

Westpac New Zealand Limited

Submission to Payments New Zealand
on
Payments for the Next Generation
Consultation



1. INTRODUCTION

- 1.1 This submission to Payments New Zealand is made on behalf of Westpac New Zealand Limited (WNZL) in respect of the Payments for the Next Generation Consultation Document. Thank you for the opportunity to provide feedback on the proposals.
- 1.2 Although the information in this submission is not commercially confidential, we request that Payments New Zealand contacts WNZL before any release to other parties.

2. KEY SUBMISSIONS

Introduction

- 2.1 Westpac New Zealand Ltd (“WNZL”) has a significant share of consumer, business and institutional customers. WNZL is settlement bank to a number of non bank financial institutions and is transactional banker to the New Zealand government. WNZL is a major stakeholder in the New Zealand payment system and strongly supports the intent to improve efficiency, enable more competition, manage risk and deliver innovative new services.
- 2.2 The current payment system is secure, reliable and efficient, and continues to effectively meet the core needs of the market, interchanging payments every 30 minutes, from 9am to 12.15am 365 days a year. Furthermore, system participants are making significant investments to extend the system’s capabilities, i.e. through the recent implementation of seven-day payment processing, expanding the open banking infrastructure, and implementing a new Confirmation of Payee anti fraud facility, and are on multi-year journeys to upgrade core payment systems, such as WNZL’s GPP high value payments processing system. There are several industry led initiatives in train to further extend capabilities, i.e. Consumer Data Rights (CDR) services, digital identity services, and potential digital currency applications.
- 2.3 WNZL agrees however that the new services outlined in the paper as part of a “Next Gen” payment system, including proxy or pay to alias payments, new “API” driven payment services such as request to pay, and services enabled by digital identities and by a new (ISO20022 based) transaction format will materially extend the capabilities of the payment system. WNZL submits that it is these value add services that should be the primary focus of, and the first priority for, the Next Gen payments roadmap.

The Next Gen vision: value add services and the sequence of initiatives

- 2.4 It is too early (given current information) and not yet necessary to draw any firm conclusions about the detailed nature or technical aspects of the value add services outlined in the paper, or to decide who should develop or operate them. More detailed work will be needed before it is possible to come to any reliable conclusions on these questions.
- 2.5 There is implicit in the paper an assumption that these new services would be tightly integrated into or even be dependent on a new real time payment system. WNZL suggests instead that these services can and should be progressed independently, and in advance, of any new real time system.
- 2.6 The launch of a “Confirmation of Payee” anti fraud service in late November/ December 2024 illustrates this alternative approach. This kind of service is in some countries integrated into a real time system, but New Zealand has instead chosen to develop this capability to be independent of any single clearing system. It can be used for any type of non-card domestic account to account payment, regardless of whether they are processed and switched as periodic batch files, or in real time. By taking this approach, the industry has been able to bring an important service to market more quickly than would have been the case if it were dependent on new clearing or switching arrangements.
- 2.7 WNZL’s recommendation is that the industry should prioritise the development of the value add component elements of the Next Gen vision, such as proxy payments, request to pay, digital identities, and “rich data” in order to be available as promptly as possible, within the current payment system, while still being aligned to a future real time switch.
- 2.8 There is a limited pool of resources across the industry to advance current and emerging payments projects, some of which are the subject of legislative or regulatory mandates. It is also likely that by taking this sequenced approach, the industry would be better able to manage resource constraints and contention, and meet regulatory expectations or mandates, while delivering Next Gen value add services to the market more quickly and efficiently than would otherwise be the case.

Building the Investment Case and Balancing Priorities

- 2.9 To make appropriately informed and optimised choices, the discussion on Next Gen initiatives, including any real time payment switch, should focus on:
 - (a) Core payment “value propositions”, i.e. the specific problems that are expected to be solved, or additional benefits to be realised, by the initiative, accounting for the current and emerging characteristics of the New Zealand market and the regulatory environment;
 - (b) The optimal sequence of initiatives, with reference to likely constraints and dependencies;
 - (c) High level costs and benefits, including the potential opportunity costs (i.e. the alternative investments that the industry could otherwise make);
 - (d) Opportunities to simplify and reduce costs within current clearing, settlement and other payment systems – and in turn enable participant institutions to rationalise their own infrastructure, and improve efficiency and resiliency; and
 - (e) A viable business model, setting out how a real time switch would be funded and operated, and how ongoing costs would be allocated across participants and other users in a competitively neutral way.

