



Te Moni Anamata – He
whatkahou i te pūnaha moni
Future of Money – Cash redesign
Payments NZ submission to the Reserve Bank

March 2022

Introduction

1. Thank you for the opportunity to provide our views on the issues paper regarding the Reserve Bank's proposed objectives for the cash system and the possible policy options to create a system that is fit for purpose.
2. The rise of digital payments, the impact of COVID-19 on the pace of change in payments, on consumer behaviours generally, and the growth in new forms of money have significant implications for how we as a nation think about our relationship with cash. We support the publication of the issues paper as it is timely to revisit how to achieve a fit for purpose cash system. The issues paper makes an important contribution to the debate over how the cash system should evolve.
3. Other jurisdictions around the world are also revisiting their cash strategies. Based on our desktop research¹ there appears to be a consensus among those revisiting their cash strategies that people and businesses should have ready access to their money, whatever their preferences and payment needs.

General observations

4. Payments NZ has prepared this submission from the perspective that the ability to make and receive payments is fundamental for participation in society. In general terms our position is that:
 - People should have a wide range of choice as to how they use their money, and fair and low-cost access to payments is important.
 - People should not face unreasonable costs or barriers due to their payment preferences.
 - Certain payment instruments should not be inaccessible due to factors like demographics, income, geography, ability, mobility, or socio-economic status.
 - People should have access to a risk-free form of money.
5. The 'in general terms' qualification exists because developments in the cash system need to be assessed in the context of a broader set of initiatives underway to both modernise the domestic payments system and to deliver a flourishing and prosperous digital Aotearoa New Zealand.

¹ 2021 Environmental Scan Report: <https://www.paymentsnz.co.nz/resources/articles/2021-environmental-scan-report/>

6. While it is clear we need cash now and in the foreseeable future, how the cash system might function in the economy two to three decades from now is less evident.
7. We are providing this written submission instead of answering the questions contained in part C8 of the issues paper. We suggest this submission be read in the context of our separate submissions made last year on the issues of stewardship and central bank digital currencies (CBDCs).

Role for cash and policy options

8. The issues paper correctly identifies a clear role for cash in Aotearoa New Zealand.
9. Cash remains an important means of payment for many consumers and businesses in the domestic economy. Despite its shortcomings, cash:
 - Ensures freedom and autonomy.
 - Ensures privacy in financial matters.
 - Allows obligations to be settled instantly.
 - Does not entail financial risks for either the payer or the payee as it is central bank money.
 - Acts as a tool to manage uncertainty in part because it is not connected to the digital economy.
10. Our 2020 consumer research indicated that 83 percent of respondents (N= 1009) had used cash as a payment method within the last 12 months and that, when making in store purchases, cash was still widely used for everyday items. Interestingly, this percentage did not vary significantly among age groups, ranging from 79% in the 18-34 group through to 86% in the 65+ group.
11. We agree that in the absence of a policy response, there is potential for the cash system to face resilience issues, for its contribution to financial and social inclusion to continue to decline, and to threaten the ability of cash to be a trusted value anchor for private money and the wider financial system.
12. There are two overarching issues we would like to touch on.
13. The first concerns the paradox of banknotes which refers to the increase in demand for cash for store-of-value purposes as opposed to for transaction purposes.ⁱ While the issues paper, and companion papers in the Future of Money series, touch on the demand for cash for store of value purposes, we suggest further exploration of how this paradox might evolve in

Aotearoa New Zealand, will help inform cash system redesign and may also assist in assessing potential demand for a CBDC.

14. The second issue concerns the difficulties in altering the current trajectory toward cash having reduced transactional relevance, which we agree has the potential to degrade its ability to act as a value anchor. Our opinion on the current trajectory is drawn from work compiling our Environmental Scan series. We suggest the orientation of the Reserve Bank's policy work should acknowledge the difficulties in varying the current trajectory, pending further policy work on a CBDC as a digital means of acting as a value anchor and a fair and equal way to pay and save using central bank money.
15. Against that backdrop, we believe the issues paper properly sets out the range of policy options open to the Reserve Bank. As to the 'starter for ten policy bundle' we believe the issues paper appropriately canvasses the relevant arguments for and against the inclusion of the individual policy options in that bundle.
16. In thinking about how the Reserve Bank may wish to move forward, we suggest it should focus on the extent to which the individual policies within that bundle are both proportionate and flexible as the role of cash and the structure of the payment ecosystem continues to evolve. Additionally, we consider the final policy choices should also be informed by:
 - The indicators of financial and social inclusion and central bank money as a value anchor to be developed as part of the Reserve Banks' stewardship work programme.
 - The impact of upcoming regulatory changes, such as those envisaged in the Retail Payment Systems Bill, and how that might modify payment ecosystem plans and the use of cash by businesses and households generally.

