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ROUNDTABLE

# NEW ZEALAND CAPITAL MARKET GEARS UP FOR GROWTH AS RECOVERY STARTS TO TAKE SHAPE

New Zealand's return to growth is shifting the focus to what lies ahead: economic recovery shaped by reform, resilience and market agility. At the annual *KangaNews* women in New Zealand capital markets roundtable, participants discussed how the local market is positioned for the rebound, what still needs work and from where opportunities might emerge.

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## ECONOMIC RECOVERY

**Tipler** Inflation is back inside the reserve bank's target range and rate cutting is well underway. At the same time, unemployment in New Zealand is at 5.1 per cent. How would participants describe consumer and business sentiment at present?

■ **OVENS** Household confidence is currently low. In the recent Westpac McDermott Miller Consumer Confidence survey, most households told us that their financial position had weakened over the past year, and the majority thought economic conditions would continue to deteriorate throughout 2025.

On the other hand, interest rate cuts should help household finances, as half of total fixed-rate home loans mature in the next six months – so we should see an interest-rate related confidence boost quickly flow through to consumers.

Conditions are soft on the business side, but they are not going backwards like they have in recent years. While there is sluggish demand in sectors like hospitality, retail and construction, there are pockets of positivity. The international tourism recovery is helping places like Queenstown and conditions are firmer in agricultural-heavy regions like Canterbury, Otago and Southland.

Overall, business is feeling more optimistic about where the economy is heading over the course of this year due to interest rate cuts. But global uncertainty is bringing a bit of nervousness at the same time.

■ **NG** Credit card spending was up by about 1 per cent in Q3 2024 but we are still not seeing great confidence coming through. The most recent consumer confidence survey was up slightly, but off weak expectations. There are some glimmers of hope emerging.

■ **BOYLE** Tariff risks include inflation and weaker global growth. The US consumer is a large engine of global growth and an important market for foreign companies. Globally, about US$1.4 trillion of imports into the US could be affected by tariffs.

We will find out more about the extent of potential impacts of "liberation day". However, New Zealand is somewhat insulated as the US is not our largest trading partner. That said, China is in the top three countries that make up US imports and the knock-on effects for New Zealand of weaker exports to China remain to be seen.

On the other hand, global dairy prices have benefited our farmers. The ASB Bank team has not observed a large portion of this additional cash feeding through to the wider economy as yet. Instead, farmers are choosing to pay off their loans and increase deposits.

■ **LE QUESNE** The RBNZ [Reserve Bank of New Zealand] has been easing since mid-2024 but is moving out of a quite restrictive stance. It naturally takes time for this to flow through and produce benefits.

Some sectors are going to be more responsive than others – specifically, those that are more sensitive to interest rates such as the goods-producing sectors, construction, retail and manufacturing. All these have been particularly weak in the restrictive environment over the last few years. Conversely, they should start to experience the benefits of rate cuts sooner. Some headline business confidence measures have already started to increase as interest rate cuts have come in, which is what we would expect.

Some consumer confidence measures are also starting to show signs of improvement, and some credit flows have started to pick up too. But naturally it takes time for rate cuts to flow through. We are expecting this will improve through the year, as we move out of the restrictive environment.

**Tipler** In its February statement, the RBNZ said it expects New Zealand economic activity to recover but also flagged increasing uncertainty as global trade policy is changing. How significant a risk is this to New Zealand's economic recovery this year?

■ **LE QUESNE** Uncertainty in the geopolitical environment can weigh on growth. The impact really depends on how policies flow through to things like inflation. This is still quite uncertain. It depends on how the offsetting factors, such as the exchange rate, work relative to economic activity. We will be watching very closely how the factors knit together through 2025.

## MARKET INTERNATIONALISATION

**Tipler** The biggest issue in the New Zealand debt market is the scale of sovereign issuance. In this context, what are participants' views on the current capacity of the local market to meet borrowers' funding needs?

■ **ROBERTSON** I don't think it is just the capacity of the local market, because a high percentage of holders of NZGBs [New Zealand government bonds] and LGFA [New Zealand Local Government Funding Agency] bonds are based offshore. It is about the capacity of investors globally to hold New Zealand dollar denominated debt and have exposure to New Zealand issuers.

Offshore investors will have currency risk and limits, and counterparty limits – so there are constraints. But certainly, part of the reason we want to diversify our funding is because we

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>
> **KATE LE QUESNE** RESERVE BANK OF NEW ZEALAND

# MARKET HOPES FOR INFRASTRUCTURE TRACTION *AS GLOBAL RISKS PERSIST*

While global uncertainty remains a key variable, New Zealand capital market participants are focused on the tangible signs of progress in the domestic infrastructure space. The outlook for 2026 balances risk and optimism as delivery becomes the next test.

