

Retail Banking in New Zealand: Customer Satisfaction, Use and Perception Compared With the Rest of the World

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Retail Banking in New Zealand: Customer Satisfaction, Use and Perception Compared With the Rest of the World

With three of five major banks in New Zealand recently reporting their 2022 earnings, now is an appropriate time to examine New Zealander customers' satisfaction with their retail banks. In particular, understanding how New Zealanders feel about and use their banks, as well as how ongoing trends such as data security and sustainability have impacted them, are important inputs into how New Zealand banks can continue to adapt to changing New Zealander needs and ultimately better serve their customers.

To understand the current state of the New Zealand retail banking sector, BCG completed a survey of 1,200 New Zealanders as part of BCG's annual global retail banking survey, which in 2022, surveyed customers across 37 markets. And to help contextualise New Zealand's results, we compare them with five markets we believe are most analogous to New Zealand: Australia, Canada, The Netherlands, Poland and the United Kingdom.

In summary, we found:

1. New Zealanders (and customers across analogous markets) are ambivalent to slightly dissatisfied with their banking relationships, as measured via customer net promoter scores (NPS). The one exception is Poland, where customers are generally positive towards their banks
 - Part of this moderate dissatisfaction in New Zealand is driven by a disconnect between the way New Zealanders want their bank to feel (like a good friend or school) versus the way they actually feel (like a supermarket or GP/dentist). It may also reflect the current state of the economy, where the top two reasons New Zealanders wouldn't recommend their current bank are interest rates and fees

2. When comparing channel and product use to the rest of the world, New Zealanders are highly digitally engaged with extremely limited use of branch networks. New Zealanders also hold fewer banking relationships than analogous markets, despite having on average the same number of products
3. When comparing data privacy to the rest of the world, New Zealanders are the most hesitant of banks using data beyond simply operating their accounts
4. When comparing ESG-related banking to the rest of the world, New Zealanders generally have a low awareness of sustainable and responsible banking, though 30% of customers are likely to pay more for such products in the future

Together, these insights suggest New Zealand banks have an opportunity to 'break away from the pack' (Australia, Canada, The Netherlands and the United Kingdom) and lead on the global retail banking stage with regards to customer satisfaction (as Poland does today). And while there are multiple actions New Zealand banks can take to differentiate themselves, the survey results suggest continued investment in digital channels, data privacy / security¹ and education (and provision) of sustainable and responsible banking products are pathways to success.

¹ Note, this survey was completed prior to the recent cyber hacks in Australia, which has only increased consumer awareness and sensitivity to this issue

Customer Satisfaction

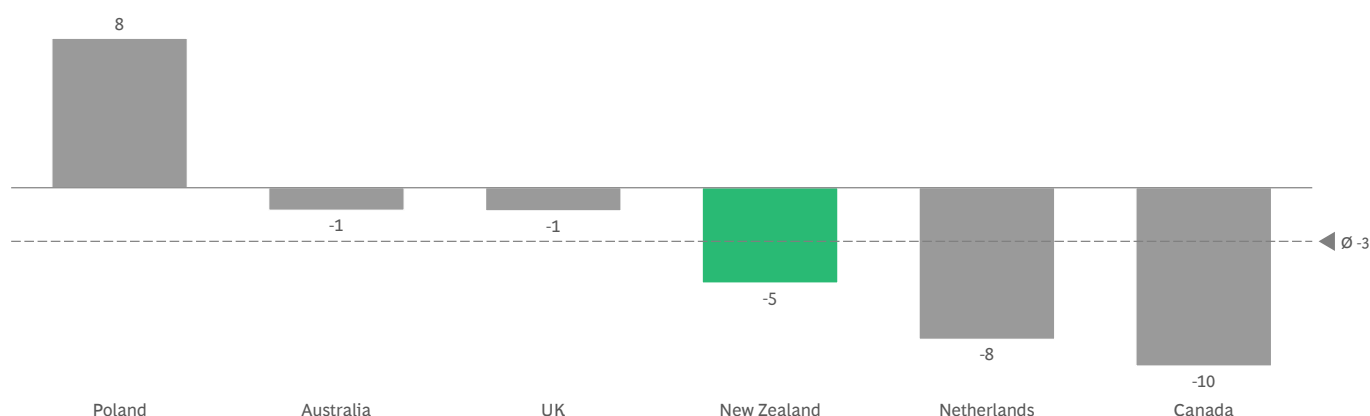
New Zealanders (and customers across analogous markets) are ambivalent to slightly dissatisfied with their banking relationships, as measured via customer net promoter scores (NPS). Specifically, in New Zealand,

banking customers report on average an NPS of -5, which is in line with the average across the peer set. The one exception is Poland, where customers are generally positive towards their banks, reporting an NPS of 8

