Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Bank of England new forms of digital money
Bank of England
Threadneedle St,
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By email: DP-DigitalMoneyResponses@bankofengland.co.uk

Dear Sir / Madam,

Financial Services Consumer Panel response to the Bank of England's Discussion Paper on New Forms of Digital Money.

The Financial Services Consumer Panel is an independent statutory body. We represent the interests of individual and small business consumers in the development of policy and regulation of financial services in the UK.

Money is a cornerstone of modern society. We all depend on money to make and receive payments and to store and measure value. All parts of our society need access to the monetary or payment system and to trust the money that is transacted through it. Both money and the payments system(s) are in constant evolution and for the most part those evolutions have been for the better – enhancing financial stability, supporting higher payment volumes and fortifying security around money, its storage and exchangeability. Many of the evolutions have increased financial inclusion and helped promote business opportunity.

The Panel is supportive of innovations around money that will continue to deliver these benefits, particularly in as much as they help to reduce costs and stimulate economic opportunities. The potential benefits of new forms of digital money are set out well in the Bank's paper. While the Panel agrees with these, we have significant concerns around consumer understanding, access, safety, privacy and exchangeability. Unless these are addressed, the move to digital money will not deliver on its potential benefits.

Safety In the ongoing transition to digital payments, consumer safety and security have not always been at the forefront of considerations. Consumers have been put at risk through the lack of appropriate safeguards and investments and have in many instances had to fight hard to secure support and or redress. The risk of fraud and theft is not unique to digital payments or digital money, but the risks that the digitised money and transactions introduce are widespread and multiplying and must be addressed both at the outset of any move to digital money and on an ongoing basis. Consumers must be properly equipped to safeguard themselves and providers must be held responsible for providing safeguards at the system-wide level. Consumer protections must be put in place; they must be transparent and understandable and accompanied by properly functioning system-wide support and redress mechanisms.

Money Few consumers differentiate today between central and commercial bank money and, thanks to existing safeguards, have little reason to do so. The emergence of multiple forms of 'money' however requires consumers to understand the differences between them. The Panel recognises that many forms of money have existed over time and that new so-called forms of currency have emerged in recent years to which the public already has access. In supporting the emergence of new forms of digital money with appropriate safeguards – for instance fully backed and interchangeable stablecoins – the Bank could help level-set money in the digital era. Whether this were done through the simultaneous issue of a CBDC or the development of framework regulation, this level-setting or anchoring role would only be successful if consumer information and education were to keep in lockstep with its evolution. This is absolutely foundational to the success of digital money. Given the poor levels of financial literacy in the United Kingdom and the absolute importance of trust in money, we would urge the Bank to place particular emphasis on consumer education and ensure it receives the necessary investment.

Access. All parts of society need to be able to pay and receive (and, ideally, store) money. This includes the most vulnerable and the poorest as well as legitimate businesses and interest groups. Financial inclusion can be enhanced by digital forms of payment – including, potentially, digital money – however financial exclusion is also a risk. While the move away from cash and the negative effects this is having on those that are cash-dependent is well-documented, these negative effects could be exacerbated in a more digital future. This requires close attention. We recognise that the Bank has committed to the ongoing provision of cash but would caution that the Bank's commitment to doing so will – in isolation – be insufficient to support those that are cash-dependent. Not only may a move to digital money further complicate consumer's access to cash (by merit of promoting digital alternatives) but may also make it more expensive (or impossible) for them to access products and services that support digital-only payments. The easy, accessible and cost-free exchangeability of cash and digital money will therefore be an imperative consideration for the Bank.

As stated above, access to money and payments is essential for consumers and legitimate businesses of all kinds. While the move to digital forms of money may have the positive effect of complicating illegitimate activities, private sector providers of digital money might also choose to exclude certain legitimate constituents – for instance on moral, ethical or reputational grounds. While we recognise that this risk already exists in the existing payment sector where commercial banks and other payment providers and platforms have chosen not to serve particular constituencies (or charge them more for processing their payments), we would caution that the likely (eventual if not immediate) dominance of a few digital money giants makes this access problem more acute and requires that it is addressed *ex ante* rather than *ex post*. In a similar vein we would also urge the Bank to consider how providers might approach particular kinds of consumer risk profiles – and ensure that this does not effectively lead to financial exclusion. It is essential that the consumer journey from obtaining through to using digital money is designed inclusively.

Privacy Consumer trust in money is key and since digital money is digital information, any transition to digital money will therefore depend on consumer's trust in the way that their digital information is used. Given the imperative of ensuring that 'money' remains a public good even in a digital era, that constant investments are made to ensure the safety and resilience of systems and that there is competition in digital money provision, we would caution that the economic incentives for providers to monetise data will quickly crystalise and the opportunities for monetising data will increase over time. As things stand, consumers have little understanding or control over the way their payment data is used and rarely give properly informed consent. As stated in the Bank's consultation, important design choices related to data and privacy will need to be made which will have broad implications beyond the Bank's immediate remit. The Bank will need to work with other authorities and society more widely to ensure consumers are better equipped to understand these and are able to make appropriate and informed decisions. Providers will need to be held to task in applying agreed safeguards and the ways in which they themselves inform consumers about data usage closely monitored.

Exchangeability Private forms of digital money could, as set out in the consultation paper, deliver widespread benefits, spurring innovation, lowering transactional costs and enhancing financial and economic opportunities. In the Panel's view these depend not only on the points set out above, but also on the cost and friction-free exchangeability of competing digital moneys, a CBDC if there is to be one, and cash. Anything else would be a retrograde step, fracturing the payment landscape, increasing costs and conducing to lock-in and other anti-competitive outcomes. We would stress the importance of ensuring this not only at the outset but on an ongoing basis, especially given the likely emergence of digital money giants and the potential ties they may have or establish with other digital platforms. Digital moneys should never become an opportunity to establish walled gardens of money – money is a public good and should remain one in a digital future.

As a final point, we would stress the importance of ensuring the steady supply of credit during any transition period. As the Bank recognises, credit conditions could be tightened during a transition to digital money, depending on amongst other issues whether and how digital money is renumerated and how quickly a transition takes place. Both individuals and businesses are dependent on credit, and any constraint on the supply of credit to them during a transitional period could have extremely detrimental consequences for them individually and the economy more widely. SMEs, which already struggle to secure credit facilities on reasonable terms and which are the bedrock of our economy, would be particularly vulnerable to such an outcome. The Bank should therefore examine and put in place robust interim measures to support them during the transition period and thereafter as needed.

We would like to end by taking the opportunity to set out our view of what a well-functioning payments landscape looks like for UK consumers. As in all areas of financial services, we believe money providers and payments firms should have a duty to act in the best interests of consumers. The market should also be guided by the following principles:

- **Accessibility -** All UK consumers must be able to pay and be paid. The system must be accessible to all.
- **Fairness and affordability -** The cost of making payments should not exclude particular consumers, businesses of transaction types. It should not cost more for the poorest to pay.
- **Reliability -** Individual payment systems must be robust and reliable with appropriate redundancy measures in place to ensure continuity of service in case of need.
- **Sustainability –** The Payment System should be operated on an economically sustainable basis. The failure of individual payment systems should not result in consumer losses.
- **Safety, security and consumer protection –** Individual payment systems must be safe and secure. The Payment System should offer at least a minimum level of protection to consumers, including against fraud and losses as a result of firm failure.
- **Transparency –** Individual payment systems' costs and protections must be clear and easily understandable. Individual payment systems should offer full transparency about how end users' data is used, by whom and to what end.

Yours faithfully,

Wanda Goldwag
Chair, Financial Services Consumer Panel