

22 FEBRUARY 2024

# Retail Payment System

## Update on our Payments Between Bank Accounts work



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Tēnā koutou

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### Introduction

1. This letter provides an update on our 'Payments Between Bank Accounts' work which will see us consulting on a proposed designation of the interbank payment network in the coming months.
2. This work is focussed on supporting the development of new methods for consumers and businesses to make and receive payments to/from their bank accounts using third party services.<sup>1</sup> These methods will utilise a new way for consumers to use their banking services called 'open banking'.<sup>2</sup> This letter follows our **Request for views paper** published on 31 July seeking feedback on the barriers third parties are having deploying these new payment methods through secure application programming interfaces (**API**), and how we could use our regulatory powers to address the potential barriers.<sup>3,4</sup>
3. Open banking can provide consumers with new, innovative and convenient ways to make use of their bank accounts through authorised third party products and services. These consumer-authorised services can use your data, as the consumer, to assist with making better decisions such as budgeting tools, they can perform actions on your behalf, such as initiating a payment, or both such as checking if you have money before making payments. In this context we refer to the payment related aspects of open banking as the API enabled ecosystem.

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<sup>1</sup> We use the terms “businesses” and “merchants” interchangeably in this letter and these include non-business entities such as governments and sole traders.

<sup>2</sup> We use the term “consumer” with the same meaning as under the Retail Payment System Act 2022, to mean people, businesses and other entities that make payments in return for goods or services.

<sup>3</sup> Commerce Commission “Payments between bank accounts – requests for view paper” (31 July 2023) available at: [https://comcom.govt.nz/\\_data/assets/pdf\\_file/0016/323602/Retail-Payment-System-Payments-Between-Bank-Accounts-Request-for-views-paper-31-July-2023.pdf](https://comcom.govt.nz/_data/assets/pdf_file/0016/323602/Retail-Payment-System-Payments-Between-Bank-Accounts-Request-for-views-paper-31-July-2023.pdf)

<sup>4</sup> An API is a set of routines, protocols, and tools for building software applications. An API specifies how software components should interact.

4. In this letter we set out:
  - 4.1 that we have decided to move to the next stage of the interbank payment network designation process – with publication of a consultation paper in coming months
  - 4.2 our current view on the minimum requirements to enable a thriving API enabled payments ecosystem to develop, and
  - 4.3 our expectations for Payments NZ, the API Centre and the five largest banks.
5. This letter will likely be of interest to:
  - 5.1 The five largest banks in New Zealand, given their role as participants in the interbank payment network and the expectations we are setting for them.
  - 5.2 The smaller banks in New Zealand, given their role as participants in the interbank network, and we anticipate they will be part of the API enabled payments ecosystem in the future.
  - 5.3 Payments NZ and the API Centre, given their role as operator of the interbank payment network and the expectations we are setting for them.
  - 5.4 Third party payment providers, given our expectations are aimed at supporting current and future participants in the interbank payment network to overcome the barriers preventing a thriving API enabled payments ecosystem from developing.
  - 5.5 Businesses and consumers, as this work seeks to promote competition, efficiency and innovation in the way they make and receive payments over the interbank payment network.<sup>5</sup>

#### **Update on our current thinking**

6. This move to the next phases has been informed by our analysis of the submissions received on the request for views paper and insights gained from industry activity and stakeholder engagements. We have:
  - 6.1 deepened our understanding of the minimum requirements for a thriving API enabled payments ecosystem. These are described in **Annex A**.

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<sup>5</sup> The use of the terms 'consumers' and 'merchants' in the Act mean that businesses can be both 'consumers' and 'merchants' depending on if they are buying or selling goods and/or services. Likewise, people can be both 'consumers' and 'merchants'.

