FIPS

Non-bank Financial Institutions Performance Survey – Review of 2020

Lower NPAT

7.97%

reduction in NPAT

Flat net interest margins

5bps

decrease in NIM

Higher net interest income

5.34%

growth in net interest income

Slowed lending growth

3.19%

rise in gross lending

More provisioning

21.09%

rise in provisions

Large write-offs

41.51%

increase in impairment expense

Contents

KPMG's Financial Services team provides focused and practical audit, tax and advisory services to the insurance, retail banking, corporate and investment banking, and investment management sectors.

Our professionals have an in-depth understanding of the key issues facing financial institutions.

Our team is led by senior partners with a wealth of client experience and relationships with many of the market players, regulators and leading industry bodies.

The Survey

Welcome to Part One of the 2020 edition of the Financial Institutions Performance Survey – the non-bank sector review.

Our survey of non-bank financial institutions captures the financial performance of entities with annual balance dates between 1 October 2019 and 30 September 2020. The threshold for inclusion in this year's survey continues to be based on total assets of $75 million in one of the last two years.

Most information used to compile this survey is extracted from publicly available annual reports for each financial institution. A limited number of participants provided us with audited financial statements that might not otherwise be publicly available.

The non-bank sector comprises a total of 25 survey participants this year following the inclusion of a new participant, Leasing & Finance Limited Partnership.

The 2020 survey incorporates Leasing & Finance Limited Partnership, as an entity that meets the threshold based on total assets and has provided us with a copy of their audited financial statements. Although the total asset criteria was met last year, as their financial statements are not publicly available, Leasing & Finance Limited Partnership have only been included in this year's survey upon request. They have also provided their 2019 audited financial statements, which we have included in the current year's publication to enable comparisons to the prior year. Leasing & Finance Limited Partnership offers loans, financial leases and operating leases for equipment and vehicles, to mostly commercial customers.

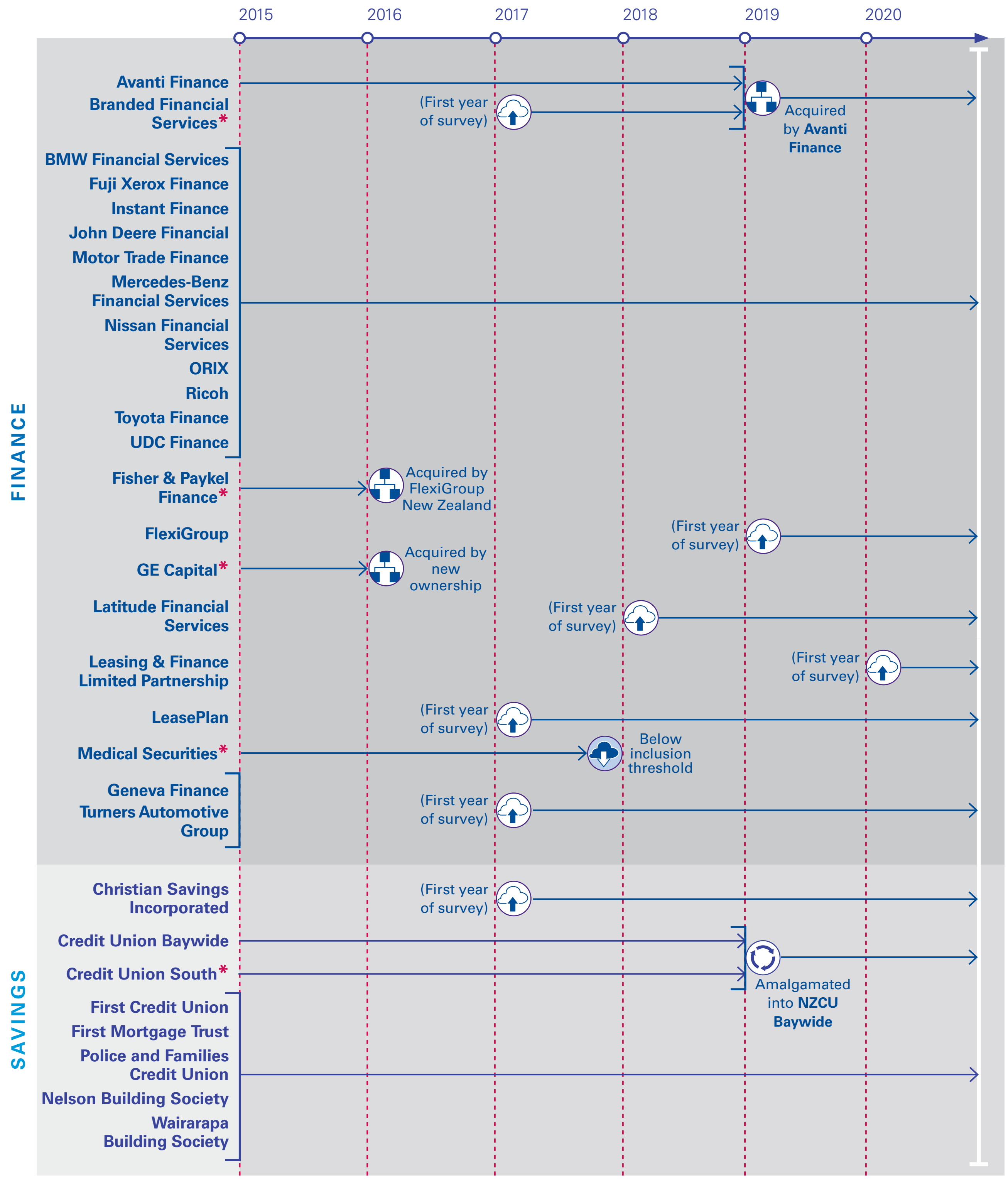
The non-bank sector for the purposes of this survey includes a range of credit unions, non-bank deposit takers (NBDTs), building societies and finance companies in the business of providing leasing opportunities for motor vehicles, consumers, personal, commercial and mortgage sub-sectors.

We would like to acknowledge and thank the survey participants (CEOs and CFOs) for their valuable contributions, which included making time to meet with us to discuss various developments taking place within the industry.

TABLE 1: ENTITY MOVEMENTS

	Who's out	Who's in
Non-banks: 25	NIL	Leasing & Finance Limited Partnership

Looking back at the sector



* Entities are no longer participating in the survey for various reasons.

Sector - Themes and issues

John Kensington
Partner – Audit
Head of Banking and Finance
KPMG

John has been with KPMG's Financial Services audit team for over 35 years, 22 of these as a partner working with a wide range of financial services audit clients, specialising in banks and finance companies.

John has a wealth of experience in auditing and accounting for banking products and services including treasury, retail offerings, corporate loans and loan provisioning. He is currently Head of KPMG's Banking and Finance team and editor of this publication. John is also Deputy Chairman of the New Zealand Auditing and Assurance Standards Board (NZAuASB) and serves as a board member of the XRB. John is also a fellow of CA ANZ, a member of the Institute of Directors and a Trustee of Breast Cancer Cure.

This time last year, I talked about the non-bank sector's strong growth despite the lack of business confidence. This year, business confidence levels have ricocheted from a close-to-record low to a bounce back with many indicators suggesting that they are now almost being back to 2019 levels. The impact of Covid-19 and the respective lockdowns, differing alert levels, global disruption and general uncertainty means this year has been far more complicated than last year and has been anything but a linear journey. We expect to see more volatility over the next year or so as the world continues to battle Covid-19.

It is worth drawing attention to the remarkable way that organisations in this sector have rallied to support their customers during this uncertain time. While the banking sector has received public media support and tools from the Government and regulators to provide care and assistance to its customers, the non-bank sector has not benefited from any of these and yet has ensured its customers are afforded the same level of consideration. The non-bank sector may be small compared to the banking sector in terms of total assets; however, with more than one million customers, it is certainly significant in terms of its reach and impact.

For those survey participants with December or March balance dates there has been a lesser impact on the financial results that have been contributed to the survey; for those with June or September balance dates it has been a different story with a more severe impact from provisioning. What we will see in the future is still very difficult to forecast, but it is unlikely that the impact on the non-bank sector is over yet.

We are in a fortunate position here in New Zealand as we are able to go about our daily lives with relatively little change compared to the rest of the world. In the midst of a global pandemic, we can still attend concerts and sporting events, we can go to the gym, cafes, shops and the hairdresser – albeit this is dependent on remaining at Alert Level 1. There are restrictions on travelling internationally, but we are currently able to travel freely domestically.

There are of course changes. There is a lot more hand sanitiser around, people are increasingly wearing masks on public transport and when out and about in public, scanning QR codes when entering premises and a lot more people are working from home.

There are sectors and people who have been impacted much more severely than others. Whole industries have been affected by the border restrictions with many people unemployed or under-employed as we re-calibrate.

The initial lockdown was a shock. The economy was essentially placed on hold for an entire month before being able to slowly start to open back up. Organisations scrambled to equip their employees who could work from home to do so. Those that couldn't went into a hiatus.

The business impact was felt by the non-bank sector immediately, people who cannot venture outside cannot borrow money to buy cars, houses or consumer goods. The initial uncertainty about the economic impact of Covid-19 and how long the lockdown would be in place saw many existing customers seeking information about payment relief. The Government quickly put support packages in place for those people whose incomes were significantly negatively impacted including wage subsidies and mortgage deferral options. The Reserve Bank of New Zealand (RBNZ) has worked in conjunction with the major banks since March 2020 to provide support to them through extensions for regulatory programmes and additional funding support so that they can focus on helping their customers.

As the economy was permitted to open back up level by level, some organisations had to find new ways of doing business in a contactless way. Online platforms, click and collect services and home delivery became essential. Those businesses that had invested in strong digital infrastructure and capability saw the immediate benefit.

As we moved back down the alert level system, there was a focus on the potential damage done and how long the recovery would take.

Businesses and individuals alike were frantically preparing for the worst, seeing where they could save and reforecasting income. There were dire predictions of high unemployment, crashing house prices and soaring public debt.

However, as the panic around the initial impact receded, things turned out to be not as bad as initially feared.

Bouncebank

There was a strong bounceback in spending as the country emerged from lockdown into Alert Level 3 and then Level 2. Although retail spending was down 15% overall for the quarter ended June 2020, this was largely due to New Zealand being in Alert Level 4 lockdown for almost the whole month of April. There was concern that the spending in June was simply a release of pent up activity, but the figures show that spending continued into the quarter ended September taking retail sales figures for the 12-month period almost back to the levels recorded in the previous year[1].

For some people in the higher income brackets, the inability to holiday overseas freed up cash for cars, home renovations and consumer goods, which in turn has supported local New Zealand businesses. The impact of the initial lockdown followed by the higher than expected spending post lockdown has resulted in shortages of some goods. Businesses who could place a hold on orders at the beginning of the first lockdown did so, uncertain as to how things would play out. While this saved expenditure at the time, the resulting delays in restocking has actually caused a shortfall in some areas. When New Zealand first emerged from lockdown, there were incentives and discounts to encourage spending, but you would be hard pressed to find those now. Black Friday, originally an American phenomenon recently adopted in New Zealand, saw Kiwi's spend $650 million over the three days last year making it the biggest shopping event outstripping even Boxing Day.

This year, consumers are being warned to 'think hard' about whether they are really getting a bargain[2]. With the Covid-19 related challenges in the supply chain, it is unlikely that retailers have excess stock to offload and several domestic retailers have warned of potential stock delays over the next few months[3].

Most of our survey participants reported that although they had a lot of people who initially enquired or applied for loan deferrals or other relief, the majority of these either didn't take the relief or if they did, they finished it earlier than anticipated leaving very few still on relief.

This is counter intuitive to the expectations at the beginning of the pandemic when banks and other financial institutions were being inundated with queries and concerns about financial hardship.

However, the impact may simply have been delayed as the quarter ended September 2020 saw a 32.5% (37,000) increase in the number of unemployed Kiwis over the previous quarter. Unemployment levels climbed to 5.3%, with the September quarter increase being the largest increase experienced since Statistics New Zealand started the series in 1986. For context, the next largest quarterly increase prior to this occurred in the June 2009 quarter during the global financial crisis which saw an increase of 18,000 unemployed Kiwis[4].

1 SEE FIGURE 1 – PAGE 8

While this has not been as sharp a rise as initially forecast, there is no doubt that the Government's wage subsidy programme masked the immediate impact, and the full impact of the Government's wage subsidies ending remains to be seen. Increases in unemployment will undoubtedly place financial strain on many New Zealand families. However, the low level of arrears reported by our survey participants would tend to indicate that responsible lending practices are commonplace and seem to have been mirrored by responsible borrowing – people have simply not borrowed more than they can afford to repay and retain a desire to repay.

While the non-bank sector was not encouraged to offer mortgage deferrals in the same way as the bank sector, many of the survey participants did offer relief options on their lending products in order to provide support to their customers. However, while the bank sector was able to offer this relief to their customers without it being negatively reflected in their customers' credit ratings or the banks' capital, the non-bank sector did not have this option. There may well be people who took relief on their mortgage payments with their banks and used the funds that this freed up to pay down debt they held with non-bank institutions due to the asymmetry of treatment of a bank versus non-bank deferral. For example, a tradesperson with a mortgage with one of the major banks and finance on the trade vehicles and tools with a non-bank lender would not show as being in arrears if they took a payment holiday on the mortgage, but they would if they took the same break on their business finance.

This increase in early repayment of loans, coupled with writing little or no loans through the lockdown periods, has started to change the shape of the sector's loan book.

Recently released retail sale figures confirm the anecdotes that Kiwis have been spending on new cars and home renovations, possibly using funds that would have normally been spent on overseas holidays and other entertainment curtailed by the lockdown. Sales of hardware, building and garden supplies were up by 16% in the quarter ended September and motor vehicles and parts saw a 13% rise which was the biggest dollar increase ($454 million)[5]. This demand for motor vehicles was confirmed by our survey participants who also reported a lack of supply of both new and used cars which is keeping the prices buoyant. The initial uncertainty felt at the beginning of the Covid-19 pandemic caused a halt or slowdown of production; however, it quickly became clear as the severe lockdowns were relaxed that demand was strong and production needed to be ramped up again. This natural lag to get fully up to normal production rates and the reduction in ships travelling to this side of the world means that there is still a delay in meeting demand and many vehicles as well as other forms of stock are pre-sold before even getting into the country. In one case we heard about, a shipment of cars bound for New Zealand didn't even make it here as the ship offloaded them in Australia on the way to New Zealand and the stock was never reloaded. The Australian market suffering the same lack of stock 'reluctantly' absorbed the shipment!

Research published last year showed that Kiwis were among the world's worst savers, ranking 26th out of 29 countries based on data from the Organisation for Economic Co-operation and Development (OECD). At that time, we were on track to save -1.23% of our disposal income – in other words, we collectively spent more than we earnt.

This fuelled concerns about how financially resilient Kiwis were, which was then borne out in the number of people applying for wage subsidies, mortgage deferrals and the like. However, this year's economic impact of the Covid-19 pandemic has seen Kiwis successfully tighten their belts, realign their financial priorities and reduce their spending. As well as the reduction in personal lending, we suspect there has been an increase in our collective savings which will be borne out in our FIPS Banks Review of 2020 due out in February 2021. While there were initially fears that Kiwis would struggle without a buffer for a rainy day, it seems that now that day has arrived, we appear to have taken it seriously and are consciously preparing for the longer-term uncertainty.

The continued impact of the wage subsidy scheme and the lockdowns have encouraged Kiwis to reprioritise their household spending with greater clarity as to what they consider 'essential spending'. The strict Alert Level 4 lockdown meant there were very little opportunities to spend money on anything other than accommodation and groceries. The subsequent alert levels restricted travel, eating out and entertainment to various degrees, which allowed people to reflect on their lifestyles. Many people are still working from home at least part of the time and are saving money through less commuting, buying lunches and other expenditure associated with working in the office.

Acceleration of flexible working

The non-bank financial institutions are not alone with having to adjust their operations on a day-to-day basis. Working from home has become more common and the organisations that have adapted easily are those who had already invested in the technology and systems to enable their people to work effectively remotely.

Many organisations that we spoke with are seeing staff value the extra time back into their day by having no commute time. The main two concerns faced by organisations are whether people are as productive working remotely and how to ensure their firm's culture is maintained or enhanced with a remote workforce (see **Focus on culture** on page 41). Organisations with productivity measures in place pre-Covid-19 have found it easy to see the impact and set expectations. For example, if someone was approving ten loans per day in the office then they should be achieving this while working remotely. For those that don't have the ability to track productivity, this has been harder to manage and gauge the success of any flexible working initiatives and so has been a source of frustration.

Organisational culture is harder to measure and quantify and is becoming something that needs separate focus and energy rather than being left to organically self-manage. Many organisations are determined to use the time that employees are in the office together for group meetings or team building. There is now a reluctance from employees to travel into the office to do exactly what they could now do at home.

These conversations have dominated the interviews that we conducted as part of the research for this publication. Usually the topics covered are more concerned with loan book growth, interest margin, cost of funding, credit risk and the like. This year was much more focused on people, both employees and customers. In a year dominated by uncertainty, anomalies and unpredictability taking care of people's wellbeing has been paramount.

A more dispersed workforce has shown that good communication is essential. Globally, we have seen a quick acceptance of non-face-to-face communication as standard.

Organisations with plans to roll out work-from-home options or virtual collaboration tools such as Microsoft Teams have seen these accelerate to be completed within a matter of weeks rather than spread over a two to three-year period.

Ensuring this connectivity actually enables their employees to feel connected has been essential for our survey participants with many reporting a stronger focus on the mental health and wellbeing on their employees. Many people are dealing with personal stress and anxiety as a result of the uncertainty and constantly changing situations, while some are having to deal with customers feeling the same way.

Most customers have readily embraced virtual ways of connecting with organisations, leading many businesses to reassess their physical footprint and how to utilise it for best efficiency. Many organisations have reconsidered their need for a central city office and many have reduced the size of the space that they need. As mentioned above, people are increasingly reluctant to travel to the office to do what they could do at home, therefore, office spaces will need to reflect the collaborative, team orientated work activities rather than just providing people with a desk and a computer.

