paymentsnz®

Te Moni Anamata – Te Auahatanga
Future of Money – Private Innovation

Payments NZ submission to the Reserve Bank

March 2023

Introduction

1. Thank you for the opportunity to provide our views on the issues paper regarding private innovation in money.

2. We support the publication of the issues paper. Given its stewardship mandate and the pace of innovation in digital markets we believe the time is right for the Reserve Bank of New Zealand – Te Pūtea Matua (the Reserve Bank) to outline its thinking about innovation in private money, the opportunities and risks that follow and the breadth of regulatory interventions that might be required.

3. As we have done previously, Payments NZ has opted to provide this written submission in place of answering the specific questions posed in each section of the issues paper.

Summary

4. While the issues paper is clear the Reserve Bank intends to take a broad and pragmatic view of money in giving effect to its stewardship mandate, the principal focus of the current paper is on the crypto ecosystem[1]. This is understandable given the scale of the global crypto ecosystem and the current absence of specific regulatory regimes in Aotearoa which deal with crypto assets or services.[2]

5. The issues paper comes at a time when regulatory bodies and policy agencies across different jurisdictions are considering how to address novel digital arrangements to enable, among other things, the transfer of value. Standard setting bodies around the world have been highly active in producing guidance material and regulatory standards on matters concerning crypto asset regulation and disclosure.[3]

6. We acknowledge the Reserve Bank's stewardship objective[4] and note Payments NZ is similarly focused on ensuring Aotearoa's current and future payments systems are characterised by reliability, efficiency, innovation, and inclusion. As a company we are committed to playing a substantive role in Aotearoa's digital future by:

[1] We use this term to include crypto assets, exchanges, decentralised autonomous organisations and decentralised finance and supporting technologies and allied activities.
[2] Existing general regulatory frameworks may apply to crypto assets and services depending on the type of asset or service in question.
[3] Including the Basel Committee on Banking Supervision, the Committee on Payment and Market Infrastructures, the Financial Action Task Force, the Financial Stability Board and the International Organisation of Securities Commissions.
[4] The Future of Money – Private Innovation Issues Paper, Reserve Bank of New Zealand, page 6

- Driving a world class payments network.
- Ensuring financial wellbeing and equity.
- Building a more productive economy.
- Encouraging greater innovation and competition.

7. Accordingly, our submission is informed by the need to achieve those outcomes, but in a way that is guided by concepts of guardianship, stewardship and trusteeship.

8. As noted in our previous responses to other Reserve Bank papers in the Future of Money series, we believe a world class payments system is one of the fundamental preconditions for becoming a world class digital nation and a flourishing and prosperous digital Aotearoa. New Zealanders need to be able to access fast, efficient, and reliable payments, and to benefit from an inclusive, innovative, competitive, and resilient payments system. This is an essential consideration for the work of Payments NZ and especially of our Payments Direction programme.

9. Even though the uptake of new forms of money in Aotearoa is believed to be small, over time those forms of money have the potential to reshape our future economy. The scale of innovation in the crypto ecosystem is remarkable, even though aspects of it are still relatively immature. In March last year the World Economic Forum reported there were 18,142 cryptocurrencies and 460 crypto exchanges in operation.[5]

10. Even allowing for the widely reported difficulties facing the crypto ecosystem that characterised late 2021 through to early 2023[6], there are a range of factors in play which mean connections between the traditional payments ecosystem and the crypto ecosystem are only likely to grow. The risks around some of those connections work in ways that are not immediately evident.[7] These challenge how we think about the governance of payment systems, the balance between public and private money and how to ensure the trusted transfer of value.

