

Retail Payment System

Payments Between Bank Accounts

Request for views on payments made over the interbank payment network

Submission Response Template



Purpose of this template

1. This template provides details on how to make submissions on this paper and the confidentiality considerations. It also provides the full list of submission questions in the template to assist with written submissions.

Submissions

2. We are seeking your feedback on our views and questions raised in this paper, or on any other aspects of the payments between bank accounts landscape that you consider important. Your feedback will help inform whether we start the process of recommending the interbank payment network for designation.
3. In addition to written submissions using the process set out in this attachment, we also welcome requests to meet to discuss any aspects of this paper and we are also open to conducting facilitated feedback sessions with stakeholder groups. Please contact us if you think either of these alternative engagement options would be beneficial.
4. You do not need to respond to all the questions raised in this paper, you can instead just respond to the questions that relate to your business operations or experience.
5. While we will accept range of formats our preference is for submitters to use this template.
6. Responses can be emailed to RetailPaymentSystem@comcom.govt.nz with 'Interbank payment network request for views paper' in the subject line.
7. To ensure your feedback can be considered, please provide these to us by 4pm, 25 September 2023.

Confidentiality

8. While we intend to publish submissions on our website, we understand that it is important to parties that confidential, commercially sensitive or personal information (confidential information) is not disclosed as disclosure could cause harm to the provider of the information or a third party.
9. Where your submission includes confidential information, we request that you provide us with a confidential and a public version of your submission. We propose publishing the public versions of submissions on our website. We note that responsibility for ensuring that confidential information is not included in a public version rests on the party providing the submission.

10. Where confidential information is included in submissions:
 - 10.1. the information should be clearly marked and highlighted in yellow; and
 - 10.2. both confidential and public versions of submissions should be provided by the due date.
11. All information we receive is subject to the principle of availability under the Official Information Act 1982 (OIA). There are several reasons that the Commission may withhold information requested under the OIA from disclosure. This includes, most relevantly, where:
 - 11.1. release would unreasonably prejudice the commercial position of the supplier or subject of the information;
 - 11.2. withholding the information is necessary to protect the privacy of natural persons; and
 - 11.3. we received the information under an obligation of confidence, and if we were to make that information available it would prejudice the supply of similar information to us (by any person) where it is in the public interest that such information continues to be supplied to us.
12. If we consider that any of these potential reasons for withholding apply, we must still consider the public interest in release. As the principle of availability applies, the information may only be withheld if the potential harm from releasing it is greater than the public interest in disclosure. This 'balancing exercise' means that in some cases information can be released where nonetheless there is some possible harmful effect that might appear to justify withholding it.
13. We do not need to receive an OIA request for information for the principle of availability to apply. We can release information that in our assessment should be made publicly available. We will not disclose any confidential or commercially sensitive information in a media statement or public report, unless there is a countervailing public interest in doing so in a particular case. Such cases are likely to be rare.
14. We will consider any request from a party who wishes to keep their identity and/or the content of their submission anonymous. However, this request must be discussed with us first before the submission is provided to us. Submitters must justify any request for anonymity by providing reasons.
15. Table A1 provides the full list of our submission questions.

1. Full list of our submission questions

Questions on New Zealand's payments between bank accounts landscape

- 1 Do you agree that Eftpos card use is likely to continue to decline? If not, why not?
 [PhonePay] Yes Agree.
- 2 Do you agree with our assessment of the factors contributing to the decline in Eftpos card use? If not, why not?
 [PhonePay] Mostly yes. The two primary factor from consumers point of view is cost and convenience. **Cost** wise use of visa/mastercard debit-with-pin is same as eftpos (barring a small annual fee of around \$10 for Visa/mastercards). However from **convenience** point of view - debit cards allows payment for online shopping both domestically and internationally - which is an increasing need and trend especially after Covid.
- 3 What do you see as the barriers to innovation and success for Eftpos
 [PhonePay] No comments. Looking forward to Worldline's submission to this question.
- 4 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?
 [PhonePay] While the view is correct for current state of affairs, a faster open APIs outcome is likely to present number of other innovative solutions which should put competitive pressures back on debit card networks.
- 5 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?
 [PhonePay] Strongly agree.

Questions on the key features of traditional bank transfers

- 6 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?
 [PhonePay] Agree.

Questions on methods to gain access to the interbank payment network

- 7 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?
 [PhonePay] Yes

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

[PhonePay] For open API based access to be as optimal as depicted, it is absolutely essential that

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- a) functionalities and outcomes of the APIs are no less than debit card based outcomes. e.g. (a) instant confirmation of money deduction (b) functionality to put a 'hold' on the money (like card machines at fuel pumps are able to do).
 - b) Restrictions no more than the native apps of the banks. e.g. if banks customer don't need to re-authenticate for X days in the native app then open API based authentication requirements should not be stricter

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

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?

