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31 March 2022

Tēnā koutou

**RE: DIGITAL TECHNOLOGIES DRAFT INDUSTRY TRANSFORMATION PLAN 2022-2032**

Thank you for the opportunity to comment on the draft Industry Transformation Plan (ITP).

Payments NZ Limited (Payments NZ) is a governance organisation at the heart of the domestic payments system. We work with industry to ensure payments are simple and secure for Kiwis and to lead the future direction of payments in Aotearoa New Zealand. We also work with Te Pūtea Matua Reserve Bank of New Zealand to ensure the integrity of the strategically important financial market infrastructures we operate. Today, the systems we manage transact over \$6 trillion annually. Further background information on Payments NZ can be found in Appendix 1. Aotearoa New Zealand's payments industry is represented in the Digital Technologies sector as that sector is defined on page 9 of the draft ITP.

In late 2021 we made a submission on the Digital Strategy for Aotearoa. The draft ITP starts to flesh out how elements of that strategy might be realised in the context of a partnership with industry to allow the Digital Technologies sector to fulfil its full growth potential. Accordingly, we support the publication of the draft ITP as a means of providing clear and consistent signals on the direction of travel in the Digital Technologies sector and as a contributor to accelerating the economic recovery from COVID-19.

We have structured our response to the draft ITP into three sections:

- Commentary on the strategic framing.
- Key challenges facing the sector.
- Closing observations.



## Commentary on strategic framing

There is much in the strategic framing of the draft ITP which speaks to work Payments NZ is facilitating on behalf of the payments industry to modernise the payment systems of Aotearoa New Zealand. That modernisation work has been informed by our industry collaboration efforts and the results of our environmental scan research which examines local and global developments in the world of payments. Many of those developments leverage the work of the international Digital Technologies sector. Our 2021 environmental scan can be found [here](#).

Our modernisation efforts in payments recognise that:

1. The technological forces of change that are transforming the very fabric of society in Aotearoa New Zealand and around the globe – big data, artificial intelligence, the internet of things, and mobile and cloud computing are also impacting the world of payments.
2. The digital economy of the future is likely to be built on an increasingly diverse array of payment solutions offered by a growing number of players. Internationally the Digital Technologies sector is helping deliver the capability to initiate payments from anywhere, without human intervention and using forms of payment that have been designed solely from a digital-first perspective. This will also increasingly be true in Aotearoa New Zealand.
3. Maintaining the safety and security of payments and payments systems in an increasingly digital world and across an ecosystem which is increasingly complex is fundamental to ensuring New Zealanders have a high degree of confidence in transacting online and trust in the digital economy. For example, our most recent consumer research from 2020 indicated safety and security were ranked as being the most important attributes in any new payment solutions. Our 2020 consumer research can be found [here](#).

The draft ITP notes the Digital Technologies sector is both an enabler of economic activity and increased productivity. We see payments modernisation as serving similar ends. Our aspirations for payments modernisation are documented in our [Payments Modernisation Plan \(PMP\)](#).

Like the draft ITP, the PMP is also the product of a substantial collaborative process. The overarching principle in the PMP is payments modernisation should enable innovative and interoperable payments solutions so Kiwis can pay who they want, when they want and how they want. This:

- Helps Kiwis achieve their financial goals – by delivering more modern and flexible payment methods making it easier for them to budget, save and invest.
- Improves financial inclusion – by ensuring payment methods can be used in a sustainable way by the broadest range of communities.
- Builds a more productive New Zealand – by moving money in the economy in seamless and efficient ways and by removing unnecessary and time-consuming processes and activities.

- Improves the financial resilience of Kiwi consumers and businesses – by harnessing payments data and tools to help Kiwis plan ahead and ensuring they can access payment methods and transaction accounts that are relevant to their individual circumstances.
- Supports competition and innovation to give Kiwis more choice in payments – by having more open and competitive landscapes where new financial institutions and non-bank entities collaborate, compete and innovate.

In our view a world class payment system is one of the fundamental preconditions for becoming a world class digital nation. That world class payment system will draw on the efforts of the Digital Technologies sector.

Data is one of the foundations for the strategic framing of the draft ITP. Our assessment, drawn from our research in and around the field of payments, is that the role of data in the economy and society more generally will only grow in importance and will be fundamental to how Aotearoa New Zealand addresses issues of innovation, prosperity, inclusion, and inequality. Accordingly, data is an area of considerable interest to Payments New Zealand.

More specifically our interest arises because:

1. Through the API Centre (the Centre), Payments NZ has been instrumental in delivering the open banking standards and protocols needed to ensure fast, secure, user-friendly data sharing for Aotearoa New Zealand. Since May 2019 the Centre has worked to develop an ecosystem around standardised APIs to allow API Providers (banks) and Third Parties (largely Fintechs) to partner, collaborate and innovate.
2. As a member of Digital ID NZ, we have championed the need for digital identity frameworks to support secure digital interactions and the evolution of both the digital and payments ecosystems. All payments ecosystems operate, and are fundamentally dependent on, trusted and secure digital interactions and digital identity is critical in this regard.
3. One of our clearing systems is on the cusp of adopting ISO 20022<sup>1</sup> as its messaging format which will allow for richer and more granular payment information to be attached to a transaction. This should see increased opportunities for efficiency and data driven innovation. The move of this clearing system to ISO 20022 will start in November 2022.

