

10 May 2024

Submission: Retail Payment System - Consultation on proposal to recommend designation of the interbank payment network

Executive Summary

1. Paymark Limited, trading as Worldline New Zealand (**Worldline**), is grateful for the opportunity to provide feedback on the Commerce Commission's (**NZCC**) proposal to recommend designation of the interbank payment network (the **proposal**) released 27 March 2024.¹
2. In this submission, we provide general feedback on the matters raised in the proposal and we respond to the NZCC's specific questions in Appendix 1. Note that our submission, including the appendices, contains commercially sensitive information and that a separate, confidential version is provided.
3. **We support designation but more is needed** Worldline is a payments innovator that provides API²-based open banking products. We support the proposal to recommend designation, however, designation alone will not achieve the required progress; more than a "credible threat" is essential.³ Alongside designation, we need a level playing field - governance, standardisation, upgraded API standards and mandated (rather than target) delivery dates. A date that is earlier than June 2026 (as referred to in the NZCC's recent draft report on the market study into personal banking services⁴)(the **Market Study**) is preferable and (in our view) feasible. For our feedback on the Market Study please refer to our submission.⁵

¹ See https://comcom.govt.nz/__data/assets/pdf_file/0022/348070/Retail-Payment-System-Consultation-on-our-proposal-to-recommend-designation-of-the-interbank-payment-network-27-March-2024.pdf

² Application Programming Interfaces

³ See paragraph 3.3 on page 20 of https://comcom.govt.nz/__data/assets/pdf_file/0022/348070/Retail-Payment-System-Consultation-on-our-proposal-to-recommend-designation-of-the-interbank-payment-network-27-March-2024.pdf

⁴ See https://comcom.govt.nz/__data/assets/pdf_file/0033/349368/5BPUBLIC5D-Draft-report-Personal-banking-services-market-study-21-March-2024-Amended-10-April-2024-.pdf page 250, paragraph 10.27

⁵ *ibid*, page 249, paragraphs 10.21 to 10.27.4

4. **We need delivery dates and richer standardised APIs** Competition and innovation in open banking are highly dependent on bank progress and greater standardisation of access. The APIs must be richer and provide more functionality (including instore), features and capability, with a clear (and committed to) roadmap and timely delivery. APIs must adhere to standard such as ISO20022⁶ to be interoperable with future platforms (such as a real-time payments platform).
5. **It's taking too long resulting in a lessening in competition** New Zealand's local proprietary debit product Eftpos⁷ will soon be gone⁸ and with it goes an important competitive constraint on international card schemes (**Schemes**).⁹ This lessening in competition leads to increased costs for merchants and consumers and it threatens New Zealand's financial stability. Eftpos has had no investment from banks nor innovation from Payments New Zealand (**PNZ**)¹⁰ who set the rules. While Eftpos declines there is nothing to take its place. Worldline Contactless¹¹ could provide that Eftpos alternative. Bank delays and the slow pace in implementing and promoting open banking products, such as Online Eftpos¹² and Worldline Contactless, mean investment, particularly for instore products, may not be sustainable. The commercial success of any payment product depends on ubiquity of acceptance by merchants and promotion to consumers. Delays in implementing API standards not only hinders payments innovation but indirectly incentivises and encourages less secure payment methods, such as screen scraping and reverse engineering. Without clear support of open banking products from Government, and the banking sector, the necessary scale for success in any significant payments innovation is impossible to achieve.
6. **We need a clear roadmap from Government** We see payments-related strategies (which sometimes compete) coming out of NZCC, the Reserve Bank of New Zealand (**RBNZ**), Council of Financial Regulators (**CoFR**) and PNZ. The strategies must be clear, cohesive, and aligned and they need to make sense for a country the size of New Zealand otherwise they risk discouraging investment resulting in inertia. We note that the Market Study provides more information around what progress in open banking means, yet much of that information is not referred to in the proposal. We

⁶ See <https://blog.seeburger.com/iso-20022-payment-integration-for-real-time-payments/>

⁷ Proprietary EFTPOS (electronic funds transfer point of sale) cards are issued by consumer banks, they have a magnetic stripe and do not bear a Scheme brandmark.

⁸ Proprietary EFTPOS transactions for April 2024 make up [CONFIDENTIAL] of instore transactions.

⁹ Such as Visa and Mastercard.

