

# 1 Introduction

- 1.1 Bank of New Zealand ('BNZ') has prepared this submission in response to the Commerce Commission's ('Commission') request for views on payments made over the interbank payment network in its *Retail Payment System – Payments Between Bank Accounts* discussion document ('discussion document').
- 1.2 As the Commission is aware, BNZ is highly engaged on the establishment of a consumer data right ('CDR') framework and is an industry leader in the development and use of open APIs through Payments NZ. BNZ's view is that legislating a CDR framework as is currently proposed via the Consumer and Product Data Bill (CPD Bill)<sup>1</sup> is the best way to drive open banking and alternative payment options.
- 1.3 A CDR framework managed by a central regulator with guardrails that protect and guide emerging payment types is the model for access to payment networks in markets overseas. Executed well, such regulation can provide confidence and maintain the trust and integrity of the payments system at a time when financial crime is growing around the world.
- 1.4 It can also ensure that user (consumer and business) confidence in the framework is sufficiently high that New Zealand can be a leader in not simply providing "open banking", but most importantly, have an open banking system where that high confidence leads to adoption – something that has been slow in most if not all developed markets to which we compare our current infrastructure.
- 1.5 Enabling third-party access to the interbank payment network without the structure of a CDR will require consideration of other factors. For example:
  - 1.5.1 What standards and accountabilities does a third-party payment provider (TPP) have?
  - 1.5.2 If a TPP has access to a person's account (assumingly with clear consent), where is that consent detailed in the case of dispute or failure?
  - 1.5.3 Payments provide data that, when aggregated, can identify a person and could be provided by the TPP to other clients so compliance with the Privacy Act 2020 needs to be considered.
- 1.6 There needs to be a clear understanding of the further controls that are necessary in a designated infrastructure without a CDR framework. It is important to understand what the expectations and liabilities are for all parties as they relate to consumer rights in the event of a TPP error or data breach - or simply non supply of goods.
- 1.7 As a leader in use of Open API formats in NZ, BNZ submits that account to account (A2A) payments are under consideration as part of the Retail Payment Act 2022 because some banks have not yet completed the API versions to achieve that capability - BNZ supports the industry moves to set dates through 2024 to speed up that process. BNZ is also very

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<sup>1</sup> <https://www.mbie.govt.nz/about/news/mbie-opens-consultation-on-customer-and-product-data-bill/>

aware of its obligations to customers and users of those APIs and suggests that the core focus should be on executing the CDR framework to enable other banks to catch up with where more pro-active banks are at.

- 1.8 Our view is that the Commission's focus should be on using its powers and resources to achieve meaningful outcomes for all New Zealand by:
  - 1.8.1 entrenching the current industry dates to complete the publicised API Centre release dates in 2024 for all banks with material market share (e.g., those with over 10% consumer market share); and
  - 1.8.2 focusing a govt/industry task force on the execution of the CPD Bill where recommended milestones become part of the designation requirements.
- 1.9 This is primarily because a CDR framework is centred around a customer's rights – both to enhanced data experiences, and to increased protection against cyber security incidents, fraud, theft, and loss of privacy. BNZ's concern is that if the Commission designates the interbank payment network, this may open up access to the technology without attendant protections and this may not necessarily be in our customers best interests. Designating the technology in this way potentially omits a number of legal elements that the CDR would cover and that we consider are needed to protect customers.
- 1.10 These protections are canvassed in our submissions on the design of the CDR framework (which MBIE has publicly released)<sup>2</sup>. As part of those, we have consistently emphasised the need to build customer trust in these new technologies. We consider our feedback is largely reflected in the CPD Bill. For example, the proposed CDR regime considers the CPD Bill's interaction with privacy laws and the need to protect customer data (including data that is embedded in payment transaction records). It also envisages a regulator-supervised accreditation regime under which accredited parties will have the right to access the services covered by the accreditation, such as access to API endpoints, subject to standard terms of access. BNZ supports this approach. We consider accreditation criteria are critical to ensuring payment providers (and other service providers that access APIs under the CPD Act in future):
  - 1.10.1 have adequate information protection and security standards;
  - 1.10.2 have sufficient financial substance to protect customers in the event of loss of data or other issues, including holding sufficient insurance;
  - 1.10.3 have adequate maturity with regards to process and policy; and
  - 1.10.4 put customers' interests first and act with integrity and fairness.
- 1.11 The Commission's discussion document supports the API Centre working with the industry to develop a centralised due diligence assessment services and accreditation framework and, to the extent that the industry does not develop this promptly, suggests

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<sup>2</sup> <https://www.mbie.govt.nz/dmsdocument/13163-bank-of-new-zealands-submission-on-discussion-document-options-for-establishing-a-consumer-data-right-in-new-zealand-pdf>

the Commission could use its power to set conditions for partnering and due diligence requirements. However, BNZ notes that these options may both overlap with the proposed accreditation regime under the CPD Bill. The inefficiencies of having two parallel but unaligned regulations may add cost, complexity, and confusion to the market, while also risking the loss of consumer trust in these new technologies. Having multiple standards with potentially different rules, governance, consultation requests, reporting, compliance, change approval processes and access terms, would arguably not be in the best interest of merchants, consumers, the regulated entities, or Aotearoa.

1.12 That said, BNZ appreciates the aim of the discussion document is to investigate whether regulation under the Retail Payment System Act 2022 could support the financial industry in making account-to-account payments innovation available earlier than the introduction of a CDR and considers this a worthwhile goal. In our view the best way for the Commission to achieve this would be to use its designation powers to mandate the API implementation dates in the Payment NZ API Centre's proposed industry implementation plan<sup>3</sup>. We support the Commission making those dates mandatory for all banks.

