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Open letter to API Providers regarding industry progress on API-enabled data sharing and open banking

As you know, I have been closely following industry led-open banking initiatives over the last two years, including the development of open Application Programming Interface (API) standards under the umbrella of the Payments NZ API Centre.

My interest in this area arises because of the significant economic and social benefits it can deliver for consumers and businesses. Safe and secure sharing of customer banking data can drive competition, efficiency and innovation across all financial services, leading to new or improved products and services. Ultimately, I see open banking as being about empowering consumers with control and choice over their data and, in time, helping to develop a vibrant data industry.

I acknowledge that considerable work has been undertaken in this space to date and that many banks as API Providers have voluntarily dedicated time and resources to this initiative, making good progress in particular in the development of API standards. I appreciate that this industry effort is world-leading and I am encouraged by the cooperation between the different players in the market.

However, I do have some concerns that the current pace and scope of progress risk not delivering the full benefits that could be realised with open banking for consumers. I am therefore writing to share with you my expectations about the future direction of this work.

My primary concern is that the pace of progress will be too slow for the ecosystem to flourish and may cause considerable cost and barriers for third parties. This in turn restricts the development of the market as a whole and the delivery of products and services to end customers.

While I am in no doubt that staff in each bank have a passion for open banking and the potential associated with it, the current rate of progress appears to be both uncertain and slow. I am concerned that this is a result of API Centre initiatives not being given sufficient priority by management. In addition to my own concerns, I have heard numerous concerns from third parties in relation to banks' timeframes for implementation of API standards.

At this early stage of the development of an open banking ecosystem, success depends heavily on API Providers committing fully to delivering the necessary infrastructure and processes. The critical deliverables are the implementation of API standards, and the processes and policies for partnering with third parties through bilateral arrangements. If these key elements are not delivered efficiently, the whole ecosystem is constrained and put at risk.

My second concern is that even where progress is being made, there is inefficiency and fragmentation in the ecosystem. For example:

- a. Some API Providers use APIs that differ slightly from the API Centre standards. This results in third parties having to build to different APIs for each API Provider they wish to partner with.
- b. Some API Providers have signalled that they will not build to the full scope of the standards planned for release by the API Centre, meaning the full scope of standards functionality will not be available in the market.
- c. Each API Provider that does offer APIs is likely to bring these to market at different times.
- d. Beyond the technical standards, each API Provider is likely to engage with third parties using different processes, on different contractual terms, and with different standards for security. Depending on the differences between the API Providers' requirements, this can be costly, time-consuming and inefficient.

Each of these situations could impose additional costs and barriers to third parties engaging with API Providers. Significantly as well, many third parties are likely to need a critical mass of API Providers to have implemented and operationalised consistent APIs before it is viable for them to launch products and services.

To mitigate the above risks, I expect all API Providers to commit to the following:

1. Firstly, I expect all API Providers to ensure that open banking is a clear priority within their organisations and that the project is appropriately resourced. This is critical to ensure that progress is maintained. I acknowledge that banks need to devote resources to comply with other regulatory initiatives. However, I am still not satisfied that all banks are giving open banking appropriate priority.
2. Second, as requested by the API Council, I expect all API Providers to implement v2.0 of both the Payments Initiation and Account Information standards within six months of their release. This means that banks will have technically implemented and tested the standards and be in a position to enter bilateral arrangements with third parties. However, I also expect that preparations for bilateral readiness (eg development of bilateral contracts, on-boarding and support processes) will proceed in parallel to production technical readiness.
3. Third, I expect API Providers to meet the API Council's reporting requirements fully and openly and with the expectation that these reports, of a summary thereof, will be made public. This type of reporting is valuable as a way of increasing transparency for third parties looking to engage with API providers and of promoting commitment and shared accountability towards a pipeline of progress.
4. Fourth, I expect API Providers to commit to seeking shared industry solutions that promote the interests of the ecosystem. While there are understandably commercial interests at stake, industry standardisation (of both APIs and operational processes) brings significant efficiency benefits for all parties. Shared industry solutions might encompass, for example, processes for on-boarding third parties, or common security, customer consent or data requirements. I also expect that, where the API Centre reaches a decision on the scope or design of an API, API Providers should seek to implement this unless there is very good reason not to.

To me, success over the short term would be to see all API Providers in market having implemented:

- v2.0 of the API standards (or any further updates)
- bilateral arrangements with third parties agreed on reasonable terms and within reasonable timeframes
- a range of products or services in market delivering value safely and securely for consumers.

To further support consumers' control over their own data and the development of New Zealand's data economy generally, I have also directed my officials to provide me with advice on a possible Consumer Data Right in New Zealand. I expect to release a discussion document seeking public feedback on the issue in the first half of 2020.

A Consumer Data Right could provide a useful framework to provide regulatory support for the development of open banking and data sharing in other sectors. At this stage, it is my intention that this work would only establish a legislative framework for the sharing of consumer data in particular designated sectors and would not necessarily be implemented unless necessary and appropriate. This would give industry further opportunity to continue to make progress and find its own solutions to the types of issues I have outlined above.

While this work is progressing, I will continue to seek officials' advice on the progress being made in relation to these issues. I would welcome your feedback on any of the issues I have raised. I have also asked MBIE to inform others with an interest in this work about my intentions.

Yours sincerely,



Hon Kris Faafoi
Minister of Commerce and Consumer Affairs