Other businesses have considered how best to use the space or facilities that they have to better meet customer demands and expectations. For example, Countdown supermarket saw a 74% rise in online shopping between April and June this year, which has resulted in more 'dark stores' to focus on fulfilling online orders only and are not open to the public[6].

Little respite

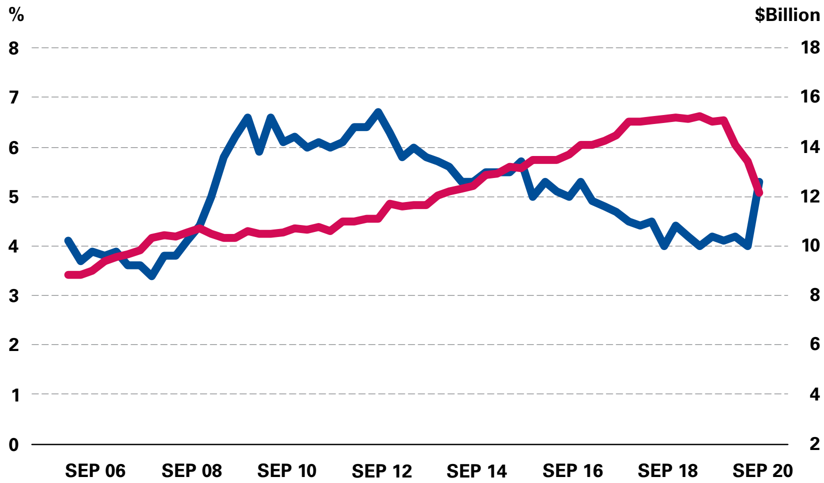
Despite the positive news stories about strong retail spending and the economic impact of Covid-19 not being as bad as expected, there are some industries that are significantly impacted with little relief on the horizon.

Kiwis spent $9 billion on overseas holidays in 2019. With the borders currently closed, there is a greater likelihood that such discretionary spending will be spent domestically. However, it is unlikely to all be spent in the tourism sector. As we have already touched on, people are spending more on home improvements, vehicles and consumer goods and some of this will be money reallocated from holiday budgets. International tourists spent $17.2 billion in the year ended March 2019 and contributed $1.8 billion to goods and service tax (GST) revenue[7]. Despite a campaign from Tourism New Zealand encouraging Kiwi's to 'Do Something New this summer'[8], it is highly unlikely that the tourism sector will see spending at this level until international tourists are permitted to return.

Aviation is another industry that has been significantly impacted by the pandemic. With international borders closed there are simply less planes flying. Air New Zealand has increased its domestic and cargo services[9], but reports that Air New Zealand's Airpoints programme is actually a better earner than flights illustrates the significant impact of reduced international travel on the business[10].

Globally, airlines have had to be imaginative about diversifying revenue streams which have included selling off the first-class crockery (British Airways), selling airline meals for home delivery (Thai Airways) and scenic domestic flights (Qantas).

1 UNEMPLOYMENT RATE VS. PERSONAL LOANS AND CREDIT CARD SPENDING

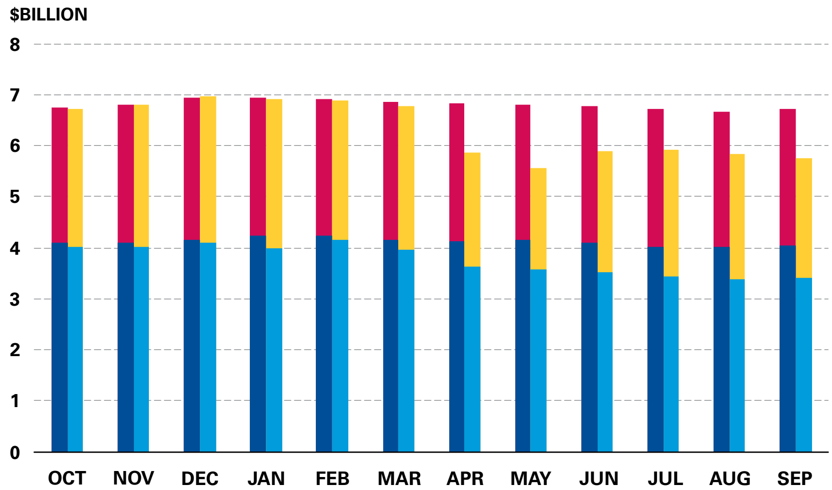


UNEMPLOYMENT RATE (LHS)

PERSONAL CONSUMER LOANS + SEASONALLY ADJUSTED CREDIT CARD SPENDING (RHS)

SOURCE: STATISTICS NEW ZEALAND

2 2018/19 VS. 2019/20 CREDIT CARD BALANCES



2019 OUTSTANDING CREDIT CARD BALANCES

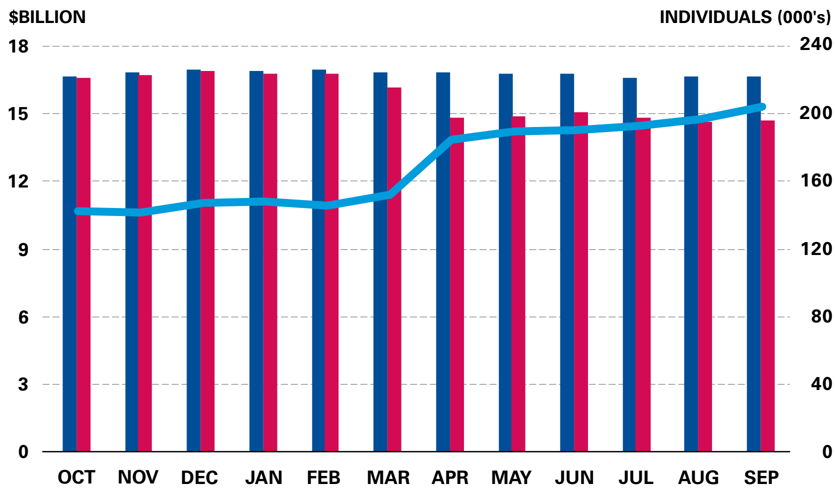
2019 INTEREST BEARING CREDIT CARD BALANCES

2020 OUTSTANDING CREDIT CARD BALANCES

2020 INTEREST BEARING CREDIT CARD BALANCES

SOURCE: RESERVE BANK OF NEW ZEALAND

3 PERSONAL LENDING VS. INDIVIDUALS RECEIVING JOB SEEKER SUPPORT



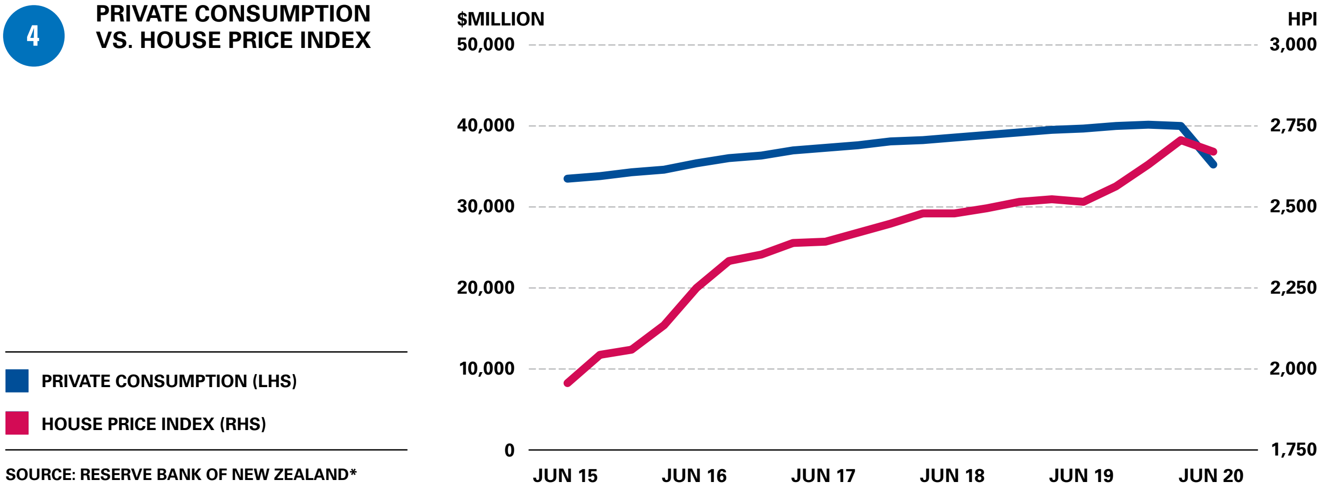
2019 OUTSTANDING PERSONAL LOANS (LHS)

2020 OUTSTANDING PERSONAL LOANS (LHS)

JOB SEEKER SUPPORT BENEFIT 2020 (RHS)

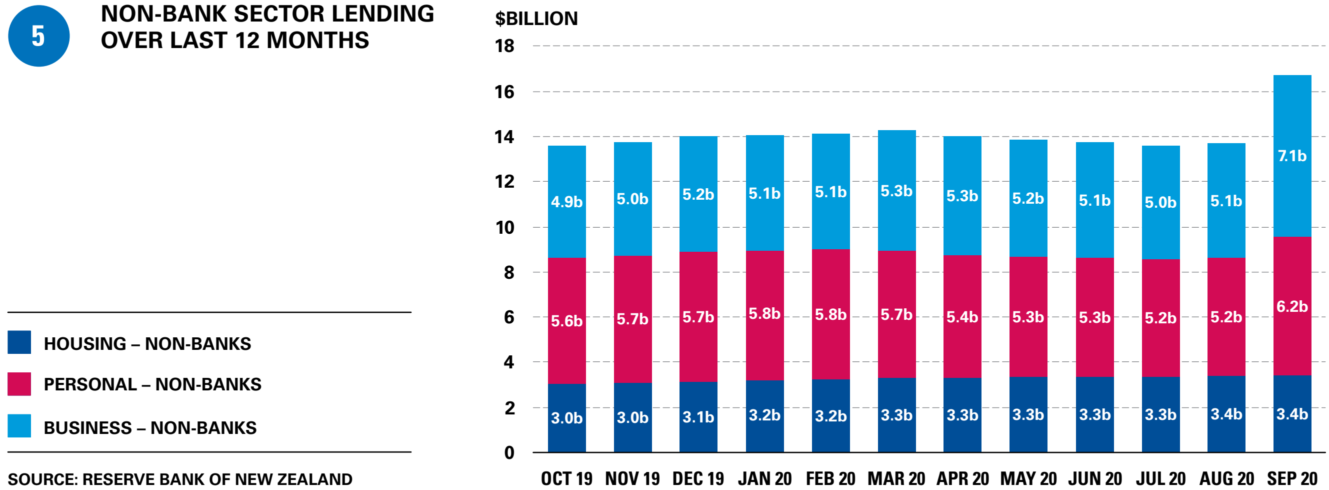
SOURCE: RESERVE BANK OF NEW ZEALAND

4 PRIVATE CONSUMPTION VS. HOUSE PRICE INDEX



SOURCE: RESERVE BANK OF NEW ZEALAND*

5 NON-BANK SECTOR LENDING OVER LAST 12 MONTHS



SOURCE: RESERVE BANK OF NEW ZEALAND

* September data not available at time of publishing.

Universities that were heavily reliant on international students unfortunately have no reprieve in sight. The recent Government announcement that 250 international PhD and postgraduate students will be permitted to return to New Zealand from November 2021 is of little comfort to the New Zealand universities who would normally have up to 60% international students studying subjects such as business, economics and finance. Not being able to receive international students for the beginning of the next academic year will have a three-year impact as those students will be forced to make other choices for their education.

Regulatory tension

We have seen more communication between survey participants with competitive tensions less important as we all collaborate to get through the uncertainty.

There has also been more contact between the survey participants and the relevant regulators as we have all navigated through the past year. We have all seen how the RBNZ and Government have worked collaboratively with the major banks to support their customers and we have discussed this in our Quarterly FIPS publications[11]. However, there is a feeling among the non-bank organisations that they have not been given the same access to tools and support. This has been exacerbated by the sector's exclusion from the Government's Funding for Lending Programme (FLP)[12].

The Financial Services Federation (FSF) is the non-profit industry body that represents responsible and ethical finance, leasing and credit related insurance providers in New Zealand. It has 63 members within the organisation, which is collectively responsible for $15 billion consumer and business lending assets. While this is a fraction of the combined 'Big 4' banks' assets of over $500 billion, it is comprised of 1.8 million loans showing how far reaching the non-bank sector is. Often these loans are ones that the banks will not do.

Soaring house prices are providing a level of confidence to homeowners as well as levels of equity that allow banks to lend responsibly at lower rates than the non-banks, partly due to the security over the property and partly due to the cheaper sources of funding available to the banks.

The latest figures from ASB's Housing Confidence Survey show the highest expectation of house price rises in that survey's 24-year history[13].

Responsible lending requirements from the regulators are very prescriptive which results in the banks having largely the same policies as each other, resulting in similar lending criteria and their 'black boxes' approving 'the same' loans. It also results in 'another set of loans' not being approved. The difference between an approved loan and a declined loan can be minimal in terms of characteristics, but the borrower that must seek finance from the non-bank sector is then subject to higher rates. The relationship between the increase in risk and the increase in the related rate is not necessarily linear at this part of the market.

The non-bank sector is feeling unfairly squeezed between having a similar level of regulation as the banks, but none of the support while being expected to offer the same relief.

There is further annoyance that at the same time, for many, they are competing against the Buy Now, Pay Later (BNPL) providers who are not classed as lenders, and therefore exempt from the regulations that enables them to offer a more frictionless experience (see **Buy Now, Pay Later** article on page 36).

Uncertainty

Predictions and forecasts are increasingly difficult to make with any level of certainty. As the Auckland lockdown in August demonstrated, things we take for granted can change incredibly quickly. There have been positive developments towards a viable vaccine and a hope that borders will be able to reopen globally throughout 2021.

Summer is crucial time for many New Zealand businesses and while many businesses have benefitted from having more people in New Zealand over winter, it is unlikely to prove enough to compensate for the lack of international tourists over the traditionally peak season.

As this year has progressed, it has highlighted that the only certainty is that there is uncertainty and a lot of it. Although the dire predictions of high unemployment, crashing house prices and soaring public debt have not played out as yet, there remains a shadow as people wonder what the future holds. We are just starting to see the impact of the Government subsidies ending and supply chain disruption.

Many participants we spoke to are concerned the dire predictions could actually turn out to be correct, it's just the timing that was wrong. We will see more through Q1 and Q2 next year.

Sector - Timeline of events[14]

Nov. 2019

22nd
Credit Union Baywide acquires Co-op Money NZ, and announces Co-op Money will continue to provide its services to credit unions and non-credit unions.

Dec. 2019

16th
Latitude Financial enters partnership with Mastercard allowing customers' using Latitude's BNPL, Genoapay, to purchase anywhere Mastercard is offered.

17th
Google places advertising restrictions on Financial Services sector, targeting Payday loan operators. The policy prevents advertising if certain disclosure requirements around loan terms are not met.

Jan. 2020

16th
Turners Automotive Group announces intention to launch new product line, a vehicle subscription service.

31st
Toyota Finance partners with Ephesoft, a tech company providing document processing solutions, to automate the classification of loan application forms by expediting the data extraction process.

Feb. 2020

11th
Consumer peer-to-peer loans forecast to hit $31 million in 2020, after achieving 10% growth year-on-year.

19th
Fuji Xerox completes A$140 million acquisition of printing company CSG, and its IT services company, CodeBlue, which provides small to medium-sized entities with IT support that is normally only accessible by larger companies.

Mar. 2020

16th
RBNZ lowers the Official Cash Rate (OCR) 75 bps to 0.25%.

17th
New Zealand Government releases the Wage Subsidy and Covid-19 Leave Payment Schemes.

23rd
The RBNZ decides to implement a Large Scale Asset Purchase Programme of up to $30 billion in New Zealand Government Bonds to assist in keeping interest rates low.

24th
The RBNZ announces financial support package for banks, targeting home owners and businesses affected by Covid-19. The package includes payment holidays, a Business Finance Guarantee Scheme, and reduction of banks' minimum required core funding ratios.

25th
New Zealand enters Alert Level 4 lockdown, essential service businesses permitted to continue, others required to close.

Non-bank deposit takers (NBDTs) and credit unions are deemed essential services, allowing them to continue operations during Alert Level 4.

Apr. 2020

2nd
FE Investments placed into receivership, leaving $53 million of customer term deposits in uncertainty.

7th
In response to Covid-19, Avanti offers customers an option to pause existing principal and interest payments, mirroring deferrals offered by banks.

17th
The Commerce Commission issues guidance for lenders to assist them in complying with the responsible lending obligations in light of Covid-19.

27th
New Zealand Alert Level reduces to Level 3, Kiwis asked to remain in bubbles when not at work or school.

30th
The RBNZ removes loan to value ratio (LVR) restrictions for 12 months in response to Covid-19 pandemic.

May. 2020

5th
The Motor Industry Association announces April 2020 car registrations were down 90% compared to April 2019.

13th
New Zealand enters Covid-19 Alert Level 2 allowing businesses to recommence operations as near to normal with physical distancing requirements in place.

Jun. 2020

2nd
ANZ, parent of UDC Finance, announces the sale of UDC to Shinsei Bank in Japan for $762 million.

3rd
Director of Profile Finance admits to breach of the Credit Contracts and Consumer Finance Act (CCCFA) by failing to provide key information to borrowers, resulting in $945K to be refunded and credited to customers.

8th
New Zealand returns to Covid-19 Alert Level 1, restrictions to business activity eased.

10th
The Government's wage subsidy programme is extended to 1 September, supporting employers still significantly impacted by Covid-19.

11th
The Commerce Commission finalises criteria used to assess whether lenders are 'fit and proper' under CCCFA. Lenders must be certified as 'fit and proper' by the Commerce Commission before being registered on the Financial Services Providers Register.

