

18 April 2024

Submission: Draft report on the market study into personal banking services

Executive Summary

1. Paymark Limited, trading as Worldline New Zealand (**Worldline**), is grateful for the opportunity to provide feedback on the Commerce Commission's (**NZCC**) draft report on the market study into personal banking services (the **draft report**) released 21 March 2024.¹ Please note that our submission contains commercially sensitive information and that a separate, confidential version is provided.
2. In this submission we mostly focus on *Draft recommendation 3: Accelerate progress on open banking*² alongside some more general feedback. Worldline is a payment innovator that provides API-based open banking products, and we support the draft recommendation. We do, however, think that a target date earlier than June 2026 is both desirable and achievable.³
3. Worldline faces challenges and concerns with open banking, particularly around the delays and lack of support from banks, especially Kiwibank, in implementing and promoting open banking products, such as Online Eftpos and Worldline Contactless.
4. Alongside that, New Zealand's local proprietary debit product "Eftpos"⁴ has had no investment or innovation from Payments New Zealand (**PNZ**)⁵ who set the rules for Eftpos, and, as a result it continues to decline. With it goes an important competitive constraint on international card schemes, such as Visa and Mastercard (**Schemes**). For there to be effective competition for the long-term benefit of New Zealanders

¹ See https://comcom.govt.nz/_data/assets/pdf_file/0033/349368/5BPUBLIC5D-Draft-report-Personal-banking-services-market-study-21-March-2024-Amended-10-April-2024-.pdf

² Ibid. Pages 235 to 243

³ Ibid. Page 250, section 10.27

⁴ Proprietary Eftpos cards are issued by consumer banks, they have a magnetic stripe and do not bear a Scheme brandmark.

⁵ PNZ is owned and controlled by 8 New Zealand banks.

we need new, digital, efficient, domestic payments products that are widely adopted and accessible to all New Zealanders

5. Worldline urges the Government and the NZCC to provide more certainty, standardisation, and functionality for open banking APIs, to update the legislation and regulations to enable digital identity services, and to develop a holistic strategy for payments innovation.

Background

6. The decline in local debit usage both affects consumer choice and has broader implications for our financial autonomy. As transactions increasingly move to the international Schemes, we risk becoming entirely dependent on these systems, which could lead to higher costs for consumers and reduced competitiveness for local businesses. While both the Commerce Commission and the Reserve Bank have noted that it is undesirable for New Zealand's financial stability to have payment processing solely in the hands the Schemes, there continues to be a lack of action on this important issue that will help avoid that outcome.
7. It is crucial that we explore and support alternative payment methods that can sustain and enhance our domestic financial infrastructure, which (due to New Zealand's sub-scale market) means support from a minimum of the four major banks plus Kiwibank is essential. Encouraging innovation in this space will not only provide more options for consumers but also ensure that our financial system remains robust and competitive.
8. Worldline is the only Fintech in New Zealand to have open banking APIs⁶ enabling account-to-account payments with the major banks. It took over five years to accomplish this, and while our Online Eftpos⁷ product is liked by consumers and merchants, the banks do not drive consumer and/or merchant uptake. More recently, Worldline has been trying to work with the Banks, including Kiwibank, to enable a local instore account-to-account digital debit proposition in market to provide a future for digital debit. There is interest, but the translation from interest into commitment from banks as to commercials and execution, both of which are necessary to enable a launch, is simply too slow.

⁶ Application Programming Interfaces

⁷ See <https://www.paymark.co.nz/products/online-eftpos/>

9. Competition and innovation in open banking are highly dependent on bank progress, greater standardisation of APIs, more features and functionality, a clear roadmap and timely delivery. The commercial success of any payment product depends on the bank support and promotion to their consumer base.
10. Fintechs are vital to a flourishing ecosystem and there are some great apps in the market which help with money management. However, most either use a Scheme product, such as prepaid cards (which are not subject to the interchange fee caps) to make the actual payment⁸ or they use sub-optimal methods such as reverse engineering and screen-scraping.⁹ Fintech's have struggled to get bilateral agreements with banks, so they have little choice but to partner with the Schemes. Worldline has an open banking payment platform, and agreements with the four major banks plus Co-op and Heartland, but those agreements do not allow us to provide payment services to other Fintechs.
11. We would like to support Fintechs to use our payment capability instead of the Schemes. We believe this could provide better outcomes for consumers and merchants, removing unnecessary costs of doing business in New Zealand, but: 1) our API agreements do not provide for partnering; 2) we pay the banks to access APIs so we need to charge the Fintechs; and 3) we cannot compete with the incentives given to Fintechs and banks by the Schemes, which particularly in the case of banks, has a strong tying effect and drives a lot of their behaviour in the market.
12. PNZ is driving a framework for open banking via the API Centre, and it is doing its best in an unregulated environment. However, focus on instore payments is lacking. There is no strategy to retain or protect domestic payments whether that be via open banking or traditional payment cards.
13. Eftpos is woefully outdated. The rules for issuing and accepting Eftpos are owned and managed by PNZ yet these rules, and therefore the product, have not been kept current. The substantive acceptance and card design rules remain the same as they were in the 80s. Eftpos machine terminal hardware is an end-of-life product to be superseded by Softpos¹⁰. Magnetic stripe on the card is an end-of-life

