FINANCIAL SERVICES FEDERATION

4 November 2021

The Chair
Transport and Infrastructure Select Committee
By email: ti@parliament.govt.nz

Land Transport (Clean Vehicles) Amendment Bill

The Financial Services Federation (FSF) is grateful for the opportunity to make this submission to the Select Committee. By way of background, the FSF is the industry body representing responsible non-bank lenders, fleet and asset leasing providers and credit-related insurance providers. We have over 80 members providing these products to more than 1.7 million New Zealand consumers and business. 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 fully supports the Government's aim to achieve a rapid reduction in carbon dioxide emissions from light vehicles imported into New Zealand as part of the country's overall strategy to reduce emissions to halt and reverse the effects of climate change. The FSF is not entirely sure however, that the policies being implemented by this Bill will work to significantly achieve this aim, particularly with respect to the Clean Vehicle Discount Scheme. The FSF will outline the reasons why this view is held within this submission.

FSF Members' finance or lease the majority of New Zealand's motor vehicle fleet

The membership of the FSF consists of many motor vehicle finance providers together with the majority of fleet leasing providers operating in New Zealand, all of whom understand and accept their collective responsibility in helping to achieve New Zealand's targets for reducing the overall amount of carbon dioxide produced by cars.

The FSF's finance company members finance the purchase of vehicles for both consumers and businesses and the leasing members lease vehicle fleets to Government (both central and local), large corporates and large, medium and small businesses. However, FSF members are not importers of motor vehicles and, as such, will not be directly impacted by the implementation of the Clean Vehicle Standard so the FSF will not comment on that aspect of the Bill.

The industry average shows that the number of new and second-hand vehicles funded by finance facilities offered through motor vehicle dealerships is approximately 50% with a further 20% being financed directly with a finance company or a bank. Fleet leasing providers are responsible for the purchase of a further 10-15% of the new vehicles entering the New Zealand fleet. Their contribution to financing or facilitating the purchase of electric vehicles is therefore considerable.

As you will see from Appendix A attached to this submission, the FSF's finance and leasing company members represent the vast majority of motor vehicle finance and fleet leasing providers operating in New Zealand.

Clean Vehicle Discount Scheme

As already stated, the FSF does not believe that the introduction of the Clean Vehicle Discount Scheme will significantly shift the dial on the number of EVs being imported into New Zealand's vehicle fleet and therefore the amount of emissions emanating from that fleet – or certainly not in the short to medium term – for reasons that will be outlined below.

The FSF believes that having certainty as to when the Scheme will be introduced and with respect to the vehicle or class of vehicle to which fees and rebates will apply; the manner in which the carbon dioxide emissions of vehicles will be determined; the manner in which the Director will determine the carbon dioxide emissions of an imported vehicle; and the rates of fees or charges in respect of different classes of vehicles, is helpful to vehicle financiers, leasing providers and their customers in understanding which vehicles attract fees and rebates and in their planning for the timing of replacement of existing fleets.

Having said that, however, FSF members are concerned that S167A(4) allows different rates of fees or charges, or both, to be prescribed or fixed in respect of different classes of vehicles or on any other differential basis by the making of regulation. The concern with respect to this regulation-making power is that the amount of fee or rebate applying to different classes of vehicle could be changed with little or no notice to finance or leasing providers and their customers.

Given the current supply issues faced by the motor vehicle industry in New Zealand and globally which are discussed in more detail further in this submission, leasing and finance providers and their customers require clarity at the time of ordering a vehicle or a fleet of vehicles as to what fee or rebate the vehicles will attract. The FSF therefore submits that a requirement be inserted into the Bill that a reasonable notice period of at least 6 months but preferably 12 months be provided with respect to any change proposed to fees or rebates in order that the industry is able to provide clarity as to vehicle price to their customers at the time of ordering.

Practical issues for finance and leasing providers with the introduction of the Clean Car Discount Scheme

The introduction in July of this year of the rebate payable upon first registration of an EV in New Zealand was highly problematic for FSF's finance and leasing members on a number of fronts. This is chiefly because it was announced and implemented within a fortnight. This did not allow officials to consider the implication of payment of the rebate for financiers or leasing providers.

For the FSF's leasing members, the key question with respect to the receipt of the rebate on the registration of an EV was to whom the rebate would be paid – would it be the lessee or the lessor? This conundrum arose because it is often the case that the lessee appears on the Motor Vehicle Registry as the first registered owner of the vehicle and the leasing company's interest as the actual owner is also registered. Registration is done this way to ensure that documentation relevant to the vehicle such as re-registrations and infringement notices are sent directly to the lessee whilst they are in possession of the vehicle.

