

2 October 2024

Future of Money
Reserve Bank of New Zealand
2 The Terrace
Wellington 6012

Email to: futureofmoney@rbnz.govt.nz

Dear Sir/Madam

Re: Digital Cash in New Zealand Consultation Paper

Background

BusinessNZ welcomes the opportunity to submit on the Reserve Bank of New Zealand (RBNZ) consultation paper entitled *Digital Cash in New Zealand* (referred to as the Paper).

BusinessNZ supports the RBNZ in its endeavour to consider possible long-term risks to the financial stability and the effectiveness of monetary policy in New Zealand. Given the ongoing investigation and development of digital currencies, we agree that the technology of central bank money needs to be examined to see if it carries the benefits of cash into a digital future.

OVERARCHING THOUGHTS & COMMENTS

Examining the Big Picture

The RBNZ believes that a central bank digital currency (CBDC) could play a transformational role in the New Zealand economy. The status quo could mean any large-scale movement out of New Zealand dollars and into cryptocurrencies or other privately issued digital currencies could reduce RBNZ's future ability to influence the domestic economy through interest rate settings.

However, BusinessNZ believes that introducing a CBDC needs to be carefully worked through, including addressing fundamental policy processes, as well as the

development of appropriate safeguards to ensure a balance between financial expediency and fundamental rights.

Any tool can be used for both positive and negative impacts on society. Given CBDCs are essentially programmable, it is crucial that there are clear guidelines put in place by the RBNZ around how they will be used if introduced in New Zealand.

While for all intents and purposes we expect RBNZ will consider digital currency as a technology-based solution to payments for everyday citizens, there will likely to be calls either during its development or over time for its use in other matters, especially if the wider use of digital cash becomes prevalent in other countries.

We note that in recent years, central banks, including the RBNZ, have increasingly focused on wider matters such as climate change. They have argued that it is not only a social and environmental problem, but that it also poses significant financial risks. Therefore, it is conceivable that digital cash could be viewed in the future as a way in which to curb say environmentally risky activities. Furthermore, if we were to look at broader offshore digital developments, the widespread use of digital cash could further reinforce the ability of such governments to monitor citizens. It is possible that information held could be misused for civil rights violations, and governments could choose to freeze critics' CBDC holdings.

While BusinessNZ is not implying in any way that the RBNZ or wider Government is considering such action now or in the future, we would expect the RBNZ to keep an ongoing monitor regarding the trends on how digital cash is used offshore and where we need to ensure adequate processes and safeguards to ensure any form of CBDC creates a high degree of trust between the Government and its citizens.

Recommendation: If a central bank digital currency is introduced into New Zealand, the Reserve Bank ensures adequate processes and safeguards to ensure it creates a high degree of trust between the Government and its citizens.

SPECIFIC THOUGHTS & COMMENTS

While the Paper outlines a series of questions to be answered, we will instead take the opportunity to outline our thoughts on a few specific matters.

Physical Cash in New Zealand

BusinessNZ does not support steps towards a cashless society, so we are glad to see the Paper as outlined on page 10 supporting the continued use of cash in the future. We do not see the ongoing discussion regarding physical and digital cash as either/or, but rather how the two forms of cash could lead to co-circulation to create the least amount of disruption and provide real choice for New Zealanders.

BusinessNZ's membership is wide, representing large corporates right through to micro/small businesses such as a local dairy owner or mechanic. Therefore, a large

proportion of our membership is made up of mum and dad businesses throughout New Zealand. Many of these small businesses continue to rely on cash payments they receive for their goods or services. Other sectors like public transport providers would like to see cash removed as a payment mechanism to enhance safety staff like bus drivers. Removing cash handling in these situations can also reduce dwell time and help passengers get to destinations faster while also reducing business cash handling costs.

Advocates of going cashless say this would reduce the use of underworld activities and help choke off the black market. While that might be the case in certain instances, it's also true that of the many cash transactions that take place every day, the overwhelming majority are standard, everyday transactions between law-abiding New Zealanders. Whether it's taking part in a meat raffle, giving change to a street collector or buying vegetables from a Saturday market, these are hardly black-market activities.

