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Reserve Bank of New Zealand  
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New Zealand

Submission by email to: [futureofmoney@rbnz.govt.nz](mailto:futureofmoney@rbnz.govt.nz)

**Re: Comments of EPAA on the “Digital Cash in New Zealand” Consultation Paper**

To Whom It May Concern,

Please find attached the submission of the Emerging Payments Association Asia (EPAA) to the *Digital Cash in New Zealand* Consultation Paper, which was released for consultation by the Reserve Bank of New Zealand (RBNZ) on 17 April 2024.

EPAA's goal is to unify the payments agenda in the region, drive business development and improve the regulatory landscape for all organisations within the payments value chain. We are a community of payments organisations whose goal is to strengthen and expand the payments industry for the benefit of all stakeholders. More information about EPAA can be found on our website [www.emergingpaymentsasia.org](http://www.emergingpaymentsasia.org).

Please note, that while we have consulted within our membership, any views expressed in this submission are solely the views of EPAA and do not necessarily represent the views of individual contributors, EPAA Ambassadors or EPAA Members.

**General Comments**

EPAA is broadly supportive of central bank initiatives that foster payment system innovation and enhance competition. Digital cash (commonly known as Central Bank Digital Currencies (CBDCs)) has garnered significant attention in recent years, as a means of allowing central banks to leverage the benefits of distributed ledger technology (DLT) while maintaining their central role as the primary issuer of money.

While most jurisdictions remain at an exploratory stage, we applaud the efforts of the RBNZ to examine digital cash / CBDC for New Zealand. To date, this has extended beyond technical functionality and feasibility to include broad community engagement on the rationale for pursuing digital cash. We would argue that the “why” needs to be considered and decided on, before the “what” can be implemented. On this basis, we welcome the RBNZ's policy-led approach.

## **Questions for consultation**

***Q1. Do you have any feedback on the objectives for digital cash to:***

- i. ensure that central bank money is available to New Zealanders and allow it to be used digitally?***
- ii. contribute to the innovation, efficiency and resilience of New Zealand's money and payments landscape?***

We do not have a strong view as to whether digital cash / CBDC should be introduced as wholesale and / or retail. It is our view that this should be informed by local market needs and, on this basis, would commend the RBNZ on its consideration of local conditions to propose a widely available digital currency that could be used for retail payments, with an emphasis on inclusivity and accessibility.

In respect to this analysis, while we acknowledge the desire of the RBNZ to explore digital cash that is suitable for retail payments, we would also like to point out that the RBNZ should consider the possible uses of digital cash within a “wholesale” context. Wholesale digital cash has the potential to support innovation within areas such as large-scale financial transactions, business payments and cross-border payments.

We would also note that innovation, efficiency and resilience are all things that any well-designed digital cash, wholesale and / or retail, should contribute to the wider money and payments landscape. Digital cash can act like smartphones in the sense that it can provide a platform for innovations not yet imagined.

Digital cash that lacks this capability or is duplicative of what already exists is unlikely to have any catalytic effect across the ecosystem. Digital cash needs to be exponentially better than what is currently on offer, or else users will have no incentive to switch.

***Q2. Do you have any feedback on the digital cash principles: Uniform, Universal, Private, Innovative, Reliable, and Orderly?***

We would be broadly supportive of the digital cash principles outlined in the Consultation Paper.

In respect to the “Innovative” principle, we believe that this should be inclusive of both the digital cash itself being innovative as well as digital cash supporting innovation across the ecosystem. We also believe, that as part of innovation, that digital cash should encourage competition.

As well, we would also highlight that safety and convenience are critical for retail users and should be accommodated within the principles.

Lastly, ensuring privacy is critical, given many of the emotive and often ill-informed concerns raised around digital cash are in respect to the privacy and the supposed ability for central banks or governments being able to monitor or even control spending.

