Institute and Faculty of Actuaries

30 June 2023

HM Treasury-Bank of England: The digital pound: a new form of money for households and businesses?

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers.

Key points

The Institute and Faculty of Actuaries (IFoA) believes that the implementation of a digital pound should be integrated with a broader plan to manage the transition towards a less-cash society. We think it would be helpful if the Government and the Bank developed a clear vision of what would be a desirable future 'steady state' for the payments landscape. Having a detailed picture of the desired future environment would make it easier for the Bank to supervise the system as a whole, including cash and a potential digital pound.

The paper mentions two key goals of the proposed digital pound: maintaining public access to retail central bank money, and improving the efficiency and inclusiveness of the domestic payments system. While it is difficult to predict how smoothly a major reform of this kind could be implemented, or how popular it would be with the public, we think elements of the proposed design will help to achieve these goals. In particular, not giving the Bank access to individuals' personal data should help to reassure people that the proposal is well-intentioned. Measures such as tiered access to services would also support financial inclusiveness.

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the proposals from HM Treasury and the Bank of England on *The digital pound: a new form of money for households and businesses?* Our comments consider the impact of a digital pound on the wider payments landscape and reflect the thinking of our Cashless Society Working Party.

Consultation question 1: Do you have comments on how trends in payments may evolve and the opportunities and risks that they may entail?

2. On trends in payments, the paper mentions declining cash usage and the growth of private digital money. We believe that the implementation of a digital pound should be integrated with a broader plan to manage the transition towards a less-cash society. As cash usage declines, the unit cost of handling and supporting a cash infrastructure will grow, and we are concerned that as cash usage falls

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further to just a trickle, any commercial business model to support cash will become unsustainable and the cost would eventually fall on the Government.

3. We think it would be helpful if the Government and the Bank developed a clear vision of what would be a desirable future ‘steady state’ for the payments landscape. In a previous response we welcomed the Bank’s work to resolve the long-term sustainability of the Wholesale Cash Distribution (WCD) model[1], and having a detailed picture of the desired future environment would make it easier for the Bank to supervise the system as a whole, including cash and a potential digital pound. It would be prudent for the Government to include non-ideal scenarios as well for the sake of preparedness: for example, to allow for the possibility of a totally cashless society as it would not wish to be caught unprepared if the use of cash reduced so much that a cash infrastructure became unviable.

Consultation question 2: **Do you have comments on our proposition for the roles and responsibilities of private sector digital wallets as set out in the platform model? Do you agree that private sector digital wallet providers should not hold end users’ funds directly on their balance sheets?**

4. We support the separation in the proposals between the Bank’s role to hold the funds and make transfers – anonymously - on the core ledger, and the private sector’s role to provide payments services to users through digital wallets, and holding their personal details.

5. We would not support a digital wallet being on the balance sheet of the wallet provider. Cash can be seen as being effectively a loan to the Bank of England (“I promise to pay the bearer the sum of £20”) and therefore appears on the Bank’s balance sheet. If CBDC is a digital equivalent of cash, then a digital wallet is analogous to people’s physical wallets or purses. If the digital wallet is lost, then the CBDC should still be redeemable from another wallet given a username and unique passcode.

Consultation question 3. Do you agree that the Bank should not have access to users’ personal data, but instead see anonymised transaction data and aggregated system-wide data for the running of the core ledger? What views do you have on a privacy-enhancing digital pound?

6. We agree that the Bank should not have access to personal data for digital pound users. This is consistent with the Bank’s reference to views in response to their 2020 Discussion Paper, that “Security and privacy were often cited as aspects on which there should be little or no room for compromise” (p69). In addition to privacy concerns, we would also be concerned that enabling direct accounts with the Bank could threaten the roles of the clearing banks and the fractional banking system for lending to the business and private sectors.

7. We suspect that in practice the government might struggle to convince the public that it had no access to people’s transactions. We would also note that some of the arguments put forward for a cashless society depend on government access to users’ personal data – for example, to address tax evasion and illegal immigration.