BusinessNZ also believes there is a deeper perspective that should be taken into account when considering future payment systems – namely, that cash equals liberty.

Many consumers wish to have freedom from Government tendencies to pry into every transaction, and freedom from transaction information being used for purposes never agreed upon by either businesses or consumers.

We only have to look at the Hong Kong example in 2000 - where those protesting against their democratic freedoms being taken away were tracked by their Government via electronic payment on their subway system - to see how such information can be used against citizens. Their National Ticketing System now has the option of being either registered or anonymous.

Recommendation: RBNZ continues to support the use of physical cash in New Zealand.

Central Banks Investigating Digital Currency

The Paper outlines the fact that *"New Zealand is not unique in investigating digital money. Most central banks are investigating issuing their own digital money"*. The Paper then goes on to mention that *"In 2022, 93 percent of 86 central banks surveyed by the Bank for International Settlements were investigating their own digital forms of money."* However, it was also pointed out that at the time the Paper was published, no advanced economy central bank had issued a digital form of money to the public.

Too often BusinessNZ has seen both Government and indeed the general public take the view that we should be world-leading or the first in the world to introduce something. This can sometimes be beneficial while at other times it can lead to unintended consequences, in some instances creating significant distortion. Too often policy makers do not understand that there is an inherent risk in taking this approach if we cannot see the unintended consequences that could lie ahead once such a

decision has been made. The alternative - being a fast follower - makes it possible to observe both the mistakes that have been made and the actions that were successful.

BusinessNZ's concern is that our current culture often sees it as important to make New Zealand first in the world or world-leading. Consequently, many policy proposals fail to identify benefits and costs that ought first to be considered. But being first in the world or world-leading is of itself neither a benefit nor a cost; it is simply a consequence of whatever action is taken. Being first in the world or world-leading may give rise to costs or to benefits but these possibilities are seldom considered during the regulatory process. Often, too much weight is given to treating something as important when it is not.

Recommendation: New Zealand looks to learn from the successes and failures of other countries in developing its digital cash, rather than trying to be world-leading.

Digital Cash Principles

The Paper outlines the six digital cash principles, as well as their applications, namely:

1. Uniform
2. Universal
3. Private
4. Innovative
5. Reliable
6. Orderly

BusinessNZ wishes to comment on a few of these principles.

Universal

For the principle of 'Universal' the RBNZ has pointed out that digital cash will be universal, in that everyone will be able to use it for everyday payments and savings just like cash. To achieve this, the RBNZ believes digital cash must be inclusive.

The Paper states that, "*digital cash can enhance digital financial inclusion in New Zealand by offering greater consumer choice such as basic money and payment services and offline payment.*" However, it also acknowledges that digital cash may not suit people who use physical cash, so some form of wrap-around service may be required.

When some of the statistics associated with the Paper's definition of digital inclusion are listed on page 20 of the Paper, it shows the significant journey that is still required to greatly improve New Zealand's digital financial inclusion. To help move the needle, section 5.1 of the Paper lists a number of digital cash features that have the potential to overcome current digital financial inclusion barriers.

First, when looking at the broad issue of financial literacy and capability, BusinessNZ has long held the view that early education around financial matters can greatly assist

New Zealanders in making more informed financial decisions throughout their lives. To that end, some form of compulsory financial education at primary and secondary school through public-private partnerships would help provide the groundwork for informing New Zealanders on issues ranging from simple savings, through to how investments work, including the notion of risk and return. If digital cash was introduced into New Zealand, we would see it as an option that could be incorporated into any financial education regime for schools.

At a broader level, the Paper alludes to the notion of giving people more control over their money matters. For instance, on page 8 there is the example of Maya who through her digital cash banking app wants to have more control over how she manages her money by way of tracking her coffee purchases over time without having to add her expenses manually.

