



December 2021

ICA contribution to the New Zealand Reserve Bank consultation on its issues paper '[The Future of Money – Central Bank Digital Currency](#)'

Submitted in addition to the input to the electronic questionnaire via link:
<https://www.surveymonkey.com/r/Future-of-money-CBDC>

Introduction

The International Currency Association (ICA) is the voice of the currency industry. Our membership covers design, production, manufacturing and distribution of coins and banknotes. We are the first industry body of its kind with a membership made up of businesses that span the sector.

The ICA takes the occasion of the Reserve Bank of New Zealand's consultation on its discussion paper 'The Future of Money – Central Bank Digital Currency' to contribute its position on a Central Bank Digital Currency (CBDC), in particular as it relates to cash.

Our point of departure is that cash is an essential factor for **personal freedom and privacy** as well as **social and financial inclusion for all groups of society**, and is the only means of payment and store of value that is itself a **public good**. Cash is **secure** and **safe** to use, also in case of a failure of electronic systems.

The ICA has always stated that it believes in diversity and freedom of choice when it comes to payment alternatives. Cash – having specific characteristics, that provide value to society – is already today complemented by other forms of payment, offering alternative functions and features. Such alternatives so far have been issued by private organisations only, a CBDC would hence be a true innovation in public payment.

The ICA is a close observer to the work of central banks as representatives of public authority towards a digital currency. A digital currency can provide benefits for digital transactions and most importantly, we believe that the future of payments should not lie in private hands but rather be driven by public authorities. It is clear that if there is a digital currency, it should be issued by public authorities, not a private entity.

As e-commerce and digital interactions are on the rise, the discussion on a future digital currency to use for purchases made electronically is becoming increasingly prominent. We point to the fact that a purchase made electronically does not *per se* imply that it must also be paid for electronically. Indeed, a number of merchants and applications have made it possible to pay for electronically-ordered goods or foods in cash upon delivery. However, the high charges that consumers and merchants face to be able to pay for transactions electronically, make it attractive to find a digital public alternative to these payments; a digital currency issued by the central bank could make this possible.

Main principles for a Central Bank Digital Currency (CBDC)

CBDCs are often referred to as 'digital cash'. In that light, two important points form the foundations for our considerations on a CBDC:

- 1) *The characteristics of physical cash that a digital currency should have in order to be able to truly play the role of 'digital cash'*
- 2) *The conditions to be met for 'physical cash' and a public digital currency to exist together*

The key characteristics of physical cash that a digital currency should have in order to truly be 'digital cash' and a public good

The ICA stresses that (physical) cash is a public good and the only truly universal means of payment. It is remittance-free: the holder can use it for a purchase or exchange or receive it without requiring any further infrastructure such as an account, a reader or other. It will function even in case of electronic failures, electromagnetic pulse damage, natural catastrophes or cyber attacks. This is a characteristic which digital cash in all probability will never be able to meet. However, there are aspects of physical cash which should also be features of a public digital currency.

The most important aspects in our view that should also characterise a public digital currency in order for it to also be – like cash – a public good, are that it should be a private transaction, easy to use, widely accessible, with maximum safeguards for security and come at no additional cost to the users, the holders and the recipients. I.e. no data, no barrier, no fee! It should also be easy to swap between digital and physical forms as long as the physical form remains – this may require additional exchange points specifically for CBDCs. .

It is essential for a future CBDC to guarantee full privacy to its users. A CBDC will only stand apart from existing and future private (cryptocurrency) means of electronic payments if that is what it achieves to do. For example, a CBDC needs to allow e.g. abuse victims to save for an escape without leaving any digital trail or for people to protest without fear of repercussions. Without the full privacy of physical cash, future personal freedoms and rights become threatened. No data should be collected from the user. However, AML/ATF procedures need to be applicable to digital cash as well.

A digital currency should also seek to approximate universal accessibility as much as possible and needs to be accepted by the general public. While it is likely to always require some electronic application/investment (e.g. a smartphone), the hurdle for adoption should be kept as low as possible to ensure that the digital currency is as straightforward as possible for consumers to use. A simple form factor of a digital device to store/access value could also be offered by the public authority (e.g. a chip in a card or wearable, a simple reader/display), like authorities offer banknotes/coins and passports / ID cards today.

Any form of payment that is a public good should be easy to use. A simple user interface and non-expensive devices are important. Notably, people of all ages should be able to use it and any barriers to using should be carefully weighed against the need for universal accessibility. If a smartphone is the vehicle of CBDC then they need to be available to everybody, with public charging points, free-to-use wi-fi and/or mobile networks covering every area of the territory, in this case the UK. The ICA also hopes that the designers of a digital currency will take inspiration from the efforts of banknote and coins designers to ensure that persons with a visual disability can make full use of cash - for instance triggering a smartphone that vibrates as well as speaks out loud for users who don't want to appear vulnerable when making public payments by having an audible indication that they need help. As access to online means of communication is not guaranteed for all at all times, a CBDC should be accessible offline as well, with restrictions guaranteeing that amounts are not spent twice. Rapid appeals processes and resolution need to be in place for fees associated with accidental spend, which can hit those on a limited budget hard, in particular if they are victims of a scam or experience the double spend problem.

