Commerce Commission Te Komihana Tauhokohoko draft market study response

Payments NZ Limited submission

18 April 2024

Background

On 21 March 2024, the Commerce Commission Te Komihana Tauhokohoko ("the Commission") published its Market Study into personal banking services draft report ("the draft report") and invited submissions on this by 18 April 2024.

The draft report is extensive, running to 333 pages, and contains draft recommendations which are grouped into four areas. These are stated to be interdependent. One of the areas relates to open banking and it recommends that Government and industry work together to have this fully operational by June 2026. It is stated that the setting of a clear deadline, and having backstops available, would support the acceleration of open banking.

On 27 March 2024, the Commission also published the Retail Payment System Consultation on proposals to recommend designation of the interbank payment network. This consultation proposes that Payments NZ be designated as a network operator, together with the network rules and payment products (as described at page 45 of the consultation). This is to be done under the Retail Payment System Act 2022. It appears that designation would be put in place "without immediate regulation" but would enable timely intervention if that should prove necessary or desirable.

It appears that the Retail Payment Consultation is closely linked to the draft report, and the designation that is contemplated appears to be in response to what is contained in the draft report. In the circumstances, and given the limited time available, we propose making some general observations on switching at this stage and we will provide a more detailed response to the Retail Payment Consultation which will include considering recommendation 3 of the draft report (noting that submissions are due by 10 May 2024).

Switching

There is a great deal of discussion on switching in the draft report and there are a number of references to Payments NZ, in particular, the switching arrangements that we have in place. You refer to these as "Easy Switch". Our arrangements are set out in the Payments NZ rules and create binding obligations on our participant banks. Payments NZ has developed the switching standards to ensure that payments can flow seamlessly, even when customers switch their bank.

It is important to note that our switching rules relate to transactional accounts and do not extend to other contractual arrangements which customers might have with their banks (for example home loans or other credit facilities). The purpose of our switching process is to enable a customer to authorise their old bank and their new bank to work together to efficiently switch authorities and instructions between themselves, and to work directly with each other to transfer these in accordance with the customer's instructions.

Switching arrangements in Payments NZ rules

The switching process covered in Payments NZ's rule set prescribes a standard industry switching bank request form, which includes a customer authorisation, indemnity, and instructions section.

Customers wanting to switch banks and have recurring payments remain as scheduled, complete a switching bank request form and then the customer's new bank handles the switching process so the account will move from the old bank to the new bank along with all payment instructions.

The customer's old bank is required to provide the customer's new bank with the information relating to established direct debit authorities, automatic payments and bill payments no later than five business days following the business day on which the old bank received the switching bank request form. In the case of direct debits this must also include details of any cancelled or suspended authorities.

The new bank is required to undertake KYC on the customer wishing to switch to them and the old bank is required to verify that the switching request received from the new bank is from their existing customer and complies with any account mandates (e.g., two signatories).

In the case of direct debit authorities, the banks must also send the initiator (the company that holds the direct debit mandate from the customer), in writing, a direct debit initiator transfer advice stating the customer has changed the account used for direct debits and has authorised their bank to request the initiator to change the account details used effective from a specified date. Initiators are required to make the changes notified.

Under the switching process, the new bank and the old bank work directly with each other to transfer established payment instructions. Without the switching process, the customer would need to cancel existing instructions and authorities with the old bank and create replacement ones with their new bank.

Payments NZ maintains a Switching Contact List to ensure that switching communications are sent to the appropriate area within each bank and that direct debit initiators have a specific verified email address from which they receive, and can action, account amendment instructions.

With regards to direct credits (e.g., salary and wages) it is the responsibility of the switching customer to advise payers of their new account details for any deposited funds.

New Zealand's arrangements are fairly similar to those which are in place in Australia.

Issues with current process

The draft report raises concerns in relation to major banks not actively recommending the Payments NZ switching service to customers. The draft report notes that awareness and take-up of the switching service is low, and there are operational issues in practice.   The draft report concludes that the current state of "Easy Switch" falls short of offering a meaningful contribution to the competitive process. These observations are at pages 212 and 213 (in paragraph 8.60) but the accompanying footnotes are left blank.