1.13 BNZ acknowledges that the Commission considers the level of innovation in payments has not progressed at the same rate as in other jurisdictions. However, this is not BNZ's experience in open banking (nor in other forms of payment innovation BNZ has made available to customers). Already, over 100,000 BNZ customers are benefiting from open banking, through secure, integrated account reconciliation tools, budgeting, and alternative payment options, supported with customer-controlled data sharing consent management. As of 30 August 2023, BNZ has partnered on open banking with 18 FinTech firms. For example:

1.13.1 The October 2021 announcement of BNZ's API agreement with Māori owned and managed fintech start-up BlinkPay to enable BlinkPay to provide innovative online payment services to New Zealand consumers and companies.<sup>4</sup> More recently, in September 2023, BNZ and BlinkPay have collaborated to enable BlinkPay to offer "Blink PayNow"<sup>5</sup>, which is a new payment solution for online shopping that eliminates the need to use a credit or debit card.

1.13.2 Back in December 2021 BNZ started processing Worldline Online EFTPOS payments through its Open Banking payment initiation API.

1.13.3 The July 2023 announcement of BNZ's API agreement with New Zealand fintech Volley to introduce an innovative "request to pay" service, which enables customers to split bills and share payments (for example, splitting bills at a

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<sup>3</sup> API Centre "Minimum Open Banking Implementation Plan" (30 May 2023) available at: <https://www.apicentre.paymentsnz.co.nz/standards/implementation/minimum-open-bankingimplementation-plan/>

<sup>4</sup> (5 October 2021). BlinkPay Signs Industry API Agreement With BNZ. Press Release: BlinkPay. Scoop. Retrieved from: <https://www.scoop.co.nz/stories/BU2110/S00101/blinkpay-signs-industry-api-agreement-with-bnz.htm>

<sup>5</sup> 6 September 2023). No card? No problem: New Zealanders can now shop online without a credit or debit card. BNZ. Retrieved from: <https://blog.bnz.co.nz/2023/09/no-card-no-problem-new-zealanders-can-now-shop-online-without-a-credit-or-debit-card>

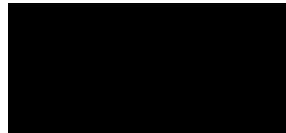
restaurant). As Volley said: "We're incredibly proud to be working with BNZ, and this agreement allows us to bring the power of open banking to individuals to make peer-to-peer payments for the first time in New Zealand. We're grateful for the support from the BNZ team and look forward to launching Volley soon."<sup>6</sup>

- 1.14 BNZ sees that continued API development and a CDR framework provide compelling new opportunities for financial innovation and enhanced customer experiences (provided it is coupled with high security standards, as BNZ has established, to appropriately mitigate the risks of fraud, cyber security incidents, theft, and loss of privacy). Those opportunities could be supported by mandating API implementation dates. Beyond that, BNZ's view is that continued innovation in this area is best supported by regulating under a single, cohesive CPD Bill that protects customers and not also under the Retail Payment System Act 2022.

Should the Commission have any questions in relation to this submission, please contact:

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DDI:  
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<sup>6</sup> 24 July 2023). BNZ and Volley announce agreement to bring "request to pay" app to New Zealand. BNZ. Retrieved from: <https://blog.bnz.co.nz/2023/07/bnz-and-volley-announce-agreement-to-bring-request-to-pay-app-to-new-zealand>

## Questions on New Zealand's payments between bank accounts landscape

1	<p><b><i>Do you agree that EFTPOS card use is likely to continue to decline? If not, why not?</i></b></p> <p>BNZ has hundreds of thousands of cards with access to EFTPOS domestic debit. And those card numbers have grown. BNZ EFTPOS, Credit (scheme) and Debit (scheme) can all access the domestic debit system. We are aware that many merchant business models are enabled by, and are more efficient because of, the additional functionality of cards to use the schemes in addition to EFTPOS be it via ecommerce or speed of customer services through contactless.</p> <p>We also note that any cost of alternative to 'free'-to merchant EFTPOS (unique to New Zealand as overseas markets charge for local debit) makes any alternative an issue.</p> <p>It is here that we place emphasis on considering consumer demand and adoption through trust, confidence, and utility of potential replacements rather than an assumption that access will be a sole remedy and driver of other options or that competition is solely about price.</p> <p>So yes, we agree that EFTPOS use is likely to decline, although we also believe this makes sense and is not a concern. Transactions using domestic, magnetic stripe only EFTPOS cards, with their obsolete and vulnerable technology, are simply being substituted within the Switch to Issuer routing channel by chip carrying, 'dipped' (contact read chip) debit cards. Switch to Issuer transactions are not declining. The Act already applies an interchange fee of 0% to both ways of accessing the Switch to Issuer routing (i.e., both 'swiped' and 'dipped' cards.)</p> <p>All Switch to Issuer debit transactions currently share the following attributes: no cost to the merchant, no income to the issuer, and fees for the issuer. This is buttressed by regulation under the Act. See Appendix for more on this.</p>
2	<p><b>Do you agree with our assessment of the factors contributing to the decline in EFTPOS card use? If not, why not?</b></p> <p>Yes although, for the reasons given above, we think this the decline in the magnetic stripe card form-factor within the Switch to Issuer channel has proven to fall and rise. This was evident during COVID where there was a swing to contactless and a bounce back when consumers trust in money (cleanliness of cash and POS pin pads) was restored.</p> <p>We also note recent publicity that the operators of domestic debit are developing new form factors.<sup>7</sup></p>

<sup>7</sup> [Worldline develops technology that will allow eftpos users to pay contactless | Stuff.co.nz](#)