After much consultation with NZTA officials, it was determined that, provided the leasing company certified to the NZTA when registering the vehicle, that they had passed on the receipt of the rebate amount in the monthly lease cost, the rebate could be paid directly to the leasing company.

This was a good outcome and leasing companies were able to accommodate this requirement with a very quick rebuild of their systems which will also allow them to facilitate reflecting the cost to them of the fee attached to the purchase of fossil fuel vehicles in the monthly lease cost when that comes in next year.

At this point, the FSF would like to gratefully acknowledge the excellent support from NZTA officials, particularly Principal Project Manager, Darryl Hart, in helping FSF members to reach this outcome.

However, this solution does not solve a number of other unintended consequences and problems for finance and leasing providers and the vehicle market in general as a result of the implementation of the Clean Vehicle Discount Scheme.

Vehicle supply issues

As already stated, since the introduction of the Clean Car Discount Scheme in July of this year, there has certainly been a surge in the sale of EVs. In recently released data, Stats NZ reports that EVs made up 6% of the total number of motor vehicles imported into New Zealand in the year to September 2021 compared to the year to September 2018 when EVs represented only 2% of the total number of imported vehicles, so progress is being made in increasing the number of EVs on New Zealand roads, albeit slowly.

FSF members involved in financing or leasing motor vehicles report that since the introduction of the rebate for the purchase of electric vehicles was introduced in July of this year, they have received a deluge of enquiries from potential customers seeking EVs or EHEVs. They report that the number of orders from customers seeking to purchase or lease these types of vehicles has increased significantly since the Scheme's introduction so in terms of the achievement of the purpose of the scheme being to increase the demand for zero- and low-emissions vehicles, the introduction of the Scheme has certainly achieved this.

However, conversely, they also report that they have been deluged with orders for high emitting vehicles to beat the implementation of the fee that will come with the commencement of the provisions in this Bill once enacted so the introduction of the current Scheme is driving both the wrong and the right behaviours.

FSF members are reporting, however that the prices for second-hand vehicles have increased substantially on this time last year by an amount of approximately 25%. This is not necessarily just related to the introduction of the Clean Car Discount Scheme but is also a product of supply and demand. The availability of second-hand vehicles in the Japanese market is low and New Zealand new vehicles are in high demand.

At the same time supply issues with component parts such as semi-conductors required in the manufacture of EVs are also lowering the number of vehicles available for import and sale in New Zealand. These supply issues are also compounded by the worldwide demand for shipping which is causing long delays from the time vehicles are ordered until the time they can be landed in New Zealand.

Dealers are competing for limited stock in the smaller engine/lower emitting vehicle market which is pushing the price of vehicles up. FSF members know from their own research that 80% of New Zealanders spend less than $20,000 on a vehicle and 60% spend less than $10,000. EVs are not widely available (if at all) at that price point so the Scheme will have little to no effect on the majority of vehicle purchasing decisions in the FSF's view.

Many of the 60% of New Zealanders spending less than $10,000 on a motor vehicle are people on low incomes who buy what they can afford because they need access to transport. The unavailability of EVs in their price range therefore means they will never be in a position to take advantage of the rebate which, in the FSF's view, is inequitable. It will be a very long time before the prices of EVs in the second-hand market reduce to a point where every New Zealander can afford to own one.

A further effect of the lack of supply of vehicles is that buyers are now paying more for a used import EV even with the rebate applied than when they were before the Clean Car Discount Scheme was first introduced. FSF members are reporting that vehicles in the Japanese market that could potentially be imported into the New Zealand market have increased in cost by more than the rebate amount. If the replacement cost of vehicles continues to go up New Zealanders will keep their older vehicles on the road for longer rather than replacing them. This will have serious implications not only for the uptake of EVs but also for the safety of New Zealand's vehicle fleet which is already amongst the oldest and least safe in the developed world.

Whilst under normal circumstances, a wait to receive vehicles landed in New Zealand of around three months would not be unusual, due to demand and supply issues it is now the norm that importers are waiting until Q2 or Q3 next year for the fulfilment of orders received now. The situation is so dire that some manufacturers are not allowing quotes to be given on the cost of vehicles because they cannot guarantee what the landed cost will be so far out.

The issues concerning the shortage of supply are well documented but include the critical shortage of semi-conductors and the supply of steel combined with the downstream effect of vehicle manufacturers necessarily being shut down during COVID lockdowns across the world and the lack of availability of shipping to bring vehicles into New Zealand.

These supply chain issues are already hindering efforts to import electric vehicles into New Zealand in sufficient numbers to have a positive effect on carbon dioxide emissions with or without incentives to promote the transition of New Zealand's light vehicle fleet to zero- and low-emission vehicles.

