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Reserve Bank
of New Zealand
Te Pūtea Matua

Digital cash in New Zealand

Summary consultation paper

17 April 2024

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Executive Summary

At the Reserve Bank of New Zealand Te Pūtea Matua (Reserve Bank), we're looking at digital cash – a central bank digital currency for New Zealand. It would be a new digital version of cash, in addition to the banknotes and coins, or physical cash, we have today.

What is digital cash?

Digital cash would be a new type of money in addition to the banknotes and coins we have today, and the electronic money in your bank account. It would be issued by the Reserve Bank and hold the same value as banknotes and coins. It could be swapped 1:1 with physical cash, and other forms of NZD, like the electronic money in your bank account.

It would likely be accessed by either a physical card, digital wallet, or an app on your phone or device. People could choose a digital cash provider and open a digital cash account with them. This could be a bank or a private payments provider.

Digital cash could be used to buy items in shops or online, or to send money to other people instantly. You could also make payments without connecting to internet.

The way New Zealanders pay for things is changing

We know that being able to use cash is still important for many New Zealanders. But we also know that the way people pay is changing, and our economy is becoming more digital. Digital payments can make it easier and quicker to buy the things we want. To keep up with the changing times, we are looking at the possibility of issuing digital cash.

Digital cash is in addition to physical cash

Digital cash will not replace physical cash. It will give New Zealanders the choice of using digital cash or using your regular bank accounts, cards, physical cash or however you make your payments.

Digital cash isn't a new concept. Every day, billions of New Zealand dollars issued and backed by the Reserve Bank, already flows behind the scenes between commercial banks and other big institutions.

Digital cash would give you more choice when making payments

Digital cash would be mainly used for payments by individuals. It would mean everyone has access to central

bank money – either as physical cash or in digital form. Now, physical cash in banknotes and coins is the only type of central bank money available to everyone to pay for things.

We want the certainty and safety of using digital cash to be available to all New Zealanders and businesses alongside physical cash. Digital cash design should also carefully meet or balance different considerations if it's to work for everyone.

Digital cash services would be provided by the private sector. New Zealanders will have the choice of who they use to access their digital cash services. For example, you will have a choice of digital cash wallet providers. Digital cash could boost competition in New Zealand's payments landscape by supporting new types of money and payments services from the private sector.

Three examples of people using digital cash.

Grace has just opened a digital cash account with her bank:

1. Opening an account is quick and easy – Grace uses her phone to take a photo of herself, which she uploads to verify her identity.

2. This account is separate from her other bank accounts. Her bank cannot touch the digital cash in her account.
3. Grace uses internet banking to transfer money into her new digital cash account.
4. She also gives her employer her new digital cash account number, so she can get paid in digital cash.
5. Later, Grace finds some cash in her wallet. She goes to a smart ATM and deposits cash directly into her new digital cash account.
6. Grace can choose to access her digital cash through her phone, online banking, her watch, or through a separate physical card.

Levi uses his digital cash to pay for things instantly:

1. Levi orders a coffee at his local café, he chooses to pay by holding his phone, wearable or card against the point-of-sale terminal. He also orders one for his friend Grace.
2. Levi also wants to book flights to Marlborough to visit his Nan. By paying with digital cash, Levi won't get charged extra fees.
3. Levi also wants to receive digital cash payments anywhere, anytime. By tapping their phones together, Grace can pay Levi back for the coffee he bought. Grace's money is sent to Levi instantly and securely.

4. Levi is also going to take his digital cash card on holiday in case he needs to buy something and has no mobile data left to make an online payment.

Maya has more control over how she manages her money:

1. Using her digital cash banking app, Maya can see exactly where she is spending her money.
2. Maya wants to cut down on the number of coffees she buys so she can save for a new car.
3. The app adds up how much Maya has spent buying coffees in a month and lets her compare how this has changed over time.
4. This helps Maya manage her spending without having to spend time adding her expenses manually.
5. Maya also uses her digital cash app to set up an automatic payment to transfer the digital cash she has left over every month into her savings account so she can earn interest. This helps Maya achieve her goal of buying a new car faster.
6. Maya also uses automatic payments to transfer some of her digital cash into her expenses account. This helps Maya track her bill payments and allows her to use the automatic payments that she has already set up.

Digital cash would be easy to access and use, and private

We want everyone to have access to digital cash, even if they don't have a bank account. Like banknotes, you could use digital cash when the power is out, or the internet is down. If you want, you'll be able to use a physical card to access your digital cash and on devices like your phone or watch.

You could use digital cash to buy things in shops, online, or send money to friends and family instantly. Like banknotes and coins, digital cash would work with current payment options, and you can switch between the two.

It will also be private. The Reserve Bank will not be able to see or control how you spend your money.