[PhonePay] The environment requirements mentioned looks to be based on the principle of equality (between banks and payment providers). However at this stage balance of power is heavily tilted towards banks hence the environment should be built in a way to provide equitable outcome.

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- 1) There is a mention of standardised pricing method. However it is absolutely necessary that this pricing reflects the financial situation of payment providers and any fees etc. only kick off after the viability of payment providers looks certain. This can be based on parameters such as annual-revenue or number-of-customers etc.
 - 2) Common contract - Common contract not necessarily mean a equal contract. With the huge legal pool access to banks, it is essential to protect payment providers interest. This is an area comcom must look at
 - 3) As mentioned in point#8 above, equal functionality outcome is essential. APIs should be planned to provide functionalities no-less-than what consumers are using with debit cards.
 - 4) Under the CDR regime Banks will be obligated to provide customers' access to their data. In such a scenario payment-providers would be providing mechanisms to banks customers in fulfilling such obligations. It may even help banks reduce their investments in digital expenditure. Thus the money flow may be in the reverse direction just like bank and eftpos arrangement. COMCOM should keep this aspect in mind and should choose any cost related wording accordingly.

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

10 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?

[PhonePay] Yes

Questions on industry open API standards

11	<p>Do you consider that the existing industry open API standards are a good starting point to enable innovative options to make bank transfers?</p> <p>[PhonePay] Not for the APIs themselves, yes for all the infrastructural setup.</p> <p>APIs</p> <ol style="list-style-type: none"> 1) The current planned APIs do not solve the problem described in executive summary section X3 (i.e. simple trusted indication that a payment has been made by a consumer in the same way that card payments do). As things stand today, APIs won't provide this confirmation instantaneously and payment-providers must chase this afterwards. Not quite the case with eftpos and debit where this is almost instantaneous. As mentioned in point#3 in response to question 9, APIs must provide provide functionalities which are at par with debit card usage experience else consumer behaviour will not change at all. 2) The focus is on account details and money transfer from existing accounts. No options for say opening new account (for existing customers), request new card, change card limits, apply for deposits, loans, KiwiSaver changes etc. COMCOM must investigate if these are available in other countries' open API initiatives and whether kiwis would benefit from similar outcome. <p>Infrastructure</p> <ol style="list-style-type: none"> 3) The current infrastructure and process setup from Payments NZ and their partners - consisting of open information on Confluence, user onboarding, sandbox environment, API schema, technical forums etc. is very well planned and something to be proud on. They definitely serve as a great starting point.
12	<p>Do you consider the future of industry open API standards will enable innovative options to make bank transfers?</p> <p>[PhonePay] Not without comcom setting a high bar with respect to outcomes and some hard hitting deadlines. Otherwise kiwis would continue to use solutions like Polipay which are deemed unsafe in Australia and have been mandated to shut down. https://www.stuff.co.nz/business/300927540/poli-to-continue-in-new-zealand-despite-australia-shutdown</p>
13	<p>What gaps are there in the open API standards for innovative options to make bank transfers?</p> <p>[PhonePay] Many.</p> <ol style="list-style-type: none"> 1) No instant confirmation of money deduction. Current PaymentNZ led open APIs do not provide instant confirmation of money deduction. To be super clear, this is not about the settlement (which is currently hourly) but about the confirmation that customer has money in the account and bank has accepted the payment. Payment provider needs to chase the confirmation after the fact which means that merchants cannot be assured that money is on the way instantly. 2) The current API initiative is voluntary, Each bank has their own timelines and optional outcomes. For a small payment-provider it is administrative nightmare to lease with individual banks separately. 3) Validity of customer login duration left to individual banks. This will most likely provide a sub optimal experience to customers

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

- 14** 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?
- [PhonePay]** Yes agree. Also worthy to point that Banks are the primary party for APIs but why restrict only to banks? COMCOM should investigate if Visa, Mastercard, Eftpos (and Amex and others) should open up their systems via APIs too! This would likely be the case with CDR legislation but perhaps COMCOM can use powers under the Retail Payment Systems Act 2022. (Of course payment-providers should be asked to open their systems too, if this is the route COMCOM decides to take for industry overall)
- 15** 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?
- [PhonePay]** As noted by commission this is a change that is driven through various legislations in other countries. Lack of a driving legislation in NZ is key reason even when ministers in govt. are chasing this outcome through letters.
- 16** 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?
- [PhonePay]** No and No. Without legislative push it will likely continue being a de-prioritized work within banks.
- 17** 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?
- [PhonePay]** It is interesting to note that the body governing network access and API direction (i.e. Payments NZ) is fully owned by Banks. (From payments NZ website - Our shareholders are ANZ, ASB, BNZ, Citibank, HSBC, Kiwibank, TSB Bank and Westpac)
- In this landscape, non-shareholders (like payment-providers and other fintech organisations) seems to have a non-equal partnership which may have bearing on outcomes and efficiencies.