**TIPLER What will we be talking about at this discussion in 2026?**

■ **CARTER** A bumper issuance year for securitisation, nonbanks thriving, the change in, or at least the review of, capital rules from the RBNZ [Reserve Bank of New Zealand] and the infrastructure projects that are underway.

We've been talking about infrastructure a lot over the past 12 months, so I'd really like to see significant progress, as well as some innovative structures for how it is funded. This would be a pretty exciting development for the New Zealand market.

■ **LE QUESNE** We hope to be talking about inflation remaining at or around target and economic growth continuing to recover.

From a market perspective, we are also working on continuing to monitor the return from high levels of settlement cash to ample levels of settlement cash.

We want to see the market adapt well to this change and we want to see the market managing its own liquidity first with the RBNZ as the backstop. We want to continue to see good financial stability and monetary policy implementation through markets.

■ **BOYLE** We are looking forward to Kauri issuance. The last Kauri transaction was issued by NIB [Nordic Investment Bank] in January 2024. Current market dynamics aren't helpful – including the crowding out of supranational, sovereign and agency issuers by government bonds and the unhelpful basis swap. Changes in these dynamics will attract Kauri issuers back to New Zealand when funding costs in New Zealand dollars are relatively attractive.

High volume of issuance in New Zealand dollars across the credit spectrum will be viewed as a positive for the local market.

■ **OVENS** We will be talking about the election year that we are in and the global events that have taken place. Hopefully the tariff situation has settled down but, regardless, it will be interesting to see how this trickles into the New Zealand economy and what the impacts have been. There will no doubt be some big ones.

■ **NG** I would like to be talking about all the Kauri issuance and the new governor of the reserve bank, but we will almost certainly be talking about Trump.

■ **ROBERTSON** How New Zealand's first female reserve bank governor is performing would be a great topic for discussion. From LGFA [New Zealand Local Government Funding Agency]'s perspective, the water entities. This is a really big change for the local authority sector, New Zealand, LGFA and local capital markets.

■ **SUTCLIFFE** The impact of Trump immediately comes to mind. It is so hard to know how it is going to go. I agree that, on the infrastructure side, it would be great to actually see some boots on the ground for some of the public-private partnerships and other things that we have been talking about forever.

"THE IMPACT OF TRUMP IMMEDIATELY COMES TO MIND. IT IS SO HARD TO KNOW HOW IT IS GOING TO GO. ON THE INFRASTRUCTURE SIDE, IT WOULD BE GREAT TO ACTUALLY SEE SOME BOOTS ON THE GROUND FOR SOME OF THE PUBLIC-PRIVATE PARTNERSHIPS AND OTHER THINGS THAT WE HAVE BEEN TALKING ABOUT FOREVER."

**EMMA SUTCLIFFE** CHAPMAN TRIPP

were getting crowded out of New Zealand dollar demand due to offshore and domestic capacity.

■ **WITTY** We are asking investors to take down record high volume of NZGBs and issuance seems to be going quite well even so. The bid-cover ratios in our tenders have been high this year, averaging of 4-5 times, versus a long-run average of about 2.9 times.

Syndications are also going well. We have demonstrated that we can issue up to NZ$6 billion (US$3.9 billion) in a syndication recently and we are doing 3-4 of them a year, as opposed to one a year pre-pandemic. We have more international investors and are witnessing new investors come into the book in almost every transaction we do. About 65 per cent of the tap to our 2035 nominal line went to international investors, which is relatively high for a 10-year bond syndication.

**Swiss** We hear a lot in Australia about increased hedge fund participation in the high-grade sector. Is this something NZDM is witnessing too?

■ **WITTY** Book allocations are an interesting part of the syndication process. As our programme has grown in recent years, more hedge funds are participating in our deals. We have started looking at hedge funds in more detail as classifying them as one category is not always appropriate.

Our experience is that hedge funds have different investment time horizons, and some take a long-term approach to our market and act more like real-money investors than fast money. We believe investors with different horizons can help create a vibrant market. We have reviewed our allocation framework in this light.

■ **NG** The challenge is striking the balance. I think it is a very good point that hedge funds are not all the same and not all fast money. It is now about discerning and differentiating between them.

■ **LE QUESNE** The other thing about issuance in New Zealand dollars or offshore is the pricing signals that are created. As prices widen, there are relative-value discussions to be had around board tables, concerning where an issuer might want to issue.