Second, while BusinessNZ believes the digital cash features outlined in section 5.1 are comprehensive, we also need to be mindful of the fact that despite the best intentions, there will always be a proportion of the population that will decide not to be part of certain aspects of New Zealand financial landscape, or only involved at a minimal level. Cash is very easy to use as a means of payment and it is something that almost everyone understands, including those with low financial literacy and numeracy. Therefore, the pull towards using physical cash for certain sectors of society will likely remain strong for the foreseeable future.

From our perspective, very few policies achieve the goal of complete success across their intended audience. For whatever reason, there will always be those who fall through the cracks of the stated aim of the policy. The key goal for most policies should be that they are successful for most of the population they are targeted at.

The potential resources put towards ensuring every New Zealander has access to digital cash could quickly mount up in terms of costs. These could come at the expense of other opportunities the Government is trying to achieve in the broader digital space.

Therefore, we would want to see the RBNZ take a pragmatic approach to the principle of 'Universal,' so that the design of digital cash does not become one that focusses on the 'last person,' while neglecting other areas that would see a better return for digital financial technology across New Zealand.

As an example, the Paper points out that around 51,000 people are 'unbanked,' while around 14 percent of households have no internet access. Introducing a digital cash option that focuses on improving the ability to help meet these groups is one thing. Moving it to one where it simply becomes a goal of universal coverage for these groups is quite another. If it becomes the latter, then some frank conversations will be needed around how that is funded, and to what degree opportunity costs are at play, where such funds could instead be diverted to more worthwhile options.

Private

Regarding the principle of 'Private,' the Paper states that information and lives will be kept private, and not influenced by the RBNZ when using digital cash. To achieve this, the RBNZ believes they must build in information governance and assurance.

The Paper is very clear about the point that privacy will be protected by the Privacy Act and good data governance principles. Furthermore, the Paper states that, "*The Reserve Bank will collect as little data as possible and won't be able to see your personal information or how you spend your money. You will have a choice on how your information is used, stored, shared and deleted.*" In terms of assurance, it states that, "*you can feel confident in your freedom and rights when using digital cash.*"

However, it is important to differentiate between what the RBNZ can or cannot do, compared with the rest of Government. Although it is the intent of the RBNZ to view digital cash as an electronic version of physical cash, the privacy that is inherent in physical cash would not be like-for-like in comparison with digital cash. Although the RBNZ would not be in a position to see or control how consumers spend their money, other Government agencies would be, such as IRD or the Police, which is outlined on page 27 of the Paper. While cash is anonymous, digital cash will only be anonymous to a point. If we were to look at this from the aspect of the 'Universal' principle discussed above, the RBNZ will need to be careful regarding how they communicate digital currency involving inclusivity given there will likely be a significant number of 'unbanked' people who already have a level of distrust in the banking sector.

Recommendation: That the RBNZ provides clear guidelines around the fundamental differences between physical and digital cash.

The 'Universal' principle also discusses the need for digital cash to uphold Maori data sovereignty. Page 28 of the Paper notes that such sovereignty refers to the inherent rights and interest that Maori have in relation to the collection, ownership and application of Maori data.

In recent years BusinessNZ has noticed several Government discussion documents and issues papers highlighting the need to examine digital/technology issues through a specific ethnicity lens. For example, the 2021 Discussion Document that the Department for Internal Affairs entitled *Towards a Digital Strategy for New Zealand* took the view that a successful digital strategy outlines opportunities for Maori, a Maori perspective on digital inclusion, and future indicators that include sub-sets for Maori.

Developing a digital cash framework that reaches out to all New Zealanders, but with a particular ethnic lens, means the RBNZ needs to be careful so that the discussion around inclusion does not portray an imbalance between ethnicities, as well as create unnecessary costs for service providers. The Digital Cash Paper currently seeks to recognize, consider and provide for Maori interests in data and statistics related to them. However, if we are to examine this strategy through the population lens of the next 10+ years, it will be apparent that the full make-up of New Zealand's ethnicity needs to be factored in.

