

SEPTEMBER 2025

The banking industry: A look ahead





The future arrives

2025 has been far more turbulent for the banking sector than anyone would have predicted in January. Changes of leadership at the Reserve Bank of New Zealand (RBNZ), a Select Committee Inquiry into Banking Competition and its subsequent report last month (the Select Committee Report), an urgent bank capital review, an overhaul of New Zealand's consumer credit legislation, global tariffs – none of these were on the bingo card when the year started.

On top of this, a number of long-planned, multi-year changes are now coming to a head. Legislated open banking will commence in a couple of months, and New Zealand has also joined the rest of the world providing deposit insurance, with our Depositor Compensation Scheme.

With so much going on, the temptation is to deal with things reactively. In this report we take a step back, and focus on what we consider to be the five key overarching factors that are driving sectoral change over the long term.

This year, we consider the factor with the single greatest future impact to the banking sector and its customers is not a direct matter of law or regulation, but instead relates to the customers themselves.

Generation Z is coming of age and becoming a large, vocal user of banking services. It is a generation with very different expectations of its banking providers, and noticeable upticks both in financial education and

scepticism for past accepted wisdom. It also has fewer ties to its bank providers, and will have more options for alternatives, than at any time in the last 30 years.

In this changing dynamic, the banking sector must navigate a path of increasingly conflicting expectations: sustainable finance designed to influence customer behaviour vs 'anti-woke' proposals intended to prevent the same; reputational and regulatory risks from banking certain customers vs universal access to bank services; stoking innovation while carrying the can when things go wrong.

This is ultimately a side effect of banks' own success, becoming indispensable across many aspects of our daily life as well as savings and loans. But such an entrenched position is not guaranteed. Customers will have increasing options and incentives to keep their cash in alternative products and services – whether that is a fund or a stablecoin or something else – and banks will need to continue to evolve to maintain their position.



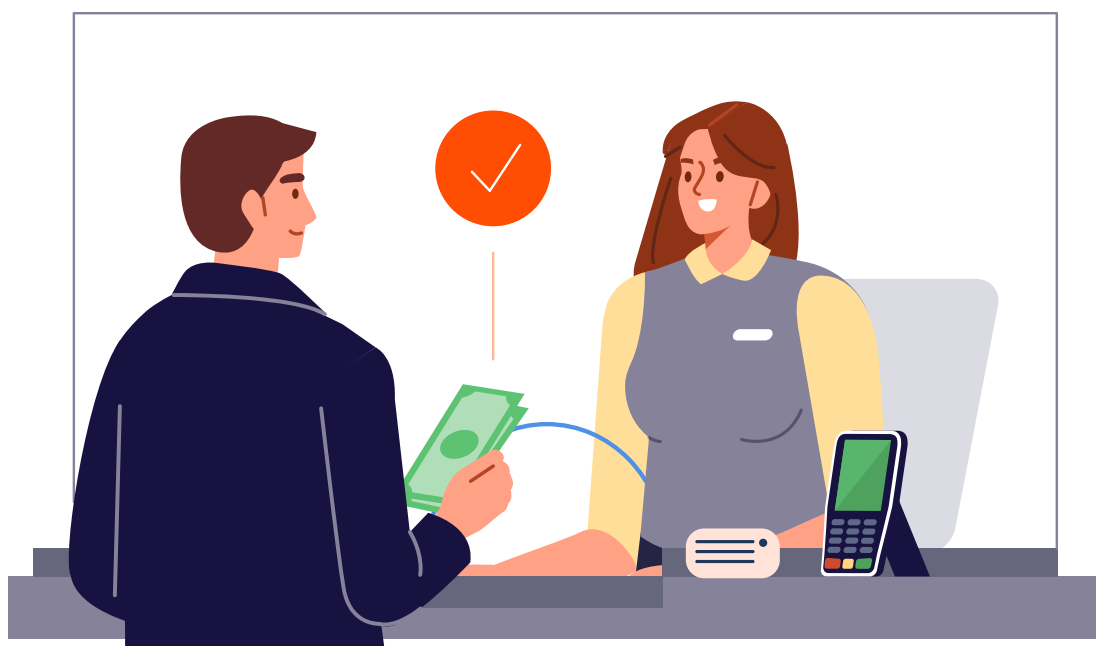
We expect this generational shift to feed into the other four key factors we have identified. The digital frontier and bank sector regulation have, in some way, cropped up in each of our previous reports. Bank balance sheet changes and litigation have each re-emerged in new guises, after a year off.

