

# Submission

to the

## Reserve Bank of New Zealand

on the

## Future of Money – Stewardship Issues Paper

13 December 2021

## About NZBA

1. The New Zealand Bankers' Association (**NZBA**) is the voice of the banking industry. We work with our member banks on non-competitive issues to tell the industry's story and develop and promote policy outcomes that deliver for New Zealanders.
2. The following seventeen registered banks in New Zealand are members of NZBA:
  - ANZ Bank New Zealand Limited
  - ASB Bank Limited
  - Bank of China (NZ) Limited
  - Bank of New Zealand
  - China Construction Bank
  - Citibank N.A.
  - The Co-operative Bank Limited
  - Heartland Bank Limited
  - The Hongkong and Shanghai Banking Corporation Limited
  - Industrial and Commercial Bank of China (New Zealand) Limited
  - JPMorgan Chase Bank N.A.
  - Kiwibank Limited
  - MUFG Bank Ltd
  - Rabobank New Zealand Limited
  - SBS Bank
  - TSB Bank Limited
  - Westpac New Zealand Limited

## Introduction

3. NZBA welcomes the opportunity to provide feedback to the Reserve Bank of New Zealand (**RBNZ**) on The Future of Money – Stewardship Issues Paper (**Issues Paper**). NZBA commends the work that has gone into developing the Issues Paper. NZBA suggests this submission be read alongside our submission to the RBNZ on the Future of Money – Central Bank Digital Currency Issues Paper, dated 13 December 2021.

## Contact details

4. If you would like to discuss any aspect of this submission, please contact:

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## NZBA's overarching feedback on the Issues Paper

NZBA generally agrees with the discussion in the Issues Paper and we make the following comments:

- We consider that stewardship by the RBNZ will be beneficial as it will (and has already) enable greater collaboration in the cash system and helps by assisting participants to tackle problems that can't be solved by acting alone.
- We agree with the RBNZ that there is a significant element of fixed costs in providing cash related services, and as demand falls this could lead to significant increases in the "cost to serve" in some circumstances. We also agree that there will be a need to find more efficient business models to meet a much lower level of ongoing demand for cash, for example possible cooperative or utility-based models. However, any solution may have Commerce Act implications. RBNZ support would be useful. We are encouraged to see that the RBNZ may look to make a contribution to potential solutions.
- The consultation paper states that that the RBNZ will work with industry to identify viable long-term options to ensure the cash system is efficient and sustainable. We support this work and welcome the opportunity to continue working with the RBNZ to develop options going forward.
- We are concerned by the suggestion that banks have been managing down infrastructure in order to drive customers away from using cash. The observed reductions in, for example, branches and ATMs, are a response to reduced demand as customers choose to use new and established alternative payment instruments which customers prefer as they are more secure and efficient. As the RBNZ acknowledges, globally there has been an increasing trend away from cash as a means of payment – New Zealand is not unique in this. Banks are responding to this trend by investing in payment methods and infrastructure that is preferred by a majority of their customers, for example, improvements to the functionality of internet and mobile banking.
- We note the RBNZ's comments about the extent of "innovation" in payment services, and some of the current issues facing payment service providers. We note:
  - Page 15 states that New Zealand does not have an 'instant' or real time payment system. We note that New Zealand has a same day cleared payment system. Payments through this system take only seconds to complete, making it an 'instant' or real time payment system. The only current limit to this system is that it only operates during business hours.
  - Page 17 refers to "people who banks refuse to accept as customers". We note that New Zealand has comparatively a very low proportion of unbanked

customers. Banks do what they can to help these customers by utilising AML/CFT exception handling procedures to help customers who do not have the usual forms of identification.

- It is difficult to measure the potential impact of the RBNZ's stewardship objectives at this stage given the pathway to meet the objective of ensuring New Zealanders have access to money in a form to suit their needs is yet to be mapped out. We would welcome ongoing consultation and discussions with all parties as the RBNZ further defines its stewardship work.

## Response to RBNZ's questions

#	Question	Answer
1	Do you agree with the proposed objectives of stewardship?	We agree with objective number one. Regarding objective number two, we request further clarity on the definitions of "available" and "accessible" as well as how this is likely to be delivered.
2	Do you agree that the approach to the stewardship of money and cash should be proactive?	Yes, we agree that the approach to the stewardship of money and cash should be proactive.
3	Do you agree that the stewardship role is broad, and extends across the whole financial system in New Zealand?	We believe that the extent and breadth of the strategic oversight should clearly tie back to the stated objectives.
4	Other than clear responsibilities, comprehensive functions, effective tools and strong accountability processes, what do you think a steward ought to have in order to be successful?	We think that further details on what each of these elements entail will be an important next step in determining if there are gaps in the RBNZ's path to successful stewardship.
5	Where do you see the gaps in the Reserve Bank's legislative powers and responsibilities in fulfilling the role of steward that warrant further investigation?	Further information is needed on the scope of current gaps that have been identified by the RBNZ.

6	Do you think as a priority the steward should regularly collect, analyse and report on money and cash data?	We believe visibility of how cash is used, how much is circulating and where it is circulating will be important when it comes to being a steward of the "cash system".
7	What do you think are the key issues the steward will be grappling with in the next 10 years or so, and which of these should the Reserve Bank prioritise?	<p>We agree with the key issues and priorities identified:</p> <ul style="list-style-type: none"> <li>• A redesign of the cash system that includes investigating incentives in the cash distribution system, cash system costs and potential efficiency gains, and cash system performance. A key focus will be on identifying viable long-term options that are suitable in the context of the decline in transactional cash use.</li> <li>• An assessment of the public policy case for and against issuing a CBDC in New Zealand.</li> <li>• An assessment of the risks and opportunities arising from private innovation in money, particularly stablecoins, that have the potential to become globally or systemically important or that might undermine the performance of New Zealand's central bank money as an effective value anchor.</li> <li>• Ongoing changes in the way the New Zealand public adopt technology and embrace new and established payment means will invariably have an impact on the demand for cash. Ongoing assessment of this and the availability of these alternatives will be important to consider alongside the items above.</li> </ul>
8	Do you agree that access to cash and the acceptance of cash are issues the steward should be concerned about as a matter of priority?	Yes, these issues are something the steward should be concerned with in that the steward should be looking to meet their stated objectives.
9	Do you agree with the analytical approach we are considering for developing policy for the cash system?	We would need to better understand the "analytical approach" and the details of it.
10	Are there any pressing issues with the ongoing effectiveness of the cash system that we should be particularly mindful of?	NZBA will address these questions in our submission on the RBNZ's cash system redesign paper.
11	Do you have insights into or examples of the incentives operating within the cash	

	system that you are willing and able to share?	
12	Are there circumstances or impacts related to acceptance, availability, depositing, handling or transporting of cash that you wish to highlight?	