Exhibit 1:

Customers in Western markets are generally unsatisfied with their retail banks; New Zealand is no exception

Average Net Promoter Score – by country¹



¹ Average NPS scores is a simple average of NPS scores of banks with minimum of 30 customers in the sample
Question: Have you recommended or criticized your bank over the last 12 months?
Source: BCG Retail Banking Excellence (REBEX) Consumer survey 2022, study conducted July-Sept 2022

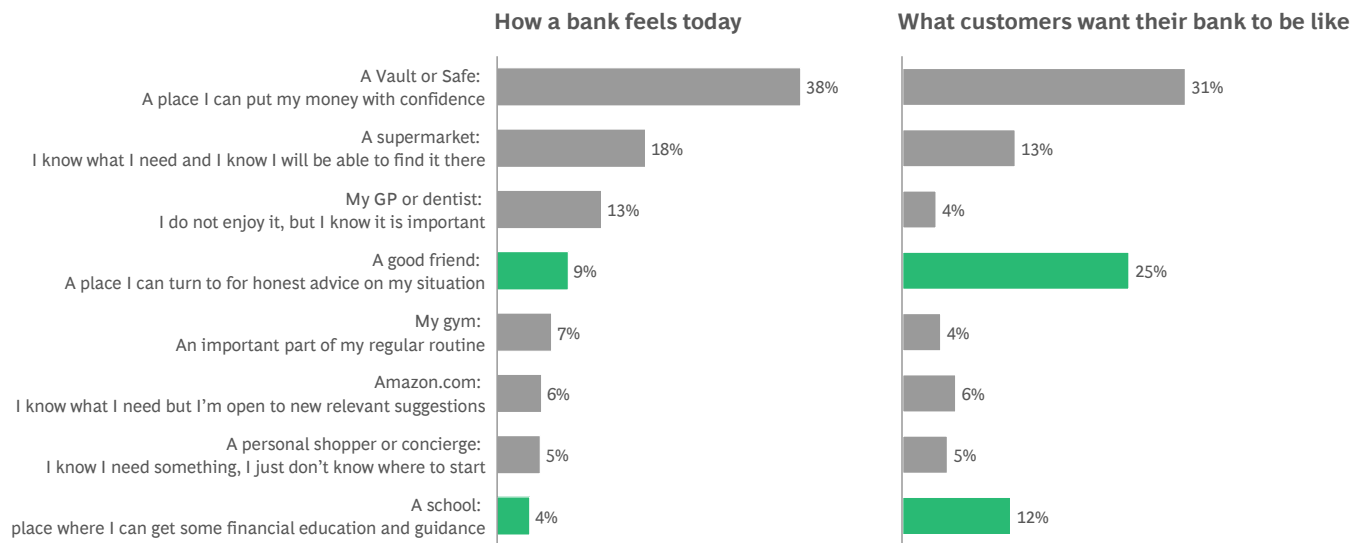
Part of this moderate dissatisfaction in New Zealand is driven by a disconnect between the way New Zealanders want their bank to feel versus the way they actually feel. Our survey revealed most customers think their bank feels like a vault – a place where they can put their money with confidence. And this is what most customers want. However, customers also reported their bank feels like a supermarket (I know what I need and I know I will be able to find it there) or GP/dentist (I don not enjoy it, but I know it is important), versus

wanting their bank to feel like a good friend or a school. This divergence suggests New Zealand banks have a role to play in providing honest advice and financial education in a way that isn't felt by many customers today.

Interestingly, in no situation would New Zealander customers want their banks to be like a gym or Amazon – suggesting territories New Zealand banks should avoid when developing products and services for their customers.

Exhibit 2:

New Zealand customers want their banks to feel more like a 'good friend' who they can turn to for honest advice, or a 'school' where they can get financial guidance



Questions: My bank today feels like...? I would like my bank to be more like...?
Source: REBEX Consumer survey 2022, study conducted July-Sept 2022, Sample size in New Zealand, N = 1206

New Zealander customer's moderate dissatisfaction may also reflect the current state of the economy. Even though New Zealanders are likely to recommend their current banks based on trust in keeping their money safe and a bank's digital banking assets (both online and mobile), the top two reasons New Zealanders wouldn't recommend their current bank are interest rates and fees.

Interestingly, branches are typically not a reason to recommend or not recommend a bank – whether it be with regards to their layout, opening hours or locations.

