

# “New Zealand’s bank switching costs: the regulatory response”

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## New Zealand's bank switching costs: the regulatory response

### Abstract

Switching costs are a recognized issue in banking markets around the world, but in many countries, including New Zealand, regulators give them limited attention. This paper confirms the existence and relative importance of switching costs in the New Zealand banking market. The author finds seven categories of switching costs are perceived to exist by bank customers, with Hassle being perceived as the strongest. These switching costs are found to deter customers from switching between banks despite a desire to do so. The author then considers possible regulatory responses to bank switching costs and recommend three actions for regulators. The recommendations include regulators acknowledging the existence of bank switching costs and accounting for their effects in any assessment of the extent of competition and evaluation of merger and/or acquisition requests. Regulators should also explore bank account number portability, but should leave comparative disclosure of bank products and services to the market to resolve.

**Keywords:** switching costs, bank regulation, competition, New Zealand.

**JEL Classification:** D12, D14, D40, G21, G28.

### Introduction

Switching costs, comprising the variety of factors that may discourage customers from changing banks, are an issue in New Zealand's banking market, as elsewhere. Switching costs include non-financial factors, such as finding a new provider and losing one's relationship with the existing provider's staff, as well as actual financial costs. The importance of switching costs lies in their impact on market operation, including allocative inefficiency, monopolistic profits and barriers to entry, resulting from the effects on customer behavior, as customers become locked-in to a particular service provider and reluctant to change to an alternative.

A 2005 survey found 20% of customers were likely or very likely to switch banks, but one of the authors noted such intentions were not usually acted upon due to switching costs (Steehan, 2005). Studies in other countries found comparable levels of bank customers wanting to switch bank; Fujitsu Australia found 80% of respondents in a study of 26,000 customers showed a willingness to change their financial services provider (Rogers, 2007), while a US survey found 10% of respondents "were very dissatisfied and said they would switch their financial institution if it were easier to do so" ("Customers prefer their local branch", 2004, p. 7).

This reported desire to switch does not, however, translate into comparable rates of switching, low rates of switching are the norm in the New Zealand market. About 4.4% of the total New Zealand population change their financial institution each year (Carlisle and De Freitas, 2004). More recent data, for the six months to December 2007, showed a 7.8% rate of switching over the previous twelve months for those aged 14 years and older.

In markets with switching costs, researchers have found monopolistic profits can be generated (for ex-

ample, Shapiro & Varian, 1999; Ongena & Smith, 1997). The Cruickshank Report<sup>1</sup> supports this view, finding evidence pointed strongly "to the conclusion that UK banking services to small business and personal customers" were overpriced (Cruickshank, 2000, p. 24). High levels of profit have been reported for the New Zealand banks (Tripe, 2004, 2007), and monopolistic competition was found in the New Zealand banking market (Smith & Tripe, 2001; Chan, Schumacher & Tripe, 2007), giving rise to the question of the extent to which this can be attributed to the existence of switching costs.

The banks have recognized the general perception switching banks is not easy, although they argue switching banks is easier now than it used to be. They have endeavoured to reassure customers, or more importantly potential customers, that switching bank does not have to be difficult. For example, in April 2004 BankDirect launched an "innovative refinancing service" (BankDirect, 2004) claiming that the "barriers to moving your home loan to BankDirect have just disappeared" (BankDirect). In another example, Kerin (2006) cites *NAB's* offer, several years ago, of a financial benefit for switching customers of up to \$1050 by waiving the application fee and contributing to the cost of switching in what it called "a switching cost offer".

Banks have attempted to make switching as easy as possible for customers. For example, the *ANZ* bank's website has a page titled "Switch to the *ANZ*", claiming "It's easy to switch your banking to *ANZ*"<sup>2</sup>. In 2006, the *BNZ* launched a new process claimed to simplify switching to it. The process required participants to sign a limited power of attorney allowing a specialist team to do everything necessary to move the participant's banking relationship to the *BNZ* (Stock,

<sup>1</sup> The Cruickshank Report was the result of an independent review instigated by the UK government in 1998. The review examined competition, innovation and efficiency in the UK banking markets.

<sup>2</sup> Source: <http://www.anz.co.nz/personal/accounts/switch/>, retrieved July 18, 2013.

2006). However, taking care of all aspects of the switch is something banks have ‘always’ been willing to do. The difference is that in the mid-2000s, they started actively promoting it as an ‘extra’ service.

