FinTechNZ Innovation Roundtable: Shaping Future Retail Payments

Summary of Feedback

Overview

1. The Payments Team at the Commerce Commission, in association with FinTechNZ, hosted an innovation roundtable on 19 September 2023 to capture feedback from the fintech community on the *'Retail Payment System - Payments Between Bank Accounts - Request for views paper'.*[1]

2. The innovation roundtable was attended by over fifty members of the fintech community, including payment service providers, financial service providers, banks, industry bodies, professional services, consultants and government agencies.

3. This summary of feedback has been prepared by the Commerce Commission and captures fintechs' views and other participants' views.

4. The innovation roundtable participants were assigned to five breakout rooms to discuss their views on the request for views paper, with a focus on four key questions:

    4.1. **Question 1:** What is your overall support for the proposal, that the use of the Commerce Commission's regulatory powers is necessary to create sufficient certainty that the API eco-system will develop?

    4.2. **Question 2:** Have the Commerce Commission correctly captured the three API related requirements to help enable an environment where new entrants can launch innovative payment options?

    4.3. **Question 3:** Have these API requirements been met, if not what are the barriers?

    4.4. **Question 4:** Does the industry implementation plan create sufficient certainty that the banks will build the open APIs and are the milestone dates appropriate?

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[1] https://comcom.govt.nz/regulated-industries/retail-payment-system

Summary of Feedback

5. This section provides a summary of the participants' feedback on each of the four focus areas, including the overall sentiment and common themes for each area. Annex A includes additional insights from participants on each of these four focus areas.

6. **Question 1:** What is your overall support for the proposal, that the use of the Commerce Commission's regulatory powers is necessary to create sufficient certainty that the API eco-system will develop?

Overall Sentiment	Overall participants were supportive, with broad support to general consensus that regulatory intervention in some form is required. Participants were supportive in principle and/or directly supportive of proposals such as designation of the interbank payment network.
Common Themes	Participants generally considered regulatory intervention in some form is necessary to ensure sufficient certainty that the API eco-system will develop. Several participants noted their support for network designation expressly. Participants were generally interested in better integration with banks and supportive of regulation to speed up the development of the API eco-system, including to overcome current barriers to the partnering process. Several participants expressed support for a market-led approach with regulatory intervention to assist where the market cannot deliver.

7. **Question 2:** Has the Commerce Commission correctly captured the three API related requirements to help enable an environment where new entrants can launch innovative payment options?

API related requirements
1. Open API standards agreed by industry, which enable a range of bank transfer use cases
2. All banks have developed APIs to the agreed open API standards
3. Efficient partnering process between banks and payment providers

Overall Sentiment	Participants agreed these API related conditions are all required. Participants considered that the Commission has partially captured the three requirements and that there is further nuance to each. Participants advised that there are additional API related factors that are necessary. Participants also considered there are other conditions that are necessary and/or enabling. These are less directly related to APIs.
Common Themes	**Non-functional delivery scope/guidelines** In relation to requirement 1, participants expressed that other standardisation and guidelines are required beyond what is captured in the current technical open API standards. For example, participants noted that customer experience guidelines are required to ensure consistency across experience customer. **Ubiquity/plurality, small banks and product experience** In relation to requirement 2, participants considered that the degree to which all banks have developed APIs has a direct impact on product experience and viability, and that the progress of small banks is a key factor here. Participants noted that it is necessary for the smaller banks to implement standards to reach around 91% of card coverage, otherwise coverage is limited to around 80% of card coverage. **Shorter partnering timeframes** In relation to requirement 3, participants expressed that shorter timeframes are required for efficient partnering, including because fintechs have limited financial runway and more limited access to capital than fintechs in foreign markets. **Consistent legal framework across banks** In relation to requirement 3, participants advocated that a consistent legal framework across all banks is a necessary feature of efficient partnering. **Bank incentives** Participants considered strongly that bank incentives are a critical factor and a change in these incentives is required. Some explained that this could occur through a "burning platform" scenario enabled by regulation (noting that the second and third Payment Services Directives, PSD2 and PSD3, made a big push the UK). Other participants maintained that an increase in regulatory pressure with clear timeframes would be required and would provide more clarity on costs. Others again stated that a revenue opportunity is required for banks otherwise they will not build to timeframes.