	See Appendix for further discussion.
<b>3</b>	<b>What do you see as the barriers to innovation and success for EFTPOS?</b>
<b>4</b>	<p><b><i>Do you agree with our view that the decline in EFTPOS card use is reducing the competitive pressure on the debit card networks for in-person payments and that this may have a detrimental impact on consumers and merchants over time? If not, why not?</i></b></p> <p>We do not agree the decline in EFTPOS card is reducing competitive pressure on the debit card network. Consumers are simply substituting chip debit for mag stripe debit.</p> <p>Importantly, as described above, BNZ enables domestic debit as an option in all credit and debit cards, so much of the chip debit use remains contacted, which has no detrimental impact on consumers or merchants.</p> <p>In contrast, there are constraints on contactless debit transactions, in the form of surcharging, empathy with merchant costs (for contactless payments) and consumers views (trust or not) of contactless payments. We see this further supports our introduction that access alone cannot provide competition in an infrastructure consumer do not have trust in.</p> <p>See Appendix for further comments.</p>
<b>5</b>	<p><b><i>Do you agree with our view that competitive pressure in the payments between bank accounts landscape could be increased by enabling an environment where payment providers develop innovative options to make bank transfers? If not, why not?</i></b></p> <p>Quite possibly, but where the competitive pressure is likely to come from is worth the Commission’s consideration.</p> <p>Opening access to the environment may allow improved payment propositions to be delivered to merchants and consumers. We expect that some of this would come from new entrants, but we consider the bulk of those are likely to be from established global BigTech and Payment Solution Providers. We recommend the Commission and other COFR members collectively consider what outcome they are looking to be delivered for “New Zealand Inc”, consumers and merchants and shape any regulation accordingly.</p> <p>We suggest COFR also reviews a recent paper by the Bank of England on the nature of regulation considerations entitled <i>Open Banking, Shadow banking and regulation (Staff Working Paper 1,039 Sept 2023)</i><sup>8</sup></p>

<sup>8</sup> [Open banking, shadow banking and regulation | Bank of England](#)

See Appendix for further comments.

## Questions on the key features of traditional bank transfers

***Do you agree that we have captured the existing benefits and problems with the traditional method of initiating bank transfers? If not, what other benefits or problems exist?***

We don't think there is a traditional Bank Transfer Payment method for making in store consumer to merchant payments and don't think the manual entry by a customer is a suitable one to then try and assess problems and benefits. The potential for compromise should be a significant concern of that thesis.

The Open Banking API payment is we think a closer model.

Benefits.

- The Merchant submits the account to be paid avoiding the customer having to enter that or the chance of it being the wrong account.
- The Merchant submits the reconciliation data they would later like to match against avoiding back-office work to match payments.
- Authentication and authorisation happen immediately, and available funds are checked by the payer's bank so, making the speed of that suitable for in store payments.
- Approved payments are irrevocable so no risk to the merchant of later dishonour.
- Settlement uses the existing Settlement Before Interchange system and it's up to the payment solution provider if they choose to settle to the next available settlement batch or if they do one settlement a day – that provides flexibility to take advantage of the merits of each approach.
- Customers get to consent to a payment.
- Customers consent directly with their bank and aren't sharing credentials with a third party.
- Customers get protection of industry agreed security standards.
- The use of data is managed by consent and agreement.
- Innovators will be able to charge fees to provide them with the incentive to provide such a service, mindful of finding a price point that works for merchants and consumers.

Problems

- Limited use of this method for in-store payments so some further tuning required to allow customers and merchants to interact to initiate these payments.
- Deployment of Open Banking APIs is not yet complete. Refer our recommendations on CDR and API milestones in the Introduction.

**Questions on methods to gain access to the interbank payment network**

***Do you agree with how we have described and ranked the different methods for payment providers to access the interbank payment network to initiate payments? If not, why?***

In our view, Reverse Engineering and Screen Scraping are forms of hacking. In the case of bank transfer payments this is hacking into a bank by mimicking being a customer. The intent of these practices is to avoid detection of the third party by the bank.

While there may be information on consent and secure practices on the websites of providers of these services, we are concerned these may not inform the customer sufficiently and suggest the industry drives greater clarity of information for screen scraped services.

The discussion document does not explain why the Commission considers Reverse Engineering a superior access mechanism for payment gateways than Screen Scraping. To the bank Screen Scraping and Reverse Engineering look like two sides of the same coin.

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As the banks take steps to mediate against unauthorised account take over or scams, these methods of access can become disrupted or blocked. As is the nature of all hackers, screen scrapers and reverse engineers then look to find new ways to gain access.

Whether or not the Commission uses its powers to require banks grant access for third parties to make inter-bank payments, we believe consumers would hesitate to use reverse-engineering- or screen-scraping-based payment services if consumers clearly understood how opaque the service providers are on how their services operate (i.e., hacking) and how the data is used, aggregated, and potentially passed on.

Considering the risks they present to consumers, products that access banks via these methods sit uneasily with the consumer benefit purpose of the Retail Payment System Act 2022.

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

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

***Do you agree that these API related requirements are sufficient to enable an environment where payment providers can develop innovative options to make bank transfers? If not, why?***

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Yes.



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

***Do you agree with our view of the long-term benefits to merchants and consumers from the development of innovative options to make bank transfers? If not, why?***

The following responses are made on the basis that the guardrails for trust, integrity, and security (e.g., using a regulated CDR framework) give reason for consumers to adopt the options that can be technically enabled or accessed.

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4.4.1 Ability to use – yes, we agree account to account payments could be used to make in person payments.

4.4.2 Cost to use – we would not expect the merchant to be the one supplying the data in the transaction they later use to reconcile the payment and immediate authentication would be built in. While the costs raised by the Commission probably aren't being incurred by anyone today, a new process would be efficient and not introduce those problems.

