

The Reserve Bank of New Zealand – Te Pūtea Matua

Submissions to the second ESAS Access Review consultation (Oct-Nov 2024)

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Note: These documents have been proactively released by the Reserve Bank of New Zealand on the Reserve Bank website at [Exchange Settlement Account System \(ESAS\) access review - Reserve Bank of New Zealand - Citizen Space](#).

Submissions have been omitted or redacted where requested by the submitter. Personal information has been redacted for individuals not submitting on behalf of an organisation.

From: Jamie Jermain <jamie@emerge.nz>
Sent: Thursday, 24 October 2024 1:58 pm
To: ESAS Access Review <ESASAccessReview@rbnz.govt.nz>
Subject: Response to the ESAS Access Review

Dear RBNZ,

Thanks for the chance to give feedback on the ESAS access criteria. At Emerge, we're keen to support increased access but have a couple of concerns:

1. "Net Benefit to New Zealand" Test

For non-banks, the proposal to assess applications based on a "net benefit to New Zealand" test creates uncertainty and could be prohibitively expensive, requiring economic studies to support the application. We believe a clearer and more practical test would be based on the intention to participate directly in clearing systems. This is a legitimate reason for ESAS access and would reduce ambiguity and barriers for non-bank financial institutions, fostering competition.

2. Interest on ESAS Accounts

We're also concerned by the proposal to restrict the payment of interest on ESAS accounts to banks and Non-Bank Deposit Takers (NBDTs). This approach is inherently anticompetitive and risks entrenching a structural subsidy for incumbent institutions. It disadvantages new entrants like Emerge, which could play a significant role in reshaping the banking sector and driving innovation. We strongly advocate for all ESAS account holders to receive equal treatment, including the payment of interest, to ensure a level playing field.

Addressing these would help foster a more competitive and innovative financial system.

Thanks,
Jamie

From: [Redacted]

Sent: Sunday, 27 October 2024 2:18 pm

To: ESAS Access Review <ESASAccessReview@rbnz.govt.nz>

Subject: consultation on your revised access policy

1. Do you agree that our access criteria allow for opening participation in ESAS (in line with our intent set out in section 2)?

No, you are being far too conservative, and this will stifle innovation and exclude smaller agile participants.

This is exemplified when you state:

“Given our low appetite for not meeting user expectations regarding system functionality, availability and reliability, we have a low tolerance for uncertainty and a strong reluctance to take unnecessary risks.”

To me, that seems like an argument for the status quo and continued dominance by “the big players”.

Regs [Redacted]



ESAS Access Review Submission
 The Reserve Bank of New Zealand – Te Pūtea Matua
 Wellington 6140

Email: ESASAccessReview@rbnz.govt.nz

1 November 2024

Response to ESAS Access Review Consultation Paper dated 7 October 2024

I am writing to provide comments on behalf of the Wairarapa Building Society (WBS) on the above consultation paper.

WBS has very much appreciated the opportunity to engage with the Reserve Bank of New Zealand ("RBNZ") and to comment on significant proposed changes to borrowing and lending money in New Zealand.

Competitive disadvantages for NBDTs

In terms of the overall deposit taking regime, we have identified several areas where the regulatory structure has been designed in favour of the large banks. Examples include use of the term 'bank', inconsistent capital risk weightings compared to the large banks and access to ESAS. These structural elements have reduced competition in the sector and meant that consumers have less choice.

Specifically, in terms of the ESAS Access Review Consultation, we note the intention to open for applications for ESAS access from mid-2025. We believe this timeline is too slow. Many other much needed regulatory changes are not due to become effective until 2028 (Deposit Takers Act changes) and so, we encourage the RBNZ to consider what it can do to demonstrate more timely action to address the structural competition anomalies in the banking sector.

Contributing to a diverse and healthy financial sector

Smaller deposit takers can contribute to a sustainable and productive economy by growing the 'challenger bank sector' in New Zealand and removing the concentration risk with the big four Australian banks. However, the regulatory competitive disadvantages need to be addressed promptly.

Such an approach need not increase financial instability risk for the sector - the new deposit takers regime will involve more appropriate prudential standards for all and direct monitoring and supervision by RBNZ. This should further reduce the risk profile of the sector.

We recently took part in the RBNZ's financial inclusion thematic review and this further highlighted that smaller financial institutions, like WBS, are important contributors to a healthy, competitive and inclusive financial sector.

We would be happy to discuss this letter further with you and thank you again for the opportunity to respond.

Yours faithfully,



John Healy
Chief Executive
Wairarapa Building Society

ESAS Access Review Consultation dated 7 October 2024

Consultation question 1:

Do you agree that our access criteria allow for opening participation in ESAS?

Response:

Yes.

We also note that the Consultation paper includes a requirement that applicants have an acceptable risk profile within the RBNZ's risk appetite. Given the oversight of NBDTs that the RBNZ already has, this requirement should be relatively straightforward to monitor and manage.

Consultation question 2:

Are the access criteria easy to follow, and if applicable, are there any particular areas where additional guidance or explanation is needed?

Response:

Generally the access criteria are easy to follow.

A timeframe for assessing and processing applications would be useful and specifically for an entity such as WBS, i.e. a licensed NBDT that is prudentially regulated. Reading the Consultation paper we thought the timeline could be a maximum of a few weeks. It would be good to discuss directly with the RBNZ whether this assumption is reasonable.

It would also be useful to understand if there will be any additional reporting requirements once access is granted, beyond the existing prudential reporting requirements for NBDTs.

We would appreciate more clarity on the fees framework and the fee amounts. Our concern would be if the framework did not adequately consider the principle of proportionality and hindered competition in the banking sector for smaller players like NBDTs.

RBNZ consultation on the Review of ESAS access

Submission by

Grant Spencer

Teaching Fellow, Victoria University of Wellington

15 November 2024

I offer comments under four headers: the Policy Intent of the Review; allowable business Activities; Pricing; and Risk Criteria. I did not make a submission to the 2023 consultation and apologize if some of my comments are more relevant to the earlier consultation questions.

Policy Intent

I agree with the stated purpose of the new ESAS access policy which is to promote the efficient use of resources across the economy while supporting the core functions of RBNZ.

At the outset of this review in 2022, its intent was to “facilitate greater innovation and competition in electronic payment services”. This purpose has now been broadened and is seen as consistent with the Commerce Commission’s recommendation to promote greater innovation and competition in financial services more generally. I agree with this broadening of the policy intent. Access to efficient and dependable real-time clearing is a key requirement for aspiring competitors in a range of financial services, not just payments services.

The other two objectives of the 2022 review remain relevant: Increased flexibility in giving access to non-bank entities; and more transparency in the ESAS access criteria which have been opaque and somewhat ad hoc to date.

The proposed access criteria related to AML/CFT compliance and operational reliability appear non-contentious provided a “proportionate” approach is adopted for smaller applicants.

However, there are some challenges for the Review in determining allowable **activities**, in the **pricing** of accounts, and in setting appropriate **risk criteria**. My main concern is that the proposed risk criteria are too onerous for many potential competitors to the banks. If applied with the RBNZ’s typical rigor, the proposed risk standards and “net benefit test” could well defeat the purpose of opening up ESAS membership.

Allowable activities

A key rationale for opening up ESAS is to move away from the traditional 2-tier payments structure whereby the major banks settle through the Reserve Bank and other banks and financial services companies settle through the major banks. While many small banks and financial firms may be happy with their settlement services, others may be frustrated and feel their ability to compete is compromised by the 2-tier system. In particular, the large banks have been reluctant to offer settlement services to financial companies where AML/CFT risk management has been challenging. This is problematic for small companies attempting to compete with the banks in niche areas who are critically dependent on reliable and efficient settlement services. This can create conflicts of interest for the major banks and provides an important rationale for opening up ESAS to such companies.

This suggests that allowable activities should be financial services where efficient and dependable transaction settlement is a core capability of the activity. Such a test for eligible activities would bring in all transaction-focused services companies and most financial companies that are potential competitors to the banks.

Following this approach, I would recommend a list of eligible activities that extends the list given in para 6.1 of the paper to include:

- Banks and Licenced Deposit Takers
- Payments and settlement systems (designated or not)
- Overseas Deposit takers and FMI's that meet regulatory equivalence
- Securities and FX firms dealing in NZD products
- Non-deposit taking lenders with primarily NZD business

The first four items are included in para 6.1. The fifth item should also be included as wholesale funded lenders are becoming an increasing source of competition for the banks, eg Pepper, Squirrel, Simplicity, Resimac. Based on recent trends in the major economies, Private Credit (investor-funded lending) is also likely to emerge as an important competitor for the banks over the coming years.

An important financial services sector that is not on this list is the asset management sector, including wholesale and retail funds managers. Asset managers do not provide banking services, they are not involved in maturity or risk transformation, nor are transaction settlements core to their business. In my view RBNZ should be explicit about this exclusion and should not undertake "net benefit" applications from Asset managers except in special circumstances.

Net benefit assessments will be required for applicants undertaking activities on the above list but who are not RBNZ-regulated. Such a test is sensible but the criteria for access via "net benefit assessment" look impossibly difficult. Para 11.2 says applicants have to show that ESAS access would enhance the soundness and efficiency of the

financial system; **and** contribute to the economic growth or productivity of the New Zealand economy; **and** enhance the well-being of New Zealanders; **and** otherwise, be net beneficial to New Zealand. This is a bureaucratic doorstop and, in my view, should be reduced to the first item on the list: demonstrate that ESAS access would enhance the soundness and efficiency of the financial system.

From a practical point of view, I would expect an applicant to meet this simplified net benefit test if it was likely to promote competition in financial services while meeting the risk, AML and operational entry criteria.

Pricing

The key question here is the payment of OCR on ESAS balances for ‘monetary policy purposes’. I agree with the approach taken in the consultation paper which distinguishes two categories of account. For firms involved in bank-like intermediation, involving maturity and risk transformation, ESAS balances should be paid at OCR. This will ensure that OCR remains the benchmark short term rate for loans and deposits in bank-like (ie highly geared) balance sheets. For all other ESAS accounts, including for payment systems and securities broker/dealers, balances should be paid at a discount to OCR that is comparable with call deposit pricing at the major banks.

Risk Criteria

A successful applicant for an ESAS account must be involved in an eligible activity and also meet appropriate risk criteria, as set out in paras 8.4 and 8.5. In my view the proposed “prudential” and “governance” standards look bank-like and are too demanding. They risk undermining the policy intent of opening up ESAS by shutting out non-prudentially regulated entities and reducing their ability to compete with the banks. The Reserve Bank must protect the integrity and reputation of ESAS and minimise the risk of disruption from failed transactions and failed participants. However, this does not require all members to be as safe as banks or licenced DTs.

Some specific comments on the proposed standards:

I agree with the intention to wave through all RBNZ-regulated entities and overseas-based equivalents. This will immediately open-up ESAS to the small banks and NBDTs. The challenge is in the standards set for non-RBNZ-regulated entities such as non-Deposit taking lenders, securities firms and non-designated FMs.

Regarding the prudential standards for non-RBNZ-regulated entities, in my view RBNZ should focus on liquidity and operational risks rather than credit risk. ESAS applicants should be required to demonstrate their capacity to meet the liquidity demands of real-time ESAS transactions and to manage risks arising from operational disruptions. This does not require a minimum credit rating or credit standing. RBNZ does not take credit exposure on ESAS members unless it chooses to do so through open market operations.

The relevant risk is operational disruption from failed transactions and/or exiting members, both of which can be managed through appropriate mitigation structures.

The small and new firms most likely to apply competitive pressure to the traditional players are often lowly rated or unrated. Failures of non-bank lenders or Fintechs will occasionally happen, particularly in economic downturns, but this should not prevent ESAS membership if the entities meet appropriate AML, liquidity and operational resilience standards.

Regarding para 8.4.5, relating to prior criminal offences, I do not see why applicants should be denied because they have been subject to “..any investigation inquiry, or enforcement proceedings by any regulatory or law enforcement authority..” To deny access based purely on an historical investigation would be unfair and inappropriate.

The Governance criteria, listed in para 8.5, are unnecessarily demanding. Entities are required to have two independent directors and an independent chair. These are bank-like requirements that can be onerous for small and new financial services firms. Also, para 8.5.3 suggests that RBNZ is intending to approve director and senior staff appointments. This is not a proportionate approach and would be an unnecessary burden for applicants.

Grant Spencer

15 November 2024

ESAS Access Review: Proposed Access Criteria

15 November 2024

Christian Savings Limited

Finance Direct Limited

General Finance Limited

Gold Band Finance Limited

Heretaunga Building Society

Mutual Credit Finance Limited

Nelson Building Society

Unity Credit Union

Wairarapa Building Society

Xceda Finance Limited

15 November 2024

To
Te Putea Matua
Reserve Bank of New Zealand
Wellington

By Email

Dear ESAS Access Review Team

ESAS Access Review: Proposed Access Criteria

1. This submission is made on behalf of the non-bank deposit takers listed at the end of this letter.
2. In summary, we agree with your proposed access criteria and, in particular, we agree that access to ESAS should be:
 - (a) available to all prudentially regulated entities; and
 - (b) in line with your Green Building Society example, permitted for liquidity (and not just access to the payment system) to better enable non-bank deposit takers to meet their prudential liquidity needs.
3. However, we do not believe there is now any reason to delay access to ESAS for non-bank depositors until the middle of next year. Given there is no moratorium on banks accessing ESAS now, with the decision to allow non-bank depositors access, the same rules should apply to them and the non-bank deposit takers should be allowed access from the beginning of 2025.
4. We agree that the access criteria are easy to follow (for prudentially regulated entities). However, we would like to understand what, if any, operational requirements would apply where an entity was only using ESAS for liquidity purposes.
5. We as a group have begun discussions with experts in operational risk as it applies to ESAS and separately with someone with expertise in operating an ESAS account. Based on these discussions we are expecting the process to be relatively simple with little additional operational risk to that already dealt with in the existing risk management plans that non-bank depositors are required to have under section 27 of the Non-Bank Deposit Takers Act 2013 and which their statutory supervisors oversee. In practice it seems likely that for non-bank deposit takers using ESAS accounts for liquidity that there would likely only be one transaction a day on the account as they manage their end of day positions and, in some cases, it may be even less than that.
6. In any event:
 - (a) we believe it should be clarified that a proportionate approach should be taken to the operational criteria. That proportional approach should be linked to the level of risk which an entity may bring to the exchange settlement account system. For example, the level of risk associated with an entity that is simply using the ESAS system to better manage their liquidity will be very different from an entity that wants to actively participate in the payments system and requires an ESAS account to do so; and

- (b) we would also be interested in understanding how the Reserve Bank proposes to evaluate the operational criteria. The current policy simply requires entities to have various risk policies, which presumably works if Payments NZ is then to evaluate them before allowing access to the payments system but doesn't deal with ESAS accounts for liquidity, where the only transfer is likely to be between the ESAS holder and its transactional banker (who would also be an ESAS member).
7. We understand, for example, that Payments NZ typically relies on a report from a major accounting firm's risk practice when evaluating operational criteria. Non-bank deposit takers currently have statutory supervisors responsible for overseeing their risk management programme and propose that the Reserve Bank should simply rely on a report from the statutory supervisor confirming the risk management plan is up to date and deals with any operational risk associated with having an ESAS account (most likely the outsourcing agreement with the bank or other entity operating the ESAS account for them).
8. The non-bank deposit takers urge the Reserve Bank to allow non-bank deposit takers access to ESAS as a matter of some urgency. A two-year delay (and arguably seven-year delay) has already significantly impacted non-bank deposit takers competitiveness with banks that have had long standing access to ESAS accounts. This has been particularly acute in the high-interest rate environment.