	A customer trust framework Participants advised that a customer trust framework is necessary. One participant noted that a trust framework is important for customer experience, with some banks using web-based authentication whereas an app-to-app approach would be more beneficial for customers. The participant noted that app based biometric authentication is safer as it cannot be mimicked. Another participant noted that a trust framework is required for New Zealanders to know what open banking and bank-to-bank transfers are with respect to debit and credit card payments. **Coordinated bank-led marketing to build customer trust** Some participants considered that coordinated marketing to build customer trust and spread awareness to wider NZ is necessary, where this targets the general public, provides product education to explain different products (options and everyday use cases to customers e.g. home loans), is bank-led, and provides a decent experience.

8. **Question 3:** Have these API requirements been met, if not what are the barriers?

Overall Sentiment	Overall, participants considered these three API requirements have not been met. Participants provided views on each requirement and examples of shortcomings and barriers.
Common Themes	The standards are somewhat sufficient, but the key problems are the limited progress developing the APIs and the partnering process.

8.1. **API related requirement 1:** Open API standards agreed by industry, which enable a range of bank transfer use cases

Overall Sentiment	Participants had mixed views on whether the open API standards, agreed by industry, are fit for purpose and enable a sufficient range of bank transfer use cases.
Common Themes	**The industry agreed open API standards are sufficient** Many participants felt the standards are not the key problem. Participants described the standards as “pretty good” and “okay although not great”. One participant remarked that the API Centre working groups are accessible and anyone can join the discussions and push for what they want. **The industry agreed open API standards are insufficient** Many participants considered the open API standards do not enable a sufficient range of bank transfer use cases and are missing key elements or features.

	Examples provided included: • non-functional quality or performance requirements; • mandatory customer experience guidelines and performance guidelines; • consideration of payment limits; • identity, security, fraud aspects mandated to a high level; and • other features or use cases (such as payments approval, authentication-type features, split payments, search features for customer's own bank). Participants also noted that many standards are compromised which creates room for inconsistency and "wiggling out".

8.2. **API related requirement 2:** All banks have developed APIs to the agreed open API standards

Overall Sentiment	No, strong consensus that banks have not all developed APIs to the agreed standards.
Common Themes	The banks have not all developed APIs to the open API standards because they are not incentivised to do so, from either a commercial or regulatory perspective. BNZ has taken the lead, but the others are lagging. This needs to go from optional to a mandatory requirement which needs regulation to do this. The banks prioritise regulatory requirements over and above API developments, so unless this is regulated, banks will not dedicate sufficient resources to APIs. There are massive disincentives to develop APIs and partner with payment providers as it would cannibalise existing card revenue.

8.3. **API related requirement 3:** Efficient partnering process between banks and payment providers

Overall Sentiment	No, this requirement is not met. The partnering process is challenging and this is a big issue, there are numerous barriers to efficient partnering.
Common Themes	Participants indicated viability concerns with the level of access charges and the length of time to reach agreements, given banks can set fees at any amount and it can take years to finalise agreements. All the power sits with the banks and they are not incentivised to reach commercial agreements, they have deeper relationships with card schemes. Participants indicated that despite Payments NZ developing a standardised template for contracts, most banks are not using it and so it is a slow and cumbersome process to engage with multiple banks who all have different requirements that need to be negotiated. Participants indicated a preference for an accreditation style partnering process, that requires banks to partner with payment providers subject to demonstrating meeting certain requirements. Participants expressed there are too many hoops to jump through currently to obtain open API access.

