
Te Moni Anamata – Kaitiakitanga
Future of Money – Stewardship
Payments NZ submission to the Reserve Bank

December 2021

Introduction

1. Thank you for the opportunity to provide our views on the issues paper regarding how the Reserve Bank proposes to act as a steward of money and cash.
2. We support the publication of the issues paper – the Reserve Bank’s role as a steward is critical to the functioning of the economy of Aotearoa New Zealand. More specifically, developments in money and cash need to be assessed in the context of a broader set of trends in payments. Collectively these developments and trends can be harnessed to play a valuable role in delivering a flourishing and prosperous Aotearoa New Zealand. The issues paper makes an important contribution in that regard.
3. We have elected to provide this written submission in lieu of answering the questions contained in the issues paper. We note the issues paper touches on the policy case for establishing a Central Bank Digital Currency (CBDC). We suggest this submission be read in the context of our separate submission on a CBDC as that contains our views on this important matter.
4. The balance of this submission comments on:
 - Payment trends observed by the Reserve Bank in the monetary system
 - The future of Aotearoa New Zealand’s payment systems
 - The proposed approach to stewardship
 - Cash system redesign
 - Stablecoins

Payment trends observed

5. In many respects the trends observed by the Reserve Bank in relation to the decline in cash usage and digital innovation in money and payments mirror the trends we have observed across our:
 - core clearing systems work;
 - work to support open banking through the API Centre; and
 - Payments Direction programme, and especially in our regular Environmental Scans and consumer research.
6. Our recent Environmental Scans have set out the impact COVID-19 has had on our lives so far and the subsequent behavioural and business model changes that have occurred, including the rapid shift away from cash and towards digital payments. In our 2021 scan we mention the increased focus on CBDC, cybersecurity, real-time payments, and digital ID that is occurring across many jurisdictions. We also call out the increased awareness and a strong desire among organisations to support those most at risk of being marginalised or made vulnerable by any changes to the payments system.

7. Our most recent consumer research was completed in 2020 and it revealed that:
 - While Kiwis are using a variety of payments methods, debit/EFTPOS cards were the most popular and had both high usage and preference.
 - Sixty percent (60%) of Kiwis always use contactless payment methods.
 - Thirty eight percent (38%) of those surveyed who make cross border payments thought the process could be made easier.
 - The appetite for real-time payments, more informative transactions, and payment notifications is high.¹

Future of Aotearoa New Zealand's payment systems

8. In relation to opportunities to stimulate innovation in the wider payment system, we note the Reserve Bank's observations on:
 - inefficiencies and a lack of innovation in retail payments (discussed in Part A); and
 - the need for coordination and collaboration to support its work on the future of payments (discussed in Part B).
9. These observations reinforce the drivers behind Payments NZ's work to support industry efforts to modernise the domestic payments system. The most recent results of that work are documented in our [Payments Modernisation Plan \(PMP\)](#) which was released last year.
10. A unifying theme underpinning the work of Payments NZ is that Kiwis need to be able to access fast, efficient, and reliable payments, and to benefit from an inclusive, innovative, competitive and resilient payment system. There is close alignment between this theme and the view expressed in the issues paper that one characteristic of a healthy monetary system is that it can adapt to innovation and improve in a safe and resilient way.
11. The Reserve Bank's issues paper refers to a strategic review of the speed, efficiency, competition, innovation, resilience, and interoperability of electronic payment systems (the strategic review).² The alignment between the strategic review and the PMP is further explored below.
12. The PMP serves as a blueprint for the future payments ecosystem in 2030 and discusses at a high-level what industry needs to do to prepare for and to contribute to that future. The PMP was the product of a collaborative process involving a broad range of banks, card schemes, payment solution providers and technology and service organisations.
13. The PMP is grounded in a vision that New Zealand should have the world's most progressive payments system while making sure payments are simple and secure for Kiwis. It draws on an overarching principle which sets out that modernisation should

¹ [How Kiwis like to pay – now and in the future | Payments NZ](#)

² We assume this includes the exploration of payment system related issues, focusing on the underlying infrastructure, that is referenced on page 15 of the issues paper.