¹⁰ PNZ is owned and controlled by 8 New Zealand banks.

¹¹ See <https://www.paymark.co.nz/blog/new-contactless-payments-taking-off/>

¹² See <https://www.paymark.co.nz/products/online-eftpos/>

think that designation should also include the minimum requirements set out in 'draft recommendation 3' of the Market Study.¹³

General feedback

Introducing Worldline New Zealand

7. Worldline New Zealand (formerly Paymark) was established in 1984 to provide low-cost Eftpos transaction processing as a way of enabling banks and merchants to move from cash to electronic payments. The launch of Eftpos catapulted New Zealand (at the time) to the global forefront of payments innovation and we continue to be New Zealand's leading payments innovator. We design, build and deliver payment solutions that help Kiwis succeed and we have a strong drive to see New Zealand at the forefront of global payments innovation once again. Worldline New Zealand has been a part of Worldline SA, our parent company (a French corporation), since 2020. We are a New Zealand based entity employing circa 200 people in Auckland. We process Eftpos transactions and transactions that are routed out to the Schemes, we provide payment gateway solutions to ecommerce platforms and directly to ecommerce merchants, and we have an API-based platform and an in-market open banking payment product.

Open banking must be a priority for banks if it is to succeed

8. We have fully integrated payment APIs with the four major banks and two of the second-tier banks¹⁴. We have invested over [CONFIDENTIAL] and it has taken over 6 years, and it is not yet profitable. To our knowledge, only three companies in the New Zealand market have payment products in market that utilise APIs built to the API Centre's standards¹⁵, and Worldline is the only company that has APIs with the four major banks. A testament to the challenges of getting on the bank backlogs.
9. There is consumer and merchant demand for open banking payment products. Online Eftpos sees increasing volumes month-on-month despite little promotion by banks to consumers. Worldline is now focused on developing Worldline Contactless, a local instore account-to-account digital debit proposition to provide a future for digital debit. It will use APIs and integrate digital identity, loyalty, and payments into a seamless,

¹³ See https://comcom.govt.nz/__data/assets/pdf_file/0033/349368/5BPUBLIC5D-Draft-report-Personal-banking-services-market-study-21-March-2024-Amended-10-April-2024-.pdf

¹⁴ ASB, ANZ, BNZ, Westpac, Co-op & Heartland (noting that Heartland's API is currently paused)

¹⁵ Worldline, Quipay and BlinkPay

contactless interaction. A virtual bank-branded card will be issued by the bank to a consumer's wallet on their mobile phone.

10. Products like Worldline Contactless have the potential to deliver real benefits to consumers and provide effective alternatives to Scheme products. However, success in New Zealand's sub-scale market will require broad market adoption, which in turn is dependent on crucial industry (as well as regulatory) support.
11. Recently, Worldline has been trying to work with the banks, including Kiwibank, to enable Worldline Contactless. There is interest, but the translation from interest into commitment from banks, commercials and execution (both of which are necessary to enable a launch) is simply too slow. Furthermore, banks have said that the solution is not commercially compelling¹⁶ enough to get in the bank backlog, especially with their competing compliance priorities. A low-cost local debit product cannot compete with the incentives banks receive from the Schemes.
12. Merchants have indicated they are keen to accept alternative payment products. Worldline Contactless is attracting interest from retailers who want a lower cost, contactless, debit product that does not require them to change their existing hardware. We have designed the product so it can be accepted at any terminal on any payment network in New Zealand.
13. We can enable the merchant acceptance, but the success of this product is dependent on all New Zealand banks¹⁷ prioritising development, committing to issuing and promoting the product to their account holders.
14. So far, bank implementation of the API Centre standards has been slow and disjointed, with each bank prioritising the work differently. While we acknowledge the banks have heavy compliance workloads, for open banking payments to thrive, all banks need to participate at the same (or similar) time. Kiwibank's extended deadline has been cited to us as a reason for merchants (including government departments) to continue to use screen scraping products.
15. The API Centre Implementation Plan is largely dictated by the banks as API providers and the standards can only be developed as fast as the slowest bank; third parties must just wait. While the efforts undertaken so far are steps in the right direction, the API Centre Implementation Plan does not provide sufficient certainty, or the

¹⁶ Despite the commercial model being more like Scheme than Eftpos (i.e., the banks receive revenue).