Broader context is important

17. The issues paper correctly identifies that recent innovation in digital payment technologies has contributed to cash being used less often for transactions. This is cited as one of the external drivers impacting the cash system. That observation is consistent with what we know of other jurisdictions, including the United Kingdom and Australia.
18. In our view the move away from cash as a payment instrument noted in the issues paper, and also illustrated in Figure 8, is driven by four factors.
 - The general shift to a digital first context.
 - Consumers in general increasingly preferring digital payments and younger consumers who want to make and receive payments using instruments that are more closely connected with other aspects of their broader digital lives. Our 2020

consumer research noted next generation payment services (e.g., payment apps) are more likely to be used by younger Kiwis i.e., those 18 - 24 years.

- Technology and app-based companies that are incentivised to develop fast, easy-to-use payment services which leverage and monetise consumer data, and which can create powerful feedback loops.
- A tendency for cash to be no longer accepted in certain settings (though we acknowledge in the domestic economy this is still in its early stages and the issues paper cites only anecdotal evidence of non-cash payments being specified).

19. We think it is important to put the shift to digital payments in the wider context of the ongoing digital revolution that began in the 1990s and which continues at pace today. Those technologies have delivered a world which is increasingly connected on a 24/7 basis.

20. As the digital revolution continues to unfold and to impact how we live, work and play, we should expect digital payment technology and the structure of the payments ecosystem to also evolve in support of that. It is important that any cash system redesign acknowledges that the goal posts are likely to keep shifting so cash does not become stranded as a marginal means of payment.

Payments modernisation and cash

21. Our interest in cash system redesign comes from two related perspectives.

- Payments NZ has a direct interest in the current cash system infrastructure described in Figure 2 of the issues paper because we set standards for ATMs and payments point of sale devices used by merchants.
- We have published our Payments Modernisation Plan (PMP) which identifies areas where collaborative industry activity is likely to be required to support a dynamic and vibrant future payments ecosystem.

22. We note that Figure 5 of the issues paper sets out the reduction in bank owned ATMs. We wonder whether another line of enquiry to explore is the total number of ATMs available in Aotearoa New Zealand, which would also include independent ATMs. That might provide a different assessment of access to cash through that means.

23. Our PMP, while not specifically touching on cash, is very much aware of the importance of financial and social inclusion and of the network characteristics of payments generally. Aotearoa New Zealand is highly banked by international standards and Kiwis have high usage rates of electronic payments. However, there are still some communities where cash remains an important payment instrument, especially amongst those who are socially vulnerable.

24. Some Kiwis are not able, or choose not, to fully participate in the revolution in digital payments. This needs to be carefully managed, so that modernisation initiatives do not exacerbate digital inequality or increase fragmentation and complexity in the market for payment and other digital services.
25. Accordingly, we agree the cash system requires redesign, but in the context of both the continued digital evolution and payments modernisation in general. Cash as a payment instrument needs to form part of payments modernisation so it can deliver a fit for purpose system that considers overall outcomes for Kiwis, and which can also adapt to be sustainable at continuously declining levels of cash transactional usage in the long-term.
26. We have previously suggested the redesign of the cash system should be made in the context of an overarching strategic plan for the payments ecosystem to support a more resilient, productive, sustainable, and inclusive economy. We remain of that view. Putting redesign in that context ensures that cash can be a component of a broader innovative and interoperable payment system which allows Kiwis to pay who they want, when they want and how they want.
27. On the issue of cash distribution, the recent Farrell review concluded this is a critical function in the Australian ecosystem, and that a strategic plan for that ecosystem should consider this issue in a holistic manner, particularly as cash continues to fall in use over time. This conclusion aligns with our view that cash system redesign should form part of an overarching ecosystem plan for Aotearoa New Zealand.

Conclusion

28. Much of the policy interest in payments of late has focused on the opportunities presented by digital payment technologies, the growth in the fintech sector and initiatives like open banking. The Reserve Bank's issues paper correctly acknowledges the challenges facing the cash system that have the potential to see certain communities at risk of being left behind because cash is their payment instrument of either necessity or choice.
29. We agree increasing the uptake of digital payment options does not fully address the issues around inclusion and wellbeing for those communities. These same challenges have the potential to erode the ability of cash to act as a value anchor for private money.

30. We support the view expressed in the issues paper that collaboration between the private sector, the Reserve Bank, and other government agencies is likely to be an effective way to address the resilience and efficiency issues facing the cash system. Accordingly, we would welcome the opportunity to continue a dialogue with the Reserve Bank on the points of intersection between its work on cash system redesign and the work of Payments NZ, so collaboratively we can work towards a set of outcomes which benefit all New Zealanders.

Ngā mihi,

A handwritten signature in blue ink, appearing to read 'Steve Wiggins', with a long horizontal flourish extending to the right.

Steve Wiggins
Chief Executive

ⁱ [The paradox of banknotes: Understanding the demand for cash beyond transactional use \(europa.eu\)](https://www.europa.eu/en/press-room/news/15306-18)