Considering these five factors together, we see:

- Opportunities for smaller and non-traditional players, particularly with products and services that provide increased user experience or higher returns as market rates drop. Those with newer business models or who fall outside the regulatory perimeter stand to benefit; including those that can provide products with similar use cases but are not subject to weighty regulatory costs and restrictions.
- Remaining risks, at an existential level, that New Zealand may be left behind as global banking systems (and associated capital markets) bolt ahead with digital innovations allowing faster payments and movement of capital.
- Banks and other regulated deposit takers will push harder on the tools they have available – shoring up deposit bases, looking at funding sources that may have been ignored or discounted, extracting the maximum benefit from every drop of capital, and lending smartly.

- Regulators will place a higher weight on ‘fitting in’ with their global peers. This can be seen in the introduction of the Depositor Compensation Scheme and hands-on prudential supervision; but is also echoed in the RBNZ’s capital review emphasis on conforming with – and even deferring to – Australian regulators. This is not necessarily a bad thing, provided the RBNZ can maintain appropriate independence from Government. Aligning with global standards will be vital to New Zealand’s ability to attract innovation from, and compete in, markets that are increasingly cross-border.
- On the other side of the coin, there are risks that these changes to align with global standards may be undone by increasingly different perspectives, and tensions played out on the public stage, between our own regulators – an issue that at New Zealand’s small scale risks creating considerable inertia to innovation, regardless of which regulator is right or wrong.

We expect that, looking back in five or ten years, 2025 will be remembered as the turning point when people’s expectations of their banks, and what services they need a bank for, really started to change. We hope that it is also seen as the year that New Zealand started aligning its regulation and approaches for future innovation.







01/


Gen Z – bringing savvy to saving


Gen Z, born between 1997 and 2012, are internet adept and more financially savvy at a younger age than previous generations. They're expected to make up a third of the global workforce by 2030. This makes them an exciting consumer proposition, and an important one.


Some facts:

 An Australian study shows that Gen Z is the generation most likely to be pro-actively engaged in managing and understanding their finances.

 In the US, Gen Z are the biggest fintech users; around 25% of them have [more than one account](#), and 72% turn to [social media platforms and the internet](#) for financial advice.

 Research suggests Gen Z women are more likely to invest in financial markets than their older counterparts.

 For the fourth consecutive year, Deloitte's [global survey](#) found that the cost of living is Gen Z's main worry - beating environmental and political concerns.

 The World Economic Forum's [Global Retail Investor Outlook 2024](#) found that Gen Z reflected a "generational transformation in financial habits".

So what does this mean for incumbent banks?

Gen Z has options – and they know it.

Lower home ownership rates mean fewer mortgage commitments and less gravitational pull to a single bank. A growing focus on smoothing customer due diligence processes (both in regulatory approaches and in development of practical solutions) has reduced drag even further.

Gen Z are used to applying a lens of free choice and constant, easy shifting to their financial decisions. Growing online investment platforms such as Sharesies allow low cost transacting and facilitate active investing with even small amounts of capital. User bases typically skew younger – when American firm Robinhood went public in 2021, it noted approximately 70% of its user base by assets were Gen Z and Millennials aged 18 to 40.

The rise of open banking, expansion of the consumer data right (CDR) and availability of fintech front ends (as we discuss later in this report) will further cater to this "shop around" mentality, by making it easier for savers to switch custom away from providers who don't meet their (increasingly loud and divergent) expectations.

As a result, competition among banking and financial services is likely to become increasingly fierce as they strive to maintain and grow their market share among the Gen Z demographic.



World Economic Forum's Global Investor Retail Outlook:

30% of Gen Z start investing in early adulthood, compared to **9%** of Gen X and **6%** of Baby Boomers

86% of Gen Z have learned about personal investing by the time they enter the workforce



02/

Digital innovation taking the headlines

The digital revolution, already reshaping the global banking landscape, is about to receive a turbocharge in the New Zealand context from legislative and regulatory reform, while it has also found its mojo across international institutional and retail markets.

The extent to which this tips the scales against the incumbents, or brings the tipping point closer, will depend on the strength and agility of the incumbent response.

Stablecoins and Institutional digital infrastructure

Global advances in stablecoins and digital infrastructure hold the potential to enhance cross-border payments, enabling real-time, cost-effective transactions. For traditional banks, investing in this infrastructure presents an opportunity to maintain relevance and their role as a trusted anchor in the transaction chain. However, the investment costs could be substantial and require coordination among stakeholders – each individual bank will need to weigh this against the risk of it being closed out of markets shifting to such newer standards.