Based on StatisticsNZ's data on the ethnic share of New Zealand's population through to 2043, those who classify themselves as European will still make up around 2/3rds of all New Zealanders through to 2043. However, those who classify themselves as Asian will make up around one quarter of all New Zealanders by 2038, compared with one-fifth for Maori. In addition, Pacific Peoples will make up 10 percent by the same time period¹

Overall, we believe that RBNZ needs to ensure it does not have an undue focus on the data sovereignty of just one ethnicity, which could lead to an inward-looking, rather than an outward-looking stance when seeking to introduce a successful digital cash framework. Instead, we support a focus on a better balance regarding the data sovereignty across all New Zealanders.

Recommendation: Issues relating to data sovereignty for a digital cash framework takes into consideration the inherent rights and interests for all New Zealanders.

Innovative

The 'Innovative' principle takes the view that digital cash will be innovative and support new and improved ways to make payments. To achieve this digital cash must be efficient and feasible.

While we are not yet at the stage of having more detailed characteristics of any digital cash option, these will obviously be critical to industry participants deciding whether and how to develop solutions that integrate with the digital cash ecosystem. The long-term success or otherwise of a New Zealand digital cash option will depend on industry participants and innovators being able to see an achievable and profitable path to delivery. It is ultimately the ability of the private sector to develop solutions over the long term that will drive uptake and common use. Therefore, when looking at the 'Innovative' principle, it is clear that the design model is a crucial factor for its success.

Design Models

Regarding the possible digital cash ecosystem, the Paper outlines 8 design models for central bank-issued digital cash. Figure 8 in the Paper is replicated below, which shows the RBNZ's preferred design positioning via the pink circle.

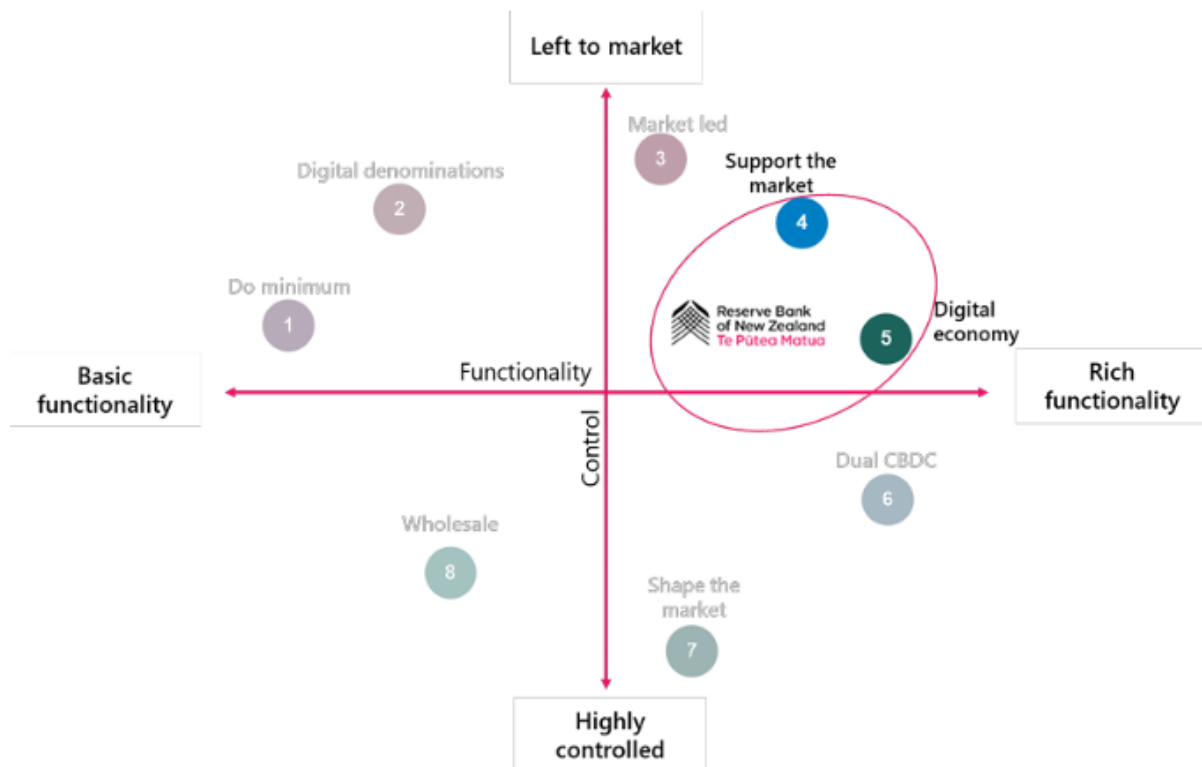
On balance, BusinessNZ agrees that a digital cash model should concentrate on both a higher degree of independence given to the market to deliver services in the ecosystem, as well as a higher degree of functionality built into the digital cash asset platform. Therefore, it is options 3-5 that should garner the most interest going forward. Table 3 in the Paper describes these as:

3. Market-Led: The Reserve Bank provides a basic platform and allows it to be widely accessed. Service providers (not the platform) hold and manage user information and transactional activity. There are many roles in the digital cash ecosystem that are left to the market.

¹ StatisticsNZ 'Ethnic share of New Zealand population – median projection 2018 – 2043'.

4. Support the Market: The Reserve Bank and the market of service providers collaborate to provide tools and functions in the digital cash ecosystem. There is wide access to a feature-rich digital cash platform that provides functions designed to support and accelerate innovate products and services.

5. Digital Economy: The digital cash platform has an open architecture and many features to support all uses. It is highly integrated with other digital economy systems and stakeholders.



BusinessNZ supports the top right quadrant being given priority for the design of the model. However, we note that the models that meet the RBNZ’s policy and strategic objectives only involve models 4 and 5 within their pink circle. Model 3 that is market-led is not seen as a way forward. However, BusinessNZ believes the role of the market-led model is underestimated in RBNZ’s longer-term thinking.

Ideally, we believe the model going forward should have a high degree of functionality and market-led qualities, which would mean more of a move towards the top right of the quadrant in the figure above. From our perspective, both dimensions will play an increasing role in the broader digital environment. It would be fair to say that we are on the cusp of another global revolution in terms of digital technology and innovation, particularly in relation to AI. This means there will be an increasing number of innovations and policy developments across the private and public sectors that seek to use digital transformation as a way to boost competition, lift productivity and lower burdens across society. For instance, within Government, this can be seen with work on areas such a Consumer Data Right (CDR) or the use of e-invoicing. This rapid pace of change around digital solutions will likely increase in the coming years, meaning

the need to make quicker decisions and explore new services for consumers will also be a prerequisite.

In short, BusinessNZ believes that over time, there needs to be the right balance between roles and functions that are left solely to the market, compared with those that are collaborated between Government and service providers. We note that page 14 of the Paper states that, *"after talking to firms in the payments and financial technology industry, we confirmed that many firms find it difficult to enter New Zealand's payments landscape."* One could argue that model 4 regarding 'supporting the market' creates that balance and moves the needle towards an easier path regarding entering the market. However, the extent to which the RBNZ collaborates with the private sector to provide further tools and functions may in future be limited and could possibly stymie potential future solutions. Budgetary cuts, a change of focus by the incumbent Government or changing in-house expertise and institutional knowledge could mean new tools and functions are hindered without the collaboration of the RBNZ.

While we generally support model 4 being the starting point if digital cash is to be introduced into New Zealand, we believe the RBNZ needs to envision a medium-long term pathway towards a quasi-model that encompasses both models 3 and 4, but leans more heavily towards greater freedom for the market to decide what types of digital cash services it will provide, how, and what they look like.

Recommendation: Model 4 is viewed as a short-term objective, with a quasi-model in the medium-long term leaning more heavily towards greater freedom for the market to decide what types of digital cash services it will provide, how, and what they look like.

Managed Issuance

Page 33 of the Paper outlines the possible impacts on the banking sector if digital cash is introduced, which means some preliminary scenarios of digital cash supply levels are discussed. More specifically, the scenarios are centred on high demand for digital cash and what possible impacts that would have on commercial banks. While BusinessNZ has no specific comments on the high and extreme issuance scenarios outlined in table 4, we do have two overall comments to make.

