Regulatory experimentation case study

NSW Productivity and Equality Commission

Understanding market preferences through regulatory experimentation

Understanding how consumers would value a central bank digital currency– The Reserve Bank of Australia

Level:

Moderate

Industry:

Finance

Location:

UK

Overview

The Reserve Bank of Australia wanted to know how consumers would value having a digital currency issued by the central bank. Since this does not exist yet, it is difficult for people to accurately place a value on this option.

The RBA overcame this issue by conducting a discrete choice experiment, using survey questions to simulate how people would respond in real-world situations.

Key finding

Consumers on average would not value the added safety of a central bank digital currency, but do value the privacy characteristics it could potentially offer.

Outcome

Informed wider discussions on the costs and benefits of introducing a central bank digital currency.

Evaluation method

Discrete choice experiment.

Background

The Reserve Bank of Australia (RBA) wanted to assess how much Australians would value a central bank digital currency compared to existing and emerging forms of money.

RBA is Australia's central bank and is responsible for the stability of the financial system. As digital transactions are becoming more commonplace, RBA wanted to explore the costs and benefits of introducing a new form of money, known as a central bank digital currency. This new money would be issued by RBA, instead of commercial banks, and as such, it would offer more safety and potentially more privacy for consumers when making digital transactions. RBA was uncertain to what extent consumers value the added privacy and safety, and therefore whether they would likely adopt such a digital currency.

Intervention and outcome

RBA found that consumers on average do not value the additional safety of a central bank digital currency, but do value some of the privacy characteristics it could have.

RBA conducted a discrete choice experiment. They chose this design because they couldn't directly observe the behaviour of interest (since a central bank digital currency doesn't yet exist). Additionally, standard survey questions often fail to reflect real-world behaviours.

The experiment asked respondents to choose between two hypothetical bank accounts. Each account had several attributes that varied randomly, including the fees involved, the level and nature of privacy offered, and whether the money was safeguarded by RBA or a commercial bank. RBA wanted to find out the extent to which respondents were willing to choose the higher fee option when a) the money is safeguarded by RBA and therefore safer, and b) when the privacy levels were higher.

Results showed that consumers on average were unwilling to pay extra for the added safety of using a central bank digital currency, but would pay $5 more per person per year for the privacy characteristics that the central bank digital currency could have. These results helped inform ongoing discussions in RBA on the costs and benefits of introducing this new form of money in Australia.

Key steps for successful experiments

Partner with external experts.

Discrete choice experiments are challenging to design well. As such, RBA engaged an external research expert that specialises in this type of experiment.

Consider similar partnerships to enhance the rigour and reliability of your experimental designs and statistical analyses.

Use existing infrastructure and resources.

RBA was able to minimise the cost of running a large, nationwide survey by adding the discrete-choice question onto a pre-existing RBA survey.

Consider using existing infrastructure and resources to reduce costs and streamline data collection.

Overcoming resource constraints

The project involved a collaboration with an academic expert, which helped RBA to overcome resource constraints.

Testing in a hypothetical market

A central bank digital currency doesn't exist in Australia yet. The RBA was concerned that self-reported attitudes towards an unfamiliar financial product would have limited behavioural validity. Running a discrete choice experiment enabled RBA to simulate real world behavioural responses to a hypothetical product offering.

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