Digital infrastructures are not new – blockchain has been around for over fifteen years (and has roots dating back further) – but they are experiencing a growth spurt as a result of the crypto advocacy of the Trump presidency.

Among the deterrents that may be holding potential investors back are:

- the lack of regulatory clarity around digital infrastructures, and
- the relative scarcity of proven entities in market.

Banks may be well positioned to leverage their relationships with overseas counterparts to facilitate these developments. An example is JP Morgan's blockchain division, Kinexys. Given the time and resources required, regulators may need to provide a clear signal of support to help secure these links to global financial markets and ensure that New Zealand remains competitive.

Emerging digital services



Payment services like Apple Pay, Google Pay, Wise's payments platform and the New Zealand-based Dosh digital wallet are increasingly encroaching on bank domain. Australia seems to be contemplating stricter oversight of these banking-adjacent service providers but they remain lightly or unregulated in New Zealand, despite the fact that they are able to charge fees and compete in spaces that have traditionally belonged to the heavily regulated banks.

It's worth noting that BNZ has recently invested in two local payments start-ups: BlinkPay and Centrapay.



Bank account-like products. We expect more funds to enter the market offering features such as 24/7 access, debit cards, app-access with analytics and a digital first-experience. While fund managers are regulated and must be licensed, which comes at a cost, the regulatory burden and prudential oversight applying to the banks is higher.



Integration of Artificial Intelligence (AI).

While the integration of AI to assist with scam and fraud prevention, automation, and customer service, could help deliver faster, more personalised responses to customers 24/7, as adoption grows, there are potential vulnerabilities to consider.

These include: systemic risks due to industry exposure to a few technology providers, increases in scams powered by AI, including deepfakes, and greater vulnerability to cyberattacks. They will ultimately affect all sector participants, but the newer digital-first businesses and neobanks might be better positioned to adopt and integrate new technologies as they will typically be less constrained by legacy systems.



Opening up the playground to fintechs

The fintech sector has continued to gain momentum at a political level this year, despite the Commerce and Consumer Affairs portfolio shifting from Minister Bayly to Minister Simpson in February. The FMA's fintech 'regulatory sandbox' pilot, launched in late 2024, has continued through the year and the RBNZ has opened up the Exchange Settlement Account System (ESAS) to applications from non-bank deposit takers (NBDTs) and other market participants (as we discuss later in this report).

The latest announced changes – reducing minimum bank capital to \$5m and signalling further upheaval via the Select Committee Report – reinforce forward-looking policy positions that fintechs should be part of New Zealand's future banking sector (or, perhaps, a defensive acknowledgment that the future of our banking sector may depend on keeping up with international fintech developments).

The fintechs and other disruptors will also benefit from the application to the banking sector, beginning December 2025, of the Customer and Product Data Act 2025 (CPD Act) as they will be able to access a customer's bank data, subject to that person's consent, and can use the information to sculpt alternative products and services.

They may also derive opportunity from the incentive that the DCS, which came into effect on 1 July 2025, creates to hold accounts with multiple providers, each within the \$100,000 safe harbour.

Regulatory challenges – some observations

Digital innovation poses difficulties from a legal perspective – technology can change much, much faster than legislation can be developed or amended to accommodate it. For example, although the CPD Act has passed and consultation has closed on initial regulations, we are yet to see clarity on key matters of fee charges and how closely the API Standards will be integrated. Much financial product legislation remains firmly rooted in the world of centralised registers, and does not easily accommodate decentralisation.

The role of regulators in a more technology-forward financial world is also yet to be settled, most obviously in relation to AI. Neither the FMA nor the RBNZ has yet issued extensive guidance on the deployment of AI in the financial services sector, but the matter is very much on their radar:

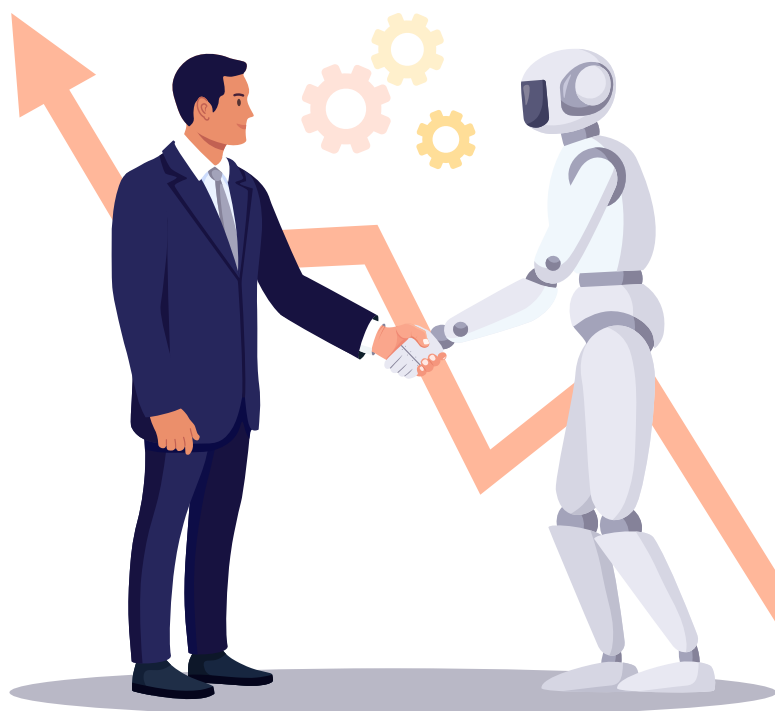
- the FMA has published research on AI use across the New Zealand financial services industry and invited firms to engage in discussions on how it can support the responsible adoption of AI. It has also indicated that it may issue further clarifications on its expectations, and
- the RBNZ commented in May 2025 on the potential impacts – positive and negative – on financial stability of AI use by financial institutions.

Given this, we consider there is a high probability that regulatory guidelines relating to the application of AI will be imposed within the medium term so banks would do well to incorporate this into their forward planning.

In its July 2025 [Artificial Intelligence strategy and business guidance](#), the Government confirmed its “unwavering support” for private sector investment in AI and its own “light touch” approach to regulating AI, relying on existing principles-based and technology-neutral legal frameworks. The Government intends to update these frameworks as needed to address emerging risks, viewing this as an agile approach.

Regulators also need to consider digital engagement practices (DEPs) more broadly, particularly given changing financial habits as discussed earlier in this report. A study by the UK Financial Conduct Authority (FCA) on DEPs aimed at retail investors on digital platforms – features such as push notifications and prize draws – found that users of high-DEP apps, were more likely to be younger and male and to be in financial distress (although less so than the general population). Although an association was established between using high DEP apps and negative financial outcomes, the results did not establish a causal link, so the FCA has suggested further research to understand this interplay.

In New Zealand, cynical use of DEP stratagems could be captured by existing consumer protection laws and Conduct of Financial Institutions requirements. While digital financial decision-making isn't new, it will draw greater scrutiny from financial regulators as it becomes more commonplace and may eventually attract specific regulatory attention.





03/

Balance sheet changes: an exercise in predicting chaos

As banks adapt to systemic changes across their entire balance sheet, divining where the new equilibria will settle for bank capital, assets and liabilities (in particular, funding) will require best guesses and no shortage of luck.

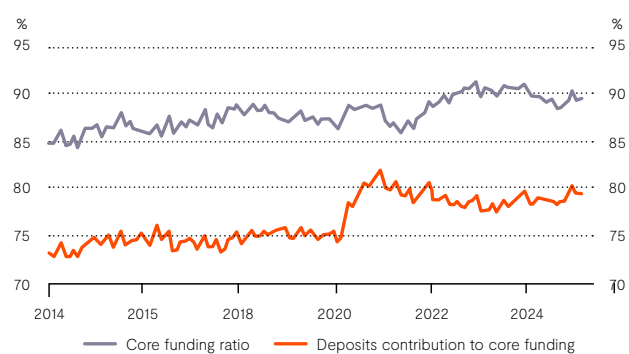
Certain long-term trends appear obvious, but the short and medium term are considerably more volatile – especially as external factors are exerting an outsize influence, from unexpected domestic regime changes to international politics.

Funding uncertainty

Deposit funding is the core building block for traditional banking and the maturity transformation it provides (accepting deposits that are often repayable without notice, and lending on longer fixed terms). It is also historically cheap.

However, reliance on deposits has increased significantly over the last decade. According to RBNZ data, it shot up to 90% of bank funding during COVID (from around 85% previously) and has remained elevated ever since.

Deposits contribution to banks' core funding ratio



Source: RBNZ Liquidity Survey and RBNZ Financial Stability Indicators, September 2025

That may reflect increased depositor confidence in the new Depositor Compensation Scheme – a truly fundamental development that was almost unimaginable (and fiercely rejected) in New Zealand ten years ago. It may also be an indicator that other funding sources have become more difficult to source. Increased Government borrowing since COVID, for example, has upped the cost of borrowing in the local market.