Jul. 2020

31st
High cost lenders Ferratum and Pretty Penny have both been found to have breached responsible lending requirements following a Commerce Commission investigation.

Credit Union Baywide announces review of branch network and shift towards increased investment in call centre and digital services.

Aug. 2020

12th
Auckland moves back to Alert Level 3 following the announcement of community cases in the region, the rest of New Zealand is raised to Alert Level 2.

17th
Finance Minister, Grant Robertson, outlines new wage subsidy scheme during Alert Level 3 in Auckland.

24th
NBDTs are granted an exemption from the Ministry of Health to allow them to operate for critical financial services at Alert Level 3 and 2.

Sep. 2020

1st
ANZ completes sale of UDC Finance to Japanese Shinsei Bank Limited.

Latitude announces a five-year extension to partnership with Harvey Norman, providing interest free payments and instalments option to customers.

2nd
To fund their expansion into Australia, Harmoney appoints advisors to assess an Initial Public Offering (IPO) on the ASX.

8th
Dion Jones, CEO of Instant Finance, wants the Government to consider the non-banks who play a crucial role in helping keep New Zealanders afloat.

9th
FlexiGroup launches new Buy Now, Pay Later (BNPL) scheme, Humm, allowing customers to purchase goods valued up to $10,000.

17th
The Gross Domestic Product (GDP) drops by 12.2% for the June quarter due to the impact of Covid-19. This is the largest GDP decrease ever recorded in New Zealand.

23rd
Turners announces $2 million investment into new data centre, which is the latest step in a move to further a digital offering.

Auckland moves to Alert Level 2, the rest of the country moved to Alert Level 1.

27th
UDC Finance joins the Financial Services Federation following the sale to Shinsei Bank, in a move to ensure good customer outcomes and responsible lending remain an area of focus.

Oct. 2020

6th
Auckland based PowerFinance announces plans to launch new digital currency in early 2021.

7th
Auckland region returns to Alert Level 1.

Nov. 2020

5th
Fuji Xerox announces rebranding to Fujifilm Business Innovation, effective from April 2021.

11th
The RBNZ announces further monetary stimulus and introduces the Funding for Lending Programme (FLP). The FLP aims to reduce the cost of funding for banks and lower interest rates.

16th
Liberty Financial plans IPO on ASX, valuing the company at A$1.8 billion.

18th
The Financial Markets Authority (FMA) requests feedback for guidance around the advertising for financial products, focusing on how 'fair dealing' requirements within the Financial Markets Conduct Act are applied to advertising.

23rd
Non-banks in Australia are upset that a Covid-19 funding facility is altering mortgage flows in the favour of banks, despite being taxpayer funded.

25th
Turners announces half year 2021 results with net profit after tax up 25%.

Unprecedented change and challenges

Lyn McMorran
Executive Director
Financial Services Federation Inc.

FINANCIAL SERVICES FEDERATION

Lyn McMorran is the Executive Director of the Financial Services Federation Inc., which is the industry body representing responsible finance and leasing providers in New Zealand (www.fsf.org.nz). Prior to joining the Financial Services Federation (FSF) in 2012, Lyn was Area Manager for Westpac's Private Bank in the Lower North and South Islands.

A Certified Financial Planner, Lyn is a past President of the Institute of Financial Advisers of New Zealand.

Lyn holds a Graduate Certificate in Management and a Post-Graduate Diploma in Business Studies (Personal Financial Planning) and is a Fellow of both the Institute of Financial Advisers and the Financial Services Institute of Australasia. She is also a Trustee of the Skylight Trust and a Commissioner for the Insurance and Savings Ombudsman disputes resolution scheme.

In the last nine months the word 'unprecedented' has become such a part of our vocabulary that it is difficult to remember what exactly 'precedented' might have been. 2020 has certainly provided more than its share of challenges for us all – professionally, personally, and globally. But for the FSF and our members, we have been lucky to have little to no disruption to our businesses and the services we provide to our customers.

2020 has also been a year where the value of belonging to an association or industry body has been highlighted and we have been delighted to welcome several new members into the fold, including the return of UDC Finance.

The FSF had all staff working from home immediately upon lockdown and then ensured that financial services were declared essential so that our members could remain operational.

It was then a matter of 'advocacy on steroids' to Government on behalf of our members, ramping up member communications, running virtual events to remain connected, establishing a Covid-19 resources webpage, just to name a few.

Successfully negotiating with Government to push out deadlines for submissions on key pieces of legislation, or implementation of legislative changes such as the amended Credit Contracts and Consumer Finance Act (CCCFA) requirements, gave us the space we all needed to concentrate on our customers and businesses. But chickens come home to roost and, since lockdown ended (both of them), we have been busier than ever preparing our responses to consultation or advocating to Government for a reasoned approach to the CCCFA regulations and the revised Responsible Lending Code.

We have become increasingly concerned throughout the regulations development process and to rewrite the Code, that officials are taking a much more prescriptive approach to lenders' compliance obligations than is necessary – or indeed even workable. We feel strongly that the approach that they are taking will restrict access to credit for all New Zealanders as lenders will have to be cautious to ensure that borrowers fit the one-size-fits-all box, and will be able to use less of their own judgement when making credit decisions.

We feel strongly that the approach that they are taking will restrict access to credit for all New Zealanders.

The current approach that our Government is pursuing is totally at odds with that being proposed by the Australian Government, which is to put aside their prescriptive responsible lending laws and to take an extraordinarily common-sense approach by requiring lenders to 'make reasonable enquiries' to ensure access to credit to drive their post-Covid-19 economic recovery.

Another area of concern to FSF has been a lack of understanding by Government of the non-bank lending sector and our part in the New Zealand economy. There have been several examples of this, but none more glaring than the fact that, to date, the Business Finance Guarantee Scheme has still not been opened up to specialist lenders who understand small businesses and sectors in a way banks cannot, and who have tailored products and offerings to service their needs. We remain hopeful that our continued advocacy on this issue will lead to the required change in Government policy.

Another area of concern to FSF has been a lack of understanding by Government of the non-bank lending sector and our part in the New Zealand economy.

Overall, our members and their customers have 'weathered the storm' surprisingly well. Prior to lockdown, certain sectors of the economy such as forestry started to feel the effects of the global pandemic before it had really come home to all of us here in New Zealand. With people starting to experience financial hardship from that point, we worked with our Memorandum of Understanding partner, FinCap, to establish a direct communications channel between their financial mentors and our members to ensure that appropriate assistance was being provided as soon as possible.

When the bank's mortgage repayment deferral scheme was put in place in March, our members were also inundated with calls from their customers seeking their assistance and forbearance. Members responded empathetically, varying tens of thousands of loan contracts to provide this assistance, all without the regulatory safeguard afforded to the banks to be able to do this without falling foul of the regulator.

With KPMG's help, we have tracked the number of requests for assistance to our members and the number of loan contracts varied as a result, on a fortnightly basis until the end of the wage subsidy period. Remarkably since the first spike in March, these have tapered off to almost none each week and members report that most customers on payment deferral arrangements have now gone back to normal repayments.

Again counterintuitively, members report that, following lockdown(s), new lending is back to almost pre-Covid-19 levels as New Zealanders change their priorities, finally get those renovations done, upgrade the household appliances or purchase that more suitable vehicle they have been putting off.

Given the events of 2020, it would take a braver person than I to predict what is to come in 2021, but, with the promise of a vaccine on the horizon, let's hope it's a less disruptive and uncertain year than this one has been.

Non-banks have negotiated 2020 'ok' so far

Kelvin Davidson
Senior Property Economist
CoreLogic

Kelvin is a Senior Property Economist at CoreLogic and has a wealth of experience after spending more than 15 years working largely in private sector economic consultancies in both New Zealand and the UK. Kelvin applies macroeconomic trends and data to the property market, both residential and commercial to provide key insights and tell a compelling story.

Since we last looked at mortgage lending activity in the non-bank sector back in late 2019, it's clearly a major understatement to say that the world has changed. Lenders all of types have faced plenty of upheaval since March, both in the wider economy and more specifically in the housing market itself, but also they've had to adjust to regulatory and policy changes made by the Reserve Bank of New Zealand (RBNZ) – e.g. around delayed capital requirements, quantitative easing, and of course the temporary removal of the loan-to-value ratio (LVR) speed limits.

In amongst all of this, the latest figures from the RBNZ show that mortgage lending flows by non-banks such as credit unions and building societies have slowed a bit. Indeed, after seeing annual average growth in lending of more than 20% over 2017-2019 (and hence a rising market share), growth for non-bank activity has been below 10% so far in 2020. To be fair, that's still a decent result (and is faster than growth in mortgage lending by their bank counterparts of about 6%), but it does illustrate the recent challenges.

The latest figures from the RBNZ show that mortgage lending flows by non-banks such as credit unions and building societies have slowed a bit.

By property type, our CoreLogic data on the number of mortgage registrations being processed by non-banks shows that the lifestyle block category has cooled a little so far in 2020, while lending on flats has also dipped a bit. However, as figure 6 shows, the more noticeable slowdown from the previous peaks has been for lending to standard residential dwellings (i.e. houses). Of course, it must be recognised that even in this challenging environment, non-banks are still advancing decent numbers of mortgages in an historical context.

6 **SEE FIGURE 6 – PAGE 17**

The geographical breakdown of mortgage registrations for non-banks has largely continued to track as you'd expect, with the historical ties of organisations such as the Nelson and Wairarapa Building Societies meaning that non-banks have higher levels of mortgage lending activity and market share in regions such as Nelson/Tasman, the West Coast, and Wellington (e.g. Wairarapa). Certainly in the cases of Nelson/Tasman and Wellington, the strength lately in wider housing market activity and property values will have bolstered the performance of the non-bank lenders in those areas (as well as the banks themselves of course).

The breakdown of non-bank mortgage registrations by buyer type also tells an interesting story, consistent with demand patterns more generally. In 2020 to date, first home buyers (FHBs) have remained a key group for non-banks, accounting for about 29% of mortgage registrations. Around the property market as a whole, we know from the CoreLogic Buyer Classification series that demand from first home buyers has been solid, partly as they tap their KiwiSaver funds for a deposit (or a portion of it at least).

In 2020 to date, first home buyers (FHBs) have remained a key group for non-banks, accounting for about 29% of mortgage registrations.

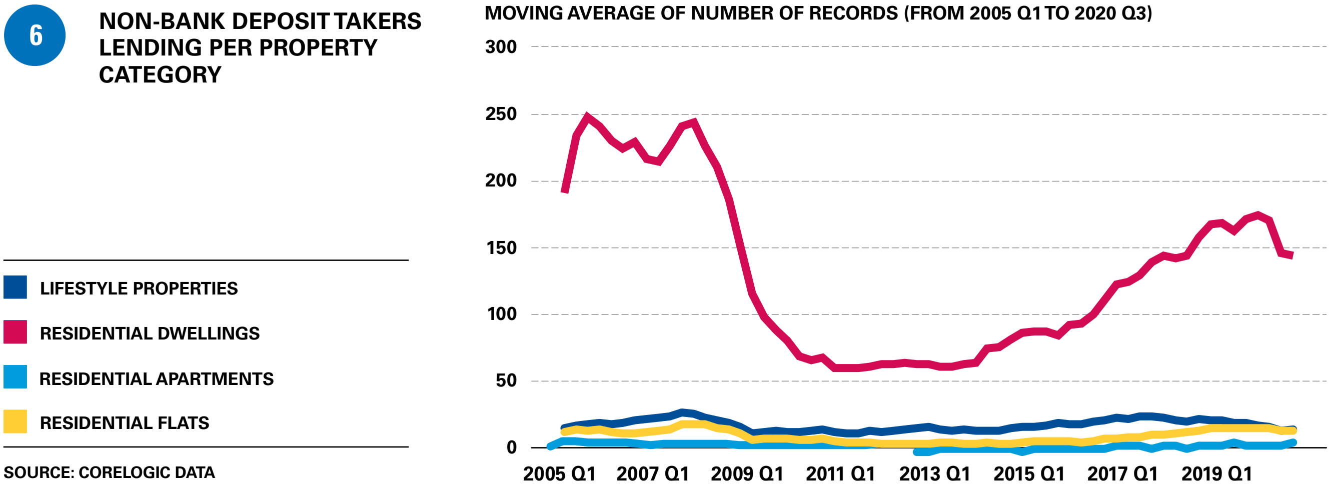
But perhaps more importantly, investors have slightly overtaken FHBs to become the biggest group for non-bank lending, at 30% of registrations in the year to date. The trust that people still have in property as an asset class has attracted investors this year, while many are also questioning the value of deposits in the bank and are looking for a better return elsewhere.

Unfortunately, there's no hard data on the proportions of non-bank lending that are done at high and low LVRs, but we do know from RBNZ figures that there's recently been a sharp rise in bank lending to investors with less than a 30% deposit. In turn, and reflecting concerns about what this might mean for financial stability down the track, the RBNZ has announced a consultation about reinstating the LVR rules on 1 March 2021, two months earlier than originally indicated. This has prompted an immediate response from banks, and this could mean that investors without a 30% deposit may already be finding it a bit harder to get a mortgage. That could see some sort of diversion of activity towards the non-bank sector.

Investors without a 30% deposit may already be finding it a bit harder to get a mortgage.

Overall, then, the non-bank sector has been no different than the rest of us in having to face up to some challenges this year. However, the turnaround in the property market since those tumultuous months in April/May has been remarkable, and the prospect of continued low mortgage rates suggests that there's some momentum left yet. Amongst all of this, a range of indicators suggest that the non-banks have continued to fare relatively well.

6 **NON-BANK DEPOSIT TAKERS LENDING PER PROPERTY CATEGORY**



SOURCE: CORELOGIC DATA

2020 - A year like no other

Keith McLaughlin
Managing Director,
Centrix Group Limited

Credit Bureau of New Zealand

Keith McLaughlin is the Managing Director of Centrix Group Limited, New Zealand's only locally owned credit bureau. A highly experienced senior executive and director, Keith started Centrix with a vision to offer New Zealand businesses a superior and cost-efficient credit offering, with a focus on long-term relationships. Previously the founder and Managing Director of Baycorp Holdings Limited, his strengths include strong leadership skills with an emphasis on empowerment, and a proven ability to forge and sustain high performance teams. Keith has a wealth of finance experience in business process, requirements analysis, banking, IT strategy and professional services and holds a number of major awards, including Deloitte / Management Magazine NZ Executive of the Year.

It would be fair to say that 2020 has been a year of two halves. And neither half has gone as expected.

While it might feel like a lifetime ago, the credit year started relatively benignly. Economic forecasts were painting a positive picture with strong consumer confidence, low unemployment and slow but steady growth.

Fast forward a few short months, and the country found itself facing huge economic challenges.

An unprecedented collapse

Almost overnight, the economy came to a halt as Covid-19 hit and the country entered lockdown in late March.

The impact of Covid-19 on the credit market was stark.

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Following a softening in February, New Zealand's credit market effectively crashed in March, hitting an all-time low of 29% of pre- Covid-19 levels as the retail and property markets stalled.

This fall in credit was across the board – starting with applications for credit cards, followed by auto and personal loans and finally mortgages as the country found itself in Alert Level 4.

Why does the credit market matter? Because it is a leading indicator of consumption and confidence.

Demand for credit falls at times of economic uncertainty, and the first half of 2020 was full of economic uncertainty.

The collapse in credit was, while dramatic, unsurprising. It's natural for people to stop spending and avoid borrowing when they have concerns around job security and their future ability to pay their bills.

But this fall in credit demand was not across the board. While those with higher credit scores largely disappeared from the credit market, there was an increase in the number of credit applications by those with very low credit ratings – reflecting some people were finding themselves in difficult financial situations.

The result was a staggering 50-point drop in the national credit score at the height of the Alert Level 4 lockdown.

An Unexpected Recovery

With the economy facing serious disruption the Government and the Reserve Bank of New Zealand acted, injecting fiscal and monetary stimulus into the economy.

This, alongside a lifting of restrictions, has resulted in an unexpected recovery in the credit market in the second half of the year.

Credit demand ends the year at its highest level despite the country officially being in recession.

In fact, as illustrated in figure 7, the credit market has illustrated a perfect V-Shaped recovery, with a dip in demand during the second Auckland lockdown. Such has been the recovery, credit demand ends the year at its highest level despite the country officially being in recession.

7 SEE FIGURE 7 – PAGE 19

We have also seen high-quality consumers return to the credit market – with the average credit score being higher in November than at any time during the year, as illustrated in figure 8.

8 SEE FIGURE 8 – PAGE 21

Why?

Two primary factors are likely at play.

The first is the temporary removal of loan to value ratio (LVR) restrictions and record low interest rates, which is driving investment into property. In fact, since July, new mortgage lending has been consistently higher when compared to the same period last year – at times reaching nearly 20% higher as illustrated in figure 9.

9 SEE FIGURE 9 – PAGE 21

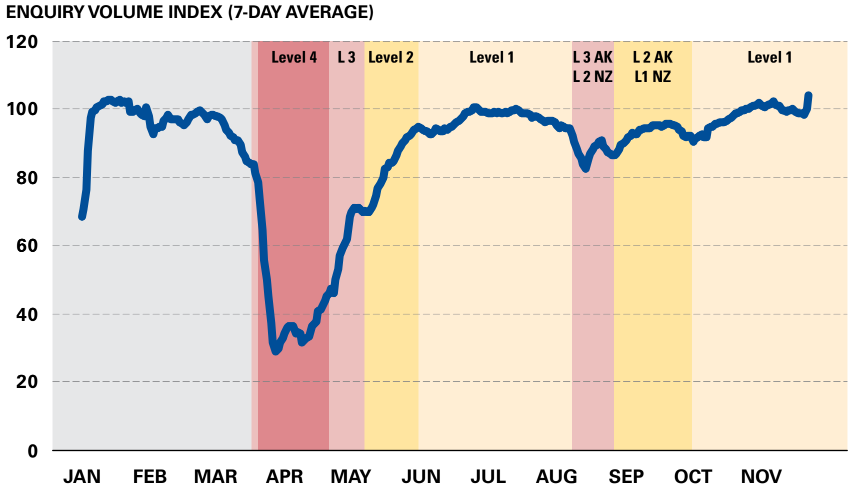
This newfound heat in the housing market is driving increasing property prices and is likely resulting in a wealth effect. Homeowners are feeling wealthier, and therefore more confident, which encourages consumption.