⁸ Dosh uses Visa Prepaid, SquareOne, Emerge and Immersive use Mastercard Prepaid.

⁹ Akahu, POLi and Windcave's "Account-to-Account" products use screen-scraping and/or reverse engineering, see paragraphs 3.26 to 3.28 at https://comcom.govt.nz/_data/assets/pdf_file/0022/348070/Retail-Payment-System-Consultation-on-our-proposal-to-recommend-designation-of-the-interbank-payment-network-27-March-2024.pdf

¹⁰ See <https://landing.softspace.com.my/softpos/>

technology¹¹, and once Softpos becomes the acceptance device of choice, the Eftpos card can no longer be used. This will likely occur before the 2030 date in which magstripe is no longer allowed by Mastercard. To ensure consumers can use domestic payments easily, and that a competitive constraint on the Schemes remains, we need to replace Eftpos with a more modern product before it is completely gone.

14. Already, some merchants are no longer providing contact (insert/swipe) payment facilities, opting solely for contactless payments to take advantage of the ability to recover costs by applying surcharges. There are new acquiring and terminal offerings in market that are Scheme only, they do not accept Eftpos cards. The contact Scheme debit is sent to the acquirer and Scheme instead of the issuer, locally (in breach of PNZ rules). Very soon, in the absence of meaningful and urgent market intervention, all payments will be Scheme payments. This will have a significant and immediate effect on consumers and merchants. Merchant service fees (**MSF**)¹² will apply to all transactions. Merchants are worried about the prospect of increased costs, and critically, consumers will no longer have a 'surcharge-free' non-cash payment option. Simply regulating surcharges will not be sufficient, as has been demonstrated in other jurisdictions.
15. The payments industry needs to have a comprehensive conversation regarding the future of Eftpos and the move to a new domestic digital debit solution, which can compete with the Schemes and provide real benefit to consumers.
16. In our view, this "future Eftpos" will be an account-to account API product, which can be used online and instore by all merchants. It will have lower overall infrastructure costs compared to existing legacy systems (including Scheme), and, in time, it will combine payments with digital identity and loyalty. However, this sort of innovation requires the payments industry to work together, as it did when Eftpos was first introduced. So far that collaboration is missing, and, in the absence of regulatory drive, perhaps this is an opportunity for the public sector to leverage private sector capability via a public-private partnership to accelerated innovation, much as has happened in India¹³. We cannot continue to invest in the future of debit

¹¹ See <https://www.mastercard.com/news/perspectives/2021/magnetic-stripe/>

¹² MSFs are made up of interchange fees, scheme processing fees and the acquirer margin. On the Worldline switch approximately 40% of transactions are processed switch-to-issuer, these transactions do not attract merchant service fees. Those transactions are processed under an \$18.90 per month per terminal fee for an unlimited number of transactions.

¹³ See <https://pib.gov.in/FeaturesDeatils.aspx?Noteld=151163&ModuleId%20=%202>

(whether online or instore) if we are reliant on a “one bank at a time” approach, particularly when each bank takes years to engage, commit, and the finally deliver. Their willingness to invest profits in improving, innovating and developing infrastructure at a pace that is commercially viable for Fintechs is lacking.

17. Digital identification and verification services are necessary for the continued development of open banking services. Digital identity solutions will help, not just payments, but also other areas such as fraud reduction and easier bank account switching. For this to succeed we need more than just bank participation in the digital identity market; we need all Government agencies that hold personal data to participate (particularly Waka Kotahi/NZTA, Inland Revenue and Ministry for Social Development) and for legislation requiring sight or collection of paper documents to be amended.
18. A holistic, overarching strategy for payments would provide clarity to reassure payments innovators that regulators are serious about providing a climate in which payments innovators can access the information and services they need to succeed.