11. Viewed through a historical lens some of the problems associated with private innovation in money identified in the issues paper are the same as they have always been. However, the pace of technology change is now so vastly different the possibility of a material gap between regulation and innovation is perhaps exponentially larger than at any time in the past. One of the difficulties that lies ahead from a regulatory and governance perspective is correctly classifying crypto assets[8] and properly identifying their uses cases and understanding the

[5] What is the current state of cryptocurrency regulation? | World Economic Forum (weforum.org)
[6] Crypto peaked in Nov. 2021: Investors lost more than $2 trillion since (cnbc.com)
[7] Stablecoin USDC breaks dollar peg after firm reveals it has $3.3 billion in SVB exposure (cnbc.com)
[8] XRP cryptocurrency jumps as investors hope Ripple will win SEC case (cnbc.com)

developing contexts in which they will be deployed e.g., web3 and the metaverse. J.P. Morgan, HSBC, Standard Chartered, Samsung, Adidas and PwC have created a presence on current metaverse platforms The Sandbox and Decentraland.[9]

12. Our assessment remains as per previous submissions, that Aotearoa's next generation payments system will need to fully support a highly digital economy which is likely to be built on an increasingly diverse array of payment solutions offered by a growing number of players, potentially including the Reserve Bank through its Central Bank Digital Currency (CBDC) initiative. Accordingly, realising the full potential of innovation in money from whatever source will require strategic ecosystem alignment, both domestically and internationally. The need for international coordination amongst regulators is acknowledged in the issues paper. Domestic regulatory certainty is likely to allow beneficial innovation to unfold.[10] Providing that certainty will require a coordinated response both across the public sector but also between the public and private sector.

13. Payments NZ is well placed to leverage its position as an industry leader to assist in bringing about that strategic alignment and coordinated change management response by:
    - supporting innovation;
    - accelerating work at the interface between the public and private sector;
    - providing the Reserve Bank with insights to help inform the design and results of its proposed monitoring framework; and
    - working alongside regulators, developing a deeper understanding of the digital and crypto ecosystems and how they are evolving.

14. In the balance of this submission we:
    - Comment on progress in delivering payments modernisation.
    - Comment on opportunities for greater competition and innovation.
    - Make selected observations on the issues paper.
    - Set out suggested next steps.

Progress in delivering payments modernisation

15. Over the past five years we have worked with industry on a series of initiatives focused on either delivering improvements to our existing payments system or improvements which act as a catalyst for further innovation and competition. These initiatives are discussed in more detail in Appendix One. In summary they centre on:

[9] Metaverse – the next e-commerce revolution – Corporates and Institutions (db.com)
[10] Coinbase warned by SEC of potential securities charges (cnbc.com)

- Creating the open banking standards and protocols needed to ensure fast, secure, user-friendly data sharing for Aotearoa.
- Improving access to rich data in our High Value Clearing System.
- Extending the processing of electronic payments to 365 days a year.
- Conducting market intelligence gathering on the next generation payments system that would be appropriate for Aotearoa.

16. While the issues paper correctly focuses on the crypto asset market and the opportunities and risks it may present, it is important to acknowledge that private innovation in current forms of money and payments continues to be essential.

17. Innovations like the ones discussed in Appendix One offer a reliable basis for innovation at scale because they are grounded in the existing banking system and the trust that goes with that. That ensures those innovations will be stable and highly interoperable and will enjoy significant network effects leading to greater use, lower costs and better services.[11]

18. That is not to say that the choice is 'either or' – increasingly innovation in the crypto ecosystem and innovation in current forms of money and payment will occur in tandem. However, at this juncture innovation in current forms of money and payments is arguably better placed to deliver a significant set of actionable scale benefits for the real economy, especially since the crypto ecosystem is working through a series of complex industry development and change processes.[12] [13]

19. Looking ahead the payments industry understands that innovation in payments will be key to fostering a more resilient, productive, sustainable, and inclusive digital economy. The industry's current approach to achieving those outcomes can be found in the Payments Modernisation Plan (PMP).