Yours sincerely,

Christian Savings Limited
Finance Direct Limited
General Finance Limited
Gold Band Finance Limited
Heretaunga Building Society
Mutual Credit Finance Limited
Nelson Building Society
Unity Credit Union
Wairarapa Building Society
Xceda Finance Limited



ESAS Access Review: Proposed Access Criteria

Payments NZ Limited submission

November 2024

Introduction

Payments NZ Limited ("Payments NZ") is pleased to respond to the Reserve Bank of New Zealand, Te Pūtea Matua ("the Reserve Bank") consultation on proposed access criteria for ESAS.

Payments NZ has a particular interest in the access criteria for ESAS because an applicant wishing to become a direct settlement participant in a clearing system¹ managed by Payments NZ must have an ESAS account with the Reserve Bank.

As noted in our earlier submission on the risk assessment framework for ESAS, we believe it is important that there is alignment between the Reserve Bank's approach for assessing whether to grant an ESAS account and the approach which Payments NZ follows when considering applications to join one or more of its clearing systems. This is appropriate in terms of efficiency, and will ensure that there is a streamlined process for applicants wishing to participate in the payment system.

We note that the Reserve Bank is considering expanding access to ESAS beyond the existing participants to a range of different organisations, including those who are "carrying on business that is assessed as net beneficial to New Zealand". The Reserve Bank has also outlined criteria which will be assessed when considering applications for an ESAS account and is seeking views on whether:

- the proposed access criteria allow for opening participation in ESAS; and
- the access criteria are easy to follow, and whether there are any particular areas where additional guidance or explanation is needed.

Proposed access criteria

The Reserve Bank has proposed that ESAS accounts be available to applicants who meet the specified criteria, which includes:

- business activity criteria;
- AML/CFT compliance criteria;
- prudential and governance criteria;
- operational criteria; and
- ESAS terms and conditions enforceability criteria for overseas applicants.

Business activity criteria

We support the Reserve Bank's proposals that the following entities would be eligible to apply for an ESAS account:

- licensed deposit takers;
- entities operating a designated FMI;

¹ Payments NZ manages the bulk electronic, consumer electronic and high value clearing systems. An applicant wishing to join the bulk electronic clearing system (SBI) or the high value clearing system must have an ESAS account. An applicant wishing to join the consumer electronic clearing system only who does not have an ESAS account must have an agreement with an SBI participant pursuant to which, amongst other things, the SBI participant agrees to send and receive files on its behalf.

- overseas deposit takers;
- overseas FMIs.

In relation to the Reserve Bank's views on applicant's carrying out eligible business activities being able to apply for an ESAS account, we note that:

- we support the inclusion of organisations that are "carrying on the business of directly settling debts on behalf of third parties in New Zealand dollars". However, some further clarity could be helpful – i.e. that ESAS will be open to organisations (which satisfy the access criteria) that want to join the payment system and interchange and settle payments on behalf of third parties with other participants in the payment system. We also note that the Reserve Bank consultation document does not refer to stablecoin users. Other jurisdictions have introduced the potential for stablecoin issuers to hold reserves in central bank currency to back the value of the stablecoin. It is our understanding that these organisations could (and should) fit the proposed eligibility criteria for ESAS accounts as organisations that are interchanging and settling payments on behalf of third parties;
- we are unclear about the rationale as to why all ESAS account holders would not automatically be eligible for OCR on overnight balances held in their accounts. We are concerned that excluding some more specialised organisations from receiving OCR may undermine their ability to effectively contribute to a competitive payment system and result in them being at a significant disadvantage. It is our view that there should be a fair and consistent approach to OCR eligibility which will promote competition and ensure a level playing field;
- while we agree that there should be scope for applicants who do not fit within one of the four activities specified by the access criteria to apply for an ESAS account, we do not support the proposal that the Reserve Bank undertake a "net benefit assessment" to determine whether the proposed use of ESAS aligns with the purposes of ESAS and is of net benefit to Aotearoa New Zealand. The proposed thresholds (e.g. enhancing soundness and efficiency, contributing to economic growth, and enhancing the wellbeing of New Zealanders) appear to be a very high bar, are somewhat nebulous and subjective, and will be challenging to assess. We believe that a simpler assessment is required. In the Payments NZ rules, an organisation is eligible to obtain an interchange number if it has a "genuine business need". This may be a more useful test to apply, noting that an applicant is still required to satisfy the AML/CFT compliance criteria, prudential and governance criteria and operational criteria.

AML/CFT compliance criteria

We acknowledge the importance of applicants being reporting entities for AML/CFT (and to be in compliance with their obligations under this regime). We note that the Reserve Bank expects to "monitor ongoing compliance with AML/CFT obligations carefully."

There are currently three supervisory agencies specified in the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 – although it is likely that there will be a single agency undertaking this role in the future.

If AML/CFT risk assessments and compliance programmes have already been undertaken by a supervisory agency, it is important that the Reserve Bank's proposals to "monitor ongoing compliance...carefully" do not duplicate the assessment which has already been undertaken.

Prudential and governance criteria

The Reserve Bank intends, where possible, to rely on prudential regulation and supervision to manage many relevant risks, noting that prudentially regulated entities are "subject to certain requirements that are relevant to assessing risk."

We endorse this approach in relation to prudential requirements, and this is similar to the approach set out in Payments NZ's access rules. Payments NZ applies a risk-based approach to applications to participate in a clearing system and the independent directors of Payments NZ, when considering whether an applicant satisfies prudential requirements, may have regard to whether an applicant is prudentially regulated. This ensures that applicants are not required to duplicate assessments which have already been undertaken by a regulator.

However, when Payments NZ was established, one of the key drivers was to open up direct access to the payment system to non-banks (and potentially non-regulated entities). Payments NZ therefore developed prudential requirements – which reflect those which apply to regulated entities – and which could be used to assess a non-regulated entity wishing to join a clearing system. This ensured that there was a level playing field and that a new applicant would not:

- introduce significant risk into the clearing system; or
- undermine the integrity or reputation of the clearing system.

Payments NZ's access rules comply with the Principles for Financial Market Infrastructures² by being objective, risk-based, and publicly disclosed, and which permit fair and open access.

We note that the Reserve Bank's proposed prudential criteria which would be applied to non-regulated entities largely mirror the prudential requirements in the Payments NZ access rules. We believe that this is appropriate. We would like to work with the Reserve Bank to ensure that we avoid any duplication between Reserve Bank processes and our own processes, noting that an applicant should not need to be separately assessed against the same criteria by both the Reserve Bank and Payments NZ (if it wishes to join a clearing system managed by Payments NZ).

In undertaking any assessment, it is important that independent advice is provided. This provides assurance that a consistent approach is taken to assessing applications.

The assessment should also be holistic in nature, as this allows some discretion to be applied where an applicant, in the round, meets the prudential requirements but might not be able to satisfy a particular element (e.g. due to its corporate structure).

If there are ESAS account holders who are not regulated entities, there may be challenges with on-going compliance monitoring. There may also be potentially difficult situations to manage if an ESAS account holder were, at some time in the future, no longer able to satisfy all the

² Issued by the Committee on Payments and Market Infrastructures and the International Organisation of Securities Commissions

prudential requirements. We do believe that the Reserve Bank should give consideration to developing a supervisory regime for payment service providers which would enable ongoing monitoring of, and the ability to require actions from, these entities, thereby enhancing the overall safety and efficiency of the financial system.

We note that the criteria set out in clause 8 will need some refinement, in particular:

- 8.4.1 refers to an access guarantee or a standby liquidity facility agreement: the Payments NZ access rules define these documents and provide templates to enable an applicant to understand exactly what is required and we believe that the Reserve Bank criteria should expressly acknowledge that the form of the documents in the Payments NZ rules meet the Reserve Bank's requirements;
- 8.4.2 refers to documented risk management frameworks, systems and policies: there should be a requirement that these are adequate – and an independent assessment of their adequacy should be required;
- 8.4.3 refers to the need for regular internal and external audits with documented responses to audit findings: there should be a requirement to address any issues within specified timeframes and a threshold test for reporting of adverse findings which could impact the purposes of ESAS;
- 8.4.5 refers to an applicant having never been subject to any investigation inquiry: this should only be relevant where there has been an adverse finding against the applicant and should be assessed on a case by case basis.

Operational criteria

The operational criteria again largely reflect the operational risk requirements in the Payments NZ rules. In assessing these, it is important that there is an adequacy threshold and that an independent assessment (e.g. against international standards) is carried out. The Payments NZ rules also take into account whether the applicant is a branch or a subsidiary of a major international financial institution of standing and repute and whether the applicant has operated successfully for some time offering the payments goods or services.

We would encourage the Reserve Bank to give further consideration to how the adequacy of the operational requirements should be assessed, and by whom. Where an applicant who is seeking an ESAS account is also wishing to join a Payments NZ clearing system, it is important that there is integration and alignment between the assessment requirements of the Reserve Bank and Payments NZ so that the process for an applicant is streamlined and that any duplication is avoided. It would also be appropriate to consider whether there should be a requirement for an ESAS account holder who wishes to interchange and settle payments with other ESAS account holders in the high value payments sector to become a participant in the Payments NZ high value clearing system.

We acknowledge that the Reserve Bank and Payments NZ may have different risk thresholds and a focus on different operational risk requirements. For example, Payments NZ's access requirements recognise that:

- operational failure poses a significant risk to the safe and efficient operation of our clearing systems and the requirements set out in our access rules are designed to mitigate this risk;
- risks arising from financial, liquidity or operational issues are more likely to impact other ESAS account holders rather than the Reserve Bank and the access rules include requirements to minimise these risks.

Managing operational risks appropriately, and ensuring on-going compliance with operational requirements, will allow the payment system to remain interoperable, innovative, safe, open and efficient.

The Reserve Bank should give consideration to how it will monitor on-going compliance with operational requirements.

The Reserve Bank may also have different requirements depending on the purpose for which the ESAS account is granted – i.e. the standard may be higher for an account holder who wishes to settle and interchange with other ESAS account holders than it would be for an account holder who wishes to only hold deposits with the Reserve Bank.

General comments

Payments NZ supports the proposals of the Reserve Bank to open access to ESAS to a broader range of institutions, such as non-bank payment services providers, subject to maintaining the integrity and robustness of the ESAS system.

We endorse the risk-based approach which the Reserve Bank proposes (subject to our comments above), noting that it is essential that there are clear and risk-based requirements for access to ESAS and that appropriate mitigants are put in place, particularly as some of these risks are more likely to impact other ESAS account holders rather than the Reserve Bank.

We note that the application of the prudential and governance criteria and the operational criteria to applicants wishing to obtain an ESAS account will, in effect, be a *de facto* regulatory regime for payment service providers. However, there are challenges with this approach, particularly in relation to:

- on-going compliance monitoring;
- the ability to require actions when requirements are no longer being met; and
- ensuring that any new requirements are adhered to in a timely manner.

To promote a sound and efficient financial system, we would encourage the Reserve Bank to consider introducing a supervisory regime for payments service providers. This would provide greater oversight and could simplify the process for applicants wishing to obtain an ESAS account (and join a clearing system) by removing the need for a comprehensive assessment of prudential requirements.

The Reserve Bank may also wish to consider the option of imposing conditions on non-regulated ESAS account holders (as part of the ESAS terms and conditions) to enable on-going, and effective, oversight and enable the Reserve Bank to mitigate any identified risks.

Conclusion

Payments NZ supports the Reserve Bank's review of its access criteria and proposals to allow a broader range of applicants to apply for an ESAS account. One of Payments NZ's objectives is to encourage new entities becoming participants in clearing systems based on fair and reasonable access criteria – and all direct settlement participants are required to have an ESAS account. We are encouraged by the work which the Reserve Bank is undertaking and look forward to working with the Reserve Bank as it develops and refines its access criteria for ESAS accounts. This will ensure that the process for new entrants wishing to become part of the payment system is streamlined and efficient.

A handwritten signature in black ink, appearing to read 'Steve Wiggins', with a long horizontal flourish extending to the right.

Steve Wiggins
Chief Executive
Payments NZ

AlteredCapital

17 November 2024

The Reserve Bank of New Zealand (RBNZ)
Te Pūtea Matua

Distributed by email to ESASAccessReview@rbnz.govt.nz

Dear RBNZ ESAS Access Review Team,

Response to invitation for submissions on the ESAS Access Review: Proposed Access Criteria

Thank you for your invitation to provide feedback on the proposed access criteria for the Exchange Settlement Account System (ESAS).

Altered Capital (Altered) agrees with the RBNZ and Commerce Commission that enabling open access to ESAS will facilitate innovation and competition in payment services. However, we believe the proposed criteria can be improved, with lessons drawn from international peers.

This submission is based on the collective experience and knowledge of the Altered team.

About Altered

Altered is a New Zealand headquartered venture capital and private equity firm founded in 2022. Altered's story began as a spin-out from a global venture fund which, most directly relevant to the RBNZ, was the seed investor in the UK challenger [Starling Bank](#) (Starling) in 2015.

Today, Starling serves over four million customers and made a profit-before-tax in the most recent financial year of £301m. Altered represents interests in Starling today totalling over 38% of the company's shareholding through two Board Directors (Marcus Traill, Altered Founding Partner, and Lazaro Campos, ex-CEO of SWIFT and Altered appointee) and one Board Observer (McGregor Fea, Altered Managing Partner). Additionally, Craig Mawdsley, Altered Founding Partner, served on the Board of Starling from 2015 to 2018.

The ability for fintech challengers like Starling to take on the incumbents and win in the UK and Europe has been substantially driven by the supportive regulatory frameworks, specifically established for competition to thrive. It's well known that the New Zealand banking sector suffers from a lack of innovation, which is largely a consequence of the regulatory and commercial incentives that exist today. As a result, the value proposition for New Zealand consumers is



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alteredcapital.com

AlteredCapital

greatly reduced and lagging other developed nations. Altered's interests in New Zealand's payments infrastructure therefore arises through first-hand experience of the superior payments systems in the UK, and also through our interests domestically such as [Emerge](#), a portfolio company in banking and payments in New Zealand.