¹⁷ Or at least the four major banks plus Kiwibank.

functionality needed to ensure open banking will be fully operational any time soon. Banks, as API providers, can seek exemptions or extensions from the API Centre and enforcement is weak as it is via the API Centre membership terms and conditions. There is no real consequence for non-compliance by banks. Membership in the API Centre is not mandatory, several New Zealand banks do not participate, and those that do could simply choose not to comply with the API Centre Implementation Plan and cease membership of the API Centre.

16. Worldline cannot continue to invest in the future of debit (whether online or instore) if we are reliant on a “one bank at a time” approach, particularly when each bank takes years to engage, commit, and the finally deliver. If we wait for the central bank digital currency, it will be too late. Local debit in New Zealand relies on the banks coming on board at pace. Bank willingness to invest profits in improving and developing infrastructure at a pace that is commercially viable for Fintechs is lacking.

Substantial lessening of competition and the rise of Scheme

17. In New Zealand, the Scheme products far outweigh any other type of payment product both online and instore (including cash).¹⁸ On our switch, Scheme transactions account for [CONFIDENTIAL] of instore transactions, and online it's even greater with Scheme transactions making up [CONFIDENTIAL]¹⁹ of ecommerce transactions. Transactions that are processed via the Schemes are inefficient and attract extra costs. In New Zealand, only a few Scheme products have regulated interchange fees and Scheme processing fees, which are increasing²⁰, are entirely unregulated.
18. Fintechs are vital to a flourishing ecosystem and there are some great apps in the market which help with money management. However, most use either a Scheme product, such as prepaid cards (which are not subject to the interchange fee caps) to make the actual payment²¹ or they use sub-optimal methods such as reverse engineering and screen-scraping.²² Many Fintech's have struggled to get bilateral

¹⁸ See <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/notes-and-coins/future-of-cash/2021-cash-use-survey-summary-report.pdf>

¹⁹ Online Eftpos makes up [CONFIDENTIAL] of the total ecommerce transactions through our systems, includes Click (direct to merchant), Linked Gateway (wholesale services to other payment gateways) and Online Eftpos.

²⁰ See paragraphs 45 – 49 of https://comcom.govt.nz/_data/assets/pdf_file/0026/350936/Worldline-NZ-Submission-on-Market-study-into-personal-banking-services-Draft-report-18-April-2024.pdf

²¹ Dosh uses Visa Prepaid, SquareOne, Emerge and Immersive use Mastercard Prepaid.

²² Akahu, POLi and Windcave's "Account-to-Account" products use screen-scraping and/or reverse engineering, see paragraphs 3.26 to 3.28 at https://comcom.govt.nz/_data/assets/pdf_file/0022/348070/Retail-Payment-System-Consultation-on-our-proposal-to-recommend-designation-of-the-interbank-payment-network-27-March-2024.pdf

agreements with banks, so they have little choice but to partner with the Schemes.

19. We would like to support Fintechs to use our payment capability because we believe this could provide better outcomes for consumers and merchants, removing unnecessary costs of doing business in New Zealand and reduce the need to use sub-optimal methods, but: 1) our API agreements do not provide for partnering; 2) we pay the banks to access their APIs so we need to charge the Fintechs; and 3) we cannot compete with the incentives given by the Schemes (whether to Fintechs or to banks).
20. PNZ's framework for open banking via the API Centre is doing its best in an unregulated environment. However, focus on instore payments is lacking. There is no strategy to retain or protect domestic payments whether that be via open banking or traditional payment cards.
21. The rules for issuing and accepting Eftpos are owned and managed by PNZ. Those rules, and therefore the product, have not been kept current. The substantive acceptance and card design rules remain the same as they were in the 80s. Eftpos machine terminal hardware is an end-of-life product to be superseded by Softpos²³. Magnetic stripe on the card is an end-of-life technology²⁴, and once Softpos becomes the acceptance device of choice, the Eftpos card can no longer be used (Softpos does not have a magnetic stripe reader). Softpos will become commonplace before the 2030 date in which magstripe is no longer allowed by Mastercard. To ensure consumers can use domestic payments easily, and that a competitive constraint on the Schemes remains, we need to replace Eftpos with a more modern product before it is completely gone. While the Reserve Bank has indicated it will provide retail payment capability²⁵ for digital cash, we cannot wait until 2030²⁶ for there to be a local payment product which performs a similar function to Eftpos (account-to-account, low-cost instore payment instrument).