- 6.2 confirmed our views in the request for views paper on the barriers preventing the minimum requirements from being met, and gained new insights on the barriers, including that:
- 6.2.1 current API standards and the plan for future API standards functionality do not support a number of use cases that are currently being serviced by sub-optimal access methods (for example, screen scraping and reverse engineered mobile application APIs)<sup>6</sup>
  - 6.2.2 non-functional aspects of the APIs are as important as the API standards;<sup>7</sup> however, these are not mandatory or of sufficient quality, which is a barrier to the commercial viability of API enabled products and
  - 6.2.3 an accreditation process is likely needed in the medium to long term to meaningfully overcome the partnering barriers third party payment providers face when seeking bilateral agreements to partner with banks to use APIs.
- 6.3 deepened our understanding of:
- 6.3.1 Industry work, including Payments NZ's recent authorisation application to the Commission to enter into an agreement which could otherwise breach the Commerce Act. Payments NZ is seeking authorisation for joint development of (i) an accreditation scheme (including accreditation criteria) for third parties, and (ii) default standard terms and conditions on which banks would contract with third parties who meet the accreditation criteria. Payments NZ is not seeking authorisation for the specific accreditation criteria or the standard terms and conditions themselves.<sup>8</sup>
  - 6.3.2 How the Consumer and Product Data Bill seeks to overcome the barriers to requirements being met, and how this interacts with industry work.<sup>9</sup>
7. A summary of the current state of the minimum requirements, and how the other industry and government work programmes potentially address some of the

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<sup>6</sup> For example, use cases that require functionality for enduring payment consent for variable payees, such as payroll solutions.

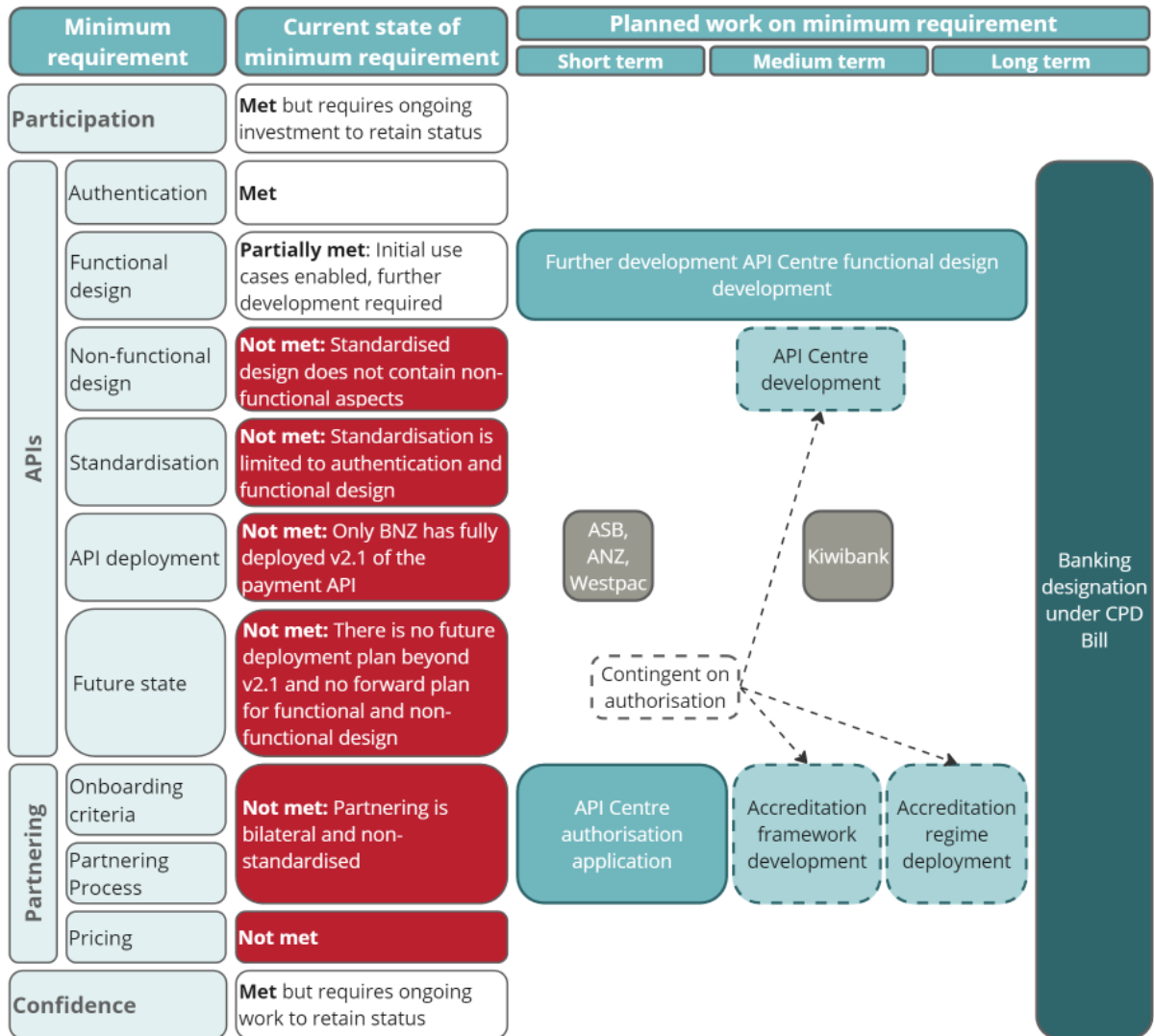
<sup>7</sup> Non-functional aspects refer to the quality attributes or constraints of an API, rather than the specific functionality of the API standards. This includes the scalability, reliability, performance, availability, and usability of the APIs.