Changes in price signals drive the dynamics of where investors and issuers want to go – these sorts of signals are a sign of a healthy market. Participants adjust accordingly on the demand and supply side.

■ **NG** Going further down the credit curve, there is also a lot of corporate interest in offshore markets. Part of the attraction is the basis swap, but issuers are also taking advantage of diversification while it is at attractive and competitive pricing levels.

While it has been great to have a domestic retail market, in some ways it can be restrictive for issuers. Issuers do not want to be in the market for long periods of time with a retail transaction, particularly when the backdrop is volatile – they don't want to carry the risk when they could be in and out of another market quickly.

Markets are dynamic and the New Zealand option will come back into vogue. It is just a function of the cycle.

**Sutcliffe** Do you think the corporate market will rebound this year? There have been a couple of deals at the beginning of the year and issuers seem happy with them.

■ **NG** There has been a lot of talk about some of the restrictions in our market, such as size and the retail dynamic. Because of the strong retail bid, institutional investors do a lot of work on deals but get allocated a fraction of the bonds. For them, cross-pollination with the Australian market is quite useful. But, again, these things move with cycles.

■ **BOYLE** We share this view. The New Zealand market has good capacity for issuance and can be, and has been, accessed successfully this calendar year. The potential landing levels in Australian dollars, prior to the recent volatility, were at the tightest we have observed in a long time versus New Zealand dollar levels.

Issuers have generally paid a small premium to diversify their funding and execute large transactions in Australia. Being able to transact at historically tight levels relative to the domestic market has likely supported Transpower and Mercury New

Zealand's decisions to complete deals there. In New Zealand, the corporates that have issued domestically so far this year – Property for Industry and Wellington Airport – have completed strong deals, demonstrating the robustness of the New Zealand market.

■ **NG** We have selling restrictions for offshore investment in New Zealand dollar retail deals. Meanwhile, offshore investors also struggle to understand NZX retail bond announcements, why bookbuilds take four days and why we put notices out a week prior.

By contrast, we have witnessed the Asian bid come through strongly in the Australian dollar market in the past two years. This gives New Zealand borrowers issuing in the Australian market access to a broader range of investors.

**Swiss** The scale of the sovereign funding task and the need for infrastructure investment are making attracting offshore capital a big focus point in New Zealand. However, in this context one of the challenges is inadequate market infrastructure to meet the needs of global investors – for instance, the small number of active dealers and limited hedging capacity. What is the latest on market infrastructure?

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**TRACEY OVENS** WESTPAC

■ **WITTY** The development of a NZGB futures market could help. We have had conversations with the ASX about this and I know others have too. We would be supportive of the development as we think it would improve the liquidity of our underlying bonds. The ASX said late last year that it is still working through the details. There has not been much update since then.

The other thing we have been hearing from some bank intermediaries is that they have been putting additional resources into internationally based traders and salespeople for New Zealand dollars. This will be a good thing for our market as it will help to increase the visibility of our bonds. It also makes it easier for international investors to trade in their own time zones.

■ **BOYLE** Developing and deepening our repo market would be helpful in this regard, as would a futures market. The futures market has been talked about but struggles to get off the ground.

We should acknowledge the strong liquidity in NZGBs that support NZDM's ability to issue in large volume. A lot more investors are interested in New Zealand dollars and establishing New Zealand dollar mandates, not just for buying government bonds but other high-grade securities too.

We expect a larger programme of NZGB issuance and this, in addition to NZGBs being added to the WGBI [FTSE World Government Bond Index] a few years ago, has brought more focus to New Zealand from offshore fund managers. This has helped to deepen and grow the New Zealand capital market.

**Tipler** Can we get a 'health check' of the foreign exchange and interest rate markets as well as views on liquidity and execution, and what might have changed?

■ **OVENS** I predominantly work in these markets. The FX market is the largest and most liquid in the world. With this comes a lot of benefits for clients. They can execute transactions via a range of different techniques including directly with us, via digital platforms or even through liquidity-seeking algorithms.

What changes based on market and economic conditions is the type of transactions our customers are carrying out to manage their risk. As the New Zealand dollar has moved lower, the tenor and amount our importers hedge starts to fall. Exporters take the opposite position: a lower New Zealand dollar makes them consider longer tenors or different hedging tools, such as options.

The interest rate market is quite different. It is not as deep or liquid as FX but it is still functioning very well and meeting our customers' requirements. Again, the mix of tenors clients are choosing and the range of transactions we are observing changes as the yield curve changes.

