consumer.

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Reserve Bank of New Zealand
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Sent by email to: futureofmoney@rbnz.govt.nz

SUBMISSION on the Reserve Bank's Modernising New Zealand's Retail Payment System – Consultation Paper

1. Introduction

Thank you for the opportunity to make a submission on the Reserve Bank's Modernising New Zealand's Retail Payment system consultation paper (the Paper). This submission is from Consumer NZ, an independent, non-profit organisation dedicated to championing and empowering consumers in Aotearoa. Consumer NZ has a reputation for being fair, impartial and providing comprehensive consumer information and advice.

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2. General Comments on the Paper

Consumer NZ welcomes the Reserve Bank's consultation on modernising New Zealand's retail payments system. We strongly support reform and consider government intervention is necessary to ensure New Zealand has a modern, competitive and efficient payment system that delivers benefits to consumers, businesses and the wider economy.

We have previously expressed concerns about the lack of competition and innovation in New Zealand's payment system and the resulting costs to

consumers. We consider banks currently have insufficient commercial incentives to develop new payment methods. Without government intervention, competition will continue to be stifled, and consumers and merchants will ultimately pay the price.

We are concerned the current arrangements, which leave the development of critical payments infrastructure largely in the hands of the banks, have failed to deliver outcomes that are in the interests of consumers, businesses and the wider economy.

We therefore welcome the Reserve Bank's recognition that modernisation requires more than technological improvements. It also requires addressing the structural and governance arrangements that have contributed to New Zealand falling behind other countries.

New Zealand cannot continue to rely on industry-led reform, without strong independent leadership, oversight and accountability to deliver the payment system New Zealanders need.

3. Answers to questions in the Paper

Q1. Do you agree with our description of the performance and capability gaps in New Zealand's payment system?

Yes. We agree. As stated above, we have raised concerns about these issues for several years. We are particularly concerned about:

(a) *Lack of real-time payments*: New Zealand's failure to introduce real-time payments is a significant failing of the current system. Consumers in most other countries in the OECD can transfer money between accounts almost instantly, 24 hours a day, 7 days a week. Instead, we remain reliant on a batch-based system that does not offer the same speed, functionality or reliability. This limits the ability of consumers and businesses to use account-to-account payments for everyday transactions. It also limits the development of innovative payment services that could compete with existing card payment networks.

(b) *Lack of competition and high payment costs:* We agree the current system entrenches the position of incumbent banks and

international card schemes. The decline in use of traditional EFTPOS, combined with the lack of a widely available, modern domestic alternative, has reduced competitive pressure on Visa and Mastercard and increased reliance on their payment networks. Even though interchange has been reduced, we remain concerned about the cost of credit and contactless debit card payments being passed on to consumers through higher prices and excessive surcharges. Consumers should have access to convenient, low-cost payment methods that allow them to avoid hidden, excessive and unavoidable payment fees.

(c) *Barriers to innovation and entry*: We agree the existing system creates barriers for new providers. A modern payment system must provide new entrants with access on fair, reasonable and non-discriminatory terms.

(d) *Fraud and scam prevention*: We agree the current system lacks some of the features needed to better protect consumers from fraud and scams. Modern payment infrastructure provides opportunities to incorporate stronger verification, better transaction information and improved fraud detection. Faster payments should not mean consumers have less protection or fewer opportunities to recover money lost to scams. Therefore, scam prevention and consumer protection must be embedded in the design of the new system.

It is also important to ensure that modernisation increases consumer choice. Consumers should not be forced into more expensive payment methods or required to use particular technologies to participate in the economy.

Modernisation should preserve access to affordable payment options, including cash, while introducing new alternatives that better meet the needs of consumers.

Q2. Do you agree with our description of the strategic leadership gap and misaligned incentives in New Zealand's payment system?

Yes. We strongly agree. In our view, the strategic leadership gap and misaligned incentives are fundamental problems with New Zealand's

payment system and explain why modernisation has progressed so slowly.

Payments NZ has failed to deliver timely modernisation
We are particularly concerned about Payments NZ's performance and the governance arrangements under which it operates.