Exhibit 3:

Trust and digital banking are the key reasons for New Zealand customers to recommend their bank; interest rates and high fees trigger dissatisfaction



Question: What are the reasons you are likely to recommend your main bank? What are the reasons you are NOT very likely to recommend your main bank?
Source: REBEX Consumer survey 2022, study conducted July-Sept 2022, Sample size in New Zealand, N = 1206



Channel and Product Usage

When comparing channel and product use to the rest of the world, New Zealanders are highly digitally engaged. This is across both online and mobile channels, where more than half of customers in New Zealand reported they use these channels regularly (more than once per week). Such high digital penetration suggests New Zealand banks have a natural and at-scale channel to regularly interact with their customers – a fact many other businesses would be envious of.

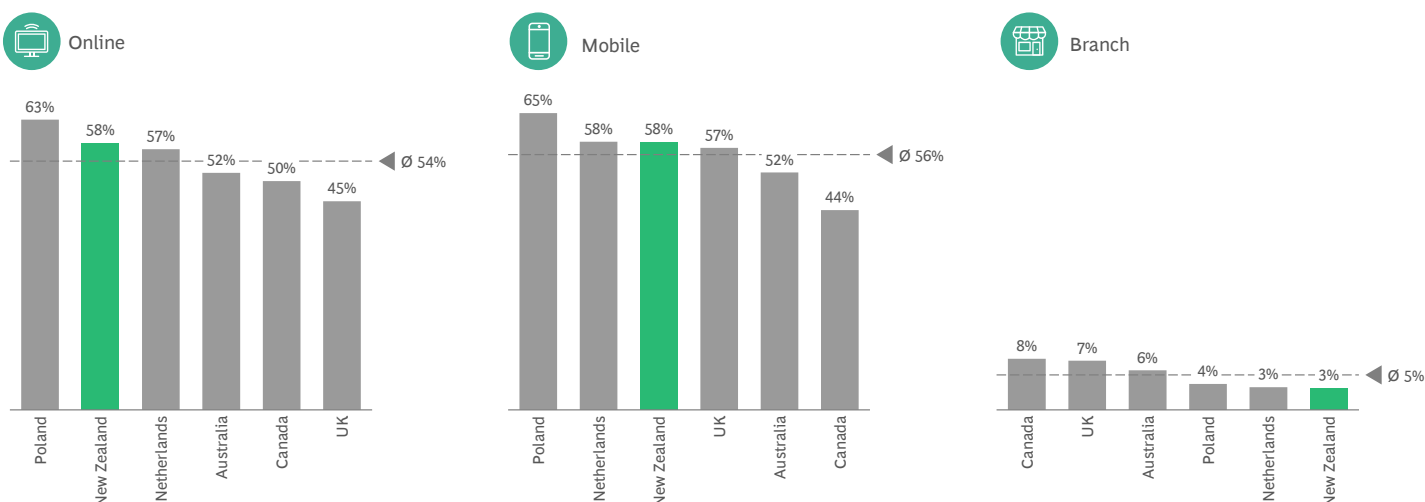
In contrast, New Zealander customers express extremely limited use of branch networks. Only 3% of the surveyed population said they regularly used their bank's branch. And while this doesn't mean branches aren't a critical part of a customer's banking experience, it does mean the infrequent use of the channel means New Zealand banks must be much more considered with the few moments they have to engage customers in person.

It also emphasises the need to increase the number of services available digitally given the high use of digital channels and low use of the branch network.

Exhibit 4:

A consistent shift observed towards online and mobile, with only ~3% of customers in New Zealand using branches once or more a week

% of customers who used online, mobile or branch banking regularly¹



¹ Regularly defined as once or more than once a week. Question: How often did you use [channel] in the last 12 months?
Source: BCG Retail Banking Excellence (REBEX) Consumer survey 2022, study conducted July-Sept 2022

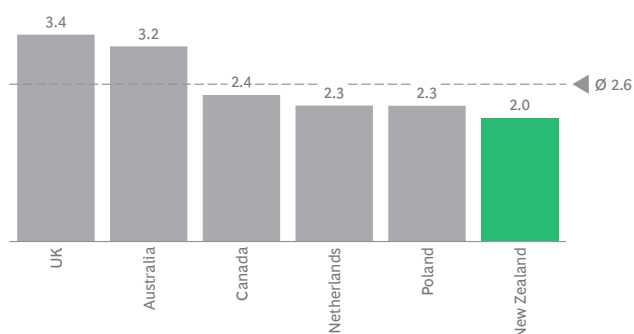
New Zealanders also hold fewer banking relationships than analogous markets: on average, customers hold only two banking relationships for all their banking needs. This is despite having on average the same number of products – suggesting they still have the same financial needs; New Zealanders are just willing to source them from fewer providers.