²³ See <https://landing.softspace.com.my/softpos/>

²⁴ See <https://www.mastercard.com/news/perspectives/2021/magnetic-stripe/>

²⁵ See page 6 of https://consultations.rbnz.govt.nz/money-and-cash/digital-cash-in-new-zealand/user_uploads/digital-cash-in-nz.pdf "The Reserve Bank would own and operate a digital cash payments platform. This platform would facilitate all digital cash payments."

²⁶ RBNZ estimated timeline of issuing digital cash during the "Webinar on Digital Cash" 24 April 2024

Loss of competition has negative consequences for New Zealand

22. In the absence of meaningful and urgent market intervention, all payments (particularly instore) will be Scheme payments and processed offshore. This will have a significant and immediate effect on consumers, merchants and New Zealand's financial system:
- a. Merchant service fees (**MSF**)²⁷ will apply to all transactions. Those merchants that still have high Eftpos volumes are worried about the prospect of increased costs once Eftpos has gone.
 - b. Consumers will no longer have a 'surcharge-free' non-cash payment option, and higher payments costs will result in higher prices for goods and services.
 - c. The resiliency and independence of New Zealand's payments infrastructure is at risk if the Schemes cannot (or choose not to) operate. A domestic payments system should be given priority alongside (and equivalent to) the value placed on domestic food and energy security. Steps must be taken now to ensure that our financial system remains robust and competitive and can continue to function should foreign payment systems withdraw from the New Zealand market for any reason.
 - d. The ability to manage and process data flows securely within New Zealand would be gone.
23. The barriers that stop the payments industry from having a comprehensive conversation regarding the future of Eftpos and the move to a new domestic digital debit solution, which can compete with the Schemes need to be removed. New Zealand needs to make a collective decision, as they did when Eftpos was first introduced.
24. Rather than looking backwards to 'save' Eftpos, we should be focussing on what the modern replacement would be and how we plan for that. We think a potentially valuable policy option has been left out of the proposal; namely how we practically move forward and at the same time manage the exit of Eftpos.

²⁷ MSFs are made up of interchange fees, scheme processing fees and the acquirer margin. On the Worldline switch approximately [CONFIDENTIAL] of transactions are processed switch-to-issuer, these transactions do not attract merchant service fees. Those transactions are processed under an \$18.90 per month per terminal fee for an unlimited number of transactions.

25. Globally there is a move to account-to-account local debit products and New Zealand is lagging.²⁸ We are a small country and if we are to have any viable future for debit, the payments industry must collaborate and collectively decide and agree to move to a new payment product that is designed to meet New Zealanders' specific needs and that can compete with the Schemes.

API standards must be richer & interoperable with future payments platforms

26. The API standards do not currently contain all the functionality required for **online** transactions let alone **instore** transactions. We need richer APIs. The items currently on the API Centre's Minimum Open Banking Implementation Plan do not contain everything the industry needs for open banking to be fully operational. The standards and resulting APIs have been described as "skinny" and "shallow".
27. If we are to see real competition in the interbank payment network, then all banks (at a minimum) need to implement enduring consent. So far, we only have enduring consent enabled with ASB and, while work is in progress with BNZ, we are competing with other priorities at the bank.
28. Instore transactions are not contemplated on the API Centre Implementation Plan. It must, at a minimum, be mandatory that the APIs carry data rich²⁹ ISO20022 based schema.³⁰ Moreover, if the banking industry does go ahead with a real-time payments system³¹, APIs need to be using that messaging scheme to integrate (and for any existing API-based products to remain relevant and interoperable). APIs that are being built that have little chance of integrating to a real-time system which again, drives uncertainty into the payments innovation market. ISO20022 schema is also necessary for the implementation of robust digital identity services.

Clear roles and responsibilities of overlapping regulatory jurisdictions

29. The payments industry is currently navigating its way through several regulatory initiatives across several different regulators. For this reason, we consider it vital that the NZCC aligns its powers to complement other initiatives; including the RBNZ's

²⁸ See <https://thefintechtimes.com/open-banking-and-a2a-payment-transactions-to-reach-600-billion-by-2028-reveals-juniper-research/> and <https://www.paymentscardsandmobile.com/local-payments-initiatives-challenge-dominance-of-card-schemes/> and <https://www.paymentscardsandmobile.com/card-alternatives-like-pay-by-bank-are-on-the-rise/>

²⁹ The API Centre standards are based on UK standards, so they have some base ISO20022 messaging but it is only a very small portion.