enable innovative and interoperable payments solutions so Kiwis can pay who they want, when they want and how they want. This:

- Helps Kiwis achieve their financial goals – by delivering more modern and flexible payment methods making it easier for them to budget, save and invest.
- Improves financial inclusion – by ensuring payment methods can be used in a sustainable way by the broadest range of communities.
- Builds a more productive New Zealand – by moving money in the economy in seamless and efficient ways and by removing unnecessary and time-consuming processes and activities.
- Improves the financial resilience of Kiwi consumers and businesses – by harnessing payments data and tools to help Kiwis plan ahead and ensuring they can access payment methods and transaction accounts that are relevant to their individual circumstances.
- Supports competition and innovation to give Kiwis more choice in payments – by having more open and competitive landscapes where new financial institutions and non-bank entities collaborate, compete and innovate.

14. Our PMP identified nine capability building blocks. Feedback from stakeholders was that real time capability was the most important building block because real time sets the context for many of the other improvements. For that reason, throughout 2021 we have worked with industry on a real time capability workstream and in August 2021 we launched a market information gathering (MIG) exercise on real time payments. The MIG draws on industry led work on the strategic objectives, business requirements, and use cases for real time payments in New Zealand.
15. The responses to our MIG exercise, which closed in early November, were of a high standard. The responses need to be carefully evaluated and then considered by our Participants who will provide Payments NZ with feedback on the evaluation.
16. We will use that feedback to determine where the real-time capability building block sits on our strategic roadmap and where the other capability building blocks should sit in relation to that. Making real time capability a foundation of that strategic roadmap is an important step towards addressing the Reserve Bank's observation that instant, electronic, peer-to-peer settlement is a service currently not provided by the private sector.
17. Concluding the evaluation of the MIG responses, liaising with our Participants, and progressing our strategic roadmap are key areas of focus in our 2022 work programme.
18. Turning to the alignment between the strategic review and the PMP, our view is there are strong parallels and linkages between the two and with our upcoming strategic roadmap and other work underway across the company, including our current focus on real time payments.

19. We interpret the strategic review as a shift in the Reserve Bank's focus beyond payment system financial stability issues and towards broader considerations of Aotearoa New Zealand's future payment systems capabilities, including matters such as innovation and interoperability.
20. If this is the case, it will be paramount for industry and regulators to work together on the future of the payments ecosystem, particularly given the alignment and overlap with the industry's efforts on the PMP. We therefore suggest using the strategic review as an early opportunity to demonstrate the benefits of the collaboration and coordination referenced in the issues paper. Importantly, there is a clear opportunity for the Reserve Bank and Payments NZ to work in concert to consider:
- The extent to which the PMP capability building blocks should play a part in that review.
 - Industry plans to pursue real time payments opportunities.
 - The degree to which the PMP aligns with the Reserve Bank's views on desired future ecosystem capabilities.
 - The extent to which the PMP properly addresses known and emerging limitations of the current system, some of which the Reserve Bank has touched on in the issues papers on Stewardship and CBDC.
 - How to extend the review to include payment system access (which we discuss in more detail in the next section of the submission).
 - The future strategic direction of Aotearoa New Zealand's payment systems with a focus on delivering better outcomes for New Zealanders.
21. Payments NZ and the Reserve Bank have worked closely together across a range of changes to payment systems in the past, particularly with respect to payment systems issues that have the potential to impact financial stability. We suggest the time is now right to do the same on the strategic review.

Proposed approach to stewardship

22. We endorse an inclusive approach to stewardship that respects Te Tiriti o Waitangi by, among other things, applying a Te Ao Māori lens and proactively considering the specific interests of Māori in all aspects of the Reserve Bank's work programme.
23. We agree the approach to stewardship should extend beyond central bank money. As noted in the issues paper the systems that underpin central bank money, private money and payment instruments are interconnected. Decisions in one part of that network or ecosystem can have important impacts in another part. In some instances, those decisions could fall to entities operating outside the current regulatory perimeter.
24. We agree with the outcomes of stewardship. There are commonalities between some of the outcome descriptions and the responsibilities falling to Payments NZ in respect of its clearing systems, where those outcomes refer to systems that are efficient, competitive, innovative, and interoperable. As you will be aware, one of the objectives in Payments NZ's

Constitution is to promote interoperable, innovate, safe, open, and efficient payment systems.

