBNZ's focus on financial stability is preventing a competitive banking market. They took issue with the RBNZ's prudential settings, particularly the Capital Review decision to increase overall bank capital requirements and the '1-in-200 year' risk setting. Some submitted that removal of the

³² https://consultations.rbnz.govt.nz/dta-and-dcs/deposit-takers-core-standards/user_uploads/summary-of-submissions-policy-decisions-capital-standard.pdf

³³ To be implemented in New Zealand through the Customer and Product Data Act 2025 and related regulations.

³⁴ <https://selectcommittees.parliament.nz/view/SelectCommitteeReport/96dfc69e-5c72-4a7e-f588-08dde0f072a7>

RBNZ’s statutory “efficiency” objective has allowed the RBNZ to ignore the negative effects of regulatory overreach and suggested that the “efficiency” objective be reinstated. Other submitters suggested there is a need to strengthen monitoring of the RBNZ’s performance around prudential policy.

51. The FEC noted in its final report, as we had in our market study, that “*It is important to strike an appropriate balance between financial stability, efficiency, and competition when setting prudential policy and regulations.*” It said that advice to it was that the perception that the RBNZ has been overly conservative in assessing risk is sufficiently widespread and credible to warrant further examination. Noting that the relevant legislation, including the DTA, is relatively new, the FEC asked the Treasury to consider these issues in reviewing the implementation of the new laws.

52. On the effect of capital requirements on lending, risk allocation, the smaller banks and NBDTs, the FEC said that advice to it was that the lack of consensus on capital settings and substantive questions raised during the inquiry (as well as broader developments in the regulatory landscape since 2019) suggested that a thorough evidence-based review of the RBNZ’s capital requirements was timely. Although the RBNZ capital requirements appear to be within the range of international practice, they appear relatively conservative compared to other jurisdictions.

53. Amidst the airing of these stakeholder concerns through the FEC’s hearings, the RBNZ announced in March 2025 that would undertake a review of its capital settings by the end of 2025.³⁵ This review is considering whether current prudential capital requirements are set at the right level to support a stable and resilient financial system.

54. The FEC recommended that the RBNZ include in its 2025 capital review and other workstreams:

1. risk-weighted asset calculations and how they affect businesses and rural lending;
2. capital ratio requirements and compliance settings for smaller banks and regional banks, compared to the four major banks;
3. other settings to support market entry of additional banks; and
4. the overall risk tolerance underpinning decisions taken in the Capital Review.

55. Beyond capital requirements, the inquiry identified broader regulatory barriers that hinder competition. The complexity and cost of compliance were found to deter new entrants, particularly fintechs and smaller banks. Recommendations included streamlining regulatory processes, expanding the Financial Markets Authority’s regulatory sandbox, and lowering entry barriers for overseas banks and fintechs. Open banking was also highlighted as a key opportunity to enhance competition, with the Customer and Product Data Act 2025 establishing an economy-wide ‘consumer data right’ framework to enable greater access to, and sharing of, customer and product data between businesses including banks.

56. In November 2025, the Government responded to respond to the recommendations in the FEC’s final report by accepting or partially accepting all the recommendations.³⁶ The RBNZ’s review of capital settings is to be completed by the end of 2025.

³⁵ <https://www.rbnz.govt.nz/hub/news/2025/08/rbnz-invites-feedback-on-review-of-capital-requirements-for-deposit-takers>

³⁶ <https://www.beehive.govt.nz/release/government-accepts-banking-recommendations>

3. Conclusion

57. The New Zealand experience illustrates several ways in which prudential regulation can inadvertently impact on competition, entrench incumbents or create unnecessarily high barriers to entry and expansion.

58. The introduction into New Zealand's legislation of a proportionality principle has been an important step towards better calibrating prudential policy with lesser effects on competition. One of the more significant challenges in banking is overcoming the scale and scope advantages of full-service incumbent banks where the fixed costs of regulatory compliance impact disproportionately more on smaller providers. This makes proportionality in regulatory requirements a key response.

59. The New Zealand experience also illustrates the importance of, indeed the necessity for, considered competition assessments to inform policy choices. Competition will not always be the primary driver. In a framework that gives primacy to financial stability, it may continue to be a secondary consideration. But competition in banking is indispensable for the benefits it brings for consumers.

60. Finally, it is worth noting that when it comes to improving competition in banking, the effects of prudential regulation are only one piece of a larger puzzle. Competitive dynamics are shaped by multiple fundamental forces including economies of scale, so prudential regulation may only play a limited role in shaping competition. Disruptive competition in the longer term is most likely to come from fintech firms that do not resemble traditional banks and may fall outside the perimeter of prudential regulation as they need not be deposit takers. Support for these firms requires other policy responses such as open banking and digital identity frameworks.

61. Ultimately from our reflections on the New Zealand experience, the questions posed for prudential policy makers are:

- To what extent can regulatory requirements be relaxed to better enable the entry and expansion of smaller providers?
- What can be done from a regulatory perspective to encourage entry and expansion by fintech firms without introducing unacceptable levels of systemic risk?

62. New Zealand has historically been towards the more conservative end of prudential policy. However, as noted above, the recommendations of our market study and FEC inquiry have been accepted by the Government and, in response, the RBNZ is reviewing its capital settings for deposit takers.