Building trust & transparency in the financial services sector

New Zealand FinTech Pulsecheck 2024

The 2024 FinTech pulsecheck is the second collaborative report from Deloitte and FinTechNZ that explores the FinTech landscape in New Zealand. *This report is built from three sources.*

1. A survey and subsequent interviews conducted with FinTechNZ members.

2. Global research to ensure that experiences in New Zealand are contrasted against the experience of other markets more progressed than New Zealand.

3. Interviews with a range of other select market participants. We are highly motivated by the extent of the involvement demonstrated by the FinTechs community in providing inputs for this report.

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INTRODUCTION

In recent years, the financial services industry has been undergoing a significant transformation, driven in part by the rise of FinTech companies. These technology-driven firms are leveraging new and innovative solutions to better serve customers, streamline processes and operations, and increase overall efficiency.

New Zealand is no exception to this global trend, with the FinTech sector experiencing rapid growth in recent years. According to the Technology Investment Network (TIN200) 2023 report, the New Zealand FinTech sector has seen remarkable advancements in the last decade and is now driving $2.76 billion in export revenue.

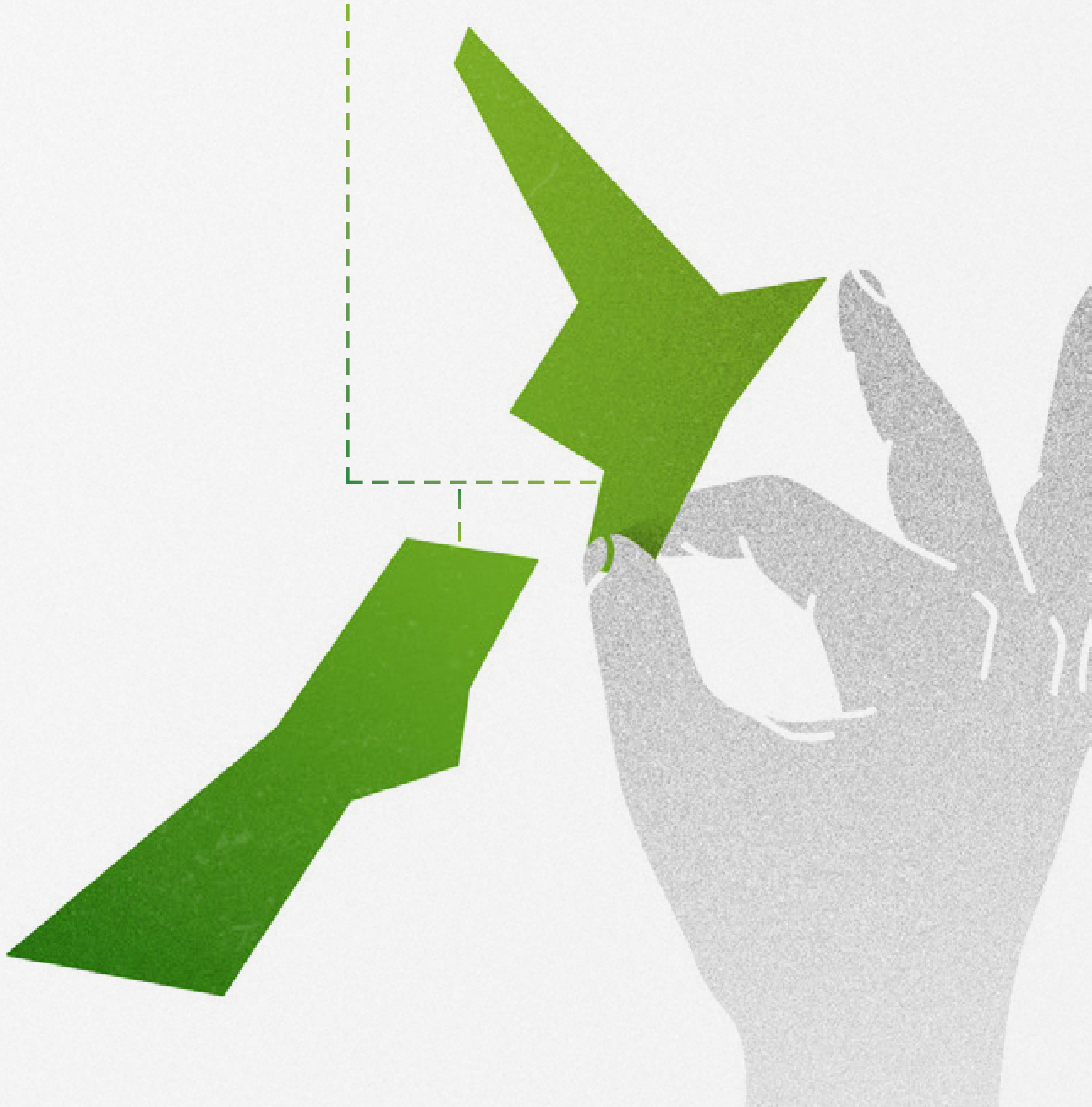
The financial services industry grapple with challenges related to data privacy, fraud, and room to improve innovation and transparency. FinTech solutions can offer a fresh perspective on how to address these problems and put customers first.

In this report, we explore impediments to innovation in New Zealand and how upcoming regulations and leveraging FinTech innovation can help increase transparency and improve trust in the financial services industry. We will examine FinTech mega-trends and solutions that are emerging both globally and in New Zealand and highlight their contribution to fostering trust and transparency and explore what is needed for New Zealand to fully harness the power of FinTech.

Ultimately, this report will seek to understand the impact that innovation stands to have on the level of trust and transparency for the financial services industry overall, and what this will ultimately mean for FinTech's, banks and consumers as part of an ever-changing sector in New Zealand.

$2.76B

NEW ZEALAND FINTECH SECTOR $2.76 BILLION IN EXPORT REVENUE



NEW ZEALAND FINANCIAL SERVICES CURRENT STATE PULSE CHECK

Against the backdrop of a period of commercial success, the New Zealand financial services industry's social license has come under greater scrutiny in recent years. Trust and transparency sits close to the top of the issues affecting the perception of the industry in the public eye, as does the adaptiveness to changing social, cultural and economic needs of its customers.

Shaking off this perception will require the industry to prove that they are capable of adapting to changing environments and responding to the evolving needs of their customers in a way that promotes trust and transparency. The financial services industry is of strategic importance to the New Zealand economy and is already a part of our nation's critical infrastructure. As technology evolves the ways banks operate, the risks they need to manage mean the broader societal benefits and the responsibilities that go along with that become more of a focal point, with the trustworthiness and transparency that is demanded by the public.

What is actually happening?

Recent research from Consumer NZ concluded that trust in banks has dropped to its lowest recorded level, with just 61% of consumers reporting that they trust New Zealand's banks.[1] High levels of profitability in recent years – especially amidst cost-of-living challenges – has encouraged many consumers to question whether their banks are acting ethically and within their best interests.

Financial inclusion is a contributing factor that banks must keep a close eye on in terms of their ability to build trust with the public. With some way to go to reach widespread financial inclusion, the Ministry for Social Development outlines a vision for its improvement in New Zealand: Clear pathways to access, inclusive and innovative products,

61%

OF CONSUMERS TRUST NEW ZEALAND'S BANKS

services and support, and a responsible and accountable financial services system.[2] The latter specifically makes reference to a financial services system that learns from customer feedback and ensures that these learnings translate into vulnerable customers getting the support they need from their bank.

In addition to this, evidence put forward by RBNZ suggests that many New Zealanders have limited financial literacy, and that more initiatives are required to raise the overall level of financial literacy in New Zealand.[3] Without a satisfactory level of financial literacy within its customer base, the financial services sector can appear as somewhat of a 'black box', where the inner workings of systems and institutions are not well understood or trusted.

Next to cost-of-living concerns, the growing prevalence of banking-related scams, represent a threat to financial wellbeing and there is a perception that banks are not doing enough to protect customers; another factor driving distrust. In 2022, New Zealanders lost more than $20 million to cybercrime, of which 86% is from scams and frauds – many of which were financial scams driven by impersonation of the victim's bank.[4] Fake investment opportunities or scams arising from an online purchase were also common vehicles for scam artists.

While overseas banks and governments have made considerable progress in the scam prevention space, the responses of New Zealand banks to this uptick in scamming has also attracted criticism. Settlement payments to scam victims, made only under the condition of non-disclosure, have created a perception that banks are attempting to hide their own security failures.[5]

Privacy around data has also become a critical issue for banks in building and maintaining trust with their customer base. Research conducted by Deloitte Australia found finance to be the worst out of 10 industries in terms of responsible data handling. This same survey found that customers have higher expectations regarding their data – with 90% of consumers surveyed wanting more done to protect their data. The impacts of this for institutions is significant with almost half of under 35's admitting to having left a provider after experiencing a data breach.

90%

OF CONSUMERS SURVEYED WANTING MORE DATA PROTECTION

Finally, the cost to consumer have also come under scrutiny in the public eye. In the payments space, surcharges added by merchants on top of products, represent an obvious example of customers footing the bill for a cost to the merchant. However, it is broadly untransparent how these surcharges are calculated and whether consumers are worse off as a result.

