

Dear Commerce Commission.

Thank you for the opportunity to submit a response to the Retail payments Systems paper.

Below is EasyCrypto's response.

Questions on New Zealand's payments between bank accounts landscape

Q1: Do you agree that Eftpos card use is likely to continue to decline? If not, why Not?

Yes, there is a lack of innovation and the bank incentives are misaligned to supporting any volume turnaround on EFTPOS. In fact it could be argued that the fact that EFTPOS has declined despite it being the best payment channel economically for both users and merchants, is direct evidence of the bank power and misaligned drivers.

Q2: Do you agree with our assessment of the factors contributing to the decline in Eftpos card use? If not, why not?

Mostly - we think it ignores things like reward programs driving card adoption (eg airpoints)

Q3: What do you see as the barriers to innovation and success for Eftpos?

Banks not seeing the value of EFTPOS and now the cost of compliance and running that network makes it a marginal proposition. I believe that our slight customisation of EFTPOS to suit our environment means we are also unable to achieve scale.

Q4: Do you agree with our view that the decline in Eftpos card use is reducing the competitive pressure on the debit card networks for in-person payments and that this may have a detrimental impact on consumers and merchants over time? If not, why not?

Yes

Q5: Do you agree with our view that competitive pressure in the payments between bank accounts landscape could be increased by enabling an environment where payment providers develop innovative options to make bank transfers? If not, why not?

Partially, we think the plan needs to be more ambitious in allowing non traditional payment providers into the space.

I think that the ComCom needs to also include the other real barriers to entry to the sector including the cost of compliance, no regulatory sandpit.

Questions on the key features of traditional bank transfers

Q6: Do you agree that we have captured the existing benefits and problems with

the traditional method of initiating bank transfers? If not, what other benefits or problems exist?

Yes - but i think we need to ask why we have some of those problems For example; Why is EFTPOS settlement is T+1.

Questions on methods to gain access to the interbank payment network

Q7: Do you agree with how we have described and ranked the different methods for payment providers to access the interbank payment network to initiate payments? If not, why?

Yes - however this is just for the EXISTING methods of payments and excludes any new and by definition innovative payment methods that exist in many places around the world.

Q8: Are there other key features of the payment initiation network access methods you would like to draw to our attention?

As above, it seems to only be for existing payment providers and the approach to this document seems to be on supporting these existing players to innovate - which, as per the point of this entire document, history does not support.

Meanwhile other countries are recognising that access by non-banks to the payment systems is critical to driving innovation

<http://europeanpaymentscouncil.eu/news-insights/insight/what-do-psd3-and-psr-mean-payment-s-sector>

The review is also silent on situations where certain industries/ sectors are 'carved out' contractually from being able to use certain payment technology.

Questions on the environment required to support innovation in options to make bank transfers

Q9: Do you agree that these API related requirements are sufficient to enable an environment where payment providers can develop innovative options to make bank transfers? If not, why?

Partially - We are not of the view that getting agreement from an industry that has limited to no incentives to make rapid and meaningful decisions (as seen by the lack of progress) is a requirement. There are existing models globally that, while not perfect, can be built on.

Questions on the benefits from a competitive and efficient interbank payment network

Q10: Do you agree with our view of the long-term benefits to merchants and consumers from the development of innovative options to make bank transfers? If not, why?

Yes - however we would add that having choice of alternate payment methods and, therefore increasing competition, will be beneficial for both merchants and consumers

Questions on industry open API standards

Q11: Do you consider that the existing industry open API standards are a good starting point to enable innovative options to make bank transfers?

Partially - there needs to also be strong consideration for the scam and security elements of payments, CDR and metadata of transactions

<https://www.nzba.org.nz/2023/09/15/banking-industry-to-lead-the-way-on-national-cross-sector-approach-to-scams/>

Q12: Do you consider the future of industry open API standards will enable innovative options to make bank transfers?

Only if they are open to all providers, traditional and new. We would also say that the cost of compliance is deemed a significant barrier to entry.

Q13: What gaps are there in the open API standards for innovative options to make bank transfers?

Possibly some thought on the industry level requirements to stay ahead of scam and fraud.

Outside of the API standards, we need to look at the commercial barriers to entry or acceptance of payments on platforms and channels that already exist.

Questions on the key barriers preventing efficient access to the interbank payment network

Q14: Do you agree that the key barrier preventing payment providers from gaining efficient access to the interbank payment network is that the banks have not universally built open APIs? If not, why?

Yes - but it is not the only barrier.