20. While the Reserve Bank is already familiar with the PMP, we note the following extract:

> *"Payments innovation will take place across a more open payments ecosystem and be driven by a mix of partnerships of existing and new payment industry and fintech players and also by global technology platforms with their considerable scale and reach."*[14]

[11] III. The future monetary system (bis.org)
[12] Bitcoin, ether fall after go-to crypto bank Silvergate announces liquidation (cnbc.com)
[13] Crypto's Carcass Will Attract Hedge Fund Vultures - The Washington Post
[14] Payments Modernisation Plan, Payments NZ Limited, 2020, page 11

The implication is existing industry players and Payments NZ will need to stay close to emerging developments to ensure the benefits of these partnerships can be realised in Aotearoa.

21. There are several ways Payments NZ will do that including working with our broad and diverse Participant, Membership and API Standards User base. Some of those stakeholders have a clear focus on developments in blockchain technology, crypto-assets and decentralisation, which are central to the current trends in innovation in private money.

22. Our consumer research on how Kiwi consumers are using payments, their attitudes, preferences, and expectations can also play an important role in staying close to developments. In 2023 we will be expanding our consumer research on future payment types to include the use of crypto assets. We know from our most recent research how Kiwi consumers think payments could be made in 2030 but those research results were mostly around the form factor (card vs, phone vs wearable device), and account type rather than the type of money that is used/might be used in the transaction (e.g., privately issued digital money vs. central bank issued digital money). Over time by extending our consumer research into crypto assets we are likely to reveal valuable insights that will be helpful to the Reserve Bank as it seeks to respond to changing societal views about money and how it should be used. Those changing views are important in the context of the Reserve Bank giving effect to the broad and pragmatic view of money set out in the issues paper.

23. Another way we will stay on top of emerging developments is through the planned update of our PMP which is scheduled to take place this year. That update will include the completion of our strategic roadmap for payments modernisation. As we pull together that roadmap we are going to have to factor in how greater use of crypto assets, and the potential introduction of a CBDC, might coexist with other means of exchanging value through the current Settlement before Interchange system and any new next generation payment capability. There are a range of interoperability, privacy and security issues that would need to be considered, and we would need input from a wide range of stakeholders to properly work through these and other issues.

Opportunities for greater competition and innovation

24. The Reserve Bank issues paper touches on three points central to the work of Payments NZ.

    a. More may be needed to encourage competition, choice and trust in money products available to New Zealanders.
    b. That new forms of money may support greater efficiency, innovation and inclusion in the money and payments system of Aotearoa.

c. That a more open ecosystem might enhance competition.

25. On point a. our work to date on the next generation payments capabilities required for Aotearoa strongly suggests that, in addition to supporting real time capabilities, we need to plan for broader ecosystem participation, a much wider range of value-added services, and choices in money neutral payment services. The diverse nature of organisations represented across our Participant and membership base and across our API Centre illustrates the changing nature of the wider payment ecosystem.

26. Additionally, the issue of trust in money products is critical if broader choice is to be meaningful and for crypto assets to achieve widespread acceptance. An important part of ensuring confidence in private money is the ability to convert that money into risk-free central bank money. To date, that has ensured stability, competition, and innovation. However, it is not yet clear to what extent trust can be maintained without a complimentary relationship between new forms of private money and public money. From a consumer perspective the issue of trust is critical because the very nature of some new classes of assets makes it extraordinarily difficult for consumers to appreciate the full scale of the risks that are involved even if disclosure standards were to be set and rigorously enforced. Fragmenting of trust in private money would be highly undesirable and could leave cryptocurrencies serving only limited niche use cases, at most.

