FINANCIAL SERVICES FEDERATION

28 March 2021

Submission Analysis Team
Climate Change Commission
PO Box 24448
Wellington 6142

**Draft advice for consultation 2021**

Dear sir/madam

Thank you for the opportunity for the Financial Services Federation ("FSF") to comment on the Climate Change Commission's draft advice for consultation. The FSF commends the Climate Change Commission on the thoroughness and extensivity of the report, we are in agreeance that urgent and drastic steps need to be taken in order to address the issue of Climate Change adequately.

By way of background, the FSF is the industry body representing responsible non-bank lenders, credit-related insurance providers, and fleet leasing providers. We have over 65 members and affiliates providing these products to more than 1.5 million New Zealand consumers and businesses. Our affiliate members include internationally recognised legal and consulting partners. A list of our members is attached as Appendix A. Data relating to the extent to which FSF members (excluding affiliate members) contribute to New Zealand consumers, society, and business is attached as Appendix B.

The FSF is a member of BusinessNZ and is in total agreeance with all the responses provided in that Submission. The FSF, as a member, has played a constructive role in the creation of BusinessNZ's submission. However, our specific industry insights into the transport sector have warranted a separate submission, allowing us to submit additional context or to provide a differing position where appropriate.

The draft advice prepared is of particular interest to members of the FSF, as many are in the business of financing vehicles, fleet leasing, and vehicle lending. Appendix B particularly highlights the vastness and extent to which our members impact the New Zealand motor vehicle market. The topic of transport in the draft advice is of significant concern to our members, therefore, the submission below articulates concerns and insight into how such policy recommendations would impact the motor vehicle sector.

*General comments*

The FSF still queries as to how the Commission's models conclude that the transitional changes and reforms required in their advice costs less than 1% of GDP in 2050. The FSF is concerned as to disparities between the Commission's GDP results versus all other models, particularly with the New Zealand Institute of Economic Research's and their modelling.

Although the FSF has assessed the modelling, and the additional explanations provided on the Commission's various communication channels, our view on this modelling is that it is still contradictory to other models and FSF requests further information or another model provided by various entities to be adopted in the report.

The FSF is also disappointed in regard to the Commission's decision to withhold some of its data until June or July. The FSF is unsure how to assess the merits of the Commission's recommendations and policy advice without the data that is behind them, respectively.

The FSF queries as to the rationale behind withholding this data and emphasises our particular concerns, as this data is of significance to the Commission's electric vehicle policy advice, the topic which is specific to our Federation.

*The first stage of policy: enhance national transport network integration to increase walking, cycling, low emissions public and shared transport, and encourage less travel by private car.*

The FSF agrees that, in principle, travel by private car should be disincentivised and public transport should become the favoured mode of transport. Although the FSF agrees with the principle of the policy recommendation, the nature of the policy itself should be communicated appropriately.

The public transport in Aotearoa is currently fragmented and insufficient. The behaviour towards public transport is a result of its infrastructure, and the Commission cannot expect behaviour towards public transport to change with such broad-spectrum and unspecified policy recommendations.

A recommendation based on 'enhancement and integration' is prima facie beneficial, but the FSF urges the Commission to communicate the nature of the policy appropriately. The transitional changes required to implement the 'enhancement and integration' have not been specified. The FSF is well aware that the Commission is in no position to articulate the step-by-step technicalities however, highlighting what needs amendment is certainly required.

The FSF urges the Commission to articulate what actually needs to be changed and implemented, and the responsibilities of local and central Government to be actually appointed.

The FSF highlights the urgency in which such decisions and advice need to be put forward. Such proposed major reworkings of our public transport system will impact our economy extensively and decisions regarding national and local investments are being made now.

Implementing a policy that is to cause havoc with already made investment and infrastructure plans will be detrimental to local and national economies, and particularly affect businesses who are then directly involved with such decisions (our members).

*The second stage of policy: accelerate the uptake of electric vehicles*

The FSF agrees that the Commission should set ambitious targets which will contribute the greatest net benefit to meeting our targets. Because Aotearoa has both the highest level of vehicle ownership and one of the oldest vehicle fleets in the world, drastically amending that fleet would appear to be the most wide-reaching route to meeting our emissions targets. However, whilst the Commission has recognised this as a potential route, they have not recognised how inequitable and unfeasible such a recommendation is.

The Commission is effectively reallocating all responsibility for meeting emission reduction targets on the individual household by imposing this electric vehicle strategy. Electric vehicles are unaffordable to most New Zealanders, even with the implementation of a 'rebate' or 'incentive' scheme that the Commission recommends.

