

The Treasury

Project Korimako - Release of advice

December 2022

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- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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Treasury Report: Project Korimako: Draft Cabinet Paper and Next Steps

Date:	3 June 2021	Report No:	T2021/1036
		File Number:	SE-2-12-4-2-3

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	<p>Provide feedback on the attached draft Cabinet paper</p> <p>Indicate if you would like to meet with officials to discuss the draft Cabinet paper</p> <p>Refer this report and draft Cabinet paper to the Associate Ministers of Finance</p>	14 June 2021

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Madeleine Lock	Senior Analyst, Commercial Performance	[39]	[35] ✓
David Stanley	Principal Advisor, Commercial Performance		
Shelley Hollingsworth	Manager, Commercial Performance		

Minister's Office actions

Return the signed report to the Treasury and **lodge** the Cabinet paper for consultation, subject to any updates to the paper that may be requested by the Minister.

If the Minister agrees, **refer** this report and draft Cabinet paper to the Associate Ministers of Finance, Hon Dr Megan Woods and Hon David Parker's offices.

Note any feedback on the quality of the report

Enclosure: [Draft Cabinet Paper](#)

Treasury Report: Project Korimako: Draft Cabinet Paper and Next Steps

Executive Summary

Attached for your feedback is a draft Cabinet paper for you to inform Cabinet of the work programme underway regarding the future ownership arrangements for Kiwi Group Holdings Limited (KGH), the owner of Kiwibank.

The draft Cabinet paper informs Cabinet of the need for change in the current ownership arrangements. It informs Cabinet of the objectives that you have identified for the ownership of KGH and then discusses high-level opportunities for KGH that you intend to further explore, based on their ability to deliver on the identified objectives.

This report provides supporting information which underpins options in the draft Cabinet paper

You have indicated that your primary objectives for Kiwibank are long-term NZ ownership (expressed directly or indirectly through the Crown), [25] and for Kiwibank to act commercially but be a disruptor to the status quo in the banking sector [T2021/391 refers]. This is to be achieved while minimising funding requirements and financial risks for the core Crown.

An additional factor influencing the development of the ownership options is the potential for changes in the broader banking sector. All registered banks in New Zealand are facing increased capital and other regulatory requirements and Westpac Banking Corporation has cited these as major factors behind its review of ownership options for its New Zealand subsidiary (Westpac). The Australian parents of some of New Zealand's three other four largest banks (collectively referred to as the Big 4) could also be reviewing the extent of their operations in New Zealand as part of their redefining of core operations and in light of the regulatory changes which are expected to reduce commercial returns in the New Zealand market. [37]

The high-level opportunities that you wish to further explore listed in the draft Cabinet paper are: 1) full Crown ownership via a mix of direct and/or indirect Crown ownership, with the New Zealand Super Fund (NZSF) and Accident Compensation Corporation (ACC) maintaining or increasing their shareholdings; 2) [33], [37], [38] and 3) [37]

Should the Crown wish to explore NZSF's proposal for KGH, the ability to enter into formal negotiations with NZSF (and possibly ACC) will be dependent [33]

In the meantime, we are seeking your endorsement for Treasury officials to engage with NZSF and ACC to understand any updates on their positioning and any impacts to their views of KGH opportunities in light of potential sector changes. We would be clear that engagement with NZSF and ACC does not constitute formal negotiations at this time.

[33], [37], [38]

[33], [37], [38]

[37]

Timeframe for decision making

In terms of seeking decisions from Cabinet, the aim would be to have sufficient information by September 2021 to enable the Government to be in a position to come to an indicative view on the preferred ownership arrangement and seek agreement from Cabinet on this.

Recommended Action

We recommend that you:

- a **provide** feedback on the attached draft Cabinet paper
Yes/no.
- b **agree** for Treasury officials to engage with NZSF and ACC to understand any updates on their positioning (while being clear that any interim engagement does not form part of formal negotiations)
Agree/disagree.
- c [33], [37], [38]
- d **note** that the Treasury will continue to advise you of any developments in the wider banking sector as our advice on KGH ownership evolves
- e [37]
- f
- g
- h **refer** this report and draft Cabinet paper to the Associate Ministers of Finance, Hon Dr Megan Woods and Hon David Parker
Agree/disagree.

Shelley Hollingsworth
Manager, Commercial Performance

Hon Grant Robertson
Minister of Finance

Treasury Report: Project Korimako: Draft Cabinet Paper and Next Steps

Purpose of Report

1. This report seeks your feedback on the attached draft Cabinet paper that is intended to inform Cabinet of your intentions with respect to the future ownership arrangements for Kiwi Group Holdings (KGH). This report provides supporting information which underpins the options outlined in the draft Cabinet paper, including [37]