27. On point b. in general terms we agree with the proposition being advanced by the Reserve Bank. We note:

- It is not yet clear whether the stated benefits of innovation in the crypto ecosystem are going to materialise at scale, which type of crypto assets will be most closely associated with those benefits and over what timeframe that might transpire. For example, achieving greater financial inclusion rests on low transaction costs, a degree of digital literacy and access to high-speed low-cost internet connectivity. Those preconditions have yet to be universally met.
- Even if crypto assets do not deliver all those benefits in the way we currently imagine they might, the architectures and technologies on which they are based could be leveraged to produce societally beneficial outcomes. The crypto ecosystem has the potential to deliver technical solutions that enhance the capabilities of the current money and payments system and to link that system with new virtual ecosystems. The importance of that should not go unnoticed. That is clear from the dialogue we have established with some in our Membership base.[15]

[15] What is Immersve?. By Cathy Breed | by Immersve | Mar, 2023 | Medium

28. On point c., the benefits of a more open ecosystem are already well accepted across the payments industry. Progress in delivering greater openness across the current digital ecosystem is being led by the API Centre. In particular:

    - The reach of the API Centre has expanded to include 25 Standards Users made up of 8 API Providers, 17 Third Parties and 203 Community Contributors.
    - The government's announcement in November last year[16] that banking will be the first sector designated under the forthcoming Consumer Data Right (CDR) legislation means the considerable work of the API Centre is now well positioned to play a formal role in delivering improved data sharing outcomes for consumers, small businesses, financial technology platforms (fintechs/paytechs), and financial institutions amongst others.

29. Looking ahead, it is very plausible the next challenge will be to open the current ecosystem to other emerging ecosystems (e.g., the metaverse).

Selected observations

30. We see private innovation in money, coming from whatever source, as having the potential to help Aotearoa have a world class digital payment system needed for a world class digital economy. Against that backdrop we offer the following selected observations on:

    - The underlying assumptions contained in the issues paper.
    - The proposed monitoring framework.
    - Stablecoins and big tech.
    - Web3 and the metaverse.

Underlying assumptions

31. The issues paper lays out several assumptions about how the Reserve Bank should approach innovation in private money. In general terms we agree with those assumptions. Further, we would suggest that:

    - Not only does choice need to be actionable for it to be meaningful, it needs to be actionable by the majority, not the minority. The implication is private innovation needs to be cast in a way that recognises there are some in our community who are prevented from exercising choice because they face circumstances that are more complicated than most. Without that, benefits such as improved financial inclusion

[16] Govt moves to introduce open banking to give customers a better deal | Beehive.govt.nz

are unlikely to be realised. At present, much of the activity in the crypto ecosystem appears to be concentrated rather than democratised. The idea of actionable choice is of considerable concern to Payments NZ given our desire to ensure greater financial wellbeing and equity.

- Same risk, same regulation is a principle advanced by other bodies (e.g., UK Treasury and the IMF). We endorse that principle. In practice it can be difficult to assess risk in the world of digital assets, especially given the extra-territorial and decentralised nature of some business models and the rather opaque nature of some parts of that ecosystem. For example, FTX's failure revealed risky investments, inadequate governance and obscure but ultimately reinforcing risk profiles.[17] Further, even if it is possible to apply the same risk same regulation principle, the transformative nature of crypto assets can make it difficult to determine when to move from one regulatory setting to the next. In some instances, responsibility for a final determination on those matters may rest with the judicial system.[18]

Proposed monitoring framework

32. We support the Reserve Bank's proposal to develop a monitoring framework and endorse the idea this framework should use a wider range of metrics than the Reserve Bank would generally apply. We concur with the decision to take a technology neutral approach with respect to innovation.

33. We make the following observations about the material in figure 9, which sets out the type of questions that might be posed to decide whether a further regulatory response is required given the Reserve Bank's stewardship interest.