Worldline New Zealand

19. Worldline New Zealand was established in 1984 to provide low-cost Eftpos transaction processing as a way of enabling banks and merchants to move from cash to electronic payments. The launch of Eftpos catapulted New Zealand (at the time) to the global forefront of payments innovation and we continue to be New Zealand’s leading payments innovator. We design, build and deliver payment solutions that help Kiwis succeed and we have a strong drive to see New Zealand at the forefront of global payments innovation once again. Worldline New Zealand has been a part of Worldline SA, our parent company (a French corporation), since 2020. We process Eftpos transactions and transactions that are routed out to the Schemes, we provide payment gateway solutions to ecommerce platforms and directly to ecommerce merchants, and we have an API-based platform and an in-market ecommerce open banking payment product called Online Eftpos. We are a New Zealand based entity employing circa 200 people in Auckland.

Worldline’s open banking payments capability

20. We have fully integrated payment APIs with the four major banks and two of the second-tier banks¹⁴. We are a foundation member of PNZ’s API Centre. We are

¹⁴ ASB, ANZ, BNZ, Westpac, Co-op & Heartland (noting that Heartland’s API is currently paused)

active in both the API Centre working and business groups and, until last year, the API Council. To our knowledge, there are only two companies in the New Zealand market have payment products in market that utilise APIs built to the API Centre's standards¹⁵, and Worldline is the only company that has APIs with the four major banks; testament to the challenges involved in working with the banks. Our open banking payment product (Online Eftpos) sees increasing volumes month-on-month despite little promotion to consumers. This demonstrates the demand for such products.

21. Worldline is now focused on developing Worldline Contactless, an instore local debit product that uses our existing APIs and integrates digital identity, loyalty, and payments into a seamless, contactless interaction. A virtual bank-branded card will be issued by the bank to a consumer's wallet on their mobile phone.
22. These products have the potential to deliver real benefits to consumers and provide effective alternatives to Scheme products, but success in a sub-scale market such as New Zealand will require broad market adoption, which in turn is dependent on crucial industry (as well as regulatory) support.
23. Merchants have indicated they are keen to accept alternative payment products such as these, and specifically Worldline Contactless is attracting interest from retailers, who are keen to benefit from a lower cost, contactless, debit product that does not require them to change their existing hardware. We have designed the product so it can be accepted at any terminal on any payment network in New Zealand, but its success is dependent on all New Zealand banks (or at least the four major banks plus Kiwibank) issuing the product to their account holders and connecting to us via APIs that are fit for instore transactions.

API standards need more functionality

24. The API standards do not currently contain all the functionality required for **online** transactions let alone **instore** transactions. Some items are on the API Centre's Minimum Open Banking Implementation Plan (**API Centre Implementation Plan**), but many are not. We are not convinced the API Centre standards will contain everything we need in the version to which API providers will need to build to when targeting the June 2026 fully operational date. If we are to see real competition in the interbank payment network for bill payments, automatic payments, direct debits and direct credits as referred to in the NZCC's recent proposal to designate the

¹⁵ Worldline and BlinkPay

interbank payment network¹⁶ then all banks need to implement enduring consent. So far, we only have enduring consent enabled with ASB and, while work is in progress with BNZ to deliver enduring consent, we are competing with other priorities at the bank. Therefore, the time taken to complete the project is disproportionate to the work required. We wear the cost of the development upfront, and this is generally not a cost most Fintechs can absorb for an unknown period.

25. Neither the API standards nor the API Centre Implementation plan provides for instore transactions. For instore transactions, it must, at a minimum, be mandatory that the APIs carry data rich ISO20022 based schema.¹⁷ Moreover, if the banking industry does go ahead with a real-time payments system¹⁸, APIs need to be using that messaging scheme to integrate (and for any existing API-based products to remain relevant). Currently APIs are being built that have little chance of integrating to a real-time system which again, drives uncertainty into the payments innovation market. ISO20022 schema is also necessary for the implementation of robust digital identity services.
26. Not only is bank implementation of the API Centre standards progressing slowly, but the progress also takes place at different times. For open banking payments to be successful, all New Zealand banks need to participate at the same (or similar) time. Unfortunately, banks' prioritisation of innovation seems to be challenged by competing regulatory priorities, regulatory compliance matters, Scheme compliance items (many of which add little or no value for anyone other than the Schemes themselves) and the commercial incentive for banks to issue and acquire Scheme products.
27. The API Centre Implementation Plan is largely dictated by the banks as API providers; the third parties must just wait. The standards can only be developed as fast as the slowest bank. While the efforts undertaken so far are steps in the right direction, the API Centre Implementation Plan does not provide sufficient certainty, or the functionality needed to ensure open banking will be fully operational by June 2026. In addition, the banks, as API providers, can seek exemptions or extensions from the API Centre. Enforcement is weak (a symptom of regulatory capture) as it is

¹⁶ See https://comcom.govt.nz/_data/assets/pdf_file/0022/348070/Retail-Payment-System-Consultation-on-our-proposal-to-recommend-designation-of-the-interbank-payment-network-27-March-2024.pdf

¹⁷ See <https://blog.seeburger.com/iso-20022-payment-integration-for-real-time-payments/>

¹⁸ See <https://www.paymentsnz.co.nz/our-work/next-generation-payments/>

via the API Centre membership terms and conditions and there is no real consequence for non-compliance.