It should be remembered that there are currently less than 400,000 EVs in the Japanese vehicle fleet out of around 80 million vehicles in total and they are a significant vehicle manufacturing nation. Until supply increases substantially worldwide, New Zealand is going to struggle to import EVs in numbers significant enough to move the dial on the emissions from the light vehicle fleet in spite of the Clean Vehicle Discount Scheme's best intentions.

The effect of the Scheme on the second-hand vehicle market

FSF finance and leasing provider members are also concerned that the Scheme will cause distortion in the second-hand vehicle market that does not currently exist. Whilst the implications for the Scheme for New Zealand new vehicles are clear, FSF members do not believe the same can be said for the second-hand vehicle market – both for the on-sale of New Zealand new imported vehicles and for second-hand imported vehicles.

An example of how this distortion will play out would be where a New Zealand new vehicle is being on-sold as opposed to the same make and model of vehicle which is a second-hand imported vehicle of similar age, mileage and condition.

The New Zealand new vehicle will already have attracted a fee or a rebate depending on whether it is a fossil fuel vehicle or an EV. The second-hand imported vehicle will be subject to either the fee or the rebate at the time of first registration. The FSF believes that it is entirely possible therefore that two entirely similar vehicles could be sitting side-by-side on a motor vehicle dealer's lot but with two different price points depending up on when they were first registered in New Zealand. However, the FSF believes that this is a market pricing issue that will eventually sort itself out but it will cause pricing anomalies in the short term.

The effect of the Scheme on vehicle valuations

There are also implications for FSF's finance and leasing members in terms of the effect of the fee or the rebate on the valuation of the vehicle. It is important to understand exactly what the vehicle is worth irrespective of any distortion that may be created by the fact that it has already attracted either a fee or a rebate, in order to be able to determine its value for the purposes of re-sale, the value of the security the vehicle asset provides to the lender, for the purposes of insuring the vehicle and also with respect to the vehicle's depreciation.

The top 10 selling vehicles being sold in New Zealand currently are all utes or SUVs for which there are no viable electric powered options yet available. So, given that the majority of vehicles sold over the next several years are still likely to attract a fee, issues such as whether the insured value of a vehicle would include the payment of the fee on a replacement vehicle should the insured vehicle be written off need to be considered now.

Credit Contracts and Consumer Finance Act 2003 implications for vehicle finance providers

A further consideration for FSF motor vehicle finance provider members with respect to the fee payable on fossil fuel vehicles is whether the fee can be added to the total amount of the loan to purchase the vehicle as part of the on-road costs. Apart from the distortion effect this will have on the secured value of the vehicle, there is also the question of how this might fit with the requirements of the Credit Contracts and Consumer Finance Act 2003 (CCCFA) when lending to consumers.

The CCCFA has been reviewed and strengthened over the past two years or so and the major changes to the Act not already in force plus accompanying prescriptive regulations particularly with respect to the way in which lenders must determine the suitability of the loan to meet the borrower's goals and objectives and the assessment of the loan's affordability will come into force from 1 December this year.

Specifically, lenders will have to consider whether the loan they are providing is suitable to meet the borrower's requirements and objectives for not only the vehicle they are purchasing but also the fee that it may attract. They will also have to consider the cost of servicing the debt incurred to pay the fee when determining whether the loan meets appropriate affordability criteria. This will impact on the borrower's ability to service debt and will consequently affect their choice of vehicle causing them to opt for a lower priced vehicle (with potentially higher fuel emissions) in order to accommodate the servicing cost of the fee amount.

FSF finance company members are also concerned that the changes to the CCCFA which include a list of several types of extra fees and charges that can be financed under a credit contract as they are deemed to be non-avoidable, does not include the fee payable on registration of a fossil fuel vehicle. Given the significant size of the fee to be paid, it is quite likely that consumers will require funding of the fee to be paid as part of the loan agreement to purchase the vehicle so the FSF submits that consideration needs to be given to including an addition to the CCCFA as part of this Bill to allow this to happen.

Impact of the Scheme for vehicle finance providers

FSF's vehicle finance provider members also have concerns with respect to the payment of the rebate which is not associated with the sale of the vehicle but is paid to the vehicle owner at first registration. If the vehicle has been provided on a 100% finance arrangement, there is no compunction on the vehicle owner to hand on the rebate to the finance provider to reduce the loan amount accordingly leaving the finance provider exposed to the extent of the rebate amount. FSF's finance company members are reporting that they are already experiencing instances where the rebate is not being applied to reduce the amount of the debt leaving them overexposed.