Despite these uncertainties, we expect a continuing focus on diversified funding sources across both capital market funds and deposit bases. This will be driven by factors discussed elsewhere in this publication (and in previous publications) including:

- a combination of open banking and deposit insurance broadening competition for deposits. As RBNZ Assistant Governor Karen Silk has [noted](#):¹

“... funding risks have evolved since the GFC. It is now not only large financial institutions that have the awareness and the means to move their money at short notice.”

- a public focus on deposit returns. This is already playing out overseas, most notably in the United States (where the 2023 mini-crisis reminded depositors of banking risk), and high yielding bank accounts are becoming more common. Capital One [recently agreed](#) to pay US\$425m in settlement of claims that their customers should have been told that they could move their money to higher-yielding accounts.²

More than ever, bank treasury must be well-prepared and ready to go in multiple formats, in multiple markets, at a moment's notice. To obtain funding at good prices will also engage a measure of luck as more and more we are seeing markets close without warning.

There are also some destabilising factors at play: isolationist policies may direct or restrict capital flows, the international and cross border settlement infrastructure is changing, and digital assets may become more mainstream under President Trump. New Zealand issuers will need to keep up.

Strong deposit bases will inevitably be valued for the buffer they provide against the whims of the market.

1. 2023 speech "Liquidity: One word, three meanings"

<https://www.rbnz.govt.nz/hub/news/2023/09/liquidity-one-word-three-meanings>

2. See <https://www.reuters.com/sustainability/capital-one-pay-425-million-settle-litigation-over-savings-accounts-2025-05-16/>



Capital uncertainty

The first decisions from the RBNZ’s new capital review have now been released. The conservative capital requirement settings adopted by the RBNZ in 2019, to be fully phased in by July 2028 and already putting serious pressure on the banking sector, became a battleground between the RBNZ in the red corner with its financial stability mandate and the Government and the Commerce Commission in the blue corner with their concerns about competition and barriers to entry.

Recent indications are that the blue corner is dominating the fight, with the RBNZ announcing (mere days after the Select Committee Inquiry into Banking Competition released its report) its decision to reduce overall capital levels.

Additional Tier 1 products are also likely to be removed in New Zealand, a clear reference to their retirement from the Australian market.

However many decisions, including the look and feel of Tier 2 instruments for both large and small banks, are yet to be made. Although these changes may allow banks to relax a bit, we expect them to continue to look more closely at newer capital management approaches.

Globally, there is a move to wring more efficiency out of risk weighted assets (the measure against which banks need to hold capital).

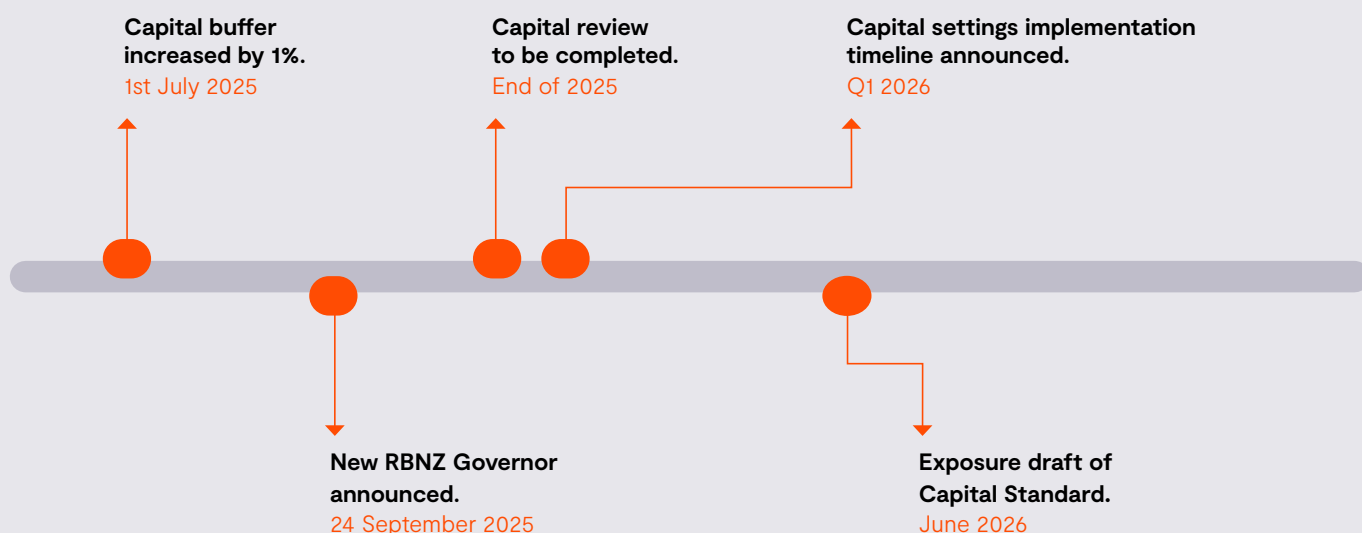
Risk management products such as off-balance securitisation and significant risk transfers (SRTs) continue to grow in popularity, in many cases drawing on private credit growth to shift risk outside of the core banking system and their depositors.