<sup>8</sup> A public version of the authorisation application is available on the Commerce Commission's case register: <https://comcom.govt.nz/case-register/case-register-entries/payments-nz-limited>

<sup>9</sup> The Ministry of Business, Innovation and Employment is leading the development of the Consumer and Product Data Bill which aims to give effect to a consumer data right regime in New Zealand. The exposure draft of the Consumer and Product Data Bill is available here: <https://www.mbie.govt.nz/business-and-employment/business/competition-regulation-and-policy/consumer-data-right/key-documents/>

minimum requirements are shown in **Figure 1** below. There are some gaps, particularly in the short to medium term, and there are risks to the delivery and timeliness of some of the work.

**Figure 1: How currently planned work may meet the minimum requirements**



**We are progressing with our work**

8. Some banks have recently developed APIs and there has been limited partnering with third party payment providers. There is also significant work underway to address the minimum requirements to enable a API enabled payments ecosystem to develop as illustrated in **Figure 1**.
9. However, we want to build on this momentum and ensure there is not a first mover disadvantage for the banks that are progressing with partnering on API use. We have therefore decided to take a two-pronged approach to this work.

10. Firstly, this letter sets out expectations on industry behaviour and actions to support the development of a thriving API enabled payments ecosystem. These expectations are set out in **Annex B**.
11. Secondly, we are moving forward with the process of deciding whether to recommend the interbank payment network for designation. This process will move us closer to recommending to the Minister of Commerce and Consumer Affairs that the interbank payment network be designated and closer to the use of our regulatory powers (subject to the outcome of the consultation process).
  - 11.1 We have taken this decision as, based on progress to date and the submissions we have received, we do not currently have confidence that without direct regulatory powers to intervene industry alone will deliver the minimum requirements to allow a thriving API enabled payments ecosystem to flourish.
  - 11.2 Any ongoing delays mean that consumers and businesses will continue to miss out on the benefit these services will bring to them.
  - 11.3 Delays or uncertainty in the delivery of the minimum requirements is likely to affect the confidence of investors in alternative payment methods to the potential significant detriment of business and consumers in New Zealand.
  - 11.4 Whilst we are currently in a period of momentum, we have observed this in the past, only for momentum to stall. For example, previous governments have set expectations for bank progress, however despite industry talking about this for several years, progress has been disappointing.<sup>10</sup> We do not want momentum to stall this time. The ability for us to use our regulatory powers makes it more likely that industry will work to develop the necessary infrastructure and processes so that we do not need to take action.
  - 11.5 This view has been reinforced by the lack of public reporting by the banks on their progress against the timeframes, specifications and guidelines of the Minimum Open Banking Implementation Plan.<sup>11</sup> This reduces confidence the banks will meet the Minimum Open Banking Implementation Plan. Failure by any bank to deploy APIs to the timeframes or functionality specified in the Minimum Open Banking Implementation Plan would reduce the use cases available to be developed by third-party payment providers, and services available to consumers and merchants. This calls into question the commitment some banks have to deliver, and the transparency of what was