9. **Question 4:** Does the industry implementation plan create sufficient certainty that the banks will build the open APIs and are the milestone dates appropriate?

Overall Sentiment	No, it does not create sufficient certainty given it is not mandated and timelines have not been maintained historically. No, the milestones dates are not ambitious enough, including both the delivery dates and the API version committed to.
Common Themes	**Certainty**Participants had low confidence that the banks will deliver to the implementation plan given it is not legally mandated, and so are supportive of regulation to provide certainty. The lack of enforceability, the non-mandatory nature of API Centre membership and the exemption process all contribute to this low confidence.

	The participants indicated that the banks have already changed the dates they said they would have built APIs by and that the dates are constantly being pushed out, so expect the same with the implementation plan dates. The participants indicated that there are also several important aspects that are not captured in the implementation plan, including mandatory performance standards for the APIs and testing of the APIs, so that even if they are built by the dates, it does not mean they are standardised or commercially viable. **Milestone dates** Participants did not think the milestones dates were sufficiently ambitious and indicated that New Zealand is behind the rest of the world in API implementation milestones and partnering by several years. Participants indicated that they need consistent timing across the banks for commercial viability and that later versions of the APIs should be targeted, not the v2.1 which has already been available for 3 years.

Annex A: Participants' Specific Insights

Question 1: What is your overall support for the proposal, that the use of the Commerce Commission's regulatory powers is necessary to create sufficient certainty that the API eco-system will develop?

Participants considered banks lack incentives to progress the API eco-system and that banks are currently only incentivised to promote the use of credit card rails. To illustrate, one participant noted that banks have not developed the direct debit payment instrument in twelve years.

Some participants noted that there is no profit in interbank payment for banks and that banks prioritise regulatory requirements. Unless this is required, banks will not deliver. Therefore, regulation is necessary.

While supportive of the proposal, some participants expressed a desire to better understand the landscape, the proposal, and the meaning of designation and what regulatory powers would be used.

Participants viewed the proposal as a way forward for consumers. Some noted that "open banking" will give customers options and make it safer and easier to rely less on cards.

Question 2: Has the Commerce Commission correctly captured the three API related requirements to help enable an environment where new entrants can launch innovative payment options?

Fintechs' ability to register as financial service providers. Some participants noted that they had not been able to register as a financial service provider via the financial service provider register. These participants considered that, despite having the necessary technology and clients, this is a big hurdle to accessing the payments system alongside relations with banks.

Fintechs' ability to obtain bank accounts. Some participants noted that obtaining bank accounts is a necessary requirement for fintechs to participate and that they had faced barriers in achieving this. They explained that they had tried and failed to obtain bank accounts at several banks. These participants consider banks are not interested in giving bank accounts to startups. In one example, they were told this was outside banks' "risk appetite".

Cashflow, financing, access to capital for NZ startups. Participants noted that Kiwi startups do not have the same access to capital as US and UK startups. Participants considered that better access to capital for NZ fintechs is necessary under status quo implementation and partnering timeframes as Kiwi startups are at risk of failing while waiting for banks' readiness. For example, it could take over 24 months to get 95% coverage of the payments market which is a long time for a start-up that has a short capital runway.

Onshore capacity/skilled and secure onshore labour. Participants noted that skilled and secure onshore labour are important for businesses (eg for testing), and there is a current brain drain overseas because opportunities are not here in NZ. Participants also described the importance of an environment for NZ system growth including the presence of key players and capacity for fraud prevention without outsourcing overseas.

Digital identity. Participants described digital identity as an enabler that would contribute to the work (and vice-versa).

Authorisation for Payments NZ to be a central hub. Participants considered authorisation for Payments NZ to be a centralised hub for collaborative activity is important.

Sandbox system. Some participants considered a sand-box system is required to enable businesses to develop in a safe environment.

Dynamic development environment. One participant felt the Commission had correctly identified the requirements but noted that development cannot be static, that it must grow and evolve with the market in a collaborative setting.