Secondly, we are seen a striking rise in Buy Now, Pay Later (BNPL) as a new credit option. An increasing number of consumers are opening BNPL accounts, which allows them to stagger their interest-free repayments for purchases.

As an alternative to credit cards, BNPL lends itself to online retail and we saw an uptake in the volume of BNPL transactions soar during lockdown and it has continued to gain popularity throughout the year.

BNPL lends itself to online retail and we saw an uptake in the volume of BNPL transactions soar during lockdown.

7 **CONSUMER CREDIT DEMAND**



CONSUMER CREDIT DEMAND OVER 2020

SOURCE: CENTRIX

Arrears are at record lows

More surprising than the recovery in the credit market has been the very low levels of arrears experienced this year.

Contrary to conventional economic wisdom, we have seen arrear levels fall to record lows, as shown in figure 10, despite the shock the economy has experienced.

10 SEE FIGURE 10 – PAGE 21

What is going on?

Again, Government support has helped ensure people have been able to meet their financial commitments.

Falling interest rates have also likely freed up household income, and many consumers are being cautious with discretionary spending.

But signs of debt stress are there

Despite low arrears levels, signs of debt stress are there.

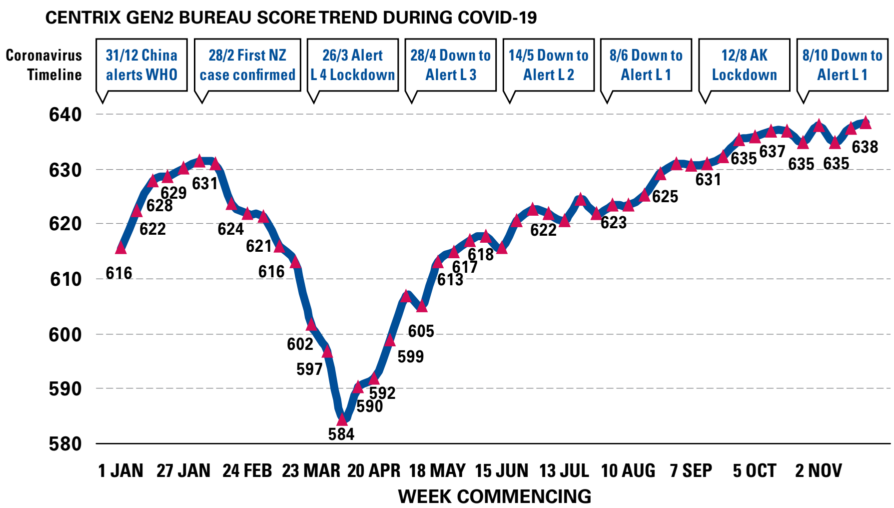
Mid-year, 7% of all mortgages were on deferral. While this has fallen, 3% of all mortgages are still deferred, and as a consequence these households could face significant financial pressure when the mortgage deferral scheme ends in March 2021.

In recent months, arrears levels are beginning to increase in the utility sector, with rising numbers falling behind with payments on their phone and power bills, as well as on unsecured bank loans.

Also in recent weeks, arrears levels have risen significantly for younger consumers – particularly those under 30. While this might be a reflection that this age group tends to dominate the tourism and retail workforce, it should also act as an early warning sign that the full economic impact of Covid-19 is yet to be felt.

For that reason, and despite positive economic indicators and an encouraging post-lockdown recovery, there are signs that 2021 might present some serious financial challenges as we embark on a longer term economic recovery.

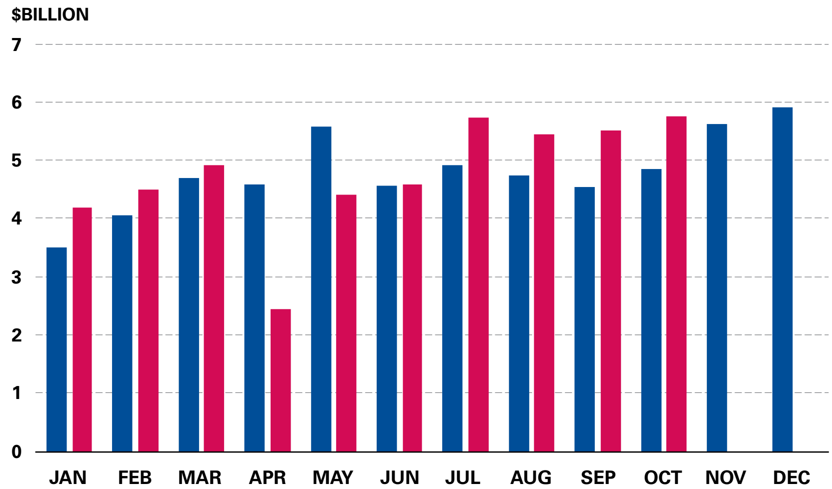
8 CREDIT QUALITY OF NEW CREDIT APPLICATIONS



AVERAGE SCORE OF APPLICANT

SOURCE: CENTRIX

9 NEW MORTGAGE LENDING EXPOSURE

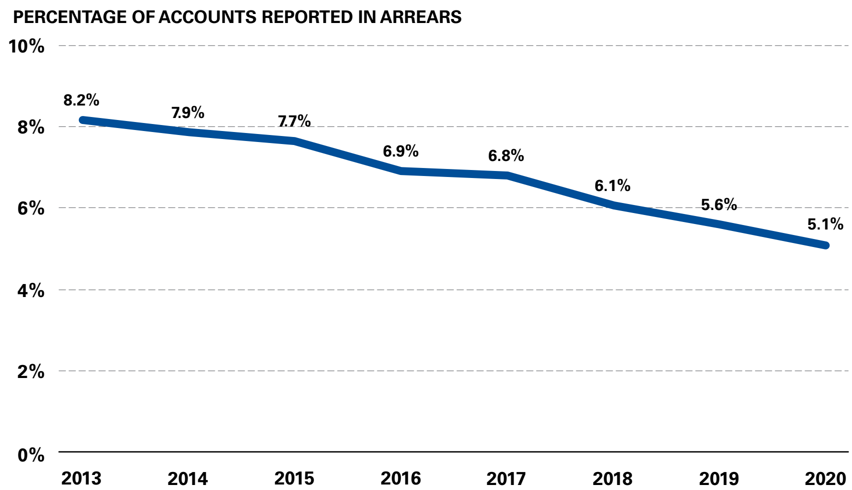


2019

2020

SOURCE: CENTRIX

10 ARREARS RATIO SINCE 2013



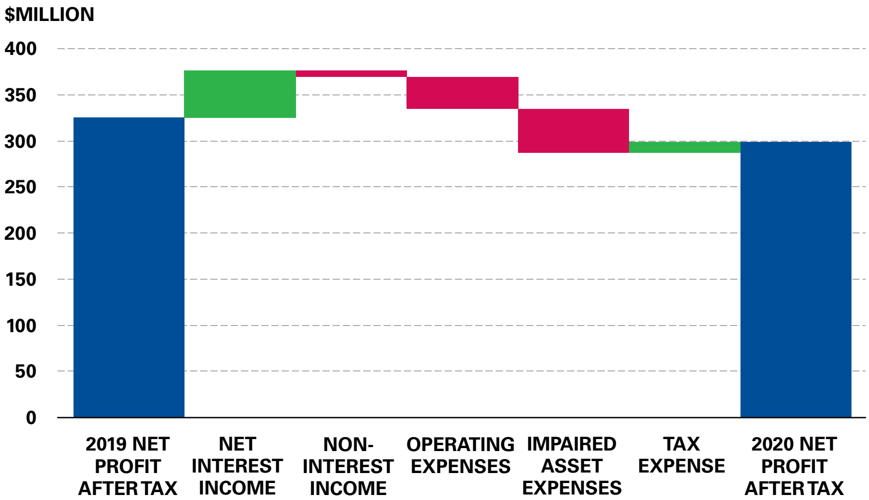
ARREARS RATIO

SOURCE: CENTRIX

Sector performance

The non-bank survey participants have reported a combined decrease in net profit after tax of $25.94 million (or 7.97%) over the year. This year has been full of uncertainty due to the impacts of Covid-19, and this is more acutely reflected in the results of survey participants with year ends June to September.

11 **MOVEMENT IN NET PROFIT AFTER TAX**



Changes in the sector

During the year, there have been a few changes within the sector, including the introduction of a new participant to the survey and a change in ownership occurring at another. Leasing & Finance Limited Partnership (L&F) have provided us with their audited financial statements so that they can be included in the 2020 survey. L&F has a 30 June year end and is ranked 17th in terms of total assets when compared to other survey participants. Due to the inclusion of the new entity, some comparative totals may have changed from the 2019 edition of non-bank FIPS.

In terms of total assets, UDC Finance is the largest survey participant, and for some time now ANZ has been looking to sell UDC Finance. During 2020 ANZ finally found the right buyer, and in June the announcement was made that UDC had been sold to Japanese institution, Shinsei Bank Limited. Shinsei Banking Group is a diversified financial group operating asset financing and vehicle lending businesses similar to those of UDC, within Japan and internationally.

During the year, NZ IFRS16 *Leases* became effective and entities had to disclose their right-of-use assets and lease liabilities on their balance sheets. As not all entities separately disclose their interest expense on borrowings and interest expense on lease liabilities, in order to ensure borrowing costs and net interest margins (NIM) are not inflated, we have elected to include lease liabilities within interest-bearing liabilities. Right-of-use assets do not have an associated interest income, and instead are depreciated, therefore they have been included with non-interest-bearing assets.

We would also like to draw special attention to the differing balance dates of our survey participants. While our survey covers the 2020 year, our respondents have a range balance dates, with the earliest being the 52 weeks to 31 October (3 November 2019) and the most recent reporting bears the 30 September 2020 year end. It is important to recognise that the results of each entity will reflect the different stages of the economic effects of the Covid-19 pandemic, in particular on the impairment provision, with some entities reporting before the impacts were starting to be felt and others reflecting close to the full impact so far. When reading the industry analysis text and comparing the performance of any entities in the survey, these factors should be taken into consideration.

TABLE 2: PERFORMANCE METRICS		Total
Increase in Total Assets		3.95%
Decrease in Net Profit After Tax (NPAT)		-7.97%
Movement of Impaired Asset Expense (As a Percentage of Average Gross Loans and Advances)	bps	28
Decrease in Interest Margin	bps	-5
Decrease in NPAT/Average Total Assets	bps	-28
Decrease in NPAT/Average Equity	bps	-170

Lastly, we would like to remind readers of two items from 2019's survey. Avanti Finance's acquired Branded Financial Services during 2019 and changed their balance date from 31 March to 30 June. Therefore, their 2019 financial statements reflect 15 months of results that we have included, unadjusted, in the survey. In addition, we have used adjusted 2019 profit and loss figures for Credit Union Baywide in the prior year's publication, and the same figures have been included again in this year's publication. In 2019, Credit Union Baywide amalgamated with Credit Union South, and as part of the amalgamation process, Credit Union South produced financial statements for the 10 months ended 30 April 2019. We combined the income statement for Credit Union South with Credit Union Baywide's 2019 full year results to try to reflect more accurately the true financial results for the amalgamated entity in 2019.

Net profit after tax (NPAT)

Over the past few years, the non-bank survey participants have returned strong NPAT growth; however, the Covid-19 pandemic has halted this growth and as a result the sector has reported a decrease in NPAT of 7.97% ($25.94 million). The impact is seen most substantially through our survey participants with year ends from June to September 2020, who have collectively reported a 22.92% ($34.57 million) decrease in NPAT, primarily driven by increases in impairment provisions while their combined interest income has remained flat at $0.68 billion (a 0.28% increase). In contrast, survey participants with balance dates between October 2019 and March 2020 collectively reported NPAT growth of 4.94% ($8.63 million), and all five survey participants with 2019 year ends reported an increase in NPAT.

This trend highlights the significant impact that Covid-19 has had on the sector, particularly in the latter half of the 2020 calendar year. The main contributor to the decrease in NPAT across the sector was a $48.06 million increase in impaired asset expense, due to asset quality decreasing in the face of uncertainty.

Of the 25 survey participants, 13 reported positive increases to NPAT, but of these participants, only three had balance dates occurring after the country had emerged from the Alert Level 4 lockdown. Christian Savings, Credit Union Baywide and L&F were the only survey participants with balance dates after May 2020 who had increases in NPAT, of 55.40% (0.47 million), 92.25% ($4.71 million) and 25.96% ($0.40 million), respectively. Of the remaining 10 survey participants who also achieved increases in NPAT, John Deere Financial saw the largest growth of 51.76% ($1.25 million), followed by Toyota Finance who had an increase of 26.02% ($5.32 million). However, Toyota's profit increase was largely attributable to their $5.76 million increase in fair value gains on interest rate movements.

Of the 12 survey participants reporting a decrease in NPAT, Ricoh recorded the largest drop in NPAT of 81.91% ($7.16 million) followed by First Credit Union, which also had a considerable decline in NPAT with a 73.48% ($2.17 million) decrease across the year, but despite the decrease both still managed to return a profit. Credit Union Baywide was the only survey participant to record a loss for the period, despite significantly decreasing their loss from the previous year. However, the loss is likely due to the remaining costs of the amalgamation finally coming through the profit and loss statement.

The top performers in terms of dollar-value increases in NPAT were Toyota Finance with an increase in $5.32 million to $25.75 million, First Mortgage Trust increasing by $5.04 million to $44.44 million, and Credit Union Baywide rising from a $5.11 million loss to a loss of $0.40 million. In contrast, FlexiGroup suffered the biggest dollar-value decrease in NPAT of $18.75 million down to $23.22 million, followed by UDC with a decrease of $7.27 million down to $62.42 million, and Ricoh with a decrease of $7.16 million down to $1.58 million.

Profits among the finance companies seem to have been hit the hardest. A closer look at this sub-sector revealed that five out of the six finance companies saw a reduction in NPAT across the year, and these six financing companies contributed $28.71 million towards the negative decline in NPAT. The personal motor vehicle respondents seem to be the best performing sub-sector, achieving a combined $2.01 million NPAT growth. However, looking at sub-sectors does offer slightly skewed results, as demonstrated by Motor Trade Finance (MTF). MTF is one of two motor vehicle financiers with a balance date later than 31 March and they reported a 55.49% ($6.18 million) decrease in NPAT. This result would indicate that the effects of Covid-19 are yet to be felt by some survey participants in the sub-sectors, particularly those with December and March year ends.

As shown in figure 11, NPAT decreased by $25.94 million (7.97%) to $299.60 million. This decrease is driven by the following factors:

- Net interest income growth of 5.34% to $1.01 billion.
- A decrease of 1.41% ($7.20 million) for non-interest income to $503.33 million. MTF contributed the most to this with a 51.06% ($8.78 million) decrease.

- An increase in operating expenses by 3.74% ($34.05 million) to $945.21 million.
- Impaired asset expense increased by 41.51% ($48.06 million) to $163.85 million.
- In line with the reduction in net profits, tax expense has reduced by $12.14 million or 10.41%.

11 **SEE FIGURE 11 – PAGE 22**

Total assets

This year the historic strong growth of total assets within the non-bank sector has plateaued, with the 2020 survey achieving only a 3.95% increase ($648.29 million) under the pressure of a new operating environment brought on by the global pandemic. This is a comparably small increase to the strong growth achieved over the previous three years in the sector, which saw increases in total assets of 12.19% ($1.19 billion) in 2017, 14.73% ($1.80 billion) in 2018 and 9.41% ($1.41 billion) in 2019. Despite the slowdown in the growth trajectory of total assets, 19 of the 25 survey participants still reported an increase in their assets.

Growth in gross loans and advances during the year mirrored the slowed growth with total assets, increasing by only 3.19% ($434.63 million), compared with growth of 13.92% ($1.08 billion) in 2017, 14.24% ($1.43 billion) in 2018 and 12.54% ($1.52 billion) in 2019. Similar again to the total assets, 18 of the 25 survey participants experienced growth in their loan books during 2020.