It is important to remember banks, like firms in other markets with switching costs, have some ambivalence in their attitude towards the ‘problem’ of switching costs. They do want lower switching costs so customers can easily switch to them, but concurrently they benefit from switching costs discouraging customers from switching away from them. Banks’ ambivalence, as well as the possible implications of switching costs on competition, mean switching costs are an important issue for regulators.

This was illustrated in mid-2003 when the ANZ Banking Group New Zealand Limited (ANZ) sought to acquire The National Bank of New Zealand. As part of the acquisition process, ANZ had to seek clearance from the Commerce Commission. In their application for clearance, ANZ described the New Zealand banking and finance industry as “highly competitive and dynamic” citing “the large number of existing competitors” as part of the evidence for that claim (ANZ, 2003, p. 8). ANZ went on to claim that “existing competitors alone will ensure prices and quality of service remain competitive” and that “switching costs (such as application fees and charges) in each of the relevant markets are low” (p. 9). Various market sectors were discussed in ANZ’s application, with repeated claims of low switching costs for each, and emphasis placed on financial costs of switching providers. There was limited reference to non-financial switching costs with claims these were insufficient to allow ANZ any advantage.

The Commerce Commission largely accepted ANZ’s claims regarding switching costs. While their decision acknowledged “there are switching costs in changing banks” (Commerce Commission, 2003, p. 5), the Commission believed there was unlikely to be a substantial reduction in competition. Only the transaction accounts market was identified as likely to suffer a reduction in competition with reduced choice and quality of service, but it was “not considered to be substantial because of competition provided from the three other main competitors” (p. 7). However, switching costs extend beyond financial costs and research shows switching costs do have a significant impact on competition levels. This raises questions about how well the issue of switching costs was addressed in this merger, as well as in previous mergers in the banking industry in recent years<sup>1</sup>.

Despite widespread agreement that switching costs restrict the rate of switching by bank customers, there-

by impacting on the level of competition in the banking market, action by regulators in New Zealand or elsewhere has been limited. Furthermore, where issues related to switching costs have arisen, such as ANZ’s acquisition of The National Bank, regulators have shown limited appreciation of the full implications and the importance of switching costs to bank customers. A growing focus on competition means the issue is now receiving some attention. For example, the Cruickshank Report examined competition in the UK banking market and identified switching costs as an issue in the personal banking market (Cruickshank, 2000), going on to recommend a regulatory response. After the 2007 federal election in Australia, the issue of switching costs received substantial political attention, and in early 2008, the Australian treasurer indicated banks would be required to provide information on regular payments, such as direct debits and automatic payments, to ease the switching process (Kavanagh, 2008)<sup>2</sup>.

This paper has two objectives. The first is to confirm the existence and relative importance of switching costs in the New Zealand market. The second objective is to consider possible regulatory responses to bank switching costs and recommend actions to be taken by the regulator. The next section of the paper reports prior research related to switching costs and regulatory responses, followed by a description of the data. The subsequent section presents the findings and makes recommendations, while the final section concludes.

## 1. Literature review

Burnham, Frels and Mahajan (2003) define switching costs as “onetime costs that customers associate with the process of switching from one provider to another” (p. 110). Two important points noted by Burnham et al. are that switching costs “need not be incurred immediately upon switching” (p. 110), nor are they limited to objective or economic costs. This latter point is particularly important, because the word ‘costs’ immediately creates a perception of a financial amount. Switching costs are important for their impact on market operation. Klemperer (1987) found “switching costs cause an allocative inefficiency” (p. 390). The underlying reason is the existence of switching costs means competition between firms shifts from considering one consumer’s needs in one period to considering those needs over multiple periods (Farrell & Klemperer, 2006).

Evidence exists switching costs generate monopolistic profits for participating firms. Discussing loan provision, Ongena and Smith (1997) suggest potential exists for a bank to extract monopoly rents from

<sup>1</sup> Since 1992 there have been twelve mergers in the New Zealand banking industry.

<sup>2</sup> This regime has subsequently been implemented, but it is doubtful that it could be described as a success. For example, see Anonymous (2009).

their customer due to the proprietary information the bank can observe. However, Anderson and Kaplan (1995) note the extent of firms' monopoly power depends on consumers' reaction to the switching costs. A recurrent theme in Cruickshank (2000) is barriers to switching, which are important because new entrants to a market only encourage more effective competition if customers are willing and able to switch to a better deal. Economists' model of perfect competition assumes away switching costs for consumers but Kerin (2006) notes switching costs are pervasive in the real world and suggests companies can gain by managing them carefully and innovatively.