When customers on the borrowing side were able to make an interest rate saving, there was a short window in which we witnessed a huge jump in the volume and number of transactions. Unfortunately, this window then closed until Trump's liberation day gave borrowers yet another opportunity.

Overall, this market is healthy – borrowers and investors are happy to enter when the yield curve presents new ranges or a new shape.

## SUSTAINABILITY OUTLOOK

**Tipler** The New Zealand government is working on reforms to ensure New Zealand's capital market is "working to support a productive economy". These include enabling KiwiSaver

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**KARINA WITTY** NEW ZEALAND DEBT MANAGEMENT

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**CAROLYN NG** ANZ

investment in private assets and potential adjustments to the climate-related disclosures regime. What reforms should be up for discussion and what impact could they have on the New Zealand dollar market?

**SUTCLIFFE** To set the scene, we have only had one full cycle of the climate disclosure regime so far. There have obviously been a lot of headlines about the costs that come with it but really it is too early to tell if it is achieving its goals. Having said this, it is a political issue as well – hence we have the announced consultation on reforms.

This focuses on a few areas. One is the threshold at which a company becomes a climate-reporting entity. An adjustment to this threshold could bring us closer to the Australian regime – the differential has been a bit of a challenge.

There is also a proposal to change the liability settings for directors. The way the climate reporting regime sits within financial markets legislation is quite discordant in some ways – including applying the same liability regime that applies to securities, offering documents and financial statements. These are generally backward-looking and more objective, whereas climate statements are forward-looking and uncertain by nature.

The question is whether it is right to have the same liability regime applied to both categories. I suspect this is one of the key reforms we will see come through and it is one that we supported in our submission to the consultation.

While the mood is shifting in the other direction in the US, we are very much in line with what our key trading partners are doing on climate matters. Investor sentiment is still strong in its views on climate as a risk and wanting to know what issuers are doing about it. I'm not sure the regime will shift in an extreme way – it will just be tinkering around the edges.

**LE QUESNE** Climate-related risks pose real risk to the financial system. This is crystalising now we are having more severe and frequent weather events, which will increase over the medium and long term. It is something that entities need to be able to identify, measure, monitor and manage.

The financial system plays an important role in price signalling, which helps work out where risk is allocated and managed. We need to maintain a long-term focus.

As a small, open economy, New Zealand needs to be credible in the markets we export to, or where we have parent ownership or investment coming from. It is vital that we keep on the right track of staying at the forefront of how we manage climate risk.

**SUTCLIFFE** It is also important for politicians to understand that this is what investors want, and for a real reason. It is not just a feel-good thing; it is valuable for their decision-making. I understand some of the tinkering, and it is probably right, but we don't want it to go too far.

### **Swiss** What is the RBNZ doing in this space?

**LE QUESNE** We have a range of work related to climate. For example, we have stress-testing programmes that consider climate-related risks and guidance for our regulated entities to set out how we expect them to manage risks. It also forms a key part of our supervisor engagements with entities to understand what they are doing in this space.

We are also part of the Network for Greening the Financial System. This includes working closely with our central banking peers to understand how things are moving ahead so we are linked in with global best practice.

### **Tipler** Green, social, sustainability and sustainability-linked (GSSS) issuance has slowed. What are participants' expectations for GSSS labelled issuance this year?

**NG** In some sectors, such as property, it is clear what is green and what it is not. Issuers in sectors where it is not so cut and dried are perhaps more comfortable doing labelled loans than bonds. The property issuers and others have been consistent in the market, but issuance comes back to having enough assets to fit in the pools.

As borrowing has grown, market selection comes into play, too, as issuers will want to issue labelled bonds in the markets where they will experience most benefit.

**SUTCLIFFE** While the market has not been busy in recent times, we expect issuers to continue to use the frameworks they have invested a lot of time and money establishing. I do not think sustainability issuance will disappear; it just might not be in the public market. In other words, I agree that we should expect the loan space to be more active.

**ROBERTSON** LGFA issues sustainable financing bonds. We are building a New Zealand dollar curve where we issue these with even-numbered year maturities and vanilla bonds in odd-numbered years. We can only issue as our pool of GSS [green, social and sustainable] loans or CALs [Climate Action Loans]

# *LGFA EXPANDS FUNDING BASE* AHEAD OF WATER REFORM DEMAND

New Zealand's water reforms are progressing, though key structural decisions are still to come. In the meantime, New Zealand Local Government Funding Agency (LGFA) is expanding its global presence in anticipation of increased funding need.