28. Membership in the API Centre is not mandatory for banks, several New Zealand banks do not participate, and those that do could simply choose not to comply with the API Centre Implementation Plan and cease membership of the API Centre. The API Council has very little representation when it comes to open banking payments products. Five banks have seats and only two of those are up to date with the API Centre Implementation Plan for payments APIs. The third-party seats are mostly made up of businesses that have areas of interest outside of open banking payments¹⁹; only two third parties on the API Council have open banking payment product in New Zealand so it is not surprising that progress in that area is slow.
29. The lack of certainty is delaying progress in payments innovation. Third-party providers require broad access to banks' APIs to ensure the commercial success of new products. The difficulties we have faced in penetrating the banks has massively (and unnecessarily) inflated the cost of bringing Online Eftpos to market and delayed its ability to stand as a profitable product. Smaller Fintechs without existing stable revenue streams cannot achieve this and we are not permitted to help them. Furthermore, in our stakeholder discussions relating to our Online Eftpos product, KiwiBank's extended deadline has been cited to us as a reason for merchants (including government departments) to continue to use POLi. POLi uses screen-scraping, which is less secure as it requires consumers to share their internet banking login credentials with third parties (often contravening banks' terms and conditions). Bank delays in implementing the API standards not only hinders payments innovation but indirectly incentivises and encourages less secure payment methods.
30. Consumers like using Online Eftpos which means they appreciate having a choice when shopping online. We are seeing record transaction numbers each month (noting that these numbers, while positive, are significantly lower than our traditional payment products). Online Eftpos also receives positive feedback from consumers, despite the fact the experience is not as seamless as it could be. They

¹⁹ Of the seven third party seats on the API Council, the only API Council member with an open banking payment product is BlinkPay. Quipay and Middleware have open banking solutions, but these are not for payments. Visa and Mastercard show interest in open banking services or apps that use their cards for payments. Akahu has account information APIs but is using screen scraping and reverse engineering to make payments on behalf of consumers. SalectNZ is a terminal provider.

say that it is “fast”, “easy”, “secure”, “simple” or “easier than entering bank card details” and they like that merchants seldom apply a surcharge.

31. Currently, limited resourcing of banks’ API products and services means operational service levels are often low, up-time is unreliable and response times can be poor. If something goes wrong, it can be challenging to find someone at the bank to fix it. While there is obvious consumer demand, the lack of resourcing from banks has also been damaging to trust in the product where the resulting unreliability has created a poor experience. Common complaints are that banking apps require too many steps and that transaction value limits are not commensurate with the level of risk for a merchant. Critically, some banks have extra steps for the first API transaction, but this is not clearly communicated to consumers - if the first experience is too cumbersome, people are less likely to use it again.
32. Greater certainty over banking implementation of API standards would help reassure payments innovators that regulators are serious about providing a climate in which payments innovators can succeed.

Bank support, including Kiwibank and the second tiers, is critical

33. The commercial success of any payment innovation ultimately depends on the support of at least the four major banks and Kiwibank. We agree that there has been very limited investment by the major banks in their core systems. These legacy systems do constrain the ability of the banks to innovate and compete. The major banks cite compliance costs as the number one reason for not being able to give more to open banking. The other reason, and arguably the one that influences banks’ overarching behaviour, is profit. Commercially rational, banks want to protect Scheme products that return significant revenue to the issuing banks.
34. Kiwibank should be empowered by its owner to disrupt the major banks. If any bank ought to be championing open banking and a domestic debit product to help Kiwis succeed, it is Kiwibank. The fact that they are approximately two years behind the four major banks when it comes to implementing APIs is very disappointing. Kiwibank’s reticence continues to have a negative impact, not only on the open banking ecosystem, but also on our open banking payments product, Online Eftpos. It will also impact the draft report’s recommendation that “Government take an all-of-government approach to accepting payments enabled by open banking

functionality”.²⁰ Government entities have repeatedly told us that enabling Kiwibank customers is a requirement for them to even consider using Online Eftpos. They say that having the four major banks is not enough. Without Kiwibank’s participation in open banking, the market and Government agencies will continue to accept outdated screen-scraping solutions which hinder the success of open banking and normalise the risky behaviour of sharing internet banking credentials.