    - The question "is it used as money" should recognise that any global consensus on definitions, classifications, or the taxonomy of crypto assets is best described as emerging. For any given taxonomy a crypto asset might fall into several categories.[19] Accordingly, it can be difficult to distinguish whether a crypto asset might be used as money given these assets can have hybrid and transformative characteristics. While the Reserve Bank has stated that crypto assets used for speculative purposes are out of scope, in practice it may not always be clear where speculative use ends and use as money begins. This situation is made more complex because at this time it is not evident which of the different forms of crypto assets are likely to scale to the point of

[17] International Monetary Fund, Elements of Effective Policies for Crypto Assets, January 4, 2023
[18] XRP cryptocurrency jumps as investors hope Ripple will win SEC case (cnbc.com)
[19] Digital asset revolution: how blockchain is decentralizing finance and disrupting wall street

mass adoption and which forms are "likely to become a niche product or even disappear".[20]

- The question "how significant is it" should be reframed as "is it significant now and how significant could be it become in the future and over what timeframe". In our view maintaining a close eye on the emerging contexts in which crypto assets are being used will help build a richer understanding of how significant their use could become and the timeframe for that taking place.[21] We comment on this in more detail later in the section on web3 and the metaverse.
- The question as to whether there are meaningful alternatives includes a reference to open banking. We do not see open banking as an alternative to a specific innovation in private money. While open banking standards and protocols offer the potential to bring about greater collaboration and competition in the current payment ecosystem, conceptually those same standards and protocols can help link that ecosystem with the crypto ecosystem. Open banking is an enabler of opportunity rather than an alternative to innovation. It could be used at the intersection between the traditional financial world and the crypto ecosystem. Regulatory certainty in relation to crypto innovation could further cement that intersection and we have a strong interest in maintaining an ongoing dialogue with the Reserve Bank on how that could be achieved.

34. In the material on the proposed monitoring framework, table 1 outlines the possible measurement of the risks and opportunities that might be used to develop formal assessment criteria. We would suggest that:
    - Under risks to consumers, it would be worth adding the problem of a wide entrance and a very narrow exit to the possible measurement criteria. In practice it can be far easier to enter the crypto ecosystem than to exit it due to technological constraints, interoperability issues and counterparty risks, especially at a time of market stress.
    - Under enhancing efficiency and innovation, we consider the reach of the new options/improvements is very probably more important than the absolute number that are on offer. If they are large in number, but only have limited reach amongst those wishing to use those offerings then the impact across the ecosystem will be less significant.
35. Appendix 3 of the issues paper illustrates how the questions in figure 9 might apply to real-world examples. In that appendix deeper red cells indicate a higher likelihood of concern by the Reserve Bank. In several of the examples the issues paper notes a CBDC would lessen the

[20] Getting the balance right: crypto, stablecoin and central bank digital currency
[21] Bitcoin Lightning as a payment rail Payments Review | The Payments Association

Reserve Bank's concerns. What was not clear was whether the Reserve Bank's concerns would be lessened because the CBDC would effectively complement, compete with, or displace the private crypto assets.

Stablecoins and big tech

36. In our view the paper correctly frames the issues around stablecoins and the impact big tech could have on innovation in money. These issues were also touched on in the Reserve Bank's issues paper on Stewardship that was released in late 2021.

37. While Meta's Libra/Diem project did not proceed, it clearly illustrated the breadth of impact stablecoins issued by large platform operators could have given their worldwide scale and reach. Last year the World Economic Forum reported that across its family of apps, Meta reached 3.6 billion people each month.[22] While that data point goes back to 2021, it clearly illustrates the point on scale and reach.

38. While the Libra/Diem project received considerable media attention as a significant step forward in the potential scaling of stablecoins, such coins have been around for much longer with questions raised as whether they are in fact money, and whether they satisfy the definition of demand deposits.[23]

39. In our view the key to widespread use of stablecoins as a means of payment rests on improvements in transaction speeds and transaction costs and convincing the holders of those coins that their assets are safely and reliably backed. As noted in the issues paper stablecoins are not homogenous – they vary in several important respects including the type of structures that are used to ensure stability and how they are backed (e.g., whether they are fully backed by legal tender or only partially backed by such currency or liquid assets). Additionally, as was discovered during the 2008 financial crisis, assets thought to be liquid can become highly illiquid in adverse market conditions.