4.4.3 Ease of Use – Yes, noting no viable model will have consumers entering numbers in display of others at POS or incorrectly paying another party.

4.4.4 Yes, if this replaces screen scraping then consumers would be compliant with bank terms and conditions and benefit from other protections inherent in well-designed payment processes.

4.5 Maybe.

However, if regulation chooses to cap charges that can be made to merchants relative to cards the plausible outcome of that is that the appetite of FinTechs to invest in these programs goes, or they seek other ways to monetise their investments, such as through customer data, to the possible detriment of consumers.

4.6. We also do not have enough to comment on this.

4.7 See our comments in 6 on settlement optionality.

**Questions on industry open API standards**

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***Do you consider that the existing industry open API standards are a good starting point to enable innovative options to make bank transfers?***

Yes.

This is what is also proposed under the Customer and Product Data Bill.

12	<p><b><i>Do you consider the future of industry open API standards will enable innovative options to make bank transfers?</i></b></p> <p>Yes.</p>
13	<p><b><i>What gaps are there in the open API standards for innovative options to make bank transfers?</i></b></p> <p>To the extent there are gaps, most of these are understood and sit in a pipeline of work pending the detailed work to develop a standard.</p> <p>It is here we believe the Commission can play a part to help speed up progress to API standards so that, in parallel with the focus on developing the CDR framework NZ arrives at a better place than other markets (see Introduction).</p>
<p><b>Questions on the key barriers preventing efficient access to the interbank payment network</b></p>	
14	<p><b><i>Do you agree that the key barrier preventing payment providers from gaining efficient access to the interbank payment network is that the banks have not universally built open APIs? If not, why?</i></b></p> <p>Yes.</p> <p>An API run service cannot proceed if the APIs don't exist. It is here we believe the Commission can play a part to help speed up progress to API standards so that, in parallel with the focus on developing the CDR framework NZ arrives at a better place than other markets (see Introduction). We suggest that all banks should meet the same timelines to ensure consistency that leads to adoption and market innovation.</p>
15	<p><b><i>Do you agree that the main reason the banks have not universally built open APIs is due to the uncertainty of commercial incentives for them to do so? If not, why?</i></b></p> <p>We have built the APIs and don't have any specific insight into the reasons why other banks haven't.</p> <p>We assume, however, that resourcing pressures play a role in this e.g., payments experts are working on multiple payment regulations, and technology resources have continuous new regulatory and non-regulatory demands to meet.</p>
16	<p><b><i>Do you consider that the industry implementation plan creates sufficient certainty that the banks will build the open APIs? And do you consider that the minimum delivery dates are appropriate? If not, why?</i></b></p> <p>Yes.</p>

	<p>It is also unlikely any regulation could be in force ahead of the industry implementation plan if the banks meet the May 2024 payment initiation API deadline.</p> <p>The minimum industry implementation dates for ANZ, ASB, BNZ and Westpac are appropriate.</p> <p>If the focus is on consumer or business benefits and not simply dates and technology - the dates should be for all providers of material scale and, if that is the objective, there should not be an extra two years or no implementation date provision.</p> <p>We support the Commission mandating the implementation dates and creating the same level playing field for everyone.</p>
17	<p><b><i>Aside from the network access issues, are there other issues with the interbank payment network that reduce competition or efficiency? For example, the speed of payments or amount of information attached to payments?</i></b></p> <p>See our comments in 6 on the benefits of an API Payment model.</p>
<p><b>Questions on efficient partnering between banks and payment providers</b></p>	
18	<p><b><i>What do you consider are the main barriers to negotiating agreements between banks and payment providers for access to the interbank payment network (assuming open APIs are built)?</i></b></p> <p>From our experience we consider it is key that the agreements between banks and TPPs focus on the obligations of the TPP to protect the integrity of the payments system they are accessing and the money and rights of the underlying customer.</p> <p>Lack of consistency between banks is recognised as a likely problem developing for Open Banking in the absence of regulation. The competition law hold-ups have been identified and authorisation from the Commission may assist. However, agreeing on what common agreements should look like will not likely be easy, particularly for those that have not yet run APIs before, or had agreements to learn where risks and practicalities exist and where they don't. Our preference is that this is managed through the development of the CDR framework.</p>
19	<p><b><i>Does the API Centre's partnering project enable efficient partnering between banks and payment providers? If not, what would be required to enable efficient partnering?</i></b></p> <p>The Payments NZ API centre has developed standards and processes that learn from other markets and in that regard the API Technology is well placed to serve NZ needs and continue to build through planned version releases. We suggest the Commission uses its powers to strengthen the current milestones approach.</p>