Switching costs are argued to be greater for services than goods (Gremler & Brown, 1996, in de Ruyter & Wetzels, 1998), suggesting they have more importance in a service-based market like banking. The existence and influence of switching costs in banking, specifically in the UK, is supported by Cruickshank (2000), which indicated it was unusual for consumers to switch between lenders unless they were moving property. Kim, Kliger and Vale's (2001) study using Norwegian banking data supports the existence and influence of switching costs in banking. They find "switching costs in the market for bank loans are quite substantial and constitute a significant portion of the value of a marginal customer to the average firm" (p. 30). Kim, Kliger and Vale (2003) blame information asymmetry for the prevalence of switching costs in banking. Cruickshank (2000) similarly argues the information imbalance between market participants is a characteristic of the banking sector.

Regulation may be appropriate for dealing with switching costs, particularly as firms' ambivalence towards switching costs means limited incentive exists to find a market solution. Carlsson and Löfgren (2004) suggest switching costs could be reduced by appropriate regulations if they are largely affected by firm behavior. Their study of the Swedish domestic air travel market provides support for the regulation in that market which reduced switching costs. Regulation may help resolve a problem in a market but may also contribute to the difficulties. For example, it was suggested competitive forces in the UK SME banking market actually reduced due to the government's requirement for big banks to provide free services or current account interest to SME customers (Staff, 2005).

If concentration substantially reduces efficiency, the effects might be considered as part of the merger approval process as suggest Berger and Hannan (1998). "Merger policy in retail banking often relies on arguments stating the degree of potential competition in the market" (Kiser, 2002, p. 349), with potential competition being the likely entry of a

firm if prices rose or quality reduced. Kiser notes the success of a new entrant firm relies heavily on the ability to attract new customers, and it follows "customer switching is extremely important for the viability of new entrants" (p. 349).

Carlsson and Löfgren (2006) argue switching costs may be lowered with appropriate regulations, if firm behavior has a substantial effect on switching costs. Taking an opposing view, Haucap (2003) notes switching costs exist in a wide range of markets, often with lively competition. He, therefore, suggests it is unclear why the existence of switching costs should necessarily justify regulatory intervention. Nevertheless, it has been acknowledged there is limited incentive for the incumbent supplier to assist a customer to leave (for example, Corfield, 2007), in which case a regulatory response may be needed.

One particular category of switching costs is search costs, being the time and effort required to find out about other financial institutions and to evaluate them to determine the most suitable option for the switcher's needs. From a regulatory perspective there would appear to be some value in legislative disclosure requirements to make information easier to find, thereby reducing search costs. However, Shapiro and Varian (1999) believe the cost of finding and evaluating a new brand will reduce through the Internet and other IT advances. Berlin and Mester (2004) also counsel against regulatory intervention as they find "available economic models of consumer search provide little evidence that legislative remedies like standardized disclosure rules will increase competitive forces" (p. 195). An opposing view from Cruickshank (2000) suggests search costs remain significant, arguing "the Internet potentially makes price discrimination easier, so making it easier to exploit inert customers" (p. 6). This appears counter-intuitive, but is explained by the fact the Internet allows unprecedented loss of privacy enabling a firm to better assess a customer's willingness to pay, and therefore opportunities for price discrimination (Odlyzko, 2004). For example, on Amazon.com users' purchasing behavior is remembered in order to make other purchase suggestions, while Google offers personalised searches, where a user's search history and profile information influences their search results.

Wilde and Schwartz (1979) explore the effect of reducing search costs on competitive equilibria and find "the state should reduce the costs of consumers of *comparing* purchase alternatives" because "the likelihood of competitive equilibria obtaining varies directly with the number of consumers who visit more than one firm and with the number of firms such comparison "shoppers" visit (p. 551). Among the Cruickshank Report's recommendations was that the Financial Services Authority (*FSA*) should

publish comparative tables to enable customers to more easily compare banks' products and services. Customers with access to electronic marketplaces, therefore facing lower search costs, become more demanding and less willing to make compromises with respect to their ideal product (Bakos, 1997). Bakos suggests such buyers benefit from lower prices and allocational efficiencies, and lower total search costs. However, he also finds sellers have no incentive as a group to introduce an electronic marketplace, while buyers face possible free-rider problems inhibiting their investment in electronic marketplaces. An independent third party, such as a regulator, is therefore, the most appropriate choice to establish such a marketplace.