Question 3: Have these API requirements been met, if not what are the barriers?

Requirement 1: Open API standards agreed by industry, which enable a range of bank transfer use cases

Non-functional/quality/delivery/scope guidelines. Participants noted that customer experience guidelines and other standardisations, in addition to the open API technical standards, are required to ensure consistency in user experience. Participants also considered industry-led standards should cover non-functional/quality or performance requirements such as uptime, caching, throttling.

Fraud/payment security. Participants considered identity, security, fraud aspects are not mandated to a high level in the open API standards which creates a lack of confidence. They proposed mandating security and ID at a high level. One participant proposed requirements on fintechs to provide sufficient data points for banks to address fraud in the network, noting that functionally fewer data points may be required than for credit card payments but that banks will nonetheless require the same level. The participant noted that version 2.1 has 11 different data points available via the API, and while many use cases can be built from this, know your customer (KYC) cannot as banks do not have enough information in the necessary format to build KYC into the APIs.

Related to the identity point, one participant noted that the standards do not require key payments approval checks. The participant referred to the Australian example where banking apps use CVV or the name on the card, and the UK information gate/rails example which check names are “sufficiently close” through a “fuzzy logic” check (which started as a central database/platform and evolved to banks connecting to each other’s APIs). The participant noted this capability should be enabled by Nov 2024. Another participant responded that KYC and anti-money laundering (AML) also need to be in place, and that fuzzy logic goes a long way, but banks still need to be able to stop payments once fraud is detected.

Other participants described how certain banks use web authentication rather than app-to-app which increases exposure to phishing and fraud. Participants noted that app-to-app is included in the standards and this is helpful but that biometric authentication is safer as it cannot be mimicked.

Customer consent. Participants discussed the importance of balancing legal requirements and customers' preferences for a "one click go" user experience. Participants considered the amount of information and number of steps currently required does not align to customer preferences. One participant noted that while v2.1 has redirect flow, v2.2 allows decouple flow going from app to app.

Enduring consent. Participants noted that enduring consent is optional in v2.1 and only mandatory in v2.3, and that this is a barrier to important use cases. One participant explained that in the bill payment space, v2.1 is clunky and requires an "arduous" work around process (sending payment requests to the customer every time for approval), and that v2.3 with mandatory enduring consent is important and better as it enables more use cases and avoids the "clunky" process. Participants expressed that not having domestic and enduring payments consents implemented is a major hurdle.

Requirement 2: All banks have developed APIs to the agreed open API standards

Commercial incentives. The banks are dragging their feet as they have no incentive to do APIs; they are incentivised to steer towards schemes where they earn massive revenue stream from cards. It is not in the banks interest to develop open APIs as it commoditises the banking industry.

System constraints. Kiwibank experience – they are doing a complete overhaul on their core system which is understood to be causing their delays.

Ubiquity. It is necessary for smaller banks to implement standards to reach around 91% of card coverage, otherwise limited to around 80% of card coverage. Implementation is technically feasible for smaller banks but they lack the commercial incentives, ie it is a commercial decision.

Other. It is all conjecture why the banks are not doing things. Useful to understand but unique to each bank. Some have their own proprietary APIs like the open banking standard, one has the open banking APIs, one has another but is not legally ready, one is moving to the cloud before they can develop the APIs.

Participants noted that the risk profile of different APIs has been indicated by banks as a reason for delayed development. The suggestion is that risk profile around read access is counterintuitively perceived by banks as higher than payment initiation. Payment initiation is perceived as less risky - everything is contained within banks' own security, fintechs do not touch the money.

Moving quickly from start to implementation can create more issues with the system which would not build trust with consumers, at this stage the delivery timeframe is very short.

Requirement 3: Efficient partnering process between banks and payment providers

Fintechs can connect by APIs to every banking partner overseas in all countries across the world, this has been the case for the last 7-8 years, and even in those countries considered 'third world'. This partnering issue occurs mostly in Australia and New Zealand which is not surprising as it is the same banks.