Q15: Do you agree that the main reason the banks have not universally built open APIs is due to the uncertainty of commercial incentives for them to do so? If not, Why?

No - the main barrier to them building an ecosystem that would readily allow competition is that the banks see this as net detrimental to their existing profit pools and given the lack of penalties in not achieving any real progress on open banking have instead preferred to prop up their existing business.

The ComCom will remember that similar arguments and objections were raised in the early 2000's about the Telecommunications sector across items such as number portability and

wholesale access to services. Yet through good regulation the changes to the industry have brought extensive competition and benefited the consumer

Q16: Do you consider that the industry implementation plan creates sufficient certainty that the banks will build the open APIs? And do you consider that the minimum delivery dates are appropriate? If not, why?

No - because there has been technical specifications for API's in the sector since March 2019 and only minimal progress by any of the banks has been achieved.

Further, the cost estimates of 1% of GDP lost equates to \$4.2bn pa lost to the economy. Another year's delay compounds this opportunity cost.

Q17: Aside from the network access issues, are there other issues with the interbank payment network that reduce competition or efficiency? For example, the speed of payments or amount of information attached to payments?

Yes - as per above payee details are essential in fighting scams, so are a requirement. Access to the system by non payment and non traditional participants will become an increasing requirement as the world goes digital.

Questions on efficient partnering between banks and payment providers

Q18: What do you consider are the main barriers to negotiating agreements between banks and payment providers for access to the interbank payment network (assuming open APIs are built)?

This is not the right approach and is open to restrictive and selective barriers and commercial filibuster. Further, the commercial cost to a start up of trying to get a bank to partner with them is significant and severely limits innovation.

Q19: Does the API Centre's partnering project enable efficient partnering between banks and payment providers? If not, what would be required to enable efficient Partnering?

No - and partnering is not the right approach as there's an ability for banks to be selective in who and if they partner. Thus restricting access to the payments system via other non technical means. Our view is that a cohesive and comprehensive approach to opening up access is required.

Questions on the interbank payment network

Q20: Do you agree with how we have defined the interbank payment network? If not, how do you consider it should be defined?

No - there are alternative payment methods which you have noted in Figure C1 which are not captured by this definition, they are clearly innovations that can benefit both merchants and consumers and should be included.

Q21: Do you see any issues with how we have defined the interbank payment network? If so, what issues?

We fear that by having such a narrow definition, future innovations may not be captured and hence supported by the proposed changes to the act.

Q22: Do you agree we have captured the correct payment products in the interbank payment network?

No - it excludes other use cases like person to person payments (probably capturing small merchants). It also ignores the impact of real time payments to enable things like in person payments, and other innovations like crypto payments.

Q23: Do you agree we have captured the correct network operators of the interbank payment network?

Yes

Q24: Do you agree we have captured the correct class of participants in the interbank payment network?

There is another category of participant - parties who wish to access the network and provide new types of services on top of or within the existing payment network.
parties who want to use the services of the network to provide services to their end users?

Q25: Do you agree we have identified the relevant interbank payment network rules?
If not, what other network rules are relevant?

Yes, and we would note that the “rights and obligations” will be critical to set out correctly.

Businesses in NZ should have a right to access the network, and the network operators should have an obligation to provide access to any legal entity that is operating within the law and not be subject to the commercial or competitive vagaries of any participant in the network. If this obligation is not specified, the banks will be able to pick and choose who can access the APIs, and innovation will be stifled.

Q26: Do you consider there are any other regulatory requirements in other New Zealand laws that we should take into account in deciding whether to recommend that the interbank payment network is designated?

The FMI act and the obligations, especially what is systemically important, can be extremely onerous on a start up so designation should be thought through carefully and other approaches to support innovation like the MAS regulatory sandbox should be considered.

Questions on possible regulatory interventions

Q27: Do you consider that a designation of the interbank payment network is a useful first step towards enabling an environment where payment providers can launch innovative new options to make bank transfers in New Zealand? If not, why?

Yes

Q28: How effective do you consider our regulatory powers would be at addressing the barriers set out in this paper?

Potentially effective if applied in totality - that is both technical, pricing, commercial agreements and access. To reiterate, our major concern with the process is allowing non traditional participants access to the payments network, as only via this approach will we get true profound innovation as the incumbents, via their inertia to change, won't deliver that and the benefits to the wider economy will be stifled .

Q29: Do you consider that a designation of the interbank payment network, and the subsequent use of our regulatory powers, would promote competition and efficiency in the retail payment system for the long-term benefit of merchants and consumers in New Zealand? If not, why?

Yes