Asset base uncertainty

At the opposite end to the “anti-woke banking bill” and its proposed restrictions against an ESG lens to lending, we expect various changes at a regulator and political level to direct lending towards (or away from) certain sectors. This includes:

- the capital review (discussed above), which will change the risk weightings applied to various forms of lending (and therefore their cost and appeal to lenders), and
- interventions such as the loan guarantee scheme the Government is currently exploring to promote bank lending in support of community housing.

Moving beyond lending, we expect further consideration of banks’ liquid asset portfolios. Although liquidity changes are likely to continue to encourage Government Bond holdings, the risks of pricing dislocations between treasury and swap markets have been emphasised by Liberation Day.





04/

RBNZ stays on spin cycle

This was expected to be a lull year for the RBNZ, some breathing space between the high-level policy formulation of 2024 and the detailed exposure draft consultations planned for 2026. Instead, the RBNZ has stayed in spin cycle.

Significant change at the RBNZ

Adrian Orr's departure in March was unexpected and abrupt. Dr Anna Breman has just been announced as the new long term Governor, 200 days later. In the meantime Christian Hawkesby's appointment, first as acting then as temporary Governor, saw already him at the wheel through the historic commencement of the Depositor Compensation Scheme and the bulk of the new capital review (discussed above).

However the economy remains in difficulty and there is increasing (and increasingly public) political pressure on the RBNZ – from the recently released Select Committee Report to the RBNZ Chair's resignation. The present capital review shows a willingness for the RBNZ to change course, including in some surprising ways. It may seem a small thing that RBNZ is willing to work with APRA to produce new regulatory capital requirements that fit with Australia's regime, and to facilitate a 'single point of entry' Australian-led resolution approach. But these changes are a considerable reversal from the status quo.

Despite the memorandum of understanding between RBNZ and APRA, local policy had previously valued New Zealand bank self-sufficiency, and the ability to resolve New Zealand's banks domestically. Acknowledgements that we may need to integrate with Australian system, or even rely on them in a banking collapse, are difficult to reconcile with this. This more open mindset is likely to filter through into the ongoing development of deposit taker standards under the Deposit Takers Act 2023 (DTA), that will set the tone for New Zealand's banking system for the foreseeable future.

Of interest will be whether this iconoclasm could relax New Zealand's restrictive branch rules (a measure potentially implicit in the Select Committee Report), given that two smaller banks have announced full exits from New Zealand in the last 18 months and that HSBC has exited from personal banking in the New Zealand market. (See our commentary [here](#).)

The announcement of Dr Anna Breman as long term Governor may allow the RBNZ to start rebuilding. But the tight-rope walk to balance elevating competition without fundamentally compromising the RBNZ's core financial stability mandate (or its independence from Government) will continue.

Increasingly weighty bank supervision

Both the RBNZ and the FMA are ramping up the intensity of their supervision.

The RBNZ is moving toward the hands-on stance taken by prudential regulators in Australia, the UK and other large economies. To some extent this is driven by the strengthened incentives the Depositor Compensation Scheme creates to prevent bank failures and any resultant cost from an explicit government guarantee. We think it will continue despite the fact that it is resource-intensive and the RBNZ is now having to work within a tighter budget and smaller headcount.

More detail on the RBNZ's future on-site supervisory strategy is expected soon. The central bank has already signalled that it is considering the scope of the powers granted under the DTA in planning its new approach to information-gathering.

The FMA is working through equally dramatic changes as it gears up for its new responsibilities, specifically:

- the Conduct of Financial Institutions regime that came into force earlier this year
- the shifting of consumer credit regulation to the FMA, including on-site supervisory responsibility, with submissions now closed on three financial services bills (see Chapman Tripp commentary [here](#)).

The FMA has responded with a new [Outcomes-Focused Regulation](#) framework, featuring more frequent and intense supervisory interactions, particularly for larger businesses, along with more engagement with boards and senior management.

Banks and other deposit takers will need to learn to live with, and manage relationships with, more inquisitive primary regulators with broadly overlapping mandates and duplicative powers.



