

# New Payments Settlement System

The banks<sup>i</sup> within New Zealand have moved to a new system for the interchange and settlement of domestic retail payments between each other.

The change was largely a technology upgrade and had been in the planning for several years. It has modernised the current payments infrastructure and enhanced rules and processes, while placing New Zealand in line with world best practice.

## What is settlement and interchange?

*If you make a payment to a person or business, and they use a different bank or financial institution to you, the two financial institutions have to 'talk' to each other in order to pass the relevant information to each other regarding that transaction (called interchange), and also to pass the actual money over from one financial institution to the other (called settlement).*

## What has happened to the settlement system?

**The banking industry has moved to new infrastructure which is designed for the interchange of payment information between the banks.**

The new system is at the forefront of International Best Practice and along with updated Rules and Standards has future-proofed New Zealand's domestic retail payment exchange and settlement.

This system does not hold funds or manage customer accounts, nor does it store financial information on an on-going basis, but exchanges standardised financial messages.

## Was there any impact on customers?

The new system has no impact on customers or businesses.

We have upgraded the technology and the way in which banks settle and interchange funds. This was a "behind the scene" process between the individual banks and the Reserve Bank of New Zealand.

## Why did this happen?

**Better management of settlement between banks**

Historically banks interchanged financial payment information each business day, and then settled the financial value overnight.

The new system enables banks to both interchange payment information and settle their obligations to transfer money throughout the same business day, reducing the

settlement risk between banks and improving the financial stability of New Zealand's payment systems.

## Who were the parties involved?

**Payments NZ Ltd** coordinated the project on behalf of the banking industry. This included industry testing through to the implementation of the new service.

Payments NZ are also responsible for setting and overseeing the rules and standards that are central to the way domestic payment instructions are exchanged and settled.

Each **Bank** had an internal project team dedicated to deliver unique systems and processes required to support the operation and connectivity into the new system.

The **Reserve Bank of New Zealand** has also made technical changes to their systems to facilitate the new processes associated with the new service.

## When did this happen?

Comprehensive testing was undertaken with all the banks to ensure a trouble-free migration onto the new system late last year.

Implementation was seamless to the community at large and occurred December 2011 – February 2012.

## Want more information?

See the Payments NZ Ltd website for updates and contact information, or contact your bank.

<sup>i</sup> Includes ANZ, ASB, BNZ, Citibank, HSBC, Kiwibank, TSB and Westpac