Switching costs are also perceived to be important in the telecommunications market, which provides an example of possible regulatory changes. In the mobile telecommunications market, Mobile Number Portability [MNP] is expected to reduce consumers' switching costs, making entry easier for new entrants and strengthening competition between existing operators (Haucap, 2003; Shi, Chiang & Rhee, 2006). However, MNP offers few benefits for operators and incurs substantial costs for both infrastructure and porting of numbers. As a result operators have sought to delay MNP implementation, chosen the least expensive technologies that are also less efficient and used long-term contracts to lock-in customers, thereby reducing the effectiveness of MNP (Garcia-Murillo, 2007). Xavier and Ypsilanti (2008) report the take-up of MNP in the UK was below expectations, but suggest consumers benefitted from MNP's existence due to incentives offered by operators to retain customers and discourage switching. Examining MNP's introduction in Hong Kong, Shi et al. (2006) find larger providers gained market share and smaller providers lost market share, contrary to regulators' expectations but explained with reference to network effects. Cruickshank (2009) considered the appropriateness of introducing some form of account portability in the UK banking market but considers it very interventionist and therefore, should be used only if other options were unsuccessful.

## 2. Methodology

This paper summarizes some key findings from a study of switching costs in the New Zealand banking market (Matthews, 2009). The primary source of data for that study was a mail survey, over a six-week period in late 2006, of the New Zealand public posted to 2983 people drawn from the New Zealand electoral roll. A total of 955 completed and valid questionnaires were returned for an overall response rate of 33.5%, after adjusting for undelivered surveys and ineligible recipients.

The survey comprised 70 questions, covering banking relationships, switching behavior, switching

cost perceptions and demographic characteristics.<sup>1</sup> The variables of relevance here are perceptions of switching costs, the desire to switch banks, and the future likelihood of switching banks. The research question being investigated is the existence and relative importance of bank switching costs, and the regulatory response required. From this, the following hypotheses are developed:

*H1: Switching costs are perceived to exist in the New Zealand banking market.*

*H2: The likelihood of switching is less positively correlated with the desire to switch when switching costs are perceived to be high.*

The first hypothesis is tested by calculating the mean score for each switching cost and using a *t* test<sup>2</sup> to determine whether it is significantly different to the neutral value. The second hypothesis is tested by determining the effect of the perceived level of switching costs on the correlation between the desire and likelihood of switching.

Information has also been collected about what is happening in other countries with regard to the regulatory response to switching costs. The experiences of Australia, the UK and the Netherlands are discussed and used to inform recommendations formulated for New Zealand regulators.

## 3. Analysis

Respondents' perceptions of nine categories of switching costs were measured, using responses to 3-5 questions per category each of which had a seven-point Likert scale response. The means, over the relevant questions, for the individual switching cost categories ranged from a low of 3.3 for hassle to a high of 4.1 for monetary loss, as shown in Table 1. Only monetary loss had a mean above the neutral midpoint of the range, and having the largest mean indicates this category is the least important for respondents. The *t* test confirmed that the means of seven of the switching cost categories were significantly different to the neutral value, as was the mean for overall switching costs – the exceptions were monetary loss and benefit loss.

Table 1. Perception of switching costs

	Mean	Perception of switching cost as		
		Low	Medium	High
Benefit loss	3.9	16.1%	67.6%	16.3%
Search	3.8*	15.9%	60.8%	23.3%

<sup>1</sup> Detail of the methodology is available in Matthews (2009).

<sup>2</sup> A *t* test assumes a normal distribution, although it is fairly robust to departures from this assumption, and the Kolmogorov-Smirnov statistic was used to assess whether this assumption was appropriate in this case and confirmed the assumption of normality allowing the *t* test to be used.

Table 1 (cont.). Perception of switching costs

	Mean	Perception of switching cost as		
		Low	Medium	High
Uncertainty	3.8*	8.5%	77.6%	13.9%
Personal relationship	3.7*	15.5%	59.3%	25.2%
Brand relationship	3.7*	8.4%	72.6%	19.1%
Learning	3.6*	5.2%	76.8%	18.0%
Service disruption	3.4*	3.5%	75.8%	20.7%
Hassle	3.3*	4.0%	65.2%	30.8%
Overall switching costs	3.7*	2.4%	85.9%	11.7%

Note: \* Significantly different to neutral value (4).

