Positive Money welcomes the opportunity to respond to the Committee’s inquiry into digital currencies and distributed ledger technology.

We are a research and campaigning organisation, working towards reform of the money and banking system to support a fair, democratic and sustainable economy. We are funded by trusts, foundations and small donations.

This submission will argue that:

- The Bank of England should introduce a central bank digital currency
- This could be achieved by opening up Bank of England reserve accounts to non-bank companies and individuals
- Doing so would address some of the problems associated with the decline of cash, make the payments system more resilient and could promote competition and innovation in payments and current accounts
- This proposal should be considered as part of the Treasury’s review into the future of money and digital payments

In doing so, we address the following question from the terms of reference:

**What risks and benefits could digital currencies generate for consumers, businesses and governments?**

**What is a central bank digital currency?**

When we refer to a central bank digital currency, we describe a universally accessible, 100% risk-free form of digital currency that operates 24 hours a day, 365 days a year. It is distinct from existing digital currencies in that it would be denominated in sterling, and represents a claim on the Bank of England. A central bank digital currency should be complementary to physical cash and not be a replacement for physical cash. It would exist as an risk-free alternative to commercial bank deposits, which are currently the only means of making digital payments in sterling.

**How would it work?**

The Bank of England already issues a digital currency, in the form of deposits held by commercial banks in accounts at the Bank of England. These are commonly known as central bank reserves. It can provide a digital currency simply by making these accounts available to non-bank companies and individuals. This can be achieved using existing technology and without the need for a Bitcoin-style distributed ledger payment system.
Positive Money proposes that digital currency accounts would be opened up via an “indirect access” approach, whereby the Bank of England would create and hold the currency, but the payments and customer services would be operated separately.¹

Under this model, the Bank of England would provide everybody with the option to hold electronic money in an account at the central bank. The Bank would perform certain core functions, such as receiving deposits and facilitating withdrawals and transfers between accounts. A standardised interface would allow external providers to offer payment services linked with the accounts, without the Bank having to be responsible for the direct relationship with the end customer.

These external providers would have responsibility for providing payment services, debit cards, account information, internet and mobile banking, and customer support. Any funds paid into the digital currency account would be electronically held in full at the Bank of England, so that each provider could repay all its customers the full balance of their account at all times.

The account providers would also allow customers to make payments via the normal payment networks, such as BACS or Faster Payments. This would enable people to spend the central bank digital currency in the same way that they can spend bank deposits. But unlike a bank, the account provider would be prohibited from lending or taking any risk with their customers’ funds.

The providers of digital currency accounts could be fintech firms, other technology companies or existing financial institutions. We also believe that there is a strong case for a public payments provider with a specific remit to provide services to people whose needs are not being met by the existing market. As we argued in our recent paper on the Future of Cash, access to payments is as important as access to water or electricity, and should be treated as such.

What would be the benefits?

- A central bank digital currency can **address some of the issues associated with the decline of cash**. Although the disappearance of cash is not inevitable or desirable, its long term decline poses important challenges for the future of the payments system. Increasingly, the mediation of payments takes place via a handful of private actors. If consumers wish to make electronic payments, they are currently only able to do so using money stored directly or indirectly on the balance sheet of a commercial bank. Even non-bank payment providers such as credit unions store their funds on banks’ balance sheets, and use commercial banks to settle payments. A central bank digital currency would offer households access to a completely safe form of central bank money, and reduce the payments system’s reliance on a handful of private institutions.

- In doing so, a central bank digital currency would **make the payments system more resilient**. As it stands, the technological failure or financial collapse of one of the major

¹ Our proposal is set out in more detail in our [2016 paper on Digital Cash](#)
Evidence submitted by Positive Money (DGC0027)

banks would mean that millions of people are unable to access their money, with catastrophic consequences for the wider economy. A central bank digital currency would provide a risk-free alternative to commercial bank deposits as a means of making electronic payments, and isolate the payments system from bank’s risky lending activities.

- The issuance of a central bank digital currency would remove one of the key reasons for banks being regarded as “too big to fail”. Because bank deposits are the only means by which the general public can make electronic payments in sterling, it has become necessary to guarantee those deposits to preserve the integrity of the payments system. Deposits are guaranteed up to a certain amount via the Financial Services Compensation Scheme, and although this is ostensibly funded via a levy on financial institutions, in 2008, the scheme had to borrow billions from the Treasury in loans that may never be paid back. Furthermore, the potential cost of compensating depositors in institutions like RBS was one of the main reasons why the government regarded them as “too big to fail”. By effectively guaranteeing banks’ liabilities in the event that they cannot do so themselves, the government creates perverse incentives, and potentially encourages banks’ risk-taking. If the payments system were to operate using genuinely risk-free central bank money rather than bank deposits, this need for taxpayer-funded bailouts would be reduced.

- The model of digital currency we propose could also encourage competition and innovation in the provision of payments and current accounts. Institutions wishing to provide current accounts are currently obliged to store their customers’ funds in accounts at larger banks, even when they take no risk with their customers’ money. In order to connect directly to the major UK payment systems, such as BACS, FasterPayments or CHAPS, an entity must have an account at the Bank of England. Currently, only a handful of big banks have those accounts, and although non-banks are eligible for settlement accounts, these are subject to certain key restrictions. Therefore, in order to process payments or offer current account services, other banks or financial institutions must enter into an “agency” arrangement with a larger bank. But these larger banks have no interest in encouraging competition, and their clients have complained of high costs and other constraints. By ensuring universal access to Bank of England accounts, new entrants into the payments market would be able to compete on a more level playing field with existing institutions.

