

1 **DAY 2 – PERSONAL BANKING SERVICES MARKET STUDY CONFERENCE**

2
3 **SESSION 6 – OTHER ENABLERS AND BARRIERS FOR FINTECHS**

4
5 **14 MAY 2024**

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8 **Lunch adjournment from 12.33 pm to 1.31 pm**

9 **JOHN SMALL:** Welcome back. So we've got an hour now to discuss other enablers and barriers
10 for fintechs. And I suppose the background to this is some of the comments we made in the
11 Draft Report. We talked a bit about the AML/CFT arrangements where the Ministry of
12 Justice have been doing some work that perhaps has languished a tad and so we were
13 recommending picking up some of those points. So that's something we want to talk about
14 in this session.

15 We also talked about access to ESAS but the comments in the draft were generally
16 supportive of what we said and so we probably don't need to canvass that in anymore detail
17 I don't think. And so I think we'll go -- let's just start with the AML/CFT material.

18 So what we said in the Draft was we pulled out a couple of recommendations that
19 the Ministry of Justice made in its review of the Act in 2022 and we suggested expediting a
20 couple of these which could reduce regulatory barriers for fintechs seeking bank accounts.
21 For me this was one of the surprises of the Draft Report, the difficulties fintechs have in
22 obtaining and maintaining a bank account.

23 The particular recommendations we pointed to were number 48, which was a code
24 of practice for banks to rely on when on-boarding high risk customers, and the second one
25 was recommendation 92 from the Ministry of Justice, which was a licensing framework for
26 entities in high risk sectors. The submissions on the draft were broadly supportive of
27 prioritising a licensing framework and less so for a code of practice.

28 So we have, however, not received much feedback from fintechs on this general
29 issue, so quite keen to hear from fintechs about this concept of a licensing framework as
30 distinct from a code of practice as a way of facilitating these bank accounts. So banks have
31 supported a licensing framework in their submissions on the draft and we're keen to hear
32 whether fintechs like that idea as well, or would prefer a code of practice, or indeed
33 anything else.

34 So that's where we're heading. Any takers for a comment on this to get us started?
35 Shaun, thank you.

1 **SHAUN FORGIE:** You'll have to excuse me, I haven't read about the licensing, but it's sort of a
2 tiered structure around sort of the volume of money we're processing, or how does that
3 work?

4 **JOHN SMALL:** I think so. Would you like to comment on that Will?

5 **WILL TURNER:** It's probably a level of detail that the Ministry of Justice hasn't quite thought
6 through yet. So they've put a recommendation for the licensing framework to be explored,
7 but they haven't given that level of detail yet.

8 **JOHN SMALL:** But think of it as being an upfront framework centrally administered that would
9 assess fintechs, and if you pass they'll give you a licence. And so it's like an accreditation
10 regime essentially. And presumably the idea then would be that if fintechs have got the
11 licence, then they can take that licence to the bank and you'll get a bank account.

12 And by contrast -- so that's one way of looking at it. Now that we're talking about it
13 I can see some puzzled looks around the place wondering how this will work, and as Will
14 said, we don't have the detail. So Dan, a comment? Before I start running my mouth a bit.

15 **DAN HUGGINS:** Commissioner, it might help if we, if helpful, explain what we do today.

16 **JOHN SMALL:** Yeah, sure.

17 **DAN HUGGINS:** And then how that might link to it, if that's helpful. So I'll now hand to my
18 Chief Risk Officer who can explain.

19 **JOHN SMALL:** Nicely played Dan.

20 **SAM PERKINS:** Handing across to the lowest common denominator.

21 **DAN HUGGINS:** He was the guy that was referred to before as just, you know, too risky.

22 **SAM PERKINS:** Sam Perkins, BNZ. So the licensing regime, I guess as we would envisage it,
23 would involve multiple tiers to recognise that different participants in the market would
24 play different roles in the financial system and there would be a way to enable certain types
25 of fintech which need enhanced regulation relative to other participants would be given a
26 special licence that would not be as onerous as perhaps a full banking type AML level of
27 expectation, but would put a level of responsibility on to them, which would give the major
28 banks who are providing the core rails and access into ESAS and so forth, an element of
29 safe harbour as part of providing those facilities. And you could break that up in as many
30 different ways as was appropriate.

31 So that's kind of the high level concept. And, you know, at the moment there is a
32 very strong expectation in the legislation that the banks will provide very comprehensive
33 and detailed transaction monitoring and financial crime protections to the entire financial

1 system as part of their role as regulated entities. So there's obviously a huge range of parts
2 to this, but I don't think I need to walk through all of them at this point.

3 **JOHN SMALL:** Thank you. That's helpful. So the question remains for any fintechs who want
4 to comment on this. But can I just ask while you've got the microphone, Sam, we've been
5 talking previously about a different type of accreditation for fintechs, one that would be
6 sufficient to give you comfort that they can use your APIs. Do you see much overlap, or
7 potential for simplification, or synergies in these two issues; or are they completely so
8 distinct that you need two licences?