First, in relation to the points raised above, any consideration around holding limits for digital cash or other controls on issuance will again need to be put into context with how different the RBNZ wishes digital cash to be from physical cash. For instance, there is no legal limit on the amount of physical cash one person can hold at any one time. Also, the RBNZ will need to be careful if they set a limit that is so low it makes only marginal difference between cash in this form versus the physical variety and/or deposits in a bank.

Second, the paper asks whether there is an expectation of interest to be paid on digital cash holdings. Again, if the overall intent of the RBNZ is that digital cash is supposed to be akin to physical cash, then the offering of interest would create another

difference. Also, discussions around interest would raise the key question of what the overall intent by customers is in having digital cash. Is it a primary way in which to access some funds during a disaster, or is it more about reaching out to those who are 'unbanked,' or some mix of both? Any steps towards these types of options need to be based on a clear purpose of a CBDC, which may become more evident if we provide time to observe offshore developments.

Investigating further restrictions and controls on digital cash, it is conceivable that digital cash could come with expiration dates, meaning money held in this form must be spent by a specific time. While this may help in recessions by forcing people to spend money, thereby boosting aggregate demand, it would have significant implications for individual rights and liberties. Again, as discussed above, the RBNZ needs to be very clear around their intentions for digital cash for New Zealanders.

Recommendation: Discussions regarding restrictions and controls on digital cash address the potential negative impacts on the banking sector, as well as recognise the context of why digital cash is being introduced into New Zealand.

Next Steps

The Paper points out that the RBNZ is in stage two of a multi-year, multi-stage process of considering digital cash. Page 4 states that "*we plan to consult again in the future on whether we should go ahead and issue digital currency*". Also, the Paper mentions that once submissions have been received, their plan is to consult on a cost-benefit analysis at a later date.

Overall, BusinessNZ agrees with a multi-year, multi-stage process when considering digital cash. As mentioned above, we should not be world-leading on this, and need to be completely clear about why New Zealand needs some form of digital cash.

Going back to our discussions above regarding the various design models put forward by the RBNZ, we believe that once feedback on this Paper has been taken into account, there is potential for more work to be done around the details of design model numbers 3, 4 and 5 of the Paper within the context of short-, medium- and long-term planning for digital cash in New Zealand.

Last, given the mention of cost-benefit analysis at some stage in the future, we also expect the RBNZ to recognise an option that sees digital cash not being introduced. Given the future time periods involved, further developments in technology may see the need for digital currency greatly reduced. Therefore, future policy development in this space needs to be mindful of the day-to-day progress within a global setting.

Thank you for the opportunity to submit, and we look forward to further discussions.

Kind regards,

A handwritten signature in black ink, appearing to be 'KH', with a horizontal line extending from the bottom of the letters.

Kirk Hope
Chief Executive
BusinessNZ

Appendix One - Background information on BusinessNZ



BusinessNZ is New Zealand's largest business advocacy body, representing:

- Regional business groups [EMA](#), [Business Central](#), [Business Canterbury](#), and [Business South](#)
- [Major Companies Group](#) of New Zealand's largest businesses
- [Gold Group](#) of medium sized businesses
- [Affiliated Industries Group](#) of national industry associations
- [ExportNZ](#) representing New Zealand exporting enterprises
- [ManufacturingNZ](#) representing New Zealand manufacturing enterprises
- [Sustainable Business Council](#) of enterprises leading sustainable business practice
- [BusinessNZ Energy Council](#) of enterprises leading sustainable energy production and use
- [Buy NZ Made](#) representing producers, retailers and consumers of New Zealand-made goods

BusinessNZ is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy and services for enterprise, BusinessNZ contributes to Government, tripartite working parties and international bodies including the International Labour Organisation ([ILO](#)), the International Organisation of Employers ([IOE](#)) and the Business and Industry Advisory Council ([BIAC](#)) to the Organisation for Economic Cooperation and Development ([OECD](#)).