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<sup>1</sup> ISO 20022 is a multi-part International Standard prepared by ISO Technical Committee TC68 Financial Services. It describes a common platform for the development of messages for the financial industry.

## **Key challenges facing the sector**

The listing of key challenges found in the draft ITP is comprehensive. We have several observations to make.

- On the issue of the lack of a planned or proactive approach to emerging technologies, in payments we have been closely following international developments on matters, including artificial intelligence, blockchain, cryptocurrencies, central bank digital currencies and stablecoins. We have contributed to the policy debate in Aotearoa New Zealand on some of these developments.
- On the greater reliance on global solutions, there are situations where standardisation around global solutions is important to enable greater interoperability across different jurisdictions. Payments systems are tightly networked, and globally the payments and banking sector has deep knowledge and expertise in developing, organising and operating systems that are interoperable across borders. The key point we want to emphasise is global solutions, certainly in some areas of payments, have the potential to bring significant benefit to the domestic ecosystem, including by allowing domestic offerings to scale internationally.
- On the lack of action to use data to drive transformation opportunities, the move to open banking, which is being led by the Centre, is part of the broader open data story. What is currently unfolding in relation to open banking is almost certainly going to move into other sectors like telecommunications and energy through the introduction of a new legislative framework for a consumer data right (in the upcoming Consumer Data Right Bill).

Additionally, we suggest regulation could be added to the list of key challenges facing the Digital Technologies sector when developing actions and initiatives for the draft ITP.

We reach this view because government policy and regulatory models generally only change incrementally over time. There is good reason for this; incremental and predictable change in regulation provides certainty. In relation to open banking, the introduction of the Consumer Data Right legislation would assist industry decision making on how best to give effect to open banking in Aotearoa New Zealand.

## **Closing observations**

A world class payments system is one of the fundamental preconditions for becoming a world class digital nation and a flourishing and prosperous digital Aotearoa. There is much effort underway across both industry and government that has a direct impact on the role payments and payment systems could play to define our digital future. This is especially true in the areas of data and artificial intelligence which are part of the sector transformation referred to in the draft ITP.

Importantly we believe the organisations that comprise Payments NZ – our Participants, our Members, our API Centre Users and those in our wider payments and open banking ecosystems are contributors to, or are a direct part of, the tech story referred to in the draft ITP. We note two of our Member organisations – Datacom and Xero – feature in the draft ITP.

In our submission on the Digital Strategy for Aotearoa we suggested we could leverage our central role in the payments ecosystem to assist with the development of that strategy, especially in relation to those components of the strategy that speak to the network elements of payments and related matters, such as governance and strategic coordination. We remain of that view.

We would welcome the opportunity to continue a dialogue on the draft ITP and specifically on the relationship with our payments modernisation initiative.

Ngā mihi,

A handwritten signature in blue ink, appearing to read 'Steve Wiggins', followed by a horizontal line.

Steve Wiggins  
Chief Executive

## **Appendix 1 – About Payments NZ**

We work with the industry to ensure payments are simple and secure for Kiwis.

Formed in 2010 by the industry with the support of the Reserve Bank, we govern New Zealand's core payment systems and we work with the industry to lead the future direction of payments in New Zealand. Today, the systems we manage transact over \$6 trillion annually.

Our core functions are:

1. Developing and managing the rules and standards that govern three of New Zealand's core payment clearing systems – High Value, Bulk Electronic, and Consumer Electronic.
2. Encouraging and facilitating new Participants to join our payment clearing systems.
3. Facilitating the interoperability of payments between our Participants.
4. Promoting interoperable, innovative, safe, open and efficient payment systems.

Payments NZ is made up of an internal team, Participants, Members, a board of directors and shareholders.

Our Participants are financial institutions that have joined one or more of our three payment clearing systems so they can exchange payments directly with other Participants efficiently and securely.

Our Members are organisations from the payments ecosystem that have joined our membership programme to be actively involved in the ongoing development and strategic direction of New Zealand's payments system. We offer two levels of membership to interested organisations.

We also manage and operate the Payments NZ API Centre which coordinates the ongoing development, management and governance of payment-related API standards and provides supporting services. It is often described as a NZ deployment of open banking.

Our Board has 11 directors made up of an independent chair, two further independent directors and a director appointed from each shareholder organisation.

Our shareholders are ANZ, ASB, BNZ, Citibank, HSBC, Kiwibank, TSB Bank and Westpac.

Payments NZ is a limited liability company.