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2 E.g. as of the most recent FSCS annual report, the scheme had recovered none of the compensation paid to Bradford and Bingley customers
3 Payment Services Regulations 2017
4 Non-bank payment providers are not eligible to store funds overnight at the Bank of England, and are subject to a cap
5 These benefits are discussed on p11 of the Bank of England’s working paper on the macroeconomics of a central bank digital currency
Another potential benefit of issuing a central bank digital currency is that it would allow the Bank of England to recapture a portion of seigniorage. This is the profit or proceeds that come from being able to issue money. Since most electronic money currently exists in the form of bank deposits which have been created by commercial banks when they make loans, those banks benefit from seigniorage totalling £23bn each year. But if consumers chose to hold electronic money in a central bank digital currency instead, that money would accrue to the Bank of England, and be passed onto the Treasury.

Designed in the right way, a central bank digital currency could also improve financial inclusion. Many people who currently choose to manage their money in cash are excluded from, or have chosen not to use accounts at a commercial bank. This may be because they have had a previous bad experience with a bank, fear hidden fees and charges or associate banks with debt. A central bank digital currency would provide people with a way to save their money and make electronic payments without having to rely on a bank. Alongside a central bank digital currency, we propose the introduction of a public payments provider, to meet the needs of people who are currently excluded from making electronic payments. In addition, by making it easier for alternative providers to enter the payments market, it increases the likelihood that innovators will develop services which appeal to different demographics.

Whose job is it to investigate the idea?


- The Bank of England is currently undertaking research into a central bank digital currency, but it is unclear that this has the support of the Governor. Mark Carney recently said that “a true, widely available reliable central bank digital currency does not appear to be a near-term prospect.” He has warned of financial stability risks associated with consumers being able to immediately convert their bank deposits into deposits at the central bank. As we discuss below, this is not an inherent feature of a central bank digital currency, and the risk can be mitigated through its design. But his focus on the potential risk for individual banks ignores the fact that by isolating the payments system from banks’ credit risk, a central bank digital currency would enhance the resilience of the financial system as a whole.

- The Payment Systems Regulator has responsibility for ensuring competition the payments market, as well as ensuring that payment systems are operated in the

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7 See the New Economics Foundation’s report Making Money from Making Money  
8 Our paper on the Future of Cash outlines the reasons why many people prefer to manage their money in cash  
9 Mark Carney made these remarks in his 2018 Future of Money speech
interests of consumers. As we have outlined, a central bank digital currency would facilitate greater competition by removing the barriers to entry faced by firms wishing to provide payments and current accounts. The PSR has committed to ensure open access to participants and potential participants in payment systems, and should therefore undertake research to consider the potential benefits to payment providers of being able to store their customers’ money, in full, in Bank of England accounts.

We recommend that the Treasury make this a specific area of inquiry as part of its review into the future of cash and digital payments which is currently underway. There are certain aspects of a central bank digital currency which require legislation. For example, it would need to be determined whether the digital currency would be given legal tender status, which currently only applies to physical notes and coins. The government would also need to determine whether it was accepted for payment of tax. By leaving research into a central bank digital currency to the Bank of England, with its narrow focus on price and financial stability, many of the potential benefits may not be fully recognised. Political leadership is crucial.

Where else is this idea being considered?

In Sweden, the Riksbank is undertaking a project to investigate the legal and technical conditions that would enable the issuance of a central bank digital currency, or e-krona. It is considering how such a currency could be made available, and its implications for areas such as monetary policy. The inquiry is expected to be finalised in late 2019. No decision has been made about whether the Riksbank will issue an e-krona, but the Riksbank has recognised the many potential benefits that the proposal offers.

In its interim report, the Riksbank identified “no major obstacles” to the introduction of an central bank digital currency in terms of monetary policy and financial stability. It argued that if the central bank were to offer a technical infrastructure that can function independently of the commercial, bank-owned infrastructure, then it could help safeguard the payments system against technological failure or financial crises. It also argued that a central bank digital currency could become a platform for new, innovative payment services. The project has concluded that such a currency would safeguard the general public’s access to central bank money and uphold confidence in the sovereign currency.

Would it make banks obsolete?

We do not propose that digital currency accounts would accrue interest. Therefore, we expect that under normal circumstances, commercial banks would have no problem attracting

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10 Cash and digital payments in the new economy: [call for evidence](#)
11 Such as the reasons discussed above: reclaiming a portion of seigniorage, improving financial inclusion
12 [E-krona interim report](#)
13 Although as the Riksbank has proposed, the digital currency could be designed to allow this facility to be introduced later
customers by offering a rate of interest above that offered by the Bank of England. The negative effects on financial stability would therefore be negligible.

In times of financial unease, the search for safe assets would make holding digital currency a more attractive prospect, particularly as an alternative to deposits over and above those guaranteed by the Financial Services Compensation Scheme. But in such circumstances, the availability of a central bank digital currency would have the effect of isolating the wider economy from the effects of a potential bank failure, by ensuring that consumers have access to a safe form of money.

To mitigate against the effect of an “instantaneous bank run”, the central bank digital currency could mimic some of the characteristics of physical cash. For example, the Bank of England could place limits on the value of deposits that can be converted in any single day. Compared with bank runs where depositors withdraw their money in cash, this would allow the authorities to manage financial crises in a more orderly way, without queues outside bank branches, and without any knock-on effects to other transactions between central bank accounts.\(^1_4\)

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\(^{14}\) As discussed in Reza Mogadham’s recent FT piece on Digital Cash