40. In the end scaling will be influenced by whether a majority accept that stablecoins can be used "in a transaction without due diligence on its value".[24] In other words, stablecoins must satisfy the no questions asked principle.

41. We consider an initial monitoring focus on stablecoins would be appropriate. We reach that view for several reasons. First, stablecoins play an important role in enabling liquidity in the wider crypto-asset market and in DeFi and therefore can contribute to market stability.[25] Second, there is evidence there are use cases for stablecoins in the mainstream corporate sector world, including treasury payments and cross-border payments. Third, the market for

[22] The hype around Web3 and how it can transform the internet | World Economic Forum (weforum.org)
[23] Taming Wildcat Stablecoins Gary B. Gorton and Jeffery Y. Zhang, September 30, 2021
[24] Taming Wildcat Stablecoins, Gary B. Gorton and Jeffery Y. Zhang, September 30, 2021
[25] Stablecoins' role in crypto and beyond: functions, risks and policy (europa.eu)

stablecoins could easily become dominated by large platform players (big tech) in a way that excludes other issuers because large platform players are better placed to meet the no questions asked principle. Fourth, as outlined in the issues paper, certain stablecoins have the potential to bring monetary sovereignty into question. Finally, certain stablecoins have a direct link to the traditional financial sector, which warrants policy attention. Our understanding is that the largest stablecoins have already reached a scale comparable to large prime money market funds domiciled in Europe.[26]

Web3 and the metaverse

42. The issues paper mentions web3 and the metaverse as two examples of an increasingly digitised economy. We suggest the Reserve Bank should maintain a close interest in both web3 and the metaverse because they will challenge conventional thinking about identity, ownership, possessions and how transfers of value are structured. For example, irrespective of the success of the metaverse (or otherwise), we imagine there will still be an increased need to transfer fractional property rights to new forms of digital assets.

43. To illustrate our point more fully, it is worth recapping on the transition path to web3 and the potential disruptive technology shift associated with the metaverse.

44. Web1 was characterised by open protocols that were decentralised and community-governed. A hallmark of web2 was the growth of the large platform techs (Google, Apple, Amazon etc.) and the growth of the online digital economy. In contrast:

> *"web3 combines the decentralized, community-governed ethos of web1 with the advanced, modern functionality of web2. Web3 is the internet owned by the builders and users, orchestrated with tokens*."[27]

45. Our research indicates important hallmarks of web3 will be decentralisation (using blockchain networks), permissionless (with users only sharing data as necessary) and increased security (because of the distributed network involved). At present there is no generalised web3 infrastructure in play, though efforts to build the technology stack of the decentralised web are supported by organisations like the Web3 Foundation. According to the World Economic Forum:

> *"significant widespread development, consolidation and accessibility efforts are needed before the web3 vision is realized, if at all."*[28]

[26] Stablecoins' role in crypto and beyond: functions, risks and policy (europa.eu)
[27] Why Web3 Matters - a16z crypto
[28] The hype around Web3 and how it can transform the internet | World Economic Forum (weforum.org)

46. The metaverse is variously defined as a product or service, a place and a moment in time.[29] However, the metaverse is 'not one thing', at least at this stage. There are multiple metaverses, including those owned by major internet and gaming entities and each with their own standards and rules. Some of those metaverses are based in web2 ecosystems; others in web3.[30]

47. To give a sense of the complexity of how issues around ownership and possession might play out in this new digital paradigm, there is some evidence indigenous peoples are looking to secure a seat "*at the metaverse table, as well as support to acquire and hold virtual land, to represent their culture and spirit*".[31]

48. To the extent crypto assets become a necessary medium of exchange in the metaverse, this raises the possibility those assets will also find increased use outside the metaverse too as consumption, investment and savings patterns become increasingly digital and virtual and the distinction between the physical world and digital and virtual worlds becomes increasingly blurred. At the same time there will also be a need to support bi-directional crypto-fiat conversions. In the end money is a social convention.[32]

