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By Email

Dear Payments NZ team

RESPONSE TO NEXT GENERATION PAYMENTS CONSULTATION

- 1 We would like to thank Payments NZ for the opportunity to provide feedback on its 'Consultation on payments for the next generation' (**Consultation**).
- 2 We note, and share, Payments NZ's wish to prepare Aotearoa for the future, by working towards '*long-term enabling infrastructure focused on serving the customer of the future, grounded in digital capability and interoperability*'. We strongly support work to improve New Zealand's payment systems, taking a long-term view to ensure they will be fit for purpose into the future.
- 3 We wish to provide the limited submission below on the Consultation. We are happy to engage further on these matters and look forward to opportunities to discuss.

Increasing importance of cross-border payments and settlement timing

- 4 The Consultation refers to the importance of cross-border payments experiences in supporting financial inclusion and prosperity across the South Pacific and to the cross-jurisdictional work being undertaken to enhance cross-border payments.
- 5 We note that the modular approach proposed by Payments NZ is currently '*preferred over other emerging developments where representations of money can also exchange value instantly, such as CBDC or a unified ledger that uses tokenisation to represent commercial bank deposits so that payments (liabilities) can be transferred between financial institutions on a real-time basis.*'
- 6 Regardless of the approach ultimately chosen, we would encourage Payments NZ to actively engage with, and investigate, digitisation and the use of relevant blockchain technology where appropriate at an institutional level, particularly with respect to its potential to improve the cross-border payments experience and settlement timings.
- 7 Our experience demonstrates that cross-border payments, and short settlement timings across jurisdictions, are increasingly integral to the funding of our banks and financial institutions. We expect this trend to continue.
- 8 In our work, we are increasingly exposed to the growing focus internationally on the potential use of institutional digitisation and blockchain technology to reduce settlement times and costs and to increase transparency, including with respect to cross-border payments. This is an area of investigation globally, including in a



number of Aotearoa's neighbouring jurisdictions, such as Australia, Singapore and Hong Kong.

Opportunities

- 9 We believe Payments NZ is in a strong position to encourage such work, including as part of this Consultation. Given that a number of our significant financial institutions form part of larger, overseas-owned groups of companies, they may have opportunities to access information on, and potentially contribute to, investigative initiatives that their broader groups are involved in. We are eager to ensure that they take up any opportunities to do so.
- 10 A clear signal from Aotearoa's regulators as to their openness to the investigation of digitisation and blockchain technology in this space will also be integral to encourage participation in the exploratory work underway overseas. Investment costs for digital payment infrastructure are substantial and development requires coordinated efforts from multiple stakeholders moving in the same direction at the same time. We believe this clear signal from our regulators as to their openness to the potential of digitisation and blockchain technology is critical to the engagement of Aotearoa's financial institutions at this important foundational stage.
- 11 We recommend that Payments NZ advocates for this area of engagement in parallel with, or as part of, its proposals for next generation payments, to ensure that Aotearoa capitalises on the potential benefits of digitisation and blockchain technology at an institutional level.

Please let us know if you wish to discuss any other matters addressed above.

Yours sincerely

Luke Ford / Bradley Kidd / Charlotte Montgomerie

Partner / Partner / Senior Associate