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The Digital Pound: a new form of money for households and businesses? Bank of England and HM Treasury Consultation

Introduction

The Wales Safer Communities Network was established in January 2021 following the recommendations of the Welsh Government's Working Together for Safer Communities Review. The Network aims to become the strategic voice for community safety in Wales, working collaboratively to champion and support community safety partnership working, and influence the shaping and development of national policy and local practice.

Questions

- 1. Do you have comments on how trends in payments may evolve and the opportunities and risks that they may entail?**

Payments are already evolved with more options to pay by card, or banking Apps on smartphones. It is very difficult to know where the next real evolution will come from and not to be swept up in the current trend which may turn out to not be the way things evolve and result in wasted time and resources which could be better used in reducing fraud, financial abuse and eradicating financial options for organised criminal organisations.

There is a risk of having a two tier money system that moving money between the physical pound and digital pound will open the opportunities for theft, fraud and other criminal activities. The more different type of currency the higher the risk and probability that gaps will be found and exploited.

The current system and processes which allows the physical pound to be spent through electronic means may actually be the best way to protect and to enable law enforcement to be able to operate. This is especially true when thinking of how digital wallets will work to just hold money until it is spent, so acting more like the pre-paid cards that are already in operation and have the checks and balances already in place.



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?**

The suggestion for private sector wallets will carry the risk as does any other banking situation. The important element will be how the wallet providers are regulated and what assurances are given for any funding held by them. In addition, if there is a personal limit on how much people can hold in digital wallets then how information will be shared to prevent them holding multiple digital wallets with different providers would need to be planned for, especially given the elements around data that form other parts of the consultation document.

Regulation will be important to prevent loan sharks, money laundering or other forms of financial exploitation or fraud from being able to take place, through a private firm running digital wallets.

As the monies held in the digital wallets as proposed remains in the ownership of the individuals it would appear appropriate not to include the funds on the balance sheets. However, there should be a clear way to communicate the amounts held to enable any issues, fraud or financial exploitation or financial risks to be identified and managed. A small organisation with a cash flow of £50,000 may struggle to meet its liabilities if it is holding wallets with a total balance of more than ten or twenty times the amount. A bank run could become a digital wallet run, and the damage that can cause was seen with Northern Rock in the financial crisis of 2008.

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?**

We agree that the system if implemented should be similar and build on the experience of existing banks and banking institutions processes for monitoring and reducing or preferably preventing fraud, money laundering and financial exploitation.

We think there is a risk of enabling criminal activity by allowing lower amounts to be saved with less ID and data collected or processing, this could also lead to difficulties in being able to clearly identify criminals or those suspected of criminal behaviour making the digital pound the easier option to be targeted.

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

We are concerned about this element from an enforcement perspective and that it could easily be exploited by those with criminal or exploitative intent. There should be the same requirement irrelevant of the amount of money held and it should be comparable with that which is required by banks operating with the physical pound.



We are especially concerned about the potential for this to be used and abused when it comes to the exploitation of children and young people.

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?

We think this would be hard to implement and could potentially limit the effectiveness for law enforcement and the identification of exploitation and fraud that the physical pound institutions have processes and systems in place to try to identify and to be able to process where identified suspicious activity is taking place.

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?

The proposal would appear appropriate, but there may need to be something added which is machine to machine payments. The developments in AI could lead to such activity becoming normalised or AI to person or person to AI.

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?

One of the figures mentioned in some fraud figures is that the average amount lost by a victim is just under £9,000. This would put the wallets within the bracket for where there is limited risk of detection in the first instance, so success in acquiring the money and it is a high enough amount to be potentially worth the risk. It may be more appropriate to limit to £5,000 which may be less appealing to those with criminal intent.

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?

We are concerned that the holding of two forms of monies could be open to exploitation and criminal activity, or to attempted tax avoidance. Built into the process would need to be a way for digital pounds and physical pounds to interact. That would allow for a smooth process but where all assets can be clearly identified, and any irregular activity identified. This is why we are not sure that the introduction of a Digital pound is required and it may be more appropriate for existing structures and processes to be utilised, for reasons previously given around money laundering and fraud risks.



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?

The need for the same regulatory framework and standards to apply will be important, otherwise it may potentially be a way for money to make its way illegally into or out of the country, either for criminal purposes or to bypass existing checks and balances.

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

Yes, but it leaves a system potentially open to exploitation and criminal or corporate fraud. More thought needs to go into how to ensure the digital pound is secure especially with the risk that AI could pose in enabling criminal activity in this space.

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

To ensure financial inclusion there needs to be the option for physical money (notes and coins), physical pound and if introduced the digital pound. This could become very confusing for our most vulnerable in society, those with dementia and disabilities and illnesses that effect cognitive ability. There will need to be parity so that the cost of something in physical pounds is the same in digital pounds or risk excluding or discrimination.

It is important to keep in mind that not everybody has joined the digital revolution and is digitally included, the consultation quotes a figure for the percentage who own a smartphone or device, but this figure may be inaccurate and may be the number with a mobile phone as it appears to be used interchangeably within the mobile phone sector and statisticians. We therefore are concerned that a policy is being developed based on inaccurate information, as a large number of people do not have smartphones or devices and have what they often refer to as 'push button' devices or none at all. If an individual does not have access to smartphones or the internet which could be due to financial reasons, disabilities (including cognitive and physical), age or personal choice then it is important that they are not discriminated against and that their financial needs are not overlooked.

The more money becomes digitalised the more it appears to become abstract and the harder for managing and increasing the risk of people getting into hardship and financial difficulty, such as bankruptcy. The digital wallet system could help by preventing people from spending what is not in their digital wallet due to the nature of the spend taking place in real time, but this will depend on the speed of the process and the ability to access and understand what any balance held is.

The other risk is for immediate fraud, currently access to money either involves a transfer, spend online or accessing physical cash at an ATM. If the money can be accessed and transferred person-to-person and immediately then this could fall fowl of technology whereby if correct safety is not applied then they could be accessed by



criminals on the street – this was seen when card readers were used for criminal activity to access card details. Protection against this type of crime will be needed as it is the most vulnerable this was able to target.

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.

The security elements of the digital wallets will need to be considered, a third sector organisation working in Wales which encourages independence for those with disabilities through the use of technology provide training and coaching for those they support on security. One of the first things that they tell clients is not to attach any of their card details to the digital technology that is used. They set it up so it has all the security settings set up, if they don't then someone outside of the property may be able to control the technology that gives them independence. This level of protection and security should be available to all to enable inclusion and not be reliant on how technologically educated people are.

Digital wallets which involve existing money will be more accessible and available for those from more affluent areas. Whilst this may not fall within the equality act protected characteristics for the rest of the UK, in Wales the Socio-economic duty is now in place, which means that consideration must be given to those living in poverty, deprivation or who may be negatively affected as such. The need to ensure that digital wallets are not open to the exploitation of loan sharks we think will need to be carefully considered.

There is evidence that one form of domestic abuse is to leave women with little ability to communicate or engage with the community, to limit the amount of cash or other monies they have access to. The digital wallet could form another way in which women are excluded and abused in this way.

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