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Commerce Commission
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Introduction

Banzpay Technology Limited (**Banzpay**) welcomes the opportunity to respond to the draft market study on personal banking services dated 21 March 2024 (**the draft market study**).

Banzpay is a mature fintech providing a range of banking and payment technology solutions to financial institutions across New Zealand and the Pacific Islands.

In general terms Banzpay endorses the summary of preliminary findings in chapter 2 and the recommendations in chapter 10 of the draft market study. We wish to comment specifically on several recommendations concerning:

1. Accelerating progress on open banking.
2. Ensuring the regulatory environment better supports competition.
3. Empowering consumers.

We also offer commentary on whether the present governance arrangements of the API Centre (**the Centre**), and Payments NZ's Board oversight, are fit for purpose to deliver open banking.

Before turning to the details of our submission we wish to emphasise that across industry and government a range of important work is underway which needs to be properly integrated to deliver a future proofed, safe, innovative, and highly interoperable payments ecosystem. This work includes, but is not limited to, any decisions taken by Government in response to the draft market study, the possible designation of the interbank payment network, the pending Customer and Product Data legislation, Payment NZ's work on Next-Generation payments, the Centre's Minimum Open Banking Implementation Plan, the results of the ESAS access review and the implementation of the Digital Identity Trust Services Framework. Without proper integration a more competitive and vibrant landscape for personal banking services is much less likely to emerge.

Accelerating progress on open banking

The draft market study clearly articulates the role technology can play as an enabler of competition and, in particular, the potential for open banking to deliver innovation and disruption in the sectors covered by the study.

Banzpay has recently been examining the opportunities open banking presents. As both a potential new entrant to the open banking ecosystem and a mature fintech, we agree with the Commerce Commission's (**the Commission**) conclusion that progress on open banking has been too slow.

Our reading of the draft market study, together with our in-house assessment, has underscored that the effort expended to date by the Centre has mostly focused on delivering the architecture for an open banking ecosystem.

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While elements of that architecture are to be commended, open banking in New Zealand has only achieved sluggish progress. A significant improvement in the pace of delivery is required. Banzpay considers it critical for next steps to include:

- Leveraging insights from other markets, especially the United Kingdom and Australia, on how best to raise consumer education and awareness of open banking. This could play a significant role in achieving the confidence minimum requirement set out in paragraph 9.83.4 of the draft market study.
- Ensuring there are appropriate standardised commercial terms available to Third Parties who wish to partner with API Providers, so the emerging ecosystem does not fragment due to a wide variety of different contracting arrangements. At present it is not yet clear commercially viable partnering opportunities exist.
- Developing the required API standards in a way that supports a flourishing API enabled ecosystem that can grow beyond open banking to include open finance.

We were encouraged the draft market study clearly signals:

- The importance of digital identity in the future success of open banking. In our view it will be critical to align work across several government agencies, including the Department of Internal Affairs and the Ministry of Business Innovation and Employment, with efforts from the Centre and the banking and fintech industry. Without that alignment there is a risk the full potential of digital identity will not be realised in the open banking ecosystem.
- A role for Government in supporting the use of open banking payments. We note in the United Kingdom, government has been instrumental in supporting 'pay by bank' use cases.

We wish to make three observations on the draft recommendation that the Government should set clear deadlines and work with industry to ensure opening banking is fully operational by June 2026 (paragraph 10.27 refers).