35. Without clear support from Government and the banking sector, the necessary scale for success in any significant payments innovation is impossible to achieve.

New Zealanders deserve a choice – particularly instore

36. In New Zealand, the Scheme products far outweigh any other type of payment product both online and instore (including cash).²¹ Any transactions that are processed via the Schemes attract extra costs. In New Zealand, only a few Scheme products have regulated interchange fees. Concerningly, the open banking products that are not involved with payments themselves, are all loaded with Scheme products.
37. The new entrants do not have much choice. No open banking products are accepted instore, and the API Centre Implementation Plan does not even mention instore.
38. Alternative domestic payment products must be in place and established before the removal of magnetic stripe readers from terminals otherwise proprietary Eftpos is inevitably replaced by contactless Scheme debit. If we do not act now, the Schemes will have increased ability to set prices (other than the regulated interchange fees) or terms, or implement products, in a way that reduces consumer benefit, and which might be more difficult to do if there is an effective local competitor.
39. Legacy infrastructure required for Eftpos is no longer commercially viable. New Zealand must move to lower-cost, newer payments technology. For example, Worldline has this year embarked on an expensive [REDACTED- CONFIDENTIAL] switch upgrade. The new technology has a shelf-life of 5 years. At that cost it is not economically viable to keep the legacy infrastructure going for the remaining 20%

²⁰ https://comcom.govt.nz/_data/assets/pdf_file/0033/349368/5BPUBLIC5D-Draft-report-Personal-banking-services-market-study-21-March-2024-Amended-10-April-2024-.pdf paragraph 10.27.4

²¹ See <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/notes-and-coins/future-of-cash/2021-cash-use-survey-summary-report.pdf>

(and declining) of transactions.²² A move to more innovative digital options which do not rely on this infrastructure and allow for the development of other features and reduce costs for the whole ecosystem, including the banks. Digital debit, for example, could include digital identity services, can also help protect consumers by mitigating scams and, if applicable, ensure consumers see the benefit from the loyalty programmes they have signed up to.

40. For the time being, we will continue to provide payment processing for Eftpos transactions, however we have recognised the commercial realities of this landscape. Contactless Scheme debit transactions are rapidly replacing Eftpos transactions.
41. Without the Eftpos card in the market to compete with Visa and Mastercard debit, the Schemes are not materially constrained. Without further (scalable) innovation by other players, New Zealand will ultimately become reliant on the Schemes for its payment processing infrastructure, resulting in all such payments in New Zealand being processed offshore, thereby potentially creating significant risk to the New Zealand financial system. Other countries have recognised this risk and, looking to New Zealand's domestic Eftpos system, have sought to implement their own domestic solutions, through regulation. For example, Europe has introduced the European Payments Initiative²³, Australia has AusPayPlus²⁴, India has RuPay²⁵, and Singapore has Nets²⁶. These domestic solutions are regulated or have been regulated into existence and required significant investment from the banks.
42. The overall processing costs increase as issuers and consumers swap out their Eftpos cards for contactless Scheme debit cards. This replacement of low-cost Eftpos transactions by high-cost contactless Scheme debit, and the move from switch-to-issuer to switch-to-acquirer processing, will lead to higher overall costs and increased inefficiencies for no real gain. We want something better and more cost-efficient but, for that to succeed the issuing banks need to be on board, and at pace.

²² While this system also processes Scheme transactions, we note there are much cheaper options available if only Scheme transactions are left.