**TIPLER Infrastructure investment is a major talking point in New Zealand, with water as a near-term focus. Has progress been made on the appropriate methods of financing the needed investment and is the capital market set up to support it?**

■ **ROBERTSON** Local authorities will either keep water infrastructure in-house or own it through CCO [council- controlled organisation] infrastructure. We have confirmed our ability to finance water CCO assets that are either single- or multi-owned through local authorities.

At LGFA, we have also confirmed our ability to treat CCOs separately to their parent local authorities. We require uncalled capital from a local council, but we assess the two separately rather than at a group level.

This will allow us to lend to what will be more leveraged CCO entities. They will probably have lower, but still investment-grade, financial metrics than councils – which tend to be in the double- and single-A band.

A lot of investment spend has to happen with the water entities. If they can borrow more, rather than putting up water charges, they can take on more debt and make the investment intergenerational. This means the consumer is not taking as much of the hit in the present. We are waiting for councils to decide how they want to do it. There is a lot of interest in Watercare, which is separate to Auckland Council and the biggest single water entity. Watercare's debt has to be kept separate from Auckland Council's, so it will be an entity that has to fund in its own right.

**SWISS LGFA recently completed some large transactions in offshore debt capital markets – is this related to infrastructure, bond maturities or both?**

■ **ROBERTSON** We are getting ready for the increased funding we expect to see through the water entities by diversifying our funding base, but we are not pre-funding in anticipation. This year we have completed about NZ$5 billion (US$2.8 billion) for the financial year, 63 per cent of which has been offshore issuance.

Part of the reason for this is there is so much government stock coming out that the New Zealand dollar market is getting a bit crowded.

We are the second-largest New Zealand issuer and have diversified our funding for our immediate needs, but also so we are already established in larger offshore markets when we need to fund more.

Our first Australian dollar bond priced in 2023. Now we have ECP and EMTNs up and running too – in US dollars, Swiss francs and euros. We can issue in any of these currencies and also in Australian dollars.

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**LINDA ROBERTSON** NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY

to councils accommodates. But we aim to do ongoing issuance into these maturities. The emergence of the water entities could open up a larger pool of loans for us to issue against as it will give us more eligible lending in this space and more projects that we can then issue against. We are quite committed to labelled issuance but we need to have the loans on the other side to support it.

■ **BOYLE:** Labelled issuance has significantly slowed in the New Zealand dollar market – to NZ$900 million, or 2 per cent of total issuance, in 2024 and NZ$5.3 billion, or 20 per cent, in 2023. Labelled issuance peaked at 41 per cent, or NZ$11 billion, in 2022. This has predominantly been due to the supranational, sovereign and agency issuers that have historically contributed a large portion of the sustainable issuance market being absent from the Kauri market. By contrast, the Australian dollar market had a record year of labelled issuance in 2024.

New Zealand market participants continue to be interested in GSSS bonds. Issuers are committing to their sustainability strategies and leveraging mandatory reporting work, and investors continue to demand these products.

As the sustainable finance market matures, market participants are expecting global GSSS issuance to stagnate or grow minimally. For example, Morningstar Sustainalytics and Moody's Ratings expect global GSSS bond issuance to be in the region of US$1 trillion in 2025, in line with the volume issued in 2024.

"The potential landing levels in Australian dollars, prior to the recent volatility, were at the tightest we have observed in a long time versus New Zealand dollar levels. Issuers have generally paid a small premium to diversify their funding and execute large transactions in Australia."

**LAUREN BOYLE** COMMONWEALTH BANK OF AUSTRALIA

**Swiss** It is more about supply than demand, in other words?

**ROBERTSON** That's right. We are not tapped out at the moment, but the water companies will add further potential issuance. We will also explore whether these assets fit in the GSS or blue bonds label, for instance. There are certainly opportunities.

**OVENS** We believe mandated climate-related disclosures have actually positioned companies really well for sustainable finance as the process surfaces financial risks and opportunities that need funding. European investors and rating agencies are still pressing issuers hard on sustainability, so we expect to see strong, continued engagement from our customers in sustainable finance.

According to PwC and environmental disclosure platform, CDP, the vast majority – 84 per cent – of public companies are maintaining or accelerating their climate commitments. These are durable through leadership transitions. Scope-three targets are also on the rise.

Historically, sustainable debt was only accessed by large institutions but, over the past two years, we have seen a real rise in the business, agriculture and equipment finance space: 45 per cent of our agriculture book, or more than NZ$3.7 billion, is now accessing sustainable agriculture loans. We expect this will continue to grow.