- 1) It would be extremely helpful to identify who in Government will set those deadlines and work with industry. There are a range of possible candidate organisations, including the Commission, the Ministry of Business Innovation and Employment, the Reserve Bank, and the Council of Financial Regulators. Having a single Government agency with clear responsibility for ensuring a joined-up approach across Government would help raise confidence the June 2026 deadline can be met.
- 2) Clarity is required as to who will represent industry in ensuring the June 2026 deadline is achieved. The Centre is one possible industry representative body. Using the Centre in that capacity gives the best possible chance of capitalising on the good work the Centre has undertaken to date. That said, if the Centre is to fulfil such a role, it is critical those organisations who are not currently part of the Centre's ecosystem also have a voice and a vote in both the deliverables and deadlines. The future open banking ecosystem needs to reflect the interests of prospective as well as current ecosystem members.
- 3) We agree June 2026 is a feasible date for the open banking ecosystem to be fully operational. However, we think there is considerable benefit from requiring a detailed roadmap to be produced covering the period to June 2026. That roadmap should show the key milestones to be achieved ahead of that date. If the Centre is to be the representative industry body, then production of that roadmap should fall to the Centre. That roadmap should be a public document. Its publication should be a first step in developing and publishing a long-term roadmap for the on-going evolution of the ecosystem. That long term roadmap should be part of a broader roadmap which speaks to payments modernisation generally. A definitive payments modernisation roadmap would help give confidence in the evolution of open banking use cases.

Finally, we note designation of the interbank payment network could provide the Commission with the necessary regulatory powers to address any further delays in the rollout of open banking. This would act as a powerful incentive on the Centre and industry generally to ensure progress is made and that

collateral, such as the roadmaps mentioned above, are delivered in a timely manner. We understand the proposal to recommend designation of that network is the subject of a separate consultation by the Commission.

Ensuring the regulatory environment better supports competition.

Chapter 9 of the draft market study correctly concludes the current ESAS access arrangements may be detrimental to competition.

Our experience is a lack of access to an ESAS account imposes a competitive disadvantage to any new entrant wishing to provide services leveraging the interbank payment network. These disadvantages include additional costs, the uncertainty of continuing services (e.g. de-banking) via agency banking agreements with ESAS participants and power imbalances in negotiating these agency arrangements. Together these factors have constrained the breadth of new entrant product and service offerings that are able to come to market.

Banzpay has successfully performed transactional banking activities into the interbank payment network for its credit union customers since 2002 under an agency banking relationship.

[REDACTED]

[REDACTED] We note the Reserve Bank has stated it is targeting late 2024 to release its final access policy and to open invitations for new ESAS applications for non-bank applicants at the end of the year.

Banzpay believes that without increased access to ESAS and the interbank payment network smaller, innovative providers have little chance of reducing their reliance on their larger bank competitors. This in turn entrenches both the competitive advantages of those banks with access and the competitive disadvantages of those institutions without access.

For these reasons we endorse the Commission's draft recommendation in paragraph 10.41 that the Reserve Bank, in its review of ESAS access policy and criteria:

- place significant weight on the benefits to competition and innovation in the personal banking sector that would result from broadening access to ESAS accounts; and
- consider whether the risks it has identified are already present in the system, indirectly under agency banking arrangements, but with less Reserve Bank visibility.

Empowering consumers

Chapter 8 of the draft market study discusses how barriers to switching between providers limits competition.

In the context of personal banking services, Banzpay's assessment is that a high level of customer mobility works as a powerful feedback mechanism to place competitive pressures on banks to win and retain business. More specifically:

- Firms who benefit from those barriers to switching face limited incentives to innovate for the benefit of consumers and the wider economy more generally.
- Consumers facing barriers are prevented from accessing the most suitable product or service mix because they are effectively locked into a relationship with their provider. The implication of lock in is that consumers are forced to think about how well that provider can meet their needs over multiple periods rather than a single period.

We note the considerations a consumer needs to balance in switching are more complex in banking than, say, in mobile telecommunications. Nonetheless, we agree it is desirable, from a first principles policy perspective, for it to be as easy as possible to shift providers.

In May 2014, the Productivity Commission released a publication 'Boosting productivity in the services sector'. That publication commented specifically on switching in banking. Among other things the publication noted that "the banking industry recently introduced a system to streamline the process of switching banks. The publicity and transparency of this process should be increased."ⁱ

At that time the Productivity Commission concluded, in recommendation 6.3, that to demonstrate the effectiveness of the existing bank switching process Payments NZ should collect and publish statistics showing the number of bank switches each year and how long the switching process takes.ⁱⁱ That recommendation does not appear to have been acted on.