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<sup>10</sup> The Minister of Commerce and Consumer Affairs sent this open letter to API providers in 2019 expressing his concerns on the current pace and scope of progress of API development. See Hon Kris Faafoi, Minister of Commerce and Consumer Affairs “Open letter to API Providers regarding industry progress on API enabled data sharing and open banking” (December 2019) available at: <https://www.mbie.govt.nz/assets/open-letter-to-api-providers-regarding-industry-progress-on-api-enabled-data-sharing-and-open-banking.pdf>

<sup>11</sup> <https://www.apicentre.paymentsnz.co.nz/standards/implementation/minimum-open-banking-implementation-plan/>

agreed to. We also remain concerned that despite two of the banks having built the APIs, there has been very limited partnering.

12. Moving forward with the designation process now, will encourage industry to keep up its momentum. An appropriate designation would allow us to use regulatory tools if required to support the development of a thriving API enabled payment ecosystem. Waiting to see if, or when, the current wave of momentum slows before moving forward with a designation process would further delay our ability to support this work should that be needed.
13. This work supports the purpose of the Retail Payment System Act 2022 (**Act**), as a thriving API enabled ecosystem will bring new payment products and services that better meet the needs of merchants and consumers. These new products and services may be more convenient, cheaper, faster and or reduce risks which will promote competition and efficiency in the retail payment system for the long-term benefit of merchants and consumers in New Zealand.<sup>12</sup>

#### **How we can support the industry work**

14. A designation in itself doesn't place any obligations on industry participants, but the ability to intervene using regulatory tools in a timely way will help incentivise industry to deliver on their commitments and ultimately advance open banking in New Zealand.
15. To support the development of a thriving API enabled payments ecosystem we will often seek to achieve the desired outcome by leveraging industry's expertise. However, we recognise that we may need to use our regulatory powers at times. We have identified a range of interventions we could make to influence industry behaviour. These are shown in **Figure 2** below.

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<sup>12</sup> Retail Payment System Act 2022, s 3.

**Figure 2: Range of potential interventions**

<b>Intervention</b>	<b>Description and output</b>
<b>Monitoring and publication</b>  <i>Designation <u>not</u> required</i>	<b>Monitoring and publication of information to raise awareness and influence industry behaviour.</b>  For example, monitoring industry progress and publishing the request for views paper and the submissions has raised awareness of our role and stakeholder's views of the issues and contributed to industry dialogue and action.
<b>Setting expectations</b>  <i>Designation <u>not</u> required</i>	<b>Setting expectations to drive industry behaviour in a targeted manner.</b>  For example, this open letter is setting expectations for industry behaviour to support overcoming some of the barriers preventing a more competitive and efficient retail payment system.
<b>Require compliance with industry solutions</b>  <i>Designation required</i>	<b>Require participants to comply with the rules and agreements developed by industry.</b>  For example, we could make delivery of the API Centre Minimum Open Banking Implementation plan a legal requirement for API Centre members, which would have financial implications for non-compliance.
<b>Set or amend industry solutions and require compliance</b>  <i>Designation required</i>	<b>Amend industry rules and agreements or set regulations to impose additional requirements on industry.</b>  For example, we could set regulation that the API Centre Minimum Open Banking Implementation plan needs to be modified with different API version or delivery date milestones.

16. Situations where we could use our regulatory powers include:

- 16.1 if any bank seeks to delay or stall API development, we can hold them to delivery timelines;
- 16.2 if any bank without good reason decides not to partner with accredited third party payment providers for the use of APIs, we can require them to;
- 16.3 if the functional or non-functional aspects of the API standards do not support competitive payment options, we can require changes to the API standards to ensure they will support competitive payment options; and
- 16.4 as the Consumer and Product Data Bill and the consumer data right regime is developed, we will be able to ensure APIs and partnering requirements are consistent with that regime which will help ensure the banking sector is ready for the consumer data right regime when it comes into force.

