



31 July 2024

Digital cash in New Zealand

Citizens Advice Bureaux New Zealand | Ngā Pou Whakawhirinaki o Aotearoa (CAB) welcomes the opportunity to provide a written submission in response to the consultation paper 'Digital cash in New Zealand' as part of the Reserve Bank of New Zealand's consideration of a digital currency for New Zealand.

Our service

CAB provides a free, confidential, and independent service of information, advice, and advocacy. We work to empower people to resolve their problems, and we use the insights gained from our work with clients to advocate for fair policies and services for all New Zealanders.

Our service is provided from over eighty locations around Aotearoa New Zealand by our 2,500 trained CAB volunteers. In the past financial year, the CAB helped with over 360,000 client interactions across the range of issues that affect people in their daily lives. Our aim is to help people know their rights and feel empowered to act on them.

Every time a person seeks the CAB's help, we record what they sought help with and what we did in response; this gives us unique information about the issues affecting people in communities nationwide.

Potential benefits of a digital currency

We recognise that the introduction of a government-backed New Zealand digital currency would open up another way for people to transact financially, and, in that way, would provide people with more choice and flexibility. We see the potential for a digital cash system to support inclusion, particularly for unbanked people - if they also have access to and use digital devices and online services. We recognise the greater resilience a digital cash system could provide in emergency or disaster situations.

However, whether the introduction of a digital currency will create greater inclusion, on balance, will be determined by the design and functioning of the currency and system itself, as well as the broader context in which digital cash operates. The limitations of digital cash will need to be carefully considered, and the continuing availability and acceptance of physical cash ensured so that the wider monetary system supports inclusion and resilience into the future.

Ensuring inclusion and resilience

We are pleased to see in RBNZ's consultation paper a commitment to inclusion and that it identifies a range of factors that will be important to address in designing and introducing a digital currency and the systems for supporting it. In particular, we note RBNZ's recognition of the importance of broad community involvement in the design of a digital currency including of Māori, Pacific, and disabled communities, the need for digital cash to be accessible and affordable, and that, alongside a digital cash system, there must also be continuing access to and acceptance of physical cash.

In terms of affordability, it is good to see that the RBNZ aims to help reduce the cost to people of using digital cash. We are seeing growing financial stress in our communities, with an increase in the number of people seeking the help of CAB for their financial difficulties. Many of these clients are facing a deficit between their income and basic living costs. The numbers of clients seeking our help for financial difficulties increased from 11,692 in the year to June 2023, to 13,122 in 2024 - an increase of 1,430 people (or by 12%). We also observe that many of our unbanked clients are on very low incomes. For people on low incomes and under financial stress, even modest account and transaction fees can be burdensome. We recommend a fees free digital currency system for individuals – at least for people on low incomes - to remove a cost stress factor and barrier to participation.

In terms of ongoing accessibility to and acceptance of physical cash, we are pleased the RBNZ recognises that the introduction of a digital currency for New Zealand would be about providing people with another option for the ways in which they can financially transact, rather than about phasing out physical cash from our monetary system. We know from our work in delivering the CAB service to people – from all walks of life – who experience digital exclusion, and as the consultation paper acknowledges, many of the barriers people face in using online systems generally will also be the barriers people face to using digital money e.g. lack of a reliable digital device, digital skills and confidence, trust and confidence in technology, or other digital accessibility issues. Accordingly, it is important that physical cash will remain an available and accessible option for people.

As outlined in the consultation paper, we recognise the advantage of digital cash in situations where other ways of financially transacting, such as using online banking or EFTPOS, become unavailable for a time. The ability for people to still use digital cash in “offline mode” to make payments would increase overall resilience in these situations. However, the digital cash system would still have vulnerabilities that physical cash does not due to, for example, the system's reliance on a functioning power network. Physical cash is still an essential backstop that allows people to continue financially transacting and accessing essential goods and services during times when vital infrastructure is not working. We note that both the RBNZ and National Emergency Management Agency (NEMA) advise New Zealanders to keep cash on hand in case of emergencies.

Protecting access to and use of physical cash

However, while there is more physical cash currently in circulation now than ever before, it is becoming more difficult for people to access and transact in cash when they need to. It is becoming harder to make a cash withdrawal at a bank, some banks are charging substantial fees for cash withdrawals, and others have stopped dealing with cash altogether.

Government agencies, utilities providers and retailers are increasingly removing the cash payment option. We see the difficulty and disadvantage this causes for many of our clients.

We are concerned that, because the law currently provides no protections around cash acceptance (except in relation to paying a debt), this trend will continue and therefore financial (and related social) exclusion will increase. From our experience, reliance on voluntary participation and moral suasion alone is unlikely to be effective in ensuring acceptance of cash payments by government and business. This is why we reiterate the call we made in our submission in 2022 to the RBNZ's consultation on the future of money (cash system redesign), for intervention that will protect people's ability to access and transact with cash.

The ability of a digital currency to address inclusion is somewhat limited if it is not also accompanied by sufficient protections of the physical cash system.

Conclusion

Thank you for the opportunity to contribute to this consultation. If you have any questions about our submission, please do not hesitate to get in touch via the contact details below.

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