How the industry needs to respond

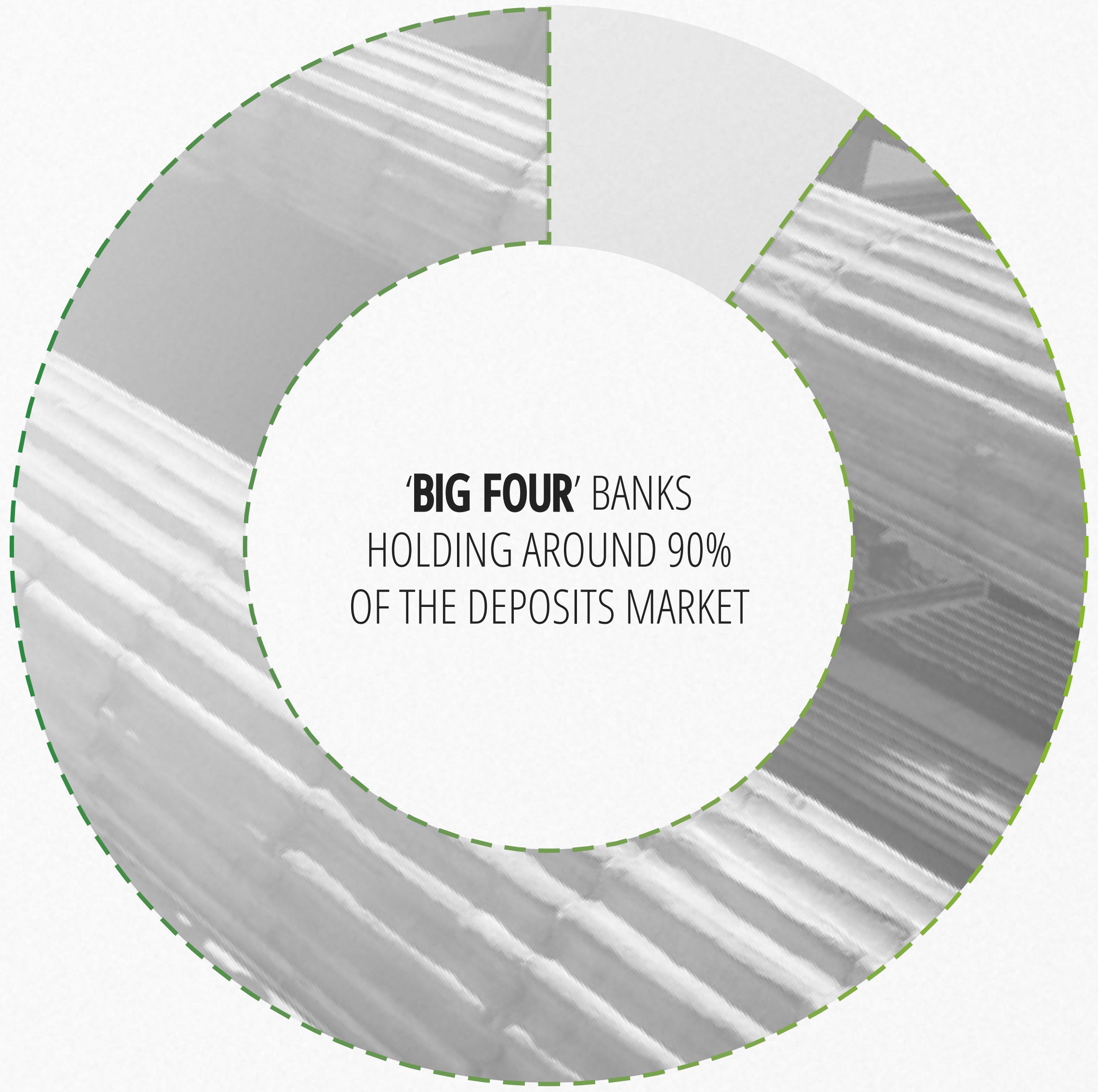
These sector-wide perceptions and challenges create an opportunity for the industry to respond in a way that reverses the narrative and improves trust and transparency with customers. Increasing trust comes from being able to consistently meet the needs of customers. Innovation presents one way this can be achieved. Banks face a choice on how they innovate to keep up with these changing consumer and societal demands: overhaul their operating models to enable rapid delivery of products or responses to regulatory changes, or look to leverage the innovative DNA of FinTech's free from the constraints of a legacy bank.

Additionally, it will be critical that banks carve out space to focus on innovation while balancing a range of regulatory and remediation programmes that absorb significant time and resource. A key focus in recent years for New Zealand's banks has been on meeting regulatory compliance who had the additional burden on implementing BS11 which had an understandable impact on the investment and change activity in the foreign owned banks.

They argue that this has constrained their ability to deliver customer-focused innovation. Sector-wide needs to refresh core platforms and systems also mean that critical resources which could be deployed for driving innovation, are stretched. While such programmes can inherently help to promote trust and transparency in the banking sector, the fact that they are often driven by regulation can create an impression that banks would not elect to undertake such work of their own accord.

The financial services industry can also evidence that they are pursuing initiatives that promote trust and transparency through their own means – front footing the conversation. Managing this and allowing enough space for dedicated product and technology innovation is key for New Zealand financial services industry to keep pace with their overseas and local counterparts and maintain favourability with customers.

There is also the matter of whether banks actually have the appetite to radically innovate.[6] As noted above, New Zealand's banks continued to make substantial profits of $7.21B in FY23 despite the challenging economic headwinds, with the 'big four' banks holding around 90% of the deposits market and 85% of the home lending market. It is believed by some that this level of performance is explanation enough for why the New Zealand banks have been slower to innovate than their international peers – essentially arguing that the banks are highly profitable and don't have any need to do things differently.



$7.21B

NEW ZEALAND'S BANKS MADE A RECORD PROFIT OF $7.21B IN FY23

It is also possible that incoming legislation may force the hand of banks to accelerate innovation efforts. To date, innovation – especially around Open Banking – has largely been industry-driven, with banks progressing with such initiatives at their own pace. From the perspective of FinTech's this approach appears more favourable to the banks (as it allows them to balance innovation activity alongside other priorities). The slow pace of development has frustrated government, regulators, FinTech's and industry bodies.

With this context, the question turns to the regulatory movements on the horizon for the sector that may promote movement towards building trust and transparency – especially with a focus on innovation.

ADAPTING TO REGULATORY CHANGES

In recent years, regulators in New Zealand and abroad have placed a greater focus on consumer protection, industry resilience and competition, while still maintaining financial stability. Consequently, financial institutions in New Zealand must determine their response to upcoming regulatory changes.

There are three such initiatives that stand to potentially have the greatest impact to the sector in the coming years:

1. **The Commerce Commission Market Study into personal banking**
2. **Open Banking, Consumer Data Right and the Customer and Product Data Bill**
3. **The Conduct of Financial Institutions (CoFI) Bill**

The Commerce Commission market study into personal banking

The Commerce Commission is conducting a competition study into any factors that may affect competition for the supply or acquisition of personal banking services. Specifically, the market study focuses on:

- **The structure of the industry and the nature of competition**
- **The conditions for entry by potential competitors and the conditions for expansion**
- **Any barriers to consumers comparing bank offers or switching banks, including the extent to which products or services may be tied or bundled**
- **Any impediments to new or innovative banking products or services**
- **Comparative indicators of bank financial performance (including profitability).**

The Commission's draft report found FinTech's are an important potential source of more radical and disruptive innovation, but presently face a number of challenges entering and expanding. The Commission also stated that although Revolut and other FinTech's such as Dosh, Wise, and Squirrel have entered the market here, their potential to disrupt appears limited, as they face a range of impediments in order to expand. The impediments are specific to FinTech's seeking to provide personal banking services:

- **Opening and maintaining a business bank account**
- **Access to ESAS (Exchange settlement accounts) and agency banking arrangements**
- **Cost and complexity of the regulatory environment**
- **Adoption by customers**
- **Access to capital and wholesale funding**
- **Access to data. Open Banking would enable, among other things, access to customer banking data, but New Zealand does not yet have a developed Open Banking framework.**

The Commission's draft report also emphasised the interoperable nature of the sector means that one provider may not realise the full benefits of modernising their systems until other banks follow. Where one provider moves first (for example, BNZ has been an early adopter of APIs), that provider may not realise the full benefits of that investment until a critical mass of the other providers (particularly the major banks, with their extensive coverage) follow. This interdependence and delay also affect Fintech's and other third party providers seeking to connect into the banks (and for whom coverage is important) or provide over-the-top services.

From an innovation perspective, the submissions on the Commission's Process and Issues paper argued that given the competitive environment, innovation is critical for banks' ongoing success and customer retention. The Commission found in its draft report that, in the absence of Open Banking, a FinTech seeking to introduce an innovative transaction account service may currently find that they also need to vertically integrate to hold deposits. This can decrease a consumer's likelihood to switch to such a service (given the importance consumers place on safety and security of their money) and expose the FinTech to additional deposit-taking regulations. This dynamic is currently making it more difficult for competition to emerge from innovative payment and money management services.

The outcomes of the market study could be a pivotal tool in improving consumer confidence in the financial services industry. The extent to which FinTech's can provide a credible constraint in New Zealand is yet to be determined.