25. We endorse the Reserve Bank's proposal to bring a strategic and coordinated approach to money and cash issues, especially given the interconnectedness of the enabling systems as noted in section 4.2 of the issues paper.
26. As mentioned earlier, we concur with the Reserve Bank's observation that the future of payments provides a clear example of where more deliberate coordination and collaboration would be beneficial. The observation about the benefits of such an approach is consistent with the results of the recently completed Farrell Review in Australia. The Farrell Review recommended, among other things, that a strategic plan for the payments ecosystem in Australia should be developed in collaboration with regulators, industry, and representatives of consumers and businesses.
27. In the discussion on the proposed approach to stewardship, the Reserve Bank sets out four areas falling under the banner of its future of payments programme of work:
 - A new regulatory regime for retail payment systems.
 - The development of consumer data rights.
 - A strategic review of electronic payment systems (mentioned earlier in this submission).
 - Pacific remittances to better enable money to be exchanged across the Pacific.
28. To properly capture the future of payments in the broadest context we would suggest adding the following, all of which aim to bring a more joined-up holistic view of the future of electronic payment systems:
 - The Digital Identity Trust Framework, especially as a bill is currently before Parliament. This bill seeks to provide a digital identity system to help grow the digital economy, transform government services, and ensure inclusion for all Kiwis in the digital world.³
 - The Digital Strategy Aotearoa initiative being led by the Department of Internal Affairs, which is designed to respond to the social, economic, education and cultural opportunities from digital technology, along with the risks that these technologies can bring.⁴
 - The updated PMP and accompanying strategic roadmap when they are available.
 - The role of the G20 Roadmap for Enhancing Cross-border Payments in shaping both our domestic and cross border electronic payment system capabilities.
29. The Farrell Review also considered the licensing and access frameworks for Australian payment systems. There is the potential to improve New Zealand's payment system access framework under the Reserve Bank's stewardship mandate. Payments NZ has worked

³ [Digital Identity Services Trust Framework Bill 2021: Bills Digest 2659 - New Zealand Parliament \(www.parliament.nz\)](https://www.parliament.nz)

⁴ [Towards a Digital Strategy for Aotearoa | NZ Digital government](#)

closely with the Reserve Bank to develop clear and transparent access criteria to join our clearing systems. Those criteria are aligned with the Principles for Financial Market Infrastructures, however this is only one component of the wider access landscape. A more comprehensive review of New Zealand's payment systems access framework could also address:

- ESAS membership. This a pre-requisite for joining the Bulk Electronic Clearing System or High Value Clearing System with access decisions made by the Reserve Bank. We consider there would be benefits from a re-examination of the criteria, process and requirements.
 - An assessment of the regulatory guidance on what FinTech payment service providers need to adhere to in order to provide payment services in New Zealand (for both domestic and international payments).
 - How accredited payment service providers within the Consumer Data Right (CDR) framework intersect with the Reserve Bank's wider financial stability considerations (assuming the CDR designates the banking sector and includes payments initiation).
30. Finally, we believe the issues paper could more explicitly acknowledge the need to carefully manage the boundaries of the stewardship mandate with the role of Government, its agencies and industry in setting overarching strategy for the payments ecosystem. A key recommendation in the Farrell Review was the need for a greater role for the government, through the Treasurer, in setting overall strategic direction for the payment ecosystem. The stewardship toolkit in table 2 signals a boundary between hard and soft stewardship powers but does not clearly delineate where responsibility for overarching ecosystem strategy should sit. This is a matter that we suggest warrants further consideration.