9 **SAM PERKINS:** They are looking at distinctly different things. Now, when we talk about
10 protection I am considering both the data protection is around maybe sharing of data and
11 how that customer data is being used, that is one element. But on the other hand, payments
12 activity is an entirely different matter. And in fact the type of due diligence and enhanced
13 due diligence that the banking system will undertake on a payments provider is actually
14 completely different from a fintech who is not in a payments provisioned business. And so
15 they are really quite different sorts of accreditation. There may be some overlap, but I think
16 it would be incidental rather than by design. But I'm obviously open to other views.

17 **JOHN SMALL:** Yeah, thank you, that's helpful. We've got someone online, Paula Milne from
18 Centrapay, could we hear from Paula please. Kia ora Paula.

19 **PAULA MILNE:** Kia ora. I have a unique perspective on this, I think, because I'm currently
20 working for a fintech and I have done consulting for fintechs and banks and I've been the
21 AML/CFT compliance officer for three banks in New Zealand.

22 So when we're talking about the licensing, it's essentially a way of the fintechs being
23 able to demonstrate that they are meeting all of the regulatory obligations under the
24 AML/CFT regime, that they're doing so to a level that the banks can take comfort from.
25 They have to do it once and only once, or, you know, like maintain that registration, or that
26 licence. But it means that if they go to a bank they don't have to go through the enhanced
27 due diligence process multiple times over, they do it once, they get it done. They meet that
28 level, they can demonstrate that ongoing compliance.

29 And what I always found was the biggest challenge in my capacity as a compliance
30 officer, was that the fintechs would come to me and they'd say "Paula, why won't you open
31 my bank account, why won't you approve it?" And my response was well, it doesn't even
32 make it to my desk. The reason it wouldn't make it to my desk is because for a frontline

1 banker they've got a choice of two different entities coming to them. One requires very
2 little, standard due diligence, they can on-board them pretty easily.

3 The other requires enhanced due diligence and to understand a little bit more, it's
4 new, emerging technology which the legislation requires that you do enhanced due
5 diligence on. So they go this is too hard, AML says no. It's not typically that AML has
6 said no; it's typically that it's too hard for them to go through the extra due diligence.
7 Because why would they do it when it impacts on their day, it impacts on their resource and
8 their capacity.

9 And if you took away that burden from those frontline staff members, and you
10 placed it somewhere else in a way that they could rely on it, then you're helping out both
11 parties, in my opinion.

12 **JOHN SMALL:** That's really helpful, Paula. We've got the right person on the line. So does it
13 follow also that by contrast a code of practice is still kind of difficult for the banker on the
14 frontline, because this is still non-standard, they've got to say that's right, there's a code of
15 practice, pull that out and have a look at them themselves, is that the impression you're
16 giving?

17 **PAULA MILNE:** Yeah, there's exactly right. So with a code of practice, it's still putting the
18 obligation on the banks to ensure that that entity meets that standard. And the legislation
19 already does that, right, the legislation already says this is what the legislation requires and
20 so it's pretty standardised already. If you put in place a code of practice, you're just adding
21 an additional layer for the banks to have to review and meet.

22 I think if you take it away from them, and you put it elsewhere, it means that -- but
23 in order for it to be truly successful, you would have to provide the bank some sort of safe
24 harbour in terms of relying on that having been done, because it doesn't completely take
25 away the risk that they take on, but it would help diminish it because they would receive
26 safe harbour, in the same way that the code of practice terms of identifying individuals
27 gives them safe harbour so long as they've complied with that.

28 If they on-boarded an entity that had demonstrated, through whatever regime,
29 accreditation regime, whatever you want to call it, that they had met these standards to the
30 level that the supervisors are happy with, then, you know, whoever is responsible for that
31 regime, then that alleviates their burden from having to do that. Code of practice requires
32 them to still do it and to still look to make sure that they're meeting those standards set out
33 in the code.

1 **JOHN SMALL:** So of course the downside, I suppose, though, is it does require the Ministry of
2 Justice do something, and they're not here, we can't put the acid on them.

3 **PAULA MILNE:** So just on that, you've got the Ministry of Justice who set the legislation, but
4 you've got the supervisors who can set the codes, so that doesn't need to go through
5 legislation to be able to set a code. So a fast way to fast track it would be through a code,
6 but then you would need to have someone who was assessing them to that particular
7 standard, which would have to be the supervisors as opposed to the Ministry of Justice,
8 because they are the ones that have interpreted what those requirements are and are the
9 ones that are holding the reporting entities to that standard, not the Ministry of Justice.

10 So I think, yeah, it could be done if it was done through a code, if it was codified,
11 but it was done through a regime through the supervisors who have that supervisory
12 capability anyway.

13 **JOHN SMALL:** So the supervisors could do this essentially unilaterally without a law change?

14 **PAULA MILNE:** Yeah, but through a code, yeah.

15 **JOHN SMALL:** Through a code, yeah, through the code-making powers. That's interesting.
16 Very interesting. Just stay there, please, if you wouldn't mind. Any other comments or
17 questions on this point? Yes.

18 **JOSH DANIEL:** Josh Daniel, Akahu. Just a question which is whether the Commission is
19 confident that it's just AML that is presenting a barrier for fintechs opening and maintaining
20 a bank account, or whether there might be other risk management considerations which
21 pose barriers?