Open Banking, consumer data right and the Customer & Product Data Bill

Consumer rights to data are an essential pre-requisite for Open Banking, empowering customers to retrieve their account and payment data and share with other providers. However, banks have traditionally been hesitant to relinquish control of this data. In anticipation of the long-awaited introduction of the Customer and Product Data Bill and Open Banking in May 2024 (for the Big Four banks: ANZ, ASB, BNZ and Westpac), financial service providers must be ready for the changes that this will bring.

Open Banking refers to the sharing of customer data between banks and third parties through APIs, and represents a shift away from banks being the holders and controllers of its customers' financial data. It allows customers to make payments, receive insights and even switch providers through the services of a third party, aiming to make access to financial information easier and improve consumer choice.

The Customer and Product Data Bill will be the biggest leap forward to introducing Open Banking in New Zealand. To date, the approach has been industry-led – with banks holding the power to accelerate on Open Banking initiatives as it suits their strategies. However, this has led to slow progress in the space, as banks have lacked both the incentives and capacity to meaningfully drive this forward. And in the absence of industry standards that support the entrance of Open Banking providers and third parties outside of the legacy banks, there hasn't been a competitive environment that encourages banks to take meaningful action on Open Banking.

With the introduction of the Bill, banks must think beyond regulatory requirements and focus on how Open Banking can offer a competitive edge. Open Banking represents a catalyst for significant digital innovation in the financial sector, and New Zealanders could see a surge in new financial products, services, and platforms designed to make banking more convenient and efficient. This ranges from budgeting tools and better access to credit, through to seamless integration with other financial and non-financial apps. The opportunities are vast for consumers and financial service providers, including FinTech's, and increased competition is poised to enhance product offerings, ultimately providing consumers a broader array of choices.

In order for the financial sector to take advantage of the opportunities that come with Open Banking, maintaining consumer trust is paramount. Financial service providers must prioritise making it easy for customers to access and control their data, empowering them with control over their information and a requisite understanding of what their data means. Entities seeking access to customer data must also prove trustworthiness, instilling confidence in consumers about the security of their information. This will undoubtedly go beyond mere compliance with regulation and should instead manifest by ways of real value that customers receive in return for sharing their data.

New Zealand has a lot it can learn from the adoption – or lack thereof – of Open Banking internationally. In the United Kingdom for instance, five years since the adoption of standardised APIs for Open Banking, there are just seven million active users – significantly below the expectations of the industry. It is suggested that there are two potential causes for this. First, there is a lack of incentive for customers to use account to account payments vs card payments. Second, and critically in light of this report's theme, is that there are inherent customer concerns about the degree of consumer protection in Open Banking payments. Being able to evidence to prospective customers that Open Banking is not only valuable, but also secure, will be critical in being able to influence widespread adoption. Without it, New Zealand risks falling into a similar position to that of the UK where the long-awaited hype of Open Banking has failed to bring the benefits that were initially pitched.

The Commerce Commission's February 2024 update reaffirms Open Banking progress, paving the way for Payment API regulation in New Zealand. This development in Payment APIs is expected to lay the foundation for data API integration, contributing to the establishment of the Customer and Product Data Bill. The update builds on last July's consultation paper, which gathered input on barriers third parties encounter in introducing innovative payment methods and the potential role of regulatory powers to mitigate these challenges.

Key insights from the recent update are:

1. **The Commerce Commission's decision to proceed to the next phase of interbank payment network designation.**
   The Commerce Commission's move to the next phase of interbank payment network designation marks a critical step towards Open Banking. It signals that, although designation does not immediately obligate industry participants, it facilitates timely regulatory interventions to ensure adherence to industry commitments. Acknowledging that sole reliance on industry-led initiatives falls short in creating the needed dynamic and secure payment environment, the Commission points to the banks' lack of transparency of progress under the Minimum Open Banking Implementation Plan. A robust regulatory backdrop will thus provide banks and third-party payment providers with the trust and assurance needed to foster innovation in interbank payments—an area that promises significant benefits for consumers and small businesses as one of the cheapest payment options available to Kiwis.

2. **The Commission's perspective on the minimum requirements for a thriving API-enabled payments ecosystem, highlighting expectations for Payments NZ, the API Centre, and the five major banks.**
   These requirements serve as the foundation for building a payments ecosystem that is not only efficient and responsive to innovation but also one where trust and transparency are paramount. By streamlining partnership processes and enhancing the ability of third parties to participate, the Commerce Commission seeks to boost consumer and merchant confidence, ensuring that users can rely on secure and transparent financial transactions. The implicit trust in a system that protects consumer interests and operates with clarity is integral to the advancement of Open Banking in New Zealand. The Commission's non-binding guidance encourages active involvement and openness from all parties, highlighting mutual trust and transparent practices as key drivers of success in this transition.

As New Zealand's banking sector gears up for the May milestone to begin employing Payments NZ's API Standards, these advancements signal a positive collective move towards a cohesive and regulated Open Banking environment.

The Conduct of Financial Institutions (CoFI) Bill

The Conduct of Financial Institutions (CoFI) Bill is an impending regulatory regime which will require players in the financial sector to uplift and embed their conduct risk frameworks. The regime is principles-based and marks a significant turning point within the financial services sector, as it places a clear and deliberate focus on advancing fair customer outcomes. Central to this transformation is the imperative for banks and insurance companies to demonstrate their intrinsic consideration for customers. This entails providing compelling evidence of a commitment to customer needs, effectively communicating the suitability of products and services, and offering the requisite support throughout customers' financial journeys. In essence, CoFI not only mandates regulatory compliance but also presents an opportunity for the industry to undergo a comprehensive overhaul, leveraging technology and data to create more customer-centric operating models.

Consumer Affairs Minister, Andrew Bayly's recent statements reflect a commitment to streamlining the regulatory landscape under the CoFI reformation. The intention is to ensure that financial institutions' conduct obligations are not only proportional to the risk of harm but also clear and flexible enough for adoption to accommodate the unique demands of their customers. Key to this proposed approach is the consolidation of conduct oversight by appointing the Financial Markets Authority (FMA) as the sole conduct regulator, a move that promises to reduce the complexity previously wrought by multiple regulatory bodies. Additionally, the shift to a single conduct license and review of the CoFI Bill aims to simplify obligations, eliminate redundancy, and lighten the operational load for financial institutions, particularly benefiting the FinTech sector by lowering compliance costs and operational complexities. This thoughtful recalibration of the regulatory framework is poised to make compliance more manageable for FinTech firms, aligning with their need for regulatory clarity and efficiency.

Transparency is a foundational principle of CoFI, mandating that financial institutions find effective transparency in their decision-making processes. This extends to explaining the rationale behind claim denials or complaint rejections. Interestingly, CoFI also encourages heightened pricing transparency, a welcomed development that challenges providing meaningful and accurate information at scale.

CoFI introduces an avenue for FinTech companies to play a central role in supporting customers throughout their financial journeys and empowering them to make informed decisions. Money SweetSpot, a New Zealand based debt consolidation social enterprise, champions a human-centred lending approach, challenging the norms of the current financial system that labels those affected by unforeseen events as high-risk borrowers. Their mission seeks to revolutionise the financial industry by encouraging finance companies and banks to adopt a customer-centric ethos, prioritise fairness, and provide educational resources to break the cycle of perpetual debt, ultimately promoting long-term financial well-being and responsible lending practices. Banks are now reaching out to Money SweetSpot to understand their model, prompted by concerns about impending Conduct of Financial Institutions laws.[7]

For large financial service providers, embracing this opportunity extends beyond mere regulatory compliance. It encompasses a proactive commitment to enhancing customer outcomes and the value they deliver, meaning that they can foster trust and cultivate stronger and more enduring customer relationships. It also means that financial service providers should be prepared to validate and measure customer outcomes while ensuring the suitability of their controls, processes, policies, and systems.

These incoming changes to the New Zealand financial sector's regulatory landscape paves the way for a diverse array of digital innovations. With this context, our attention turns to the specific digital tools and innovations that can effectively support these objectives, harnessing their potential to benefit financial institutions and their customers.

LEVERAGING DIGITAL INNOVATION TO PROMOTE TRUST AND TRANSPARENCY

Internationally, innovation in the financial sector has been impacted by advancements in a range of FinTech-driven technologies, including digital payments, automation, digital identity, and data management, all of which have contributed to maintenance of strong growth for both incumbent banks and FinTech's amidst a challenging competitive environment.

The New Zealand financial sector must ensure that it leans into the opportunities that these emerging technologies can bring. How financial service providers prepare themselves for this imminent wave of new technologies and leverage them to help build trust and transparency will be critical in the near future.