A CBDC should offer maximum safeguards for security and protection against cyber-attacks. The risk to the economy posed by a cyber-attack as well as to public confidence in a CBDC could be devastating, particularly if a successful attack went unchecked or were undiscovered for a period of time. Even an unproven claim that the CBDC had been hacked could potentially be highly destabilising for the economy. This risk is an order of magnitude higher than for physical cash, as there is no easy/practical way for the public to authenticate whether a CBDC is genuine. Developing a public authentication solution for a CBDC should thus also be a key requirement to ensure that digital cash can be a public good. Regular penetration and security audits of the network will be required, taking into advance the latest in quantum computing advances.

Long term resilience and business continuity needs to be built into the digital payments landscape, possibly using different raw materials to avoid being crippled in case of shortages in the supply chain. The CBDC needs to consider the impact of global warming, electricity shortages and extreme weather knocking out critical infrastructure. The energetic and environmental cost of a CBDC should be lower than that of cryptocurrencies.

Paying for goods or services or exchanging money should not cost the user. Unfortunately, today's consumers and to a sometimes even larger extent, merchants, are facing a myriad of charges and hurdles for most transactions, including for bank account fees, credit card fees and fees to set up an electronic payment service to pay online. A CBDC should aim to be a counterforce to such costs and fees by demanding no additional cost.

How cash and a CBDC can exist together

In order for physical cash to continue to play its role, a CBDC must truly be a *digital expression of cash*. The key dimension of cash that a digital currency must also carry is the absolute respect of privacy. If physical cash is the only currency available that guarantees privacy, it runs the risk of being stigmatized, with disastrous consequences for those parts of the population that depend on it.

In order to be able to act as a digital expression of cash, a CBDC and physical cash must also be mutually convertible. That means free and flexible conversion of a digital currency into physical cash and vice versa, in addition to the free exchange into any physical or digital or physical currency of another country/trade zone. It is important that exchangeability between its physical and digital forms is available at no cost and without any system to penalise one or the other, in order to offer a fair and free choice for consumers. A network allowing users to easily swap cash for their CBDC would contribute to maintaining the cash infrastructure.

As noted above, a crucial characteristic for cash is the universality of acceptance and availability and Central Banks should strive for a CBDC to replicate this characteristic inside the UK and for people travelling as far as is possible. We recommend the free-of-cost exchange into a CBDC or physical currency of another country/trade zone, in line with our consideration that in order to be able to act as a digital expression of cash, the digital euro and physical cash must be mutually convertible. In parallel, it should also be ensured – where needed, by legislation – that the universality of acceptance and availability of physical cash can continue, for example by mandating the acceptance of physical cash where this has been contested. With the introduction of digital cash, the continuation of availability of physical cash must be guaranteed through a wide distribution network and notably the role of retail banks must be taken into close consideration.

At the same time, digital cash should also be usable in offline mode, with some restrictions, notably to avoid multiple use of the “same dollar”. AML/ATF procedures need to be applicable to digital cash, just as they are applied to physical cash. Mechanisms should be in place to avoid overspending by means of artificial friction, just as physical cash provides – it is not common to mistakenly spend 1000 dollars instead of 10 dollars in the physical world, the same should be ensured for the digital sphere.

We emphasise that the central banks are public institutions that the public can trust to issue a currency that truly guarantees privacy and the universality of acceptance and availability. Private initiators of currency i.e. cryptocurrencies can rightly never have the full trust of the public. It falls within the central

banks' duty to guarantee that there will be a digital currency that ensures full privacy, acceptance and availability and it is thus the central bank(s) that must be the issuers of it.

The same applies to the general purpose of CBDC. Stronger restrictions on the use of CBDC in comparison to tethered cryptocurrencies issued by private sectors should certainly not be permitted.

The ICA and its members stand ready to contribute further to the discussion.

Contact

Jutta Buyse, Director General, jutta.buyse@currencyassociation.org–

About the International Currency Association

The International Currency Association exists to create a coherent voice for the currency industry – covering design, production, manufacturing and distribution. We are the first industry body of its kind with a membership made up of businesses that span the sector.

<https://currencyassociation.org/>

1B The Beacon, Beaufront Park, Anick Road, Hexham, Northumberland, NE46 4TU, United Kingdom

December 2021