Questions on efficient partnering between banks and payment providers

18	<p>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)?</p> <p>[PhonePay] The biggest barrier to entry are - 'Agreements' which requires negotiating with individual banks, are full of legal words and terms from every individual banks, and have underlying offloading of risks and penalties in various shapes and forms. While it is of utmost importance that the risk of end customers are fiercely protected, which party is responsible for what is literally a 'million dollar' question.</p> <p>A standard agreement (created by independent body and with consultation from all stakeholders) looking after interests and unique circumstances of all parties would not only take away the burden of negotiation for all parties but ultimately can be built to serve right interests of customers.</p> <p>In future this can also serves as precedent for other industries like insurance, telco, supermarkets etc. as CDR legislation start to move beyond finance industry, ultimately bringing efficiency and cutting barriers throughout NZ open-data and open-api economy.</p>
19	<p>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?</p> <p>[PhonePay] For operational and technical matters yes.</p>
<p>Questions on the interbank payment network</p>	
20	<p>Do you agree with how we have defined the interbank payment network? If not, how do you consider it should be defined?</p> <p>[PhonePay] Thanks for a good introduction and overview of the interbank payment network of NZ. This along with Reserve bank's payment primer document has been very useful in understanding NZ payment landscape. Really good work by comcom team.</p>
21	<p>Do you see any issues with how we have defined the interbank payment network? If so, what issues?</p> <p>[PhonePay] While it is mentioned in 2.19 that Worldline is hard pressed in justifying their payment network, it is not clear where that network comes into play.</p> <p>This may help explain how and why eftpos is able to receive money from banks today.</p>

22	<p>Do you agree we have captured the correct payment products in the interbank payment network?</p> <p>[PhonePay] Mostly Yes with some omissions. For example CECS hasn't been mentioned and it is not clear how payment providers can innovate in that space (QR code on ATM?). Same for HVCS.</p> <p>Similarly bit more description would be useful around Worldline network and Eftpos terminals providers etc.</p>
23	<p>Do you agree we have captured the correct network operators of the interbank payment network?</p> <p>[PhonePay] 95% yes, however, for the 100% coverage there may be some more description of 'others' 5% at some stage</p> <p>(a) banks like co-operative bank which are not part of Payments NZ network and their 'network' usage. Same for Union pay, and, PayPal etc. Though acknowledge this is not the focus of paper and briefly touched upon in Attachment-C</p> <p>(b) There are words used like 'schemes' and 'building-authority' without much description so may be a difficult read for non-finance background readers</p>
24	<p>Do you agree we have captured the correct class of participants in the interbank payment network?</p> <p>[PhonePay]</p>
25	<p>Do you agree we have identified the relevant interbank payment network rules? If not, what other network rules are relevant?</p> <p>[PhonePay]</p>
26	<p>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?</p> <p>[PhonePay]</p>

Questions on possible regulatory interventions

27	<p>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?</p> <p>[PhonePay] Yes</p>
28	<p>How effective do you consider our regulatory powers would be at addressing the barriers set out in this paper?</p> <p>[PhonePay] Very effective</p>

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?

[PhonePay] Yes with following key points on 'pricing'

Pricing: It appears that commission somehow already believes that banks should be able to charge for API consumption and the language in the document is around putting a limit to those charge. While this may be the view expressed by UKs thinktanks, this may not be what is relevant to NZ. These are some of the counter arguments that might help commission to see it differently:

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- 1) These new mechanisms are not likely to suddenly increase the number of transactions and as such only a portion of current transaction will initially move from banks-native-app-apis to payment-provider-app-apis.
 - 2) For banks it potentially provides an opportunity to modernise their digital landscape. Their own digital apps can use these APIs and might helps banks shed legacy infrastructure in long term
 - 3) Under CDR, it will be a customers right to get the data. The new apps would only provide a mechanism to these customers in exercising their rights. For banks the cost of API should be seen as cost of doing business and compliance, not an opportunity to distribute cost to customers' intermediaries.
 - 4) The payment-providers may in fact reduce banks cost of servicing digital needs of their customers and as such table 5.1 'pricing method requirements' might need to be re-written as

"COMCOM may require that banks are to pay to payment providers * on a fixed price per API call basis; or * on a percent of payment value basis."

As such, this aspect needs to be debated and discussed further with wider lens.