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Dear Steve

**Reserve Bank response to Payments NZ's consultation on payments for the next generation**

Thank you for the opportunity to respond to Payments NZ's *Consultation on Payments for the Next Generation*. We acknowledge the importance of having an open dialogue on next-generation payments. Generally, we support the modular approach, focus on safety, integration of richer data, and commitment to public consultation that Payments NZ is taking.

As stated in our July 2023 letter; modern, safe, secure, and reliable payment systems are essential for a modern economy like New Zealand. Our objective remains to ensure that New Zealanders have safe, efficient and reliable payment and money systems that foster inclusion and innovation, which aligns with the Council of Financial Regulators payments vision for: "*Reliable and efficient payments that better meet the evolving needs of all New Zealanders.*"

We acknowledge some recent progress to deliver new payment system capabilities—such as SBI 365 and the introduction of 'confirmation of payee'—but we remain of the view that the pace and scale of modernisation efforts to date are not keeping up with user needs. Payment system modernisation is now a matter of urgency to address fraud and scams, increase competition and innovation and improve cash flow management for businesses and reduce costs for users. We want to see a stronger commitment to progress much needed investment in payment system capabilities given their potential for significant benefits to the economic wellbeing and prosperity of New Zealanders. We welcome commitments from Payments NZ members to evaluate a feasible but ambitious timeframe to deliver modern payment system capabilities. We are committed to working with the sector and providing an aligned regulator view to facilitate any necessary coordination.

## Problems and opportunities

Globally, more countries are developing and implementing real-time (or near real-time) payment systems, recognising them as fundamental to a thriving digital economy. Several countries are integrating their real-time payment systems to facilitate fast and cost effective cross-border transactions, which addresses a significant and persistent issue. New Zealand risks falling further behind our peers unless decisive action is taken.

The underinvestment in modern account-to-account payment capabilities in New Zealand is exposing users of the banking system to higher risks, such as fraud and scams, higher costs and, more generally, acting as a handbrake on economic growth in both traditional and digital sectors. This highlights the urgent need for a comprehensive approach to payment system renewal to improve safety, efficiency, competition, and innovation.

Timely payments can bring several benefits to businesses, consumers, and the overall economy.

- According to a study by the Association for Financial Professionals (AFP), companies that maintain strong liquidity through timely payments are less likely to experience financial distress.
- The European Commission study found that delayed payments cost small and medium enterprises (SMEs) billions annually in additional financing charges.
- The UK Government's "Late Payments Research" (2024) research indicates that some businesses pay late intentionally, treating it as a form of 'free finance.' Addressing this issue promotes ethical business practices and financial responsibility.
- The World Bank highlights that timely payments in public and private sectors contribute to GDP growth by ensuring continuous trade activity.
- The OECD reports that responsible payment practices contribute to corporate sustainability and investor confidence.

To deliver real-time payments capabilities effectively, clear timing expectations must be established with an emphasis on early investment in safety and timely sequencing of improvements, setting clear milestones and adhering to a structured implementation roadmap is essential.

## Our feedback

In our letter from July 2023, the Reserve Bank of New Zealand (RBNZ) stated that the private sector should take the lead in developing and implementing New Zealand's next-generation payment systems, making meaningful progress in the process. There seems to have been limited progress on delivering modern, real-time payments capability since our July 2023 letter. A stronger commitment to delivery is required from all participants in the industry and as noted, RBNZ will continue to work with other regulators to facilitate coordination.

As previously stated, we believe a safe and efficient real-time, next-generation payment system will help unleash New Zealand's economic potential. Real-time payments infrastructure is fast becoming basic digital public infrastructure around the world and our lack of this infrastructure will continue act as a drag on innovation, competition, safety and efficiency.

To maximise value, next-generation infrastructure investments should be integrated with other investments in digital public infrastructure such as open banking and digital identity. The development of next-generation payments should adopt international messaging and regulatory standards, such as ISO 20022 and the Principles for Financial Market Infrastructures (PFMI).

The design of New Zealand's Next Generation payment system infrastructure should reflect the current and future needs of users and instil confidence that the system is secure and reliable. Our expectations are that new payments infrastructure should be delivered in a way that:

- Supports innovation and competition now and in the future.
- Ensures open and fair access, to support new entrants.
- Provides payment services that are fairly priced and enhance efficiency.
- Enables fast, low-cost payments.
- Allows for increased functionality over time.
- Supports data-rich payments.
- Prioritises safety and resilience.
- Enhances monitoring and prevention of fraud and scams.
- Adopt international messaging and regulatory standards to drive better products and services.
- Ensures interoperability, both domestically and internationally, making cross-border payments easy, efficient and accessible.

**From Payments NZ directly**, we seek insight on the planned next steps for:

- The governance review of Payments NZ, as referred to in the Payments NZ 2023 Report.
- Improving transparency of decision making, processes and market information.
- A more transparent public process for becoming a member of the consumer electronic clearing system to assist new entrants to the acquiring market.
- Publicised process for reviewing the access criteria for BECs and CECs in light of any changes to ESAS access.
- Regularly Publishing aggregate payment information on the payment system including BECs, CECs and fraud statistics.

### **International regulatory practice and the FMI Act 2021 Standards**

As previously stated, we believe that a next-generation payment system with real-time capability has the potential to be widely used. It must be delivered in a way that ensures financial stability and aligns with CoFR's vision.

We consider fit-for-purpose and transparent governance, effective risk management, and fair and open access criteria to be particularly important for supporting innovation and competition in New Zealand's payments landscape.

The FMI Standards, issued under the FMI Act 2021 are adapted from the PFMI and are applied to systems that are designated, either because they are assessed to be systemically important or because the operator applies for designation status. Given expectations of widespread use for a next generation payment system, industry should consider the potential requirement for designation and the merits of proactively applying for designation status.

Otherwise, designation of a next generation payment system could occur if it were assessed to be systemically important.

## **Conclusion**

A modern payment system is critical enabling infrastructure for a modern and productive economy. New Zealand's payment system capabilities (especially for account-to-account payments) have fallen far behind our peers and this presents live risks for users and holds back our economic potential. We consider that delivery of a next-generation payment system, as described in your consultation, would, if delivered, represent a major step towards realising modern payments infrastructure in New Zealand. We consider that industry must act with greater urgency to develop a credible plan to deliver a next generation payment system for New Zealand.

The Reserve Bank remains committed to working with the Council of Financial Regulator agencies and other public sector bodies to facilitate the transition to a modern payment system. The relevant government organisation, depending on each mandate, will intervene where reliable and efficient payments are not meeting the evolving needs of New Zealanders.

To maximize the benefits of the next-generation payment system, it must be aligned with international standards, promote financial stability, and foster an environment of open access, competition, and innovation. By prioritizing these principles, New Zealand can ensure a future-proof payment system that enhances both safety and efficiency, benefiting all users while supporting the growth of the digital economy.

Yours sincerely

A handwritten signature in dark ink, appearing to be 'K. Silk', with a long horizontal flourish extending to the right.

**Karen Silk**

Assistant Governor / General Manager Economics, Financial Markets and Banking