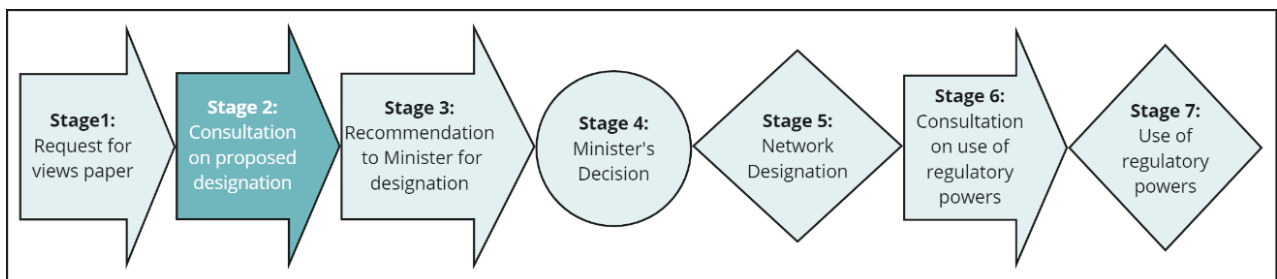


17. As we note above, having a designation in place would allow for quicker resolution of any issues as they arise and would reduce the likelihood for issues to occur in the first instance. We consider this could provide greater certainty for banks and third party payment providers to continue to move forward with the development of the API enabled payments ecosystem.
18. Ultimately, at this stage we consider that not progressing with the process of deciding whether to recommend a designation will harm the attractiveness of investing in New Zealand’s digital economy, including in the payment ecosystem, and will harm payment innovation outcomes in New Zealand in the long-term.

### Next steps

19. The process of deciding whether to recommend the interbank payment network for designation will start with a public consultation paper on the proposed scope of the designation and further details on our reasons for designation, as required by the Act.<sup>13</sup> We expect to publish this consultation paper in the coming months.
20. The potential next steps in the process towards the use of our regulatory powers is shown in **Figure 3** and we are now moving to Stage 2, consulting on our proposed network designation.

**Figure 3: Potential next steps towards the use of powers**



21. We trust this letter provides a useful update on our payments between bank accounts work. We are happy to engage with stakeholders to clarify our expectations for industry. Both MBIE and RBNZ have been consulted on this letter and we can facilitate a joint discussion if helpful. Lastly, we encourage stakeholders to make a submission when we publish our consultation paper.

<sup>13</sup> Retail Payment System Act 2022, s 13.

22. Please contact Matthew Lewer (Head of Payments, Market Regulation) at [paymentsteam@comcom.govt.nz](mailto:paymentsteam@comcom.govt.nz) if you have any questions on this letter.