	Most other markets regulate the ‘guidelines and guardrails’ of this area as NZ intends to do, and we consider the CPD Bill should be the vehicle that regulates access rules in the New Zealand market.
<b>Questions on the interbank payment network</b>	
<b>20</b>	<p><b><i>Do you agree with how we have defined the interbank payment network? If not, how do you consider it should be defined?</i></b></p> <p>Yes. However, in 2.9 and 5.14, where the Commission lists the payment types that use the Interbank payment network, we would add domestic API payments including those using the industry standards.</p>
<b>21</b>	<p><b><i>Do you see any issues with how we have defined the interbank payment network? If so, what issues?</i></b></p> <p>Mostly agree.</p> <p>Note BECS is also used by the card payments channels to settle with merchants.</p> <p>Your definition is ‘sending the payment instruction directly to the payer’s bank’. This also includes switch to issuer card instructions.</p>
<b>22</b>	<p><b><i>Do you agree we have captured the correct payment products in the interbank payment network?</i></b></p> <p>BNZ does not have any comments on this question.</p>
<b>23</b>	<p><b><i>Do you agree we have captured the correct network operators of the interbank payment network?</i></b></p> <p>Yes.</p> <p>But suggest adding, Payments NZ is responsible for the SBI and BECS rules. Payments NZ administer Settlement Before Interchange (SBI) system used by BECS and CECS Participants (primarily banks). SWIFT-based operates the SBI system.</p> <p>The Reserve Bank is responsible for the Exchange Settlement Account System (ESAS) and its rules.</p> <p>Most Banks participate in BECS and SBI directly and manage their own systems that connect to SBI. Some banks instead have agency arrangements with direct participant banks.</p>
<b>24</b>	<p><b><i>Do you agree we have captured the correct class of participants in the interbank payment network?</i></b></p> <p>Yes.</p> <p>Though we suggest adding the following missing roles.</p> <ul style="list-style-type: none"> <li>• The role of the Reserve Bank and ESAS as noted above.</li> </ul>

	<ul style="list-style-type: none"> <li>• Payment Providers when they interact with the interbank payment network. This should also include those payment providers who do so without any formal agreement like screen scrapers and reverse engineerers otherwise you will lock in their methods to avoid regulation.</li> </ul>
25	<p><b><i>Do you agree we have identified the relevant interbank payment network rules? If not, what other network rules are relevant?</i></b></p> <p>We note that the ESAS rules are missing.</p>
26	<p><b><i>Do you consider there are any other regulatory requirements in other New Zealand laws that we should take into account in deciding whether to recommend that the interbank payment network is designated?</i></b></p> <p>Yes – we consider this is vital. There is already identified contention with the proposed CPD Bill.</p> <p>In addition, the Financial Markets Infrastructure Bill continues to consider designating Payments NZ BECS rules set.</p> <p>There appears an urgent need for either direct discussions between the Commission and the RBNZ, the FMA and MBIE, or through the Council of Financial Regulators so there are not multiple designations of the same system with conflicting rules and requirements.</p>

#### Questions on possible regulatory interventions

27	<p><b><i>Do you consider that a designation of the interbank payment network is a useful first step towards enabling an environment where payment providers can launch innovative new options to make bank transfers in New Zealand? If not, why?</i></b></p> <p>We do not consider that a designation of the interbank payment network is a useful first step.</p> <p>Putting Consumers and Businesses, not technology, first, we think progressing with the proposed CPD Bill is the appropriate way to deliver A2A payments, and a good deal more. The draft CPD Bill has already benefitted from a lot of prior thinking on how to make that regulation work in the interest of consumers and businesses.</p> <p>Having a parallel effort acting on part of what is expected to be covered in CDR seems inefficient and will utilise the same limited resources on equivalent but not the same outcomes.</p>
28	<p><b><i>How effective do you consider our regulatory powers would be at addressing the barriers set out in this paper?</i></b></p>

	<p>BNZ does not have any comments on this question.</p>
<p>29</p>	<p><b><i>Do you consider that a designation of the interbank payment network, and the subsequent use of our regulatory powers, would promote competition and efficiency in the retail payment system for the long-term benefit of merchants and consumers in New Zealand? If not, why?</i></b></p> <p>We do not. Instead, our view is that the Commission should focus on regulating the API milestones for all providers (not partial market coverage) as part of a laser like focus on the fully considered payments system implications that a CDR framework would bring.</p> <p>We are concerned about the inefficiencies of developing and operating dual regulation of open banking. We think the appropriate regulation is through the proposed CPD Bill.</p> <p>In relation to the Commission’s powers generally under the Retail Payments Act 2022, it is our continued view that the alignment of international and commercial interchange fees to the domestic interchange fees would have a very significant impact on merchant service fees reducing much of the surcharging seen today at services, travel and entertainment related merchants and allowing even further reduction of cost of payments at POS and online.</p> <p>BNZ currently offers small domestic merchant’s options from \$5 a month or 1.1% MSF. The cost of international card acceptance drives other options higher.</p> <p>If review of international interchange fees were reduced to align with the domestic rates, as we have previously submitted, and that was combined with the interchange reductions to date, and the significant use of EFTPOS which is enabled in all BNZ card types (and zero cost for POS payments to merchants and consumers is unique to NZ) this would put NZ merchant service fees alongside countries often quoted by commentators.</p>