Background

2. KGH is a holding company which wholly owns Kiwibank Limited (Kiwibank) and other adjacent subsidiaries including Kiwi Wealth, Kiwi Insurance, and Kiwi Home Loans. Since 2016 KGH has been owned by NZ Post (53%), New Zealand Super Fund (NZSF, 25%) and the Accident Compensation Corporation (ACC, 22%).
3. The NZ Post board no longer sees a strategic rationale for the company to remain invested in KGH and its preference is to divest its shares as soon as practicable.¹ NZSF and ACC view KGH as a long-term investment in which they are seeking capital returns. [25], [26] and [37] NZSF and ACC consider that the current ownership arrangements preclude them from taking decisions that would encourage KGH to deliver better outcomes for its customers and owners. NZSF has presented a proposal to the Government under which it would take majority control of KGH and take action to support the growth of Kiwibank and Kiwi Wealth, potentially including the need for additional capital investment as the group grows.
4. NZSF and ACC became shareholders in KGH in 2016 when NZ Post sold 47% of its interest. NZ Post would likely have already sold further shares in KGH to ACC and/or NZSF but for the expectation it received from shareholding Ministers that the Government's preference would be for NZ Post to hold its majority shareholding in KGH until the Government determined its preferences regarding KGH ownership arrangements.
5. The Treasury has been providing you advice on the potential ownership options for KGH based on your objectives for KGH and the banking sector. The content of the draft Cabinet paper is based on your feedback on Treasury Report T2021/391, *Project Korimako: Options Exploration Paper*, and in the meeting with you on 15 April 2021.
6. The remainder of this report provides the supporting information and analysis which underpins the options outlined in the draft Cabinet paper. [37]

¹ Until 31 October 2021, there is a contractual "lock-up" period, during which only ACC, NZSF and NZ Post can buy or sell KGH shares. After 31 October 2021 shares must be offered to the other KGH shareholders first, and then to the Crown if other shareholders decline to purchase them. Shares offered but not taken up by other existing KGH shareholders or the Crown may be offered to third parties.

Government Objectives for KGH and the Banking Sector

7. In response to our previous reporting you have indicated that your primary objectives for Kiwibank are:
 - a. long-term NZ ownership (expressed directly or indirectly through the Crown);
 - b. [25]
 - c. for Kiwibank to be a disruptor bank; and
 - d. for Kiwibank to act commercially (recognising this is a minimum need for the bank to continue to be self-sustainable).

8. We understand that some of your broader objectives include the need for the banking sector to provide affordable banking for retail and Small-and-Medium Enterprise (SME) markets [25] This is to be achieved while minimising funding requirements and financial risks for the core Crown.

9. This suite of objectives has been used to identify and shape the ownership options under consideration. Additional factors influencing the development of the options include the following:
 - a. **Commercial vs. Policy Objectives** - there will be a natural tension between the strict commercial approach of investors with commercial objectives and the Government's views on services that support specific parts of the community. This may limit what can be achieved solely within commercial arrangements relating to Kiwibank and highlights the importance of broader policy measures that could contribute to your banking objectives, alongside the commercial arrangements. For example, there may be more targeted policy tools available for addressing the Government's specific objectives in the banking sector such as increasing access to finance for SMEs. [33]

 - b. **Banking Sector Developments** – the New Zealand banking sector is dominated by the Big 4 Australian-owned banks. These banks are facing increased capital and regulatory requirements and a need to invest in technology to meet the increasing digital needs of customers and new regulations that limit the extent of outsourcing activities. Westpac Banking Corporation (WBC) has cited these as major factors behind its review of ownership options for its New Zealand subsidiary (Westpac). These changes make the New Zealand market less attractive and it is possible that other members of the Big 4 (aside from WBC) are considering, or will consider, the extent of their operations in New Zealand. [37]

 - c. [33]

16. [33], [37], [38]

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Next Steps

Cabinet paper feedback and timing

37. The attached draft Cabinet paper is consistent with the material in this report but contains less detail on specific options and proposals. Its intent is to inform Cabinet on the work programme underway and the objectives adopted in assessing the Government's preferences for KGH ownership. It would be necessary to return to Cabinet once any specific ownership changes or investment opportunities were to be pursued.
38. You may wish to provide feedback to us on the draft Cabinet paper to ensure that the objectives and options it contains are consistent with your wishes. We will then amend the paper based on your feedback and provide a final copy for you to submit to Cabinet. Accounting for a two-week consultation process, you may then wish to take the paper to the Economic Development Committee on **23 June** or **30 June 2021**.
39. We would also welcome the opportunity to discuss the draft Cabinet paper and/or any elements of the advice provided in this report with you.

Suggested timeline to formal negotiations

40. We suggest that the next steps in the process might be:
 - a. *June – July 2021*: Treasury officials engage informally with NZSF and ACC to understand any developments in their positions regarding their respective interests in KGH, and [33], [37], [38]
We will inform you of the outcomes of any such engagements;

- b. *by late July 2021*: determine whether it is preferable for NZSF to take on a controlling interest in KGH, [33]

and

- c. *by September 2021*: the aim by this time would be to have sufficient information to understand the positions of the KGH shareholders, [33], [37], [38]

to enable the

Government to be in a position to come to an indicative view on the preferred ownership arrangement. After this point, the Crown and/or the current shareholders may be in a position to enter into negotiations regarding the terms in which each of the current shareholders would either increase their ownership stakes in KGH (i.e. possibly at least for NZSF), or exit (i.e. likely for NZ Post).