The FSF is certain that such a policy would not succeed in the timeframe proposed, and queries as to whether the Commission has done sufficient research into understanding the market price of electric vehicles versus the household incomes of families, whanau, individuals, and other groups in Aotearoa.

Although the Commission has recognised the equity issues in which the implementation of this policy has, no advice has been presented on how these challenges can be resolved. The FSF urges the Commission to present options in which will rectify such equity challenges, otherwise, the FSF cannot support this recommendation.

Alongside the outright expense of electric vehicles, the Commission has failed to recognise the lack of supply Aotearoa has. The market for electric vehicles in Aotearoa is small and remote, a result of the lack and size of our bargaining power with importers. Most simply articulated, the number of electric vehicles the Commission proposes to introduce into the domestic market are not available.

The composition of the current electric vehicle fleet in Aotearoa is predominantly second-hand Japanese imports, Nissan Leafs being a large majority in that composition. Unfortunately, and expectantly so, an electric fleet of Nissan Leafs will not suffice.

Motor vehicle dealerships, such as Toyota, order supply four years in advance, and projecting to the 2035 and 2050 goals, they see no hope in securing even 40% of the stock required to meet those electrification targets.

The FSF queries the Commission as to the data and modelling which allows such recommendations to be made. Particularly with respect to supplies and sources of the number of electric vehicles required.

It is unclear as to how the Commission’s modelling has found it fitting to go ‘hard and early’ on electric vehicles when the Commission’s report itself recognises that electric vehicles are currently expensive relative to other vehicles but will be more affordable in the future. Data supplied to the FSF, and many other entities, suggest strongly otherwise.

The early introduction of the scheme could reduce import numbers by 40% in 2022 and 2023. This is based exclusively on the vehicles in Aotearoa after April 2020. Changes to the emissions standard, which are noted as possible "this decade", are projected to remove 50%+ of vehicle imports. Importing electric vehicles prematurely will undoubtedly lower market competition and reduce our market availability in the future. As to how such data demonstrate availability in the market for electrification is conflicting, and the FSF urges the Commission to do further research into such data before recommending such an onerous burden upon households in Aotearoa.

The FSF also has significant concerns in relation to the financing of such vehicles, as the report directs the Government to provide financial incentives for the purchase of electric vehicles. An incentive or rebate scheme would aid some few households in their purchase of an electric vehicle; however, it is naïve to ponder that most households would then be facilitated with this purchase in its entirety by such an incentive. A purchase of such a vehicle, where possible, would require serious financing. In such circumstances, the FSF queries as to whom this incentive would then be distributed in this instance, the impact it would have on the market value of the vehicle, its further sales, and the impact on credit contracts.

To conclude on the second stage of the Commission's Transport policy: it is just not possible, equitable, or wise for such a premature introduction of an electric fleet. The FSF is acutely aware of the favourable optics involved in electrifying Aotearoa’s fleet, however, a predestined failure to an unfeasible goal is far worse optically.

*The third stage of policy: increase the use of low carbon fuels for trains, ships, heavy trucks, and planes*

The FSF urges the Commission to undertake further research into alternative biofuel resources. Facilitating the production and development of biofuels in Aotearoa is a far better alternative than seeking elsewhere for importers and their products.

There must be support for the Government in facilitating an even 'playing-field' for all options of green technology, and the FSF cautions the Commission of being too prescriptive in transitioning to low-carbon products. Green hydrogen, instead of strictly hydrogen-powered vehicles, will assist with economic parity between electric vehicles and diesel vehicles.

The report fails to mention Fuel Cell Electric Vehicles as an option for a switch to low emission vehicles, and the FSF then urges the Commission to present such alternatives and considerations in their final report to Government.

The specified consultation question with respect to Transport will now be answered below in light of the discussion outlined above.

*Consultation question 14: Do you support the package of recommendation and actions for the transport sector? Is there anything we should change, and why?*

The FSF agrees that drastic change is required in the transport sector in order to combat climate change. However, the changes proposed by the Climate Change Commission are, simply unattainable, and therefore, the FSF cannot support the package of recommendations outlined by the Commission.

Reasons specific to each stage of policy have been outlined above, but predominantly the underlying theme in this submission is the ambiguity as to the nature of public transport recommendations, the unfeasibility of electrification, and the failure to look at alternative domestic sources resulting in prescriptive recommendations.

The way forward is a multifaceted approach to gather insights and be resourceful as opposed to rigid views on the only option being electrification. Realism has to be encouraged in our bid to change our systems entirely, otherwise, current recommendations reek of predestined failures.