- 2.10 In respect of real time payments, we need to have close regard to the particular characteristics of the New Zealand payment system and the wider economy. Analysis¹ suggests that the countries with the most to gain from a 24x7 real time system are those with:
- (a) Large populations
 - (b) High use of cash in payments
 - (c) Low use of credit/ underdeveloped financial intermediation
 - (d) Poor financial inclusion
- 2.11 These factors do not apply to New Zealand to any material extent.
- 2.12 Other success factors, including some of those cited in work previously completed for Payments New Zealand, also rest on market characteristics that may not apply to the New Zealand market. These include the elimination of payment “float”, process efficiencies through replacing cheques with electronic payments, and savings by reducing the incidence of “failed payments” (payments which are made then later dishonoured or reversed).
- 2.13 The time frame for achieving projected benefits should also be a key focus for discussion – in particular the time frame for any new system to reach a “critical mass” and become viable. New Zealand moved to 7 day processing in May 2023, but there has still been no material shift of payment volumes to utilise non-business day processing. Additionally, payment methods, e.g. card products, that are processed on a 24x7 basis still primarily occur within normal “business hours”. There are minimal volumes of payments that are made late at night or overnight, emphasising the need to clearly define and understand the primary “use cases” for a 24x7 real time system.
- 2.14 We should also review other countries’ experiences when considering any business investment case. Australia’s payment system (which is perhaps most closely aligned to New Zealand’s), launched a 24x7 real time system, the New Payments Platform (NPP) in 2018. By 2022, real time payments through the NPP accounted for only 6% of domestic payments, and in 2023, 6.1%. Transaction volumes are predicted to rise gradually, as the bulk file interchange system is wound down and payments diverted to NPP, but this substitution does not necessarily represent net new value being created, or change the opportunity costs that have been incurred by all stakeholders in the system.

The role of Regulators

- 2.15 The discussion paper asks several questions about the appropriate role for regulators in the “Next Gen” journey. WNZL recognises that regulators are key stakeholders in the payment system and need to be closely involved in its evolution.
- 2.16 Any regulatory measures should be closely linked to clear public policy objectives, coordinated across regulators where there are multiple regulatory or supervisory regimes, and only involve direct intervention as a last resort where there is a material market failure.
- 2.17 Regulators should be mindful that investment, competition and innovation require a stable, predictable and focussed regulatory environment. The UK National Payments Vision², released in November 2024,

¹ For instance “Prime Time for Real-Time 2024”, ACI Worldwide <https://www.aciworldwide.com/real-time-payments-report>

² National Payments Vision <https://www.gov.uk/government/publications/national-payments-vision>

recognises this, and states “the regulatory framework for payments must be clear, predictable and proportionate. Regulators must coordinate well to support each other’s activities and manage their collective impact on regulated entities.”

The role of Payments New Zealand

2.18 Payments New Zealand was set up to:

- (a) Develop and maintain efficient and competitively neutral payments rules and standards;
- (b) Provide an open forum for consultation on payments issues and strategic direction; and
- (c) Coordinate engagement with regulators on payments related public policies.

2.19 It has been very effective to date. WNZL expects that Payments New Zealand will continue to own and manage domestic payments rules and standards, remain the primary forum for public consultation on payments issues, and continue to engage closely with regulators on payment system issues.

2.20 However Payments New Zealand is not appropriate to develop, own or operate payments systems or infrastructure, or to be a payment service provider for services such as fraud prevention, digital identity, request to pay or “proxy” (pay to alias) services.

2.21 Additionally, Payments New Zealand is not structured, resourced or have the experience to run large or complex industry change programmes. Overseas experience suggest that new special purpose entities and possibly new business models may be needed to develop and run these new services, as shown recently for instance by the “Get Verified” entity that has been created to coordinate anti-fraud initiatives across multiple stakeholders in the domestic economy including government, as well as offshore entities.

Final Points

2.22 As noted at the start of this submission, WNZL is a primary stakeholder in the domestic payment system. WNZL welcomes the opportunities that new competition can bring and is committed to working with the industry, regulators and wider stakeholders to bring new payment services and payments related functionality to market. WNZL confirms its commitment to continue to engage fully and constructively with other market stakeholders and with regulators, within the forum provided by Payments New Zealand, on the Next Gen payments journey.