²³ See <https://www.epicompany.eu/>

²⁴ See <https://www.auspayplus.com.au/brands/eftpos>

²⁵ See <https://en.wikipedia.org/wiki/RuPay>

²⁶ See <https://www.nets.com.sg/>

43. Worldline Contactless consists of a payment token, issued by a bank, and held in a consumer's mobile wallet. Merchants can accept the payment at their existing terminal (with no need for new hardware). It can be used contactlessly, and the transaction is sent from the terminal to our open banking payment platform and then authorised by the issuer via open banking payments APIs. We completed a proof-of-concept last year, so we know it works. We now need a regulatory environment that motivates the New Zealand banks to provide the product to their account holders. Having only a few niche, open-banking products in market will not be enough to quell Scheme dominance.
44. If we do not invest in payment products that compete with Scheme, we will be beholden to their idea of innovation and their ever-increasing processing fees. We are already seeing it happen. Several Fintechs use Scheme products for their payments because it is too expensive to invest in open banking payments products. Some are also focussing on apps aimed at businesses which then contain a Scheme card, usually prepaid consumer or commercial card, none of which have regulated interchange fee caps. The interchange fees on those cards attract the highest fees and can be up to 2.2% of the transaction value²⁷ which is significantly higher than the 0.8% for card products that are subject to the initial pricing standard under the Retail Payment System Act 2022 (**RPS Act**).²⁸
45. The Scheme model adds more costs into the overall payments system.²⁹ For example, they mandate "compliance" features which deal with neither security nor fraud. A recent mandate relates to the inclusion of new trace element tags into transactions at the expense of terminal vendors, switches and acquirers. These tags simply help the Schemes feed their data models. Another example is the Schemes have mandated that Softpos indicators are included in the transactions. This is only to let the Schemes know it is a Softpos acceptance device and serve no other purpose. These requirements inhibit innovation as our time and resource is directed to "compliance", and then it drives costs into the proposition to merchants. We have been told we need to implement these "compliance" items and that there is no room for negotiation or the ability to recoup the cost of development from the Schemes. One "compliance" item will cost us an additional [REDACTED -

²⁷ See [Visa prepaid interchange https://www.visa.co.nz/about-visa/interchange.html](https://www.visa.co.nz/about-visa/interchange.html) Mastercard <https://www.mastercard.co.nz/en-nz/business/overview/support/interchange.html>

²⁸ See <https://www.legislation.govt.nz/act/public/2022/0021/latest/whole.html> Schedule 1, Subpart 3—Initial pricing standard, section 7(2) and 7(3)

²⁹ See [MBIE's 2016 Issues Paper – Retail Payments in New Zealand https://www.mbie.govt.nz/have-your-say/retail-payment-systems-issues-paper/](https://www.mbie.govt.nz/have-your-say/retail-payment-systems-issues-paper/)

CONFIDENTIAL] for no benefit to anyone other than the Schemes. If these “compliance” items are not delivered, Schemes levy hefty “fines” which are arbitrary in amount and near impossible to challenge.

46. In addition, the processing fees (often referred to as “assessment fees”) charged by the Schemes have significantly increased over the last ten years. In the United Kingdom, the Payment System Regulator has commenced an investigation into acquirer fees because its *“card acquiring market review”³⁰ found that fees paid by acquirers had increased significantly from 2014 to 2018 and further feedback from stakeholders highlighted that scheme fees have continued to increase since then.*
47. The Reserve Bank of Australia (RBA) notes that *“the cost of accepting debit card payments has risen for smaller merchants, driven by the ongoing rise of contactless (including mobile) transactions. These transactions are typically routed to Mastercard and Visa, which tend to be more costly for most merchants than those processed by eftpos.”³¹*
48. In Europe, merchants have indicated that savings due to interchange fee caps are partly eroded by increases in Scheme fees and interchange fees for commercial cards.³² Scheme fees have indeed risen significantly since the application of the European Union’s 2015 Interchange Fee Regulation³³. This has been confirmed by a “Study on the application of the Interchange Fee Regulation”³⁴ (the EY/CE Study) for the period 2015 – 2017. Furthermore, EDPIA³⁵ members can confirm that card scheme fees have risen further since.³⁶ The EY/CE Study says, *“acquiring margins and scheme fees from international card schemes have increased”*.³⁷
49. Scheme processing fees are rising significantly while local processing fees in New Zealand are relatively stable, cheap in comparison, and have been so for a very long

³⁰ See <https://www.psr.org.uk/our-work/market-reviews/market-review-into-the-supply-of-card-acquiring-services/>

³¹ See <https://www.rba.gov.au/publications/bulletin/2022/sep/the-cost-of-card-payments-for-merchants.html>

³² See page 6, https://ec.europa.eu/competition/sectors/financial_services/IFR_report_card_payment.pdf

³³ See <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32015R0751>

³⁴ European Commission, Directorate-General for Competition, Pavel, F., Kornowski, A., Knuth, L., et al., Study on the application of the Interchange Fee Regulation: final report, Publications Office, 2020, <https://data.europa.eu/doi/10.2763/137970>

³⁵ European Digital Payments Industry Alliance represents the interests of independent Payment Services Providers headquartered in Europe, see <https://www.edpia.eu/>

³⁶ See <https://www.edpia.eu/wp-content/uploads/2020/06/EDPIA-IFR-position-24-June.pdf>

³⁷ See page 12, <https://data.europa.eu/doi/10.2763/137970>

time. We anticipate that our new Worldline Contactless digital debit product would be significantly cheaper for merchants than Scheme processing fees and provide genuine competition in the market. Presently, local processing is underutilised and using Scheme processing services drives unnecessary costs into payments, at the peril of consumers and merchants. Once competition is lost, we have no choice but to comply with whatever the Schemes dictate, regardless of the costs to New Zealand Inc.

