

New Zealand's Kiwibank:

Public Banking Down Under Takes Different Path to Success

Introduction

Just as water swirls “the other way” in the Southern Hemisphere, New Zealand does public banking differently from North Dakota, the one US state that owns its own bank.

Here in the United States, the state-owned Bank of North Dakota (BND) serves that state's citizens as a “wholesale bank,” participating in loans issued by community banks that best know the needs of local residents, farmers, and businesses. In this way, BND strengthens North Dakota's homegrown banking industry while pumping money and credit onto Main Street—bypassing the big Wall Street banks. It's a win for everyone except the big banks that made big profits while bringing hard times to the rest of America.

In New Zealand, big banks from Australia were draining local resources while cutting back services to depositors. For a solution, New Zealand's national government turned to public banking in 2002. It launched Kiwibank, a government-owned bank to compete head-on with the Aussie banks.

Thus while North Dakota's state-owned bank steers clear of “retail banking” that would compete with local banks, New Zealand's government-owned bank plunged headlong into retail banking to compete against the large foreign banks that dominated local markets.

There are other significant differences between these two public banks, demonstrating how people use the principles of public banking concepts in different ways to serve the public interest, depending on local circumstances. This article tells the Kiwibank story, celebrating the diversity of approaches by which public banking serves communities.

Kiwibank emerges

Ten years ago, New Zealanders found themselves in a tough spot. Big Australian banks controlled some 80% of New Zealand's retail banking—the business of serving Main Street depositors and borrowers. Bank profits flowed to Australia instead of benefiting New Zealand's economy. Further, the big banks enhanced their profits by shuttering less-profitable branches, especially in rural areas, placing additional hardships on many New Zealand families and small businesses.

New Zealanders call themselves Kiwis after their national symbol, the kiwi bird. By 2001, New Zealanders were mad as hell about their banking situation, and decided they weren't going to take it anymore. The New Zealand government laid plans to launch a state-owned bank that would compete with the Aussies.

The government appointed a prominent investment banker, Rob Cameron, to study the business case for the new bank—essentially to determine if it would be viable and sustainable. The government couldn't afford to support a banking business unless it could pay for itself in the long run. Mr. Cameron performed a detailed analysis and reported dismal news: the

proposed bank would fail to attract many customers. In the business sense, then, it would fail and ultimately burden taxpayers.

Other experts viewed it differently. They saw widespread resentment toward the big Australian banks, and Kiwis' bruised national pride. Their analyses suggested that the proposed "Kiwibank" could attract enough depositors to sustain itself and thus not burden taxpayers—while providing urgently needed banking services to under-served areas throughout the country.

The government team planning the new bank faced challenges. How could they keep costs low while still providing services people needed in communities throughout New Zealand? Their creative solution: open bank branches in post offices. In fact, they established Kiwibank as a subsidiary of the government-owned New Zealand Post. Kiwibank describes its own birth this way:

Back in 2002, we launched with a thought: New Zealand needs a better banking alternative—a bank that provides real value for money, that has Kiwi values at heart, and that keeps Kiwi money where it belongs—right here, in New Zealand.

So we set up shop in PostShops throughout the country, putting us in more locations than any other bank in New Zealand literally overnight (without wasting millions on new premises!).¹

As a rough analogy, many US banks now operate branches in supermarkets both to be near customers and reduce branch costs.

Growth and popularity

Kiwibank's sudden emergence forced dominant Australian-owned commercial banks to improve their service. But now, Kiwis had real choice. They voted with their feet and their dollars. In five years, Kiwibank attracted 500,000 customers away from the big banks—this in an island nation roughly the size of Japan, but with only 4 million people. Today New Zealanders continue to make the switch, and no wonder: Kiwibank consistently earns the nation's highest customer satisfaction ratings.

Despite these successes, some New Zealand politicians want to kill the nation's new golden goose on ideological grounds. Fierce proponent of public banking, Jim Anderton served as New Zealand's minister of economic development and in that role helped bring Kiwibank to life. In November 2010, he wrote:

Like putting a fox in charge of the chickens is how I described the decision by the National Government to appoint investment banker Rob Cameron to review New Zealand Post, the owner of Kiwibank. Had it been up to Mr Cameron, Kiwibank would not exist today.

When appointed to look at the business case for establishing Kiwibank, Mr Cameron reported to Treasury that it would neither succeed nor attract many customers. Both predictions proved wrong; Kiwibank has been a huge success and today has more than 800,000 customers.

Mr Cameron also predicted that Kiwibank would not be able to withstand the competitive response of the Australian banks. He was spectacularly wrong about that, too, and overlooked

the benefits to New Zealand that occurred because the Australian banks were forced to reduce fees, improve services and stop closing branches.

The appointment of Mr Cameron to review New Zealand Post raises the obvious question about whether it will then be used as a launching pad for another round in the Government's push to sell some or all of NZ Post and Kiwibank.²

Kiwibank has achieved huge popularity among the voting public. According to news reports in the run-up to New Zealand's 2008 election, now-Prime Minister John Key repeatedly promised "on the record" that the government would not sell Kiwibank to private interests. Mr Key's more recent, equivocal statements about the government's intentions stirred controversy in advance of the nation's November 2011 election.

Regardless of the outcome, Kiwibank's story shows how public banking serves unique local needs that conventional banks do not. While the particular path taken by this New Zealand bank stands in sharp contrast to that of its North Dakota counterpart, both these public banks have shown dramatic success in serving the public interest, each in its own way.

Ira Dember

Writing Team, PBI Volunteers