TABLE 3: GROSS LOANS AND ADVANCES Entity	2020 $'000	2019 $'000	Movement $'000	Movement %
Avanti Finance Limited	1,218,440	1,054,831	163,609	15.51%
BMW Financial Services New Zealand Limited	313,161	361,197	-48,036	-13.30%
Christian Savings Incorporated	164,616	128,639	35,977	27.97%
Credit Union Baywide	349,447	394,146	-44,699	-11.34%
First Credit Union	226,184	205,065	21,119	10.30%
First Mortgage Trust	791,234	632,373	158,861	25.12%
FlexiGroup (New Zealand) Limited	905,721	948,290	-42,569	-4.49%
Fuji Xerox Finance Limited	66,576	66,542	34	0.05%
Geneva Finance Limited	102,524	98,734	3,790	3.84%
Instant Finance Limited	113,530	112,119	1,411	1.26%
John Deere Financial Limited	191,553	181,882	9,671	5.32%
Latitude Financial Services Limited	1,691,627	1,641,074	50,553	3.08%
LeasePlan New Zealand Limited	9,316	12,350	-3,034	-24.57%
Leasing & Finance Limited Partnership	231,517	203,930	27,587	13.53%
Mercedes-Benz Financial Services New Zealand Limited	687,661	657,120	30,541	4.65%
Motor Trade Finance Limited	675,635	694,011	-18,376	-2.65%
Nelson Building Society	680,022	641,833	38,189	5.95%
Nissan Financial Services New Zealand Pty Limited	555,116	531,256	23,860	4.49%
ORIX New Zealand Limited	91,801	77,846	13,955	17.93%
Police and Families Credit Union	42,517	48,437	-5,920	-12.22%
Ricoh New Zealand Limited	100,817	89,529	11,288	12.61%
Toyota Finance New Zealand Limited	1,072,831	972,188	100,643	10.35%
Turners Automotive Group	319,655	317,906	1,749	0.55%
UDC Finance Limited	3,350,140	3,446,261	-96,121	-2.79%
Wairarapa Building Society	127,164	126,613	551	0.44%
Sector Total	**14,078,805**	**13,644,172**	**434,633**	**3.19%**

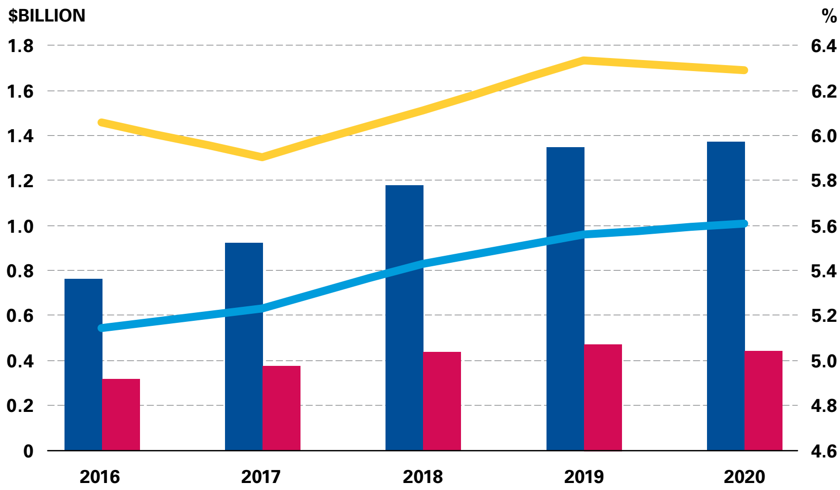
Fuji Xerox Finance reported the largest contraction in total assets with a huge drop of 73.02% ($195.25 million) down to $72.13 million, driven by the intercompany receivable of $201.27 million being repaid during the year. They were the only survey participant who had a decrease in total assets that was not reflected in their loan book. BMW Financial Services saw the next largest decrease in total assets of 15.29% ($57.81 million). Excluding these two entities that saw significant reductions, total asset sector growth was a bit higher at 5.71% ($901.34 million); however, this amount is still considerably down compared to the results of prior years.

Of the 19 survey participants reporting growth in total assets, Ricoh, Christian Savings and L&F reported the largest growth, with increases of 19.60% ($31.55 million), 20.67% ($37.94 million) and 16.86% ($44.35 million) respectively. Each of these entities also saw increases in their loan books.

For the fifth consecutive year, Avanti Finance reported some of the largest total assets growth in the sector, with an increase of $166.31 million (15.33%), which again, has almost entirely come from an increase in their loan book of 15.51% ($163.61 million). Last year Avanti achieved a $517.43 million (91.20% increase) in total assets, which was partially aided by the acquisition of Branded Financial Services. Although the growth has appeared to slow down as a result of the global pandemic, the dollar value of their growth is unmatched and they have once again emerged as an industry leader when it comes to asset growth.

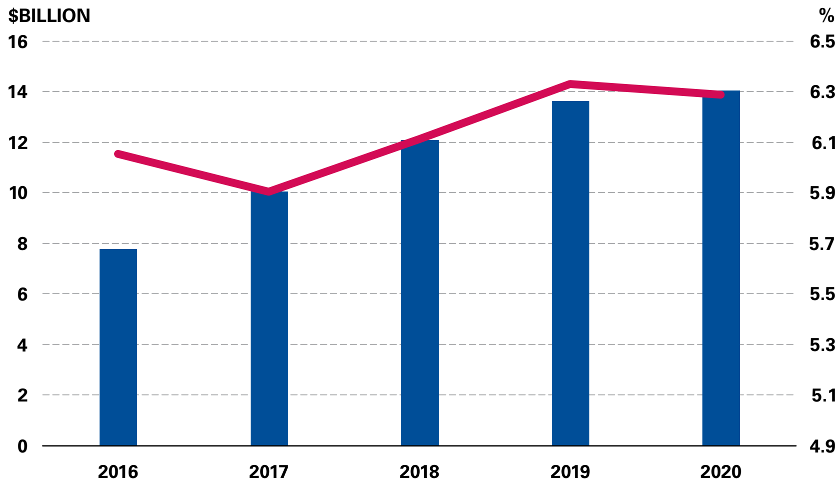
TABLE 4: MOVEMENT IN INTEREST MARGIN Entity	2020 %	2019 %	Movement (bps)
Avanti Finance Limited	5.54	7.65	-211
BMW Financial Services New Zealand Limited	6.46	6.28	18
Christian Savings Incorporated	1.75	1.60	15
Credit Union Baywide	6.23	5.16	107
First Credit Union	3.53	3.73	-20
First Mortgage Trust	6.93	7.13	-20
FlexiGroup (New Zealand) Limited	11.63	10.85	78
Fuji Xerox Finance Limited	6.18	3.89	229
Geneva Finance Limited	10.14	11.25	-111
Instant Finance Limited	22.89	22.33	56
John Deere Financial Limited	4.27	3.92	35
Latitude Financial Services Limited	11.46	11.27	19
LeasePlan New Zealand Limited	8.77	9.59	-82
Leasing & Finance Limited Partnership	6.30	5.63	67
Mercedes-Benz Financial Services New Zealand Limited	3.21	3.30	-9
Motor Trade Finance Limited	8.23	8.20	3
Nelson Building Society	2.56	2.34	22
Nissan Financial Services New Zealand Pty Limited	3.49	3.45	4
ORIX New Zealand Limited	8.87	10.00	-113
Police and Families Credit Union	3.58	3.93	-35
Ricoh New Zealand Limited	8.77	10.30	-153
Toyota Finance New Zealand Limited	4.17	3.95	22
Turners Automotive Group	8.20	9.02	-82
UDC Finance Limited	4.31	4.33	-2
Wairarapa Building Society	2.29	2.42	-13
Sector Average	**6.28**	**6.33**	**-5**

12 NET INTEREST INCOME ANALYSIS



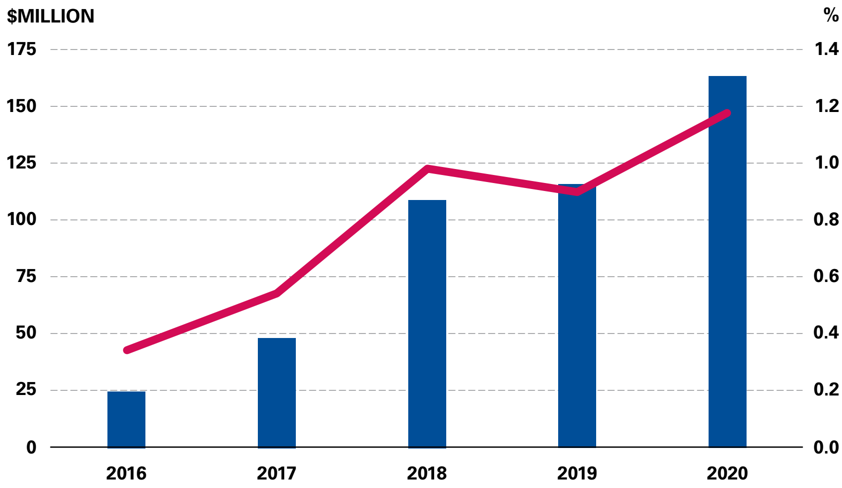
- INTEREST INCOME (LHS)
- INTEREST EXPENSE (LHS)
- NET INTEREST INCOME (LHS)
- NET INTEREST MARGIN (RHS)

13 GROSS LOANS AND ADVANCES VS. NET INTEREST MARGIN



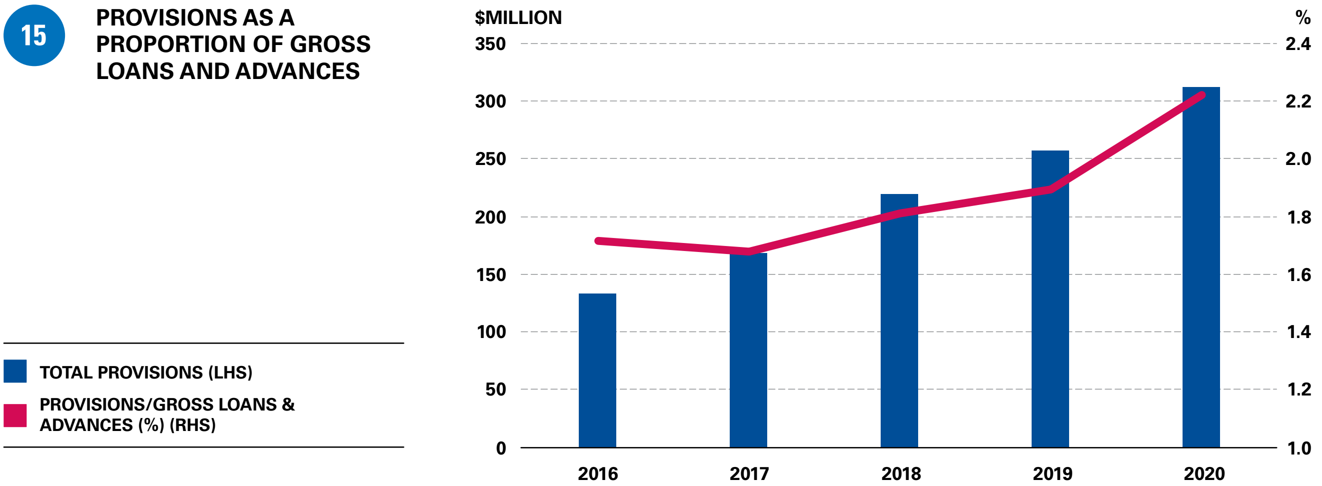
- GROSS LOANS AND ADVANCES (LHS)
- NET INTEREST MARGIN (RHS)

14 IMPAIRED ASSET ANALYSIS

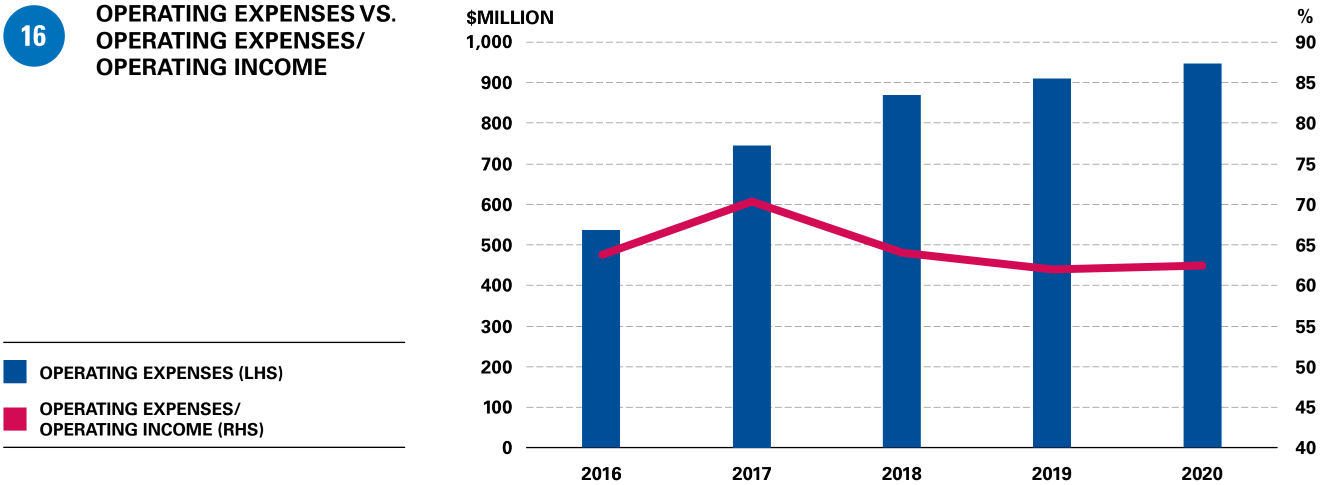


- IMPAIRED ASSET EXPENSE (LHS)
- IMPAIRED ASSET EXPENSE/AVERAGE LOANS AND ADVANCES (RHS)

15 PROVISIONS AS A PROPORTION OF GROSS LOANS AND ADVANCES



16 OPERATING EXPENSES VS. OPERATING EXPENSES/ OPERATING INCOME



Christian Savings claimed the largest incremental increase in market share based on gross loans and advances. A strong loan book growth of $35.98 million (27.97%) resulted in them increasing their market share by 24.02% from last year to reach 1.17%. First Mortgage Trust gained the most growth in market share this year, increasing by 99 basis points (bps) to reach 5.62%, followed by Avanti Finance with a 92 bps rise to 8.65%.

On the contrary, UDC saw the largest loss of market share this year, dropping by 146 bps to 23.80%, but still remains the largest survey participant. UDC is followed by Latitude Financial Services as the second largest with a 12.02% market share, down just 1 bps from last year. Latitude is the only other survey participant with a loan book greater than $1.5 billion, with their loans reported at $1.69 billion. However, Avanti is catching up, having only cracked the $1 billion-mark last year and they have already reached $1.22 billion. Meanwhile UDC remains well ahead of any other survey participant with a $3.35 billion loan book.

Net interest margin

NIM remained flat for the sector, with only a small 5 bps decrease to 6.28%, due to interest income over average interest earning assets decreasing by 41 bps to 9.05%, while interest expense over average interest earning liabilities decreased by a comparable 42 bps to 3.31%. This year, NZ IFRS 16 came into effect and to offset the interest expense on lease liabilities, the lease liability has been included with the interest-bearing liabilities. Interestingly, despite NZ IFRS 16 coming into effect, only seven survey participants saw increases in their interest expense, and the combined sector achieved a decrease of $28.65 million (6.05%), while interest bearing liabilities increased by $0.55 billion (4.21%).

This trend demonstrates that some survey participants have been able to take some advantage of the low interest rate environment and suggests that any interest expense increases relating to leases are either insignificant or have been offset by lower interest rates.

12 SEE FIGURE 12 – PAGE 26

13 SEE FIGURE 13 – PAGE 26

19 survey participants saw increases in their interest earning assets, resulting in an overall increase of $0.47 billion (2.95%) to $16.31 billion. However, unlike the interest expense, survey participants reported mixed results, leading to a slight increase of interest income of 1.58% or $22.57 million, suggesting that not all survey participants have been able to retain their margins.

Fuji Xerox reported the largest increase in NIM, increasing by 229 bps to 6.18% from 3.89% in the prior year. This increase in NIM is primarily due to the intercompany receivables being repaid, and the funds received being applied to the intercompany payable. The majority of the remaining intercompany payable balance was repaid through the issue of shares to a related party. The impact of repayments and recapitalisation are reflected in both their interest earning assets and liabilities, which have decreased by 73.66% ($194.72 million) and 97.86% ($277.91 million), respectively. Credit Union Baywide saw the next largest increase in NIM of 107 bps to 6.23%, as a result of a 20.17% increase ($5.26 million) in net interest income (NII) while interest earning assets decreased 2.95% ($15.04 million).

Avanti saw the largest decrease in NIM, dropping 211 bps to 5.54%, they were followed by Ricoh who slid down 153 bps to 8.77%. Christian Savings remained with the lowest NIM of the survey participants after a 15 bps increase to 1.75%. At the other end of the spectrum, Instant Finance improved their NIM by 56 bps to 22.89%, which is almost double the next highest survey participant's NIM.

Despite the overall sector NIM remaining flat, NII across the sector has increased by $51.22 million (5.34%) with 17 survey participants reporting increases in NII. This result is primarily driven by the decrease in funding costs, and thus interest expense, but the comparison of NII to NIM revealed that while things improved within the statement of profit and loss, the same rate increase was largely reflected on the balance sheet, offsetting the increase and leaving the resulting NIM flat.

Asset quality

As expected with the impacts of Covid-19 on the economy, the sector's results appear to show a decrease in asset quality from our 2019 survey, where asset quality is assessed based on the impairment expense and impairment provisions. Given that some of the survey participants' results will have been reported before the effects of Covid-19 significantly impacted New Zealand, we are not capturing the full picture of Covid-19's effects on our survey participants and it is possible that we could see further decreases again in the 2021 survey. Impaired asset expense increased by 41.51% in 2020, a movement of $48.06 million, reflecting the uncertainty of the economic outlook and increased hardships experienced by many people as a result of the Covid-19 pandemic.

14 SEE FIGURE 14 – PAGE 26

This increase in impaired asset expense was primarily driven by FlexiGroup, who saw a $27.31 million increase (189.82%). The next highest increase was a $12.87 million (97.72%) rise from UDC Finance; however, a $10.27 million (21.26%) decrease from Latitude largely offset this in the sector's overall result. Notably, only five survey participants saw their impaired asset expenses decrease, two with December year ends, two with March year ends and just one with a September year end.

The sector has also seen an increase in the proportion of the provision for impairment over gross loans and advances (GLA) from the previous year, with the ratio up from 1.90% to 2.22%. This increase is due to total provisions rising by a considerable 21.09% ($54.54 million), while GLA have grown at a proportionately lower rate of 3.19% ($434.63 million). Based on discussions with survey participants, actual credit quality if measured by past due and arrears is much better than expected, however few are comfortable releasing their provisions when there is still a great deal of future uncertainty.

15 SEE FIGURE 15 – PAGE 27

Three survey participants with March year ends saw the greatest increases in their impairment provision to GLA ratios of all survey participants. Ricoh New Zealand saw the largest rise of 282 bps to 4.96%, followed by FlexiGroup's increase of 181 bps to 4.73%, then Geneva Finance's rise of 115 bps to 19.17%. Geneva also had the highest ratio of all the survey participants at 19.17%, 1,238 bps more than the next highest ratio, which was Turners Automotive Group at 6.79% (a 63 bps increase from the prior year).

Only five survey participants actually saw decreases in their ratios, but two of these have a December year end and the impact of the global pandemic is unlikely to have found its way into the financial statements yet. Fuji Xerox, with a March year end, attained the greatest decrease of 68 bps to 6.55% due to their loans staying flat, while being one of the few survey participants that have decreased their impairment provision.