**Tipler** Will the suggested tweaks to the climate-related disclosure regime have a direct impact on sustainability issuance?

**SUTCLIFFE** Not really. They are somewhat related but ultimately separate issues. Even for those that do sustainable issuance, green loans or anything of this nature, the frameworks that support labelled funding are quite separate from the climate-related disclosure statements. They feed into each other and there would be common information but, again, they are quite separate and have different purposes.

**Tipler** How does NZDM view its green-bond programme in the evolving landscape for sustainable finance?

**WITTY** We published the first allocation report for our green-bond programme at the end of 2023. Last year, we did our first combined allocation and impact report. Going forward, there will be a combined allocation and impact report every year.

We received good feedback on these. The reports help satisfy investor demand for information. Some investors want very detailed information about what we're doing and the impacts.

Some investors bought our green bond because it is green, or at least they view the green label as a major reason for investing. Others treat the green label as an additional incentive to invest in the bond.

However, quite a few investors have also said they are indifferent to whether the line is green or not: it is just one of the bond lines on our curve, and is the only maturity in 2034, so some investors hold it purely because of the specific tenor. This mix of views is largely unchanged from when we first issued it.

**Tipler** Do the views you hear in feedback diverge between offshore and domestic investors?

**WITTY** It is quite similar across the board, albeit the ones that are very green focused tend to be based in Europe. We have examined how our green bond behaves compared with our other bonds, and we cannot see any difference.

In fact, we think the information we provide through reporting could also be used by investors to look at the credentials not just for that bond but for all bonds.

If investors are trying to understand whether New Zealand's credentials stack up, they will do the analysis and apply it to whether they want to invest in our bonds in general, rather than just our 2034 green line.

# SECURITISATION HOPES PINNED ON *RATES OUTLOOK AND NONBANK GROWTH*

After a subdued year for New Zealand securitisation, market participants are hopeful that falling interest rates and improved origination conditions will support a more active 2025.

**TIPLER New Zealand securitisation issuance totalled NZ$1.5 billion (US$851.9 million) last year, without any residential mortgage-backed securities (RMBS) supply. Securitisation growth is largely predicated on growing the nonbank lender sector, but this hasn't been especially fertile ground in New Zealand, especially in mortgages. What is the outlook for this sector?**

■ **CARTER** Last year was quite challenging for New Zealand's securitisation market. This was mainly a reflection of reduced lending origination by nonbanks. The high interest-rate environment made it hard for nonbanks to originate significant volume of mortgages. Asset lending was also lower, largely due to macroeconomic conditions.

However, there were certainly some green shoots, particularly toward the end of the year, when originations started to pick up as interest rate cuts gave a source of optimism. Last year we had six ABS [asset-backed securities] and no RMBS transactions. Going to Australia for the Australian Securitisation Forum's annual conference in December last year, it was quite a different experience. The Australian market reached record levels of A$78 billion (US48.7 billion) of issuance in 2024.

On the investor side, there is generally good appetite in New Zealand, especially in the senior tranches. A number of domestic investors look at this product and are always chasing issuance to support 'New Zealand Inc'. Quite a few of them look at the Australian dollar market, too – and further afield. Likewise, there are Australian investors that look at New Zealand bonds, all the way down the capital stack.

This year, we hope to see a better outcome for New Zealand, in the number of deals and also in origination volume.

**TIPLER Is this predicated on the expectation of better economic growth and rates coming down in New Zealand?**

■ **CARTER** Rates coming down will certainly help. Nonbanks find it hard to compete with banks on mortgages when rates are high. A lot of their lending is variable rate, and it's hard for them to compete on price.

When rates were low, we witnessed nonbanks originating

"WHEN RATES WERE LOW, WE WITNESSED NONBANKS ORIGINATING PRIME AND NEAR-PRIME MORTGAGES. WE ARE HOPEFUL THAT, WITH RATES COMING OFF AND SENTIMENT CHANGING, WE WILL SEE A LOT MORE GROWTH IN THE NONBANK SECTOR."

**JANINE CARTER** BNZ

## DEI EVOLUTION

**Tipler** We'd like to get an update on diversity, equity and inclusion (DEI) in New Zealand. What is the latest news?

■ **OVENS** In the last 12 months, as a country, we have made more inroads in DEI but it tends to be based on momentum we have built in the past. Progress is being made in pay, equity legislation, and diversity and inclusion policy updates at government level, which is backed with specific funding allocations.