Digital payments

The ability to make payments from one entity to another in a way that can be verified is central to monetary exchange, and a key part of modern society. Historically, cash and analogue payments through trusted ledgers of banks have provided certainty about how was being paid by whom. However, the proliferation of digital payments has changed this.[8]

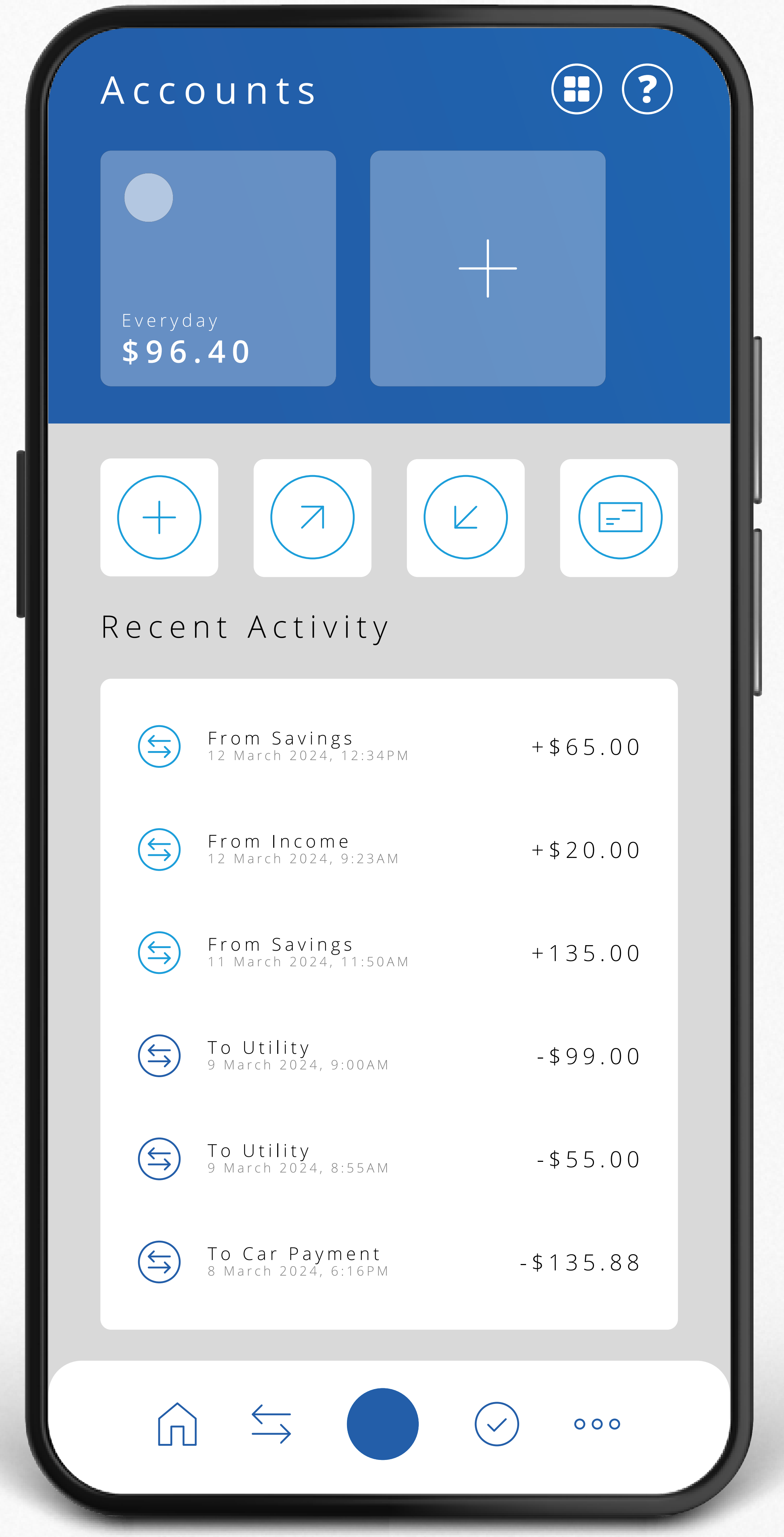
There are a range of technologies enabling digital payments, ranging from online banking, digital currencies, and open payments to identity-connected payment models. This provides people and organisations with greater ability to move money, greater convenience and more choice in how they pay for goods and services. But it also extends challenges for trust and regulation, as customers are estimated to be losing up to $200 million per year through fraud and scams.[9]

There is a strong push to lower the risk of using digital payments with changes to wider industry digital payments standards such as ISO20022 which provides a common, interoperable standard for all steps in the payments value chain.

Increasing consumer protection was the subject of the August 2023 Parliamentary Committee which saw a recommendation for strengthening bank processes like in the United Kingdom and Australia to adopt name and account number checking. The New Zealand Banking Association has announced a set of initiatives which include instigating Confirmation of Payee (CoP) that are intended to further protect New Zealanders when using digital payments.[10] Name and number matching, known more widely as Confirmation of Payee (CoP) is a service that enables a person making a payment to ensure it is going to the right place by checking the details they have for a payee match the details held by the payee's bank. Locally CoP has recently been offered by Akahu,[11] and Worldline[12] have announced they will launch this service in 2024.

$200M

LOST THROUGH FRAUD AND SCAMS PER YEAR IN NEW ZEALAND



Digital wallets

In coming years, digital wallets will be the tool through which an individual's relationship with banks and brands will be managed. Digital wallets are a tool that simplify the overall personal finance experience, stretching from facilitation of payments through to management of loyalty rewards, ticketing and a range of other functions in one seamless, customer-oriented experience.

Local provider, Dosh has been leading the way in the digital wallet space in New Zealand. Dosh allows customers to make and receive payments, split bills and create personalised savings accounts without the need to log into a traditional banking application. However, the uptake of digital wallets in New Zealand has some way to travel. New Zealand lags behind much of Asia-Pacific, with just 10% of sales being conducted through a digital wallet, despite digital wallet technology being readily available.[13]

Digital wallets are more intimately connected to the consumer's identity than traditional payment channels and, done well, should be perceived as a safe channel to connect customers and brands. Security features like biometrics, password protection and encryption go beyond what a customer would experience with traditional payment mechanisms. Accordingly, they represent a solution to protecting consumers from fraud and other payment scams, leveraging this built-in security to create a layer between the customer and merchant, without adding friction to the checkout experience.

Blockchain and cryptocurrencies

Blockchain and cryptocurrencies are two of the most hyped technologies in recent years. Closely related but distinct, blockchain is a technology that enables cryptocurrency (and more) through the use of a decentralised ledger of transactions across a community (usually peer to peer). Using this technology, participants can complete transactions without intermediaries or centralised clearing authorities. Cryptocurrency is a medium of exchange, created and stored electronically on a blockchain. Whilst crypto exchanges have seen their fair share of incidents and bad press over recent times, they are playing a significant role in the financial services sectors in countries such as Switzerland and Singapore who have adopted technologies underpinning cryptocurrencies and are leading the charge globally. RBNZ published a paper at the end of 2022 which stated the uptake of crypto-assets for monetary use in New Zealand is fairly limited, however, there appears to be growing interest in such assets for investment or speculation purposes that may still add momentum to wider uptake.[14]

The fundamentals of blockchain technology delivers transparency, especially compared to traditional financial services operations. Tamper proof ledgers ensure that transaction history is permanent and verifiable. Real time transaction history ensures everyone has access to up-to-date ledgers, leading to less discrepancies and disputes.

As these ledgers are decentralised by design, it fosters trust by removing the need for intermediaries.

The benefits of blockchain seems indisputable but despite this, there is still a long way to go before Blockchain and Cryptocurrencies are seen as a trusted part of the financial services sector, especially in New Zealand. Efforts are being made by local players such as EasyCrypto, whose mission is to make it easy for anyone to buy, sell and exchange a large catalogue of cryptocurrencies. A key priority of theirs is to focus on the safety of crypto assets, and employ a range of leading security mechanisms to do so, such as two-factor authentication, biometric authentication, and secure private key generation and storage.[15] This is an important step in promoting the adoption of the technology, as building trust with customers will be a critical factor in expanding the reach and usage of cryptocurrencies and blockchain technology.

Open Banking and embedded finance

Perhaps the trend which has threatened to be most disruptive for a number of years is the emergence of Open Banking, open payments and embedded finance. All of these have the objective of encouraging competition in the financial sector and improving the choices available to customers.

As covered above, Open Banking refers to the use of customer's data by third parties so that customers can get access to greater insights and choices with regards to their finances.

For example, a third-party provider may use customer data to identify their spending patterns and make recommendations on ways that they can make achievable savings. Open payments go a step further than this and entitle these third parties to make payments on behalf of the customer where it has been given permission to seek an optimal solution. One such example of this technology in application is the automatic top-up of digital wallets, where open payment technology is used to identify that a customer's digital wallet has a low balance and can make a payment direct from their account.

Embedded finance is slightly different still and involves the integration of banking capability into non-financial services – such as utilities or consumer goods. It leverages the same technology and guardrails as Open Banking to embed financial services into a customer's journey with a provider. For example, an e-commerce retailer might embed banking services directly into a customer's checkout experience without having to redirect them to a bank – instead using APIs to connect the customer through a third-party BaaS provider.

However, Open Banking has a significant hurdle to overcome in terms of credentialing itself as a trustworthy component in the financial sector. One way that the Open Banking space can overcome this is through the API standards being set by Payments NZ, which will serve as an industry-wide standard for third party providers. This will outline a trustworthy framework for connecting banks with third party providers to ensure that customer data is treated securely. While progress in this space has been slower than hoped for, it is expected that this will be enacted in mid-2024.