Notably, Christian Savings has reported their first provision since 2016, resulting in an impairment provision to GLA ratio of 0.10%, however, this remains the lowest ratio from all the survey participants that have reported a provision. MTF saw the largest proportional deterioration in the impairment provision over their GLA ratio, which is more than double last year's ratio, increasing by 67 bps to 0.93%. The deteriorations for both Christian Savings and MTF will largely be attributable to the timing of balance dates being August and September respectively, exposing them to both the nationwide Alert Level 4 lockdown in March and the Alert Level 3 Auckland lockdown in August.

While Christian Savings did raise a provision for the first time, they also reported a 27.97% increase in GLA which indicates that they may have felt it necessary to provide for some loans written during the period most economically impacted by the pandemic so far. On the other hand, MTF reported a 2.65% decline in GLA, while also significantly increasing their provisions by 247.11%. This is the largest increase among all of the survey participants, although it is too early to tell if these increases are a conservative estimate driven by the expected credit loss (ECL) models or overlays that have been used.

On further examination of the impairment provisions, UDC and FlexiGroup have contributed the largest amount to the total $54.54 million overall rise, increasing by $15.29 million (31.92%) and $15.16 million (54.71%) respectively. Nelson Building Society (NBS) saw the next largest increase percentage wise after MTF, rising by 216.30% to $4.21 million, making them the only other survey participant to increase their impairment provision by more than 200%.

Overall, just three entities actually saw decreases in their impairment provisions. Credit Union Baywide had the largest decrease in provisions, decreasing by 35.10% ($2.69 million), which would likely be partially attributable to their loans also decreasing, although at a slower rate of 11.34% ($44.70 million). Latitude Financial Services reported the next largest decrease, at 10.28% ($6.08 million); however, it is worth noting that Latitude has a December year end, and their 31 December 2019 balances are unlikely to reflect the impacts of the global pandemic.

Operating expenses

Operating expenses rose by 3.74% ($34.05 million) across the sector to $945.21 million in the 2020 survey. The movement is comparable to the prior year movement of 2.84% or $24.68 million (excluding the impact of the introduction of L&F to the survey), and represents another relatively flat year of operating expenses with many businesses trying to minimise costs to mitigate the effects of Covid-19. The slight uptick from 2019 is likely to be due to the increased cost of compliance as well as the unforeseen costs of setting staff up to work from home; however, this would have been balanced to some extent by cost savings achieved whilst being prudent under Covid-19. The operating efficiency ratio (operating expenses as a proportion of operating income) increased slightly by 44 bps to 62.46%, as operating income grew at a comparatively slower rate of 3.00% ($44.03 million), than operating expenses. This demonstrates a consistent level of growth in both the top and bottom-line, across the sector, with operating expenses rising only slightly more than operating income.

16 SEE FIGURE 16 – PAGE 27

Latitude Financial Services had the highest value increase of all survey participants of $21.26 million (18.16%), which was a major contributor to the increase for the sector, followed by Geneva Finance who contributed $4.87 million. However, it is worth nothing that Latitude has a December year end, so it is likely that cost reductions in response to Covid-19 could be made during 2020. Latitude, due to their business model, has the second highest operating expenses of the survey participants at $138.31 million.

This was only beaten by Turners who accounts for $282.71 million of the survey participants' total operating expenses and that has remained relatively flat year on year.

First Mortgage Trust, Geneva Finance and new survey participant L&F reported the largest increases in operating expenses of 22.26% ($2.65 million), 30.73% ($4.87 million) and 25.24% ($2.68 million), respectively. Notably all three entities also recorded corresponding increases in their loan books throughout the year and an increase in operating profit. BMW Financial Services and Fuji Xerox Finance experienced the largest decreases in operating expenses, cutting back by 18.01% ($3.42 million) and 10.72% ($1.19 million), respectively. This decrease in expenses correlates with declines in the operating income of both entities, with BMW's decreasing by 9.95% ($2.83 million) and Fuji Xerox's decreasing by 11.68% ($1.57 million).

In a turbulent year for our survey participants, operating effectively and efficiently has proved challenging. This is illustrated by the mixed results drawn from the data collected, with only 10 of the 25 survey participants noticing an improvement in their operating efficiency ratio. Nissan Financial Services again had the best operating efficiency ratio of the survey participants at 18.78% after a small increase of 42 bps. While at the other end of the scale, Ricoh New Zealand reported a ratio of 92.30%, up 1,430 bps from 78.00% in the prior year, driven by a decrease in operating income and an increase in operating expenses.

During the year, MTF and Geneva Finance also experienced considerable deterioration in their operating efficiency ratios, increasing by 982 bps to 89.63% and 870 bps to 77.67%, respectively. MTF managed to keep operating expenses relatively stable, but saw a decrease of 10.63% ($8.43 million) in operating income resulting in the decreased ratio. On the other hand, Geneva managed to increase operating income by 16.08% ($3.70 million), but this amount was offset by a sharp increase of 30.73% ($4.87 million) for operating expenses.

The most notable improvement in operating efficiency ratio was reported by Credit Union Baywide of 2,000 bps from 107.02% to 87.02%, primarily due to a 20.26% ($6.61 million) increase in operating income, while decreasing their operating expenses by 2.21% ($0.77 million). It is likely that benefits of the costs incurred in the previous period relating to the amalgamation are now being realised and are contributing to this result. Another notable increase in operating efficiency was seen by John Deere Financial, who improved efficiency by 1,143 bps from 48.89% to 37.46%, driven by a strong 24.08% ($1.58 million) increase in operating income.

Focus on provisioning

New Zealand has fared reasonably well so far, with stronger economic activity than anticipated at the onset of the pandemic. Like the banking sector, the non-bank financial institutions are also continuously confronted with an important question, "How much provision is enough given the uncertain economic conditions?"

This question comes with its own variety of implications and concerns which the non-bank sector will need to consider while determining the appropriate level of expected credit loss (ECL) to be recorded under NZ IFRS 9.

Government support

Neither the bank sector or non-bank sector, have experienced a significant increase in non-performing loans due to Covid-19[15].

In fact, some non-bank financial institutions we have spoken to have indicated that they are actually experiencing an improvement in their non-performing loans, which is counter-intuitive and contradictory to what was expected at the onset of the Covid-19 crisis. This could be largely driven by the Government's wage subsidies and support packages that have been provided to cushion any economic fallout from this crisis.

Economic uncertainty driving the increase in provisions

However, non-bank financial institutions have increased the level of impairment to be recorded under ECLs by 21%. This is lower than the increase that the banking sector has experienced. This is probably due to some institutions with reporting periods of 31 December and 31 March 2020 and were still reporting pre-Covid-19 provisions. Non-bank organisations generally use provisioning models that were built using data largely from a benign environment and simplistic statistical approaches (e.g. regression) to derive links between changes in economic conditions and historical customer behaviour. In addition, the diverse economic forecasts used in determining the forward-looking provisions has resulted in varied provisioning outcomes.

These simplistic approaches are unlikely to perform as intended across a 'shock' environment, such as Covid-19, as these models were not built for these conditions and also do not consider the effects that active government intervention may have on their portfolios. Hence, the outputs from these models require significant post-model adjustments. It is even more critical for appropriate involvement by senior management and boards to ensure a reasonable estimate of the ECL is recorded and judgements are appropriately challenged.

The interlinkages with the global economy

It is still unclear what the economic fall-out of this crisis will be given the uncertain economic outlook. Given the interlinkages with the global economy, the recurring lockdowns in other countries, the increasing possibility of a vaccination being available and the more recent supply chains issues, these impairment models should be reassessed more regularly to ensure that they reflect the most current economic outlook and capture the credit risk indicators that are expected to emerge for their exposures. Any economic downturn is likely to impact the non-banks' customers ahead of the banking sector customers. This would need to be managed alongside the potential opportunities to increase market share in mortgage lending ahead of the new LVR restrictions expected to be placed on banks.

Dhayaparan Raman is a Senior Manager – Risk Consulting with KPMG and is a quantitative risk consultant with valuable experience in New Zealand International Financial Reporting Standard (NZ IFRS) 9 *Financial Instruments* provisioning and credit risk models, statistical analyses tools, and financial services' prudential guidelines.

Email: draman@kpmg.co.nz

Analysis of annual results

Entity	Rank by Total Assets	Balance Date	Year	Size Total Assets $000
Avanti Finance Limited	4	30-Jun	2020 *2019*	1,251,077 *1,084,764*
BMW Financial Services New Zealand Limited	16	31-Dec	2019 *2018*	320,274 *378,079*
Christian Savings Incorporated	18	31-Aug	2020 *2019*	221,466 *183,529*
Credit Union Baywide	12	30-Jun	2020 *2019*	513,802 *521,030*
First Credit Union	14	30-Jun	2020 *2019*	400,918 *382,979*
First Mortgage Trust	6	31-Mar	2020 *2019*	935,054 *808,561*
FlexiGroup (New Zealand) Limited	5	30-Jun	2020 *2019*	1,008,563 *1,033,843*
Fuji Xerox Finance Limited	25	31-Mar	2020 *2019*	72,131 *267,378*
Geneva Finance Limited	23	31-Mar	2020 *2019*	125,475 *117,742*
Instant Finance Limited	24	31-Mar	2020 *2019*	124,928 *118,008*
John Deere Financial Limited	19	3-Nov *28-Oct*	2019 *2018*	194,851 *187,405*
Latitude Financial Services Limited	2	31-Dec	2019 *2018*	1,773,390 *1,684,909*
LeasePlan New Zealand Limited	15	31-Dec	2019 *2018*	356,578 *367,532*
Leasing & Finance Limited Partnership	17	30-Jun	2020 *2019*	307,367 *263,014*
Mercedes-Benz Financial Services New Zealand Limited	9	31-Dec	2019 *2018*	707,280 *687,005*
Motor Trade Finance Limited	8	30-Sep	2020 *2019*	753,809 *784,017*
Nelson Building Society	7	31-Mar	2020 *2019*	865,527 *828,818*
Nissan Financial Services New Zealand Pty Limited	11	31-Mar	2020 *2019*	565,723 *538,272*
ORIX New Zealand Limited	13	31-Mar	2020 *2019*	431,513 *374,054*
Police and Families Credit Union	22	30-Jun	2020 *2019*	144,325 *131,929*
Ricoh New Zealand Limited	20	31-Mar	2020 *2019*	192,506 *160,960*
Toyota Finance New Zealand Limited	3	31-Mar	2020 *2019*	1,470,093 *1,320,837*
Turners Automotive Group	10	31-Mar	2020 *2019*	615,851 *561,648*
UDC Finance Limited	1	30-Sep	2020 *2019*	3,558,186 *3,483,859*
Wairarapa Building Society	21	31-Mar	2020 *2019*	167,785 *160,013*
Sector Total			**2020** ***2019***	**17,078,472** ***16,430,185***

n/d = not disclosed; n/a = not available.

and Strength Measures		Growth Measures			
Net Assets[16] $000	Net Loans and Advances $000	Increase in Net Profit After Tax %	Increase in Total Assets %	Increase in Gross Loans and Advances %	Increase in Net Interest Income %
136,837	1,191,657	-20.19	15.33	15.51	1.94
118,822	*1,035,026*	*42.91*	*91.20*	*90.53*	*64.29*
25,485	307,944	24.33	-15.29	-13.30	-6.56
28,227	*356,237*	*-17.40*	*-6.79*	*-5.52*	*-5.97*
28,156	164,451	55.40	20.67	27.97	30.48
19,192	*128,639*	*-31.18*	*17.91*	*24.46*	*-5.02*
57,514	344,473	92.25	-1.39	-11.34	20.17
57,909	*386,482*	*-6,038.37*	*1.84*	*3.22*	*11.25*
60,342	223,224	-73.48	4.68	10.30	-0.15
59,558	*202,295*	*295.19*	*6.97*	*2.59*	*-0.62*
932,022	789,359	12.80	15.64	25.12	16.42
799,702	*631,153*	*28.83*	*25.15*	*20.35*	*27.12*
-12,952	862,862	-44.67	-2.45	-4.49	8.10
80,382	*920,587*	*-7.84*	*5.16*	*38.07*	*0.32*
64,805	62,213	-47.22	-73.02	0.05	-15.87
-19,905	*61,729*	*176.96*	*-26.87*	*1.68*	*-50.16*
31,349	82,868	-6.35	6.57	3.84	0.34
29,590	*80,941*	*-28.24*	*18.55*	*5.82*	*22.81*
33,155	108,383	-1.45	5.86	1.26	3.82
31,646	*107,522*	*-2.00*	*1.05*	*1.81*	*3.03*
10,986	191,553	51.76	3.97	5.32	23.92
7,324	*181,882*	*4.41*	*25.45*	*26.94*	*14.62*
-76,801	1,638,623	23.91	5.25	3.08	8.80
-91,958	*1,581,995*	*315.81*	*10.74*	*11.37*	*67.89*
112,383	9,316	24.76	-2.98	-24.57	-11.45
106,383	*12,350*	*43.99*	*-1.13*	*2.47*	*4.04*
5,796	225,544	25.96	16.86	13.53	34.60
3,870	*199,959*	*77.58*	*24.42*	*20.68*	*12.87*
50,770	681,919	8.49	2.95	4.65	0.25
56,416	*651,526*	*1.06*	*3.64*	*2.07*	*-15.28*
97,482	669,328	-55.49	-3.85	-2.65	0.56
95,929	*692,194*	*35.48*	*4.81*	*1.41*	*4.30*
73,385	675,812	9.22	4.43	5.95	19.29
58,467	*640,502*	*42.18*	*14.63*	*14.95*	*19.30*
35,361	546,393	14.04	5.10	4.49	13.18
26,024	*525,060*	*20.39*	*21.41*	*21.36*	*4.49*
154,595	91,674	-6.25	15.36	17.93	4.03
173,456	*77,767*	*-19.21*	*20.18*	*29.39*	*-1.36*
26,369	42,401	-33.89	9.40	-12.22	-4.18
25,577	*48,333*	*-24.70*	*3.06*	*-10.00*	*-3.47*
73,799	95,816	-81.91	19.60	12.61	-7.67
81,444	*87,610*	*-2.17*	*6.82*	*4.66*	*2.96*
204,706	1,048,395	26.02	11.30	10.35	7.07
178,952	*952,927*	*18.10*	*-6.08*	*-2.73*	*-0.87*
130,514	297,950	-7.77	9.65	0.55	-6.97
133,840	*298,311*	*-2.74*	*0.44*	*2.19*	*11.31*
538,731	3,286,967	-10.43	2.13	-2.79	3.06
612,422	*3,398,375*	*6.72*	*5.70*	*5.81*	*10.93*
21,850	126,544	15.36	4.86	0.44	-2.87
19,894	*126,169*	*158.64*	*0.13*	*-4.37*	*14.61*
2,816,639	**13,765,669**	**-7.97**	**3.95**	**3.19**	**5.34**
2,693,163	***13,385,571***	***17.04***	***9.41***	***12.54***	***15.27***

Analysis of annual results

Entity	Year	Credit Quality Measures: Impaired Asset Expense $000	Credit Quality Measures: Provision for Doubtful Debts/ Gross Loans & Advances %	Credit Quality Measures: Impaired Asset Expense/ Average Loans & Advances %	Net Interest Margin %
Avanti Finance Limited	2020	18,782	2.20	1.65	5.54
	2019	*14,123*	*1.88*	*1.76*	*7.65*
BMW Financial Services New Zealand Limited	2019	2,448	1.67	0.73	6.46
	2018	*3,272*	*1.37*	*0.88*	*6.28*
Christian Savings Incorporated	2020	165	0.10	0.11	1.75
	2019	*0*	*0.00*	*0.00*	*1.60*
Credit Union Baywide	2020	5,491	1.42	1.48	6.23
	2019	*2,817*	*1.94*	*0.73*	*5.16*
First Credit Union	2020	1,786	1.31	0.83	3.53
	2019	*667*	*1.35*	*0.33*	*3.73*
First Mortgage Trust	2020	820	0.24	0.12	6.93
	2019	*-196*	*0.19*	*-0.03*	*7.13*
FlexiGroup (New Zealand) Limited	2020	41,693	4.73	4.50	11.63
	2019	*14,386*	*2.92*	*1.76*	*10.85*
Fuji Xerox Finance Limited	2020	-20	6.55	-0.03	6.18
	2019	*-1,408*	*7.23*	*-2.13*	*3.89*
Geneva Finance Limited	2020	1,854	19.17	1.84	10.14
	2019	*1,697*	*18.02*	*1.77*	*11.25*
Instant Finance Limited	2020	3,939	4.53	3.49	22.89
	2019	*3,246*	*4.10*	*2.92*	*22.33*
John Deere Financial Limited	2019	n/d	n/a	n/a	4.27
	2018	*n/d*	*n/a*	*n/a*	*3.92*
Latitude Financial Services Limited	2019	38,023	3.13	2.28	11.46
	2018	*48,288*	*3.60*	*3.10*	*11.27*
LeasePlan New Zealand Limited	2019	377	0.00	3.48	8.77
	2018	*280*	*0.00*	*2.29*	*9.59*
Leasing & Finance Limited Partnership	2020	4,644	2.58	2.13	6.30
	2019	*2,818*	*1.95*	*1.51*	*5.63*
Mercedes-Benz Financial Services New Zealand Limited	2019	667	0.84	0.10	3.21
	2018	*320*	*0.85*	*0.05*	*3.30*
Motor Trade Finance Limited	2020	265	0.93	0.04	8.23
	2019	*305*	*0.26*	*0.04*	*8.20*
Nelson Building Society	2020	3,423	0.62	0.52	2.56
	2019	*783*	*0.21*	*0.13*	*2.34*
Nissan Financial Services New Zealand Pty Limited	2020	4,332	1.57	0.80	3.49
	2019	*2,834*	1.17	*0.58*	*3.45*
ORIX New Zealand Limited	2020	116	0.14	0.14	8.87
	2019	*76*	*0.10*	*0.11*	*10.00*
Police and Families Credit Union	2020	28	0.27	0.06	3.58
	2019	*7*	*0.21*	*0.01*	*3.93*
Ricoh New Zealand Limited	2020	198	4.96	0.21	8.77
	2019	*211*	*2.14*	*0.24*	*10.30*
Toyota Finance New Zealand Limited	2020	3,023	2.28	0.30	4.17
	2019	*1,222*	*1.98*	*0.12*	*3.95*
Turners Automotive Group	2020	5,453	6.79	1.71	8.20
	2019	*6,995*	*6.16*	*2.22*	*9.02*
UDC Finance Limited	2020	26,044	1.89	0.77	4.31
	2019	*13,172*	*1.39*	*0.39*	*4.33*
Wairarapa Building Society	2020	301	0.49	0.24	2.29
	2019	*-126*	*0.35*	*-0.10*	*2.42*
Sector Total	**2020**	**163,852**	**2.22**	**1.18**	**6.28**
	2019	***115,789***	***1.90***	***0.90***	***6.33***

