

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

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**LINK's response to the Bank of England and HM Treasury's consultation on the digital pound which was published in February 2023.**

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## Introduction

1. LINK is a not-for-profit company with a public interest objective to protect access to cash across the UK. It is governed by an independent Board.
2. LINK's access to cash role is supported by a voluntary commitment from the UK's banking and ATM industry. LINK sustains access to cash through the operation of its well-established financial inclusion programme.
3. As part of its work, LINK manages the UK's main cash machine (ATM) network. LINK's network connects the vast majority of ATMs (both free and charging) in the country and allows customers of banks and building societies (card issuers) that are LINK Members to make cash withdrawals and balance enquiries with their payment cards at almost all ATMs. All of the UK's major card issuers and ATM operators currently choose to become Members of LINK. In 2022, LINK processed 1.5 billion transactions and dispensed £7 billion in cash through a network of around 50,000 ATMs.
4. LINK also assesses all communities where cash infrastructure (such as bank branches) closes on behalf of the banking industry. Where there is inadequate access to cash after a closure, LINK specifies new shared facilities such as shared banking hubs and deposit services. These are then put in place by a bank-owned infrastructure company called Cash Access UK. These voluntary arrangements will soon be regulated by the FCA, following agreement of new legislation in the Financial Services and Markets Bill.
5. LINK is already regulated by the Payment Systems Regulator (PSR), and by the Bank of England (the Bank) as a systemically important payment system and is Recognised as such by the Treasury (HMT).
6. Although cash is in long term decline in the UK, it still plays a significant role in many peoples' lives. There were 6 billion consumer cash payments in the UK in 2021 (17% of all payments), a fall of 1.7% from 2020, second after debit cards (55%) and above Direct Debit (12%) Credit and charge cards (10%) and Faster Payments (3%)<sup>1</sup>. Around 43.4 million people used cash machines in 2021, with 51% of cash machine users withdrawing cash at least once a month. Cash machines are by far the most common

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<sup>1</sup> UK Finance: UK Payment Markets Summary 2022.

method of acquiring cash, accounting for 93% of all cash acquired in 2021<sup>2</sup>. LINK is committed to protecting access to cash for as long as is needed by consumers.

7. However, the UK will eventually be a low cash economy with payments by cash becoming increasingly uncommon. LINK agrees with the forecasts that cash use for payments will be around 6% by 2031<sup>3</sup>. At that point, those consumers not able to access digital payments would face significant disadvantage. In particular, this will be because of increasing lack of cash acceptance by some retailers, and inability to access the benefits available by using some digital services such as lower prices and broader choice of services. These problems are already starting to be seen as cash usage declines.
8. LINK therefore believes that building a very high level of digital payments inclusion over the rest of this decade is vital if some consumers are not to be disadvantaged once cash payments become uncommon. LINK's assessment is that the current rate of improvement is inadequate and there is a risk that many cash users will become unacceptably disadvantaged through lack of ability to access and use digital payments.
9. The digital pound ("e£") has the potential to play an important role in improving digital inclusion. LINK's response to the consultation questions therefore focuses on how e£ could support the cash to digital transition that is underway through helping to sustain cash for as long as is needed, but also through supporting improved digital payments inclusion. LINK has not commented on the broader economic and technical aspects which are beyond LINK's remit.

## LINK's Response to the Consultation Questions

<b>1. Do you have comments on how trends in payments may evolve and the opportunities and risks that they may entail?</b>
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The UK faces problems with inadequate digital inclusion limiting some people's access to digital payments as cash usage declines. LINK agrees with the Consultation in that e£ may lead to innovative approaches from industry and therefore has the potential to tackle some financial inclusion issues.

LINK agrees with industry forecasts that cash use for payments will be approaching 6% by 2031<sup>4</sup>. Cash use for payments is likely to decline beyond that point, and LINK expects it to eventually reach very low levels.