49. Through ongoing monitoring of web3 and metaverse developments, the Reserve Bank is likely to gain insights into how issues of privacy, identity, information, assets, and value transfers will be treated in an increasingly digital future. One possible indicator of the widening impact of the metaverse use cases might be where digital assets become interoperable across different platforms because, for example, a gaming platform is acquired by a non-gaming entity because there is utility in the gaming platform's sphere of influence and functionality to those in the non-gaming world.[33] In his commentary of the metaverse and financial services David Birch notes it has the potential to be an:

> *"environment with a security platform built in, and can support mechanisms to exchange assets, and establish the ownership of those assets, which we might crudely categorise as a digital value platform and a digital identity platform, then it is not an unreasonable prediction that individuals, organisations and businesses will steadily migrate their transactions from the dangerous badlands of web1 and the restrictive walled gardens of web2 in order to take advantage of that fundamental property: safety."* [34]

[29] The future of the metaverse will be shaped by these 3 technologies | World Economic Forum (weforum.org)
[30] DB Metaverse – The next e-commerce revolution
[31] Discussion Paper: First Nations' Culture in the Metaverse by Bibi Barba, Dr Vanessa Lee-Ah Mat, Angelina Gomez, Joni Pirovich :: SSRN
[32] The Bank of Amsterdam and the limits of fiat money (bis.org)
[33] Microsoft Corp's plans to acquire Activision Blizzard Inc would not only accelerate growth in Microsoft's gaming business but would also provide building blocks for the metaverse.
[34] (13) It's Like The Internet, But Safer | LinkedIn

Suggested next steps

50. The issues paper is a significant starting point for a dialogue on the impact private innovation in money might have on the Reserve Bank's stewardship objectives. Indeed, the rise of new forms of private money brings into question how to best balance private and public interests in money and payments.

51. We note there are those in the banking and payments community who are skeptical of the benefits the crypto ecosystem might deliver:

> *"in spite of the substantial sums involved, there is no sign that crypto-assets have performed, or are performing, socially or economically useful functions."* [35]

52. In our view the long-term role crypto assets may fulfil that are socially or economically useful will only play out over time. In that regard our position is closer to that of the Council of Financial Regulator's statement on crypto assets where it is noted it is:

> *"still uncertain how consumers or the financial markets will derive benefits from the current applications either in cryptoassets or 'cryptocurrencies', and beyond."*[36]

53. That said, the crypto ecosystem is no longer a walled garden unconnected to the rest of the economy. Just as the Reserve Bank is assessing the opportunities, risks, and responses to developments in the crypto ecosystem, Payments NZ is undertaking a similar assessment from the perspective of an industry governance body.

54. We agree with the Reserve Bank that it would be inappropriate to ban certain crypto assets and without full centralised domestic control over the Internet, arguably extremely difficult to do so. Further, we agree that increasing the degree regulatory certainty across the crypto ecosystem would allow Aotearoa to benefit from developments in that ecosystem whilst minimising the potential for harm. It is important regulatory guardrails are set in a way that does not inadvertently select winners and stifle what would have otherwise been beneficial innovation. An ongoing dialogue between public and private sectors can be extremely useful to achieving balanced and well considered regulatory settings that encourage innovation, while minimising the opportunity for regulatory arbitrage. The development of the crypto ecosystem in Aotearoa and its contribution to new forms of money is unlikely to be well served if we proceed down the regulation by enforcement model currently evident in some jurisdictions.[37]

---

[35] The present and future of money in the digital age (europa.eu)
[36] Cryptoassets: a statement from the Council of Financial Regulators – September 2022 | Kaunihera Kaiwhakarite Ahumoni - Council of Financial Regulators (cofr.govt.nz)
[37] Op-ed: Crypto and blockchain need government support, says Scaramucci (cnbc.com)