Ngā mihi nui

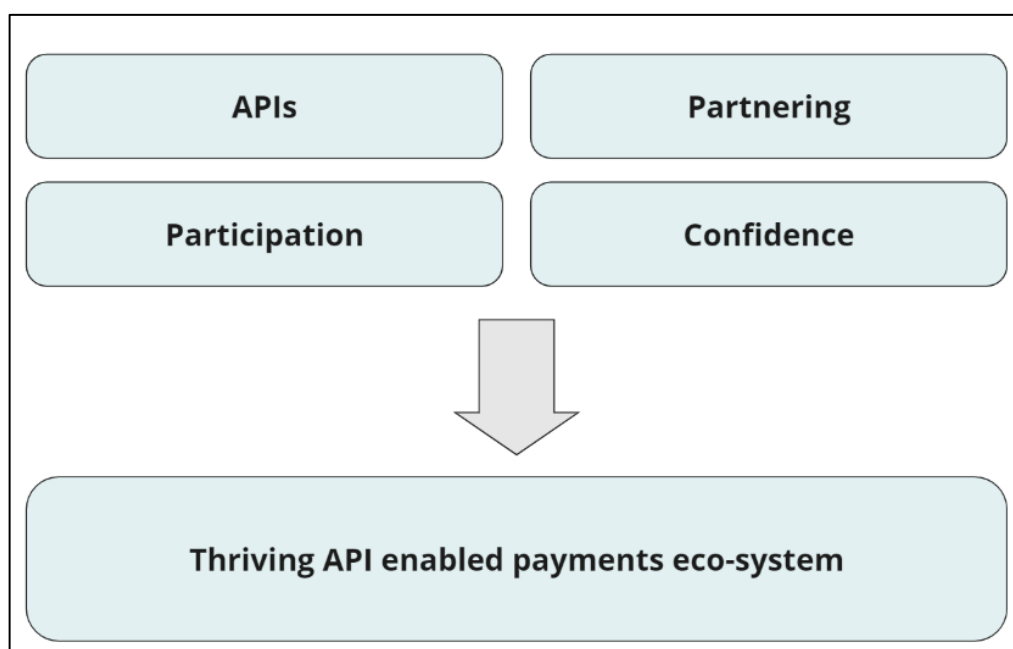


Dr John Small  
Chair

## Annex A: Minimum requirements for a thriving application programming interface enabled payments ecosystem

- A1. We have enhanced our understanding of what we consider are the minimum requirements to allow a thriving API enabled payment ecosystem to develop. Our understanding is a result of our analysis of the submissions received on the request for views paper and insights gained from industry activity and stakeholder engagement. These minimum requirements are illustrated in **Figure A1** and elaborated on below.
- A2. This view of the minimum requirements may evolve, or other work programmes may be better placed to address them; however, we will intervene where we need to. Additionally, the examples included in these requirements are not an exhaustive list and do not represent explicit criteria for interventions.

**Figure A1: Minimum requirements for a thriving API enabled payments ecosystem**



### *Application programming interface requirement*

- A3. The 'APIs' requirement has a number of elements relating to the design of the open API standards, the design of the non-functional aspects that support the APIs and the deployment of the APIs by the banks.
- A4. **Authentication:** The authentication of the consumer should sit with the bank, not the third party payment provider. This means the consumer does not share their bank credentials to third party payment providers.
- A5. **API functional design:** The functionality of the API standards, and therefore the APIs built by the banks, should allow for use cases that are currently serviced by sub-optimal access methods (for example, screen scraping or reverse engineered mobile

APIs) to encourage providers to switch to using APIs. This functionality should be available for a wide range of bank account types.

- A6. **API non-functional design:** The non-functional aspects of APIs are as important as the functionality of the API standards, however not all of them are mandatory or of sufficient quality to allow commercially viable API enabled payment products. Non-functional aspects that should be standardised, mandatory and of sufficient quality include:
- A6.1 API performance, testing, monitoring and transparent reporting
  - A6.2 customer experience, and
  - A6.3 payment limits.
- A7. **Standardisation:** There should be mandatory standardisation of APIs across the banks in terms of functionality and the non-functional aspects.
- A8. **API deployment:** The APIs should have been deployed by the banks and can be used by third party payment providers.
- A9. **API future state:** There should be plans for where the development of the APIs is heading, and these plans should evolve in-line with payment innovations to support third party payment providers investment decisions for developing new payment use cases. These plans should cover:
- A9.1 where the API functionality design is heading
  - A9.2 where the API non-functional design is heading, and
  - A9.3 when the banks will deploy these designs.

#### *Partnering requirement*

- A10. The 'Partnering' requirements relate to ensuring that third party payment providers are able to enter into agreements for the use of APIs.
- A11. **Onboarding criteria:** The minimum onboarding criteria is standardised across banks and is reasonable and not unduly onerous on third party payment providers.
- A12. **Partnering Process:** The process for banks and third party payment providers reaching agreements for API use is standardised across banks and is transparent, reasonable, takes an appropriate amount of time. When a third party payment provider meets the minimum onboarding criteria, the banks should not put up arbitrary barriers to partnering. In the medium to long term a more efficient partnering process would be an industry wide accreditation mechanism.
- A13. **Pricing:** The price charged by banks for API use creates incentives for both banks and third party payment providers to enter into agreements for the use of APIs. The price

should enable commercially viable business models for both parties to create incentives for both parties to develop, iterate and use APIs and should be competitively neutral.

*Participation requirement*

- A14. The 'Participation' requirement relates to the role third party payment providers play in the development of a thriving API enabled payments ecosystem.
- A15. **Participation:** There are third party payment providers that have the capability and are incentivised to develop products and services for consumers and merchants using APIs.