Why ESAS access is so important in New Zealand, and how we compare to the UK

Opening access to ESAS is the first step in allowing genuine competition and innovation in payments in New Zealand. Today, payments systems suffer from thinking driven by vested interests. As the primary independent party in the ecosystem, the RBNZ can significantly shift the competitive dynamic in the market to the benefit of all New Zealanders.

In the UK, the regulatory landscape for payment services providers is supported by:

1. An independent and centralised payment scheme infrastructure provider, with an express purpose to power payments, champion innovation and give the UK choice in how it pays.
2. Direct participation in payment schemes and settlements without reliance on the banks they are competing with.
3. Specific and quantified access, licensing, and financial requirements which transparently scale by institution type and their associated risk.

In contrast, New Zealand providers currently face:

1. An incumbent bank owned and controlled payment scheme rules moderator without requisite infrastructure resource, governance or incentive for competition.
2. No access to schemes or settlements without reliance on the incumbent banks.
3. Punitive capital requirements for existing licensing and qualitative guidelines for institutions that fall outside the traditional banking sector.

By defining access to ESAS transparently, and in line with international best practice, the RBNZ will not only foster competition domestically, but will lead New Zealand to become more easily understandable and investable by global participants.

Response to Question One: do you agree that our access criteria allow for opening participation in ESAS (in line with our intent)?

The benefits sought from the RBNZ by opening access to ESAS are to:

1. Improve transparency;
2. Accommodate institutions that fall outside the traditional banking sector; and



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3. Facilitate greater innovation and competition.

Altered entirely agrees with, and supports, these statements of intent.

The primary issue with the criteria is equality of access. The criteria are well defined and de facto subsidised for the traditional banking institutions, but more opaque and expensive for the institutions that can genuinely deliver the competition the RBNZ is seeking to foster.

Having loosely defined principles such as a "net benefit to New Zealand" test for providers that are not prudentially regulated under the existing framework will result in significant inefficiencies, uncertainty in the application process, and unnecessary cost to applicants.

Further, the proposal to remove the OCR payment represents an inherently anti-competitive systemic transfer of value from challengers to incumbents. The rationale for not paying interest is that the entities' ESAS admission "is not related to monetary policy implementation." This statement contradicts our experience in the UK where monetary policy is also transmitted by non-lending e-money and payments institutions, who compete on value to customers through saving products and spending rates.

With reference to the UK and Europe, direct access to the payment scheme and settlement infrastructure outside of traditional banking sector licensing is defined by type with simple capital requirements based on scale. By way of example, an e-money institution, which qualifies for direct access to schemes and settlements, must hold the higher of €350,000 or 2% of funds issued. This system is simple, transparent, and allows challengers to satisfy liquidity, integrity, and robustness concerns without having to navigate qualitative scale-linked prudential testing in their applications.

Response to Question Two: are the access criteria easy to follow, and if applicable, are there any particular areas where additional guidance or explanation is needed?

Altered's primary feedback on the access criteria is the need to provide clarity and certainty for applicants that are not part of the incumbent banking sector. We are concerned about the footnoted RBNZ statement that "having too much direct participation in ESAS is undesirable as we do not wish to crowd out the role of commercial banks", which suggests that some undisclosed threshold conditions are going to be applied to reduce the total number of participants allowed in the system. This directly contradicts all three of the RBNZ's aforementioned statements of intent.



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By quantifying financial requirements and providing greater clarity on applicant types, the total cost and time lost to the process will be minimised. In finalising the submission requirements, we would appreciate a particular focus on improving clarity on:

1. **Business Activity criteria**
 - Please specify the definition of "directly settling payments" and if any size qualification will be applied.
 - Please specify quantitatively the "net benefit" test and how it will be measured.
2. **Prudential criteria**
 - In lieu of a credit rating, please quantify the minimum value of the proposed "access guarantee" and "standby letter of credit" proposals.
 - Please explain how providing OCR interest on accounts for incumbents but not to challengers does not represent a structural competitive disadvantage.
3. **Process timeline**
 - Please specify the timeframe for new applications into ESAS.
 - Please specify the anticipated processing time for each application.

Closing remarks

Thank you again for welcoming submissions. Altered has lived experience that opening access to payment schemes and direct settlement delivers increased competition and innovation, and ultimately drives better outcomes for consumers. The level of success for Starling and its peers in the UK would not have been possible under the current New Zealand regulatory system.

Certainty and clarity around the access criteria are essential to deliver on the spirit and intent of the RBNZ proposed changes. Creating the right regulatory environment is a necessary precondition to drive investment from groups like Altered to enable well-funded, innovative, and secure competition.

If you require any additional information or would like to discuss our submission further, please do not hesitate to contact us.

Sincerely,



McGregor Fea
Managing Partner



Marcus Traill
Founding Partner



Craig Mawdsley
Founding Partner



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17 November 2024

ESAS Access Review Submission
The Reserve Bank of New Zealand – Te Pūtea Matua
Wellington 6140

By email: ESASAccessReview@rbnz.govt.nz

Unity submission – ESAS Access Review: Proposed Access Criteria Consultation Paper

Thank you for the opportunity to make a submission on this consultation. Our response will only cover the proposals as they relate to the access for Non-Bank Deposit Takers (NBDTs) as outlined in the consultation.

Please also note that Unity has also collaborated with several other NBDTs in a separate submission.

Summary:

We are pleased that the RBNZ has acknowledged the need to provide the NBDT sector with access to ESAS for liquidity purposes. We are also encouraged by the acknowledgement in the paper that, as regulated organisations, the pathway for NBDTs should be relatively straight forward, as per the Green Building Society example in 6.5 of Appendix 3.

With that in mind we are disappointed with the time the RBNZ is taking to be able to take applications from the NBDT sector. As you will be aware Unity made an application for an ESAS account over a year ago and is very disappointed with the delays to date given the seemingly relatively uncontroversial position of allowing prudentially regulated entities access to ESAS – especially with the financial stability benefits that brings.

At this stage it seems applications may open from mid-2025 with no indication of how long it would take for the process to be completed. While the RBNZ openly acknowledges the current and ongoing negative impact on competition, and the positive impacts on financial stability (in relation to liquidity), it still appears in no hurry to make simple steps to improve aspects of this in a timely manner.

Recommendation:

We would prefer to see the RBNZ stage its approach to implementation rather than trying to solve for every situation in one solution. We recommend opening up ESAS applications for the NBDT sector immediately for the purposes of liquidity management. The RBNZ acknowledges that the sector already has the necessary criteria to qualify. The operational aspects would be simple as each NBDT would likely be using their agency bank to transact with the RBNZ. The agency bank is already ESAS enabled and therefore covers the operational criteria required. The benefits for the RBNZ are:



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- The RBNZ immediately gets a “win” with stakeholders as being proactive and timely with addressing a known competition issue.
- The RBNZ immediately improves the profitability (higher interest rate returns) and capital position (lower risk weighted assets) of the NBDT sector thus supporting financial stability.
- The RBNZ immediately improves the liquidity for the NBDT sector (given ESAS funds are on call and can be accessed usually within an hour) mitigating the risks associated with a run and thereby also improving financial stability.

We would readily volunteer our time and effort to work with the RBNZ to help enable a much quicker pathway to ESAS approval for the NBDT sector.

Our direct response to the two questions raised in the consultation is contained in the attached appendix. Please contact me if you wish to discuss any of our submission points in more detail.

Kind regards,

A handwritten signature in black ink, appearing to read 'Kevin Hughes'.

Kevin Hughes, Chief Executive

Attached: Appendix One – Unity Responses to individual questions from the ESAS Access Review: Proposed Access Criteria Consultation Paper

Appendix One – Unity Responses to questions in the ESAS Access Review: Proposed Access Criteria Consultation Paper

Questions

Q1: Do you agree that our access criteria allow for opening participation in ESAS (in line with our intent set out in section 2)?

Yes. (Noting that we are only commenting in relation to the use of ESAS for liquidity purposes).

Q2: Are the access criteria easy to follow, and if applicable, are there any particular areas where additional guidance or explanation is needed??

On the face of it this all makes sense. There may be an opportunity to look at the operational criteria for those situations where ESAS is only being used for liquidity management and an NBDT would be transacting via its agency bank.

There also seems to be an opportunity in the future to align the assessment of some of the criteria to other upcoming changes. An example would be the access criteria 4.1.3 (page 22). The implementation of the non-core standards under the DTA will ensure deposit taking entities will have a comprehensive set of prudential and governance standards. What is the benefit of a separate list of ESAS related criteria for the same topic? Ideally satisfaction of the DTA standards will also automatically satisfy the ESAS criteria.

The general approach to fee charging seems reasonable. However, the RBNZ will need to be careful on how the new fee regime will work dependent on the use of ESAS. In a scenario where an NBDT is using ESAS for liquidity purposes and with minimal transaction volumes it will be important to ensure any monthly fee does not result in disproportionate charging compared to use and cost.

18 November 2024

Submission: ESAS Access Review: Proposed Access Criteria

1. Paymark Limited, trading as Worldline NZ (**Worldline**) is grateful for the opportunity to submit to the Reserve Bank of New Zealand (**RBNZ**) on the proposed access criteria for the Exchange Settlement Account System (**ESAS**)¹ published on 7 October 2024 (the **Access Criteria Document**). Worldline is interested in the access criteria for ESAS as it may wish to hold an ESAS account for settlement purposes in the future.
2. Established in 1984, Worldline enabled low-cost Eftpos transaction processing for ASB, ANZ, BNZ and Westpac. We have evolved over time and today we provide safe and secure payment processing services to more than 45 financial institutions and 80,000 merchants in New Zealand. In addition to Eftpos, we process transactions that are routed out to the global card schemes, such as Visa and Mastercard, provide payment gateway solutions to ecommerce platforms and directly to ecommerce merchants, and we have an API-based platform enabling open banking payments products. Whilst Worldline New Zealand is a subsidiary of a French corporation,² it maintains local directors and is a registered New Zealand business with more than 180 employees based in Auckland. We are passionate about providing consumers and businesses choice in payments products and processing.
3. Worldline supports RBNZ's intention to give its innovation and competition objectives a similar weight to its integrity and reliability objectives. Worldline is pleased, and agrees with, the RBNZ taking steps to allow non-banks access to ESAS on an objective basis. In this submission, we respond to RBNZ's two specific questions (set out in the Access Criteria Document) and we raise a potential sequencing challenge should non-banks need to access a Payments New Zealand (**PNZ**) system as well as ESAS.

Question 1 "Do you agree that our access criteria allow for opening participation in ESAS?"

4. Worldline supports the RBNZ's intention to enable a more open access to ESAS. Particularly, Worldline is interested in access being opened to payment service providers (**PSPs**) on an equitable basis. Worldline is concerned that this may not be the case, as:
 - i) it is not clear that PSPs would automatically meet the "Business Activity" criteria (this is considered further in response to Question 2); and
 - ii) the RBNZ appears to have decided that it will not provide access to Official Cash Rate³ (**OCR**) bearing accounts to non-banks.
5. Any entity, whether private banks or non-bank, wishing to settle funds via an ESAS account would need to hold cash reserves in that account to meet its end-of-day settlement obligations. Yet the RBNZ suggests that only private banks should receive

¹ See 'Consultation 2': <https://consultations.rbnz.govt.nz/payments-and-settlement-systems/esas-access-review/>

² See Worldline SA <https://worldline.com/>

³ See <https://www.rbnz.govt.nz/monetary-policy/about-monetary-policy/the-official-cash-rate>

OCR interest on those accounts. They say that providing OCR bearing accounts may 'crowd out'⁴ the incumbent private banks.

6. If implemented this decision may put PSPs, who wish to directly settle, at a financial disadvantage when compared to incumbent private banks. PSPs will need to hold significant funds in their ESAS account in the same way as a bank but only the bank gets paid interest. This decision, and its rationale, appears contrary to the RBNZ's innovation and competition objective.
7. It would be useful to understand why the RBNZ is concerned about letting non-banks compete with the private commercial banks particularly when the New Zealand Commerce Commission (**NZCC**) noted that 'broader access to ESAS accounts will benefit both innovation and competition'.⁵ The NZCC went on to say that access could also 'improve competition through its use as an input into payment services as well as an account that provides access to OCR returns'.⁶
8. The RBNZ position here is in vast contrast to, for example, the plans of overseas central banks to only pay interest on reserves (to both banks & non-banks) above the minimum reserve requirement⁷ or controversially to pay consumers interest on stored central bank digital currency.⁸
9. Worldline acknowledges that there is balance, and the RBNZ would need to determine the right amount whereby competition is improved yet there is no risk to the incumbent private banks being disintermediated to a point where their decreased lending negatively impacts the economy. It is worth, however, investigating whether allowing non-banks to have an OCR bearing ESAS account could be used by the RBNZ as a lever to drive competition and improve the offerings made by private banks to New Zealand account holders. In our view there should be a fair and consistent approach to OCR eligibility as this will promote competition and ensure a level playing field.
10. Another area that may require further consideration is that PSPs might still be expected to connect to PNZ for clearing services before they can connect to ESAS. At this stage PSPs are unable to access the PNZ systems unless they have an ESAS account, which could give rise to a sequencing challenge. Page 37 of the Access Criteria document states that PSPs need to either be: (i) a participant in the clearing system; or (ii) in process of applying to be a participant. Worldline would like to see alignment between the RBNZ and PNZ to ensure that access avoids any duplication of process. For example, the assessment processes for PSPs wishing to settle and interchange with other ESAS holders under the ESAS access criteria should be similar, if not the same, as a PSPs wishing to clear with other PSPs and banks that are members of PNZ's system(s). This alignment should result in an applicant not needing to be separately assessed against the same criteria by both the RBNZ and PNZ.

⁴ See Footnote 2 on page 5 of <https://consultations.rbnz.govt.nz/payments-and-settlement-systems/esas-access-review/>

⁵ See page 293 https://comcom.govt.nz/_data/assets/pdf_file/0019/362035/Final-report-Personal-banking-services-market-study-20-August-2024-Amended-27-August-2024.pdf

⁶ See page 293 https://comcom.govt.nz/_data/assets/pdf_file/0019/362035/Final-report-Personal-banking-services-market-study-20-August-2024-Amended-27-August-2024.pdf

⁷ See https://www.ecb.europa.eu/ecb-and-you/explainers/tell-me/html/minimum_reserve_req.en.html and <https://neweconomics.org/2023/11/government-could-save-55bn-over-next-five-years-by-limiting-bank-of-englands-interest-payments-to-commercial-banks>

⁸ See <https://coingeek.com/israel-proposes-for-digital-shekel-to-bear-interest/>

Question 2 “Are the access criteria easy to follow, and if applicable, are there any particular areas where additional guidance or explanation is needed?”