Overbearing timing pressures

The deadline to full implementation of the DTA keeps ticking down with the RBNZ under timing pressures to achieve its work programme by the time licensing starts in 2028 – and a legislated 2029 backstop means they cannot substantially delay.

In addition, DCS and Credit Contracts and Consumer Finance Act 2003 (CCCFA) licensing are also to be achieved this year and 2028 will roll around soon enough for the DTA.

When the regulatory calendar of the Council of Financial Regulators (CoFR) was first published in 2022, it generally fit on about three generously spaced, portrait pages. In 2025 it takes seven landscape pages of tightly packed rows.

For deposit takers this will mean that both consultations and implementation will be pressured and jammed in wherever they can be.

CoFR's nominal 'no fly zone', which seeks to avoid consultations over the December/January holiday period, is regularly honoured in the breach – this year it includes a consultation on tranche 1 of RBNZ's core standards. Similarly, the implementation of both open banking and the 2028 DTA changeover are scheduled for Decembers, when banks are generally in 'change freeze' to mitigate risk of error when available resource is naturally at its lowest.

Walking the regulatory perimeter

Given its workload, resource, budgetary and other constraints, we don't expect the RBNZ to extend its focus to entities beyond its current mandate for the foreseeable future. This will create a low-oversight opportunity for the already fast-growing private credit and shadow-banking markets – especially those that do not take deposits and are therefore historically less likely to impact financial stability.

Longer term, we expect the RBNZ will follow the international trend among financial sector regulators and sharpen its oversight of new and developing market sectors. There is precedent for this in the RBNZ's 'future of money' work programme.

The FMA is also aware that it is walking a regulatory perimeter, as Chair Craig Stobo has [acknowledged](#), saying they need to "make choices about where to focus our limited resources to best fulfil our statutory objective".

We expect this to include continued work in the fintech and private credit spaces, similar to other international regulators, including the Australian Prudential Regulation Authority (APRA), as well as ongoing attention to the use of wholesale offer formats.

Consultation timelines will be pressured

Q3 2025

- Capital review
- Liquidity Management
- Use of 'bank' restricted word
- DTA licensing regulations

Q4 2025

- Tranche 1 Core Standards exposure drafts, including Liquidity Policy C4

H1 2026

- Tranche 2 Core Standards exposure drafts, including Capital Standard
- Crisis Management



05/

Litigation – a shifting front line

While bank supervision is becoming increasingly weighty, personal liabilities and obligations of bank directors have shown signs of easing.

This shift towards corporate liability may be expected to increase innovation and risk taking. But, at the same time, it is tempered by the growing spectre of risks relating to class actions, frauds and scams.

Director liability and responsibilities – comparatively reduced focus

Directors and senior managers will welcome the proposed repeal of their personal duty to exercise due diligence to ensure the creditor complies with its duties and obligations under the CCCFA. Breaches of the duty, as the law stands, can result in potentially material personal liability which cannot be indemnified or insured.

That duty of directors and senior managers has been expressly identified in the Credit Contracts and Consumer Finance Amendment Bill (CCCFA Bill) as one of the features “that are unnecessary because of, or do not fit as well with, the new regulatory approach”. The existing FMCA regime for personal ‘accessory’ liability will apply instead.

By contrast, no plans to change director liability under the upcoming Deposit Takers Act regime have been announced. That DTA director liability however remains a significant improvement over the current position for banks under the Banking (Prudential Supervision) Act 1989, and well below the high water mark of the CCCFA.

Notably (as amended late in the legislative process) compared to the CCCFA, the DTA:

- allows use of indemnities and insurance for a breach of the due diligence requirements; and
- permits a director or NZ chief executive to rely on information and professional/expert advice from other directors, or employees or professional advisers or experts in certain circumstances, as a defence to a breach.

The complexity and breadth of bank obligations under the DTA and associated standards mean that directors will still have their work cut out for them. While the DTA mandates that [the RBNZ] produce due diligence guidance, no timeline has been given (and the DTA itself sets no timing requirement).

As of August 2024, RBNZ in its Non-Core Standards policy proposals said that it was:

...trying to design requirements placed on deposit takers’ boards so that directors can be focused on more strategic issues and oversight of management rather than the operational detail of complying with our regulations... We are trying to avoid imposing specific obligations on boards that could detract from focus on their primary roles of strategy and oversight.

Eight months later in its May 2025 Summary of Submissions on Deposit Taker Core Standards, RBNZ merely stated that director due diligence guidance would be made available “in due course”.

The clock is ticking for deposit takers to implement due diligence processes addressing their upcoming obligations under the DTA. However, without RBNZ’s guidance – or even a final set of obligations for the due diligence process to be built around – deposit takers may feel that they are still sitting on their hands.