Cash-dependent consumers are already facing some difficulties as cash acceptance by retailers drops away. LINK believes that decline in acceptance will be the key factor making cash less viable as a means of payment. LINK's own research is already showing that already nearly half (45%) of people have recently been somewhere that did not accept or discouraged the use of cash. In the short term, LINK's work with the industry and the Post Office to maintain availability of cash

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<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

deposit facilities across the country with sustain acceptance. However, by the end of the decade, LINK expects loss of acceptance to be the major problem facing consumers. LINK does not believe that retailers can be forced to accept cash. Enforcement would be difficult and controversial. It is likely that compliance with any mandate could be achieved through a technical ability to accept cash but one that comes with poor customer experience (such as a special cash payment window at the back of a shop). LINK does note that in other jurisdictions such as the Eurozone this approach is being attempted<sup>5</sup> so evidence of its effectiveness or otherwise will become available. However, LINK's assumption is that the loss of acceptance will be a key driver in the decline of cash as a widespread payment method.

In addition to problems with acceptance, LINK also notes that many services are increasingly only available to consumers via digital channels. Often, these services have better pricing and other features. So, even while cash is sustained, there are problems growing through inadequate digital payments inclusion.

LINK is confident that its work will preserve cash as a payment method for some years. However, even with protections in place there will come a time when cash is rarely used or accepted. The Financial Services and Markets Bill will buy us time to ensure a smooth transition to a society dominated by digital payments. Given the rate of decline in cash, we only have a window of a few years to achieve this.

As a country, we need to find a way to invest in digital infrastructure while upskilling and equipping the millions of people in the UK that are currently digitally excluded. The rollout of e£ provides an opportunity to do this. For example, the country could benefit from a national awareness campaign like those seen when the nation switched to decimalisation in 1971, and when we completed the switch from analogue television to digital just over a decade ago.

LINK also believes that digital training will play a role. This would be best delivered at a grassroots level by trusted and well-connected community organisers but delivered at scale – with initiatives to support digital skills for older adults, people with disabilities, and low-income communities. LINK is already piloting potential approaches as part of its work on how to improve digital inclusion. It may be that the developing network of shared banking hubs that LINK is developing with Cash access UK and the Post Office on behalf of the industry could play a role.

**The creation of a widely used and accepted e£ has the potential to improve digital payments inclusion and bring the benefits of digital payments to the whole of the UK. How to use e£ to improve digital payments inclusion should be a major workstream in the next stage of work.**

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<sup>5</sup> [https://www.ecb.europa.eu/euro/cash\\_strategy/html/cash-faq.en.html](https://www.ecb.europa.eu/euro/cash_strategy/html/cash-faq.en.html).

**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?**

LINK agrees that private sector digital wallet providers should not hold end users' digital pounds directly on their balance sheet. This widens the potential pool of providers significantly and LINK believes that, while new entrants and so-called market disruptors may seek to enter this market, it may also be attractive for established and trusted consumer brands which want to leverage their existing relationships and take advantage of the opportunities to collect data and offer consumers a richer and more inclusive service. Examples might therefore include supermarkets, petrol retailers, mobile networks, social media companies and media suppliers like Netflix.

However, as with Basic Bank Accounts, there will be a need for a basic Digital Wallet for those consumers who will not be commercially attractive to any of these potential providers. It is not credible to expect the banks to do this alone (which is the approach taken with Basic Bank Accounts), given the likely increase in the range of non-bank providers. Therefore, a centrally designed, funded and managed shared service may well be the most practical approach. LINK, Cash Access UK and the Post Office through their work on shared banking hubs are a good example of what can be achieved through co-ordinated efforts.

**An effective and good value basic digital wallet needs to be provided so that those consumers without access to commercial digital wallets can still enjoy the benefits of e£. This should be a component of the next stage of work.**

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

These three questions share a common theme which is how data relating to the users and uses of e£ will be managed. This in turn links to how fraud will be controlled.

Some of UK's existing interbank digital payments systems did not consider this matter sufficiently when set up, with an inherent conflict between wanting instant, irrevocable transfer of value and the increased risks of error or fraud. As a result, the UK is already suffering unacceptable and still growing digital fraud levels which

threaten consumers' confidence in digital payments and banking, in addition to the sometimes life changing losses suffered by victims.