Furthermore, it will be critical that customers have a clear understanding of how their data is being used under a Consumer Data Right (CDR). For instance, policy may need to be set around time restrictions on data use permissions – as is the case in the United Kingdom – so that customers understand that their data may not be 'open' indefinitely. It is also noted that there will likely need to be a heavy education piece to complement the rollout of Open Banking so that customers can understand what it means for them and suspicion about the concept can be quelled. Only by navigating this properly will the financial sector be able to reap the benefits of Open Banking in terms of building trust and transparency.

Artificial intelligence and machine learning

Artificial intelligence (AI) and machine learning (ML) are not new concepts to financial services. Natural Language Processing (NLP) and ML have been used for years but despite this, there is still a significant amount of manual processing that occurs.

AI and ML can help safeguard both customers and financial institutions in an increasingly digital and interconnected world through refining fraud and credit decisioning, bolstering security, protecting personal information and mitigating financial losses. AI can also create greater choice for customers, such as through connecting a customer to different loan providers and using their data to help them make an informed decision. Data limitations have historically hindered banks and financial institutions in extending credit to the unbanked, impeding financial inclusion. Alternative credit scoring, driven by machine learning and data from digital platforms, expands beyond traditional credit to include various data sources like airtime usage, mobile money transactions, geolocation, bill payment history, and social media. This diverse data landscape, with contributions from telecommunication companies and utilities, facilitates a comprehensive credit risk assessment. Machine learning's capacity to handle nonstandard data improves credit scoring, increasing acceptance rates and lowering credit losses, promoting financial inclusion, and expanding access to credit.[16]

And with the emergence of Generative AI and the promises to help save money and improve productivity, freeing up resources to focus on more value-added tasks, the key for financial institutions will be identifying and prioritising the most impactful use cases. Fraud detection, expense categorisation and transaction monitoring are all applications of potential use cases for banks and FinTechs, with some local examples – such as New Zealand Credit Bureau Centrix – who have partnered with Envestnet Yodlee to facilitate real-time debt servicing and affordability checks based on actual income and expenditure to give a more accurate assessment compared to self-reported estimates or proxies.[17]

However, for banks to leverage AI, there must be a properly functioning data infrastructure that can run real time at low latency, with access to significant amounts of data to ensure well trained models or support banks to tune, configure or evaluate third party models. High quality data is essential for training unbiased AI models. Critical to this is implementing guidelines for data collection, storage, and sharing to mitigate biases. With the high volumes of data being generated through the digitisation of financial services, banks have an obligation to maintain robust data management practices and evidence this to their customers, employees and regulators. Effective use of customer data presents a real opportunity for banks to gather deep insights on their customers and operations, however it also introduces risks that cannot be addressed through traditional security techniques.[18]

AI based data monitoring, cloud-enabled data trusts, and quantum technologies are all examples of mechanisms through which banks can embed strong data management and foster customer trust.[19]

The forthcoming European Union Artificial Intelligence Act, expected to enter into force by middle of this year, will further propel innovation and cement trust in the AI value chain by establishing clear obligations based on the level of risk and impact.[20] As the EU sets a precedent, it is anticipated that global regulations will swiftly adapt, amplifying trust and transparency in AI on a worldwide scale.

AI and cloud-enabled data trusts are very much within the realm of what banks can do today to support this, while blockchain and quantum technologies are more long-term bets that banks may consider further into the future.

Notwithstanding this, demonstrating commitment and investment in mechanisms to better manage customer data is a significant lever that banks can pull to build trust from their customer base, and shows no signs of being deprioritised on the agendas of banking leaders.

Digital identity

As new technologies develop across financial services, digital identity has rapidly become a critical component for building trust between banks and customers.[21] While customer identity has traditionally sat at the heart of this trust model, increased digitisation demands a system-wide approach and commitment to constant verification is more critical than ever before. The way in which consumers engage online is fundamentally shifting from production and consumption to interaction, with users participating in in trust based ecosystems rather than delegating trust to a particular provider. This also implies that users take full ownership of their data because interaction in that mode is inherently dangerous without the correct controls and requires users to prove and verify their identity regularity which adds friction to user interactions and uptake on new products.

Digital identity sits at the heart of this challenge. At the most superficial level digital identity is seen as an answer to the burden of know your customer (KYC) and an overall reduction of the risks of onboarding, authorisation and maintaining privacy. The technology to achieve this exists, and the primary challenge now is to scale digital identity efforts so that it creates the 'web of trust' that will underpin it.

Globally, banks and FinTech's alike have engaged with emerging identification technologies to ensure that increasingly complex verification processes can be delivered without significant impact on the customer's experience. Rabobank is one such example of incumbent banks leveraging emerging technology to improve its identification process, through its offshoot Rabo eBusiness.[22] The objective of this is to ensure that customers have a familiar and uncomplicated digital identification experience which balances the need for strong security while delivering a positive onboarding experience. The combination of robust security and a smooth customer experience is critical for banks looking to build trust with their customer base. Furthermore, digital identity is being practically used through wallet technologies like Apple Wallet and Google Pay, which are expanding to include identity documentation in addition to payment cards.[23] This is a bridging technology which provides convenience but, depending on the check required for ingestion into the wallet, may have limits to the trust that can be placed in it.

Two-factor Authentication (2FA) also plays a key role in providing additional security around digital identity. However, its adoption is not as prolific in New Zealand as it is overseas. This is important as authentication is an essential pillar identified by Payments NZ to enable the proliferation of digital identity. It represents the portal connecting individuals with the digital world, confirming their identity before granting them access to their personal information and protected resources.[24]

The benefits of digital identity have clear impacts on other key areas within the financial sector. For example, India's Aadhaar enabled payment system uses the country's digital identity system to connect customers, even in remote areas where bank branches are scarce. It allows users to make deposits and withdrawals, transfer funds, authenticate payments or check account balances, among other features. With many of our most vulnerable communities in New Zealand living rurally, without access to the same services (banking included) that others do,[25] digital identity and payment technology could come together to further financial inclusion.

As part of the United Arab Emirates' (UAE) focus on digitisation of national services, they have recently mandated the use of a national digital identity service, called The UAE Pass. This central identity database provides residents access to more than 6,000 services provided by over 130 organisations of local and federal governments and the private sector.[26] This is poised to transform the process for KYC and AML activities, making the customer/client onboarding journey faster and cheaper for banks and FinTech's. In New Zealand, the new Government has shown appetite to reduce the burden that current AML processes have on businesses, and there is potential to leverage a true digital identity tool with open access to achieve this.

In light of this, it is worth noting that progress towards a more standardised framework for digital identity has been made as well, with New Zealand enacting the Digital Identity Services Trust Framework in 2022. Importantly, it provides regulation and guidance on how to apply digital identity in New Zealand but also because it paves the way for establishing a digital identifier for citizens, as has been achieved internationally. Being able to make similar progress in this space will be critical for bringing New Zealanders along the digitisation journey of the financial sector, and doing so in a way that builds trust amongst customers represents a real opportunity that banks must capitalise on.

The potential for real innovation from these FinTech technologies is abundantly clear but in order for New Zealanders to see some of the benefits that are becoming commonplace internationally, we must focus on what needs to be true for New Zealand to leverage these technologies. In this early phase establishing key trust anchors through government and cross sector collaboration will be key.

NEW ZEALAND FINTECH INFRASTRUCTURE

For New Zealand to fully harness the power of innovation in FinTech, we have explored a series of enablers which will contribute to a successful FinTech ecosystem.

Join the FinTechNZ community

Partnerships

Partnering with FinTech's is one avenue through which banks can bolster their technology landscape and leverage the benefits of emerging tech trends. Banks have an increasing appetite to pursue FinTech partnerships as a way of filling technological or organisational capability gaps and keeping pace with their competitors.[27] This is a particularly pertinent choice in the face of promoting trust and transparency in banking, with FinTech's commanding a higher rating of consumer trust than their legacy competitors – reinforcing the importance of innovation for banks to keep pace.[28]

For FinTech's, partnering with large incumbents represents a significant opportunity to grow the reach of their product and establish long-term cash-flows for further innovation and development.[29] Legacy banks are often less price sensitive than other emerging players, especially when it comes to critical services (such as core banking). Furthermore, these legacy banks are more likely to be seeking long term service agreements, which provides FinTech's with the opportunity to meet investor-demanded revenue targets with one or two significant deals with incumbents. It also offers the chance to expand the reach of FinTech's, with one large-scale deal often leading to opportunities with other banks, spurred on by the first-mover advantage of their competitors.

However, partnering with banks has been a challenge for FinTech's both in New Zealand and abroad. Finding the right avenue through which a FinTech's product might be purchased is difficult, with legacy banks often being subject to complex procurement processes. It can often be challenging for FinTech's to get a 'foot in the door', and those that do face lengthy sign off processes to get their product used to any degree beyond a proof of concept. Add in complexity around the integration with a legacy tech stack, and the challenge that FinTech's face to partner with incumbent banks is only amplified.

The challenges of bank-FinTech partnerships go further than just the mechanical aspects of arranging a deal. Fundamentally, banks and FinTech's are different beasts: a FinTech will typically focus on a particular niche whereas banks will work across a much broader spectrum and will make decisions accordingly. Furthermore, banks will often be more interested in FinTech's that are further along the maturity scale, whereby they have access to intellectual property and information. This can come at the expense of backing FinTech's in the innovation stage.