***Q3. What are your biggest concerns with digital cash? What design changes, if any, could address your concerns?***

Given that some of the early CBDC initiatives have not seen significant take up, one concern with the launch of digital cash would be that considerable public and private resources would be allocated to the design and delivery of digital cash and, in the end, it is not widely used as intended.

Consideration should also be given to the commercial model for digital cash. Industry will be expected to support digital cash and can only do so if it is able to implement within an appropriate commercial model.

There is a related concern that there would be the lack of functionality (for example no ability to use offline or to store on a device) or concerns over security or privacy that hinder its uptake. For instance, security should be resistant to attacks and hacks, especially when offline. Secure hardware elements and tamper-proof technology should be implemented and can safeguard against fraud and cyber threats. Privacy should be enabled through anonymized transactions and secure protocols. Design decisions to include robust security protocols, privacy-preserving technologies, and support for offline transactions should address these concerns effectively.

Further, offline capability should be available through more than just Bluetooth, which is not widely supported. Rather, NFC and QR Codes should also be explored as offline methods that can be supported. Offline capability also provides a 'back up' in the event of a failure in another payment system or communications infrastructure.

There is also a concern that a central bank-issued digital cash could crowd out private innovation, for example in the development of stablecoins, though dialogue with industry should provide insights so that such an outcome is avoided.

### **Benefits of digital cash**

#### ***Q4. Do you think digital cash can enable long term innovation for New Zealanders? What innovative features should digital cash or its platform have?***

We believe that digital cash has the potential to significantly foster competition and innovation across the New Zealand payments ecosystem. However, the ability for digital cash to be catalytic depends on the actual design. While a centralised account-based system can be beneficial, we believe that digital cash that can support offline transactions on a wide range of devices and platforms as well capability for device-stored tokens, automated payments and programmable cash has the potential to go beyond replicating what already exists and, if done correctly, can catalyse innovation.

#### ***Q5. Do you think digital cash can improve the reliability of payments in New Zealand? What reliability features should digital cash or its platform have?***

While digital cash and a supporting platform would provide a degree of redundancy within New Zealand, we do not believe it would significantly improve the reliability, as New Zealand already has highly reliability. In many instances, electronic payment systems not working can be because of other systems failing (such as electricity, telecommunications, internet etc.).

Our expectation that most digital cash would be held in accounts. However, there will be extreme situations, such as storms, earthquakes and the like that could impact telecommunications and electricity infrastructures in a way where offline capability can become critical.

#### ***Q6. How can digital cash support digital financial inclusion? What design features (technical, governance, or standards) would be required to support digital financial inclusion?***

While we do not think that the introduction of digital cash will harm financial inclusion and may modestly assist in some circumstance, we would note the financial inclusion benefits of DLT can sometimes be overstated. This is particularly the case in a highly banked society such as New Zealand where the reasons

that people are often unbanked has to do with their economic circumstances, access to technology, and language and cultural barriers, which would also exist in respect to digital cash.

We would also note that digital financial inclusion can be supported through availability of low-cost devices and inexpensive mobile internet, user-friendly interfaces and offline availability.

We would, however, agree that the example provided (where a couple have declared bankruptcy) is one such use case and that insolvency can often cause challenges for a person wanting to access financial services in the future. However, these restrictions are often based in access to credit and we believe the market is evolving with more products being available that decouple payments from credit.

***Q7. What problem(s) could digital cash help you or your organisation address and what benefit(s) could it bring?***

Ideally, digital cash should address the issues outlined in the RBNZ paper – such as the declining use of cash, as well as reduced transaction costs and enhanced speed, though we would reiterate the importance of promoting innovation and competition.

**Strategic design**

***Q8. Do you have feedback on the digital cash design models and the Reserve Bank's preferred approach set out in section 6?***

The design model outlined in the consultation paper is very high-level and is more an expression of design principles than an actual design, as it lacks an explanation of how digital cash might work in practice.