While there may be a number of drivers of this fact (including the smaller number of mid-tier banks in New Zealand versus other markets), it points to the importance of New Zealand banks disproportionately focusing on serving and retaining existing customers as opposed to trying to acquire new customers, since New Zealanders are less likely to want to give a ‘third bank’ a go.

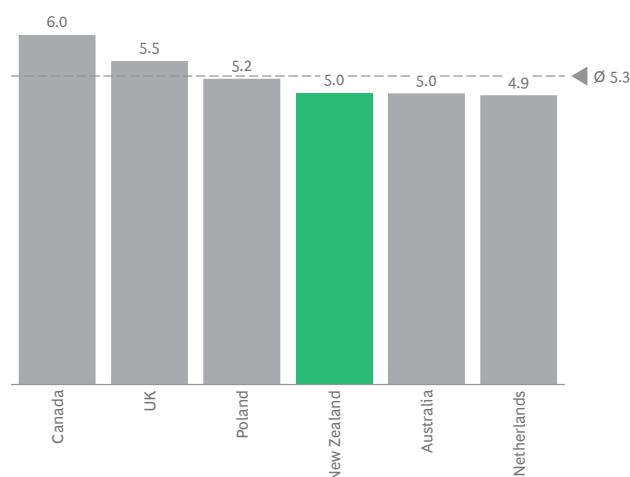
Exhibit 5:

While New Zealand banking customers have the same number of products as other countries, they tend to be loyal to fewer banks than the international average

Number of banking relationships by country¹



Number of products owned by customers by country²



1. Banking relationships include banks and providers customers use for deposit products, credit cards, mortgages, personal loans, investments, pensions and insurance

2. Unique products held by customers with unique provider. E.g., two current accounts from different providers would count as two products

Question: Which of the following types of products or accounts do you have?

Source: BCG Retail Banking Excellence (REBEX) Consumer survey 2022, study conducted July-Sept 2022

Data Privacy

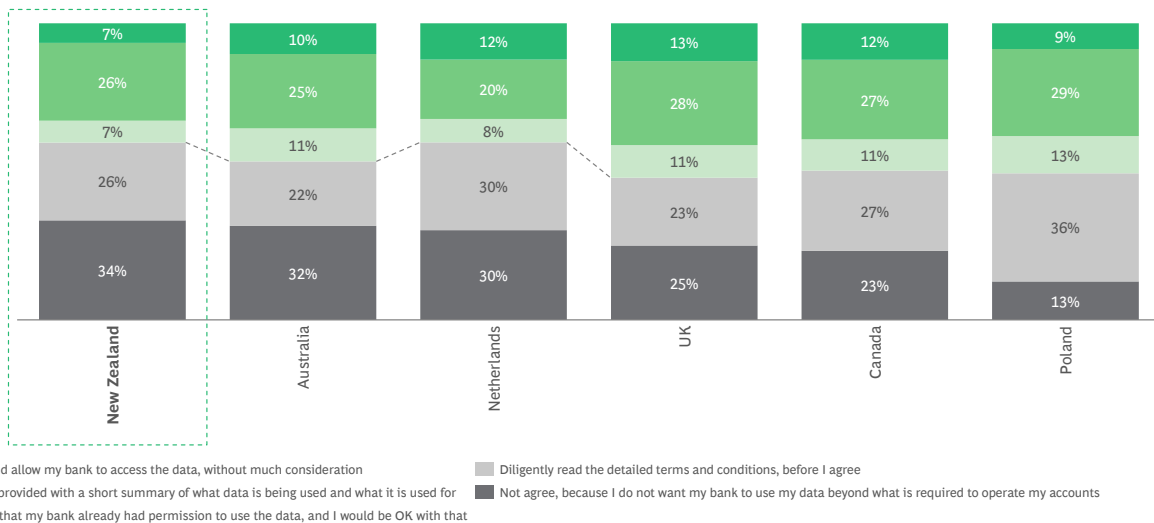
When comparing data privacy and ESG-related banking to the rest of the world, New Zealanders are the most hesitant of banks using data beyond simply operating their accounts. Specifically, 34% of survey respondents say they would not want their banks to use their data beyond what is required, and a further 26% assert they diligently read the terms and conditions before agreeing to data use. This hesitancy

to using customer data is the most conservative in all 37 markets surveyed, and points for banks seriously consider their data policies and procedures. And if attempting to use customer data beyond just managing their accounts, banks need to provide a very clear value proposition to customers as to how using that data beyond its basic use will create value for that individual.

