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Tēnā koe

ASB FEEDBACK TO PAYMENTS NZ CONSULTATION ON PAYMENTS FOR THE NEXT GENERATION

Thank you to the team at Payments NZ (**PNZ**) for the informative and constructive interactions since publishing the consultation document. We appreciate the progress that PNZ has made on topics raised as part of our initial feedback in November 2024, especially with respect to digital identity.

You originally asked for responses to a series of 33 questions by the end of March 2025. But given the progress since November, we will instead be reiterating our previous feedback and commenting on other specific points raised in the consolidated feedback to the PNZ Board in February 2025, rather than responding to your individual questions.

General comments on ASB's position in relation to Next Generation payments.

The needs and expectations of our customers are paramount. Payments are an important part of what our customers do every day and core to ensuring their continued confidence in the financial system. Customers are looking for simpler, better, and safer payment experiences. Meeting the needs and expectations of our customers is critical to building our role as a trusted provider. Therefore, our focus is not so much on new technology, but on enabling capabilities and experiences that provide New Zealanders and businesses the convenience and confidence they need.

As we have consistently stated, safety must be the priority for customers. Combatting increasingly prevalent fraud and scams remains our focus, as it is the number one thing our customers are asking of us. New Zealand needs to move beyond a sole focus on payments and prioritise the development of a strong and safe digital infrastructure within which payments and other related digital interactions can thrive.

ASB remains supportive of PNZ continuing to lead the Next Generation programme in collaboration with industry participants, supported by regulators as needed, to build a world class digital infrastructure with safety and security at its core.

To reiterate our preliminary feedback in November 2024, ASB remains supportive of modernising the payments system to enhance functionality via richer messaging, underpinned by new domestic ISO20022 messaging standards and modern centralised architecture that

allows a modular approach, with logically sequenced delivery tranches. This starts with developing a digital identity system, enhancing safety, and then adding functionality that will deliver the most value to customers, stakeholders, and the wider New Zealand economy.

Specific comments on the proposed focus themes presented to the PNZ Board February 2025.

ASB comments on particular elements of the consolidated preliminary feedback as follows:

Data strategy.

ASB agrees with the development of an industry data strategy as an urgent priority, with the objectives of establishing a domestic ISO20022 messaging schema, for use across the current payment system and future Next Generation capabilities.

ASB supports the proposed next steps to determine data requirements in order to define a domestic ISO20022 schema that aligns with global ISO20022 standards. ASB also supports prioritising an SBI impact assessment, as well as analysis of SBI processing (to determine the case for shorter intervals, standardised posting and extended daily windows to determine the opportunity for improved flow of funds). Until this work has been completed to understand the scope and size of the impact, ASB will not be able to undertake any meaningful assessment of our resourcing capacity or possible delivery timeframes.

Fraud management.

ASB recommends that Next Generation work is informed by the current and planned NZBA fraud initiatives, and that requirements are jointly developed with the fraud stakeholders participating in NZBA initiatives to ensure coordination in planning and outcomes for centralised fraud management. In the interim, we expect that banks will continue to apply monitoring and mitigants in line with their individual risk appetites. In addition, ASB and other banks are currently coordinating via NZBA to improve the sharing of fraud data. Current initiatives include confirmation of payee (GetVerified), sharing of fraud and mule data (NZDX) and consents to recover (FRX). It is important that there is alignment between these (and future) initiatives with the next generation system design and operations.

Digital identity.

ASB supports the digital identity sprint to develop a high-level national scheme concept proposal and proof of concept recommendation for stakeholder consultation and feedback.

While ASB understands the rationale for a bank-only working group initially to test consensus on scope and objectives, **ASB believes that it is important to involve other stakeholder representatives such as the Department of Internal Affairs and Digital Identity New Zealand in the investigation and design work** to ensure that a broad range of use case needs are considered, and that the sprint has the support of parties who are strategically important to the digital identity ecosystem.

ASB further supports the idea of an initial proof of concept and use case led delivery approach.

Scheme framework.