11. In the Access Criteria Document, it is not clear whether PSPs would meet the ‘Business Activity’ criteria or would need to undertake a ‘Net Benefit Assessment’. Worldline understands the need for flexibility and supports the intent behind the inclusion of the ‘Net Benefit Assessment’ as a mechanism to provide access to entities that do not meet the prescribed criteria, but the assessment itself has not been sufficiently described to provide clarity. The considerations⁹ appear difficult to meet, could be highly subjective and challenging to assess. Thankfully, the RBNZ clarified, at the webinar held on 4 November 2024, that PSPs would generally meet the ‘Business Activity’ criteria, despite not being a designated Financial Markets Infrastructure¹⁰ (FMI) and would not be required to go through the Net Benefit Assessment. We would be grateful if this (and criteria for meeting the Net Benefit Assessment) is made clearer in the final version of the Access Criteria Document.
12. If a PSP meets the Business Activity criteria, it will also need to meet the ‘Risk Assessment’ criteria, including prudential requirements. While we were pleased to see that the RBNZ is considering using other supervisory frameworks such as FMI and Anti-money Laundering,¹¹ we would like to understand more about how New Zealand subsidiaries of overseas companies that meet prudential requirements in other jurisdictions may be assessed. Many PSPs in New Zealand have overseas owners, which operate in jurisdictions with a supervisory framework for PSPs, such as Europe¹² and Asia-Pacific (APAC) countries. Indeed, our closest neighbour, Australia will soon have such a supervisory framework for PSPs.¹³ Worldline globally has many licences for payment services in the EU, the UK, and several countries in APAC (as well as being supervisory regulated for its settlement systems at a European and national authority level).
13. In New Zealand, Worldline is a reporting entity under the AML/CFT Act, but it is not a designated FMI. Indeed, becoming a designated FMI would likely be an unnecessary regulator burden for the scope of activities undertaken by most PSPs. As at today, there are no publicly available plans of the Government or the RBNZ to introduce a supervisory regime specifically for PSPs so recognising overseas frameworks seems like a practical solution. More information on how PSPs that are prudentially regulated in other jurisdictions may utilise, or transfer, this to New Zealand would be helpful.

Conclusion

Worldline is grateful for the opportunity to submit on the ‘ESAS Access Review: Proposed Access Criteria’. We agree with the intention to open access, but the decision to limit OCR bearing accounts to the large incumbent private banks may mean the benefits of opening access to ESAS may not be realised. Care should be taken not to cement incumbent private banks’ dominance.

We believe that increased accessibility and choice for consumers and businesses is underpinned by a competitive payments system. A payments system that encourages all

⁹ See page 15 of <https://consultations.rbnz.govt.nz/payments-and-settlement-systems/esas-access-review/>

¹⁰ See <https://www.legislation.govt.nz/act/public/2021/0013/latest/whole.html>

¹¹ See <https://www.legislation.govt.nz/act/public/2009/0035/latest/DLM2140720.html> (the AML/CFT Act)

¹² Payment Service Directive <https://eur-lex.europa.eu/eli/dir/2015/2366/oj> and the E-Money Directive <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32009L0110>

¹³ See <https://treasury.gov.au/sites/default/files/2023-12/c2023-469663-factsheet.pdf>



types of payment participants to compete in a level and fair manner is fundamental. Banks and non-banks should have equal access to core infrastructure on an equitable basis.

Should you wish to discuss any of the points raised in this submission, please do not hesitate to contact Julia Nicol, Head of Public Affairs, Regulatory and Corporate Communications on julia.nicol@worldline.com.



Akahu submissions

ESAS access review: proposed access criteria

18 November 2024

1. Introduction

Akahu is an open banking intermediary. We are New Zealand-owned, and operate exclusively in the New Zealand market. We process over one million API calls each day in relation to open banking data and payment initiation requests.

We currently provide open banking API services to 57 government, corporate, and fintech organisations. We also provide API services to more than 350 "personal apps", which are used by individuals or businesses that access our open banking API for programmatic connectivity with their own bank accounts.

Our submissions are informed by the open banking use cases that we support in New Zealand today, giving us firsthand knowledge of many of the third party services that are seeking to compete in the market for personal banking services in New Zealand.

2. Access criteria

We support the proposal to focus on the substance of the applicant, rather than the regulated status of the applicant. We think this flexibility is critical to support competition and innovation.

We support the proposal that "carrying on business directly settling payments on behalf of third parties in New Zealand dollars" is considered to satisfy the business activity criteria.

3. Equal treatment for all ESAS accounts

We strongly disagree with the proposal to not pay interest to ESAS account holders that are not prudentially regulated. We consider this proposal to be unfair and anti-competitive.

Unbundling banking services

The RBNZ has commented that "one aspect of competition for banking services that we suggest deserves more consideration is the possibility of unbundling the key roles of 'transactional services', 'lending products' and 'investments', which may be enabled by progress towards open banking."¹

We agree with that statement, but only if new entrants are able to access ESAS and earn interest on balances in the same way as other ESAS account holders. Otherwise it would not make sense for new entrants to directly participate in ESAS and clearing systems, so they would have to depend on incumbent banks to earn interest on transaction account balances, access to payment services, and access to account numbers. That dependency on competitors will not encourage meaningful investment and competition from new entrants.

¹ Page 10, <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/publications/information-releases/2024/tec-submission---inquiry-into-banking-competition.pdf>

Maturity transformation

The stated rationale for not paying interest is “on the basis that entities who are not prudentially regulated do not engage in maturity transformation”. This statement seems to focus on how monetary policy can be transmitted through lending activity, but it seems to ignore how monetary policy is also transmitted by influencing saving and spending.

As RBNZ has suggested, new entrants may seek to offer standalone transactional services. These new entrants are likely to pass through interest in order to attract customers. This would have the effect of transmitting monetary policy more effectively than incumbents do with their transactional services, and is precisely the kind of competition that can be enabled by broader access to ESAS.

Crowding out

RBNZ makes the statement that “having too much direct participation in ESAS is undesirable as we do not wish to crowd out the role of commercial banks.”

We think that the concept of “crowding out” is being used incorrectly in this context. Instead of reducing private sector activity, broader and equal access to ESAS would enable increased competition from new entrants, and enhance the productivity of the private sector.

Entrenching the existing structural subsidy

Any successful applicant will need to meet the criteria for “business activity” and “acceptable risk profile”. At that point, it’s simply a question of whether there is a level playing field for ESAS account holders in relation to the payment of interest on balances.

If interest is paid to all ESAS account holders, broader access to ESAS will have a meaningful positive impact on competition. If not, it will entrench a large structural subsidy for incumbents, rather than allowing new entrants and market forces to reshape the market for banking services over time.

4. Final words

We’re excited by the prospect of a revised ESAS access policy, and the vibrancy that it could bring to banking services in New Zealand. However we think that the proposal to not pay interest to ESAS account holders that are not prudentially regulated needs to be changed.

As the Commerce Commission noted in its recent market study, “broader access to ESAS accounts will benefit both innovation and competition through its use as an input into payment services as well as an account that provides access to OCR returns”. The “access to OCR returns” component is critical for the revised ESAS access policy to enable meaningful competition.



18 November 2024

Reserve Bank of New Zealand – Te Pūtea Matua
Wellington

ESASAccessReview@rbnz.govt.nz

Dear Madam/Sir,

Re: ESAS Access Review: Proposed Access Criteria

The Financial Services Federation (“FSF”) is grateful to the Reserve Bank of New Zealand (“RBNZ”) for the opportunity to respond on behalf of our members to the consultation on the proposed ESAS access criteria (“the Consultation”).

By way of background, the FSF is the industry body representing the responsible and ethical finance, leasing, and credit-related insurance providers of New Zealand. We have over 90 members and affiliates providing these products to more than 1.7 million New Zealand consumers and businesses. Our affiliate members include internationally recognised legal and consulting partners. A list of our members is attached as Appendix A. Data relating to the extent to which FSF members (excluding Affiliate members) contribute to New Zealand consumers, society, and business is attached as Appendix B.

Our non-bank deposit taking (NBDT) members are particularly interested in this consultation as we have previously advocated for their inclusion into the ESAS system. This submission specifically concerns NBDT access to the ESAS system and identifies any issues those particular members may be concerned about.

Introductory Comments

We would like to begin by stating our support for the RBNZ’s decision to enable more open access to the ESAS system where there is net benefit to New Zealanders. The current access settings have had an effect that is ultimately anticompetitive. The two-step process is both straightforward and aligns with both the underlying policies that the RBNZ must consider when supporting innovation and greater competition for NZ as a whole.

We are also happy to see that the RBNZ has acknowledged the findings of the Commerce Commission’s market study into personal banking services when preparing this review. It is fantastic to see regulators directly trying to address issues with competition that are creating a disadvantage to smaller, nimbler NBDTs and as a result directly undermining competition in NZ. Overall, we would like to commend the RBNZ on taking a more inclusive approach to the access criteria.

Consultation Questions

1. Do you agree that our access criteria allow for opening participation in ESAS (in line with our intent set out in section 2)?

We do agree that the revised access criteria will allow for greater participation in ESAS in line with the intent specified in the consultation document. We would also like to express our support of the inclusion of licensed deposit taking (either under the Non-bank Deposit Takers Act 2013 or the Deposit Takers Act 2023) as immediately satisfying the business activity criteria.

We are also happy to see that this immediately feeds into the satisfaction of the prudential and governance criteria in section 8.1 of the access criteria.

2. Are the access criteria easy to follow, and if applicable, are there any particular areas where additional guidance or explanation is needed?

We submit that the access criteria are easy to follow and will do a good job of ensuring that responsible participants in NZ's financial system can gain access to the ESAS system if they wish to.

We note that RBNZ is also revising the fee components set under the existing fees framework. As multiple different levies are currently being implemented that affect the deposit taking sector (depositor compensation scheme levy, conduct of financial institutions levy etc) we submit that the RBNZ needs to consult with industry and be transparent. This will ensure that the effects of the levy will not disproportionately affect certain participants and have the impact of undermining participation in the ESAS system.

Please do not hesitate to reach out if you wish for us to speak further on any of the points made in this submission.