22 **JOHN SMALL:** That's a very good question. Can I just ask the banks, is it just AML, or are
23 there other things that are standing in the way here? Maybe it's a question for you, Sam.

24 **SAM PERKINS:** I mean I can answer that, but there are other banks here.

25 **JOHN SMALL:** Yeah, sure.

26 **SAM PERKINS:** No, there aren't. And look, we obviously on-board all sorts of fintechs and
27 money service businesses and we have the AML/CFT controls and processes in place to
28 manage them.

29 **JOHN SMALL:** Good, thank you. Catherine.

30 **CATHERINE McGRATH:** I can confirm that the answer is similar, we're also an agency bank
31 so don't have any issue with providing services for other players in the market.

32 **JOHN SMALL:** Okay, so this sounds like progress to me, it's really good. Just wonder if there's
33 anything else I need to ask about. I had a question here about the UK's e-money

1 regulations and Westpac had suggested that might mitigate some of these risks. Would you
2 like to comment on that, Catherine?

3 **CATHERINE McGRATH:** The suggestion is not that dissimilar to BNZ's where they're talking
4 about a tiered regime. So the way that the -- sorry, Catherine from Westpac -- the way that
5 the e-money regime works is it recognises that if you're operating up to a certain level, that
6 the standards should be lighter, that the accreditation should be lighter; once you get to a
7 certain point you kick into a higher regime. So we think there are good principles behind
8 that model that we should look at here very similarly to the discussion that's already been
9 had in the room. But I think it's good example to have a look at in terms of how other
10 markets have tackled this.

11 **JOHN SMALL:** Yeah. And Catherine, while you've got the microphone, can I raise the other
12 question I put to BNZ, which was how much extra -- suppose a fintech has gone through
13 this process, I presume that in the development of a fintech you get a bank account before
14 you start applying for API access. So suppose you've got this licence, that clears you off at
15 your relevant tier for AML purposes; do you see a lot more that would be required for
16 accreditation to use APIs?

17 **CATHERINE McGRATH:** I do think it's looking at two different challenges, because a fintech
18 that's not offering payments you would look at very differently to a fintech who is offering
19 payments. And so yes, there are some overlaps, but I don't think if I was a fintech that
20 didn't offer payments that I'd want to go through the same regime as a fintech that was
21 offering payments.

22 **JOHN SMALL:** No, and would that be a -- is it potential, so that wouldn't be accounted for in the
23 tiering of the licence?

24 **CATHERINE McGRATH:** I think the assumption that says that -- that conflates data sharing
25 with payments, if I was a fintech wouldn't work for me.

26 **JOHN SMALL:** Okay, thanks. Thank you very much Dan.

27 **DAN HUGGINS:** Dan Huggins, BNZ. I think we're talking about two slightly different things --

28 **JOHN SMALL:** Yeah, we are.

29 **DAN HUGGINS:** -- to Catherine's point. There's an AML piece that I think we want to be clear
30 around someone who's involved with payments is going to want to have a different regime
31 than someone that's not because of the risks of money laundering associated with that.
32 What we were talking about earlier was different, which is sharing of the data.

33 **JOHN SMALL:** Yeah.

1 **DAN HUGGINS:** There's going to be a minimum standard of security and protection you're going
2 to want for all providers to have to protect that sensitive customer data from everything that
3 comes through, losing that data. So I think they are different. In one case there's probably
4 more tiered, in other cases you're going to want at least a minimum standard. It might step
5 up from there as someone's starting to get more data, but there's definitely going to be a
6 minimum standard there.

7 **JOHN SMALL:** Yeah, yeah.

8 **BRYAN CHAPPLE:** I think that's helpful. So just to check that my slow brain is understanding
9 this; in a sense what we were talking about earlier this morning around having some sort of
10 shared accreditation process would deal with the data access issues?

11 **DAN HUGGINS:** Correct.

12 **BRYAN CHAPPLE:** And what we're talking about, we'd need a different process through the
13 AML supervisor, or an AML supervisor in order to licence that part of it, yeah?

14 **DAN HUGGINS:** Yeah. I mean they may be the same processes, but anyway, yes, you need
15 to -- yes.

16 **BRYAN CHAPPLE:** And you can use what you've done on the first one as, you know, sharing
17 the information to do the second etc, etc.

18 **DAN HUGGINS:** And ultimately we've got dedicated teams of people that are doing this with
19 fintechs. Ultimately what we're talking about here is the acknowledgment of it is harder
20 than it needs to be for many fintechs to get access to the data and to get, you know, and
21 there's an easier path here which would be better for everyone, and certainly better for the
22 fintechs.

23 So that's ultimately what we're talking about. I don't think that we have today
24 means that we are unable to provide these services to fintechs, it's just damn hard and
25 there's an easier way.

26 **BRYAN CHAPPLE:** Okay. That's clear, thank you.

27 **JOHN SMALL:** That's great. Paula, I'll just come back to you and see if there's anything you
28 want to add based on that conversation?