*Confidence requirement*

- A16. The 'Confidence' requirement relates to the role consumers and merchants play in the development of a thriving API enabled payments ecosystem.
- A17. **Confidence:** Consumers and merchants demand these API enabled products and services and have the confidence and trust to switch to them from existing payment products.

## Annex B: Expectations for industry

- B1. The expectations for industry set out in **Table B1** of this annex are aimed at supporting the development of a thriving API enabled payments ecosystem. They have been informed by our analysis of the submissions received on the request for views paper, insights gained from industry activity and engaging with stakeholders.
- B2. Setting these expectations supports our purpose under the Act.<sup>14</sup> We consider a thriving API enabled ecosystem will result in products and services that better meet consumers needs. This will promote competition and efficiency in the retail payment system for the long-term benefit of businesses and consumers in New Zealand.
- B3. Our expectations may evolve over time as progress is made or new information comes to light, at which point we may need to reset these expectations.
- B4. These expectations are aimed at **Payments NZ** (and the **API Centre**) as well as **ANZ, ASB, BNZ, Kiwibank** and **Westpac** who have already committed to the API Centre Minimum Open Banking Implementation Plan.<sup>15</sup> These banks collectively represent over 90% of all consumer's bank accounts in New Zealand.
- B5. We consider 90% coverage of consumers would support the development of commercially viable API enabled payment products.
- B6. We anticipate that **other banks** will join the API enabled payments ecosystem in the future driven by market incentives. For example, as consumer demand increases, the likelihood is that other banks will invest in API development. However, there may be a place for regulatory invention to encourage these other banks to join this ecosystem.
- B7. Our first two expectations in **Table B1** relate to industry meeting the minimum requirements described in **Annex A** in a timely manner to limit the need for regulatory interventions.
- B8. We are also cognisant that industry's progress on some of these minimum requirements may be limited in the short term, for example the partnering requirements, so we have some further expectations to ensure that progress does not stall in the short term.

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<sup>14</sup> Retail Payment System Act 2022, s 3.

<sup>15</sup> <https://www.apicentre.paymentsnz.co.nz/standards/implementation/minimum-open-banking-implementation-plan/>

**Table B1: Expectation on industry**

**Expectation # 1:** We expect **banks** to meet the “APIs” and “Partnering” minimum requirements set out in **Annex A** in a timely manner. This reflects the high priority that should be given to enabling a thriving API enabled payment ecosystem that supports the economy.

**Expectation # 2:** We expect **banks** to strive to ensure the “Participation” and “Confidence” minimum requirements set out in **Annex A** are met and will work with industry, regulators and other relevant stakeholders to ensure these are met.

**Expectation # 3:** We expect the **API Centre** governance to operate in a manner that supports efficient decision making, including:

- 3.1. to continue using a majority decision making model, and
- 3.2. providing public transparency on the decisions, including when the **Payments NZ Board** does not approve recommendations from the **API Council**.

**Expectation # 4:** We expect **Payments NZ** to engage with us alongside RBNZ as part of its current governance review. This engagement may result in further expectations on governance of the decision making of **Payments NZ** and/or the **API Centre**.

**Expectation # 5:** We expect the **API Centre** to operate in a manner that is transparent, including providing public transparency on:

- 5.1. a 5-year rolling plan for the functional development of the API standards
- 5.2. a 5-year rolling plan for the development of the non-functional aspects of APIs
- 5.3. a 3-year implementation plan for the banks’ delivery of the APIs and the non-functional aspects of the APIs
- 5.4. a regularly published readiness report for **banks’** delivery against the 3-year implementation plan, and
- 5.5. the level of API activity, including partnering and API use.

**Expectation # 6:** We expect the **banks’** existing bilateral partnering processes and negotiations between banks and third party payment providers will continue until a better alternative is developed.

- 6.1. Given the outcome of the Payments NZ authorisation process is unknown, we do not want progress to stall on new, or in-progress, bilateral partnering agreements.
- 6.2. We expect **banks** to be transparent with us and third party payment providers on what their bilateral partnering process is.

**6.3.** We expect **banks** to be transparent with third party payment providers on where they are at in their partnering process and provide us with a regular report on partnering.