Yours sincerely,



Katie Rawlinson
Legal and Policy Manager
Financial Services Federation

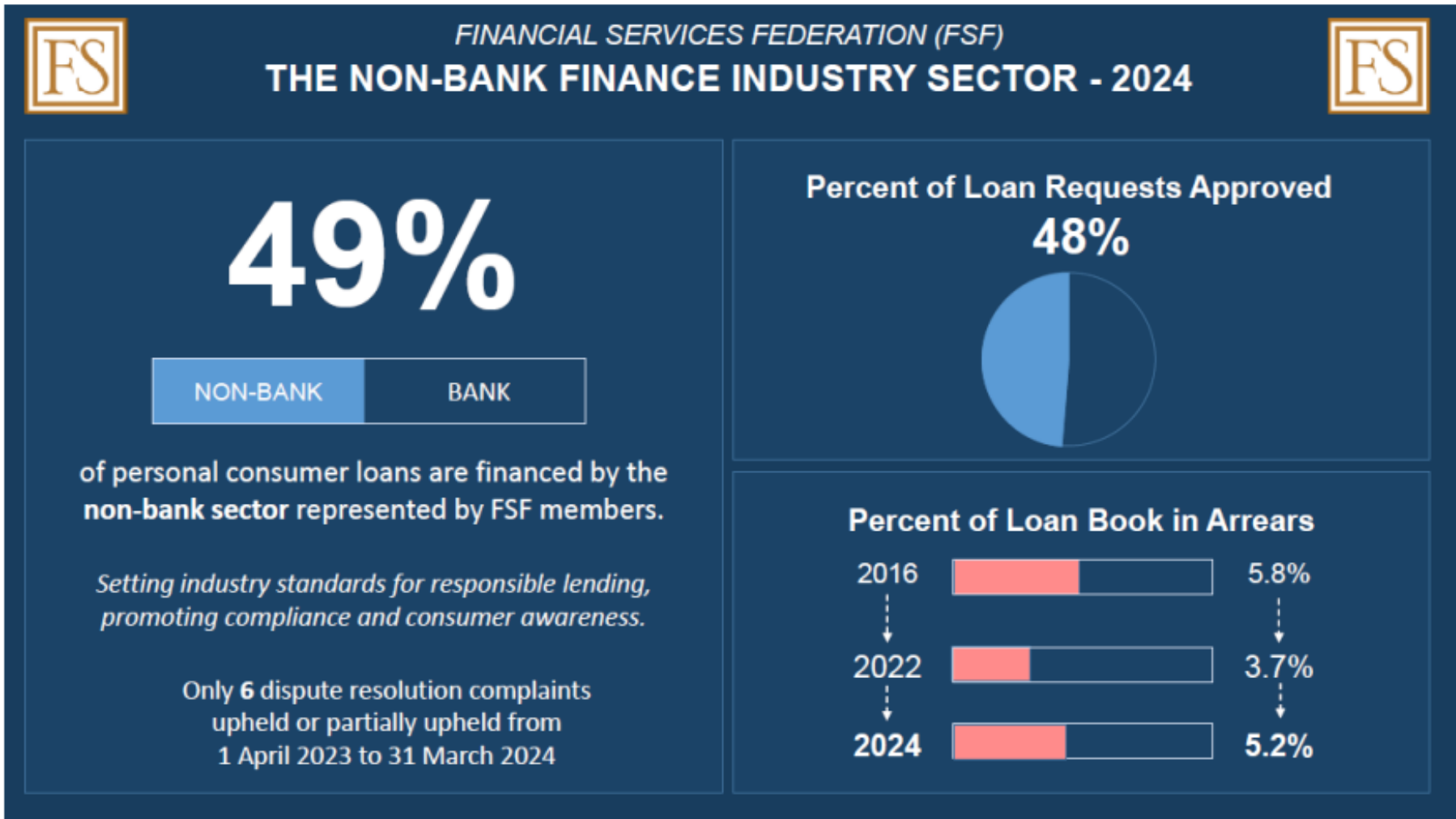
Appendix A



FSF Membership List as at August 2024

Non-Bank Deposit Takers, Specialist Housing/Property Lenders, Credit-related Insurance Providers	Vehicle Lenders Finance Companies/Diversified Lenders	Finance Companies/ Diversified Lenders contd.	Finance Companies/ Diversified Lenders, Insurance Premium Funders	Affiliate Members	Affiliate Members contd., Leasing Providers and Social Impact Lenders
Finance Direct Limited ➤ Lending Crowd General Finance (BB) Gold Band Finance (B+) ➤ Loan Co Mutual Credit Finance (B) <u>Credit Unions/Building Societies</u> First Credit Union (BB) Nelson Building Society (BB+) Police and Families Credit Union (BB+) <u>Specialist Housing/Property Lenders</u> Basecorp Finance Limited First Mortgage Managers Ltd. Liberty Financial Limited Pepper NZ Limited Resimac NZ Limited <u>Credit-related Insurance Providers</u> Protecta Insurance Provident Insurance Corporation Ltd	Auto Finance Direct Limited BMW Financial Services ➤ Mini ➤ Alpha Financial Services Community Financial Services Go Car Finance Ltd Honda Financial Services Kubota New Zealand Ltd Mercedes-Benz Financial Motor Trade Finance Nissan Financial Services NZ Ltd ➤ Mitsubishi Motors Financial Services ➤ Skyline Car Finance Onyx Finance Limited Scania Finance NZ Limited Toyota Finance NZ ➤ Mazda Finance Yamaha Motor Finance <u>Finance Companies/Diversified Lenders</u> AfterPay Avanti Finance ➤ Branded Financial Basalt Group	Blackbird Finance Caterpillar Financial Services NZ Ltd Centracorp Finance 2000 DebtManagers Finance Now ➤ The Warehouse Financial Services ➤ SBS Insurance Future Finance Geneva Finance Harmony Humm Group Instant Finance ➤ Fair City ➤ My Finance John Deere Financial Latitude Financial Lifestyle Money NZ Ltd Limelight Group Mainland Finance Limited Metro Finance Nectar NZ Limited NZ Finance Ltd	Personal Loan Corporation Pioneer Finance Prospa NZ Ltd Speirs Finance Group (L & F) ➤ Speirs Finance ➤ Speirs Corporate & Leasing ➤ Yoogo Fleet Turners Automotive Group ➤ Autosure ➤ East Coast Credit ➤ Oxford Finance UDC Finance Limited Yes Finance Limited Zip Co NZ Finance Limited <u>Insurance Premium Funders</u> Arteva Funding NZ Ltd Elantis Premium Funding NZ Ltd Financial Synergy Limited Hunter Premium Funding IQumulate Premium Funding Rothbury Instalment Services	Alfa Financial Software NZ Limited American Express AML Solutions Limited Buddle Findlay Chapman Tripp Credisense Ltd Deloitte EY FinTech NZ Finzsoft Happy Prime Limited KPMG Loansmart Ltd LexisNexis Match me Money Ltd Motor Trade Association Odessa Technology Inc. One Partner Limited PWC Sense Partners Simpson Western Summer Lawyers	<u>Credit Reporting, Debt Collection Agencies</u> Centrix Credit Corp ➤ Baycorp ➤ Collection House Debtworks (NZ) Limited Equifax Gravity Credit Management Limited IDCARE Ltd Illion Quadrant Group (NZ) Ltd Recoveries Corp NZ Ltd <u>Leasing Providers</u> Custom Fleet Euro Rate Leasing Limited Fleet Partners NZ Ltd ORIX New Zealand SG Fleet <u>Social Impact Lenders</u> Money Sweetspot Ltd. Total 99 members

Appendix B



KEY FACTS: THE NON-BANK FINANCE INDUSTRY SECTOR

FSF Members (as at 31 Mar 2024)

Number of Members	97
Number of Employees	3,353
Applications Processed	1,102,266
Loan Requests Approved	527,382
Percent of Loan Book in Arrears	5.2%
Loan Disputes Upheld	6

Bank Sector (as at 31 Mar 2024)

Value of Mortgage Loans	\$352B
Value of Consumer Loans	\$7.7B
Value of Business Loans	\$125B

Non-Bank Sector Share (as at 31 Mar 2024)

% of Total Mortgage Loans	0.3%
% of Total Consumer Loans	48.5%
% of Total Business Loans	8.7%

Insurance Credit Related (as at 31 Mar 2024)

Number of Employees	250
Number of Policies	300,209
Gross Claims (annual)	\$22.1M

Consumer Loans (as at 31 Mar 2024)

Total Value of Loans	\$8.2B
Number of Customers	1,537,502
Number of Loans	1,735,718
Average Loan Size	\$4,746

Total Value of Loans:

Mortgage	\$979M
Vehicle Loan	\$4,036M
Unsecured	\$2,129M
Other Security	\$361M
Lease Finance	\$733M

Average Value of Loan:

Mortgage	\$134,675
Vehicle Loan	\$13,337
Unsecured	\$1,588
Other Security	\$4,245

Business Loans (as at 31 Mar 2024)

Total Value of Loans	\$11.9B
Number of Customers	131,161
Number of Loans	202,921
Average Loan Size	\$58,894

Total Value of Loans:

Mortgage	\$4,092M
Vehicle Loan	\$2,989M
Unsecured	\$262M
Other Security	\$2,846M
Lease Finance	\$1,763M

Average Value of Loan:

Mortgage	\$766,527
Vehicle Loan	\$37,362
Unsecured	\$48,107
Other Security	\$54,724
Lease Finance	\$29,308

OneBeta Financial
Auckland
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18 November 2024

ESAS Access Review
Reserve Bank of New Zealand
PO Box 2498
Wellington 6140

By email: ESASAccessReview@rbnz.govt.nz

Re: Exchange Settlement Account System ("ESAS") access review

Dear Sir / Madam,

Thank you for the opportunity to provide feedback to the Reserve Bank of New Zealand ("RBNZ") in response to the second consultation ("Consultation") in the ESAS access review ("Review"), released 7 October 2024.

The Consultation's "questions for feedback" OneBeta Financial ("OneBeta") would like to address today are both questions 1 and 2.

Q1: Do you agree that our access criteria allow for opening participation in ESAS (in line with our intent set out in section 2)?

As outlined in the Consultation, the intent of the Real-time Gross Settlement system ("**ESAS Intent**") is to:

- *be efficient, open and flexible;*
- *have a high level of integrity; and*
- *be robust in the face of financial crises.*

OneBeta believes that the ESAS Intent cannot be looked at in isolation without also considering the RBNZ's revised purpose of ESAS ("**ESAS Purpose**"), the RBNZ's strategic themes ("**RBNZ Strategic Themes**") and the purpose of the RBNZ Act 2021 ("**RBNZ Act Purpose**").

ESAS Purpose:

a) reliably provide irrevocable, risk-free settlement in central bank money enabling the efficient use of resources across the economy; and

b) otherwise support the Reserve Bank in carrying out its central bank functions, including by supporting:

- 1. the soundness of the financial system;*

II. the implementation of monetary policy

RBNZ Strategic Themes:

- *Trust*
- *Participation*
- *Data, information & technology*
- *Resilience*
- *Efficiency & competition*
- *People*
- *New Zealand's financial system meets the needs of New Zealanders.*
- *New Zealand's financial system is resilient.*
- *New Zealand's economy is supported by price stability.*

RBNZ Act Purpose:

"To promote the prosperity and wellbeing of New Zealanders and contribute to a sustainable and productive economy".

OneBeta's response to Q1 will address the proposed ESAS access criteria and its alignment with ESAS Intent, ESAS Purpose, RBNZ Strategic Themes and RBNZ Act Purpose.

Eligibility to receive the Official Cash Rate ("OCR") on funds deposited at ESAS

The Consultation has proposed that *"Applicants granted access to ESAS to directly settle payments but who are not prudentially regulated would not automatically be eligible to receive OCR on funds deposited in their account"*.

This statement may be taken to imply that the RBNZ proposes to only allow non-prudentially regulated entities to access OCR-based accounts in very limited circumstances (or even that such a high bar to access may be put in place, that non-prudentially regulated entities may be deterred from even applying). We consider it is vital that clear statements are included to the effect that the RBNZ will actively consider applications by non-prudentially regulated entities for OCR-based accounts, and will look to provide such access unless there are strong reasons not to do so (such as the relevant service not requiring such an account).

A healthy, dynamic and competitive environment encourages innovation. When banks compete, they are driven to enhance their services, adopt cutting-edge technologies, and create better products for their customers. Ultimately, this benefits everyone - consumers, businesses, and the broader economy.

The Commerce Commission's recent study into factors affecting competition for personal banking services in New Zealand ("Commerce Commission Study")¹ recommended that the RBNZ place a greater emphasis on competition in specific upcoming decisions, including for the review on access to ESAS. It notes in paragraph 10.34 that *"Broader access to ESAS accounts will benefit both innovation and competition through its use as an input into payment services as well as an account that provides*

¹ https://comcom.govt.nz/__data/assets/pdf_file/0019/362035/Final-report-Personal-banking-services-market-study-20-August-2024-Amended-27-August-2024.pdf

access to OCR returns". The RBNZ states in the Consultation that it agrees with this recommendation. However, OneBeta is concerned that while the RBNZ asserts that it is in agreeance, the potentially restricted eligibility of new applicants to access ESAS accounts remunerated at the OCR outlined in the Consultation is in conflict with not only this Commerce Commission Study finding but also the ESAS Intent, the RBNZ Strategic Themes and the RBNZ Act Purpose, as limiting access to incumbent regulated entities would continue to display inherent bias in the ESAS eligibility criteria against start-up / fintech firms in favour of larger, more traditional banks and Non-Bank Deposit Takers ("NBDTs"). If this potentially restricted eligibility for applicants to access ESAS accounts remunerated at the OCR remains, it will not lead to better pricing, higher quality products, greater variety or more innovation in the financial sector.

Allowing more financial institutions to operate ESAS accounts remunerated at the OCR will provide a socially valuable competitive force by allowing a greater number of depositors more liquid deposits at a higher competitive rate tied to the OCR. This would provide an opportunity for smaller financial intermediaries to compete with the larger banks on larger customer deposits, leveling the field for all industry participants - small and large, new and established.

Maturity Transformation

The Consultation states that "*Banks and NBDTs are prudentially regulated and perform functions that are of net benefit to New Zealand (maturity transformation)*". OneBeta believes that although this is likely true, mention must also be made of the risk to financial stability as well as the costly and inefficient regulatory oversight, risk management and compliance frameworks that are required as a result of the maturity transformation process.

Maturity transformation is a key function of the banking system allowing consumers to smooth consumption and businesses to access revolving credit lines in response to unpredictable problems and opportunities. It satisfies two seemingly incompatible needs simultaneously. On the one hand, society has a need for funding of long-term projects and at the same time, individuals in society have a need to draw their wealth at short notice. A bank or NBDT can accommodate both these needs.

That said, incumbent private-sector financial intermediaries engage in excessive amounts of maturity transformation – that is, to finance long-term risky assets using large volumes of runnable short-term liabilities. Maturity transformation carries with it the possibility of bank runs, where runs and the resulting failure or resolution / recovery of the entities can cause real economic damage by forcing banks to liquidate assets at a loss, disrupting the monetary system and reducing production².

To illustrate the financial stability risks associated with maturity transformation, I'll use a simplified example of a New Zealand registered bank engaging in maturity transformation, "ABC Bank". This example could also be applied to a NBDT should NBDTs also obtain access to ESAS as an outcome of the Review.

ABC Bank raises money by issuing call deposits to customers. These deposits are a claim on ABC Bank and the customer has the ability to withdraw all of their deposited balances at 100 cents on the dollar at any time. ABC Bank also has on-balance sheet capital sourced from the founders and external investors. Therefore, the total funding in ABC Bank is sourced from both depositors and equity investors. On the asset side of the balance sheet, ABC Bank keeps some

² Diamond D, Dybvig P. 1983. Bank runs, deposit insurance, and liquidity. J. Polit. Econ. 91:401–19

funds in its ESAS account. These funds held in its ESAS account allow the bank to promptly honour their depositors' withdrawal requests. With its remaining funds it invests in financial securities and by extending long term loans to households and businesses. In ABC Bank, only a fraction of their total funding is held in the ESAS account. Consequently, ABC Bank has a fragility built into it, which is that if all depositors withdraw their funds simultaneously, the bank may struggle to source enough reserves to honour all of their depositors' withdrawal requests, creating a run on the bank.

In a banking system with high levels of interconnectivity, financial transparency, flighty deposits, and rapid spread of information, the risk of a run on a bank's deposit base (and the risk of contagion) is more likely than ever, save for mandatory deposit insurance and strict prudential requirements set by the RBNZ and offshore regulators. These requirements have been designed by regulators to be purposefully conservative to ensure that banks engaging in maturity transformation have enough liquidity and capital to withstand financial shocks and continue operating smoothly. Paying deposit insurance premia, holding large buffers of high-quality liquid assets, issuing expensive long-term debt, loss-absorbing capital and capital-like (i.e. bail-in-able) funding instruments all comes at a cost. It is of little surprise therefore that the Commerce Commission Study noted in paragraph 2.46 of its findings that "...major banks pull back and place more focus on maintaining profit margins than competing strongly to gain market share" in order to recover some of these costs (not to mention costs related to employing thousands of risk and compliance staff and implementing systems required to price, manage and oversee complex credit origination businesses and comply with above-mentioned regulatory frameworks).

Banks and NBDTs engaging in maturity transformation creates risk to financial stability. The regulatory oversight and resource required to manage the resulting risk mitigation and regulatory compliance frameworks is extraordinarily expensive and inefficient. This cost ultimately is borne by the public through anti-competitive pricing behaviour (higher costs of borrowing, lower rates on savings and high fees for financial services provided by these incumbent institutions), sub-optimal financial product and service offerings as well as taxpayer funds being used to bail-out reckless insured banking entities engaging in excessive maturity transformation.

Currently only a limited number of industry parties have direct access to ESAS. By increasing the number of ESAS participants, it would create a more diverse financial ecosystem with fewer single points of failure - namely reducing the concentration of operational risk associated with high-value payment failures at incumbent banks.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Given the proposed access criteria that strongly favour applicants being prudentially regulated to be eligible to receive OCR on funds deposited in their account, as well as the clear risks and costs to the maturity transformation process, OneBeta believes the access criteria is contrary to the ESAS Intent of being "open", having "a high level of integrity" and being "robust in the face of financial crises", the RBNZ Strategic Themes, particularly strengthening "participation", "resilience" and "efficiency & competition", ESAS Purpose, specifically, "supporting the soundness of the financial system" as well as the RBNZ Act Purpose.

Recommendation 1: Amend eligibility criteria that only prudentially regulated entities would be automatically eligible to access ESAS accounts remunerated at the OCR. Instead, access should be clearly assessed for each applicant on their business model, risk profiles and ability to enhance competition in their chosen market. The starting point should be to provide access unless the review highlights strong reasons not to (such as it not being required for the relevant service).

Crowding Out

The Consultation is proposing access policy settings that consider that "Having too much direct participation in ESAS is undesirable as we (RBNZ) do not wish to crowd out the role of commercial banks". This setting is essentially saying that by having too broad an access base for ESAS may, in theory, encourage more direct holdings with the RBNZ, diverting funding away from commercial bank deposits, limiting banks' ability to lend to borrowers on longer timeframes thereby restricting lending to the real economy via home loans or business lending.