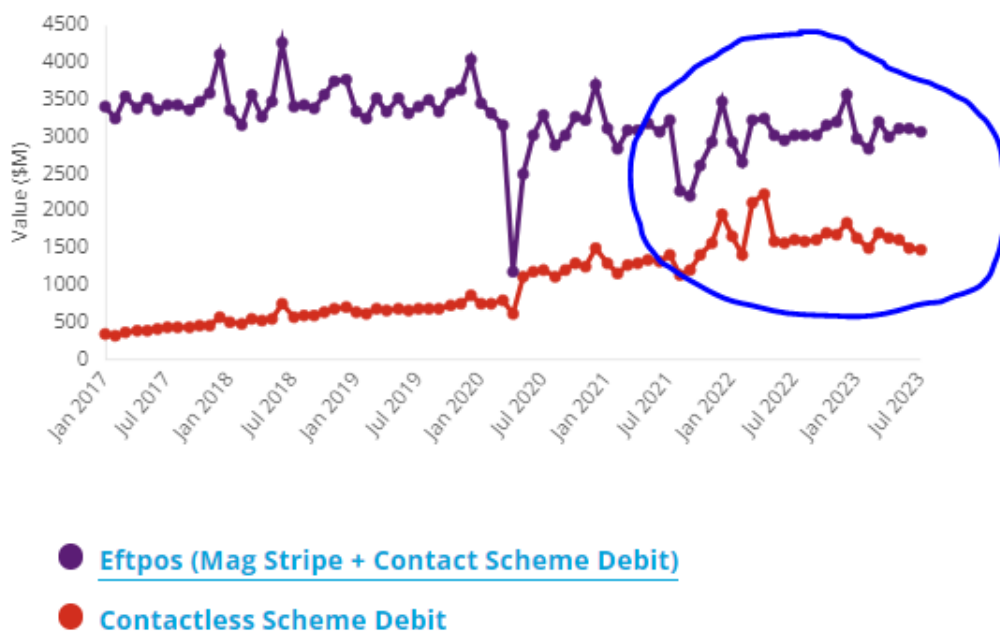
## Appendix

### 1. Do you agree that EFTPOS card use is likely to continue to decline? If not, why not?

Throughout 2022 and 2023, the volume of Switch to Issuer transactions reached an equilibrium or slight growth relative to contactless debit - around 60% vs 40% respectively.

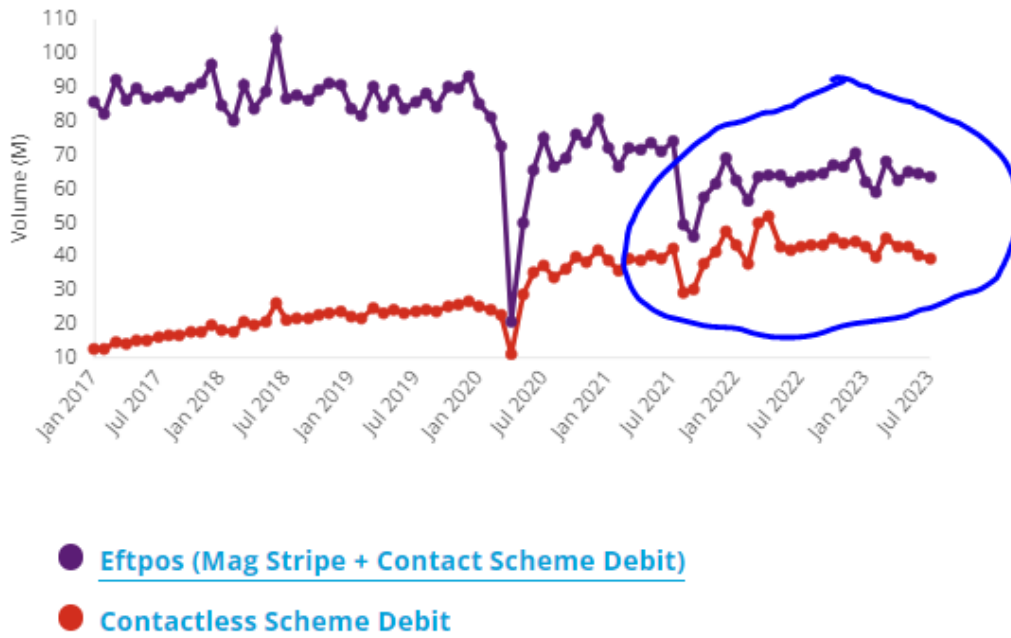
Switch to Issuer debit remain steady across value...

### Eftpos (Mag Stripe + Contact Scheme Debit) vs Contactless Scheme Debit



...and volume

## Eftpos (Mag Stripe + Contact Scheme Debit) vs Contactless Scheme Debit



Source: Payments New Zealand

**Note:** Paragraph 2.7 of the discussion document only describes the Switch to Issuer EFTPOS Network debit funds process. We provide below a more comprehensive description of the EFTPOS Network than is provided in paragraph 2.7 of the discussion document:

- The EFTPOS Network is the collective network of acceptance devices at outlets that allow payees (typically merchants) to facilitate payments from payers using card format instruments including physical plastic and NFC/RFID devices such as mobiles and wearables.
- Acceptance devices all connect to a payment switch which routes payment requests to the payment instrument issuer.
- The EFTPOS – being Electronic Funds Transfer at Point Of Sale – Network therefore is a collective term covering payments with credit or debit funds sources and various communication protocols including magnetic stripe, contact chip and contactless chip and, in other markets, QR code.
- One of its modes is to support payments between bank accounts. Also known as debit payments. This is a sub-set of EFTPOS Network payments.
- It is not correct to say that it cannot be used for contactless payments. It's used for contactless payments all the time.
- Contactless payments, by commercial arrangement, do get routed at the switch to reach the issuer via the Visa or Mastercard networks.



Those transactions are authorised in the same way by their issuer as Switch to Issuer transactions and Payees (merchants) receive their funds through the same intra-bank or SBI settlement process.

**2. Do you agree with our assessment of the factors contributing to the decline in EFTPOS card use? If not, why not?**

*2.18.1 consumer preferences for contactless payments;* It appears contactless debit payments have stabilised at around 40% of in-store debit card payments. However, consumers likely believe it is efficient to carry one card type to use in either contacted or contactless mode, so they carry a scheme debit card and no EFTPOS card.

*2.18.2 consumer preferences for secure chip technology;* this is likely a factor. Other factors include that the same card can be used online, for overseas payment and cash withdrawal; is less vulnerable to fraud or counterfeiting; and comes with a pro-consumer liability and chargeback proposition.

*2.18.3 card issuers (banks in this context) face incentives to issue debit cards over EFTPOS cards as they can earn revenue with debit cards, whereas they pay a fee for the EFTPOS card payments their customers make;* Issuers face the same lack of income earning and fees on debit cards for Switch to Issuer payment transactions. So, the bank position does not change when an EFTPOS card is substituted by a contact-able scheme debit card.