The nett result of this will be that financiers will refuse to fund vehicles up to 100% of the pre-rebate value and buyers will therefore have to fund the amount of the rebate themselves in order to be able to purchase the vehicle and claim the rebate back on first registration which will be an inhibitor to the take up of EVs and therefore counter-productive to the aim of the Clean Vehicle Discount Scheme.

FSF members report that they are already experiencing issues with respect to the return of the rebate amount. Some recent actual scenarios FSF members have experienced include the vehicle owner having received the rebate amount on a vehicle that was recalled due to a manufacturing fault. The vehicle owner did not return the rebate to the lender when the vehicle was returned and was able to receive a second rebate on a replacement vehicle as there is no obligation on the customer to repay the rebate to the lender.

Battery disposal considerations

The FSF also believes that more consideration needs to be given to how the cost of the disposal of the batteries in electric vehicles will be covered as these reach the end of their useful lives before New Zealand reaches a critical mass of batteries requiring disposal without a plan as to what to do with them. It would seem reasonable to the FSF that the owners of electric vehicles should have some responsibility for the inevitable cost to dispose of the batteries and all the elements they contain before these vehicles become a much larger part of the New Zealand vehicle fleet than they are now.

Further concerns and unintended consequences of the Scheme

The FSF reminds Government that there has been previous experience of policy having the opposite effect to that which was intended. This was in relation to the Vehicle Exhaust Emissions Rule introduced in 2007 which caused newer and more expensive used imports into the country which had the effect of pushing out replacement timeframes for many vehicle owners resulting in them keeping their older higher emissions vehicles on the road for longer.

The FSF also believes that the Scheme is inherently unfair to those vehicle owners for whom no viable option of electric vehicle exists to meet their needs. The current range of electric vehicles in the market are small passenger vehicles only and within that category of vehicle the range is limited. Those vehicle owners who require access to larger more serviceable vehicles are effectively being discriminated against by the Clean Vehicle Discount Scheme by virtue of the fact that no viable electric alternatives are available to them and they therefore have no way of accessing vehicles suitable to their needs that attract a rebate or do not attract a fee.

One final concern with respect to the Clean Vehicle Discount Scheme is that, initially at least, there will be considerably more fossil fuel vehicles being first registered in New Zealand than electric vehicles which will involve more money being paid into the Scheme than is being paid out as incentives to purchase electric vehicles and this will be a nett gain to the Government.

Whilst the FSF understands that the objective of the Scheme is that it will become self-funding, the FSF is concerned firstly with what the plans are for the revenue that the Scheme will generate from the fees charged on fossil fuel vehicles and when/if it is envisaged that New Zealand reaches a tipping point where the considerable amount ($300 million) that was allocated to fund the Scheme in the 2021 Budget will be required to be paid to incentivise the uptake of electric vehicles. Without any clarity with respect to the timeframe over which this money is expected to be spent, it is difficult to understand with any clarity for how long the Scheme is likely to be in force. This creates difficulties for future planning with respect to what is likely to be required to continually replace and upgrade New Zealand's vehicle fleet.

Amendment to the Income Tax Act 2007

The FSF supports the insertion of the new clause 7B into this Act relating to the way in which Fringe Benefit Tax applies if a person who owns a motor vehicle receives a payment under the Clean Vehicle Discount Scheme (i.e, the cost price of the vehicle to the person on the first acquisition of it by them is nett of the amount of the payment) as a helpful clarification.

However, the FSF notes that a similar clarification is not being inserted into this Act with respect to the payment of the fee and therefore submits that clarification as to whether the Fringe Benefit Tax payable on a vehicle that attracts a fee under the Clean Vehicle Discount Scheme includes FBT on the fee paid at first registration would be very helpful.

Summary:

The FSF's key submissions on the Land Transport (Clean Vehicles) Amendment Bill are as follows:

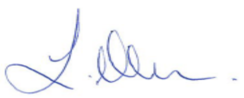
- The FSF submits that S167A(4) of the Bill should be amended to require that at least 6 months but preferably 12 months' notice be provided with respect to any change under regulation to the amount of fees or rebates payable under the Clean Vehicle Discount Scheme.

- The FSF does not believe that the Scheme will significantly shift the dial on the number of EVs being imported into New Zealand's vehicle fleet in the short to medium term for the following reasons:
    - EVs currently make up a very small proportion of New Zealand's total vehicle fleet.
    - This is not likely to change markedly in the short to medium term due to supply issues with accessing vehicles for import into New Zealand (either second-hand or new).
    - EVs are not widely available at a price point that New Zealand vehicle owners can afford.
    - The effect of the Clean Car Discount Scheme introduced in July this year is that the cost of used EVs for import into New Zealand has increased beyond the amount of the rebate.
    - The range of EVs currently being manufactured and models of vehicles within these ranges is very limited meaning that many vehicle owners are unable to access an EV that is suitable to their needs.