29 **PAULA MILNE:** I agree with that conversation completely. There are definitely tiers of risk
30 when it comes to the AML/CFT regime. There are certainly fintechs that pose a higher risk
31 for money laundering. Some that pose a perceived higher risk for money laundering, and
32 some that don't. But because they've got fintech in their name, they're tarred with the brush
33 of higher risk, or perceived higher risk.

1 And so having that differentiation between, you know, is there money flowing
2 through, what are the risks and having that looked at from a money laundering perspective,
3 financing terrorism perspective I think is a really good idea.

4 **BRYAN CHAPPLE:** Can I just ask whether there's an obvious -- you, Paula, but others as
5 well -- is there an obvious supervisor? If we were to recommend this kind of regime, is
6 there an obvious person to do it, or entity to do it?

7 **PAULA MILNE:** Currently the DIA is the supervisor for most of the entities that we're talking
8 about, so it would make sense for them to be the supervisor that picks up that accreditation;
9 in the same way that RBNZ, who is the supervisor for banks license the bank. So it would
10 make sense to sit in that space.

11 **BRYAN CHAPPLE:** Any other views on that? No?

12 **JOHN SMALL:** Dan doesn't look very happy.

13 **DAN HUGGINS:** Dan, BNZ. There's not a clear answer to this, is the answer.

14 **BRYAN CHAPPLE:** Yeah, that's what I wondered.

15 **DAN HUGGINS:** Maybe it's the FMA, yes, the DIA, you know, we're talking about quite a broad
16 accreditation regime here. Certainly the DIA is involved from an AML fin crimes
17 perspective. But similarly when we start talking about standards associated with data, then,
18 well, is that FMA, is that RB? Sorry, I don't have a clear answer for you, it's a bit of a
19 tricky one.

20 **JOHN SMALL:** Yeah.

21 **PAULA MILNE:** Yeah, sorry, I was just meaning from an AML perspective, not from the
22 broader accreditation.

23 **BRYAN CHAPPLE:** Yeah, understand that. Yeah, cool, okay.

24 **JOHN SMALL:** I think we still made progress. Julia.

25 **JULIA NICOL:** I've just got a comment, the DIA could issue a verifiable credential for these
26 fintechs and then in our new digital economy it could get sent through to the next place. So
27 I think that's a great idea.

28 **BRYAN CHAPPLE:** Okay, thank you.

29 **JOHN SMALL:** Very good. Okay, so I think that brings us, and kind of by way of sweeping,
30 I guess, to a general topic on other barriers or enablers of innovation. So at this point it's
31 kind of wide open, I think.

32 So some of the things, for example, we mentioned in the Draft Report were
33 regulatory sandboxes to try and sort out some of this stuff. We've heard here already about

1 the concept of conversations that may need, you know, multilateral conversations that could
2 be useful to have. They might fall short of a formal authorisation but could be usefully
3 facilitated. There's questions about, I guess, capital requirements for banking licences have
4 come up.

5 But basically wide open; how can we support greater innovation in personal
6 banking and learn from other countries? We've talked about digital identity, that's part of it
7 as well. So this is really a sweeper question to make sure that we've got all the knowledge
8 that's in the room, essentially. So we'll start with you, Shaun, thank you.

9 **SHAUN FORGIE:** I guess the really big issue is digital currency, the New Zealand digital dollar.
10 You know, the Reserve Bank have sort of announced they're in phase two of a four-phase
11 roll-out. I think we need to try and get our heads around what that means for banking and
12 for personal banking services and how fintechs like Bill Rush will be involved in
13 compliance activity around that.

14 I think we're talking about peer to peer transactions. We're talking about the ability
15 for one individual to send another individual digital money directly. And I think you're
16 seeing that in the wider crypto, bitcoin and distributed ledger space. It's completely
17 transformed the way international payments and remittances are being done. I think we've
18 got to be thinking about how that is part of this.

19 **JOHN SMALL:** Yeah, that's a big one that wasn't actually on our list, so thank you. Anything
20 else? Yes, Antonia.

21 **ANTONIA WATSON:** I might just reiterate a comment that Adam made earlier just to bring it
22 into this forum, which was that opportunity cost of other things that we're asked to do. So
23 there's a lot of stuff that we would have loved to spend time in the last few years on cool
24 new things for our customers that we've spent on regulatory compliance. And that's a fact
25 of life, but there is a trade off for innovation and for consumers in that.

26 **JOHN SMALL:** Yeah.

27 **BRYAN CHAPPLE:** So, sorry, just on that; I understand the point. I guess there's obviously
28 been a big bow wave of change over the past five years, you know, whatever. And
29 obviously there's some additional change now to CCCFA. But how much else is still, you
30 know, has that volume slowed or still continuing?

31 **ANTONIA WATSON:** There's still quite a lot out there. So consumer data right, CoFI, Deposit
32 Takers Act, our climate-related disclosures, that's been a very, very large programme. We

1 don't expect anything to be as big as BS11 except for potentially, you know, some of the
2 work we've talked about on our own systems. What else have I missed? New AML Act.

3 **DAN HUGGINS:** Loan level data.

4 **ANTONIA WATSON:** Loan level data for the RBNZ, yeah. DTI.