[1] https://actuaries.org.uk/media/qktpuuzy/ifoa-response-to-consultation-on-wholesale-cash-distribution.pdf

Consultation question 4. What are your views on the provision and utility of tiered access to the digital pound that is linked to user identity information?

Consultation question 5. What views do you have on the embedding of privacy-enhancing techniques to give users more control of the level of privacy that they can ascribe to their personal transactions data?

8. Regarding questions 4 and 5, we support both tiered access and privacy enhancement, which would encourage innovation and competition in a future digital pound market. Careful planning would be needed, however, as potentially the two could conflict. For example, would a user opting to shield certain personal data from commercial use by the wallet provider be at risk of losing access to 'higher tier' services?

Consultation question 6. Do you have comments on our proposal that in-store, online and person-to-person payments should be highest priority payments in scope? Are any other payments in scope which need further work?

9. We are not aware of other payment types that should be prioritised.

Consultation question 7. What do you consider to be the appropriate level of limits on individual's holdings in transition? Do you agree with our proposed limits within the £10,000–£20,000 range? Do you have views on the benefits and risks of a lower limit, such as £5,000?

10. We accept the rationale given in the paper for a transitional limit on digital pound holdings. We do not have comments on the level at which this should be set.

Consultation question 8. Considering our proposal for limits on individual holdings, what views do you have on how corporates' use of digital pounds should be managed in transition? Should all corporates be able to hold digital pounds, or should some corporates be restricted?

11. We do not have comments on this.

Consultation question 9. Do you have comments on our proposal that non-UK residents should have access to the digital pound, on the same basis as UK residents?

12. We support access for non-UK residents, on a similar basis to their access to cash. However, the proposals should take account of the fact that large sums of digital pounds are easier to hide abroad than large amounts of cash.

Consultation question 10. Given our primary motivations, does our proposed design for the digital pound meet its objectives?

13. The paper mentions two key goals of the proposed digital pound: maintaining public access to retail central bank money, and improving the efficiency and inclusiveness of the domestic payments system. While it is difficult to predict how smoothly a major reform of this kind could be implemented, or how popular it would be with the public, we think elements of the proposed design will help to achieve these goals. In particular, not giving the Bank access to individuals' personal data should help to

reassure people that the proposal is well-intentioned. Measures such as tiered access to services would also support financial inclusiveness.

14. We support the design feature that a CBDC could be swapped one for one with cash and carry the same weight on the Bank's balance sheet. This way, as cash is retired, up to £80bn of seignorage can be saved.

Consultation question 11. Which design choices should we consider in order to support financial inclusion?

15. The IFoA believes that the design of a digital pound must take account of vulnerable customers and financial inclusion. We think tiered wallets should be considered, as we agree that they could improve access to digital payments for users with limited forms of ID.

16. In a cashless society illegal immigration is made more difficult as illegal migrants often have to work for cash as they cannot open bank accounts or they wish to be hidden from the authorities. We suggest that employers should only be able to use a CBDC for payment if the employee has, for example, a NI number or a visa or other permission to work.

17. The paper notes that if a digital pound allowed for offline payments this would improve financial inclusion for those with limited internet access. We would welcome this as part of a wider transition plan to a less-cash society for the digitally excluded, which might also include education and access to low-cost internet-enabled devices.

18. There is a risk that using commercial providers in the design of a digital pound could result in the gap between 'haves' and 'have nots' widening. The automatic application of transaction fees would exclude the poorer groups in society, and this must be considered in any implementation plan.

Consultation question 12*. *The Bank and HM Treasury will have due regard to the public sector equality duty, including considering the impact of proposals for the design of the digital pound on those who share protected characteristics, as provided by the Equality Act 2010. Please indicate if you believe any of the proposals in this Consultation Paper are likely to impact persons who share such protected characteristics and, if so, please explain which groups of persons, what the impact on such groups might be and if you have any views on how impact could be mitigated.

19. We have no comments.

20. If you would like to discuss any of the points in this response please contact Matthew Levine, Policy Manager (matthew.levine@actuaries.org.uk) in the first instance.