

By email: RetailPaymentSystem@comcom.govt.nz
Subject: Interbank payment network request for views paper

To the Retail Payments System team,

Retail Payment System - Payments Between Bank Accounts

1. Retail NZ is a membership organisation that represents the views and interests of New Zealand's retail sector. We are the peak body representing retailers across Aotearoa, with our membership accounting for nearly 70 per cent of all domestic retail turnover. New Zealand's retail sector comprises of approximately 27,000 businesses and employs around 220,000 kiwis. We have consulted our membership in the preparation of this submission.
2. Retail NZ has long advocated for lower payments fees for merchants and a more efficient and transparent retail payments system.
3. We strongly supported regulation under the Retail Payments System Act and the Commerce Commissions role promoting competition and efficiency within the retail payments system. We are also supportive of this new piece of work which we believe will bring real benefits to retailers and consumers.
4. As the paper notes, bank transfers are typically one of the lowest cost payment options and one of the fastest at settling, with funds typically available within several hours. However, on a practical level they are prohibitively difficult for retailers to use, particularly in-person at the point of sale. This is because the information required is complex and time consuming to collect, requiring customers to input bank account and reference details. In addition, there is no simple or verifiable way for a retailer to make sure a payment has been accepted.
5. We are excited about the benefits that simplified in person bank transfer could bring for retailers including faster settling times, lower costs for accepting payments and reducing the time it takes to reconcile payments made by bank transfers.
6. We note that discussions about simplified bank to bank transfers have been happening for some time, but that progress has been slow. Direction from the Commerce Commission is necessary to ensure industry make the technological changes required and that they are openly available to any payments providers.
7. We support the Commerce Commission seeking the designation of the 'interbank payment network' (with a definition that includes intrabank payments) as the necessary first step towards regulating this section of the retail payment system.
8. Our specific comments on the questions in the consultation paper follow on the following pages (comments are italicised and in blue). No part of this submission should be withheld under the OIA.

Sincerely,



Carolyn Young
Chief Executive, Retail NZ
carolyn.young@retail.kiwi

Questions on New Zealand's payments between bank accounts landscape

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| 1 | <p>Do you agree that Eftpos card use is likely to continue to decline? If not, why not?</p> <p><i>Yes, this is for a number of reasons. Eftpos has limited functionality compared to debit cards, there has been a lack on investment into improving and marketing Eftpos, and card schemes incentivising banks to issue debit cards over Eftpos. In our view Eftpos will inevitably continue to decline until it is not worth maintaining the network. This is openly acknowledged in the paper itself by Worldline, the operator of Eftpos.</i></p> |
| 2 | <p>Do you agree with our assessment of the factors contributing to the decline in Eftpos card use? If not, why not?</p> <p><i>Yes, it is clear the consumer preference for the additional functionality of debit cards and issuers steering customers towards debit cards have caused Eftpos decline</i></p> |
| 3 | <p>What do you see as the barriers to innovation and success for Eftpos?</p> <p><i>Lack of functionality and investment, plus inability to compete with card schemes and banks that are issuing debit cards.</i></p> |
| 4 | <p>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?</p> <p><i>Yes, given the decline of Eftpos there are very limited options in New Zealand for in person payments between bank accounts with a high concentration of Visa or Mastercard debit cards. This is cause for concern. Lack on competitive pressure has a detrimental effect on consumers and merchants.</i></p> |
| 5 | <p>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?</p> <p><i>Yes, new entrants to the market which can enable innovative and cheaper in person payment options will create more competition.</i></p> |

Questions on the key features of traditional bank transfers

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| 6 | <p>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?</p> <p><i>The key issue for retailers with current bank to bank transfer is how difficult they are to use, to the extent that that they are mostly not practical at all. This is because a retailers cannot verifiably check that payment has been processed successfully, the time take to make a payment requiring customers to accurately input bank account details, and the extremely cumbersome reconciliation process that relies on customers inputting reference fields correctly. Faster settlement and lower costs would also be key benefits for retailers.</i></p> |
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Questions on methods to gain access to the interbank payment network

7 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?

Yes

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

No

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

9 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?

Retail NZ does not have specific comments on this question.

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

10 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?

We strongly agree with the list of benefits and are particularly excited about the potential for much improved 'ability to use.' The benefits of in person bank transfers could be enormous for retailers of all sizes.

Questions on industry open API standards

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

Retail NZ does not have specific comments on this question.

12 Do you consider the future of industry open API standards will enable innovative options to make bank transfers?

Retail NZ does not have specific comments on this question.

13 What gaps are there in the open API standards for innovative options to make bank transfers?

Retail NZ does not have specific comments on this question.

Questions on the key barriers preventing efficient access to the interbank payment network

14 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?

Retail NZ does not have specific comments on this question.

15 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?

Retail NZ does not have specific comments on this question.

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| 16 | <p>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?</p> <p><i>Retail NZ does not have specific comments on this question.</i></p> |
| 17 | <p>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?</p> <p><i>Retail NZ does not have specific comments on this question.</i></p> |
| Questions on efficient partnering between banks and payment providers | |
| 18 | <p>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)?</p> <p><i>Retail NZ does not have specific comments on this question.</i></p> |
| 19 | <p>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?</p> <p><i>Retail NZ does not have specific comments on this question.</i></p> |
| Questions on the interbank payment network | |
| 20 | <p>Do you agree with how we have defined the interbank payment network? If not, how do you consider it should be defined?</p> <p><i>Yes, Retail NZ does not have further comments on this question.</i></p> |
| 21 | <p>Do you see any issues with how we have defined the interbank payment network? If so, what issues?</p> <p><i>No, Retail NZ does not have further comments on this question.</i></p> |
| 22 | <p>Do you agree we have captured the correct payment products in the interbank payment network?</p> <p><i>Retail NZ does not have specific comments on this question.</i></p> |
| 23 | <p>Do you agree we have captured the correct network operators of the interbank payment network?</p> <p><i>Retail NZ does not have specific comments on this question.</i></p> |
| 24 | <p>Do you agree we have captured the correct class of participants in the interbank payment network?</p> <p><i>Retail NZ does not have specific comments on this question.</i></p> |
| 25 | <p>Do you agree we have identified the relevant interbank payment network rules? If not, what other network rules are relevant?</p> <p><i>Retail NZ does not have specific comments on this question.</i></p> |

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| 26 | <p>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?</p> <p><i>Retail NZ does not have specific comments on this question.</i></p> |
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Questions on possible regulatory interventions

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| 27 | <p>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?</p> <p><i>Yes, it is clear that the banking sector has moved too slowly towards opening up systems for innovative and simplified bank to bank transfers. A competition issue has been identified which need to be resolved.</i></p> |
| 28 | <p>How effective do you consider our regulatory powers would be at addressing the barriers set out in this paper?</p> <p><i>The range of regulatory options outlined in the table under 5.35 are likely to be effective in our view. We do not have views about which options are used but would like to see a focus on achieving the benefits of in person bank transfers, for retailer and consumers, as quickly as possible.</i></p> |
| 29 | <p>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?</p> <p><i>Yes, Retail NZ supports the Commerce Commission seeking the designation of the 'interbank payment network' (with a definition that includes intrabank payments) as the necessary first step towards regulating this part of the retail payment system. It would address the competition issues that have been identified and will ultimately bring about lower fees option for merchants accepting payments.</i></p> |