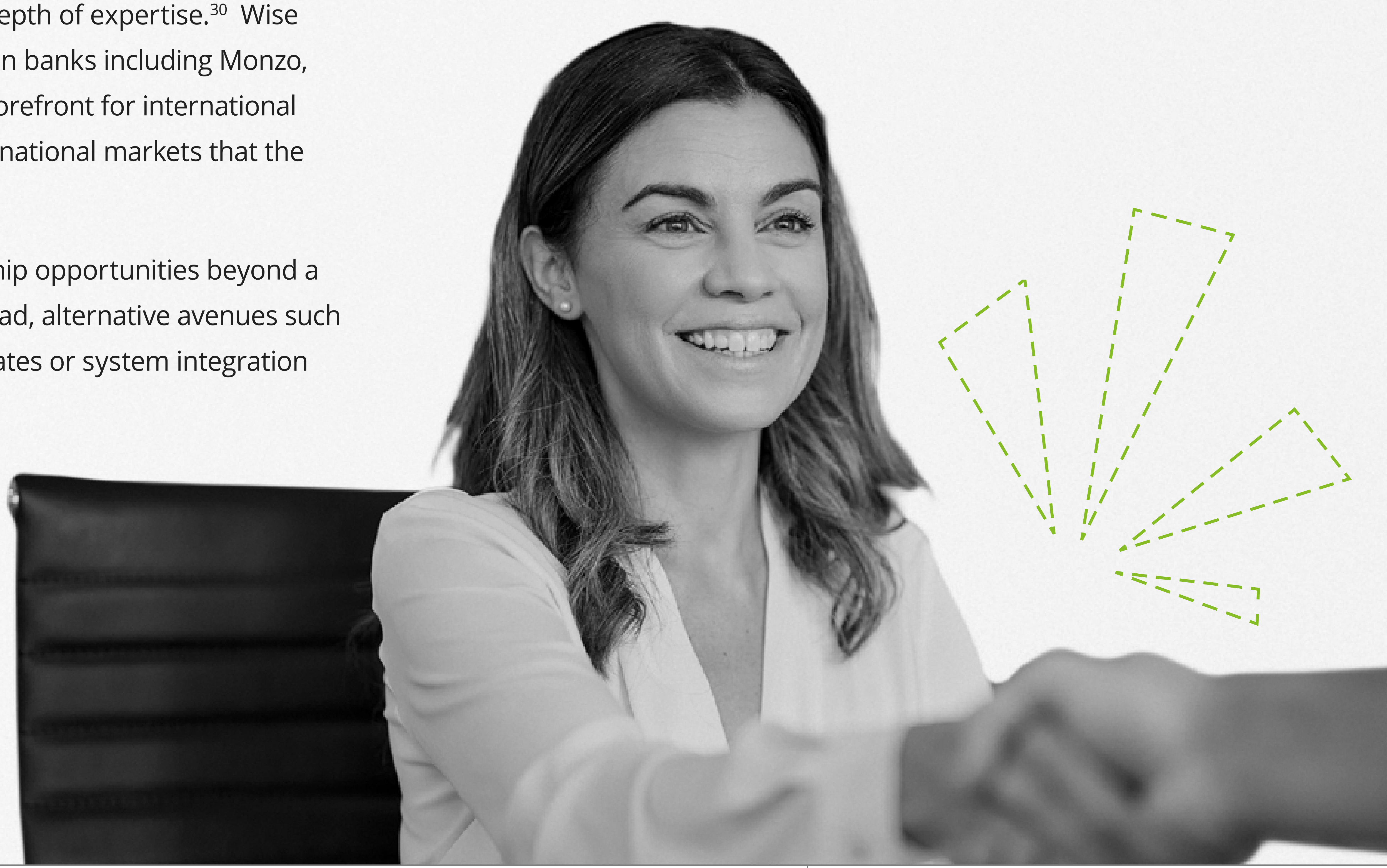
Considering this, a paradigm shift is required to encourage banks to perceive FinTech's as a more integral part of a solution, beyond just being a supplier or vendor. FinTech's represent opportunities for banks to create wider value pools, leverage mutual relationships and retain customers.

Banks cannot continue to forge partnerships on a FinTech-by-FinTech basis. Instead, creating a standardised model or process for bank-FinTech partnerships is another way in which the value of these relationships can be maximised. This goes beyond procurement processes, and should instead explore ways in which governance, branding and even technology integrations such as APIs can be standardised to be mutually beneficial. Furthermore, having a standardised understanding of the risk framework (i.e., where the risk in the partnership sits) may be a useful way to simplify the partnership process and encourage FinTech's and banks to enter relationships with open eyes. This is even more critical considering impending legislation, such as CoFI, which require more proactive risk management procedures.

Notwithstanding this, there are ways around these complexities – and New Zealand FinTech's have made some breakthroughs in terms of partnering with banks. For instance, BlinkPay – a FinTech startup working in the digital payments space – has partnered with Westpac to deliver online payment functionality to the bank's customers. Also in the Open Banking space, Qippay has partnered with BNZ to offer its payment interface to BNZ customers – with a focus on sellers and charities – to streamline account to account payments. Ahead of the standardisation proposed above, what is critical for success in this space is to ensure that processes and governances (such as IT security policies) are robust and can be clearly evidenced in a bank's onboarding process.

And the evidence from overseas demonstrates the real value that these partnerships can bring. Wise, a key player in the international payments space, has benefitted from an increased appetite of banks to partner with FinTech's to expand their customer base and leverage their depth of expertise.[30] Wise has partnered with several European banks including Monzo, ZA Bank and N26 to bolster their storefront for international payments, and open access to international markets that the banks had previously not had.

FinTech's may also look at partnership opportunities beyond a direct agreement with a bank. Instead, alternative avenues such as partnership with industry advocates or system integration consultancies may provide a valuable front door for FinTech's looking to secure a pipeline of opportunities with a range of outfits. For consultancies, such partnerships bring an exciting addition to their system integration storefront, while for FinTech's, partnering with such organisations can help relieve the burden of onboarding with multiple industry players.



Incubators

The value of FinTech-focused incubators lies in their ability to provide early access to essential knowledge, understanding, and experience, particularly concerning the intricacies of navigating the regulatory environment. These programs serve as a vital resource for FinTech start-ups, helping them navigate the complexities of the financial services industry and facilitate connections between FinTech and key industry players, as well as a broad network of strategic customers.

Whilst New Zealand has a small, but active FinTech community which provides a lot of mutual support to one another, there is a lack of government-backed or independent incubators that cater specifically to FinTech start-ups. One notable exception is the Kiwibank FinTech Accelerator program, which has successfully supported several Kiwi companies, including Sharesies, Accounting Pod, and Tapi, in bringing their innovations to the market.[31] These examples underscore the importance of having a supportive network to help transform ideas into reality.

In contrast, countries like Hong Kong's Government supported incubator programme Cyberport has over 1000 FinTech's in incubation. In the United Kingdom they have established a robust ecosystem of incubators and accelerators dedicated to fostering a culture of innovation and entrepreneurship. Notable examples include Level39, Europe's largest technology accelerator specialised in finance, retail, cyber-security, and futures cities technology companies; Fintech71, a start-up accelerator providing FinTech start-ups with funding up to $100k, access to the top financial service companies, and industry mentors through a 10-week intensive program;[32] and the FinTech Innovation Lab London, a highly competitive 12-week program that helps innovative startup FinTech companies refine and test their value proposition with the support of the world's leading financial service firms.[33]

While there are non-FinTech specific incubators which exist as part of the broader Venture Capital ecosystem, these are often subject to the challenges that come with the VC space, explored below. Instead, additional FinTech incubators that align with the model set by the Kiwibank program and expand the number of banking sector-sponsored initiatives would be welcomed in New Zealand. These programs would not only provide participants with access to the bank's experience and resources but also offer a support system tailored to the regulatory environment and the other specific challenges of the financial sector.

5 YEAR COMPOUND ANNUAL GROWTH OF 32% IN FINTECH REVENUE

VC funding

When it comes to supporting FinTech startups through investment, New Zealand benefits from a robust early-stage angel investment community and a burgeoning venture capital industry. This reflects the remarkable growth of FinTech in the country, as evidenced by the 2022 FinTech Insights report, which highlights a five-year compound annual growth rate of 32% in FinTech revenue – a rate three times higher than the overall technology sector's growth in New Zealand.

Despite this, securing funding is one specific challenge the New Zealand FinTech's have when breaking into the sector. This is reflective of a lack of understanding amongst VCs on the value proposition of FinTech's, and uncertainty on which specific spaces within FinTech to invest in. Further to this, most New Zealand venture capital funds are geared to push globally, meaning that New Zealand-focused solutions are often left in the dark – due to their perception of being less profitable given their specific local focus and the relative size of the New Zealand market. To combat this, FinTech's may seek funding from VC funds with a different investment ethos, which may have a better appreciation of the impact in a New Zealand context beyond bottom line profitability. Impact investment funds, government backed investment vehicles and Iwi funds or trusts offer potential funding corridors that FinTech's aiming to disrupt the local market may benefit from. For example, CoGo – the New Zealand FinTech aimed at integrating carbon management into banking operations – is supported by early-stage impact investment fund Soul Capital. Unlike its more traditional counterparts, Soul is an example of a VC fund with a commitment to positive social and environmental impact, geared towards entrepreneurs and enterprises that are tackling social and environmental problems. For local FinTech's aiming to disrupt the sector to make it more inclusive and transparent for New Zealand communities, pathways like this may be viable options for securing early-stage investment.