- The FSF submits that a change to the CCCFA is required to be included in the Bill deeming the payment of the fee for the purchase of a fossil fuel vehicle is a non-avoidable fee that can be financed under the CCCFA.

- The FSF submits that a further inclusion should be made under this Bill to the Income Tax Act 2007 clarifying that FBT is payable on the fee payable on first registration of a vehicle under the Clean Vehicle Discount Scheme.

The FSF once again expresses its gratitude to the Select Committee for allowing this submission to be made on behalf of members. If any further clarification of any of the points made in this submission is required, please do not hesitate to contact me.



Lyn McMorran
EXECUTIVE DIRECTOR

Financial Services Federation

Appendix A

FSF Membership List as at November 2021

Non-Bank Deposit Takers, Insurance Premium Funders,	Vehicle Lenders	Finance Companies/ Diversified Lenders	Finance Companies/ Diversified Lenders, Leasing Providers	Credit Reporting, Debt Collection Agencies, Insurance Providers	Affiliate Members
XCEDA (B) Finance Direct Limited ➢ Lending Crowd Gold Band Finance ➢ Loan Co Mutual Credit Finance Credit Unions/Building Societies First Credit Union Nelson Building Society Police and Families Credit Union Westforce Credit Union Insurance Premium Funders Elantis Premium Funding NZ Ltd Financial Synergy Limited Hunter Premium Funding IQumulate Premium Funding Rothbury Instalment Services	AA Finance Limited Auto Finance Direct Limited BMW Financial Services ➢ Mini ➢ Alphera Financial Services Community Financial Services European Financial Services Go Car Finance Ltd Honda Financial Services Kubota New Zealand Ltd Mercedes-Benz Financial Motor Trade Finance Nissan Financial Services NZ Ltd ➢ Mitsubishi Motors Financial Services ➢ Skyline Car Finance Onyx Finance Limited Toyota Finance NZ Yamaha Motor Finance	Avanti Finance ➢ Branded Financial Basalt Group Basecorp Finance Ltd Blackbird Finance Caterpillar Financial Services NZ Ltd Centracorp Finance 2000 Finance Now ➢ The Warehouse Financial Services ➢ Southsure Assurance Humm Group Future Finance Geneva Finance Harmoney Instant Finance ➢ Fair City ➢ My Finance John Deere Financial Latitude Financial Lifestyle Loans NZ Ltd Metro Finance NZ Finance Ltd	Pepper NZ Limited Personal Loan Corporation Pioneer Finance Prospa NZ Ltd Smith's City Finance Ltd Speirs Finance Group ➢ Speirs Finance ➢ Speirs Corporate & Leasing ➢ Yoogo Fleet Thorn Group Financial Services Ltd Turners Automotive Group ➢ Autosure ➢ East Coast Credit ➢ Oxford Finance UDC Finance Limited Leasing Providers Custom Fleet Fleet Partners NZ Ltd ORIX New Zealand SG Fleet	Baycorp (NZ) ➢ Credit Corp Centrix Collection House Debtworks (NZ) Limited Equifax (prev Veda) Illion (prev Dun & Bradstreet (NZ) Limited Intercoll Quadrant Group (NZ) Limited Credit-related Insurance Providers Protecta Insurance Provident Insurance Corporation Ltd	Buddle Findlay Chapman Tripp Credisense Ltd Credit Sense Pty ltd Experian EY FinTech NZ Finzsoft Green Mount Advisory Happy Prime Consultancy Limited HPD Software Ltd KPMG LexisNexis PWC Simpson Western Verifier Australia Total 83 members

Appendix B

FINANCIAL SERVICES FEDERATION

The Financial Services Federation (FSF) is the non-profit industry association for responsible and ethical finance, leasing and credit-related insurance providers operating in Aotearoa New Zealand.

47%

Of personal consumer lending in Aotearoa is financed by the non-bank sector represented by FSF members

55% Of loans by FSF members are approved, demonstrating careful consideration of responsible lending

2016 → 5.8%

Loan book in arrears

2021 → 4.4%

8.2B Member's total assets consumer lending

1.7M # of consumer loans of FSF members

7.2B Member's total assets business lending

219k Business loans helping Kiwi businesses to achieve their goals

4,114 Jobs provided by FSF lending members

Data collected and aggregated by KPMG in FSF's annual member data survey as at February 2021. Values in NZ$.