

Treasury Trends

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Making Sense of Payment Trends

The impact on the way people make payments since the start of COVID-19 as well as the rise of open banking and proliferation of fintechs in recent years has seen a seismic shift in the payments landscape. This has provided organisations an opportunity to streamline processes, improve payment efficiency and attract new customers - but it has also provided a much more complex environment to work with.

Where do you sit?

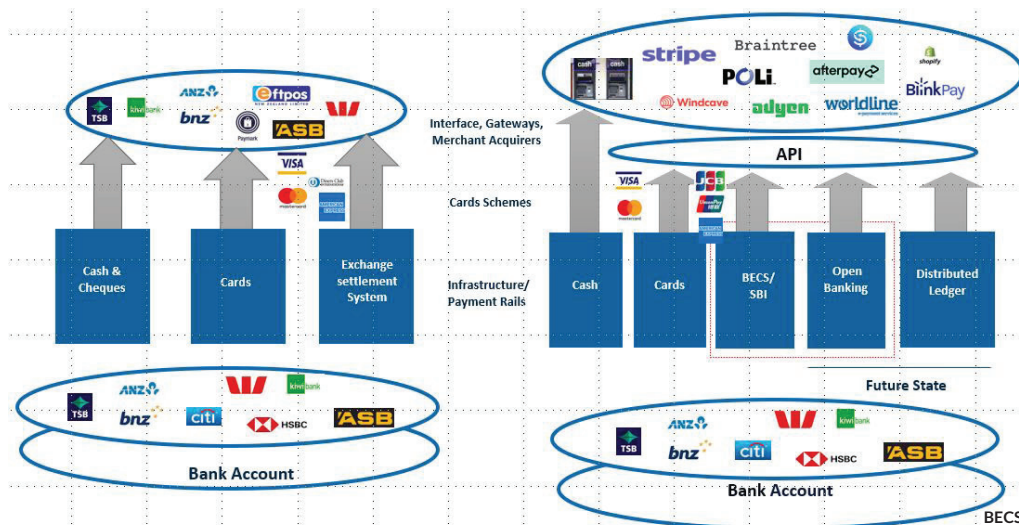
The objective is to understand which 'bits' of the new landscape can/do/should apply to your own operation and recommend workshops or review sessions be run across your organisation to assess the areas that need to or could be improved.

When reviewing the payments landscape as it applies to your organisation we believe the following items should be taken into consideration:

- User experience – is the payment experience simple and intuitive for the user, does it provide an omnichannel experience, does it provide the payment options that customers want to use?
- Fraud – is fraud prevention/reduction proactively being initiated at time of payment. Or is it an afterthought?
- Flexibility – does my payment ecosystem have the flexibility to allow for the integration of new payment technology when it comes available?
- Data – are relevant consumer/products data insights available as and when required?
- Marketing – is the payment ecosystem able to attract new customers to the business?
- Cost efficiencies – are low cost alternatives available, easily accessible and promoted to reduce the cost to process payments? Is a cost/benefit analysis undertaken when new payment methods are considered?

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Traditional versus current/future state



BECS - Bulk Electronic Clearing System
SBI - Settlement Before Interchange



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Best outcomes

Our experience from being part of organisation wide deliberations is to approach with an open mind – with no predetermined thoughts around change/no change. Most CFOs and Treasurers remain tasked with managing costs, within an overarching target to improve customer experience. This area, with specific focus, can tick both boxes.

Recent prompts to review

Recent prompts to review your own payment ecosystem include:

- (a) **Interchange caps.** The Government of New Zealand has recently passed the Retail System Bill, which will provide the Commerce Commission with broad regulatory, monitoring and enforcement powers as well as putting in place initial pricing standards for 'designated' retail payment networks ("RPNs"). In essence the Government has put in place interchange rate caps for card schemes Visa and Mastercard that must be in place by 13 November. These caps are 0.80% for credit cards, 0.20% for contactless debit cards and 0.60% for online debit cards. The main exclusions being commercial credit cards, prepaid debit cards and foreign issued cards. Interchange rate caps have been in place in many countries for some time so it is good that New Zealand is finally catching up as it will lower the cost of the payments system. The schemes themselves have not yet announced what the new interchange rates will be (and probably won't be released until closer to November) but it will be interesting to see whether they will retain a differentiation in interchange rates between the different types of cards and the impact on loyalty schemes.
- (b) **Blended/bundled.** For organisations that accept card payments it is an appropriate time to review how your merchant transactions are being charged by your financial institution and whether the reduction in interchange rates will flow through to your fees. If you are on an 'interchange plus' fee the changes will flow through automatically, but if on a blended/bundled fee we can help benchmark what rate you could expect once the changes go through.

- (c) **NPP.** The Reserve Bank of Australia ("RBA") noted in a recent speech that the uptake of New Payment Platform ("NPP") payments has been strong and now accounts for 32% of all account-to-account credit transfers, although largely still sitting in the personal and SME space. The rate of adoption compares favourably with other countries that have launched real-time payment systems – only sitting behind Hong Kong in speed of uptake.
- (d) **PayTo.** Of course, for larger businesses some of the key functionality that is required is still to come to fruition which is frustrating the RBA. The main culprit being PayTo which "will provide a convenient and secure way for households and businesses to authorise third parties to initiate NPP payments from their accounts." In layman's terms the main functionality of PayTo will be to replace direct debits, but it will be 'smarter' and provide users more control and visibility. However, it will also open up new opportunities for innovation including accepting payments online or via an app or, in the retail environment, by utilising QR codes. Unfortunately, the PayTo rollout has been delayed due to banks not being prepared for the July 2022 deadline. The deadline has now been pushed out to April 2023, but hopefully the banks will roll this out a little earlier. Banks are also still working on solutions for making bulk or batch NPP payments, however a timeline, at this stage, has not been locked in.
- (e) **Reliability.** Another concern is NPP service reliability which at this point is underperforming other payment methods. Over the second half of 2021 NPP experienced 7 hours (average across the payment service providers) of unscheduled downtime compared with 2 hours for card networks and less than one hour for traditional Bulk Electronic Clearing System ("BECS") payments. This service reliability will need to be improved, particularly to encourage more use by corporates and in the retail space. It will also need improvement if it is to eventually fully replace the Direct Entry ("DE") system.

In summary, changes are ongoing and awareness of the future state of payments is becoming increasingly more important for businesses. Status quo will leave you behind.

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