While we acknowledge both Payments NZ and the New Zealand Banking Association publish material on account switching, that material could be significantly enhanced if it directly spoke to the major concerns consumers are likely to have in any decision to switch. These include concerns about liability, completeness, and timing of the switch.

We agree New Zealand's switching service could be improved through the adoption of a model similar to that in the United Kingdom, or at the very least, specific incentives being imposed on Payments NZ to improve the switching service and to monitor its performance. Accordingly, we endorse draft recommendation 11 that industry should create an enhanced switching service with appropriate Government oversight. That service could be extended to non-bank providers offering similar services i.e. automatic payments.

We wish to make two observations about that recommendation:

- 1) The switching service should be enhanced in a way that embraces open banking. In short there would be little point in having two distinct ecosystems develop – one concerned with account switching and the other concerned with open banking. The switching service should be designed to reinforce a seamless customer journey in respect of open banking. It is important that customers do not lose access to open banking products when switching banking providers for some or all of their accounts.
- 2) If Payments NZ is to be charged with leading industry work on the redesign of the switching service, then it should be required to do so using a consumer representation lens and for that lens to recognise that consumers are diverse rather than homogeneous. The key point is that unless a consumer centric lens is adopted there is a material likelihood the redesigned switching service will not meet consumer needs as they evolve over time.

Present governance arrangements

The Commission has invited comments on whether the present governance arrangements of the Centre, and Payments NZ's Board oversight, are fit for purpose to deliver open banking.

Our assessment is the lack of progress on open banking rests not on the Centre but on the banks, who to date have had few incentives to develop and deploy the API standards required to support a flourishing API ecosystem.

Having said that, looking ahead, to function properly, the Centre needs:

- security of funding;
- greater public accountability and transparency in reporting; and
- the current API Council (**the Council**) to be reconfigured, so it comprises a majority of independent decision makers.

Those new arrangements will work best if the reconfigured Council has a specific mandate to:

- improve the pace of delivery;
- focus on the realisation of improved outcomes for consumers; and
- over time, actively build alignment with open banking in Australia and other major trading partners.

That mandate needs to be reinforced by a strong regulatory backstop which can take swift action to prevent current progress from stalling.

The Commission has expressed a preliminary view there is a perception of the potential for conflicting interests on the part of the banks that govern Payments NZ to inhibit confidence in, or neutral delivery of, the Centre's work. While there are three independent directors appointed to the Payments NZ Board, those directors are in the minority. Accordingly, we agree there is such a perception. A first step in addressing that perception would be for Payments NZ to provide public transparency on any Board or Management Committee decisions with the potential to impact open banking, including when its Board does not approve a recommendation from the Council.

Conclusion

It is critical the market for personal banking services continues to modernise and to evolve in a way which supports and promotes competition and innovation. The draft market study represents a watershed publication in that regard because it represents the first in-depth assessment of whether competition in personal banking services is promoting outcomes that benefit consumers.

While the major banks, ANZ, ASB, BNZ and Westpac, have introduced a range of product and service innovations over the years, we believe they do not currently face strong competition when providing personal banking services.

Our concern is the interests of those major banks do not sufficiently align with the interests of smaller financial institutions, those organisations providing banking and payment products and services to those institutions, potential new entrants, consumers, and the wider economy. In short, while the personal banking services market might be competitive, it is not competitive enough.

While Banzpay agrees with the Commission's finding that there is no single quick fix to improve competition, we wish to stress there is an important role for greater regulatory oversight to ensure consumers enjoy the long-term benefits of a more competitive personal banking landscape.

We would be happy to answer any questions the Commission might have on this submission.

Yours sincerely,

Jonathan Lee
Chief Executive

ⁱ [Boosting productivity in the services sector](#)

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