Some participants held a view that there is potentially anticompetitive behaviour by banks who are not interested in working with startups. Most startups are working with BNZ only which is a competition issue.

Access timing. Participants indicated that the length of time it takes to reach agreements is a risk to a start-up, and that it can take years. Many participants view this is a deliberate strategy given the rivalry/competition at a product level and view this and access fees as the key issues.

It is slow and cumbersome to engage with multiple banks separately and negotiate terms and price with each. Even large payment companies have taken multiple years to reach agreements with the banks for bespoke API access and they had to give up significant commercial terms.

Access fees. A participant noted that if banks do give you access, they can charge you whatever amount they want. So, they can charge you in a way that does not make your business work [ie, foreclosure]. Other participants indicated strong support for this comment.

"Software upgrades" are an excuse for high fees and industry are just taking it on the chin. Need to look at history of this and look at actual costs. Too much power in banks' hands. Old influence of banks on Payments NZ might still be causing issues. The only bank working on this is BNZ, others are pretending or limiting their API access to one to two companies only. They are keeping the kingdom locked so that it is no longer open banking.

Standardisation/Legal Framework. Participants indicated that a lack of standardisation and easy to use information to support startups, who lack resources and financing for legal and consultancy services, makes it hard to overcome the complexity of partnering.

A standardised legal partnership framework is required, but the banks do not want this. It would commoditise the APIs which is not necessarily in the bank's interest, so this will need to come from regulation.
There are challenges with agreeing terms with banks, including on shifting risk profiles, for example for read access vs payment initiation, AML criteria, security criteria, insurance/liability sharing terms and commercial terms.

Accreditation. There should be one place where you can demonstrate you meet requirements, get approval, standardised fees, charges. Need to consider the commonality with the CDR regime, which is proposing an accreditation process.

Fintechs considered they are currently forced to jump through impractical hoops, too many hoops, to onboard and get access and that an accreditation regime with oversight from an impartial regulatory body is necessary to ensure accountability. Fintechs noted there is no point in having open APIs if they are inaccessible.

The UK has a good, centralised accreditor, the regulators are happy and banks do not need to deal with each payment provider, so this does not put burden on banks and is easier for fintechs.

Banks must be forced to co-operate with fintechs. Incentives for banks to engage and partner with payment providers if they meet criteria are necessary. Soft regulation will not achieve anything.

Incentives. Need to understand the cost to the banks or security risk and what will make them interested. We can use the regulatory encouragement stick, but need a market-based industry incentive (fees) to promote uptake for bank use that will deliver API use and create opportunities to develop and present solutions for the public.

Question 4: Does the industry implementation plan create sufficient certainty that the banks will build the open APIs and are the milestone dates appropriate?

Certainty. Implementation dates need to be considered in light of what is a functional API. There is no guarantee that the quality of the APIs will be commercially robust enough to go to market with, some testing will be required, potentially they won't be uniform across all providers, there will be nuances between providers.

In Australia there is the NPP and there was a timeline that the banks committed to implementing it. Even then banks didn't meet it. It's great there's currently the 2024 deadline but if not mandated then there's reason to believe that the banks won't hit that.

In a practical sense, the banks would have to be almost done now and doing live testing for the 2024 milestone dates to be feasible.

Milestone dates. The APIs the banks are trying to integrate with now were available 3 years ago, so it would mean it took them 4 years by 2024. If we move with that pace, in the next 15 years we will have nothing.

The delivery dates are not ambitious enough, by May 2024 there will only be 81.4% coverage and by May 2026 there will be 90 to 91% coverage with Kiwibank included.

A more appropriate milestone would be the top 5 banks to build v2.2 by end of 2024 which would put fire under Kiwibank.

We are so far behind the rest of the world in API implementation milestones and partnering, including Nigeria, India, Nepal, Sri Lanka, Malaysia and the Philippines.