A well designed e£ has the potential to address the problem of digital fraud and re-establish full confidence in UK payments. Regardless of this broader benefit, without a robust and fraud control strategy, e£ will struggle to succeed. Even at this stage, LINK's own research shows that of those who said they were unlikely to use a Digital Pound, lack of confidence in a safe wallet was one of the major barriers to use.

LINK's view is that better authentication (in particular, of payees) and improved data sharing are key to successful fraud control. These features do not work as well as they should do across today's payment systems.

We also suspect that it will be hard to sustain separation between the Bank's role as holding e£ but being "data blind" on users and uses. Distraught consumers facing life changing fraud losses are likely to demand the Bank's or wider government's help. The money will after all still be on the Bank of England balance sheet.

**For all these reasons, and while agreeing with the consultation's approach, LINK recommends setting up a strong and dedicated fraud control workstream needs to be part of the next stage of work.**

- 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?**
- 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?**
- 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?**

All three of these questions contain analysis that supports the need for interoperability between e£ and the other payment systems. LINK agrees with this. Reliable and easy interoperability is a key confidence builder for consumers and will promote resilience and stability as policy makers explore and experiment with factors such as limits. **With regards to LINK interoperability with e£, we will now start exploratory work to assess how reliable and easy interoperability can be achieved and LINK will engage as required with the next stage of work.**

**We suggest that thought is given for ATMs to be used as mechanism to both add and withdraw e£ to wallets.** This will greatly enhance the digital inclusivity of e£, given the current widespread availability and acceptance of free ATMs. There may be other transactions that also make sense at ATMs, in line with the experience

with cash, such as balance enquiries or PIN change. Scoping this out is an important early step, as it has implications for the customer experience, role of the ATM network and associated technology choices.

The questions around limits for consumers and corporates present an interesting problem. As the aim is to encourage use of e£ for payment transactions, corporate account limits, in particular, risk preventing this as it will limit a corporate's ability to accept e£ from consumers, even for small amounts, as these will quickly add up. It is also not clear cut, especially for smaller businesses, what constitutes a consumer account and what constitutes an SME. An alternative approach to limits on account balance may be to look at the experience of the existing payment system in areas such as single payment limits or daily payment value caps (rather than account balance caps). The existing payment systems also have different approaches to access (eg FPS versus CHAPS), and payor and payee (eg card holder versus merchant acquirer). A mix of these factors may achieve the aim of limiting risk to the existing commercial banking system from an outflow to e£, while maintain the ability of corporations to gather larger balances from multiple inbound payments and deal with them quickly and without bureaucracy and expense.

Daily and per transaction payment limits and different payment system rules for corporates versus consumers are design features worth considering in the next stage of design work alongside account balance value caps.

**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?**

As noted in earlier responses, payment fraud remains a significant problem and therefore is vital that the digital pound's design is such that it does not facilitate the remuneration of illicit funds overseas.

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

Yes, subject to our comments on optimising digital inclusion as summarised in our responses.

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

As all of LINK's comments relate to financial inclusion, below we summarise the main points that we have made in this consultation:

1. The creation of a widely used and accepted e£ has the potential to improve digital payments inclusion and bring the benefits of digital payments to the whole of the UK. How to use e£ to improve digital payments inclusion should be a major workstream in the next stage of work.

2. An effective and good value basic digital wallet needs to be provided so that those consumers without access to commercial digital wallets can still enjoy the benefits of e£. This should be a component of the next stage of work.
3. Setting up a strong and dedicated fraud control workstream needs to be part of the next stage of work.
4. With regards to LINK interoperability with e£, we will now start exploratory work to assess how reliable and easy interoperability can be achieved and will engage as required with the next stage of work.
5. We suggest that thought is given as to how ATMs can be used as mechanism to both add and withdraw e£ to wallets, access balances and for additional functions which may be required, such as PIN change.
6. Daily and per transaction payment limits and different payment system rules for corporates versus consumers are design features worth considering in the next stage of design work alongside account balance value caps.

**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.**

LINK has no concerns in this area.

Ends.