55. To that end we note the need for strategic alignment across all parties involved through a whole of ecosystem assessment. Payments NZ could leverage its organising role in the payments ecosystem to assist with the delivery of a multi-disciplinary approach especially where that approach speaks to the network elements of payments, payments modernisation and allied matters, such as governance and strategic coordination.
56. We would welcome the opportunity to continue a dialogue with the Reserve Bank on private innovation in money and the proposed monitoring framework, and specifically how Payments NZ can best assist the Reserve Bank in the realisation of its stewardship objectives.

Ngā mihi,

Steve Wiggins
Chief Executive

Appendix one – Industry initiatives

The list below is a summary of key activities facilitated by Payments NZ with support from our Participants, Members, API Standards Users and Community Contributors.

In market

The API Centre

- Launched in April 2019 and now regarding as Aotearoa's leading authority on open banking.
- Thus far the API Centre has delivered open banking frameworks and API standards and a centralised due diligence assessment service to make partnering between banks and our third-party organisations easier.
- in 2023 the API Centre will deliver an industry implementation plan for our API standards, which will provide greater industry certainty, enabling investment in new and innovative products and facilitating greater customer choice.
- Additionally, the API Centre will work closely with government and industry to support the successful implementation of the new CDR legislation, which will ultimately see more open banking products and services brought to life to benefit consumers and our economy.
- The API Centre will soon release version 3.0 of our current API standards for Account Information and Payment Initiation. This update will include two-way notifications, multi-authorisation for payments and several security upgrades. We are also in the middle of establishing a proof-of-concept structure which will allow our Community Contributors to test and 'live prove' in a controlled environment with API Providers.

Adoption of ISO 20022 into the High Value Clearing System (HVCS)

- The phased adoption of the ISO 20022 messaging standard from 20 March 2023 for cross-border payments and certain domestic payments will streamline and improve efficiency and compliance and deliver a better customer experience for all HVCS transactions.
- The adoption of IS0 20022 in the HVCS is a first step towards delivering the 'richer data' capability building block described by our Payments Modernisation Plan.

In market soon

SBI365

- From 26 May 2023 SBI365 will extend the processing of electronic payments to 365 days a year. This represents a further evolution of Aotearoa's payments system, enabling more

flexibility for individuals and businesses to pay or be paid any day they want, including weekends and public holidays.

- Extending the availability of SBI365 will also create opportunities for more innovation, allowing businesses to have the opportunity to look at ways to innovate within their business model.
- SBI365 is part of a greater body of work led by Payments NZ to modernise the payment systems of Aotearoa so they continue to meet the changing needs of New Zealanders.
- Currently the banks who are part of this system change are: ANZ, ASB, Bank of China, BNZ, Citi, HSBC, ICBC, Kiwibank, TSB and Westpac. Collectively they offer financial services to most Kiwi.

Currently in progress – next generation payment systems

- Building on our discussion document 'Payments for the next-generation: Real-time in Aotearoa New Zealand" we now exploring how next generation capabilities will ensure payments play their part in Aotearoa becoming a world class prosperous digital nation.
- We are currently working with industry to understand how those next generation real-time capabilities might be used and configured, and the future ecosystem developments that could be enabled as a result.
- The Industry Strategic Investment Case (ISIC) is a near term deliverable from this work. The ISIC is key to building a coalition of support across industry for the required evolution in Aotearoa's payment capabilities, especially in relation to the timing and next steps for real-time capability. That document will set out the case for change by detailing the:
    - contribution next generation payments capabilities will make to payments modernisation in Aotearoa;
    - opportunities that will be enabled across the ecosystem; and
    - foundational design components that would be required.
- Alongside this work Payments NZ is also refreshing the Payments Modernisation Plan, released in 2020, to reflect developments in payments internationally and locally, including recent payments modernisation initiatives delivered so far.