Alternatively, an attitude shift towards the banking sector is required by New Zealand based VCs to continue to support local FinTech's. Commentary from survey respondents noted frustration at the perceived lack of potential that VCs see in the New Zealand financial services sector. Instead, they argue that New Zealand provides an excellent starting point for making an impact with innovative products and services in the sector, addressing important problems while doing so, and that the perceived lack of returns from doing so is almost certainly overstated.

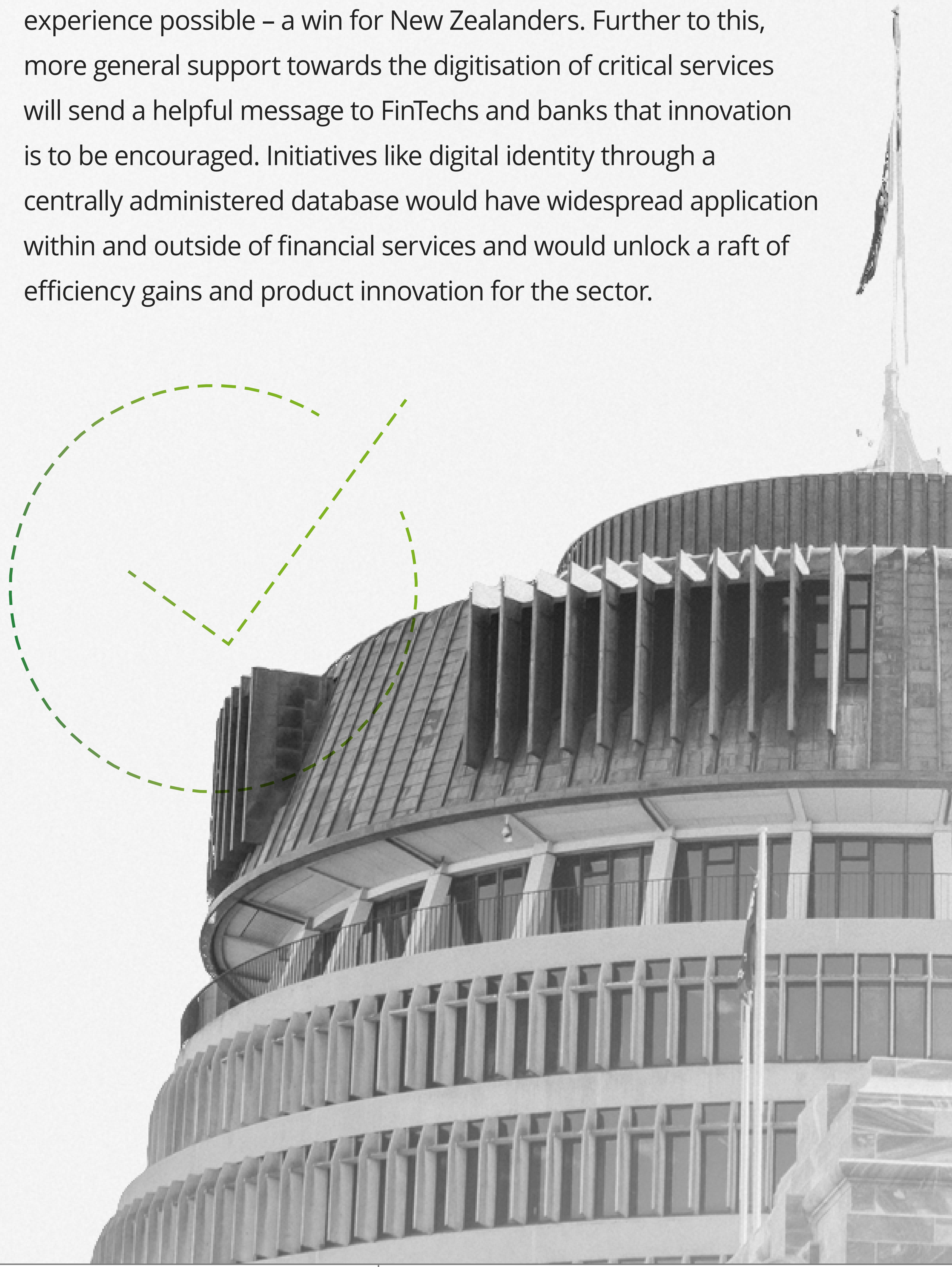
Pronounced backing from government

There has been a distinct lack of government regulation in Open Banking in New Zealand, which as discussed earlier has led to the industry-led approach. And while regulations such as CoFI and the market study are a positive step in the right direction, New Zealand FinTech requires more pronounced backing from the Government.

Government support for FinTech and regulation in the financial services sector has been powerful in helping drive the UK forward as a successful FinTech hub, ultimately contributing to better outcomes for customers. An upcoming piece of UK legislation, the Digital Markets, Competition and Consumers Bill (DMCC) aims to reshape the landscape of online business competition, growth, and success, solidifying the UK's position as a centre for innovation and a nurturing ground for technology. The Bill guarantees a level playing field, requiring companies such as Apple to engage in fair competition for consumers' business. This will expand consumer options, enable smaller tech enterprises to prosper and rival their larger counterparts, and establish the UK as a global leader in the tech market. Policies with similar ambitions would be welcomed in New Zealand.

Securing and promoting government support will send a powerful message to the industry and individuals/organisations interested in establishing FinTech's and customers considering using these services. This instils confidence by assuring them of a future where FinTech is regulated, organised, and trustworthy.

Regulations to allow New Zealanders to deal with global businesses and banks should also be explored and formulated to enable competition and invite entrepreneurs to bring their solutions to our shores for testing. Regulatory bodies fostering controlled testing environments will encourage FinTech providers to thoroughly test their products and services, delivering the best experience possible – a win for New Zealanders. Further to this, more general support towards the digitisation of critical services will send a helpful message to FinTechs and banks that innovation is to be encouraged. Initiatives like digital identity through a centrally administered database would have widespread application within and outside of financial services and would unlock a raft of efficiency gains and product innovation for the sector.



Sandbox environment

Sandbox environments have proven to deliver significant value to FinTech companies by providing essential guidance on regulatory compliance and serving as an ideal space for testing innovative ideas while evaluating potential risks. In doing so, these programs have successfully debunked the myth that regulations hinder innovation. Instead, they illustrate how regulators can actively nurture innovation by granting unique business models 'permission to play' in the fiercely competitive financial services sector.

Access to these sandboxes has a range of benefits. It bolsters a company's credibility with investors and customers, enhances legitimacy when collaborating with established regulatory bodies, and instils the confidence to pursue strategic plans, including full authorisation applications. The sandbox experience often streamlines the process of obtaining full authorisation and provides invaluable insights into the regulatory landscape, especially for startups aiming to serve regulated firms.

Countries like the UAE, Singapore, Malaysia, Australia, and the UK have recognised the significance of regulatory sandboxes. They have established programs to support the entry of innovative FinTech applications into the market. This underscores a global trend in regulatory innovation, highlighting the pivotal role that sandboxes play in fostering financial technology development and ensuring regulatory compliance.

A government-led regulatory sandbox initiative in New Zealand, informed by international best practices, offers local FinTech’s the opportunity to test their products and services with real consumers in a controlled environment. This facilitates the acquisition of insights and feedback from actual customers across various stages of adoption, ultimately contributing to a solid reputation for delivering exceptional FinTech products that have undergone rigorous testing before release.

While the advantages of sandboxes are evident, there is room for improvement. Streamlining regulations navigation, extending sandbox durations, and fostering a sense of community among participants requires attention. Additionally, sharing anonymised lessons learned with the broader industry would promote transparency and reduce the unintentional competitive advantage that participating firms might gain.

As the relevance and importance of sandboxes continue to grow, the next crucial challenge for regulators is to create a regulatory environment that enables FinTech’s to operate as cross-border businesses. While also considering whether regulatory sandboxes alone suffice or if there are opportunities to explore other types of sandboxes. For instance, a different type of sandbox, like the one that Money Sweetspot could have benefited from, would allow them to explore rewarding individuals for debt reduction. This expansion of sandbox concepts could open new avenues for innovation in the financial technology space.

Attracting and developing talent

Talent is a cornerstone for any organisation and industry, and the FinTech sector is no exception. The demand for highly skilled individuals in this sector is steadily rising and attracting, developing, and retaining top talent is paramount. New Zealand must streamline entry for global talent while concurrently enabling organic talent development and retention within the country. Top talent seeks to work with the best, and New Zealand should facilitate their arrival and remove barriers to entry.

To boost talent development in New Zealand, it's crucial to consider multiple strategies, blending local and global approaches. Fortunately, there are valuable insights and lessons from other countries and their talent development practices that can be drawn upon for inspiration and to aid in formulating an effective talent development plan.