At Westpac, this year hasn't been any different from prior years in the sense that we continue to want to be a place that reflects our customers and communities. We continue to work on initiatives such as being the first dementia-friendly bank, the first bank to get the rainbow tick and the first to publicly report our gender pay gap, in 2019.

■ **BOYLE** At CBA [Commonwealth Bank of Australia], it's about our people feeling respected, safe and included at work. Our approach to this is grounded in primary prevention, addressing attitudes, behaviours and norms that perpetuate inequality. We also have goals in place to support our commitment to advance gender and cultural representation across leadership roles, and to achieve Indigenous employment parity. With respect to gender pay reporting, we have a longstanding commitment to advance outcomes for women and we are pleased to be making year-on year improvements.

■ **CARTER** The bottom line here is that every corporation or company in New Zealand wants its employees to come to work, to be able to be who they are, feel good about being who they are and then deliver for their customers.

The developments out of the US are disappointing and a backward step. There have been numerous conversations over many years about hiring because of quotas. As we roll through generations coming through the workforce, I expect we will stop talking about people getting a specific role due to a quota.

■ **ROBERTSON** It is a lot easier to feel inclusive if you are not the only woman in the organisation or in the boardroom.

prime and near-prime mortgages. They could compete on a service level as they can turn around lending applications a lot quicker than the major banks and cater for the market that sits outside the vanilla borrower. We are hopeful that, with rates coming off and sentiment changing, we will see a lot more growth in the nonbank sector.

■ **OVENS** The reserve bank reported that nonbank lending made up only 1.4 per cent of all home lending in January 2025. In 2008, it was a little more than 5 per cent – it has drastically crunched in. To Janine's point about the higher cost these lenders suffer, one thing that would really help would be a review of the capital requirements for securitisation.

**SWISS We are yet to witness any green securitisation tranches in New Zealand. Why is this?**

■ **CARTER** There has been little motivation for it, to be honest. The pricing benefit is not there, so it is viewed as extra work for no additional reward. Taking an auto book for example, the green assets will be electric vehicles and some issuers feel there is risk of greenwashing. It is unfortunate that green securitisation has not been picked up here. It has happened in the Australian securitisation market, but we do not expect the situation to change in New Zealand any time soon.

■ **NG** However, it can come in different forms. For instance, securitisation principles can apply to things like commercial finance and social housing.

**SWISS Yes, and it also sounds like the market is going to get more issuance from the community housing space.**

■ **SUTCLIFFE** We should acknowledge the announcement the Minister made at the KangaNews-ANZ New Zealand Capital Market Forum, about funding for the CHFA [Community Housing Finance Association]. To have significant Crown support for a private agency shows that the government is willing to use a LGFA [New Zealand Local Government Funding Agency]-style model for different purposes, such as community housing, as well as seeing what it is doing in the water sector.

Change is happening but it's not happening fast enough, and we should not have to wait for generation after generation for it to happen. Sometimes quotas are a good thing: big changes have happened in the countries that have had governance requirements and quotas.

If we don't make things mandatory, they don't happen. If it is not quotas there should at least be mandatory reporting of gender pay gaps. I know many companies voluntarily report but there is still a huge number that do not even measure the gender pay gap, do not know what it is or do not care about it. Some measure it, do not like the look of the result and subsequently do not publish it. If it was mandatory, it would have to be disclosed and change might happen more quickly.

It is possible that graduates might come in thinking all things are equal, but then down the line they might find they are reporting to the man they came in with on the graduate programme.

■ **OVENS** This is why progress needs to come from companies and government. We all need to link up. For example, thinking about maternity leave: if men were just as likely to take 12 months out and if this was something government pushed through, suddenly it creates a more even playing field. This is something Scandinavian countries have done.

■ **ROBERTSON** Yes, I understand if someone wants to take parental leave in some Scandinavian countries, both parents have to take parental leave. They cannot use up the full leave available if it is just one of the parents accessing it.

■ **LE QUESNE** We acknowledge the global noise in this space. Our purpose is enshrined in legislation and it is promoting economic prosperity and wellbeing for all New Zealanders. When we say all New Zealanders, it means something for us – including what we do inside our organisation to have a representative workforce and what we influence outside our organisation.

We published our approach to financial inclusion at the end of 2023 and, just recently, we published a piece of research related to opening bank accounts and some of the troubles people face when they are trying to participate in the financial system but cannot. A financial system that is accessible, able to be trusted and works for all New Zealanders is really important – and there is more work to do in this space.

