

26 February 2024

Commerce Commission  
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Wellington 6140

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To whom it may concern,

**Squirrel submission on Payments NZ's application seeking authorisation to further develop its open banking framework**

**Introduction**

Squirrel is a New Zealand financial services provider, holding licences for Financial Advice (mortgage broking), and Peer-to-Peer lending. Squirrel settles [ ] of mortgages annually and has circa [ ] of funds under management.

Squirrel is proudly New Zealand owned and operated. We use a range of financial services from both domestic and offshore providers to support our customer propositions. Squirrel is a potential provider of data under an open finance framework in the future. Squirrel's primary technology platforms are cloud native and API driven and is headed toward SOC2 compliance. Squirrel was the first FSP to use LIXI to digitally send loan applications to one of the big five banks.

There is almost 200 years of financial services experience across Squirrel's Board and Senior Leadership team. Squirrel CEO, David Cunningham is ex-CEO of Cooperative Bank, and Squirrel Founder, John Bolton, has held senior management positions with Westpac and ANZ. Squirrel Chief Operating Officer, Dave Tyrer, has held senior positions at ANZ, including Head of Transformation and responsibility for ANZ's approach to Open Banking pre-pandemic.

**Squirrel's view of open banking in New Zealand to date**

Payments New Zealand began work on its set of Open Banking standards in approximately 2015. The standards created are a useful starting point for supporting consumers and businesses to leverage their data and banking needs via service providers. Setting up the API Centre with its own structure is useful, and Squirrel appreciates the work delivered by this team.

The primary challenge observed from work completed to date is that we're nine years down the track and the first services are mandated as of later this year. Squirrel does not believe nine years is an acceptable timeframe for providers of data and services to reach mandatory provision.

Squirrel has empathy for data and service providers given the various regulatory and technological challenges that have arisen over this period, as well as those resulting from the Covid pandemic. But what cost has this delay had in terms of the pursuit of innovation and competition? Is it acceptable that a bank-owned entity has been unable to reach consensus on a mandate until recently to implement new services from work commenced in 2015?

A range of new and existing providers have developed services in unsanctioned ways prior to and over that nine year period, as they could not wait for the mandate to arrive. Squirrel is a beneficiary of the work done by these organisations and uses unsanctioned services to support its customer propositions today.

In Squirrel's view, had regulatory intervention occurred to confirm the services that needed to be provided, and timeframes mandated, the industry would have delivered more innovation, and created enhanced conditions to support competition.

Over those nine years, New Zealand's five main banks have arguably sustained or increased their dominance, while the fledgling fintech sector has been starved of opportunity. In addition, service providers such as Visa have continued to assert their dominance in payment mechanisms with fintechs having little option to create alternatives using other payment rails. The RBNZ's study into NZ bank profitability suggests a lack of competition as one of the factors supporting growth of large banks.

Open Banking is no panacea for changing the innovation and competitive landscape overnight, however it will certainly support the conditions to allow these factors to better flourish.

### **Payments NZ's submission to the Commerce Commission**

Broadly speaking, Squirrel agrees that the services Payments NZ has suggested need to be put in place to support a cohesive Open Banking regime. However we strongly differ in our view as to how these services should be governed and driven.

Payments NZ is owned by banks. It would be unconscionable to effectively appoint the banks to have influence over:

- a) Who needs to provide services;
- b) Who can use the services provisioned under open banking; and
- c) When those services need to be available.

To Squirrel's knowledge, no other jurisdiction globally has supported an industry body owned by the incumbents to make decisions on Open Banking. Allowing Payments NZ to govern open banking could potentially lead to:

- Slower provision of services;
- A reduced number of services being available;
- Third-party users being excluded on grounds that may not be in the best interest of NZ;

- A focus on payment related activities at the expense of thinking about the financial services that can support a more competitive industry and enhanced outcomes for NZ Inc; and
- The continued balance of power resting with the incumbents.

Clearly, industry input is required into the delivery of the necessary technical standards. Squirrel supports organisations such as Payments NZ/API Centre having input into the creation of these standards, alongside that from other potential third parties wishing to use services provided by banks.

Taking a wider angle lens on this submission, and assuming the 'Open Standards' will be rolled through other industries, appointing Payments NZ to govern open banking sets a dangerous precedent. Would a body owned by the major electricity wholesalers and retailers best govern standards and timeframes for that industry? The same can be asked of the telecommunications industry, and many others.

### **Squirrel's view**

Never shy of an opinion, here are Squirrel's thoughts on what's required in order to get the best of the move toward open banking:

- The body overseeing 'Open Standards' should be a government-controlled organisation. The mandate of this body should be to determine the services that need to be provided, and timeframes for their implementation. Squirrel appreciates this may take time and money to set up, however we believe the benefits of controlling the mandate are substantial when it comes to increasing innovation, competition, and speed.
- This body would oversee the provision of services and timeframes across industries, leveraging knowledge across common elements of an open standards framework (e.g. cyber security). This also enables views where data may be combined across industries to create innovative and competitive services.
- This body would work with industry participants on the technical standards, and not be limited to a single organisation such as Payments NZ as the only knowledge point.
- Open Banking should very quickly become 'Open Finance', encompassing fund managers, insurers, IRD, and even P2P providers.
- The Commerce Commission, in conjunction with the Council of Financial Regulators, should determine the best owner within Government to manage 'Open Standards' and reject Payments NZ's application to control open banking. The solution may include splitting the API Centre from Payments NZ to facilitate the acceleration of technical standards across mandated solutions and yet-to-be-mandated solutions. The short-term solution around who is responsible for governing this Open Standards Body may be different than that which is best for the longer-term.

### **Conclusion**

Squirrel believes the Commerce Commission should reject the bid by Payments NZ in favour of a Government-led alternative. The objectives of this organisation should be to move at a speed that's

deemed safe and delivers services beneficial to NZ INC in promoting innovation and competition, ultimately, across industries.

Should you wish to discuss this submission, please do not hesitate to get in touch via the details provided below.

Yours sincerely,

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