³⁰ See <https://blog.seeburger.com/iso-20022-payment-integration-for-real-time-payments/>

³¹ See <https://www.paymentsnz.co.nz/our-work/next-generation-payments/>

Future of Money programme³², the NZCC's Market Study, the RPS Act, the DISTF Act, the forthcoming CPD Bill, the Financial Markets Infrastructures Act 2021³³ and the CoFR "Vision for the future of New Zealand's payments".³⁴

30. We understand that CoFR has commenced work on a plan to deliver their vision albeit without industry engagement.
31. In addition, the RBNZ has indicated via its digital cash consultation:
 - a. Potential issuing of digital cash would start in 2030;
 - b. Public infrastructure (owned and operated by RBNZ) would facilitate digital cash payments platform, clear and settle directly between consumers and merchants³⁵;
 - c. Commercial banks and service providers would distribute, enable use and acceptance; and
 - d. Digital cash would boost³⁶ competition and innovation in payments.
32. Many of the reasons for pursuing a digital cash payment system are the same for local debit.
33. Worldline is concerned that account-to-account payments via APIs may have a short runway as they will likely be superseded by real-time payments connections that facilitate payments. This includes both the digital cash platform envisioned by the RBNZ and the NextGen platform envisioned by PNZ.³⁷ On one hand the RBNZ sees its real-time payments platform as a piece of public infrastructure and on the other hand, PNZ sees its real-time payments platform as something that is owned and operated by its member banks. Realistically, only one system is necessary, and the APIs being built and used for online payments today should be able to easily integrate to those future systems.

³² See <https://www.rbnz.govt.nz/money-and-cash/future-of-money> and <https://www.rbnz.govt.nz/money-and-cash/digital-cash>

³³ See <https://www.legislation.govt.nz/act/public/2021/0013/latest/whole.html>

³⁴ See <https://www.cofr.govt.nz/news-and-publications/payments-vision.html>

³⁵ See page 6 "The Reserve Bank would own and operate a digital cash payments platform" and "digital cash payments would be available 24/7, and would be sent and received instantly"
https://consultations.rbnz.govt.nz/money-and-cash/digital-cash-in-new-zealand/user_uploads/digital-cash-in-nz.pdf

³⁶ See page 4 and 23 https://consultations.rbnz.govt.nz/money-and-cash/digital-cash-in-new-zealand/user_uploads/digital-cash-in-nz.pdf

³⁷ See <https://www.paymentsnz.co.nz/our-work/next-generation-payments/>

34. New Zealand is one of the last countries to implement real-time payments.³⁸ Worldline has extensive experience in building and operating such systems in other jurisdictions. From Worldline's experience, it takes 1 – 2 years to stand up a real-time payment system up. In New Zealand it has taken that long to discuss and explore the project but no decision to go ahead (or not) has been made. New Zealand should learn from, and not repeat, the same mistakes as other jurisdictions where reasons for failure include lack of political alignment, poor commitment across too many stakeholders, lack of a value proposition that fits market needs or misaligned priorities in context of local market structure.³⁹ New Zealand needs a clear sequencing roadmap to deliver competition and innovation in payments. For Worldline's proposed sequencing, please refer to Appendix 2.
35. There is very little point in having two real-time payment systems for a country the size of New Zealand. Furthermore, those investing in open banking payments products need longevity. If real-time payments capability comes along that Fintech's cannot connect to, they will not see a return on investment in open banking payments products using APIs built to the API Centre standards.

Drive investment of Kiwibank as a disrupter

36. We agree with the NZCC's suggestion in the market study that Kiwibank should be empowered by its owners to disrupt the major banks. If any bank ought to be championing open banking and a domestic debit product to help Kiwis succeed, it is Kiwibank. Kiwibank is approximately two years behind the four major banks when it comes to implementing APIs and this reticence continues to have a negative impact on the open banking ecosystem. Without Kiwibank's participation, Government agencies will continue to accept outdated screen-scraping solutions which hinder the success of open banking and normalise the risky behaviour of sharing internet banking credentials.