5 **JOHN SMALL:** There are a few things.

6 **ANTONIA WATSON:** Can I keep throwing acronyms out there?

7 **BRYAN CHAPPLE:** DTI?

8 **ANTONIA WATSON:** DTI is debt to income ratio, so it's a new prudential control.

9 **DAN HUGGINS:** We do seem to have moved beyond some of the big BS11 things, but what we
10 now have is dozens of little things. So it's having a similar sort of impact. And what you
11 can't do in these systems is just keep throwing people at it. So you get to the limit of, yes,
12 we're all spending hundreds of millions of dollars on these systems, but at some point you
13 can only have so many people changing the same lines of code, and you've got to,
14 (inaudible) so some things have to be prioritised.

15 **BRYAN CHAPPLE:** Thanks.

16 **CATHERINE McGRATH:** A quick observation is that I never saw, in my 22 years in the UK,
17 the same proportion of investment spend on regulation that I have seen in this market. And
18 whether that's a bow wave or not, I don't know, but it's certainly very different to what I've
19 experienced before.

20 I think the second observation would be that the requirement for that spend for some
21 banks for BS11 has meant that other things that you might have been doing for that period
22 of time were delayed to create capacity for that. And so even though the BS11 changes are
23 over and done, there's probably a catch-up.

24 And then doing things in the right order and the right sequence is important. So I
25 have sympathy for Kiwibank saying we just need to do this bit first and then we can start to
26 plug other things in. Because if you start to do it in the wrong order, then you're wasting
27 money and you're throwing it away and you're not getting the return that consumers would
28 expect for it.

29 **BRYAN CHAPPLE:** Thanks.

30 **ADAM BOYD:** Adam Boyd, ASB. On the point around are we seeing slowdown in regulation?
31 We're categorically not. We see no signs of it slowing down at all, in fact it feels at this
32 stage it's continuing to ramp and some of the timeline expectations are getting tighter and
33 tighter. So we're seeing no shift on that at all.

1 And, yeah, I think just reaffirming that point, that we are coding this all into our
2 legacy systems and I thought, you know, Kiwi did a good job in their submission in just
3 laying it out very clearly. Like, if they need to deliver open banking it's going to slow
4 down their core transformation, and I think that would be true of most entities.

5 **JOHN SMALL:** Thank you. We need to come back to the broader point. Julia had her hand up
6 before you, I think Kent. Did you still want to say something Julia?

7 **JULIA NICOL:** I was going to talk about central bank digital currencies, but that's okay.

8 **JOHN SMALL:** No, no, you might as well. Let's do it now then we'll come to Kent.

9 **JULIA NICOL:** It's a bit left field now. But it's interesting, I think, the timing of the consultation
10 on the future of cash. So we know that the Reserve Bank has got a mandate to proceed
11 with this and they're looking at that, I think, around 2026 as well with a potential issuance
12 in 2030, was it? But when we spoke to them they did say they didn't think there'd be, you
13 know, broad uptake of this, which was kind of interesting. Despite the fact that the reason
14 they were doing it was to, you know, produce, well, to have more competition in the
15 market.

16 So I don't know, it would be good to know how all this fits together. Is there a
17 strategic vision, is there a plan? I know CoFR says that there is for payments, but we
18 haven't really seen anything yet. Ultimately we need a real-time payment system that's, I
19 think, public infrastructure so that you can do digital identity, so you can do open banking,
20 so you can do central bank digital currency so other people can plug in and play.

21 But, you know, we've been talking about real-time payments for at least two years,
22 at least, at least, with Payments NZ and we haven't got anywhere near a decision. So I don't
23 think the banks want to pay for it, I think it has to be public, right, you need shared
24 infrastructure, so that people can produce products and services for the benefit of
25 New Zealand. Sorry, that went a bit off-piste, but anyway.

26 **JOHN SMALL:** That's all right, it's all good.

27 **RAKIHIA TAU:** Kia ora Catherine. I found your comment around the amount of regulation
28 relative to the UK experience interesting. I wouldn't mind you must teasing that out a bit
29 more for the Commission. Given that we did receive quite a few submissions on the
30 amount of regulation and its impact on investing elsewhere such as in your legacy systems,
31 etc. Just a little bit more about your experience in the relativeness of the regime here in
32 New Zealand.

1 **CATHERINE McGRATH:** So in the UK one of the roles that I had was in the retail -- sorry,
2 Catherine McGrath Westpac. So a lot of the changes that we're talking about here are
3 changes that I implemented in the UK market, whether it's open banking, or switching, or a
4 whole lot of other regulatory interventions. So they were generally 25% of the total
5 investment that I would have had.

6 The other thing that's just worth, from a framing perspective; I was in a far larger
7 organisation and we're wanting to put in some of the same interventions here in far smaller
8 organisations. So the extent of disruption of them is far more material, because even
9 though we're described as the four big banks here, if you've worked somewhere like
10 Barclays, we're small, and the depth of pockets are small, relatively speaking, as well.