The proportion of respondents who were rated as having a perception that a category of switching costs or switching costs overall is high, moderate or low is also shown in Table 1. The respondent was judged to perceive a category of switching costs as high where the mean rating was less than 2.75. Where the mean was greater than 5.25, respondents were considered to have a perception that switching costs are low. A mean value between 2.75 and 5.25 inclusive was considered to indicate a perception that switching costs are moderate. The cut-off values used are arbitrary, but were selected to be at a level such that the respondent appeared to have a reasonably strong view if included in the high or low groups. It is clear from the table that the perceptions varied between the different categories of switching costs, but for all categories the proportion of those who consider a cost to be high was not great and generally smaller proportions considered them to be low. At least 59.3% of respondents had a moderate rating for each of the categories.

Two survey questions sought to measure the respondent's likelihood of future switching, and the variable *switching likelihood* was measured as the mean of the two questions. Two other questions were used to assess the respondent's desire to switch, with the variable *switching desire* measured as the mean of these two questions. The Spearman's correlation coefficient for *switching likelihood* and *switching desire* was 0.54 and significant at the 1% level. This indicates a strong positive correlation between the two variables. However, because the correlation is not stronger it appears there is some factor that means respondents who would like to switch won't actually do so, and switching costs are likely to have that effect<sup>1</sup>.

As discussed above, the respondents were broken into three groups, comprising those who considered switching costs were high, moderate and low. As Table 2 shows, the correlation between *switching likelihood* and *switching desire* is positive for all

three groups. However, it is clearly less where perceived switching costs are high, and the highest correlation was found where switching costs were perceived to be low. This supports the view that switching costs explain some of the difference between desire to switch and the likelihood of doing so.

Table 2. Correlation between desire to switch and likelihood of switching for different levels of overall switching costs

Switching costs are perceived to be		
High	Moderate	Low
(n 110)	(n 802)	(n 23)
rs = 0.37 ***	rs = 0.56 ***	rs = 0.59 ***

Note: \*\*\* Significant at the 1% level.

Clearly switching costs exist in the New Zealand banking market, and deter customers from switching banks. What can regulators do to reduce switching costs and aid switching by bank customers who wish to change bank?

#### 4. Recommendations

Cruickshank (2000) found UK consumers perceived "significant barriers to switching accounts" (p. 17) including penalties for early repayment of loans, and the hassle of switching. The possibility of introducing some form of bank account portability was considered, but rejected as being too interventionist; it was retained as a possibility in the event the other recommendations were less effective than desired. The FSA now publishes comparative tables on a range of personal banking products/services online, and the Financial Services Consumer Panel (*FSCP*), set up in 1998, continues "to represent the interests of consumers in the development of policy for the regulation of financial services" (*FSCP*, n.d.).

In 2008, the Australian Treasurer wrote to the banks reminding them the government had an expectation they would co-operate to make it easier for customers to switch banks. Regulations were threatened if the industry made insufficient progress on the issue, although an industry-based solution was preferred (Lewis, 2008). The industry was already working on this, with the Australian Payments Clearing Association (*APCA*) having released a consultation paper on issues related to switching direct credits and direct debits in September 2007, recognising that redirecting these payments to new bank accounts is a substantial part of the hassle of switching banks. The outcome of the consultation was the establishment of a package claimed to make it easier for consumers to switch; however, the actual process of redirecting the payments remains a manual one, and it is arguable how much benefit is actually gained.

By contrast, the Overstapservice (or Interbank Switch Support Service [*ISSS*]) introduced by the Netherlands

<sup>1</sup> These variables are discussed more fully in Matthews, Moore and Wright (2008).

Bankers Association in 2004 provides an automated service. For 13 months all direct debits and direct credits destined for the old account are automatically rerouted to the new account, and the direct debit initiator automatically advised of the new account number and requested to update its database. For direct credits, the customer receives standard cards to facilitate advice of the new account number to the payer(s). The old bank cancels all automatic payments, and provides details to the customer, who takes the list to the new bank, which then re-activates them (NVB, 2006). The advantage is that dealing with direct debits is fully automated, and the customer has the reassurance of knowing direct credits will be automatically rerouted for 13 months, allowing sufficient time to get them formally redirected. The Dutch considered number portability before introducing the ISSS, but costs were estimated at €300-500 million, at least 15 times the maximum estimated establishment cost of €20 million for the ISSS (Lelieveldt, 2006).

Governments and regulators in the UK and Australia have recognised the difficulties of switching banks, and the associated perceived switching costs. However, New Zealand regulatory authorities have yet to give any real consideration to this issue demonstrated by their handling of the ANZ's application to acquire The National Bank discussed earlier, although clearly switching costs exist. We have seen that switching costs mean some customers who would like to change banks do not do so because of the associated switching costs. This has particular implications in a merger/acquisition because the merger/acquisition can generate a desire to change to another financial services provider, but switching costs mean these unhappy customers of the acquired bank may not switch because they are "locked-in" to their existing banking relationship by switching costs. This leads to the first recommendation.