Stop screen scraping especially by Government agencies

37. We think screen-scraping and reverse engineering methods should not be considered open banking products; they should be prohibited. It is harmful to normalise the use

³⁸ Download the report from https://www.aciworldwide.com/prime-time-for-real-time-report?utm_campaign=gpe-2024-bnks-rtp-global-prime-time-for-real-time-2024-web&utm_medium=press-release&utm_source=press-release and see <https://www.paymentscardsandmobile.com/global-real-time-payments-transactions-hit-record-highs/>

³⁹ For Europe, see <https://insights.flagshipadvisorypartners.com/p27-lessons-learned-from-the-latest-failure-in-pan-european-payment-collaborations> and for Canada see <https://www.ctvnews.ca/business/payments-canada-undergoes-leadership-change-amid-slow-shift-to-faster-payments-1.6828712>

of internet banking credentials.⁴⁰ Australian banks are no longer supporting POLi and we should not be either.⁴¹ In our stakeholder discussions relating to our Online Eftpos product, Kiwibank's extended deadline has been cited to us as a reason for merchants (including government departments) to continue to use POLi. We would like to see the industry move towards optimal API-based products, leading to the phasing out and ultimate prohibition of sub-optimal methods. Data breaches are on the rise, and scams are increasing in sophistication and frequency. Products which normalise unsafe practices, such as sharing banking credentials, should not be supported.

Conclusion

38. The long-term solution for payments lies in local innovation that provides competition to the Schemes. Local alternatives will be able to deliver competitive low-cost solutions and long-term benefits to New Zealanders only if banks champion it and there is a regulatory landscape that supports business and facilitates widespread issuing and acceptance. Ubiquity via standardisation is critical to the success and survival of any alternative payment method. That has not happened, and will not happen, if it is left to 'industry'. The 'industry' is not a level playing field. Scheme and bank voices have more leverage and power than Fintech voices.
39. New Zealanders should have access to low-cost, modern and frictionless ways of paying for goods and services that are customised to the New Zealand market before 2030 (when digital cash may be issued). We believe that Worldline Contactless is an exciting and important example of innovation and competition in payments. However, support across the banking sector has not yet been obtained – all banks must to commit to issuing a product that can compete with the Schemes.
40. The decline in local debit usage not only affects consumer choice but also has broader implications for our financial autonomy. As transactions increasingly move to international schemes, New Zealand risks becoming overly dependent on these systems, which could lead to higher costs for consumers and reduced competitiveness for local businesses. The barriers (perceived or otherwise) stopping the banks from coming together to discuss the potential consequences of Eftpos

⁴⁰ See <https://www.interest.co.nz/technology/127005/maybe-it-wasnt-good-idea-train-users-divulge-their-internet-banking-credentials> and <https://www.consumer.org.nz/articles/consumer-nz-unpacks-the-popular-payment-method-that-could-void-your-bank-protection> and listen to https://www.mz.co.nz/audio/player?audio_id=2018937656

⁴¹ See: <https://view.email.auspost.com.au/?qs=6e7335bf6dd1507355dd0ad3fa74031a10ddeddc1ebf59b0cbe112ac73d5cd69113af0b19f1087b98fdd55498ce88df997c8716893154525d3b7d81a11ab73763fc68f4965d56f70d4d7bcfd2e73e5d5148f82657ccdb5fb> and <https://www.itnews.com.au/news/australia-post-to-close-poli-payments-597950>

exiting the market, and how New Zealand should best manage that impact, need to be removed.

41. Worldline is looking forward to open banking progressing but only if there is a viable future. We cannot keep investing in areas where there will be no return or if Government (via the RBNZ) enters the retail payment system itself. Government must be clearer in its intentions as regards competition, real-time payments, open banking and digital cash. A holistic, cohesive overarching strategy for payments, backed up by a robust regulatory framework, would provide clarity to reassure the market that regulators are serious about providing a climate in which payments innovators can access the information and services they need to succeed.
42. We support designation, direction and standardisation driving a thriving interbank payment network. Designation of the interbank payment network alone will not achieve the results New Zealand deserves in a workable timeframe. There must be a level playing field, API standardisation with required capability, interoperable messaging, efficient and economic platforms and a sensible sequencing roadmap.
43. Thank you for the opportunity to submit on the proposal. Should you wish to discuss any of the points raised in this submission, please contact Julia Nicol.