The FSF agrees that currently stakes are incredibly high in our bid to counter the effects of Climate Change and emphasises agreeance with this term's Government's goal being so. However, the FSF cannot help but express disappointment with the heavily politicised product that has been proposed.

Prior to the report being released by the Commission, electrification of Aotearoa's fleet was announced on multiple occasions. Resultantly, submissions on electrification, and other recommendations made, seem almost a formality as opposed to an integral part of policy formation. The FSF urges the Commission to disregard such pressures and political optics when presenting the finalised report to the Government and instead produce objective and democratic advice when most required.

Once again, the FSF is grateful to the Climate Change Commission for the opportunity to submit on the draft advice for consultation and would be very happy to speak to any points which may require clarification.

Yours sincerely,

Diana Yeritsyan
Legal and Policy Manager

Appendix A

FINANCIAL SERVICES FEDERATION

Membership List as at February 2021

| Non-Bank Deposit Takers<br>Leasing Providers | Vehicle Lenders | Finance Company Diversified Lenders | Finance Company Diversified Lenders | Credit-related Insurance Providers | Affiliate Members |
|---|---|---|---|---|---|
| <u>Rated</u><br>Asset Finance (B)<br><u>Non-Rated</u><br>Mutual Credit Finance<br>Gold Band Finance<br>➢ Loan Co<br><br><u>Leasing Providers</u><br>Custom Fleet<br>Fleet Partners NZ Ltd<br>Lease Plan<br>ORIX NZ<br>SG Fleet | AA Finance Limited<br>Auto Finance Direct Limited<br>BMW Financial Services<br>➢ Mini<br>➢ Alphera Financial Services<br>Community Financial Services<br>European Financial Services<br>Go Car Finance Ltd<br>Honda Financial Services<br>Mercedes-Benz Financial<br>Motor Trade Finance<br>Nissan Financial Services NZ Ltd<br>➢ Mitsubishi Motors Financial Services<br>➢ Skyline Car Finance<br>Onyx Finance Limited<br>Toyota Finance NZ<br>Yamaha Motor Finance | Avanti Finance<br>➢ Branded Financial<br>Caterpillar Financial Services NZ Ltd<br>CentraCorp Finance 2000<br>Finance Now<br>➢ The Warehouse Financial Services<br>➢ Southsure Assurance<br>Flexi Group (NZ) Limited<br>Future Finance<br>Geneva Finance<br>Home Direct<br>Instant Finance<br>➢ Fair City<br>➢ My Finance<br>John Deere Financial<br>Latitude Financial<br>Metro Finance<br>Pepper NZ Limited<br>Personal Loan Corporation<br>Pioneer Finance<br>Prospa NZ Ltd<br>South Pacific Loans | L & F Group<br>➢ Speirs Finance<br>➢ Speirs Corporate & Leasing<br>➢ Yoogo Fleet<br>Thorn Group Financial Services Ltd<br>Turners Automotive Group<br>➢ Autosure<br>UDC Finance Limited<br><br><u>Credit Reporting & Debt Collection Agencies</u><br>Baycorp (NZ)<br>➢ Credit Corp<br>Centrix<br>Collection House<br>Equifax (prev Veda)<br>Illion (prev Dun & Bradstreet (NZ) Limited<br>Intercoll<br>Quadrant Group (NZ) Limited | Protecta Insurance<br>Provident Insurance Corporation Ltd | 255 Finance Limited<br>Buddle Findlay<br>Chapman Tripp<br>Credit Sense Pty ltd<br>Experian<br>EY<br>FinTech NZ<br>Finzsoft<br>GreenMount Advisory<br>Happy Prime Consultancy Limited<br>HPD Software Ltd<br>KPMG<br>LexisNexis<br>PWC<br>Simpson Western<br>Verifier Australia<br><br>Total: 66 members |

Appendix B

FINANCIAL SERVICES FEDERATION

The Financial Services Federation (FSF) is the association for responsible finance and leasing companies operating in New Zealand. This infographic is a snapshot of our 40 lending members, the membership list can be found at our website www.fsf.org.nz.

## Consumer Lending

**1.6 million**
**# Consumer Loans**

**$7.5 billion**
**Total Assets**

$355,039,962
Secured

$2,996,322,244
Unsecured

$2,484,376,195
Motor Vehicle

$654,604,625
Mortgage

## Business Lending

**172,4000**
**# Businesses Loans**

**$7.6 billion**
**Total Assets**

$609,678,636
Secured

$79,625,359
Unsecured

$4,134,085,468
Motor Vehicle

$133,896,221
Mortgage

$186,477,244
Operating Lease

FSF lending members data survey period as at 29 February 2020 . Data collected and aggregated by KPMG. Values in NZ$.