The interest rate paid by any ESAS member to its at-call deposits is capped by the rate of interest it earns on its ESAS accounts. Banks and NBDTs only make loans at rates that are above the interest rate on ESAS accounts, so they can always make those loans profitably even with the competition from new ESAS account holders getting paid at the OCR. Therefore, the only macroeconomic [REDACTED] the market rate for wholesale call deposits, that in turn would likely increase the demand for other types of customer deposits [REDACTED] thereby reducing the net interest income of incumbent banks and NBDTs, reducing earnings going to shareholders and to management through bonuses. It would not affect the banks or NBDTs' lending activity because the interest rate would never rise sufficiently high to displace the loan.

OneBeta asserts that the RBNZ concerns about "crowding out" and diverting lending away from productive sectors of the economy appear to be in conflict with its consideration, as part of the ongoing consultation on the potential introduction of New Zealand Central Bank Digital Currency ("CBDC"), of a retail, interest bearing CBDC as a direct liability on the RBNZ balance sheet as an option for possible implementation in New Zealand. Such a CBDC would have an even greater impact to deposit disintermediation than any potential impact of "too much direct participation in ESAS" given cash is diverted to the digital currency and out of the NZD settlement cash system all together.

As outlined in an October 2024 IMF working paper on CBDCs³, adverse implications for financial stability can arise from the introduction of a CBDC in steady state mainly in situations where the central bank balance sheet expands, triggering actions from commercial banks that lead to more costly or less stable funding of the banking system, while in crisis times there is a risk of digital runs into the CBDC. The working paper also showed that banks' competitive reactions to the issuance of CBDC can lead to an increase in rates charged on loans to households and firms, ultimately reducing the volume of credit to households and firms.

OneBeta believes that the RBNZ will find it impossible to justify restricting the number and type of ESAS users based on the "crowding out" argument should the introduction of a CBDC continue to be pursued by the RBNZ.

In addition, the assertion that the RBNZ "do not wish to crowd out the role of commercial banks" is almost tone-deaf given the recent unfavourable findings of high market concentration and low levels of competition from the recent Commerce Commission Report.

OneBeta contends that access to ESAS should be considered within the RBNZ's overarching purposes and themes, and any preference for banks access should be justified by reference to those purposes and themes.

OneBeta believes that the Consultation's proposal of access policy settings that consider that "*Having too much direct participation in ESAS is undesirable as we (RBNZ) do not wish to crowd out the role of commercial banks*" is also at odds with the ESAS Intent of being "open", the RBNZ Strategic Themes, particularly strengthening "*participation*" and "*efficiency & competition*" and the RBNZ Act Purpose.

Recommendation 2: Remove reference to "crowding out" as an ESAS access policy setting. Instead, access to ESAS should be considered within the RBNZ's overarching purposes and themes, and any preference for banks access should be justified by reference to those purposes and themes.

Competition and Monetary Policy Transmission

The Commerce Commission Study highlights lack of competition and innovation, noting that smaller banks have not been able to exert significant competitive pressure on the big four. [REDACTED]

[REDACTED] In the Commerce Commission Study, it outlined in paragraph 2.30 that "*barriers to sustainable new entry and expansion in personal banking services are very high*", also saying in paragraph 2.32 that "*smaller providers have not been able to overcome the challenges posed by the scale, scope and incumbency advantages enjoyed by the larger providers*". [REDACTED]

³ <https://www.imf.org/en/Publications/WP/Issues/2024/10/11/Central-Bank-Digital-Currencies-and-Financial-Stability-Balance-Sheet-Analysis-and-Policy-556246>

A closely related positive benefit of broadening access to ESAS accounts paying the OCR and the consequent increased competition for customer deposits, is that it would consequently enhance the effectiveness and transmission of monetary policy by:

- Pushing deposit rates closer to policy interest rates (OCR), thus encouraging savings across a larger sector of the economy and counteracting inflationary pressures during a monetary policy tightening cycle; and
- Raising the effective lower bound (ELB)⁴ of nominal interest rates (i.e., deposit savings rates pushed closer to OCR) and providing more flexibility for the RBNZ to respond to future recessions when counteracting a decline in inflation during an easing cycle.⁵

OneBeta believes that this access criteria requiring the applicant be prudentially regulated to be eligible to receive OCR on funds deposited in their account inhibits the monetary policy transmission mechanism and thus is in conflict with the ESAS Intent of being "efficient" and "robust in the face of financial crises", the ESAS Purpose of supporting "the implementation of monetary policy", the RBNZ Strategic Themes, particularly "resilience" and to ensure that "New Zealand's economy is supported by price stability, as well as the RBNZ Act Purpose.

Q2: Are the access criteria easy to follow, and if applicable, are there any particular areas where additional guidance or explanation is needed?

Under the Consultation section entitled "Supporting implementation of monetary policy", potential applicants seeking ESAS access on the basis that they are active in New Zealand dollar wholesale financial markets including the domestic unsecured money markets are required to be prudentially regulated in New Zealand or an equivalent overseas prudential regime (captured in access criteria 6.1.6).

[Redacted]

[Redacted]

⁴ <https://www.ecb.europa.eu/press/research-publications/resbull/2016/html/rb161121.en.html>

⁵ <https://www.federalreserve.gov/econres/feds/gauging-the-ability-of-the-fomc-to-respond-to-future-recessions.htm>

[REDACTED]

The intent of the RBNZ of only allowing regulated entities in this space is not clearly articulated and requires further explanation and rationale.

Recommendation 3: Remove the need to be prudentially regulated in NZ for applicants *“active in one or more New Zealand dollar wholesale financial markets that are important for implementing monetary policy, which include but are not limited to domestic money markets such as the secured and unsecured cash market and the NZ dollar/US dollar FX swap market”* (this is captured in access criteria 6.1.6). It should be clear that such access may be granted where risk is managed through other means (for instance, as discussed above, based on business model, risk profiles and ability to enhance competition in their chosen market.)

Kind regards,

OneBeta Financial

OneBeta Financial

Appendix

Please include relevant information on your business model and intended use of ESAS. This will be helpful to us in considering how well our access criteria as drafted meets our policy intention.

[The below is commercially sensitive and confidential – it is not to be published by the RBNZ.]

[Remainder of submission redacted]

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Regulatory Affairs

18 November 2024

Reserve Bank of New Zealand
2 The Terrace
PO Box 2498
Wellington 6140

Email: ESASAccessReview@rbnz.govt.nz

Dear Sir or Madam

Bank of New Zealand's response to Reserve Bank of New Zealand ("RBNZ") consultation paper on ESAS Access Review: Proposed Access Criteria

1 Introduction

- 1.1 Bank of New Zealand ("BNZ") welcomes the opportunity to provide a response to the Reserve Bank of New Zealand ("RBNZ") on the consultation paper ESAS Access Review: Proposed Access Criteria ("Consultation Paper").
- 1.2 BNZ agrees that broader access to ESAS could enable and encourage innovation in the financial system and is supportive of the access criteria proposed in the Consultation Paper. BNZ submits that the minimum access criteria should not be less than those currently being proposed in this Consultation Paper.
- 1.3 BNZ would like to restate its view set out in the first consultation on ESAS Access Review, that opening participation in ESAS alone will not alone drive greater innovation and inclusion in this area and a number of changes are needed to enable that, including broadening access for being an "Applicant" in the Payments NZ clearing system.

2 Responses to the Consultation Paper questions

- 2.1 Q1: Do you agree that our access criteria allow for opening participation in ESAS (in line with our intent set out in section 2)?
 - 2.1.1 ESAS is an important payments system under the Financial Markets Infrastructures Act 2021 ("FMI Act") and the proposed access policy has been designed to comply with FMI Standard 18 requiring that "an operator must have objective, risk-based and publicly disclosed criteria for participation in the FMI, which permit fair and open access to the FMI"¹.
 - 2.1.2 The purpose of ESAS is to:
 - a) reliably provide irrevocable, risk-free settlement in central bank money enabling the efficient use of resources across the economy; and
 - b) otherwise support the Reserve Bank in carrying out its central bank functions, including by supporting:
 - i. the soundness of the financial system; and
 - ii. the implementation of monetary policy.
 - 2.1.3 The ESAS access policy review, initiated in 2022, is an acknowledgment of the changing payments landscape. We understand it was motivated by several potential benefits, including improved

¹ FMI Standard 18

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transparency and flexibility to accommodate institutions that fall outside the traditional banking sector, and to facilitate greater innovation and competition in electronic payment services, supporting the RBNZ's mandate to promote efficient payment and settlement systems.

- 2.1.4 The access criteria proposed in this Consultation Paper ensure that an applicant seeking access to ESAS can demonstrate that they intend to use ESAS in a way that aligns with one of ESAS's purposes. For an applicant to be successful they must demonstrate that they have an appropriate business activity that is a net benefit to New Zealand aligned with the purposes for ESAS, and they must demonstrate that they present an acceptable level of risk to the ESAS operator and ESAS.
- 2.1.5 BNZ agrees that the RBNZ access criteria allows for opening participation in ESAS. We agree with the RBNZ approach that access to ESAS should be allowed for applicants who:
- a) can demonstrate that they intend to use ESAS in a way that aligns with one of ESAS's purposes
 - b) will use the account for a business activity that is of net benefit to New Zealand; and
 - c) have an acceptable risk profile.
- 2.1.6 Broadening access to ESAS accounts will benefit both innovation and competition and will contribute to a reliable and efficient payments landscape that meets the evolving needs of New Zealanders, in line with the Council of Financial Regulators' vision.
- 2.2 **Q2: Are the Access Criteria easy to follow, and if applicable, are there any particular areas where additional guidance or explanation is needed?**
- 2.2.1 The criteria against which RBNZ will access applicants are:
- a) Business activity criteria (net benefit to New Zealand);
 - b) AML/CFT compliance criteria;
 - c) Prudential and governance criteria;
 - d) Operational criteria; and
 - e) ESAS terms and conditions enforceability criteria for overseas applicants.
- 2.2.2 BNZ believes that the access criteria are easy to follow and set a high bar for those wishing to have an ESAS account. Nevertheless, BNZ is of the view that additional guidance is needed to determine the net benefit approach and ongoing assessment of compliance for entities not regulated by the RBNZ.
- 2.2.3 In the Consultation Paper, the RBNZ proposes a "net benefit to New Zealand" approach in which the RBNZ assesses whether there would be net benefits to New Zealand by granting the applicant an ESAS account. ESAS access is beneficial for New Zealand by looking at business activities that may be carried out utilising ESAS. If the business activity falls under paragraphs 6.1.1 to 6.1.6 the applicant is automatically deemed to satisfy the requirement that there would be a net benefit for New Zealand. If the business activity does not fall under those paragraphs, a determination process needs to occur as described under paragraph 11.2. Additional guidance would be useful for understanding how an assessment of net benefit to New Zealand will be performed under paragraph 11.2 for those applicants that do not have business activity that falls under any of paragraphs 6.1.1 to 6.1.6.
- 2.2.4 For the AML/CFT compliance criteria it is unclear how the reporting and monitoring obligations under AML/CFT Act relating to transfer of international funds will apply to overseas deposit takers and FMIs. BNZ believes that more clarity is required to confirm whether overseas entities will be required to be Reporting Entities under the New Zealand AML/CFT Act prior to participating directly in the NZ payments systems and holding an ESAS and, if not, the risks associated with that.

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2.2.5 For the prudential criteria, BNZ believes additional guidance would be useful to demonstrate how the RBNZ will ensure continued compliance by an applicant with subclauses 8.4 to 8.5 after the initial application is successful if the entity is not a New Zealand Licensed Deposit Taker or Designated FMI (subclause 8.1) or an overseas deposit taker or overseas FMI (subclause 8.2).

2.3 Additional feedback

2.3.1 BNZ believes that ESAS plays a very important role in New Zealand's payments landscape settling all inter-bank payments, but we note that other aspects of the payments system also play a vital role in encouraging innovation and inclusion. Allowing access to ESAS accounts alone will not drive a significant improvement in innovation or inclusion.

3 Conclusion

3.1 BNZ appreciates the opportunity to make a submission on this Consultation Paper.

Should the RBNZ have any questions in relation to this submission, please contact Paul Hay on the details below:

Yours sincerely



18 November 2024

Reserve Bank of New Zealand
ESASAccessReview@rbnz.govt.nz

ESAS Access Review: Proposed Access Review Criteria

Introduction

Banzpay Technology Limited (Banzpay) welcomes the opportunity to respond to the consultation paper "ESAS Access Review: Proposed Access Criteria" dated 7 October 2024 (the consultation paper).

We have provided both a confidential version (this document) and a public version of our submission. Apart from the redactions both submissions are identical.

Banzpay is a mature fintech providing a range of banking and payment technology solutions to financial institutions across New Zealand and the Pacific Islands. We are a wholly owned subsidiary of Booster Financial Services Limited (Booster). Specifically, we provide card issuing and ATM acquiring services and, in our recent history, also provided clearing and settlement like services for New Zealand's credit unions via an agency banking relationship. . [REDACTED]

In July 2023 Banzpay responded to the Reserve Bank's (RBNZ) consultation on a proposed new risk assessment framework to evaluate applications for an ESAS account (the Risk Assessment Framework - RAF). The core of our 2023 submission was that:

- A balanced approach to ESAS access has the potential to maximize benefits for all New Zealanders by preserving the system's integrity while supporting the growth of alternative payment providers, as well as Registered Banks or Non-Bank Deposit Takers (NBDT) that opt to outsource services.
- There has been a reduction in competition for agency banking services in a broad sense.
- The proposed RAF was not sufficiently nuanced and risked excluding non-bank participants regardless of their scale and capability.

We commend the RBNZ on this latest consultation paper which has clearly taken account of feedback from industry, and which substantially clarifies the access criteria that would apply. Specifically, the consultation paper makes it clear the RBNZ is open to non-banks performing clearing and settlement services and provides greater clarity to applicants about the application process so they can assess the likelihood of being granted ESAS access, ahead of what will be a significant investment.

In general terms, Banzpay endorses the draft access criteria (the draft criteria) contained in appendix 1 of the consultation paper. Immediately below we answer the two questions

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posed by the RBNZ. Our answers identify areas where the draft criteria could be refined or improved. Where necessary those answers refer to the relevant paragraphs of appendix 1.

Answers to consultation questions

Question 1 - Do you agree that our access criteria allow for opening participation in ESAS (in line with our intent set out in section 2)?

Overall, the draft criteria would seem to allow new participants to gain ESAS access in a manner that supports the use of diverse business models to meet end-user needs and in a way which is consistent with the policy intent set out in section 2 of the consultation paper.

There are several potential areas for improvement, which we outline below.

Policy intent only partially reflected

The consultation paper makes clear the draft criteria require that granting an ESAS account would support one of the stated purposes of ESAS. We acknowledge the RBNZ has amended the purpose statement to recognise more clearly the important role ESAS has in supporting efficiency across the economy. However, it is imperative to directly recognise the contribution ESAS can make to greater levels of innovation in New Zealand.

