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Kiwibank posts a good result

Kiwibank has successfully pressed the patriotism buttons, but the innovative offerings appeal too, writes Rob Stock.

The Kiwibank success story continues to roll on with the bank passing the 600,000-customer mark as it approaches its sixth anniversary.

This week it will be six years since the bank opened its doors in Palmerston North to much fanfare. Each year since then it has added 100,000 new customers and it continues to sign up 300-400 a week.

Chief executive Sam Knowles said the bank would post a profit of about \$40 million in the year to June 30, an increase of around 50% on last year.

But it won't be until 2020 that Kiwibank reaches its goal of matching its big Australian rivals in terms of its deposit and loan books, Knowles says, and it will do so only if growth continues at its current pace.

Despite its progress, Kiwibank is still a relative minnow, with just 5-6% of all retail deposits, 3% of the residential mortgage market and 5% of the credit card market.

Its approach has been based on a three-pronged strategy: beating its major rivals on fees and rates, introducing "hero" products, and a hard-sell on its Kiwi ownership.

Kiwibank's low fees and rates tactic largely reflects lower profit aspirations, lower costs, and the fact that as yet it does not have to borrow on foreign money markets, which have become costly following the sub-prime credit crisis sweeping the world.

Its products have won the bank the first two Sunday Star-Times Cannex bank of the year awards, which recognises the bank that offers the best value across a wide range of products.

Over the years, Knowles said, it has come up with several innovations which have forced its bigger rivals to follow: fee-free transaction accounts, a low-interest credit card, text-banking, a zero interest credit card, and some internet applications, such as being the only bank to allow international transfers of cash to be done wholly online.

On its own, the Kiwi-owned message, although popular, wouldn't have been enough, Knowles said.

"There are four big Australian banks sending two point something billion dollars off to Australia each year, and only two New Zealand banks, but people still won't cross the road unless we provide good value and service."

Knowles reckons that without the existence of Kiwibank, a few hundred million more each year would be heading across the Tasman to Aussie shareholders, though Kiwibank's Australian rivals have been resilient in keeping the return on equity to their shareholders high.

"Their return on equity is close to 30%. There's no reason why any business should make returns like that," Knowles said.

Although they have been through a golden period in which technology has allowed them to slash costs while keeping fees and margins intact, he believes that rather than giving up those kinds of margins, the banks will be forced to cut costs, something they have always been good at.

NZ Post, he said, had more modest ambitions. "Our owners are really saying 'What's a sensible profit?' We will certainly be 14-15% after tax return which many businesses would say was a glorious return."

Although NZ Post is still funding the bank, Knowles says it will probably begin paying a dividend in the next couple of years, having become self-sustaining. Its rapid loan-book growth has required capital injections, he said, in order to meet the Reserve Bank's capital adequacy rules.

Knowles, who once headed marketing for National Australia Bank (owner of Bank of New Zealand), said Kiwibank was beginning to make inroads into the wealthier end of the market. He said the bank's research shows its brand is appealing to the rich as well as less affluent New Zealanders, but those with complex banking arrangements, as the rich tend to have, are reluctant to shift all their business.

While the bank has attracted customers from ANZ, BNZ and Westpac, the stickiest customers are from ASB, National Bank (particularly its higher wealth clients) and Kiwi rival TSB.

One area that Knowles said has been fruitful in boosting growth is small and medium business banking. Kiwibank's fees, he said, are about 30% lower than rivals.

"Small businesses embrace the Kiwi-owned message more strongly than individuals."

The hunger for change in the area was shown when the bank researched the market. Finding it hard to calculate the fee and interest-rate loadings on small businesses, Kiwibank opened the Yellow Pages, called 40 small businesses and asked for their bank statements for the previous three months.

All but one agreed immediately.

Knowles himself is not planning to move on any time soon. When he left National Australia Bank it was in part driven by a desire to leave the "unhealthy culture" that saw meetings start at 6.30am, and others the same day end at 7pm. Knowles says that kind of culture is a failure of leadership, and there's no reason why a bank can't be run by people balancing family and work.

Besides, he says, there are still plenty of challenges.

"There are lots more opportunities in parts of the market I'm looking at. There's equally the next phase in development, which is keeping the passion up and developing the bank's service processes so we remain a high-quality organisation, as well as a high-growth one."

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