Here's an example of using digital cash for offline payments in a small town:

Leilani lives in a small town with a history of severe weather events, and patchy mobile phone reception. During past severe weather events, her community lost internet access, had poor mobile phone coverage and the EFTPOS systems went down. This made it hard for people to buy food and essential supplies, and businesses could not take payments. With digital cash, Leilani and her community would be able to use it in 'offline mode' to make payments, if the internet or power went down. They could

buy critical items from shops and transfer money to pay for them. They could use their mobile phone to pay, or a physical card, like a secure smart card. They can do this by downloading digital cash to their phone or card, then use Bluetooth or similar technology, to transfer it from one device to another. This will make communities more resilient during a severe weather event, or in an emergency. A physical card would give people who are less comfortable with making digital payments an option to access digital cash. This means everyone will have more choice in how they make payments.

Trust in our money is essential

We, the Reserve Bank, would issue digital cash just like we issue banknotes and coins today, so you can trust that it'll be safe and secure. Other forms of digital money are issued by the private sector – they can involve risks, particularly if something goes wrong in New Zealand's financial system.

Some other forms of digital money, like cryptoassets, are not denominated in New Zealand dollars. If a lot of people use them, it can pose a risk to our economy, the New Zealand dollar, and our monetary sovereignty. Monetary sovereignty is important because it means that New Zealand can independently manage its money, set interest rates, and make decisions without being overly influenced by external forces.

Digital cash will be government backed and denominated in New Zealand dollars. Digital cash will help us keep our monetary sovereignty so you can continue to have confidence in our monetary system.

We're not the only central bank looking at digital cash

Many other central banks around the world are exploring digital cash to support:

- monetary and financial stability
- social and financial inclusion
- competition and private companies to develop innovative ways for people to pay.

We want you to tell us what you think about digital cash

We have developed some principles and design options for New Zealand's digital cash, and we want you to tell us if we have got it right and what it would mean for you.

There are many details to work out before we can decide if digital cash is right for New Zealand, and we plan to consult again in the future on whether we should go ahead and issue digital cash.

How to give your feedback

Take our online survey:

<https://consultations.rbnz.govt.nz/money-and-cash/alternate-formats-digital-cash>.

Or, you can provide written feedback by:

- post to: Future of Money, Reserve Bank of New Zealand, #2 the Terrace, Wellington 6012.
- email at futureofmoney@rbnz.govt.nz
- phone on 0800 7269 7269. Call us between 9am and 5pm on weekdays.
- text on 021 223 6062

If you're Deaf, hard of hearing, deafblind, have a speech impairment or find it hard to talk, you can use the New Zealand Relay Service nzrelay.co.nz

You can provide feedback until **30 September 2024**.

Consultation questions

1. Do you have any feedback on the objectives for digital cash to:
 - a. ensure that central bank money is available to New Zealanders and allow it to be used digitally?
 - b. contribute to the innovation, efficiency and resilience of New Zealand's money and payments landscape?

2. Do you have any feedback on the digital cash principles: Uniform, Universal, Private, Reliable, and Orderly?
3. What are your biggest concerns with digital cash? What design changes, if any, could address your concerns?

Benefits of digital cash

4. Do you think digital cash can enable long term innovation for New Zealanders? What innovative features in digital cash would you like to see?
5. Do you think digital cash can improve the reliability of payments in New Zealand? What reliability features would you like to see?
6. How can digital cash support digital financial inclusion? What design features (technical, governance, or standards) would be required to support digital financial inclusion?
7. What problem(s) could digital cash help you or your organisation address and what benefit(s) could it bring?

Strategic design

Future stages of work will continue to refine the design details of digital cash and its ecosystem, including governance arrangements. To assist us we would like feedback from industry and possible partners.

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

9. What role might your firm or organisation take in the digital cash ecosystem, and what support would you require from the Reserve Bank?
 - a. What products and services would you build off the options? What design functionality would you need to support you?
 - b. What core functionality should be provided by the digital cash platform and what should be provided by the market?
 - c. What key governance measures would you expect the Reserve Bank to provide in the digital cash ecosystem?
10. Intermediaries will still own the customer relationship including managing onboarding and AML/CFT requirements. What support or enabling functionality would you require as a potential intermediary?

Managed issuance

Future stages of work explore the potential impacts of digital cash on the financial system and understand the benefits, costs, and risks. To assist us, we would like feedback on the following:

11. Do you expect remuneration to be paid on digital cash holdings?
12. Do you think there should be holding limits for digital cash or other controls on issuance?

More information

You can find more information on the Inclusion opportunities for digital cash, Digital cash Consultation Paper. This is not in alternate format.

They are available at:

<https://consultations.rbnz.govt.nz/money-and-cash/digital-cash-in-new-zealand/>

Supporting notes and reports on ecosystem design, privacy, innovation, consumer research and user scenarios are there too. These are not in alternate formats.

End of Digital cash in New Zealand – Summary consultation paper