Exhibit 6:

New Zealand customers are the least likely globally to want their bank to use data beyond what is required to operate a customer's account

Customer willingness to share personal data with the bank



Question: How would you react on being offered a new service or feature from your bank which requires access to personal data?
Source: BCG Retail Banking Excellence (REBEX) Consumer survey 2022, study conducted July-Sept 2022

ESG

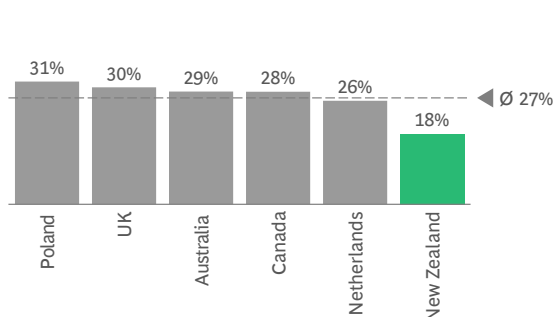
New Zealanders generally have a low awareness of sustainable and responsible banking, and this is constant across the banks in New Zealand. This suggests, despite a number of attempts by New Zealand banks to take a leadership position in this space recently, the message hasn't gotten through. And while

New Zealand customers are the least likely in the peer set to pay more for green and sustainable products, there are still 30% of customers willing to pay more for such products in the future – representing a valuable profit pool for banks and an unmet customer need.

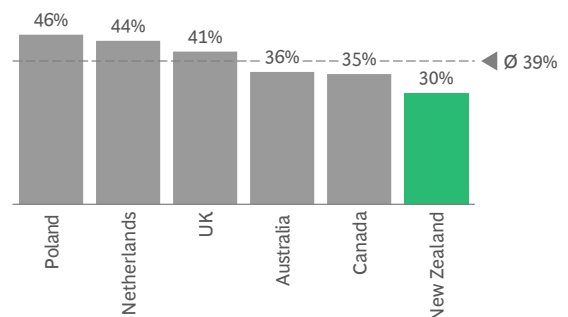
Exhibit 7:

New Zealand customers less aware of their banks' responsible banking practices, and are less willing to pay more for green and sustainable products

% of respondents that feel informed about the sustainable and responsible banking practices of their bank(s)?



% of customers who are willing to pay more for green and sustainable products



Question 1: How informed do you feel about the sustainability practices of banks?
Question 2: Are you willing to pay more for green and sustainable products? (These are products which strengthen environmental causes, such as high fuel efficiency, clean energy and eco-friendly activities. For example: green cards, green car loans, green mortgages)
Source: BCG Retail Banking Excellence (REBEX) Consumer survey 2022, study conducted July-Sept 2022

So What?

Together, these insights suggest New Zealand banks have an opportunity to 'break away from the pack' (Australia, Canada, The Netherlands and the United Kingdom) and lead on the global retail banking stage with regards to customer satisfaction (as Poland does today). And in doing so, New Zealand banks would prove their value not only to customers but also to their community.

While there are multiple actions New Zealand banks can take to differentiate themselves, the survey results suggest continued investment in four categories are pathways to success:

- Purpose: There is an opportunity for banks to move from simply a 'vault' to store people's money to one that is a "good friend" or "educator" to help them get ahead in life. Doing so will require a level of personal understanding of the customer beyond what banks typically do today
- Digital channels: Given the high engagement of New Zealander customers on digital channels, and the importance of digital channels in New Zealanders recommending their bank to others, ensuring a 'best-in-class' experience is critical to retaining customers as much as acquiring new customers. In addition, with such low branch usage, New Zealand banks need to find ways to find new customers via alternative channels (e.g. digital marketing)
- Data privacy / security: Being seen as responsible and ethical users of data is critical to maintaining trust with customers – the number one driver of New Zealand customer satisfaction. And unfortunately, it only takes one negative event to break this trust, which in the case of New Zealand banks, has been built over a century
- Education (and provision) of sustainable and responsible banking products: Helping customers understand banking products that are also good for the environment and society is a huge opportunity for New Zealand banks. Not only because customers aren't aware of these propositions, but because a third of customers are willing to pay more for such offers. As climate becomes an even greater issue in the world (and New Zealand), having compelling offers for retail clients will quickly move from differentiation to table stakes

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