Internally, we embed inclusion practices into our leadership training. Having an inclusive leadership and work environment is important – so people can come to work, feel comfortable in themselves, do their best and thrive.

We have run women's leadership programmes, where we have tried to invest in women who aspire to being leaders later in their career. We have also released a *Te Tiriti* statement regarding how we embed these principles into our work. This is incredibly important.

There are lots of things happening in this space that will continue to happen, because we are a long-term institution and certainly see the benefit of continuing to invest in this area.

■ **SUTCLIFFE** I don't believe we have necessarily changed anything in the last year at Chapman Tripp – because it is a longer-term programme. Our partnership is 40 per cent women, which is high by historical standards. Our junior women can now see that it is not just a couple of women dotted

among a sea of men. Our chief operating officer is also female, as are others in our senior leadership team.

The challenge for us now is ethnic diversity and trying to bring in more people with a broader range of backgrounds and socioeconomic demographics. Above all, we value diversity of thought – and this cannot be seen in a photograph. What started off as gender diversity has broadened to different types of diversity, which is what I am quite interested in now. This is not to say that we have 'ticked off' gender diversity, just that our thinking has broadened.

We sponsor First Foundation, which is a charity that helps underprivileged students get into, and supports them as they go through, university. This is important because students might get a sponsorship to get into university but then the support can drop away and there can be a lot of attrition.

**Tipler** Another regular topic at this roundtable is the challenges to New Zealand businesses of recruitment and retention of younger New Zealanders. Will these dynamics change in a world of deglobalisation? What are participants' experiences of recruitment and retention in the past 12 months?

■ **LE QUESNE** Labour markets have a lot to do with this. For instance, the labour market has been a lot stronger in Australia than it has in New Zealand in the last few years.

It also relates to longer-term growth factors. The longer-term outlook for New Zealand growth is lower than it has been in the last 10-20 years. Lower productivity growth is the cause of lower net inward migration to New Zealand compared with some other OECD countries, and this probably factors into people's thinking where they are deciding where to settle – particularly if they are more mobile and in an earlier stage of their career.

**Swiss** Do you think they have less incentive to come back?

■ **LE QUESNE** Well, perhaps. It then comes back to employers trying to create a value proposition. For example, having inclusive and highly skilled leaders, great teams, really meaningful work, and options for flexibility and career breadth. These are the types of things employers need to work hard at.

■ **OVENS** There are definitely retention struggles in the younger cohort, where there is an expectation of changing jobs a lot more rapidly than some of the older generation. A lot now go to Australia whereas in the past we all expected to go to the UK – this does not seem to be the case anymore. I've heard this is to do with some of the barriers there; for instance, if a person does not have a job secured in the UK, they have to have a year's worth of rent to pay in advance. Within the Westpac group, migration to Australia has been a positive thing.

If a company is pursuing diversity, with it comes a change in the demands for flexible working. Satisfying these within a market environment becomes tricky. Companies have to navigate the creation of a workplace that people want to be in and that they thrive in. There are definitely challenges for market-based businesses right now.

**Tipler** Are participants experiencing significant impact from AI in their workplaces? If so, how, and, if not, when will it happen?

■ **SUTCLIFFE** As a high-level observation, we are running pilots on AI. Our strategy is deliberately short term – we review it every six months – because the space is evolving so quickly and the impact for our clients is not actually what we anticipated it would be.

As lawyers, we question whether this is going to replace our jobs and who will be performing judgement calls in 20 years, because the juniors will not have had the same training and development we did. But, when we speak to clients, they tell us they do not think AI will replace us, because the work they ask us to do is so nuanced.

What they are worried about is the impact AI might have on their in-house legal teams as it may take over some of the more commoditised areas of the business. This has been really interesting.

We are focusing on identifying quite narrow use cases where we have a reasonable likelihood of measurable success, as well as being clear on what success looks like – as it is quite hard to identify. We are also focusing on our training, such as prompt training, and finding practical applications for AI while keeping an eye on the cost. While some things are cheap, it is easy to spend a lot of money on these tools without necessarily experiencing gains or delivering long-term value.

■ **OVENS** Our customers rely on us to keep data safe and secure. For AI to be fully integrated, banks need to be comfortable we can maintain the highest levels of data security. We are still in the infancy of our journey with AI, but I expect it will accelerate really fast. ChatGPT got to 100 million users 50 times faster than Facebook did, and eight times faster than Instagram. The good news is that AI will bring improved customer experience, more insights and help our people do their jobs really well. I don't believe AI will replace us, but it will be a helpful tool that creates huge efficiencies. •