ASB supports early consideration of the governance and operational framework for infrastructure, services, and schemes. We support separating the governance of schemes and infrastructure as, for example, in Australia where each scheme (e.g. eftpos, ConnectID, BPay etc) has its own representative governance and the infrastructure is governed and operated separately. ASB also supports work to align Next Generation capabilities and the current clearing systems in order to develop an overarching framework for existing and future schemes.

Centralised platform.

ASB recommends that we evaluate centralised infrastructure with the use of a single messaging schema across multiple services to achieve efficiencies for delivery, operations and interoperability, and to maximise the utility of the infrastructure. Again, ASB remains supportive of modernising the payments system to enhance functionality via modern architecture that allows a modular ‘building-block’ design approach, with logically sequenced delivery tranches.

Regarding comments in the Board update on the use of an API network as an alternative to a central platform, ASB agrees that APIs will be an essential element of the next generation system. However, an Open Banking based network will not be an effective core central capability for national-level infrastructure. Dispersed delivery of core new capabilities via bilateral implementations with multiple 3rd parties could carry additional risks, costs, and could cause implementation delays.

Proxy identifiers.

ASB supports further analysis of requirements for a central proxy identifier service. ASB recommends that design for a central proxy capability is considered together with confirmation of payee, identity verification, and request to pay. Such central capabilities could operate separately but also integrate to deliver services for multiple use cases. There are current pain points with payment processing (fraud and bill payments as pertinent examples), which can be resolved with a central, integrated approach. Implementations in other jurisdictions such as Norway, where Vipps is the most popular provider and is integrated with the Norwegian BankID solution, demonstrate the benefits of integration.

ASB notes that comments in the Board update recommending that “focus should move to tokenisation”, are useful in the sense that tokenisation could enable some security enhancements in the system. However, tokenisation should not be seen as a replacement for proxy identifier capability. The use case for account proxies requires a public, known, unique proxy to be used in the place of an account number. The purpose of a proxy identifier is to make payment initiation more convenient, removing the need for the payer to know and correctly enter the payee’s account number. Tokenisation, on the other hand, is a security technique to replace sensitive payment information. Both are important, but seek to solve different problems.

Request to Pay.

As noted above for proxy identifiers, ASB supports the inclusion of request to pay in the Next Generation delivery roadmap. It remains an important capability for both current and future use cases. For example, the current New Zealand domestic processing for bill payments using Direct Credit and Bill Payment standards has high error rates in payment referencing, resulting in uncertainty in the payments ecosystem and increased costs. A request to pay service could potentially improve such current problems, and also be integrated with broader Next Generation capability such as proxy identifiers and identity verification.

With reference to comments in the Board update pack, ASB notes that while the Open Banking API standards and distributed ecosystem will allow ad hoc services via 3rd parties, such an approach will not deliver a national-level digital infrastructure capability. It will lead to multiple independent solutions with potentially limited market reach and lower overall efficiency. ASB recommends that the focus is on a central capability for New Zealand. In Australia, for example, 'PayTo' service agreements are created, stored, and maintained in a central database, the Mandate Management Service (MMS), owned and operated by the NPP.

Real-time.

ASB supports the real-time exchange of data to support identity verification and to monitor for fraudulent transactions, but ASB does not currently support real-time value exchange, noting that other jurisdictions with real-time payment systems are now introducing friction that slows settlement to mitigate the increase in fraud from real-time systems

ASB also supports prioritising the analysis of SBI processing to determine the case for shorter intervals, standardised posting, as well as extended daily windows to determine the opportunity for improved flow of funds. This analysis should also determine impact on existing systems, processes, standards and give indicative costs to deliver changes.

Notwithstanding ASB's current views on real-time value exchange, we would at some point in the future, support analysis being undertaken to assess the benefits of, and requirements for real-time payments use cases.

ASB however does not see this as a priority and would need to be convinced that fraud prevention systems are adequate before we would support delivery of near-instant irrevocable value exchange.

If you have any questions or wish to discuss any aspect of this letter, we would be happy to arrange a call.

Ngā mihi nui



Jonathan Oram

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