n/d = not disclosed; n/a = not available

Interest Spread %	Net Profit After Tax $000	Underlying Profit $000	NPAT/Average Total Assets %	NPAT/Average Equity %	Operating Expenses/Gross Revenues %	Operating Expenses/ Operating Income %
Profitability Measures					Efficiency Measures	
5.02	21,217	30,596	1.82	16.36	26.15	39.87
6.95	*26,584*	*36,918*	*3.22*	*28.29*	*26.19*	*38.46*
6.26	5,458	7,586	1.56	20.32	45.12	60.79
6.15	*4,390*	*6,173*	*1.12*	*16.96*	*47.90*	*66.67*
1.39	1,324	1,324	0.65	5.59	25.69	60.92
1.20	*852*	*852*	*0.50*	*4.61*	*25.40*	*70.86*
5.98	-396	-396	-0.08	-0.69	67.95	87.02
4.84	*-5,107*	*-5,107*	*-0.99*	*-8.55*	*77.35*	*107.02*
3.23	784	798	0.20	1.31	60.94	87.33
3.36	*2,956*	*2,985*	*0.80*	*5.09*	*58.92*	*83.80*
6.93	44,440	44,705	5.10	5.13	24.22	24.22
7.13	*39,396*	*39,899*	*5.42*	*5.48*	*23.06*	*23.06*
11.63	23,222	30,870	2.27	9.78	37.11	47.14
10.68	*41,972*	*57,830*	*4.16*	*15.48*	*35.50*	*46.31*
5.53	1,975	1,975	1.16	8.80	52.25	83.51
4.06	*3,742*	*3,742*	*1.18*	*-17.18*	*48.37*	*82.61*
8.39	4,115	4,102	3.38	13.51	66.71	77.67
9.35	*4,394*	*5,434*	*4.05*	*14.96*	*58.24*	*68.97*
21.04	8,723	11,969	7.18	23.43	54.89	62.30
20.43	*8,851*	*11,893*	*7.54*	*24.63*	*55.31*	*63.14*
4.17	3,662	5,086	1.92	40.00	24.82	37.46
3.84	*2,413*	*3,350*	*1.43*	*39.44*	*30.27*	*48.89*
11.77	15,986	23,061	0.92	46.16	48.59	69.37
11.60	*12,901*	*18,618*	*0.80*	*53.65*	*43.73*	*63.63*
8.77	9,000	12,517	2.49	8.23	26.93	66.40
9.59	*7,214*	*10,188*	*1.95*	*7.02*	*29.15*	*71.28*
6.13	1,926	1,926	0.68	39.85	29.18	66.95
5.49	*1,529*	*1,529*	*0.64*	*44.33*	*29.25*	*70.96*
2.97	13,079	17,567	1.88	24.40	21.19	33.91
2.99	*12,056*	*16,389*	*1.79*	*21.69*	*20.03*	*33.87*
7.68	4,960	7,085	0.65	5.13	67.19	89.63
7.59	*11,143*	*15,701*	*1.45*	*11.85*	*59.07*	*79.81*
2.32	6,170	8,610	0.73	9.36	23.47	48.44
2.10	*5,649*	*7,897*	*0.73*	*10.51*	*23.70*	*55.24*
3.31	9,098	20,590	1.65	29.64	16.60	18.78
3.24	*7,978*	*20,161*	*1.63*	*36.29*	*16.33*	*18.36*
7.57	11,336	15,757	2.81	6.91	23.70	59.16
8.41	*12,092*	*16,818*	*3.53*	*6.61*	*24.71*	*55.95*
3.27	794	793	0.57	3.06	59.81	83.62
3.52	*1,201*	*1,200*	*0.92*	*4.81*	*53.85*	*76.95*
7.84	1,581	3,910	0.89	2.04	86.75	92.30
9.20	*8,742*	*13,100*	*5.61*	*10.78*	*75.75*	*78.00*
3.76	25,754	35,821	1.85	13.43	20.56	46.15
3.54	*20,437*	*28,321*	*1.50*	*12.54*	*21.16*	*52.25*
7.76	20,953	29,065	3.56	9.32	85.13	89.12
8.22	*22,719*	*29,049*	*4.05*	*10.31*	*84.81*	*88.76*
3.87	62,420	86,689	1.77	10.84	17.77	26.67
3.71	*69,690*	*97,057*	*2.06*	*11.98*	*16.38*	*26.67*
2.06	2,020	2,131	1.23	9.68	30.65	54.94
2.19	*1,751*	*2,228*	*1.09*	*9.23*	*30.60*	*58.35*
5.74	**299,601**	**404,137**	**1.79**	**9.43**	**44.28**	**62.46**
5.72	***325,545***	***442,225***	***2.07***	***11.13***	***43.37***	***62.02***

Buy Now, Pay Later

Despite the havoc the global pandemic has unleashed throughout the world, the Buy Now, Pay Later (BNPL) segment has seen a considerable amount of activity in 2020. Some commentators initially expressed concerns that people's debt stress would be worsened by allowing the BNPL sector to flourish without any regulatory oversight[17].

However, personal debt data does not seem to reflect these concerns (see figures 2 and 3), instead showing that both personal loans and credit card balances have decreased considerably in April and remained down; which brings to question if more people have substituted traditional credit with BNPL services. This trend has also been reflected in our interviews; the majority of survey participants have commented that – despite initial concerns around the direction that debt levels might move – people are paying on time or even early, and arrears are the lowest they have ever been. The uncertainty from the global pandemic prompted people to reduce their debts and cut or reshuffle unnecessary expenses, and apparently these unnecessary costs have not made their way back into household expenditure after the release from lockdown. This situation implies that, despite concerns, BNPL has not actually been significantly contributing to additional consumer debt or debt stress.

2 SEE FIGURE 2 – PAGE 8

3 SEE FIGURE 3 – PAGE 8

As with many other businesses, BNPL entities felt the effects of Covid-19, and the number of applications for new accounts reduced by about 80% during the Alert Level 4 lockdown. However, unlike other forms of personal lending, BNPL bounced back, surpassing its pre-lockdown levels[18] as retail spending increased. The growth experienced where other forms of personal lending have slowed reflects the perceived customer value of BNPL as an alternative payment option.

Unlike other forms of personal lending, BNPL bounced back, surpassing its pre-lockdown level.

The movement also seems to be captured in market leader Afterpay's share price, which has seen incredible growth. The initial drop in March to below A$9[19] essentially mirrored the bottoming out experienced by the stock market in response to the global pandemic. Despite the Afterpay Group reporting a $22.86 million loss for the year ended 30 June 2020[20], Afterpay's share price has skyrocketed in the months following, reaching over A$100 for the first time in October following the announcement of their partnership with Westpac Group[21].

The partnership will allow Afterpay to offer savings accounts and cash-flow tools to customers in Australia[22], without having to obtain a banking license of its own. For Westpac, particularly in Australia, the benefit is exposure to younger customers who are the most common users of BNPL services.

Both in New Zealand and overseas, BNPL is gaining more momentum as more retailers have recognised that consumers are more willing to make a purchase using a BNPL service that might otherwise not occur[23]. Last year Visa joined the BNPL game; and this year PayPal has joined them, launching their 'Pay in 4' service. PayPal will have a considerable competitive advantage through utilising its two-sided network with 26 million merchants and 324 million users, making it a considerable competitor to even the first movers with an established customer base, such as Afterpay[24].

Last year Visa joined the BNPL game; and this year PayPal has joined them.

The global pandemic has only accelerated the popularity of shopping online. The increasing use of BNPL services indicates that Kiwis would rather pay less in multiple instalments that are automatically deducted from their bank accounts than pay the full price with a credit card and maintain responsibility for making the repayment. In addition, if a customer was to repay late, a flat fee is certain and simple, compared to a variable interest expense that can be difficult to calculate[25] when a customer uses a credit card. Despite the fact that a credit card may actually be cheaper if payments are made late, the ease of BNPL seems to outweigh the mental workload associated with a credit card.

The other major benefit to customers is that because it is not considered lending, no responsible lending check is required by the merchant/provider when offering BNPL, meaning obtaining approval is faster and easier; whereas a credit type lending product will take longer, as it requires the provider to do a check of the applicant's ability to repay, and the provider will also have to consider the impact of BNPL on the applicant's ability to repay.

The global pandemic has only accelerated the popularity of shopping online.

The key grievance that established lenders have with BNPL is that it takes up a consumer's credit capacity; but they do not have to apply the responsible lending criteria as they utilise that capacity since they currently do not meet the definition of a Consumer Credit Contract. It is worth noting that the BNPL providers are disincentivised to lend to customers that are likely to default, as there is no security on the instalments outstanding and they do not make a profit until the full repayment is made and will bear the loss. However, this model does not scope out customers who may make a late payment but will ultimately repay, and will suffer a cost from doing so. In addition, BNPL providers have the advantage of being able to set their own credit criteria, and they do not need to take the same steps other lenders do that are bound by the Credit Contracts and Consumer Finance Act (CCCFA).

This leads to the second point about credit capacity where the lenders bound by the CCCFA are trying to compete in what they see as an unfair playing field. If a customer comes to a traditional lender asking for a credit card or personal loan, the lender must apply the responsible lending principles and perform specific checks, including assessing the customer's ability to pay. In doing this, if the lender sees BNPL transactions pending or in the bank statements, it will then impact how much the customer can repay as the BNPL is eating at their credit capacity. The lender then must either turn down the customer's request or reduce the amount, a move which is particularly frustrating when a competing BNPL provider does not have to play by the same rules.

Due to its rising popularity, some survey participants have launched their own BNPL payment option to retain both existing customers and relevance. However, the survey participants already bound by the CCCFA will still need to apply responsible lending criteria for their customers. Such a requirement makes it difficult to compete on price without extending the payment terms, and compete on ease of sign up, as they just simply cannot complete their credit checks as quickly as other groups not bound by the same rules.

In early 2020 one survey participant, FlexiGroup, released an interesting new fintech product in Australia called bundll. Bundll is a hybrid of BNPL and a traditional credit card, which allows customers to purchase an array of products and bundles them together; fourteen days later, the customer then pays up to a maximum of $1,000. The recent announcement that FlexiGroup have partnered with Mastercard to roll out this product to global banks further demonstrates the increasing consumer preference for this type of arrangement over a traditional credit card.

Despite the fact that low interest rate credit cards would likely provide longer interest free prepayment periods and potentially incur less expense for delayed payments, bundll keeps things simple for borrowers and helps reduce the mental workload relating to managing debt. The Australian market is seeing an increase in partnerships between BNPL providers and major banks; therefore, it would not be surprising to see more fintech products aimed at streaming and consolidating debt and cash balances across multiple platforms into one user friendly platform to help further reduce the associated mental workload. However, these products will need to comply with the Unfair Fee laws in New Zealand which only allow lenders to charge fees to cover costs and daily costs that are no more than 0.8% of the unpaid loan balance in both interest and fees[26].

Peer-to-peer lending

The peer-to-peer lending space has changed considerably during the year, with the most dominant player, Harmoney, essentially leaving the sector to the remaining smaller operators. In February, Harmoney announced that all loans written would be funded by themselves and wholesale investors only from April 2020[27], and in November listed on both the ASX and NZX after a successful IPO[28]. Typically, our publication would also include a focus on the peer-to-peer lending sector, analysing data published by the FMA. However, at the time of writing this data has not yet been released and therefore has been excluded from this year's edition of the publication.

Changes to the CCCFA

Malcolm Bruce
Principal – Risk Advisory
KPMG

Malcolm leads KPMG's Risk Advisory team and specialises in financial services risk and regulatory advisory work. The KPMG Risk Advisory team supports clients across a broad range of areas from operational risks to non-financial risk management issues including conduct and culture, anti-money laundering, controls, and compliance.

Kate Stewart
Associate Director, Risk Consulting
KPMG

Kate is an Associate Director specialising in conduct and regulation. She joined the team from the Financial Markets Authority and brings with her valuable experience in conduct regulation from both the UK and New Zealand.

Kate previously worked for a major New Zealand life insurer in marketing and product development roles.

Changes to the Credit Contracts and Consumer Finance Act (CCCFA) will require greater focus from the Board and Senior Management than before. Make sure you are prepared for the changes so you are not caught short.

If you are in the business of consumer lending, you will no doubt know that there are a significant number of changes to the CCCFA that are to be implemented in 2021.

These changes are set to have a profound impact both on the way consumer credit providers operate and the level of scrutiny placed on their policies, processes, and practices.

These changes are set to have a profound impact both on the way consumer credit providers operate and the level of scrutiny placed on their policies, processes, and practices.

In December 2019, the Credit Contracts Legislation Amendment Act 2019 (the Amendment Act) was enacted in order to strengthen legal requirements to lend responsibly (especially in relation to how affordability and suitability tests should be conducted) and to provide new remedies and penalties for non-compliance. The changes were made with the intention to reduce problem debt and harm to customers; examples could include harm from financial hardship or mental and physical health issues. In making these changes, the Government sought to achieve an increase in compliance with existing obligations for responsible lending.

A 2017 review of 2015 amendments to the CCCFA found significant levels of non-compliance with lender responsibilities, such as assessing loan affordability. Factors contributing to this lack of compliance included a lack of penalties for non-compliance, very low barriers to entry for lenders, and a lack of enforcement (both public enforcement and individual enforcement via consumer complaints).

The changes were made with the intention to reduce problem debt and harm to customers.

The Amendment Act has had a staggered introduction into New Zealand law reflecting the challenges of Covid-19, with the final amendments coming into force on 1 October 2021. Here, we will focus on two sets of changes that are to be implemented on 1 October 2021. We will outline the key changes and what they will mean for credit providers.

1. 'Fit and proper person' certification, and duty of directors and senior managers of creditors to exercise due diligence to ensure compliance; and
2. Increased requirements for lenders when assessing affordability and suitability of loans.

1. 'Fit and proper person' certification, and duty for directors and senior managers to ensure compliance

- Certification and fit and proper person requirements. All directors and senior managers of lenders providing consumer credit contracts or acting as mobile traders are to be certified 'fit and proper' unless they are exempt.
- Directors and senior managers of creditors will have a duty to exercise due diligence to ensure that the creditor complies with his or her duties and obligations under the Amendment Act.
- Directors and senior managers must exercise the care, diligence, and skill that a reasonable director or senior manager would exercise in the same circumstances.
- Due diligence includes taking the following reasonable steps to ensure that the creditor:
  a. requires its employees and agents to follow procedures, or has implemented automated procedures, that are designed to ensure compliance with the Amendment Act and regulations;
  b. has in place methods for systematically identifying deficiencies in the effectiveness of the procedures for compliance; and
  c. promptly remedies any deficiencies discovered.
- Directors and senior managers may also be liable for statutory damages or compensation. If the court finds a director or senior manager has breached section 59B of the Amendment Act, the director or senior manager may be liable to pay statutory damages, or a compensation payment.

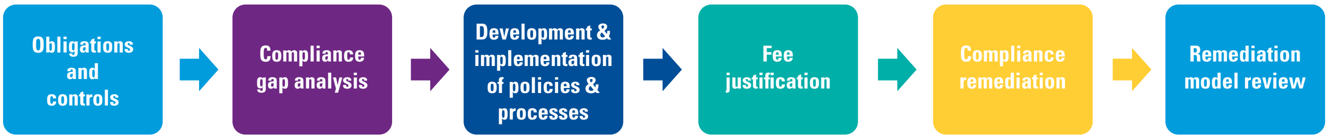
Over the last several years, consumer credit providers have agreed significant settlements with the Commerce Commission over CCCFA breaches; for example, Westpac's January 2020 settlement for $3.7 million in relation to Initial Disclosures; ANZ's settlement of $35 million in March 2020 in relation to Lender Responsibility Principles; and Aotea Finance's July 2019 settlement of $2.7 million in relation to Initial Disclosures.

This trend shows that where the Commerce Commission finds breaches of the Amendment Act, they are willing to enforce the law. What this also shows, despite the CCCFA being in force for some time, is that even our largest and most well-resourced entities are not getting it right.

What this also shows… is that even our largest and most well-resourced entities are not getting it right.

With directors and senior managers now required to be certified as 'fit and proper' by the Commerce Commission, combined with the duty for those same individuals to exercise due diligence over the way the lender is meeting its obligations, and new liabilities for statutory damages or compensation, directors and senior managers should be planning to undertake their due diligence to gain a much more in-depth view of how the lender is, in fact, meeting its obligations.

Not only will lenders need to have robust policies and processes in place, they will also need to provide demonstrable evidence to the board and senior management as to how these are operating in practice. At a minimum, KPMG would recommend having a board risk appetite statement, clear board-approved policy on affordability and suitability, empirical evidence that the policy is appropriate, training and education, and a robust Quality Assurance (QA) programme. Management can expect to have to answer more questions to allow directors to discharge their duty.



