

Open banking - the way forward

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Open banking is a term that is used by different people to mean different things. In practice, the key way in which open banking is being implemented globally is through the development of API frameworks that allow third parties to interact with bank systems. In Australia, the approach has been to create an ability to control customer bank account data through a consumer data right, with access to such data being provided through APIs. In New Zealand, the approach is focused on partnerships between banks and other entities, such as technology companies and corporates.

Europe, the United Kingdom and Australia have introduced legislation that requires banks to grant API access to third parties. In Australia, the initiative has significant government funding and is intended to be extended into other industries such as telecommunications and electricity. Other countries such as Singapore and Canada are watching closely and are starting to introduce open banking legislation.

In New Zealand, Consumer Affairs Minister Hon Kris Faafoi has indicated the government would like banks to take initiative and introduce a form of open banking through self-regulation rather than respond to a government mandate. The New Zealand industry, through Payments NZ, is establishing an API framework with common standards (adapted from international standards) to enable third parties more consistent interaction between banks and third parties.

Through self-regulation, the New Zealand API framework should be flexible enough to avoid some of the problems that are occurring in the United Kingdom, where uptake of open banking has been slow and the regime has proved difficult to adapt as the market changes. New Zealand is also looking at setting standards for "read/write" APIs. In addition to allowing access to read or export data, this would allow a third party to initiate payments through an API, in each case with customer consent. This contrasts the current approach in Australia which only mandates the banks to allow "read only" APIs.

On the flipside, there are potential risks with the self-regulated approach taken in New Zealand. The rules for the API framework need to be agreed by all participants (even where a majority vote model is adopted) which could potentially slow the process down, and Commerce Act issues could arise at each stage. Whether these risks will eventuate remains to be seen.

What is clear is that the success of open banking in New Zealand is dependent on the banks, third parties partnering with them, building trust with consumers, and bringing to market products that meet consumer needs.

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