There are few incentives for any issuers to issue mag stripe only cards. No FinTechs or innovators have sought to do so. Some, like Dosh, have issued scheme debit cards.

*2.18.4 lack of innovation in the EFTPOS card functionality;* the free-market economy needs commercial incentive to invest in enhancing propositions – and EFTPOS cards cannot earn revenue for the issuer.

No non-bank parties have looked to introduce innovation on the fee-free magnetic stripe card proposition despite their being an apparent competition vacuum for them to exploit. This is easy to understand given the negative revenue prospect and heightened counterfeit risk.

Gift card propositions have continued to use magnetic stripe cards presumably because of its comparatively cheap manufacturing costs, revenue from the sale of the cards, and revenue from unused residual gift funds (breakage).

Companies like Worldline have repurposed the name EFTPOS but otherwise stayed away from the founding technology. Both their Online EFTPOS digital e-commerce payment service and their proposed digital EFTPOS card will, without doubt, require fees from merchants to sustain themselves in the market.

Innovation is happening on the logical substitute to EFTPOS cards, being scheme debit cards.

*2.18.5 lack of marketing of EFTPOS to consumers; by issuers and also by merchants, (unless you count 'no paywave' or surcharge for contactless signs taped on terminals). This is understandable as there is no incentive to market an obsolete, security risky, single use payment type.*

There is also no marketing of cash, which has similar properties, and was none for cheques before their demise. This is not uncommon for late-lifecycle propositions.

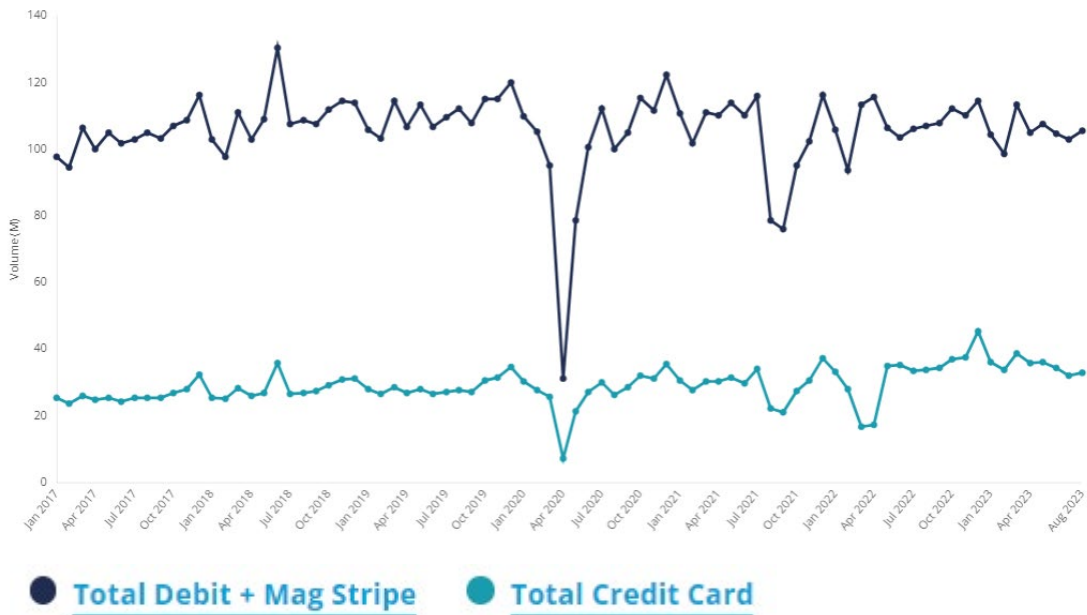
This is compounded in New Zealand by there never having been a card scheme formed to manage or promote EFTPOS, unlike in Australia. In Australia, the regulator also introduced fee equivalency between EFTPOS and scheme debit to allow an equal commercial footing.

- ***Do you agree with our view that the decline in EFTPOS card use is reducing the competitive pressure on the debit card networks for in-person payments and that this may have a detrimental impact on consumers and merchants over time? If not, why not?***

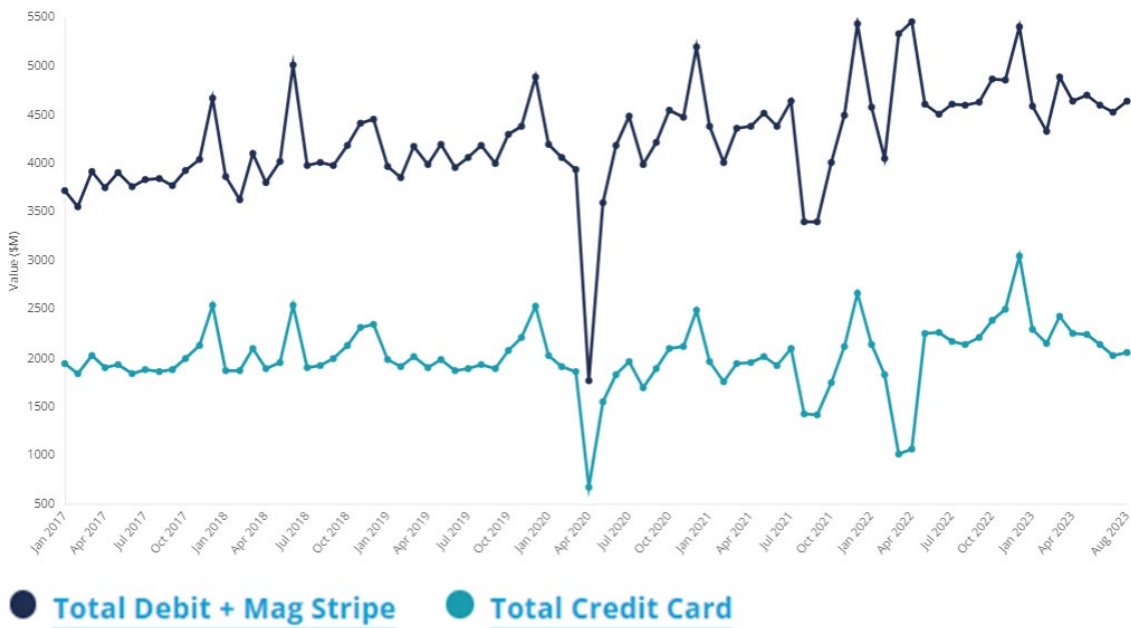
As noted above the statistics from Payments NZ on the Debit Switch to Issuer Network (used for contacted transactions) show an equilibrium has developed relative to contactless debit: around 60% of card recent debit transactions are contacted (i.e. dipped or swiped) rather than contactless. Switch to Issuer transactions with Visa or Mastercard debit cards with chips are substituting magnetic stripe transactions as customers move away from using the older technology.

