



September 26, 2019

Cavan O'Connor-Close
Manager, Prudential Operational Policy
Financial System Policy and Analysis Department
Reserve Bank of New Zealand
PO Box 2498
Wellington 6140

Email: fmibill@rbnz.govt.nz

Dear Mr. O'Connor-Close,

**RE: Reserve Bank of New Zealand's Financial Market Infrastructures Bill:
Exposure Draft**

Visa welcomes the opportunity to provide comments on the Reserve Bank of New Zealand's Exposure Draft Financial Market Infrastructures Bill. Visa shares the Reserve Bank's interest in promoting a sound and efficient financial system that benefits all New Zealanders. As the Reserve Bank considers the Exposure Draft, Visa provides the following submission for consideration.

Visa supports strong and stable payment systems globally and in New Zealand. In general, we support the following key principles:

- Payment system oversight which is proportional to the risk posed by individual players in the payments ecosystem.
- Regulatory frameworks which recognise the oversight requirements already in place for international payment networks that meet best-practices or comparable risk and compliance standards under another competent authority.
- Principles-based and technology neutral regulation to ensure it keeps pace with market developments and fosters an environment that supports innovation.

As a global payments technology company, Visa provides transaction processing services (primarily authorisation, clearing and settlement) to our financial institution and merchant clients through VisaNet, our global processing platform. We are not a bank and do not issue cards, extend credit or set rates and fees for consumers. In most cases, account holder and merchant relationships belong to, and are managed by our clients, which are generally financial institutions.

As a payments service provider to highly regulated financial institutions, risk management is necessarily a core aspect of Visa's business, from product and service design to security and operations. For this reason, regulators see Visa as a credible and capable ally in controlling systemic risk, and expanding market access and innovation. The commercial realities of Visa's business model are inherently aligned with the Reserve Bank's risk and efficiency objectives.

In the attached material, we provide additional detail related to the points outlined above. Visa remains, as always, fully committed to working with the Reserve Bank to ensure a world-class payments system in New Zealand. We look forward to working closely with you to ensure that vision.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'M. Kerr', with a stylized flourish at the end.

Martin Kerr
Country Manager – New Zealand and South Pacific
Visa International Asia Pacific New Zealand Ltd

General Comments

Visa has one of the world's most advanced retail electronic payments network, VisaNet, that is capable of handling more than 65,000 transaction messages a second.¹ As a global payments technology company, Visa facilitates secure, reliable and convenient payment transactions among financial institutions, merchants and account holders. Account holder and merchant relationships are primarily managed by our financial institution clients and merchant acquirers.

Our business is founded on the promise of securely processing billions of transactions a year. Operational resilience and the security of our network are the lifeblood of our business. Our focus on these core issues has enabled us to be a leader in our industry for the past 60 years; today we enable fast, secure and reliable electronic payments across more than 200 countries and territories. The economics of Visa's business model reward Visa when we promote widespread, safe and secure access to our network at an efficient and value-based cost.

Visa is not a financial institution, and we do not issue cards, extend credit, or set rates and fees for Visa account holders. We are primarily a business-to-business (B2B) organisation, providing global transaction processing services (primarily authorisation, clearing and settlement) to our business clients through VisaNet.

1. Risk-based regulation

A number of jurisdictions have taken the perspective that payment system oversight should be proportional to the risk posed by individual players in the payments ecosystem, with the understanding of the risks as well as the record of performance and management of the payment system. Accordingly, entities that have a direct relationship with end-users who are consumers (e.g., retail banks) should be subject to a higher level of oversight than B2B systems like Visa. Importantly, Visa is a payment service provider to financial institutions that are closely supervised by the Reserve Bank.

Visa also supports stable and efficient payments oversight frameworks that account for differences that exist among different kinds of payment systems (retail vs. wholesale payment systems). We note that retail payment systems like Visa usually involve small value transactions between two consumers, between a consumer and a business, or between two businesses and involve deferred settlement. In contrast, wholesale payment systems deal with inter-bank, inter-country large value, large volume real time payments and related clearing and settlement systems. Unlike wholesale payment systems, retail payment systems do not pose systemic risk because their failure would not threaten the solvency or liquidity of the overall system.

Oversight frameworks that take into account this key distinction will be more efficient and ultimately more successful in both meeting the needs, and managing the risks, of a country's payments ecosystem.

¹ Visa processed over 124 billion transactions in 2018; in the 12 months ending on March 31, 2019, Visa's network handled over \$11 trillion in payment and cash volume.

2. Regulation taking account of existing oversight requirements

We commend the Reserve Bank on taking a risk-based approach to regulation which recognises the existing oversight of overseas FMs. We believe that regulatory frameworks should account for oversight requirements already in place for international payment networks that meet best-practices or comparable risk and compliance standards under another competent authority. It is important to recognise that Visa is subject to robust regulatory oversight in its home country by the U.S. Federal Financial Institutions Examinations Council (FFIEC), an interagency body that contains multiple U.S. authorities including the U.S. Federal Reserve Board.

Duplicative regulation can lead to confusion, regulatory inefficiency and unnecessary costs. It is also inefficient for central banks, potentially leaving them with fewer resources to devote to emerging payment services that often times require much more focus on, for example, risk management processes. Finally, not providing recognition of equivalency places an additional regulatory requirement on international payment service providers. An uneven playing field not only negatively impacts providers like Visa, but also leads to economic distortions in the larger payments ecosystem.

3. Principles-based and technology neutral regulation

Finally, Visa supports principles-based and technology neutral regulation. Such an approach ensures that regulation keeps pace with market developments and fosters an environment that supports innovation. Specifically, a principles-based and technology neutral approach ensures that regulatory frameworks are focused not just on the types of players and technologies that exist today, but those that will exist in the future.

Conclusion

We believe the Reserve Bank's approach is fairly consistent with the principles outlined in our comments above. For further clarity, we recommend that the Reserve Bank specifically incorporate the application of the core principles described above into the text of the regulation to ensure that only truly systemic systems are subject to designation, and that the Reserve Bank's resources are put to their best use.