We would also like to reiterate about the importance of providing alternatives to account-based digital cash through offline alternatives as well as the importance of security, data protection and privacy.

***Q9. What role might your firm or organisation take in the digital cash ecosystem, and what support would you require from the Reserve Bank?***

- i. What products and services would you build off the options?***
- ii. What design functionality would you need to support you?***
- iii. What core functionality should be provided by the digital cash platform and what should be provided by the market?***
- iv. What key governance measures would you expect the Reserve Bank to provide in the digital cash ecosystem? Do stakeholders have any views on the suggested approach to ensure more transparency about the location of originator and beneficiary accounts? Are there any issues or concerns?***

As an industry body, EPAA does not offer any payments products and services itself, but we would recommend the following be taken into consideration.

- Digital cash should be easy to use – both for services providers wishing to offer products and services that leverage digital cash, as well as easy for consumers and businesses to use. This means API gateways, sandboxes, and other like initiatives to support service providers and simple rules, an ability to provide simple interfaces and consumer education to encourage end-user take-up.

- The platform should provide core functionalities like transaction processing, security protocols, and regulatory compliance mechanisms. The market can build on this with user-facing applications, value-added services, and innovative payment solutions. Key governance measures should include clear regulatory guidelines, security standards, privacy protections, and mechanisms for dispute resolution.
- If the RBNZ were to be the issuer of New Zealand digital cash, we would strongly recommend the RBNZ take the opportunity to engage with stakeholders not only in the lead up to a launch but afterwards to help inform the future development of digital cash.
- Account location – While privacy, AML and other regulatory concerns need to be considered, a New Zealand digital cash that can be stored in an account or a device that is outside of New Zealand will provide greater value and opportunities.

***Q10. Third party intermediaries will own the customer relationship including managing onboarding and AML/CFT requirements. What support or enabling functionality would you require as a potential third party?***

As noted above, API gateways and sandboxes would assist. We would also recommend that where standards are required, that New Zealand digital cash be based on international standards.

We would also recommend that the following be provided to assist third-party intermediaries:

- Robust KYC and AML Tools: Tools to facilitate compliance with regulatory requirements.
- Integration Support: APIs and SDKs for seamless integration with existing systems.
- Training and Documentation: Resources to educate and support our staff and customers.

**Managed issuance**

***Q11. Do you expect interest to be paid on digital cash holdings?***

We would not expect holders to receive interest, though it could incentivise usage. That would be a matter for RBNZ in terms of its delivery of monetary policy as well as a decision for intermediaries as to whether they wish to pay interest themselves. New Zealand digital cash should be designed so that it is easy to pay interest, but it should not necessarily be a requirement to do so.

***Q12. Do you think there should be holding limits for digital cash or any other controls on issuance?***

We do not believe this should be a major concern, though recognise that holding limits are a means to prevent excessive hoarding and ensure liquidity. We would not oppose the RBNZ retaining the right to place limits on holdings if there was a sound policy rationale to do so, for instance in relation to monetary policy, monetary sovereignty or financial stability reasons.

We would recommend that offline payments be subject to their own limits. For example, an offline wallet should have a maximum balance, or a maximum spendable decided by the central bank. When this limit is reached, the offline wallet would be required to go online to perform an “health check” and, for example, perform fraud detection.

However, limits, in particular transaction limits, need to be carefully balanced as there may be use cases with higher value transactions where digital cash could be of benefit, for example property purchase. This

would particularly be the case where digital cash offered features such as the instant and legal finality of settlement, 24 x 7 availability and transaction transparency, which are not commonly found with existing account-to-account transfer options in New Zealand.

Once again, thank you for the opportunity to comment on this. We are more than happy to expand further on the items raised in this submission or to provide further information. If you do have any comments or questions, please feel free to contact EPAA's Policy Lead, Dr Brad Pragnell at  
Redacted under 9(2)(a)

Kind regards,

Camilla Bullock  
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