11 So then if you look at some of the reg change that continues to come, particularly
12 when they impact on the payment systems and flows, that's a quite specialist skill set in
13 New Zealand, we don't have that many of them, we're quite a small market. So our ability
14 to digest it at pace is less, just purely because of size of market.

15 And then my final observation would be -- this is a Westpac special -- there are
16 some reg changes that impact some changes more than others. So the RBNZ's overseas
17 branch review has a more material impact on Westpac New Zealand than it does on others
18 and it's in the tens of millions as opposed to anything else. So again, impacts either timing
19 of voluntary change, or timing of upgrading core systems and platforms.

20 And whilst CoFR is a very well-intended piece, I think we have a complexity of
21 regulatory agendas here and a complexity of government ministers driving some of those
22 regulatory agendas. So that means a good, clear path, whether it's for a fintech or a bank,
23 that says here is the capability, here's when it's going to be available and here's the sensible
24 path through it is less straightforward. And given our size, I'd have thought we should be
25 far better at driving that coordination so we get a better and faster result for New
26 Zealanders than what we currently do. And the fact that we couldn't work out who should
27 be the driver of AML regs, and in the back of my head was a reflection on the number of
28 visitors that we might have on an AML visit and it's not just one regulator.

29 **JOHN SMALL:** Indeed, thank you. All right, so we're going to Kent and then we're going online
30 to Adrian Smith.

31 **KENT DUSTON:** Just circling back to Shaun's comment and then Julia's pick up of the digital
32 currency conversation. The Commission is already making recommendations to the
33 Reserve Bank that it pay attention to competition when it implements regulation. And

1 obviously, apropos of yesterday's conversation, some of the regulatory environment is
2 going to affect the fintechs as much as it affects the legacy banks.

3 So perhaps the Commission might consider that it recommend that fintechs are also
4 included as explicit stakeholders through the industry organisations, or directly, as part of
5 the making of those regulations. So not really about what affects the fintechs, but explicitly
6 recommending they are included as stakeholders.

7 **JOHN SMALL:** Thank you. Adrian. Kia ora Adrian.

8 **ADRIAN SMITH:** Sorry, I was trying to get off mute; I wasn't allowed. Yeah, Adrian, BlinkPay,
9 kia ora. In terms of the other barriers to innovation, one of the challenges we have as
10 fintechs is we have limited capital runways, and within that capital runway we have to build
11 infrastructure and products that we can then scale. And we have a hard dependency as part
12 of the open banking standard on the major banks.

13 So for us one of the material causes of kind of, you know, systemic failure for a
14 start-up is can we stay in the game long enough to sign a bilateral agreement. I won't bore
15 everyone with how long that takes, but suffice to say it's a lot longer than we'd like. You
16 then also have the cost of compliance with starting to then get on with these bilateral
17 agreements. You have the cost of insurances which I've brought up earlier. You then have
18 the cost of setting up things like AML/CFT sort of programmes, which is the right thing to
19 do but there's cost component to that. For us we've had to set up and maintain an ISMS
20 programme, information security management, which is obviously very, very important.

21 But a lot of this is before we've even got to the start line. So there's a significant
22 cost attached to being able to innovate upon a standard like this. So I just wanted to raise
23 that, that not everyone survives it. I know 12 CEOs who had to mothball their companies
24 and go back to day jobs, so they then poke me every now and then to see how this is all
25 going on as an industry.

26 Then the other point I would bring up around the RBNZ, CBDC; so as I'm sure
27 many of us are aware Easy Crypto launched their stablecoin last year, or six months ago,
28 NZDD. I've been familiar with the RBNZ work in all of this and, you know, I don't think
29 it's getting anywhere until 2030 at the earliest, because they're suggesting building their
30 own separate system that they then have to plug into all the existing systems in a
31 meaningful way. I can't imagine that's going to happen quickly either. That's just my
32 whakaaro.

1 **JOHN SMALL:** Thank you for that, that's quite a disturbing statistic, 12 CEOs mothballing their
2 companies. That's in a fintech sector, is it?

3 **ADRIAN SMITH:** [Nods].

4 **JOHN SMALL:** And when you say mothballing, is there a prospect of them coming back once
5 things get sorted out?

6 **ADRIAN SMITH:** Sorry, I was waiting to get unmuted again. Yes, so when I say mothballing,
7 I mean pretty much closing their doors, like, they'll leave them floating around in LinkedIn
8 presence, but they're just waiting for something to happen. Like, if you talk to some of the
9 other providers who don't depend on the open banking standard, they're sort of saying we'll
10 wait until all the big four banks are there and then we'll reopen the conversation. But for
11 many of us who tried to build a business model around the standard, yeah, a lot of folks
12 have basically just gone into idle, or just completely killed the idea mode.

13 **JOHN SMALL:** Thank you very much. Sam.

14 **SAM PERKINS:** Thank you, Sam Perkins BNZ. Look, just listening to this conversation I think
15 it really draws out how innovation and failure and businesses coming and going really
16 happens all the time. And that is a natural normal thing, and I don't think we should shy
17 away from that.