Class action risks

Class actions continue to pose a real risk for banks, particularly in relation to data breaches, consumer lending, fraud/scams and climate change.

The most high-profile development on bank-specific class actions has been the proposed retrospective application of changes to the CCCFA regarding loss of borrowing costs for disclosure errors (under s 99(1A)). The proposed changes would provide the Court with the express discretion to reduce or extinguish the effect of s 99(1A) where it is just and equitable to do so.

Class action risk has been slightly heightened from recent years as a result of recent Court decisions confirming the availability of opt-out class actions and making of common fund orders at the start of proceedings. Those decisions incentivise litigation funders by providing a larger potential claimant pool and providing greater certainty of a return.

At the same time, we have already seen some overseas-based funders look to expand their involvement in New Zealand. New law firms focusing on plaintiff-side class action work have also formed in recent years. It is clear that funders and firms (in some cases Australian firms) are already looking to overseas class-action examples to progress similar actions in New Zealand (both within the financial sector and outside of it). We expect that trend will continue.



Increased expectations for fraud and scam management

In recent years, banks have been under fire in public in relation to the proliferation of fraud and scams. It ought to provide some comfort that senior Courts in the UK have taken an orthodox approach in assessing the scope of banks' liability.

The most high profile example is the UK Supreme Court's confirmation in *Philipp v Barclays*³ that a bank is not under a duty to decline to carry out a customer's instructions to transfer funds, if it has reasonable grounds to believe that the customer is being defrauded. The duty arises only in circumstances where the bank is "put on inquiry" that a payment instruction it has received from an agent may not be a valid instruction from the customer.

More recently, in March this year, the English High Court confirmed that a bank does not owe a duty of retrieval to a third party (i.e. not a customer of the bank).⁴ In other words, a bank has no duty to take steps to recover payments it received not knowing they were fraudulent, which it subsequently transferred on instruction of its own customer.

We are not aware of either case having been considered by the New Zealand courts to date but expect they will be persuasive.

The expanded consumer protection requirements and compensation regime relating to fraud and scams will go live under the revised Code of Banking Practice on 30 November 2025. We anticipate more focus in this area as those changes are bedded in.



3. *Philipp v Barclays Bank UK PLC* [2023] UKSC 25.

4. *Santander UK PLC v CCP Graduate School Ltd* [2025] EWHC 667.



Timeline

As we discuss elsewhere in this report, New Zealand's banking sector is in a turbulent period. The goalposts and New Zealand's strategic directions are shifting rapidly.

Near term certainties



Next 12 months

- The non-bank lender sector will make a play for growth, as NBDTs make use of the Depositor Compensation Scheme to attract deposits, increased economic activity means banks no longer soak up so much of the loan market, consumer credit changes encourage new lending, and rates return to lower levels that are more conducive to private credit and other alternative providers.
- Implementation of the legislated open banking regime in December this year will encourage more specialised providers of new fintech solutions, diversifying the industry.
- A flurry of activity for bank capital as the revised rules are put in place. Banks have been in an extended holding pattern since the capital review was announced in May this year, as they wait to see what is required from them under revised rules.

Medium term probabilities



Next 5 years

- As implementation of the DTA nears (planned for December 2028), we will see preparations for on-site supervision, and other hands-on regulatory oversight.
- While the future of a central bank digital currency (CBDC) is now less certain, we expect considerable development will be needed in relation to digital infrastructure (including stablecoins and tokenisation).
- We are likely to see the emergence of legislation, or clearer regulatory expectation, on banks' use of AI, in matters such as governance, risk management and operation resilience.
- Deposit bases may become considerably less static, compounding the need for banks to obtain wholesale funding and develop products that keep money within the bank ecosystem.

Long term possibilities



Next 10 or more years

- A redirection of New Zealand's banking and financial infrastructure towards greater global integration. We hope to see a forward-looking approach to build what is required for New Zealand to remain globally competitive in this longer term.
- A long-term consolidation may occur as scale and breadth of product offering widens to attract customers. A possible by-product may be that participants beyond the traditional banks (e.g., financial market infrastructures) become "too big to fail", increasing the moral hazard attached to the sector.



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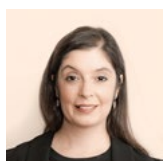


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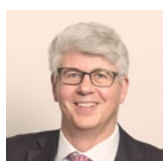
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Every effort has been made to ensure accuracy in this publication. However, the items are necessarily generalised and readers are urged to seek specific advice on particular matters and not rely solely on this text.

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