

# Submission

to the

# Productivity Commission

on

# Growing the digital economy and maximising opportunities for small and medium sized enterprises

22 November 2018

## About NZBA

1. NZBA works on behalf of the New Zealand banking industry in conjunction with its member banks. NZBA develops and promotes policy outcomes that contribute to a strong and stable banking system that benefits New Zealanders and the New Zealand economy.
2. The following seventeen registered banks in New Zealand are members of NZBA:
  - ANZ Bank New Zealand Limited
  - ASB Bank Limited
  - Bank of China (NZ) Limited
  - Bank of New Zealand
  - MUFG Bank, Ltd
  - China Construction Bank
  - Citibank, N.A.
  - The Co-operative Bank Limited
  - Heartland Bank Limited
  - The Hongkong and Shanghai Banking Corporation Limited
  - Industrial and Commercial Bank of China (New Zealand) Limited
  - JPMorgan Chase Bank, N.A.
  - Kiwibank Limited
  - Rabobank New Zealand Limited
  - SBS Bank
  - TSB Bank Limited
  - Westpac New Zealand Limited

## Background

3. NZBA welcomes the opportunity to provide feedback to Productivity Commission on its project *Growing the digital economy and maximising opportunities for small and medium sized enterprises (Research Project)*.
4. If you would like to discuss any aspect of the submission further, please contact:

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## Introduction

5. NZBA supports the intention of the Research Project, which we understand is to identify ways in which Australia and New Zealand can work together to grow the digital economy and seize opportunities arising from digital transformation. We understand that the Australian and New Zealand Productivity Commissions have been tasked with examining the priority areas for growing the digital economy and exploring how:
  - (a) institutional and regulatory settings in the two countries can support the use of digital technology; and
  - (b) in particular, how small and medium enterprises (**SMEs**) can maximise the opportunities from digital transformation.
6. In the context of the banking sector, NZBA considers that harmonisation of standards and regulation, particularly in respect of regulatory requirements relating to trans-Tasman trade such as anti-money laundering, could improve the ease by which SMEs conduct business. Policy and regulatory decisions concerning data rights and open banking may also become relevant to the growth of the digital economy and trans-Tasman trade.

## Key issues

7. The key issues identified by NZBA (discussed in detail below) are:
  - Harmonisation of regulatory requirements
  - Open data and seamless banking
  - Digitising export-related regulatory requirements
  - Cyber security

## Harmonisation of regulatory requirements

### Anti-money laundering

8. Harmonisation of regulation and the trans-Tasman acceptance of anti-money laundering (**AML**) and know your customer (**KYC**) checks and credentials would increase efficiency. It would also reduce the cost and delays involved in opening accounts, establishing lending facilities, accessing trade finance and making funds transfers (many of which may be low value). Small business would particularly benefit from such harmonisation as they may lack the in-house resources required to navigate the regulatory hurdles. A 2016 Ministry of Justice study estimated the cost of AML laws to business sectors could be in the order of \$0.8 to \$1.1 billion over 10 years.<sup>1</sup>
9. Harmonisation of account opening procedures, especially in respect of KYC requirements, would also increase efficiency for SMEs – for example when a customer of an Australian bank opens an account with a New Zealand subsidiary of that bank and vice versa. This would require regulatory support.

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<sup>1</sup> <https://www.justice.govt.nz/justice-sector-policy/key-initiatives/aml-cft/costs-and-benefits/analysis/>

## Digital identity

10. Being able to reliably prove who we are online, and in person, is a prerequisite for accessing services such as banking. Digital identity underpins accountability for most transactions in the digital world. A digital identity ecosystem, with international interoperability built on open standards and protocols, could deliver economic and social value to New Zealand and Australia.
11. With an open digital identity framework and appropriate regulatory support, financial service providers could support businesses and people securely proving their identity and safely sharing it with trusted trans-Tasman organisations. This would reduce effort spent validating identity and remove data silos.

## Payment systems

12. Trans-Tasman payments could be made easier and cheaper through greater integration of payment systems. However, regulatory support/alignment is required to advance trans-Tasman digital solutions and to remove some of the duplicated processes.

## Open data and seamless banking

13. Open data may drive the same advances in innovation, competition and efficiency across the wider economy as open banking will for banking and financial services.
14. In the banking context, subject to appropriate risk assessments, open data might make trans-Tasman seamless banking easier to achieve – open application programming interfaces (**APIs**) and the ability to share customer identification and authority will be a huge advancement. However, open data across international borders would require substantial industry and government collaboration.
15. Any moves towards trans-Tasman seamless open banking would be supported by harmonisation of the regulatory areas mentioned above. For example, aligned anti-money laundering requirements and a consistent approach to verification of digital identities. Illustratively, if details are collected and verified by an authorised provider on either side of the Tasman they could be used digitally to open accounts with any provider. This could be achieved through a common identity platform for both Australia and New Zealand.
16. It would also help if trans-Tasman payments could be treated as domestic payments so businesses can send and receive money instantly without having the funds treated as overseas transfers (some network integration would be required but it has been enabled by the design of Australia's New Payments Platform).

## Digitising export-related regulatory requirements

17. Joint development by NZ and Australian governments of standards (supported by alignment of underlying regulation) relating to digitising trade related requirements could significantly improve the current trade process, which is paper-based or involves significant manual processing.

## Cyber security

18. A single co-ordinated cyber-security response organisation between the two countries could share information and advice on customers. This would benefit businesses and consumers, as well as present a united front to this growing problem.