Among other things, the policy intent in section 2 speaks to facilitating greater innovation and competition in electronic payment services. However, the draft criteria in appendix 1, which contain the proposed requirements for assessing which new entities are eligible for ESAS accounts and how the RBNZ will consider applications is silent on the role of innovation. This is a missed opportunity given that the development of innovative payment models and technologies across the financial services ecosystem is one of the substantive reasons why wider access to ESAS is desirable.

This is also counterintuitive to supporting innovation and competition in the context of the broader work underway within the Council of Financial Regulators and across Payments NZ Limited (Payments NZ) in its role as an industry body.

Further we would point out there is some inconsistency in the context for innovation throughout the consultation paper. The net benefits approach discussed in appendix 2 of the consultation paper touches on innovation at several points when outlining the principles that underpin that approach. However, the application of the net benefits approach set out in appendix 1 provides no guidance as to how innovation will be assessed by the RBNZ.

Hardcoding ESAS membership with clearing system membership

The consultation paper notes an ESAS applicant must be a participant in a clearing system that settles in ESAS or is in the process of applying to become a participant. We assume these clearing systems are those governed by Payments NZ.

There are two points we wish to raise.

First, there is a need to ensure the requirements set out in the access rules and procedures for participation in those clearing systems are consistent in all respects with the ESAS access criteria and that both the RBNZ and Payments NZ streamline the application processes across ESAS and clearing system membership. A new applicant seeking both ESAS and clearing systems access will need to be prepared for a substantial investment of time and money in the application process. The applicant assumes a significant level of risk if the application is not approved. Streamlining these processes can help reduce this risk, making the path to access more efficient and less burdensome. For example, at this juncture it is not clear whether granting ESAS access acts as a passport into the payments system and its clearing systems in particular. It may be that the RBNZ has already commenced work to align its requirements with those of Payments NZ, and if so, that is a development we would

endorse. If such work is underway, it would be helpful to understand its status and the timeframes for making the results of that work available for industry input.

Second, the financial services industry is going through a period of considerable change with existing business models evolving at an unprecedented pace. Accordingly, we suggest the RBNZ and Payments NZ considers different business models that, with the right controls, can allow organisations to partner to deliver the same outcome as incumbents enjoy i.e. clearing and settlement.

By allowing two entities in a combined state to meet the prudential and operational requirements both Payments NZ and the RBNZ can be satisfied they have oversight and control to discharge their respective remits. [REDACTED]

The importance of OCR returns

The policy intent set out in section 2 of the consultation paper touches on the importance of OCR returns and the role those returns play in both innovation and competition. We fully support the RBNZ recognising the significance of those returns.

However, the way the draft criteria are framed in the body of the consultation paper and in appendix 1 leaves some considerable uncertainty as how applicants who are not either a Registered Bank or a NBDT would be granted access to OCR returns.

We expand on this point in our answer to question 2. [REDACTED]

Business activity criteria

The policy intent in section 2 underscores the importance of the access policy and criteria in promoting system integrity and robustness in the face of a financial crisis. We acknowledge the significance of these considerations from the RBNZ's standpoint.

We note the documentation of business activity criteria set out in paragraph 6 of appendix 1 places significant weight on whether the applicant is a Licensed Deposit Taker, operating a Designated FMI under the FMI Act or a clearing house of a licensed market. We assume the status of such applicants gives the RBNZ additional confidence those entities do not detract from considerations of integrity and robustness.

That said, it is unclear why entities regulated by The Financial Markets Authority (FMA) under licences issued by the same are not included under the business activity criteria. We would ask the RBNZ to apply some weight to the licences issued to Managed Investment Scheme managers. The FMA licencing regime is extensive and is concerned with providing a legal framework focused on the financial stability and conduct of the institutions it regulates.

Question 2 - Are the access criteria easy to follow, and if applicable, are there any particular areas where additional guidance or explanation is needed?

In general, the consultation paper clearly sets out the draft criteria. However, there are three areas where additional guidance and clarification would be highly beneficial.

Clarifying access to OCR on overnight funds

The consultation paper notes applicants granted access to ESAS to directly settle payments, but who are not prudentially regulated, would not automatically be eligible to receive OCR on funds deposited in their account (paragraph 3.2 of the consultation paper refers). The phrase "will not automatically be eligible" suggests a process by which an applicant could become eligible.

For new market entrants the ability to earn a return on overnight balances held on behalf of individuals and business' could be the difference between a viable offering that leverages its resources and one that fails to do so.

Should OCR eligibility only be available to prudentially regulated entities it will continue to place new entrants at a significant competitive disadvantage because they must rely on 'competitors' to provide a return.

Receiving the OCR has the potential to be a critical component for use cases developed by applicants. The draft criteria in appendix 1 should set out the process to become eligible for OCR returns and any conditions that might be applied.

Net benefit assessment

Paragraph 11.2 of the draft criteria notes the RBNZ 'may' consider whether an applicant's business activity is net beneficial and then goes on to list the circumstances where that activity would qualify as net beneficial. These provisions apply to those applicants that do not fall under any of paragraphs 6.1.1 to 6.1.6.

We support the notion of using a net benefit approach to determine whether granting access to ESAS is warranted. However, the consultation paper does not provide the required level of certainty about how the RBNZ would undertake any assessment of net benefit. Further guidance and transparency are required on this point. Without this additional guidance and transparency there is a significant risk the compliance costs to an applicant of establishing a net benefit could outweigh the benefits of applying. Removing this uncertainty should be a priority in finalising the draft criteria.

Decision rights – appeals and consultation

We agree the RBNZ should have full and final decision rights to approve or decline an application. This is set out in paragraph 11.4 of the draft criteria. However, a significant investment is required by applicants to participate in the application process. With that in mind, it would be reasonable to allow an appeals process as part of the determination. That process could provide for at least one appeal should an application be declined and would present an opportunity for any clarification or corrective action to be undertaken.

Paragraph 11.8 of the draft criteria empowers the RBNZ to change the criteria at any time. Should any changes be contemplated we would suggest the RBNZ be required to consult on the same. As evidenced by this consultation process there is considerable value in public consultation because it assists with industry buy in and mitigates the chance of unintended consequences arising. We agree the RBNZ should have the final decision on such changes; however, these changes should only be finalised after a thorough public consultation process.

Conclusion

Broadening access to ESAS is a critical step towards ensuring the financial sector serving New Zealand's businesses and consumers continues to modernise and to evolve in a way which supports and promotes competition and innovation with a high level of integrity and resilience.

We agree with the RBNZ's determination that ESAS is a critical component of New Zealand's financial system and access should only be granted to those that meet the RBNZ's risk appetite. We also agree appropriate controls should be in place, and these should be in line with the risks participants pose.

While organisations who are reliant on agency banking services have benefited from system improvements, such as the increased availability of virtual account solutions, such

improvements are incremental and do not deliver the full suite of benefits that come from ESAS access.

We welcome the opportunity to continue to support the development of clear and appropriate criteria for ESAS access and to work with the RBNZ to develop frameworks that support reliable, risk appropriate and secure accreditation in the operation of ESAS and New Zealand's clearing systems in general.

We would be happy to answer any questions the RBNZ might have on this submission.

Yours sincerely,



Sean Morrison
Executive Director



Tony Rae
General Manager

[Redacted signature block]

[Remainder of submission redacted]

From: [Redacted]
Sent: Monday, 18 November 2024 11:41 pm
To: ESAS Access Review <ESASAccessReview@rbnz.govt.nz>
Subject: ESAS Access review consultation 18/11/2024

Hello,

Please find my feedback below.

1) Do you agree that our access criteria allow for opening participation in ESAS (in line with our intent set out in section 2)?

Yes they do based on transparency around the qualification, risk based assessments, integrity and robust measures so as to not compromise the stability of the country's economy and the efficiency of the payments and settlement systems.

However, open or opening participation should not necessarily mean non-banks should have access directly to ESAS. Categories of banks, insurance companies, lenders, NBDT's etc should be counted also as a method of measuring the suitability and status under financial, regulatory, supervisory and legal frameworks.

Limited efficiencies are gained for ESAS through the use of HVCS or SBI, these detract from the inclusive principles by being run by the big banks and come at an additional cost and complexity to stifling industry innovation under PNZ. i.e. SBI was developed over 12 years ago and has not made any structural changes during that time and also continues to use an out dated BACHO file format.

2) Are the access criteria easy to follow, and if applicable, are there any particular areas where additional guidance or explanation is needed?

Nearly, yes I would suggest some areas to review.

There should be measures to stop 3rd parties having access to ESAS through short-medium term financial acquisitions.

Providing a "net benefit test" should firstly indicate they have similar operations occurring in an equivalent financial market for a period of 5-10 years. Otherwise this approach is rather weak and arbitrary in terms of how the test will be actually measured.

Financial measures of risk and operations should be measured and continually measured through ESAS, FMI, regulation and supervision.

ESAS has and should continue to provide the settlement rails and frameworks for an efficient and dynamic financial system and it is PaymentsNZ and the banks themselves that have stifled the supply of Agency banking services and Open Banking development within the financial system.

Comments around having flexibility of the RAF and opening up to areas where ESAS members do not have supporting regulatory status is misguided. If they are not regulated they should not have access to ESAS, therefore they should qualify as an agency banking or open banking participant - thus accepted and supported by a currently qualified ESAS participant bank/entity.

RAF framework associated impact ratings with Major and Extreme ratings as the Reserve Bank facing legal implications - should this not be firstly the Organisation being measured and then subsequently only in the Extreme rating the Reserve Bank having to intervene? - The purpose being on we have tested their ability to be a sound financial services organisation and in doing so they are (and continue to be tested regularly and proven to be) capable of operation under the ESAS Account Holder, CPMI-IOSCO principles, Regulation, Supervision, Legal frameworks and FMI principles (et al)

Thank you

Kind Regards,

[Redacted]



19 November 2024

Reserve Bank of New Zealand
2 The Terrace
PO Box 2498
Wellington 6140
New Zealand
By email: ESASAccessReview@rbnz.govt.nz

Dear ESAS Access Review Team,

Wise Submission to Reserve Bank of New Zealand, ESAS Access Review

We thank the Reserve Bank for the opportunity to make a submission into the ESAS Access Review. Access to ESAS is the natural logical next step for Wise in New Zealand and we view this as an important and timely review which can assist those in New Zealand to access faster, cheaper and more convenient international payments.

About Wise

Wise is a global technology company, building the best way to move and manage money around the world. With the Wise account, people and businesses can hold over 50 currencies, move money between countries and spend money abroad.

Large companies and banks use Wise technology too; an entirely new cross-border payments network that will one day power money without borders for everyone, everywhere. However you use the platform, Wise is on a mission to make your life easier and save you money.

Co-founded by Kristo Käärman and Taavet Hinrikus, Wise launched in 2011 under the name TransferWise. It is one of the world's fastest growing, profitable technology companies and is listed on the London Stock Exchange under the ticker, WISE.

16 million people and businesses use Wise, which processes around £10 billion in cross-border transactions every month, and in 2023 alone, we saved customers £1.5 billion in fees. We now welcome 100,000 new personal and business customers to the platform each week.

We note the focus areas for the inquiry outlined in the terms of reference and note that our submission will concentrate on the lack of price illustrations in international payments and how this relates to the absence of customer switching.

Reform to increase competition in New Zealand's banking and payment systems can increase productivity and reduce costs for businesses and consumers in Aotearoa.

Wise's progress towards direct access

Access to payment schemes around the world is an ongoing project for Wise and is driven by a desire for faster speeds, less risk and lower costs for customers. Wise has adopted an approach to seek direct access to payment systems in markets where we operate. Wise has the view that access to payment systems globally should not be restricted to banks but rather should be opened up to payment service providers provided that they meet relevant standards.

Wise has operationalised direct access to six payment schemes around the world including in Australia, the United Kingdom, the EU, Hungary, Singapore and recently in the Philippines.

Wise's traditional business model involves seeking accounts in different markets to establish a closed loop payments system. The accounts hold liquidity and facilitate the paying in and paying out of funds for customers. This is a model which works well when we can reliably establish a banking relationship in a relevant market.

However, this is a model which poses additional risk to our business, creates higher costs and additional friction for customers. Wise therefore seeks direct access to payment systems around the world as a means to increase the speed, reduce the cost and derisk our business as well as introduce more competition into the market for international payments which will yield lower prices for consumers.

As a central component of Wise's direct access mission is the ability to originate and settle payments with the central bank. Access to this ability is an essential component of the drive towards direct access.

In 2018, Wise became the first payments company to join the UK's Faster Payments Scheme, which allowed us to reduce our costs by in excess of 75% and pass on those savings onto our customers. Similarly the cost savings in Australia and Singapore (which filters directly through to price reductions for consumers) have been significant with work ongoing to quantify the value of these savings.

Global policy developments

The global policy landscape has begun to shift towards allowing Payment Service Providers (PSPs) access to central bank clearing and settlement regimes as they ultimately benefit consumers through innovation and competition.

When highly regulated payment companies can move money directly, they can offer services which are more attuned to customer needs, cheaper and faster.

Access to payment infrastructure around the world is trending towards allowing more liberalised access to non-bank PSPs due to the obvious down-stream benefits for consumers including greater innovation and lower prices. The nature of this access is dependent on the licensing regimes which exist in various countries but are frequently on a basis that is less than having a full banking licence.

"Crowding out"

The RBNZ discussion paper states in the principles enumerated on page 30 of the document specifically, "Public sector crowding out of the private sector is a recognised economic issue (it is possible to have too broad an access base for ESAS)."¹

The economic phenomenon of "crowding out" occurs when the government provides a service or engages in a market such that the state subsidised activities 'crowd out' the private sector and reduce competition and private sector growth. As far as can be seen, with the possible exception of Kiwibank, the New Zealand government is not providing payment services in New Zealand.

Allowing access to a regulated system - in this particular case the ESAS - and introducing additional competition from non-bank payment service providers is not crowding out as at no point will the government engage in the provision of payment services. Allowing non-bank access to the ESAS regime would certainly make the market for payment services more *crowded* but that is the essence of competition and should be encouraged by the RBNZ.

Wise notes that a footnote on page 5 of the consultation document says, "Having too much direct participation in ESAS is undesirable as we do not wish to crowd out the role of commercial banks."²

Wise raises genuine concerns that the spectre of 'crowding out' is being drafted in aid of reducing structural competition in New Zealand in favour of traditional financial institutions when no such crowding out activity by the government exists.

We question whether the concerns related in the consultation paper around 'crowding out' are validly constructed and recommend to the RBNZ that allowing suitably competent non-bank payment service providers to access the ESAS system will ensure structural competition and consumer choice.