Currently, New Zealand has two key avenues for accessing global talent to support the FinTech industry. The first is the border exception tailored for the tech sector, which permits the entry of 600 specialised tech workers and their families. This exception primarily targets crucial tech positions such as software development, product management, cybersecurity, and interactive media. The second avenue is the Entrepreneur Work Visa, which is offered by New Zealand to individuals seeking to run their own businesses in the country.

Entrepreneurs seeking to obtain this visa must evidence the investment capital for the proposed business and provide the financial details outlined in their business plan[34]. While both pathways are certainly helpful in terms of facilitating access to global talent, neither explicitly targets the talent required by the FinTech sector.

To address the limitations of the current options, it is worth exploring the introduction of a specialty FinTech visa. This specialised visa would aim to enable foreign talent to contribute to New Zealand's FinTech sector, whether working remotely or on-site. Such visas have already been successfully implemented in various other countries, including the UK, Canada, and Denmark.

- **The UK offers a Global Talent visa that allows leaders or potential leaders in digital technology, including FinTech, to work in the country without a job offer. The visa is granted based on certain professional requirements, special skills, and recommendations from employers or experts.[35]**
- **Canada issued a Global Talent Stream visa in 2017 that enables employers to hire highly skilled foreign workers in the technology sector with five years of experience in their field. The visa is designed to help Canadian companies scale up and compete globally.[36]**
- **Denmark offers a Fast-track Scheme visa that allows companies to hire highly skilled foreign workers in the technology sector. The visa is designed to help Danish companies attract and retain international talent.[37]**

There doesn't need to be a complete reliance on global talent; New Zealand's globally ranked universities offer a valuable resource. By partnering with these institutions to introduce FinTech training programs, local talent can acquire the essential skills necessary to strengthen the FinTech workforce. The University of Waikato announced New Zealand's first FinTech degree to fill the critical skills gap, introducing a Bachelor of Banking, Finance & Technology (BBFinTech)[38]. Specific pathways like this are a useful tool for boosting not only the talent pool, but the wider position of the FinTech sector within New Zealand's commercial landscape.

With an understanding of what capabilities New Zealand can leverage, and what it needs to develop in order to truly thrive as a FinTech and innovation hub, we can begin to explore the vision for what our country's financial sector could look like in the future. Digital innovation, especially that targeted at building consumer trust and promoting transparency, has the ability to radically alter New Zealanders' relationship with the sector – and the final section of this report will take a deeper look into what this might mean.

Data sovereignty

Within the data centre landscape, trust among consumers is a cornerstone. There is vast importance placed on the principle of data sovereignty, as outlined in the Privacy Act 2020. This commitment is particularly significant when considering (for example) New Zealand's Te Tiriti o Waitangi commitments, including that to Māori data sovereignty – the recognition that Māori data should be subject to Māori governance.

For Māori, data is a living taonga (treasure) with strategic value. It refers to data produced by Māori or that is about Māori and the environments that they have relationships with. Māori data is subject to the commitments made under Te Tiriti o Waitangi / the Treaty of Waitangi and the United Nations Declaration on the rights of Indigenous Peoples (to which New Zealand is a signatory). Against this backdrop it is critical that banks understand what data they collect constitutes Māori data, ensure it is accessible to Māori and clearly understand how it should be stored, shared and used. Doing this would go a significant way toward developing necessary levels of trust with Māori.

WHAT IS THE IMPACT FOR NEW ZEALAND AND NEW ZEALANDERS?

Developments in emerging technologies, powered by a rich and well-supported FinTech ecosystem, have significant potential to impact how New Zealanders interact with the financial system and their bank. Crucially, it provides a launchpad for banks to restore trust and transparency amongst their customer base against a backdrop of a declining industry perception.

With the impending regulatory changes and market challenges, the financial sector is ready for innovation – and trust and transparency should be at the heart of this. But what would this mean for New Zealand and New Zealanders?

Customer experience

Perhaps the most noticeable impact that would result from this would be in the area of customer experience. Customers have grown to demand excellent digital experiences across a range of industries and interactions with different institutions, and banking has been no different. Improvements in the use and adoption of emerging technologies in financial services will go beyond the screens of a customer's application and have the potential to fundamentally shift their experience. Furthermore, the importance of the incoming CoFI legislation will increase the focus that banks and FinTech's alike will need to place on their customer and their end-to-end experience.

New technologies will make back-office operations more efficient, speeding up previously lengthy processes such as KYC or AML verification. Customer propositions themselves will also change off the back of changes resulting from the adoption of a CDR, increasing choice and personalisation for customers. New technologies, especially those which employ the use of artificial intelligence, can create unprecedented personalisation of the customer experience, and widespread adoption of Open Banking has the potential to go further, and optimise the customer's product suite independently. To achieve this, modernised digital touch points will need to be accessible by both seller and customer and supported by a dependable digital infrastructure to ensure consistency of service can be achieved. Critically, these improved experiences will be backed up by more robust security processes, which employ technologies such as digital identity and enhanced data management to give customers greater trust in how their bank handles their information.

Connecting New Zealand and New Zealanders

Simpler, personalised experiences driven by technology also have the ability to improve financial inclusion and connect New Zealanders to their banks and to each other. Trends like Open Banking enforce a culture of customer empowerment, connecting New Zealanders with their own banking experiences in unprecedented ways. If this sort of technology can reach the hardest pockets of the market, then there is significant potential to break down the wall of financial exclusion which has started to emerge in recent years.

Trends around rethinking how banks treat data also have the potential to connect the sector to important segments of customers. For instance, being able to evidence that tikanga has been at the heart of banks' data management strategies is an impactful way that banks can better foster trust with Māori. The wider impact of this cannot be understated, as building trust in this way has the potential to deepen relationships that go beyond the bank and customer and instead extend to whanau and entire communities. Progress towards digital identity also has the ability to connect more New Zealanders into the banking sector and streamline previously complicated processes associated with getting 'online'. However, as explored above, it will be critical that this is done in a way that does not further exclude those communities who are not currently engaged with the digital world.

Productivity improvements

The adoption of emerging technologies not only offers potential productivity benefits but also has the capacity to make New Zealand and its residents more prosperous. Technology and innovation have the power to overcome some of the productivity challenges faced by New Zealand, such as limited resources and geographical isolation. By leveraging new technologies such as GenAI, banks can streamline operations, automate processes, and increase efficiency, which can result in better interest rates, better customer service and increased wealth for New Zealanders.

The inflection point is now, and the next five years will determine the winners and losers in the market. By embracing digital transformation and productivity improvements, banks in New Zealand can create a more transparent and trustworthy banking environment, leading to higher levels of customer satisfaction and loyalty.

Boosting the FinTech sector

Finally, New Zealand sits at a critical juncture to ensure that the current commercial and regulatory environment is capitalised on to foster innovation. This applies both to the ability for legacy banks to bolster their innovation capability and be more responsive to changing customer demands, but also to the FinTech sector more broadly. If FinTech's can capitalise on the changing market dynamics and cement their place as trustworthy challengers or partners with banks, it has significant potential to attract further investment and talent into a sector that has a lot to benefit from it. In larger, more mature markets, the snowball effect of FinTech's and challenger banks has been significant, and it is not hard to imagine a future in which all it takes is for a few successful FinTech's to unshackle the sector to realise its full potential.

CONCLUSION

This report has explored how trust and transparency in the New Zealand financial sector stands to be impacted through digital innovation driven by FinTech. We have looked at the current position of the sector with a particular focus on what has contributed to lower customer trust and perceptions of non-transparency within the banks, with scams and hard-to-understand fees being front and centre for this.

Chief among the drivers for change is regulation, specifically the imminent Customer Product and Data Bill and CoFI framework. These pieces of legislation, alongside the ongoing market study into personal banking services, will force sector players to change their offerings and ways of interacting with customers. These regulations provide the opportunity for banks to identify and execute ways in which they can enhance customer outcomes and build stronger, more enduring customer relationships. Of particular note is the CDR, which represents a catalyst for significant digital innovation in the financial sector through the much-awaited enablement of Open Banking in New Zealand.

But the opportunities for innovation do not start and end with Open Banking. The incoming changes to the New Zealand financial sector's regulatory landscape pave the way for a range of innovations, from digital wallets and payments through to AI and cryptocurrencies.

The potential for such technologies to improve trust and transparency in the sector is significant, whether it is through connecting the payment process closer to the customer's identity, or refining fraud and security processes through machine learning. However, in order for New Zealanders to see this become a reality, critical enablers must be in place at the level of funding and policy.

Rethinking of how emerging FinTechs get support, either through enhanced partnerships with banks, better access to VC funding, or dedicated FinTech incubators are identified as key ways that the sector can level up and respond to the opportunity ahead of it. From a policy standpoint, targeted support from government, an increased focus on attracting talent and maintaining data sovereignty are also noted as key levers to boost the capability of the sector in New Zealand. If these critical elements come together, as the report points out, the opportunity for New Zealand and New Zealanders is significant. Addressing trust and transparency through digital innovation has the potential to significantly improve customer experience, bring New Zealanders closer to their money and the sector, and boost the foundation that the FinTech space is built on.

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