Payments NZ identified real-time payments as a key component of New Zealand's future payments system as early as 2015 and anticipated that fast payment services would be available by 2025. Despite this, New Zealand still does not have a real-time payment network.

Payments NZ's subsequent expectation that a network could be in place by 2030 illustrates the extent of the delay.

We acknowledge that developing and implementing new payment infrastructure is complex. However, other countries, including Australia, have successfully introduced real-time payments alongside open banking reforms. These challenges are not unique to New Zealand and should not be a reason for further delay.

Banks' commercial incentives are not aligned with consumer interests
We agree with the Reserve Bank that incumbent banks have insufficient commercial incentives to invest in infrastructure that would benefit the wider economy as this could potentially undermine existing revenue streams.

Banks benefit from the current card-based system, including through interchange revenue. A modern, low-cost account-to-account payment system could reduce reliance on, and therefore revenue from, card schemes.

The benefits of modernisation, including lower transaction costs, increased productivity and greater competition, would largely be felt by consumers, businesses and the wider economy, rather than the banks. This creates a tension between the market power of the incumbent banks and the public interest in a modern, competitive payment system.

Industry control of standards and access
New Zealand's open banking framework has historically been industry-led, with incumbent banks exercising significant influence over access,

technical standards and API pricing. While the introduction of the Consumer Data Right and the transfer of standards management to MBIE are important steps towards independent oversight (which we strongly support), we remain concerned about the ability of incumbent banks to influence the cost and practical availability of competing payment services.

Stronger independent leadership and accountability are necessary
We support the Reserve Bank taking a stronger leadership role in payments modernisation. Improving the existing industry-led arrangements without addressing the underlying incentives and accountability problems will not work.

Q3. What benefits do you think payment modernisation can deliver? Are we missing any key benefits?

We agree payment modernisation has the potential to deliver substantial economic benefits and improve outcomes for consumers and businesses. We also agree the benefits extend beyond the direct costs of making payments.

There are three benefits we would like to highlight.

First, modernisation could reduce the extent to which consumers are stung by hidden, excessive, and unavoidable surcharges. In just the last few months, we have received complaints about a shuttle service charging an unavoidable 6% card payment surcharge, another shuttle service charging a 3.94% surcharge and a car rental company charging a 3.9% surcharge.

Second, modernisation could improve a consumer's ability to manage their finances. We have previously highlighted problems with cryptic transaction descriptions and inconsistent timestamps. Clearer transaction information and consistent timestamps would help consumers better identify transactions, monitor spending and detect fraudulent activity.

Third, modernisation could improve access to affordable financial services through greater innovation and competition.

However, these benefits will not necessarily flow automatically. Instead, they will depend on the system's governance, pricing, accessibility, and

consumer protection arrangements. We therefore consider the Reserve Bank should place more emphasis on how the benefits will be passed on to consumers, rather than captured by incumbent providers.

Q4: Which parts of the current payment systems are functioning well and what factors do you see as contributing to performance?

Although we have significant concerns about New Zealand's payment system, we acknowledge some aspects function well.

However, these developments should not obscure the broader shortcomings of the system.

Traditional EFTPOS
Traditional EFTPOS allows consumers to make in-person payments without surcharges commonly associated with credit card and contactless debit card payments. Its decline is therefore concerning, particularly in the absence of a modern domestic alternative.

Seven-day payment processing
The introduction of seven-day payment processing has improved the availability of bank transfers. However, the existing batch-based system remains significantly less capable than real-time payment systems operating overseas.

Open banking
Open banking has the potential to increase competition and give consumers greater control over their financial information. However, we remain concerned that its benefits have been undermined by the fees banks charge third-party providers and the influence incumbent banks retain over access.

Confirmation of payee
Confirmation of payee is a welcome improvement in consumer protection. However, we consider the delayed introduction of this technology demonstrates the need for stronger leadership and accountability in the development of consumer safeguards. While banks and other eco-system participants continue to work to reduce the impact of scams, this work is voluntary and remains vulnerable to the level of interest shown in the topic at a Ministerial level and deprioritisation by participants.