18 I think the main thing I wanted to speak into, though, was this CBDCs and the
19 enormous disruptive potential that that has to really bring innovation and bring new
20 participants into the market, but similarly the onus on the regulators to be in the right
21 position to handle that and what that all entails. And I think it would be great if the
22 Commission could kind of lean into, as part of some of the solutions and innovation, the
23 work that the RBNZ is trying to do at the moment and how it interacts with the entirety of
24 the financial system. It's just a very big job and they're trying to do a lot at the same time.

25 **JOHN SMALL:** Yeah, thank you. Good thought. Shaun.

26 **SHAUN FORGIE:** Yeah hi, Shaun Forgie, Bill Rush. I think one of the other big trends that's
27 coming that we -- outside of the regulatory workstreams that the banks are getting hit with,
28 and central bank digital currency; the other significant megatrend that's happening and will
29 arrive very, very quickly is this notion of open data and datapods. So you're starting to see
30 like Tim Berners-Lee, who is the inventor and founder of the internet, he's been talking
31 about datapods. And I think where it's relevant for open banking is this notion of sharing
32 data. So if I have an account information consent I can go into someone's bank account and
33 move that data out of the bank into another system.

1 The notion of a datapod abstracts that. It allows the information to exist in a pod
2 that can live anywhere that's fully encrypted. Access into that pod is managed via consents.
3 I think that's possibly going to be a way forward, both for the banks and for the fintechs as
4 we can start to share pods and share access into it. And I think we need to be very aware of
5 how quickly this technology will arrive. It's solving very, very big problems in healthcare,
6 in insurance and in finance, and it's going to be something we're all talking about in the
7 next couple of years.

8 So I think we need to be aware of what's happening in the technology space and
9 how these technologies are going to be impacting us. And that's a very, very big one to
10 keep an eye on.

11 **JOHN SMALL:** Thank you. Antonia.

12 **ANTONIA WATSON:** I might be going a little bit out -- Antonia Watson, ANZ, sorry. I might
13 be going a little bit out of my stream expertise here, but I was just thinking of the trade-offs
14 we were talking about and the opportunity costs, and real-time payments got mentioned
15 before.

16 What I understand is that with open banking APIs you can effectively execute a
17 real-time payment because the bank, as long as they have a trusted merchant at one end and
18 they know the customer at the other end, they can guarantee that they're good for that
19 money, so effectively you've got that real-time thing.

20 So there's a trade-off there that says do we do open banking faster, or do we do
21 real-time payments as an industry where you've got a bunch of banks who have probably
22 got batch systems who are going to have to overlay something, delay getting the new
23 systems and overlay something that makes their batch systems look like they're real-time,
24 which we do all the time, or do you get some clever fintechs who have got these great
25 payments opportunities to do it.

26 So it's just a reflection that you could ask us to do everything, or we could actually
27 think about what a roadmap looks like and what should come first.

28 **JOHN SMALL:** Yeah, thanks. The concept of a roadmap group is getting more and more
29 attractive, isn't it. Look, we've got about 15 minutes left, I'm just going to throw it open to
30 my fellow Commissioners and also any staff at the back who might want to ask a question
31 as soon as you've made your comment.

32 **LYN McMORRAN:** Sorry, thank you, I'm Lyn McMorran from the Financial Services
33 Federation, so we represent responsible non-bank lenders. I'd just go back to the points that

1 were made about the regulatory burden. I think it is very real and one of the things, one of
2 the comments that I would make is that the Council of Financial Regulators is supposed to
3 try and manage that process, and I'm not sure that they do it terribly effectively. I sit on one
4 of their industry working groups and they have a regulatory calendar.

5 But I think it's fair to say that each of the entities that make up that Council of
6 Financial Regulators possibly thinks that whatever it is that they're working on at the
7 moment is more important than what everybody else is doing. So you still -- in spite of the
8 fact that the idea is that they're trying to coordinate and stop putting layers and layers and
9 layers of compliance on entities, and I sympathise with what Catherine was saying before
10 about what the big banks have to go through; when I look at some of our members, you
11 know, we've got a credit union with 13 FTE to deal with CoFI, to deal with deposit takers,
12 to deal with DTIs, to deal with changes to CCCFA and also to run their entire business.

13 So, you know, it is very real, the compliance burden. And I just don't think it's
14 actually managed as well or as effectively as it should be. I think one of the other things
15 that perhaps you could look at in the market study is the effectiveness of the Council of
16 Financial Regulators.

17 **JOHN SMALL:** Thank you. So let me start with my fellow Commissioners, any questions in the
18 general realm of wrapping up issues that are unresolved on open banking, or that you want
19 to test further. All good? What about the back, staff? Yes, a couple of hands, good.

20 **WILLIAM TURNER:** Yeah, thanks. William Turner, I'm in the Market Studies team. One of
21 the suggestions to us has been who's the one body that does open banking, and that's the
22 oversight of everything open banking. There's a few different players in this space, the
23 Commission is one of them through payments.

24 Adam for Revolut suggested that it's not just open banking today but open finance
25 in the future and datapods and that kind of thing. It seems like there's an opportunity for an
26 agency to grow some skills for the next sort of 10 years. But do we want to stand up
27 another agency to do that, or is there an existing government agency that sort of naturally
28 fits that role? The Commission, we've got some ability to do things in payment space and
29 that will help with open banking, but there's a bit more beyond that that's sort of outside of
30 our remit.