**Recommendation 1.** New Zealand regulatory authorities should acknowledge the existence of all types of switching costs in the banking market, and account for their effects in any consideration of competition issues in financial services, particularly in decisions on acquisitions and mergers in the New Zealand banking market.

A commonly proposed regulatory response to switching costs is the provision of information to enable comparison of different financial institutions' offerings, which specifically addresses one category of switching costs: search costs. The publication of comparative tables by the regulator has been implemented by the FSA in the UK, and would be a relatively simple option to introduce. The Internet is likely to be the source of any comparative information today, but prior research is mixed as to whether it reduces or increases search costs. Matthews (2009)

found the Search Cost variable did not vary significantly with internet access, and search costs are perceived as less important than most other switching costs, with relatively limited effect on attitudes and behaviours, therefore, the benefits of regulated disclosure appear limited. Furthermore, private organisations already provide comparative information: Australia has three privately run websites helping consumers compare financial products, while New Zealand has Consumer NZ ([www.consumer.org.nz](http://www.consumer.org.nz)), Good Returns ([www.goodreturns.co.nz](http://www.goodreturns.co.nz)) and Interest.co.nz ([www.interest.co.nz](http://www.interest.co.nz)) providing comparative information for New Zealand bank customers.

**Recommendation 2.** Regulators should not legislate comparative disclosure requirements for bank providers and services, leaving this for the market to address.

As the author has found, the time and effort involved in switching are issues for bank customers. Primarily this is about the stage of the switching process at which the new account is opened, necessitating redirection of existing direct credits such as salary payments, and reloading on the new account of existing payment authorities, such as those for power, and telephone. While a New Zealand Bankers' Association protocol on switching, relating to the provision of information from the old bank to the new bank, has existed for many years, it is suggested that its effectiveness is limited by its voluntary nature and the lack of enforceability. Similar issues in the telecommunications industry were overcome with the introduction of MNP. Bank account number portability (BANP) would remove the need to re-establish direct credits and payment authorities, thereby eliminating most of the hassle of switching. A customer could retain their existing bank account number, but it would now be associated with a different bank<sup>1</sup>. The introduction of BANP in New Zealand was discussed by market participants in the 1990s and at a technical level BANP is possible, although complex (S. Miller, personal communication, November 3, 2008). Market participants are unlikely to push development of BANP because it is a "two-edged sword", making it easier for customers to switch to them, but also making it easier for customers to switch away from them. There would be substantial costs to establish BANP, as well as ongoing operational and maintenance costs for the system, as the Dutch found. Reaching agreement on how these costs might be apportioned would be difficult, as evidenced by the tele-

<sup>1</sup> Bank account number portability was effectively introduced for transfers between branches of the same bank about 20 years ago. Prior to that the process of moving to another branch of the same bank was almost the same as that of moving to another bank, involving a similar level of hassle. However, bank account number portability within a bank is a much different process to that required between banks.

communications market. However, *BANP* is something a regulator could require to be implemented, including specifying how the apportionment of the associated costs.

**Recommendation 3.** Regulators should investigate the implementation of bank account number portability, including assessing establishment and operational costs, and their apportionment.

### Conclusion

There are switching costs in the New Zealand banking market, discouraging bank customers from switching banks when they want to. While banks want to encourage customers to switch to them, they don't want to make it easier for them to switch from them. To date regulators have made no real effort to investigate the effect of switching costs on the extent of competition, although other research shows switching costs reduce competition. As regulatory authorities increasingly recognize the issue of switching costs in bank

ingmarkets, there are opportunities for these authorities to consider means of reducing switching costs and thereby enable greater levels of switching. However, there is a need to ensure that any action taken is of value. When the issue of switching costs arose in the acquisition of The National Bank by the ANZ, both the bank and the regulator largely discounted it as unlikely to be significant. As a result, it is recommended banking regulators should pay more attention to switching costs, particularly in mergers and acquisitions. On the other hand, the issue of providing information to enable bank customers to consider alternatives when switching can appropriately be left to the market to resolve. One of the more widely recognised and important categories of switching costs is Hassle, being the time and effort involved in switching. This is where the regulator could be more proactive and investigate the option of number portability to largely eliminate the time and effort involved in switching banks.

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