Q5. Given emerging technologies, what are the key considerations for a modern payment system in New Zealand to ensure it can remain adaptable into the future?

In our view the key considerations are:

(a) *Real-time payments as a core capability*: the system should enable low-cost, real-time payments between accounts, 24 hours a day, seven days a week.

(b) *Open access and interoperability*: as core digital infrastructure, the system should support participation by banks and non-bank payment providers on fair and reasonable terms.

(c) *Independent governance of standards*: technical standards should be developed and governed independently of incumbent banks, with appropriate industry expertise and meaningful consumer representation.

(d) *Consumer protection by design*: the system should incorporate robust fraud and scam prevention, strong authentication, payment verification and appropriate mechanisms for addressing errors and disputed transactions. These protections should be set up to evolve with new technologies.

(e) *Rich and accessible transaction information*: the system should support clear transaction descriptions, timestamps and other information to help consumers manage their money and identify suspicious activity.

(f) *Affordable access*: modern payment methods must be affordable for consumers and businesses. The system should not allow incumbent providers to act as gatekeepers and impose access fees that undermine competition or make innovative services unviable.

(g) *Technological neutrality*: the system should be capable of supporting new payment technologies without requiring consumers to adopt any particular product or technology.

Q6. Do you agree with our principles for strategic leadership and reform? Are there any additional principles we should consider?

We broadly agree with the proposed principles. However, we consider the principles should place greater emphasis on consumer outcomes, independence from incumbent providers and accountability for delivery.

We therefore propose the following additional principles:

(a) *Consumer interests and the public good must be paramount*: Decisions about the future of the payment system should be guided by the interests of consumers, businesses and the wider economy rather than the commercial interests of the incumbent providers.

(b) *Governance must be independent of incumbent banks*: banks should contribute their expertise but should not have control over decision making.

(c) *Competition must be supported at every level of the system*: this includes competition between products, providers, platforms and access to underlying infrastructure.

(d) *Consumer protection must be embedded in the design*: fraud prevention, privacy, security, accessibility and effective redress should be fundamental and mandated requirements.

(e) *Reform must be accompanied by enforceable accountability*: clear milestones, transparent reporting and regulatory powers are necessary to ensure progress.

(f) *Modernisation must deliver affordable and accessible payment options*: consumers should benefit from lower costs and greater choice, and no group should be excluded from essential payment services.

Q7. What do you see as the key trade-offs to consider for the future of the payment system?

We recognise there will be trade-offs. However, we caution against allowing the short-term costs of reform to incumbent providers to

outweigh the longer-term benefits for consumers, businesses and the wider economy.

The existing arrangements have allowed incumbent banks to retain substantial influence over the development of payment infrastructure and the terms on which competitors can access it. Our experience with open banking demonstrates that introducing new technology is not sufficient if banks can control timelines and impose charges and conditions that undermine the commercial viability of competing services.

We also consider the Reserve Bank should explicitly recognise the cost of inaction. Delaying reform may avoid immediate investment costs for incumbent providers but it prolongs the costs associated with inefficient payments, limited competition and missed opportunities for innovation.

Q8. Do you agree with our key questions for considering potential options? Are there any additional questions at the system or platform level that you think are important?

We broadly agree. However, we consider additional questions about consumer outcomes should be included. For example:

(a) How will the proposed system reduce payment costs for consumers and businesses?
(b) What mechanisms will ensure the benefits of lower transaction costs are passed through to consumers?
(c) Will consumers have access to a practical, low-cost alternative to payment methods that attract surcharges?
(d) How will the system improve consumer protections against fraud and scams?

Q9. Do you have any feedback on criteria that we should use to assess future options to modernise the payment system?

We consider the assessment criteria should place consumer outcomes and the public interest at the centre of the evaluation.

We also encourage the Reserve Bank to assess the risks associated with each option, particularly the risk that the existing governance structure

continues to delay innovation and allow incumbent providers to undermine competition.

In our view, the assessment should consider not only whether an option is technically capable of delivering modern payments, but whether its governance, incentives and accountability arrangements make it likely that those benefits will actually be delivered.

Thank you for the opportunity to submit on the Paper. *ENDS*