Appendix 1

Questions on our proposal to recommend the interbank payment network is designated	
1	Do you agree with our preliminary position that designation of the interbank payment network will promote competition and efficiency in the retail payment system for the long-term benefit of consumers and merchants? If not, why not?
	Yes, however, account-to-account payments via APIs may have a short runway as they will likely be superseded by real-time payments connections that facilitate payments including the digital cash platform envisioned by the RBNZ and PNZ. Initiatives must be considered holistically so businesses can invest with confidence. See also paragraphs 3 to 5, 8 to 16 and 25 to 27.
2	Do you agree that there are features of the interbank payment network that are reducing or likely reducing competition and efficiency of the network or the system?
	Yes. Please also see paragraphs 17 to 24.
3	Do you agree that there is conduct of participants of the interbank payment network that are reducing or likely reducing competition and efficiency of the network or the system?
	Yes. Please refer to paragraphs 8 to 24 and 35 to 37.
4	Are there any other features of the interbank payment network or any conduct of participants that are relevant to our consideration to propose designation?
	<p>Cost of membership to API Centre is high. If we compare the cost of membership against the revenue received on transactions made using APIs built to the API Centre standards there is very little financial benefit. Fees should be assessed on API business not overall business for third parties.</p> <p>API Council member seats have very few open banking payments businesses, only BlinkPay and Quippay have open banking payments products.</p> <p>Banks not incentivised to promote or prioritise interbank payments that are performed by third parties as it does not return the same commercial benefits as Scheme or direct debits. Very little promotion undertaken by banks on open banking payment methods to their accountholders.</p> <p>Greater certainty over banking implementation of API standards, timely delivery, functional capability and interoperability with future platforms would help reassure payments innovators that regulators are serious about providing a climate in which payments innovators can succeed. Open banking needs to become a 'compliance' item for banks so it can be prioritised.</p> <p>The lack of certainty is delaying progress in payments innovation. Third-party providers require broad access to well-functioning bank APIs to ensure the commercial success of new products.</p>
5	Do you agree with our characterisation of the nature of the interbank payment network? By 'nature' we mean the number, value, and nature of the transactions that the network currently processes or is likely to process in the future of the payments.
	In Chapter 4, the proposed designation, "intra-bank" payments are included i.e., "interbank payment network be defined as including all bank payment instruments between Registered Banks or within a Registered Bank" yet the volume and values provided are only between Registered Banks. Therefore, the numbers and values shown are not indicative or what is currently processed nor what is likely to be processed in the future. We agree with the nature.

6	Are there any other aspects of the nature of the network that are relevant to our consideration to propose designation?
Designation alone will do little to progress, we need dates, better standards, better functionality, better commercials, fourth party access, a plan for instore, and an enforcement regime. Eftpos is going, Worldline thinks it's important that New Zealand has a payment product and processing system that does not rely on the Schemes but the lack of action from the industry indicates that we are the only ones. Is New Zealand happy for that to go?	
7	Do you agree with our assessment of the potential interaction between the proposed designation and the FMI Act and CPD Bill?
Yes.	
8	Apart from the FMI Act and the Consumer Data Rights Bill, are there any other statutory considerations you consider relevant to our proposal to recommend designating the interbank payment network?
If a real-time payments system is put in, it is not clear what the role of open banking would be. RBNZ ⁴² is indicating that it will own and operate its own real time payments system to facilitate payments using digital currency. Furthermore, PNZ is driving a project seeking approval from banks to implement a real-time payments system. There is no point in having two real-time payment systems for a country the size of New Zealand. Presently there is little to reassure businesses they will see a return on any investment in open banking payments products.	
9	Do you agree with our definition of the proposed designation? If not, why not?
<p>Mostly although there is not enough clarity on what designation brings or how it will impact payment service providers. Designation alone will do very little to progress account-to-account payments. We need dates, better API standards and an enforcement regime.</p> <p>We would like to understand why CECS-governed products are excluded. New Zealand deserves a plan for instore payments. We would like to see more modern standards in place for instore. Eftpos rules are woefully outdated. Eftpos is declining and there is little to no choice for making payments instore other than international schemes. Designation of the interbank network will do little to progress instore payments. Merchants need a way of accepting the payments and many stores do not want to contract for gateway services (as is required for open banking payments) – 'ecommerce instore' is very different to 'instore'.</p> <p>We would like for least-cost routing to be investigated for New Zealand. Consumers and merchants should be able to choose an alternative processor if they do not want to pay a surcharge or pay a reduced surcharge. Surcharging online and instore, needs clearer guidance – many merchants are not offering one free electronic payment method.</p>	
Additional optional questions	
10	Do you agree New Zealand has not implemented a thriving API enabled payment ecosystem?
Yes. Please refer to paragraphs 8 to 28.	
11	Do you agree new payment methods through API enabled payment ecosystems are becoming more prevalent overseas? And, do you agree with how we have characterised the nature and benefits of these systems?
Yes, please also see paragraphs 6 and 33.	