Cash system redesign

31. Over the past decade, many of the improvements in retail payment systems around the world have focused on building out the current account-based system to accommodate faster payments with room for both traditional commercial banks and non-bank payment service providers. That said there is still a clear role for cash in modern economies and, for that reason we agree cash remains an important means of payment for many consumers and businesses in Aotearoa New Zealand. Despite its shortcomings, cash remains an inclusive and privacy-preserving means of settlement.
32. That said, given payment preferences are changing and with the pace of that change accelerated by COVID-19, it is clear the arrangements in respect of cash need to evolve to continue to support access to cash. This task is made more complex because the cash system in place today was designed at a time when cash usage was much higher.
33. We agree there are arguments in favour of the cash system producing public goods but also acknowledge the cash system generates a product that both faces and generates competition.

34. Payments NZ's interest in the future of the cash system is threefold and we would suggest this be reflected in the Reserve Bank's approach to redesign:
- Payments NZ set standards for ATMs and payments devices used at checkouts, which are part of the current cash system infrastructure.
 - Any move by the Reserve Bank to adopt digital cash in the form of a CBDC would need to be considered in the context of future payment and clearing and settlement systems.
 - The redesign of the cash system should be made in the context of an overarching strategic plan for the payment ecosystem to support a more resilient, productive, sustainable, and inclusive economy. The PMP is an important input into that overarching plan.

Stablecoins

35. We support the Reserve Bank's proposal to place a priority on stablecoins in its near-term work programme on private innovation. This is consistent with that aspect of the Reserve Bank's stewardship mandate which extends to monitoring how technology and innovation are affecting how New Zealanders use money and cash.
36. We note stablecoins have attracted considerable attention from central banks and regulatory bodies around the world, significantly because "the emergence of stablecoins with potentially global reach has raised fundamental questions about legal and regulatory safeguards, financial stability, and the role of currency in society."⁵
37. One of the central issues we believe will require attention in relation to stablecoins concerns interoperability both among stablecoins and between stablecoins and other ways of exchanging value. A focus on interoperability is an important consideration as it can support user convenience, improve competition and innovation, and avoid the loss of beneficial network effects arising from closed loop systems.
38. We agree the key benefits and risks relating to stablecoins are appropriately canvassed in the issues paper. On benefits, we would suggest adding the potential for stablecoins to play a broader role in achieving financial inclusion objectives, noting that the degree to which inclusion benefits can be derived is subject to policy debate.^{6 7}
39. We suggest expanding the discussion on risks to holders of stablecoins to make more apparent that an emerging issue concerns who should be accountable to consumers in a stablecoin ecosystem and that the issues of consumer protection have the potential to be more difficult to resolve. This is covered to some degree in the commentary on risks to holders of stablecoins. The Reserve Bank's stewardship role should include a review of

⁵ [WEF Digital Currency Governance Consortium White Paper Series 2021.pdf \(weforum.org\)](#)

⁶ [Regulating stablecoins isn't just about avoiding systemic risk \(brookings.edu\)](#)

⁷ [WEF Digital Currency Governance Consortium White Paper Series 2021.pdf \(weforum.org\)](#)

what regulatory framework should be in place to encourage stablecoin innovation, while providing appropriate safeguards for New Zealanders.

Conclusion

40. We believe the issues paper clearly sets out the Reserve Bank's interpretation of its responsibilities in relation to the monetary system as a steward of money and cash.
41. We endorse the Reserve Bank's proposal to take a strategic and coordinated approach to money and cash issues, especially in relation to its work on the future of payments. Given the Reserve Bank's interest extends beyond issues of financial stability, we suggest that work needs to be placed in the context of a broader strategic plan for the ecosystem and to be informed by other developments underway to define our digital future, including the draft Digital Strategy for Aotearoa. Putting money and cash issues in this context would help give ecosystem stakeholders more certainty in their own strategies and plans for long-term infrastructure investments.
42. The need to have an overarching strategic plan for the ecosystem leads us to suggest there is a need to delineate the boundaries of stewardship more clearly from the setting of overall payment ecosystem strategic direction.
43. We would welcome the opportunity to continue a dialogue with the Reserve Bank on the points of intersection between its stewardship work and the work of Payments NZ, as there are significant overlaps, synergies, and opportunities to collaborate for the benefit of New Zealanders.



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