Digital identity and payments

50. Worldline Contactless is a local debit product that uses our new digital payments platform and integrates digital identity, loyalty and payments into a seamless interaction. Imagine going to a supermarket and being able to pay, collect loyalty points, receive a fuel discount voucher, and verify your age—all in one transaction. For this product, we will link an identity token (whether that be issued by a bank or a government agency) to a payment token.
51. The digital identity services will provide for a consumer to confirm they are old enough, or the right age and stage to purchase restricted goods and services, or to benefit from a discount. Furthermore, we believe that integration of identity services into payments APIs is critical in helping reduce fraud (which will also be vital in the development of the Customer and Product Data Bill³⁸ (**CPD Bill**) and any move toward a digital currency).
52. Payments are one of the more obvious use cases for digital identity services. New Zealanders make several payments a day and, if we can ensure discounts go to the right age group, limit access to restricted goods and reduce friction at the checkout, it could quickly normalise digital identity and lead to wide-spread adoption at a fast rate. Helping reporting entities and merchants comply with anti-money laundering requirements when onboarding customers is another area that our customers are interested in.
53. The current identity verification processes (such as copying and storing of identity documents and the use of a username/password when online) are increasingly less fit for purpose. Not only are they inconvenient to use they also put our personal information at risk and provide opportunities for fraudsters.

³⁸ See <https://www.mbie.govt.nz/assets/exposure-draft-customer-and-product-data-bill.pdf>

54. Digital identity solutions will not see broad adoption until such time as consumers can easily access and use them. Furthermore, the use of digital identity as a verification tool is not yet referred to on Government websites nor is it a possibility contemplated across legislation and regulations. For relying parties to feel comfortable, they need to know that a digital identity and verification is an acceptable form of identification. Any existing legislation and regulations requiring sight of a physical document (for example, Sale and Supply of Alcohol Regulations 2013³⁹) needs to be updated to provide for digital identity services. Verifiable credentials must be accepted as a valid form of identification instead of a passport or drivers' licence. It seems odd that when buying alcohol in person, an 'evidence of age document' is required (and not all people have easy access to a passport or a drivers' licence) yet buying online via a website or over the phone, no evidence is required, only a declaration via a checkbox or voice. So long as current legislation requires sight of paper, or storage of paper and/or electronic copies of verification documents, the use cases and opportunities for digital identity solutions are limited.
55. Alongside the recommendation for bank participation in the digital identity services market, we would like to see:
- a. banks investing and becoming service providers under the Digital Identity Services Trust Framework Act 2023 (**DISTF Act**);⁴⁰
 - b. for these services to be included in the API Centre Implementation Plan; and
 - c. more active engagement between Government and Digital Identity New Zealand Limited.⁴¹

Exchange Settlement Account System (ESAS)

56. We also agree that the Reserve Bank should consider broadening access to ESAS accounts.⁴² For more information, please refer to our submission on the Reserve Bank of New Zealand's (**RBNZ**) website.⁴³ Worldline submits that banks and non-banks should have equal access to key infrastructure like ESAS, and that any policy on access should be assessed on actual, rather than assumed, risk. Certainly, the RBNZ should not be implementing policies that cement existing barriers to entry.

³⁹ See Part 1, section 4 for approved evidence of age documents
<https://www.legislation.govt.nz/regulation/public/2013/0459/latest/DLM5736956.html>

⁴⁰ See <https://www.legislation.govt.nz/act/public/2023/0013/latest/LMS459583.html>

⁴¹ See <https://digitalidentity.nz/>

⁴² See Page 232, paragraph 9.65 https://comcom.govt.nz/_data/assets/pdf_file/0033/349368/5BPUBLIC5D-Draft-report-Personal-banking-services-market-study-21-March-2024-Amended-10-April-2024-.pdf

⁴³ See <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/esas/esas-access-review-consultation-submissions.pdf>

The RBNZ delivers on its integrity and reliability objectives but falls short on both the innovation and competition objectives. We would like the RBNZ to provide a level playing field and flexible future proof processes in anticipation of New Zealand investing in more modern payment systems.