2. Increased requirements for lenders when assessing affordability and suitability of the loan

- Lenders will need to keep records about the inquiries that they have made in relation to affordability and suitability of lending. These records must be made available to the Commerce Commission, the dispute resolution scheme and the borrower (and guarantor) when requested.
- Introduction of minimum advertising standards and requirements for affordability and suitability inquiries.
- Lenders will no longer be able to rely solely on the fact that information has been provided by the borrower to show that they have made reasonable inquiries about the affordability and suitability of loans.
- Lenders will have an obligation to undertake affordability and suitability inquiries before making 'material changes'.
- Lenders will need to take reasonable steps to provide information about the loan to borrowers in the same language as they advertise in.
- Lenders must make disclosures to borrowers when they start debt collection.

These increased requirements for lenders when assessing affordability and suitability will mean changes to policies, processes, and documentation requirements. Lenders will also need to verify the information they receive from customers when it comes to suitability and affordability as they will no longer be able to take information provided by the borrower at face value, and therefore, will need to undertake specific procedures to verify and validate the information provided by the borrower.

These increased requirements for lenders when assessing affordability and suitability will mean changes to policies, processes, and documentation requirements.

Not only will lenders be required to undertake affordability and suitability inquiries at the outset, these processes will also be required when a borrower wishes to make a 'material change'[29]. This could mean that where a lender does not currently make inquiries as to the suitability and affordability of the lending for a top-up or an increase to a credit limit, they will need to do so once these changes are implemented. It is worth noting that in the Australian market, where the rules and regulations are more established whilst different, Westpac's June 2020 win (or ASIC's loss) in the 'Wagyu and Shiraz' case around Westpac's use of an automated process to approve loans that substituted borrowers' actual living expenses for a benchmark; the Household Expenditure Measure has thrown the Australian situation into a state of flux.

When it comes to keeping records about the inquiries lenders have made in relation to affordability and suitability, KPMG believes retaining recordings of calls will become the market standard (i.e. all calls should be recorded for future demonstrations of where lending was approved as well as where it wasn't). When thinking about these increased requirements on lenders, and the newly established duty on directors and senior managers as discussed above, lenders will need to ensure that robust QA processes are in place to ensure that issues are identified early, and that they are fixed. QA is an area we know providers find challenging to get right, but it is one of the most important processes to ensure management can demonstrate compliance.

Get your house in order

These changes are significant. We have focused on what we consider two of the larger sets of changes, although there are a range of changes being implemented earlier, from December 2019, then May and June 2021, dealing with disclosures, recoverability, and hardship among other areas. To ensure that you are compliant from day one, it is worth taking time to consider how you will implement these new changes effectively.

As a starting point, we suggest consumer credit providers have a robust register of all the obligations they (will) have under the CCCFA, the regulations, and the responsible lending code, followed by a controls gap analysis.

Focus on culture

While this is not a typical topic for our FIPS publication to cover, the wellbeing of their people and how to maintain culture was a key focus for many of our survey participants this year. We asked Lucy Neame from our People and Change team to share her tips for developing and maintaining organisational culture. Developing and maintaining a successful and high performing team culture does not happen by accident. While many aspects may appear to evolve organically, the good news is that organisational culture does not have to be dependent on people being in the same place at the same time and there are ways to ensure it continues even when employees are working remotely.

Be clear about your purpose

The 'why your organisation exists' should be clear to employees and customers, but the 'how you deliver' on that 'why' needs to become more flexible. Organisations with a strong sense of purpose that is clearly understood, communicated and ingrained within the company culture will find it easier to maintain the sense of belonging that employees experience, whether they are in the office or not.

Identify the key aspects that make up your workplace culture

Culture is 'the way we do things round here'. Often the aspects of workplace culture are intangible such as the way decisions are made, communication styles and day-to-day interactions.

Be explicit about what these aspects of workplace culture include and acknowledge when behaviours being displayed are in line or out of line with such values.

Focus on outcomes

The key to successfully working in a more agile world is to focus on the outcomes and outputs you expect from employees rather than the number of hours people work. Are your employees clear on their goals and the manner in which their output and performance will be measured?

Lucy Neame is a Director in our People and Change team which helps organisations thrive through their people. Lucy worked in London during the Global Financial Crisis and believes many of the lessons learnt by the Financial Services Industry at that time can be applied more broadly across organisations at this time of disruption.

Email: lucyneame@kpmg.co.nz

Reimagine workplace traditions

What were the significant activities that brought your team together pre-Covid-19? Did you always have Friday drinks? If you always made a point of celebrating employees' birthdays in the office then consider alternative ways to mark the occasion. How about a virtual drinks' session or morning tea where everyone brings their own drink and snacks? Are you expecting that everyone commits to specific times or days in the office? Ensure that there are opportunities to come together for more fun, relaxed activities even when everyone is remote.

Communication is key

It goes without saying that clear, relevant and timely communication is crucial in times of uncertainty. When you cannot guarantee that you will see people together and regularly, these forms of communication will usually take the form of emails or posts on intranets, or communication channels.

Consider the tone and key messages to employees, ensure that they align with your organisation's core values. You might want to substitute an email to all staff with a weekly update video from your Executive team to continue the feeling of personal connection. Set clear expectations as to when and how you are expecting employees to work and what you are wanting them to achieve so that you can meet the demands of your customers.

Respect and inclusion

Be mindful that the line between work and home life blurs when people are working remotely. Treat people as individuals and take time to understand what makes them the most productive. Be aware that the non-verbal cues we take for granted from in-person meetings are harder to read in a remote environment and you might need to be more purposeful about ensuring that everyone gets heard in team meetings.

Credit ratings

as at 1 December 2020

	Standard & Poor's		Fitch Ratings		Moody's		Rating and Investment	
	Rating	Outlook	Rating	Outlook	Rating	Outlook	Rating	Outlook
Avanti Finance Limited	BB	Stable						
BMW Financial Services New Zealand Limited[30]	A	Negative			A2	Negative		
Christian Savings Incorporated			BB	Stable				
Credit Union Baywide			BB	Negative				
First Credit Union			BB	Negative				
First Mortgage Trust								
FlexiGroup (New Zealand) Limited								
Fuji Xerox Finance Limited[31]							AA	Stable
Geneva Finance								
Instant Finance Limited								
John Deere Financial Limited[32]			A	Stable	A2	Stable		
Latitude Financial Services[33]								
LeasePlan New Zealand Limited[34]	BBB-	Stable	BBB+	Negative	Baa1	Stable		
Leasing & Finance Limited Partnership								
Mercedes-Benz Financial Services New Zealand Limited[35]	BBB+	Negative	BBB+	Stable	A3	Negative		
Motor Trade Finance Limited								
Nelson Building Society			BB+	Stable				
Nissan Financial Services New Zealand Pty Limited[36]	BBB-	Negative			Baa3	Negative	A	Negative
ORIX New Zealand Limited[37]	A-	Negative	A-	Negative	A3	Negative	AA-	Stable
Police and Families Credit Union[38]								
Ricoh New Zealand Limited[39]	BBB+	Negative					A+	Stable
Toyota Finance New Zealand Limited[40]	A+	Negative	A+	Negative	A1	Negative	AAA	Stable
Turners Finance								
UDC Finance Limited[41]	BBB	Stable			Baa1	Stable	A-	Stable
Wairarapa Building Society			BB+	Negative				

Ownership
as at 1 December 2020

Non-bank Entity	Ultimate Shareholding	%
Avanti Finance Limited	Various investment/ nominee companies	100
BMW Financial Services New Zealand Limited	BMW AG (Germany)	100
Christian Savings Incorporated	Various private shareholders	100
Credit Union Baywide	Various depositors	100
First Credit Union	Various depositors	100
First Mortgage Trust	Various unitholders	100
FlexiGroup (New Zealand) Limited	FlexiGroup Limited	100
Fuji Xerox Finance Limited	FUJIFILM Holdings Corporation (Japan)	100
Geneva Finance Limited	Various investment/ nominee companies; various private shareholders	100
Instant Finance Limited	Various private shareholders	100
John Deere Financial Limited	Deere & Company (USA)	100
Latitude Financial Services Limited	KVD Singapore Pte. Ltd	100
LeasePlan New Zealand Limited	LeasePlan Corporation N.V. (Netherlands)	100

Non-bank Entity	Ultimate Shareholding	%
Leasing & Finance Limited Partnership	Speirs Finance Group Limited	100
Mercedes-Benz Financial Services New Zealand Limited	Daimler AG (Germany)	100
Motor Trade Finance Limited	Various Licensed Motor Vehicle Dealers	100
Nelson Building Society	Various depositors	100
Nissan Financial Services New Zealand Pty Limited	Nissan Motor Co. Ltd (Japan)	100
ORIX New Zealand Limited	ORIX Corporation (Japan)	100
Police and Families Credit Union	Various Depositors	100
Ricoh New Zealand Limited	Ricoh Company, Ltd (Japan)	100
Toyota Finance New Zealand Limited	Toyota Motor Corporation (Japan)	100
Turners Automotive Group	Various Investment/ Nominee companies	100
UDC Finance Limited	Shinsei Bank, Limited (Japan)	100
Wairarapa Building Society	Various depositors	100

Descriptions of the credit rating grades

Long-term credit rating grades assigned by Standard & Poor's	Description of the steps in the Standard & Poor's credit rating grades for the rating of the long-term senior unsecured obligations payable in New Zealand, in New Zealand dollars.
AAA	Extremely strong capacity to meet financial commitments. Highest rating.
AA	Very strong capacity to meet financial commitments.
A	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances.
BBB	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions.
BB	Less vulnerable in the near-term, but faces major ongoing uncertainties to adverse business, financial and economic conditions.
B	More vulnerable to adverse business, financial and economic conditions, but currently has the capacity to meet financial commitments.
CCC	Currently vulnerable and dependent on favourable business, financial and economic conditions to meet financial commitments.
CC	Currently highly vulnerable. Default has not yet occurred but is expected to be a virtual certainty.
Plus (+) or Minus (-)	The ratings AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.
BB, B, CCC, and CC	Borrowers rated BB, B, CCC and CC are regarded as having significant speculative characteristics. BB indicates the least degree of speculation and CC the highest. While such borrowers will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.
Assigned by Fitch Ratings	Fitch Ratings applies 'investment grade' rates 'AAA' to 'BBB' to indicate relatively low to moderate credit risk, while for those in the 'speculative' or 'non-investment grade' categories which have either signalled a higher level of credit risk or that a default has already occurred, Fitch Ratings applies a 'BB' to 'D' rating. The modifiers '+' or '-' may be appended to a rating to denote relative status within the major rating categories. Credit ratings express risk in relative rank order, which is to say they are ordinal measures of credit risk and not predictive of a specific frequency of default or loss.
Assigned by Moody's Investors Service	Moody's Investors Service appends numerical modifiers 1, 2 and 3 in each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates the lower end of that generic category.
Assigned by Rating and Investment Information, Inc.	Rating and Investment Information Inc. applies a rating scale where the grades of "AAA" to "BB" indicate the highest level of creditworthiness supported by excellent factors, to a sufficient level of creditworthiness where some factors require attention at times. Grades of "B" to "C" are applied where creditworthiness is questionable and some factors require constant attention, to cases where an obligation is in default. Rating and Investment Information Inc. include the use of modifiers, such as "+" or "-" to the categories of "AA" to "CCC" to indicate the relative standing within each rating category.

Definitions

Terms and ratios used in this survey	Definitions used in this survey
Gross impaired assets	Includes all impaired assets, restructured assets, and assets acquired through the enforcement of security, but excludes past due assets.
Gross loans and advances	Includes loans and advances, lease receivables (net of unearned income) and accrued interest receivable (where identifiable), but excludes amounts due from banks, marketable securities, loans to related parties, sundry debtors and prepayments.
Gross revenue	Includes gross interest income, gross operating lease and net other income.
Impaired asset expense	The charge to the Profit and Loss Account for bad debts and provisions for doubtful debts, which is net of recoveries (where identifiable).
Interest bearing liabilities	Customer deposits (including accrued interest payable where identifiable), balances with banks, debt securities, subordinated debt and balances with related parties.
Interest earning assets	Cash on hand, money on call and balances with banks, trading and investment securities, net loans and advances (including accrued interest receivable where identifiable), leased assets net of depreciation and balances with related parties.
Interest expense	Includes all forms of interest or returns paid on debt instruments.
Interest spread	Difference between the average interest rate on average interest earning assets, and the average interest rate on average interest bearing liabilities.
Net assets	Total assets less total liabilities.
Net interest income	Interest income (including net income from acting as a lessor) less interest expense.
Net interest margin	Net interest income divided by average interest earning assets.
Net loans and advances	Loans and advances, net of provision for doubtful debts.
Operating expense	Includes all expenses charged to arrive at net profit before tax (excluding interest expense, impaired asset expense, subvention payments, direct expense related to other income (where identifiable) and depreciation of leased assets where a lessor.
Operating income	Net interest income, net operating lease income and net other income (where direct expense related to other income is identifiable).
Past due assets	Includes any asset which has not been operated by the counterparty within its key terms for 90 days and which is not an impaired or restructured asset.
Provision for doubtful debts	Includes both collective and individual provisions for bad and doubtful debts.
Total assets	Excludes goodwill assets (unless specifically defined).
Ultimate shareholding	Identifies the ultimate holding company rather than any intermediate holding companies.
Underlying profit	Operating income less operating expense and impaired asset expense. Items of a non-recurring nature, unrelated to the ongoing operations of the entity, are excluded.

Endnotes

1 https://www.stats.govt.nz/news/retail-sales-recover-in-the-september-2020-quarter
2 https://www.tvnz.co.nz/one-news/new-zealand/commerce-commission-fires-warning-nz-businesses-over-black-friday-cyber-monday-sales
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14 The related articles are hyperlinked to provide the reader with the ability to access the respective news releases.
15 https://www.rbnz.govt.nz/-/media/ReserveBank/Files/Publications/Financial%20stability%20reports/2020/fsr-nov-20.pdf?revision=e09dfa2d-05e8-4930-b5e4-c6c17e03b67f
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27 https://www.harmoney.co.nz/about-us/news-and-views/change-to-platform
28 https://www.harmoney.co.nz/about-us/news-and-views/harmoneys-list-asx-and-nxz-after-successful-a92-5m-ipo-a353m-market-captilisation
29 Material changes are defined in the Amendment Act as:
   a. the parties to the agreement agree to change the agreement by increasing a credit limit under the agreement:
   b. the lender exercises a power under the agreement to increase a credit limit under the agreement:
   c. the lender makes an additional advance that the lender did not take into account when previously satisfying itself as to the matters in subsection (3)(a).
30 Rating of parent company BMW AG (Germany).
31 Rating of parent company FUJIFILM Holdings Corporation (Japan).
32 Rating of parent company John Deere Financial Limited (Australia).
33 Rating of parent company KVD Singapore Pte. Ltd (Singapore).
34 Rating of parent company LeasePlan Corporation N.V. (Netherlands).
35 Rating of parent company Daimler AG (Germany).
36 Rating of parent company Nissan Motor Co. Ltd (Japan).
37 Rating of parent company ORIX Corporation (Japan).
38 Police and Families Credit Union is rated by Equifax. Rating BBB, Outlook Negative by Equifax.
39 Rating of parent company Ricoh Company, Ltd (Japan).
40 Rating of parent company Toyota Motor Corporation (Japan), Moody's and Fitch. Rating of Toyota Finance New Zealand Limited, S&P.
41 Rating of parent company Shinsei Bank, Limited (Japan).

KPMG's Financial Services Team

John Kensington
Head of Banking and Finance
+64 (09) 367 5866
jkensington@kpmg.co.nz

Matthew Prichard
Executive Chairman
+64 (09) 367 5846
matthewprichard@kpmg.co.nz

Godfrey Boyce
Chief Executive Officer
+64 (04) 816 4514
gboyce@kpmg.co.nz

Graeme Edwards
National Managing Partner – Audit
+64 (04) 816 4522
gdedwards@kpmg.co.nz

Jack Carroll
National Managing Partner – Advisory
+64 (04) 816 4516
jackcarroll@kpmg.co.nz

Ross McKinley
National Managing Partner – Tax
+64 (09) 367 5904
rdmckinley@kpmg.co.nz

Kay Baldock
National Managing Partner – Brand & Growth
+64 (09) 367 5316
kbaldock@kpmg.co.nz

Brent Manning
Partner – Audit
+64 (04) 816 4513
bwmanning@kpmg.co.nz

Jamie Munro
National Industry Leader, Financial Services
+64 (09) 367 5829
jamiemunro@kpmg.co.nz

Malcolm Bruce
Principal – Risk Consulting
+64 (09) 367 5990
malcolmbruce@kpmg.co.nz

Gary Ivory
Partner – Corporate Finance
+64 (09) 367 5943
givory@kpmg.co.nz

Ceri Horwill
Partner – Risk Consulting
+64 (09) 367 5348
cerihorwill@kpmg.co.nz

Rajesh Megchiani
Partner – Risk Consulting
+64 (09) 363 3581
rmegchiani@kpmg.co.nz

Simon Wilkins
Partner – Sustainable Value
+64 (09) 363 3480
SWilkins1@kpmg.co.nz

James Dowle
Partner – Management Consulting
+64 (04) 816 4716
jdowle@kpmg.co.nz

Contact us

Auckland
KPMG Centre
18 Viaduct Harbour Avenue
PO Box 1584
Tel: (09) 367 5800
Fax: (09) 367 5875

Hamilton
KPMG Centre
85 Alexandra Street
PO Box 929
Tel: (07) 858 6500
Fax: (07) 858 6501

Tauranga
Level 2
247 Cameron Road
PO Box 110
Tel: (07) 578 5179
Fax: (07) 578 2555

Wellington
10 Customhouse Quay
PO Box 996
Tel: (04) 816 4500
Fax: (04) 816 4600

Christchurch
The Terrace, Level 5
79 Cashel Street
PO Box 1739
Tel: (03) 363 5600
Fax: (03) 363 5629

Timaru
24 The Terrace
PO Box 526
Tel: (03) 683 1870
Fax: (03) 686 9062

Ashburton
151 Burnett Street
PO Box 564
Tel: (03) 307 6355
Fax: (03) 307 6358

kpmg.com/nz

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