Additionally card present credit card transactions are also not growing in share, so, credit cards are also not substituting magnetic stripe EFTPOS card payments.

VOLUME VALUE (\$)



VOLUME VALUE (\$)



Source: Payments New Zealand CECS card present payments dashboard

- ***Do you agree with our view that competitive pressure in the payments between bank accounts landscape could be increased by enabling an environment where payment providers develop innovative options to make bank transfers? If not, why not?***

A note on 2.13.1.2 *Each bank has an exclusive arrangement with either Visa or Mastercard to issue only their cards. This means that a consumer who only has one banking relationship will only have access to only one of these debit cards, not both.*

Each bank now offering a single card brand is an outcome, possibly unintended, of the Commerce Commissions 2009 Interchange and Credit Settlement. From Evaluation of the 2009 interchange and credit card settlements Research report Date: 19 December 2013

“As a result of the Commission’s investigation, the Commission entered settlement agreements with the banks and schemes. The settlement agreements included commitments to: “change the access rules so that acquirers of credit card transactions did not also have to be card issuers or financial institutions.” “ Source: Microsoft Word - 1541255\_5.docx (comcom.govt.nz)

This commitment removed the need for Banks to be dual brand issuers to acquire both card types. It was needlessly expensive for banks to support two separate card issuing platforms so, over the next few years each exited one of the two card brands.

- ***Do you agree that we have captured the existing benefits and problems with the traditional method of initiating bank transfers? If not, what other benefits or problems exist?***

There were several characteristics in the proposed Bank Transfer model we thought needed clarifying.

#### **Transaction Fees.**

Merchants are usually charged transaction fees for Bank Transfers. However, merchants are not charged fees for EFTPOS – Switch to Issuer payments. They are charged monthly connection fees, and possibly device rental fees, but these happen whether they make an EFTPOS payment or not so cannot be regarded as a charge merchants pay for making EFTPOS payments.

Fees are not typically charged to consumers for Visa or Mastercard debit payments. Those that are would be merchant surcharging or convenience fees, and those should be rare if the Visa or Mastercard transaction is a Switch to Issuer routed payment.

“Convenience” fees are most usually charged by local bodies and government agencies, and possibly by a bank for exceeding some threshold for paying from an account meant for long term savings rather than as a transaction account.

#### **Settlement:**

We don’t agree settlement of bank transfers payments are usually or inherently faster than other account to account payment networks.

All the listed payment networks making payments between retail bank accounts use the domestic Bank Transfers (SBI system) to settle.

Payments already using the Bank Transfer system use a range of different settlement times and are not synonymous with intra-day payments.

The primary reason card payments, for example, may settle overnight is to allow efficient reconciliation of a day's transactions by the merchant. This model will likely be used for API Open Banking payments as well, for the same reasons.

We see both intraday and end of day settlement by those using our Open Banking APIs.

There is nothing inherent in the four payment systems that provide a settlement speed difference. This is just an agreed, usually mutually acceptable, business process.

### **Cost to use**

We disagree that merchants pay no fees for bank transfers is not correct, as noted above.

Any reconciliation process will fail if reconciliation information is incorrect or omitted. Most Bank Transfer transactions contain information within the control of the business sending or receiving the payment, so there is not usually a reconciliation or mis-post problem.

By contrast, bank transfer and card payments submitted by individuals who are entering one-off payments or creating their own biller list can cause reconciliation problems: these are a minority of the total volume and value of bank transfers, though it seems the Commission's paper might be using that as its pattern for Bank Transfers overall.

Any instore use of bank transfer payment methods will pick up the reconciliation data from the merchant's system and therefore should not be a problem when they come to reconcile that payment later.

### **Ease of use**

The first bullet infers just one of a range of different bank transfer options, when the customer manually enters an account number. It is unclear if the consumer entry of 16 digits is intended to be their own bank account number or that of the receiving party.

Neither of those happens in bank transfers made from a banking app where the customer selects their account from a list and when the merchant's business has registered as a bill payee with their account and reconciliation data.

- ***Do you agree with how we have described and ranked the different methods for payment providers to access the interbank payment network to initiate payments? If not, why?***

We disagree with paragraph 3.20 of the discussions document that Worldline Online EFTPOS is an example of the use of bespoke APIs.

There are two ways to banks connect to Online EFTPOS and neither is a bespoke API as defined in paragraph 3.19 of the discussion document.

The initial banks connected to an API that Worldline developed. So, the inverse of what the discussion document describes a bespoke API.

For BNZ, Worldline connected to BNZ's API Centre Open Banking payment initiation API. Then, the following year, Worldline connected to another bank's API Centre Open Banking API.