Anti-Money Laundering & Countering Financing of Terrorism (AML/CFT)

57. We would like to see an AML/CFT⁴⁴ regime that actively enables verifiable credentials to be used by reporting entities to fulfil their customer due diligence requirements.
58. Our existing AML/CFT regime is overly bureaucratic and inefficient, and many of the current regulations drive largely performance checks that have little to no impact on financial crime. The report published by the Ministry of Justice in November 2022 made 215 recommendations yet only a small fraction of those have made their way into the draft regulations, and even fewer made it into the final amendments.⁴⁵ Our products will facilitate transactions and interactions of many kinds so we look forward to a time when the Amended Identity Verification Code of Practice⁴⁶ allows for digital identity services rather than the outdated requirements relating to face-to-face verification and the use of certified copies of documents.
59. When considering the high-profile data breaches of 2023⁴⁷ one cannot help but wonder if those could have been prevented if firms had not stored copies of documents. Whilst it was the cybersecurity exposures that caused the breaches of personal information, and not the requirements to collect personal information set down by any AML/CFT regime, those regimes did, albeit unwittingly, magnify the impact of a breach. An Australian telco giant obtained identity information not only to satisfy AML/CFT obligations but to help law enforcement agencies track suspected criminals' mobile phones, and a financial services company obtained identity information to undertake credit checks as well as to fulfil AML/CFT obligations. These regulatory regimes should not be inadvertently putting consumers' sensitive personal identity documentation in jeopardy just because

⁴⁴ Anti-Money Laundering and Countering Financing of Terrorism Act 2009

⁴⁵ See <https://www.justice.govt.nz/justice-sector-policy/key-initiatives/aml-cft/aml-cft-review/>

⁴⁶ See [https://www.dia.govt.nz/pubforms.nsf/URL/AMLCFT_Amendment-to-IDVCOP-2013-FINAL-October-2013.pdf/\\$file/AMLCFT_Amendment-to-IDVCOP-2013-FINAL-October-2013.pdf](https://www.dia.govt.nz/pubforms.nsf/URL/AMLCFT_Amendment-to-IDVCOP-2013-FINAL-October-2013.pdf/$file/AMLCFT_Amendment-to-IDVCOP-2013-FINAL-October-2013.pdf)

⁴⁷ Latitude <https://www.privacy.org.nz/publications/statements-media-releases/new-zealand-australia-investigation-into-latitude-breach-begins/> and Optus <https://www.rnz.co.nz/news/world/488406/optus-data-breach-class-action-launched-for-millions-of-australians-caught-up-in-cyber-attack>

legislation does not reflect current technical capability to make electronic copying, and storing, of physical documents redundant.

Clear roles and responsibilities of overlapping regulatory jurisdictions

60. We support the draft report's recommendations on open banking, access to ESAS and a more efficient AML/CFT regime, however we urge you to note that the payments industry is currently navigating its way through several regulatory initiatives across several different regulators.
61. For this reason, we consider it vital that any regulatory powers used to drive the recommendations are interoperable with and align closely with other related frameworks; including the RPS Act, the DISTF Act, the forthcoming CPD Bill and (to the extent applicable) the Financial Markets Infrastructures Act 2021.⁴⁸
62. We note that the RBNZ is also developing payments-related objectives under its Future of Money initiative and the Council of Financial Regulators (**CoFR**) has released its "Vision for the future of New Zealand's payments".⁴⁹ We understand that CoFR has commenced work on a plan to deliver that plan albeit without industry engagement. Ultimately, New Zealand needs a holistic, overarching strategy developed in respect of payments in collaboration with industry and adopted by all regulatory agencies.

Conclusion

63. The long-term solution for payments lies in local innovation that provides competition to the Schemes. Local alternatives will be able to deliver competitive low-cost solutions and long-term benefits to New Zealanders only if banks champion it and there is a regulatory landscape that facilitates widespread issuing and acceptance. Ubiquity is critical to the success and survival of any alternative payment method.
64. Whilst the Schemes do play an important role in providing payment methods, we must ensure domestic alternatives continue to be available. New Zealanders should have access to low-cost, modern and frictionless ways of paying for goods and services that are customised to the New Zealand market.

⁴⁸ See <https://www.legislation.govt.nz/act/public/2021/0013/latest/whole.html>

⁴⁹ See <https://www.cofr.govt.nz/news-and-publications/payments-vision.html>

65. We believe that Worldline Contactless is an exciting and important example of innovation and competition in payments. However, support across the banking sector has not yet been obtained – all banks must to commit to issuing a product that can compete with the Schemes.
66. Worldline is looking forward to open banking being fully operational by mid-2026 and is excited about the inclusion of digital identity. We would be happy to help, where we can, in delivering on this target. Thank you for the opportunity to submit on the draft report.
67. Should you wish to discuss any of the points raised in this submission, please contact Julia Nicol.