

‘Modernising the Payment System Together’

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(Note - This is the text of the speech as drafted and may differ from the delivered version)

E ngā rau Rangitira, tēnā koutou. Ngati Whatua o Orakei me ngā iwi o te takiwā tēnā koutou

To all the chiefs that have gathered, I greet you all. I acknowledge Ngati Whatua of Orakei and the iwi of the greater Auckland area.

Ko John Small toku ingoa

Nau mai, haere mai!

Good morning, and thanks for the opportunity to talk with you today about the Future of Financial Services in Aotearoa New Zealand. I’d like to start by acknowledging the breadth of experience and perspective in this room.

Most of us could perhaps be classified as either bankers, FinTechs or merchants, but there is massive diversity within each of those groups. Fintech business models are enormously varied, which is partly why we need you people so much. And the boundaries between these broad groups can also be fuzzy. An insurer might look like a merchant when it’s accepting payments, but it looks more like a bank when it’s providing wholesale finance.

And some of us, such as me and my colleagues from the Commerce Commission (hands up please) don’t fit into any of those groups but we feel at home here as part of the broader ecosystem.

Like you, we’re here because we have a stake in the Future of Financial Services. Last year at this conference I talked about **te taura whiri**, the stronger rope formed when we’re using each other’s strengths to pull in the same direction, and that concept remains very relevant a year later.

We have been working together this last 12 months and a lot has been achieved.

- The banks have pushed on with API development, confirmation of payee, and invested more in scam/fraud prevention.

- Some FinTechs have made deals with some banks.
- Central government agencies have been working on CDR (the bill is in the house!), digital identity, ESAS access and CCCFA reform.
- And at the Commission we've almost completed our banking market study, are consulting on designation of the inter-bank payments network and are close to reporting on an authorisation application from Payments NZ.

That's not a bad list. BUT. I absolutely identify with those of you who were risking eye-roll-related injuries as I read it...

- Because we do have a long way to go.
- Because we have wasted valuable time.
- Because FinTechs are still going bust while we struggle to get our act together.

Let's focus on the prize for a couple of minutes.

At the Commission, our **vision** for the future of financial services in Aotearoa New Zealand (AoNZ) is centred around **diversity** and **competition**. That's because diversity in supply promotes innovation, resilience, and financial inclusion. And competition keeps us all honest and efficient.

These were obviously not the watchwords of those who designed the free instant payment networks for India and Brazil (names & links please), which are fantastic solutions for those countries but highly centralised and just not viable options in Aotearoa New Zealand.

That's because we are on a competitive and indeed commercial track, which means that everyone in the payments value chain earns something from it, that innovative business models can carve out a niche and that reinvestment is enabled.

We see competition as driving innovation and choice, while reducing costs to merchants and making consumers lives easier. In the banking and insurance space, more competition will attract new players who will drive down margins and provide better value to consumers.

Consumers will be more confident and better protected from scams and fraud because liability will follow fault, so payment providers will be liable for errors and preventable scams. Reliable ID systems will help providers manage that risk.

Some of you will have a lot more detail in your vision, but I'm sure all of those visions would include my minimalist version.

I'd like to take a moment to sketch out the size of this prize. We reckon that this vision is worth around \$2bn per annum in added value to the Aotearoa NZ economy. That is about half a percent of our annual GDP and comes from triangulating a careful Nordic empirical study with New Zealand information.

So let us now think about **how** we get traction towards that future.

Historically, AoNZ has been slow to adopt international norms regarding the regulation of commerce (Telco, EDBs). In the payments space, we were >20yrs behind Australia in regulating interchange fees. And we've had broadly the same laissez faire approach to the development of open finance.

It is not enough for a Minister to simply request the banking and payments sectors to reform themselves. We've already tried that, and it didn't just not work, the delay drove many innovators out of business. At the Commission's banking conference a few weeks ago, we were told that twelve FinTech CEOs have mothballed their companies in the last twelve months.

To do better, we need more of a partnership model, where industry and government collaborate to enable innovation. Well-calibrated official involvement can help to resolve blockages to progress. The Commission intends to remain actively engaged with the financial services sector in pursuit of our shared vision, even after our current assignments. We are increasingly playing a co-ordinating role, and we see that as requiring some specific contributions from us, including ...

- Advocacy for better arrangements & better outcomes;
- Helping to guide/nudge/navigate progress;
- Enabling the right conversations; and
- Co-ordinating between government agencies.

We hope that this approach will help to overcome the barriers that still block the way to better arrangements and better outcomes. Hope is not a strategy though, so let's now get a bit clearer on the main **challenges** and how we see them being addressed.

1. Access to infrastructure. There are many types of financial infrastructure that could and should be opened up for use by a larger and more diverse group of firms. Some of these are mission critical (such as API access to bank information) and others are potential accelerators of progress (such as ESAS access). This kind of thing is bread & butter for the Commission.
2. Commercial arrangements between firms need to underpin infrastructure access and there are well-understood commercial tensions here. Simple rules can help, such as liability follows fault. And there is definitely a case for doing this multilaterally but there is equally a need for some supervision to ensure that reasonable and efficient business activity is not excluded from the ecosystem.
3. Governance of industry has frequently been raised as a potential concern and links strongly to the infrastructure access point. Our view is that we'll know we have this right when the governance model is widely trusted.

4. Leadership, coherence of direction and sequencing choices are critical in the next couple of years in particular, as we try to establish new ways of working together but will remain relevant even after establishment as parties seek to add new functionality. We see this area as collaborative, and again the government role is mainly to facilitate but with firm direction as required.
5. Allocation of resources is an ongoing challenge. Banks in particular will need to divert resource into this area. During our banking market study, we have come to understand this challenge better and I'm confident we can manage it.
6. Trust and confidence of consumers is clearly required to drive the uptake that's needed to get full value from this innovation pathway. There are many ways to build trust. Digital identity will definitely help. Perhaps the main objective here is vigilance against scams and fraud though – as we all know: trust is hard won but easily lost.
7. Culture? Kiwis can be a tad complacent at times, so this is potentially a hurdle. On the other hand, a million users of POLi Payments might suggest a lot of latent demand.

Hopefully you spotted some roles for yourself in that short roundup, but it might be helpful to just mention a few specific things as well.

Starting with **FinTechs**, who are best placed to help identify roadblocks to innovation and share these with regulators, to understand the end-user frustrations that drive use-case and product development and to promote your products to businesses, consumers and Govt as appropriate.

Merchants and other businesses stand to gain from reduced costs, richer data, better propositions, and might even help build specific use cases. You should be talking to FinTechs.

Banks I think generally know what is required to enable this new future. Your enthusiastic involvement will be very welcome, and I know that some of you have big plans in this area.

Government agencies, as huge customers stand to gain a lot from exploring the potential efficiencies to be had from the range of new services. And if there is one thing on the mind of all government agencies right now, it is finding efficiencies.

In closing, let me re-emphasise the Commission's commitment to pushing for progress on new ways of paying, saving, borrowing & lending. We want to help speed things up and see several different ways we can do that. Regulation is just one of those ways.

We are in awe of the inventive and technical talent in this sector and in this room. Our role is to help clear the path towards our common vision and we stand ready to do just that.