In relation to the operational issues highlighted in the report (in paragraph 8.60), Payments NZ acknowledges the report's findings that there may be issues to address with the service. We are of the view that the impact which these issues are having on the success of the "Easy Switch" service may be overstated, without further work on our part to better understand and respond to these issues. We note that the Commission's own survey results (paragraph 8.42) show that 62% of customers who have actually switched provider in the last three years reported it to be easy or very easy.

As noted above, there are contractual obligations on initiators to change the account details used for direct debits. We note that there have been instances where these initiators have failed to confirm or make changes to their records for future payments, when requested by a bank on behalf of a customer. We believe further work can be undertaken to understand how the requirement on an initiator can be strengthened to align with the outcomes intended by the switching service and we will initiate this work as part of our on-going work programme.

Another operational issue outlined in the draft report is an inability to forward on or 'redirect' payments from old to new accounts. The process can only ask banks to manage payments they are aware of and, when it comes to inbound payments, customers need to contact the payer to notify a change to the account. A forwarding service is available for business accounts, but if this were extended to all customers for a period of up to 3 years (as suggested in the draft report), there would be unintended consequences such as fraud and money laundering risks associated with forwarding payments from closed accounts. In addition, an extended redirection process only delays the steps a customer must ultimately take to inform the other party of their new bank account details. We note the draft report highlights payments from Government agencies as a particular area of focus for redirected payments. Our work can look at ways to better connect their payment processes with the notification of a change in account details.

The draft report highlights that many banks have dedicated teams that work with other banks to transfer funds, set up new payments and cancel old payments. While the report suggests a perception gap and lack of promotion of the service, these dedicated teams do show a commitment by the industry to delivering on the 5-day service level.

It is also noted that, in terms of promotion and comparing bank account offerings, customers often have multiple different relationships with their bank and comparisons across these offerings can be complex. Therefore, standardised product comparisons may have limited value or may need to be accompanied by detailed explanations to enable customers to understand the impact across the multiple services which they have with their bank.

Payments NZ view

Payments NZ notes that bank account switching is a subset of a broader policy interest in ensuring there is strong competition, innovation, and customer choice in the financial services industry. However, it should be noted that banking customers can have relationships with more than one provider to meet their requirements, which may be contributing to the perceived inertia discussed in the draft report. The ability to multibank means a customer doesn't always have to select one provider over another. As such, the perceived inertia and low levels of switching could well be due to a customer's satisfaction at having their needs met via a range of products across a number of providers.

Payments NZ does not believe an independent body is required to monitor or report on the switching service, as suggested on page 259 (at paragraph 10.66). We believe if greater visibility is required on the performance of the switching service, this can be picked up within the existing payments infrastructure and can address the information gaps highlighted in paragraph 8.61.

The draft report suggests that the switching service can, in practice, take-up to nine working days to complete (paragraph 8.60.4) which can leave a customer in limbo for up to two weeks while payments are being shifted over. We are not aware of this being a common occurrence and note the footnote providing the source for this claim is missing from the draft report so we are unable to verify the source of this information. If more information could be provided, Payments NZ could investigate the cause to understand if this is a core issue with the process or whether it is an isolated event.

It should be noted some bank accounts can have complex arrangements attached to them with hundreds of saved payees, direct debits and automatic payments to be loaded onto the new account. The new bank may need to check some of these details with the customer which can lead to additional time required in the process. But even if this is the case, the customer is not left in limbo as the new bank will have advised the customer when payments will start on their new account and can therefore be cancelled from the old account.

Investigating what can be done to streamline some of these more complex switching requirements is an example of the additional work that could be undertaken within the existing switching process without the need to create a new independent body.

Conclusion

In summary, as the Commission's report highlights, when it comes to the switching of transactional accounts, search facilities are available and switching costs are supported with an industry wide process that is supported by dedicated teams to deliver a service standard of 5 business days. While acknowledging there are opportunities to investigate the operational issues highlighted in the draft report and add further transparency with enhanced reporting, we consider the switching standards to be fit for purpose, providing customers with all they need to move seamlessly from one transactional account to another. When it comes to investigating any enhancements that can be made to the process, this can be achieved with existing arrangements and resources rather than having to create a new entity.

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