31 **JOHN SMALL:** Great question. Here first and then Catherine. Catherine, you go first since
32 you've got the mic.

1 **CATHERINE McGRATH:** I think it's a great question. My experience from the UK suggests
2 that you do need to have a regulator and they need to be a person of skill and insight.
3 Because what they need to do is to hear the concerns of the banks, they need to hear the
4 concerns of the TPPs, they need to hear the concerns of the consumers and have enough
5 foundational knowledge to drive the right path through it. But really you need one, not
6 multiple.

7 **JOHN SMALL:** Agree, thank you.

8 **BENJAMIN KELLEHER:** I was going to say the exact same thing.

9 **JOHN SMALL:** Good on you, excellent. Great minds, thank you. Marty had a question.

10 **MARTY COHEN CUBITT:** Kia ora, Marty Cohen Cubitt in the Payments team at the
11 Commerce Commission. So earlier on we were talking about how there's a million New
12 Zealanders using unregulated, or sub-optimal, or other terms people have used, open
13 banking services already in New Zealand. So I don't see us necessarily creating open
14 banking in a vacuum. There is a huge amount of use going on for these other services.

15 So there was also a conversation around how we build trust and confidence in open
16 banking. But when you take that in light of the fact that these other things are existing at
17 the same moment. So I guess I have a question of how do we move New Zealanders off
18 those other services and into a more trusted and secure environment? Julia made some
19 comments around merchant adoption. And so I wondered if people had any thoughts
20 around how we increase merchant adoption of these better, more secure and more
21 convenient payment options?

22 **BRYAN CHAPPLE:** Ben.

23 **BENJAMIN KELLEHER:** Ben Kelleher, ANZ. It's a great question. You just have to take a
24 customer approach to it. So if you make it better, customers use it. So our philosophy
25 when looking at this stuff is how can you make it -- because a lot of the times customers
26 don't know how risky it is anyway. So you've got to cover that from a business perspective,
27 but I think from a customer perspective if you make it easy and simple and better than the
28 current services, I think you're on to a winner. I think that should be the philosophy that we
29 take.

30 **JOHN SMALL:** Josh, did you want to say something?

31 **JOSH DANIEL:** I basically had the same point. We would say if it's better, everyone that is
32 participating currently will want to move to those purpose-built APIs; and better for us is

1 the APIs themselves, the pricing, the liability regime, everything about it. But agree, if it's
2 better than everything will migrate.

3 **JOHN SMALL:** So it's kind of a KPI for the design of the system, make sure it's going to be
4 better than this.

5 **JOSH DANIEL:** Exactly.

6 **JOHN SMALL:** Julia.

7 **JULIA NICOL:** Julia from Worldline. And also the consumers need to know about it. So we get
8 really positive feedback for online EFTPOS when people do use it online. But, you know,
9 it doesn't get a lot of promotion and advertising because you really need deep pockets to
10 advertise and educate consumers. We're not going to do a TV campaign or something like
11 that, we haven't got that sort of money. So, you know, while there is organic growth, like
12 online EFTPOS is growing very, very well, and once people use it they tend to use it again,
13 but often they don't even know it's there; so that's a problem.

14 **JOHN SMALL:** Excellent. All right, well, I think that might be just about us for the day. Kent.

15 **KENT DUSTON:** Multiple microphones, how exciting. Kent Duston, Banking Reform
16 Coalition. With your indulgence, Dr Small; one of the things that has struck me in the last
17 couple of days is how useful this conversation's been in quite a constructive way. And just
18 from our perspective, can't speak for everybody else in the room, but as Tex said earlier in
19 the piece, this is not our first rodeo, we've all been to this movie before, in the sense that we
20 end up with -- as a nation we seem to have a propensity for market failure and then having
21 a market study that looks into that and away we go.

22 But what has struck me is the quality of the work out of this market study has been a
23 dramatic step up from the market studies that has preceded it. And I know when I dutifully
24 read my way through more than 300 pages of documentation, that the quality of the Draft
25 Report was superb. And I think that you can read that and be led logically and sensibly to
26 the conclusions and the recommendations that the Commission reached. So I just wanted
27 to thank the Commissioners and also the staff for the superb piece of work that I think the
28 Draft Report is. Obviously we're all looking forward to the final version of that, and this
29 conversation is definitely going to inform that.

30 But I'd also like to shout out to Oliver Meech. At the beginning of the process,
31 Oliver, I gave you a bit of a hard time on Teams and said that I'm not sure how well your
32 engagement process was going to work and what the outcomes would be. You assured me

1 it would be fine; you were right, I was wrong, this has been a very useful conversation. So
2 I'd just like to thank the Commissioners for leading this work.

3 **JOHN SMALL:** Kia ora Kent, thanks for that. Okay, now we will call it to an end and we'll see
4 you back, those who are in for more tomorrow, at 9 o'clock on more of a consumer day.
5 Thank you very much for your contributions.

6 **Conference adjourned at 2.23 pm to Wednesday 15 May 2024 at 9 am**