¹ Reserve Bank of New Zealand, "ESAS Access Review: Proposed Access Criteria", Accessed from: <https://www.rbnz.govt.nz/have-your-say/2023/esas>, p30

² *ibid.* p5

Access to a regulated monopoly by private companies is not the same as the government itself operating in the market and we should not confuse the two in aid of protecting the privileged position of banks.

We encourage the RBNZ to consider the recent report into personal banking competition released by the New Zealand Commerce Commission, particularly paragraph 10.34 which called specifically for broadening access to ESAS accounts as a part of this review process. In particular, "Broader access to ESAS accounts will benefit both innovation and competition through its use as an input into payment services as well as an account that provides access to OCR returns."³

Official Cash Rate

Access to the Official Cash Rate (OCR) is an important element of ensuring competition in the field for payments.

To artificially discriminate against payment service providers and deny access to the OCR on the basis that PSPs are not prudentially regulated has the effect of placing PSPs at a competitive disadvantage compared to traditional banks. The outcome will mean that PSPs must, if transactions must settle and clear overnight, accept the loss of interest income which is a cost that will then have to be passed onto customers further reducing the competitive viability of non-banks in this space.

Further, the rationale upon which OCR is denied to potential non-bank participants ignores the fact that monetary policy is transmitted through spending and saving activity not merely that of lending and borrowing activity. The transmission of monetary policy through these deposit accounts is unlikely to accelerate the effect of monetary policy in unforeseen ways given the total pool of domestic savings is materially unaffected by treating non-bank PSP deposit accounts the same as their traditional bank competitors.

We would ask that RBNZ provide a stronger rationale for denying access to OCR for non-bank PSPs given the clear competition impacts on the payments market.

Specific Questions from RBNZ paper

- 1) Do you agree that our access criteria allow for opening participation in ESAS (in line with our intent set out in section 2)?

Wise supports assessing access to the ESAS regime with a focus on the specific applicant, their business activity and their associated risk profile rather than on their licence status. A more flexible approach for access to ESAS - provided that the

³ Commerce Commission, Personal Banking Services, Final Report, 20 August, 2024, https://comcom.govt.nz/_data/assets/pdf_file/0019/362035/Final-report-Personal-banking-services-market-study-20-August-2024-Amended-27-August-2024.pdf, p293

standards and risk assessments are met - will allow for more competition in the market for payment services in New Zealand.

Wise supports the relevant standards outlined in the Risk Assessment Framework.

The specific proposal to allow access to those businesses that are "carrying on business directly settling payments on behalf of third parties in New Zealand dollars" is sufficient to satisfy the business activity criteria.

The test to ensure that there is a net benefit to New Zealand is one which we would like more information about as Wise interprets the net benefit test as implying that increased competition provides the greatest benefit to New Zealand consumers of payments.

- 2) Are the access criteria easy to follow, and if applicable, are there any particular areas where additional guidance or explanation is needed?

Wise views the access criteria as accessible and explicable. Our concerns regarding accessibility are outlined above in the areas of specific concern around the unequal playing field suggested through the lack of access to OCR and the concerns around 'crowding out'.

Yours faithfully,



A handwritten signature in black ink, appearing to read 'Jack Pinczewski', is written over a faint, light-colored circular watermark or background graphic.

Jack Pinczewski
APAC Government Relations Lead
Wise



Heretaunga Building Society

PO Box 146,
111 Avenue Road East, Hastings 4156
Ph 06 873 8047 Fax 06 876 5211
Email info@heretaungabuildingsociety.co.nz

12 November 2024

Reserve Bank of New Zealand
P O Box 2498
Wellington 6140

Email: esasaccessreview@rbnz.govt.nz

RE: Consultation – ESAS Access Review

The Heretaunga Building Society (“the Society”) appreciates the opportunity to engage with the Reserve Bank of New Zealand (“RBNZ”) as part of the ESAS access review process.

We emphasise that as noted in the consultation paper the lack of access to ESAS accounts for the Society and other NBDT’s creates an ingrained competitive disadvantage compared with the large banks that have ESAS access. This is due to both the return we receive on our liquid capital, and also the amount of capital that we are required to hold against our loan book.

Currently, our liquid capital is held with other trading banks, who earn a margin on our funds relative to the interest rate they receive on their ESAS accounts. All else equal, this erodes our margin relative to the main banks and impacts our ability to price competitively. In addition, the risk weighting applied to our funds held on call with banks is 20%, relative to the 0% weighting applied to funds held in an ESAS account. Given our capital is currently limited to retained earnings, any increase in risk weightings limits our ability to grow relative to our capital base.

We note the recent reports from the Commerce Commission and the OECD regarding the lack of competition in New Zealand’s banking sector. Efforts to create a more level playing field between the major banks and what is currently the non-bank sector must proceed with haste to ensure that there is greater diversity in the New Zealand banking sector, in order that all New Zealanders have more opportunity to have access to financial services.

Therefore, while we applaud the RBNZ’s efforts to open up access to ESAS accounts we implore them to proceed with haste, both on this issue and others where NBDT’s face an ingrained competitive disadvantage compared with the Australian banks that currently dominate our sector.

Our response to the specific consultation questions is outlined below.

Consultation question 1:

Do you agree that our access criteria allow for opening participation in ESAS (in line with our intent set out in section 2)?

Yes.

Consultation question 2:

Are the access criteria easy to follow, and if applicable, are there any particular areas where additional guidance or explanation is needed?

While the access criteria is generally easy to follow, there are a few areas where further guidance would be beneficial, as outlined below:

1. Confirmation of our interpretation that NBDT's that are exempt from the credit rating requirement are not subject to other replacement risk assessments given their status as a prudentially regulated entity.
2. Further guidance around the likely level of application and ongoing participation fees, and confirmation that proportionality will be applied to ensure access at all levels of size within the NBDT sector.
3. Expected timing around processing of applications.

Yours sincerely,



Ray Greenwood
General Manager



Heretaunga Building Society
PO Box 146, Hastings 4156
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PHONE: +64 6 873 8047

Submission by



to

**Reserve Bank of New Zealand consultation - Exchange
Settlement Account System (ESAS) access review**

22 November 2024

CONTACT:

Jeremy Muir
Chair
BlockchainNZ
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+64 21 625 319

BLOCKCHAIN NZ SUBMISSION TO THE RESERVE BANK OF NEW ZEALAND

22 November 2024

ABOUT BLOCKCHAIN NZ

BlockchainNZ is an association of organisations and individuals formed to support and grow the blockchain and crypto community in New Zealand. We represent this rapidly emerging business sector and those engaged in the wider global financial services, IT, and public sector communities. We are part of the NZ Tech Alliance, and our vision is to help make New Zealand a global hub for blockchain innovation.

Introduction

This submission relates to the Reserve Bank of New Zealand's (**RBNZ**) consultation paper for the Exchange Settlement Account System (**ESAS**) access review (the **Consultation**).

Our submission

Many New Zealand businesses in the blockchain and crypto space (which we may also refer to broadly as Web3 businesses in this submission) suffer from the intertwined issues of a lack of specific and tailored regulation, and inability to obtain or maintain a bank account.

This "debanking" trend is hindering the growth of an innovative sector with significant economic potential. It also creates a lack of clarity in the market, where personal relationships can determine whether a Web3 company can access accounts with our major banks. Relevantly, the absence of clear regulations specific to digital assets and Web3 technologies is contributing to banks' risk-averse approach. This regulatory gap is creating uncertainty for both banks and Web3 companies. As other countries enact regulation specific to digital assets and cryptocurrencies, this puts New Zealand increasingly out of step with best practice.

The latter issue has been well canvassed in other submissions, and in industry research such as Callaghan Innovation's Web3 NZ report *Debanking and its Implications for Aotearoa New Zealand's Web3 Ecosystem*.

<https://www.callaghaninnovation.govt.nz/assets/documents/Debanking-and-its-implications-for-Aotearoa-New-Zealands-Web3-Ecosystem.pdf>

We submit that where a Web3 fintech business can satisfy the robust requirements set by RBNZ, access to ESAS may make it easier for these businesses, where they have previously been unable to unlock traditional banking facilities, to bring innovation and new financial services to New Zealand customers (both other businesses and retail).

We would hope that completion of the assessment process should be straight forward and delivered within 6 months and iterated on. A licensing regime, although outside RBNZ's control, should also be developed quickly to avoid falling further behind the rest of the world.

Our response to the two questions in the Consultation are set out below.

Q1: Do you agree that our access criteria allow for opening participation in ESAS (in line with our intent set out in section 2)?

Generally, we agree that RBNZ's access criteria allows for opening participation in ESAS. The definition of eligible business activities and the factors considered in the net benefit assessment are broad. This may indeed open ESAS access to companies or sectors that provide non-traditional, newer, digital forms of financial services, facilitating innovation in emerging technologies and business models. For instance, many organisations in the blockchain and crypto community help to enhance the efficiency of the financial system by making transactions more cost-efficient. This may also foster competitiveness which benefits New Zealand by making it more attractive on a global level.

There are specific factors to consider, however.

In the absence of a specific and tailored regulatory regime (such as licensing) for Web3 businesses which provide financial services, it may be difficult for them to show that they meet the business activity criteria. They are unlikely to fit into the currently specified NBDT, FMI criteria. They may not meet the strict payment services criteria (based on "directly settling debts on behalf of third parties").

We do consider that certain Web3 fintech business may be able to satisfy the proposed net benefit assessment.

We see two possible factors which may support the ability of Web3 fintechs to meet RBNZ's criteria:

Firstly, Blockchain NZ continues to support the development of a licensing regime for certain Web3 fintechs (although the detail of this would need to be carefully thought through to prevent a chilling effect on innovation). If such a regime is developed, we would hope that RBNZ would be amenable to revisiting the list of specific regimes in the guidance.

We believe that providing regulatory certainty is crucial to New Zealand's economic growth. Debanking poses a risk to New Zealand's ability to compete in the fast-moving and disruptive Web3 industry. It may result in missed opportunities for innovation in the fintech sector and reduce choice and competition for consumers of financial services. Accordingly, there is a need to create an environment that will attract and retain talent and businesses, allowing New Zealand to maintain a competitive edge in the global

digital economy. Other jurisdictions, such as the European Union with its Markets in Crypto-assets Regulation (MiCA), are enacting regulatory frameworks that provide clarity for investors, startups, and banks.

Secondly, it would be helpful if the guidance acknowledged that it is intended to be technologically neutral and that Web3/blockchain/crypto fintechs would be afforded a fair hearing in terms of the net benefit assessment.

Overall, we support a broader access criterion as this facilitates innovation in emerging technologies and business models. The widening of participation in ESAS is reflective of RBNZ's recognition that the payments landscaping is changing quickly, creating a need to ensure the Real-time Gross Settlement System remains relevant and flexible.

Q2: Are the access criteria easy to follow, and if applicable, are there any particular areas where additional guidance or explanation is needed?

For the reasons outlined above, in the business activity criteria, we submit that there should be a clear acknowledgement that further regulatory regimes may be added to the initial list as they are developed.

In addition, where Web3 fintechs are able to meet the net benefit assessment (and other tests) to access the ESAS system, we submit that they should be able to access OCR as well. If part of the rationale is to ensure that these businesses are able to access a form of banking to allow them to trade, there is no reason they should be less able to earn interest than if they were banked by traditional banks.

CONCLUSION

Addressing the challenges of debanking in the Web3 sector is crucial for New Zealand's future economic prosperity and its position in the global digital economy. By implementing clear regulations, ensuring fair access to banking services, and fostering innovation, New Zealand can create an environment where both traditional financial institutions and emerging Web3 companies can thrive, contributing to a robust and diverse economy.

BlockchainNZ thanks the RBNZ for the opportunity to contribute to the Consultation. We are happy to engage further to discuss our submission (in person if required) and to provide any further assistance that might be helpful.

Yours faithfully,

Jeremy Muir
Chair
BlockchainNZ
jeremy.muir@minterellison.co.nz
+64 21 625 319

**Confidential**

18 November 2024

Exchange Settlement Account System Access Review
Reserve Bank of New Zealand
2 The Terrace
Wellington

Emailed to - ESASAccessReview@rbnz.govt.nz

To Whom It May Concern,

Consultation: Exchange Settlement Account System Access Review

- 1.1 Further to ANZ Bank New Zealand Limited's (**ANZ**) submission in July 2023 ANZ continues to support the Reserve Bank of New Zealand (**RBNZ**) revised access policy for the Exchange Settlement Account System (**ESAS**).
- 1.2 ANZ recognises ESAS continues to be New Zealand's Real-time Gross Settlement system, providing real-time, irrevocable settlements on a gross basis, and is central to monetary policy implementation and payment reliability. ANZ continues to strongly support the RBNZ's primary risk-based drivers to ensure ESAS and the broader financial system's soundness and economic well-being are maintained.
- 1.3 ANZ also supports the proposed open access policy settings and criteria that aim to enable broader access to ESAS where there is a net benefit to New Zealand. ANZ is however mindful that the integrity, efficiency, stability, and broader operational resiliency must not be overshadowed by these proposed secondary measures which look to promote innovation and competition.

We note RBNZ's balanced and transparent approach should ensure this does not occur, e.g. the criteria associated with the application of Official Cash Rate bearing accounts will not impact the existing efficiency of the market, e.g. payments and liquidity management.



- 1.4 ANZ reiterates the comments made in our earlier submission by continuing to support RBNZ's Stewardship policy principle of 'same risk, same regulation' and New Zealand's ESAS ecosystem must ensure a level playing field is maintained.

In this regard ANZ expects RBNZ to regulate and maintain supervisory oversight to ensure new participants maintain strong, robust operational processes, have well defined risk management practices, including access to backup liquidity, and ensure that the wider application of their participation does not undermine the systemic importance of New Zealand's broader financial markets ecosystem.

- 1.5 While ANZ recognises there will be some minor changes to the way in which ESAS is used we support the revised fee setting components which we believe will provide a more balanced and reasonable cost recovery model, e.g. the introduction of a monthly fee alongside the per-transaction fee.

ANZ however strongly suggests RBNZ consider that the monthly fee should be a percentage of total ESAS costs, e.g. 20% and be equally applied across all participants. This financial model reflects the fact there are a range of ESAS costs which go to the heart of running the system, e.g. software licences, staff, help desk support, etc and therefore should be equally born by all participants, i.e. transactional volume should not play a part in the setting of the monthly fee.

- 1.6 ANZ commends the intended ambition of the revised access policy and the work that has gone into its development. The policy and associated criteria do look to balance flexibility and certainty and encourage participation whilst managing risk. That balance is naturally difficult to strike, and ANZ recognises the responsibility to open access does contain an element of subjectivity, and RBNZ are best placed to apply that judgement.

Should you have any questions please feel free to contact me in the first instance.

Yours sincerely,

Head of Payments, Industry & Risk
ANZ Bank New Zealand Limited