⁴² See https://consultations.rbnz.govt.nz/money-and-cash/digital-cash-in-new-zealand/user_uploads/digital-cash-in-nz.pdf

12	Do you agree there is significant unmet demand in New Zealand for innovative new payment methods enabled by a thriving API enabled payment ecosystem?
<p>Yes, consumers like using Online Eftpos which means they appreciate having a choice when shopping online. We are seeing record transaction numbers each month (noting that these numbers, while positive, are significantly lower than our traditional payment products). Consumers give Online Eftpos positive feedback despite the fact the experience is not as seamless as it could be. They say that it is “fast”, “easy”, “secure”, “simple” or “easier than entering bank card details” and they like that merchants seldom apply a surcharge.</p> <p>Common complaints are that banking apps require too many steps and that transaction value limits are not commensurate with the level of risk for a merchant. Critically, some banks have extra steps for the first API transaction, but this is not clearly communicated to consumers - if the first experience is too cumbersome, people are less likely to use it again. Limited resourcing of banks’ API products and services means operational service levels are often low, up-time is unreliable and response times can be poor. If something goes wrong, it can be challenging to find someone at the bank to fix it. While there is obvious consumer demand, the lack of resourcing from banks has also been damaging to trust in the product where the resulting unreliability has created a poor experience. Please also refer to paragraphs 11, 12 and 19.</p>	
13	Do you agree with our characterisation of the minimum requirements for a functional API enabled payment ecosystem?
<p>We need more. The minimum requirements should align to draft recommendation 3 of the market study into personal banking services.⁴³ The features and functions of the APIs need to have more capability, instore needs to be provided for and the standards need to prepare for real-time payments so there a chance of integration and interoperability.</p>	
14	Do you agree with our concerns regarding the timeliness, partnering, transparency, and reasonableness of fees of the API enabled ecosystem that use any undesignated interbank payment network?
<p>Yes, we pay the API providers to access APIs. Fintechs using reverse engineering or screen scraping do not pay anything to access and use the same data. Fintechs providing ‘optimal’ services are therefore penalised financially. Even if our bank agreements allowed us to provide services to other Fintechs, it would be unappetising to them, due to costs. Please also see paragraphs 26 to 33.</p>	
15	Do you agree with how we've characterised the innovative new products and services for businesses within an API enabled ecosystem? And are there any other products and services for businesses you would like to draw our attention to?
<p>We would like for instore payments and for digital identity services to be provided for in the API standards. We would like to be able to provide services to “fourth parties” so Fintechs can use open banking payment products instead of Scheme. Please also refer to paragraph 19.</p>	
16	Do you have any other comments you would like to make?
<p>For the payments sector to thrive and deliver innovative solutions to New Zealanders there needs to be credible payment alternatives to the Schemes. The payments industry, via regulation, if necessary, must collectively decide and agree to move to a new form of digital Eftpos, one that is designed to meet New Zealanders’ specific needs and that can compete with the Schemes. Please refer to paragraphs 23 to 25.</p> <p>We think sub-optimal methods should be prohibited. Bank delays in implementing the API standards not only hinders payments innovation but indirectly incentivises and encourages less secure payment methods. Please refer to paragraphs 5 and 37.</p>	

⁴³ See https://comcom.govt.nz/_data/assets/pdf_file/0033/349368/5BPUBLIC5D-Draft-report-Personal-banking-services-market-study-21-March-2024-Amended-10-April-2024-.pdf

Appendix 2

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