

What is the Bank of England for if its plans for a digi...

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I do not usually return to a theme the day [after I have written about it](#), but having read [John Cunliffe's speech about digital banking](#) yesterday I think it is appropriate to do so. Cunliffe is the deputy governor of the Bank of England responsible for this issue.

The most polite description that I can find for Cunliffe's speech is that it is confused. As it stands, there are at least three fundamental problems in his proposal.

First of all, he did not explain why people might want to use a digital currency held with the Bank of England instead of using their current account with a bank as the majority of the people in this country now do.

Second, he provided no explanation as to why the new digital wallet that will supposedly manage this digital currency will offer any more access to banking for those currently unbanked.

Third, he offered no comment on the economics of this arrangement, and as a consequence, it is almost impossible to understand why any bank will want to be involved in it. Despite this, all the proposed arrangements are based on the idea that existing commercial banks will make this currency available to their customers.

To explain this a little more, the Bank of England wants to provide a digital currency whilst guaranteeing that it will continue to supply notes alongside the coins made available by the Royal Mint. In that case, although this digital currency is clearly intended to replace notes and coins, the stated objective is that it will not. That makes almost no sense.

On top of this, the digital currency will not be available direct from the Bank of England. As such access to central bank money will not be a feature of the system, at least for retail bank customers. Instead, they will use the digital wallet as if it is a current account, and they will maintain it with a commercial bank that will, however, only provide branding for the arrangement because the funds will all be deposited at the Bank of England, and not within the ledgers of the commercial bank itself.

The supposed advantage of this is that the digital currency will, apparently, be a quicker and more efficient payment mechanism than existing arrangements. I find this a little hard to believe when I am already aware that I can switch funds electronically between UK banks in seconds, but the suggestion is that this facility will then be available for payments outside the banking system (in other words to cryptocurrency managers, who would, however, have to be working in sterling) and for international payments. How much of an appeal that represents is very hard to work out.

It is also incredibly difficult to work out why a commercial bank would want to offer this digital wallet when it also already offers a current account which provides all the same facilities, and more.

Why those commercial banks might also want to offer this facility when the intention is to cut the fees that they can charge for card payment management and the significant revenues they earn from offering either Visa or MasterCard is also incredibly hard to understand, and there is literally nothing in the speech that explains this.

Commercially, without the Bank of England making a direct offer of these accounts this looks to be a product that will be dead on arrival because of its lack of commercial appeal if it is only to be made available by existing commercial banks.

The fact that the value of funds that might be held in such accounts will also be constrained to positive values between zero and £10,000 is a feature that also appears to be designed to limit their appeal.

In fairness, Cunliffe does discuss increasing that limit to £20,000, but his reasons for doing so are bizarre. His suggestion is that with a limit of £10,000 only approximately 75% of people in the UK could receive their salary in such an account each month but increasing the limit to £20,000 he suggests that this would allow almost everyone to receive their salary in this way. I am completely baffled as to what he thinks the average net after-tax salary in the UK is in that case.

Struggle as I might, I cannot find any economic, social, political, or commercial merits of this proposal as a result of Cunliffe's comments.

What did appear to me to be glaringly obvious was that the proposal completely missed the point about the failings within UK banking which could be remedied by a state-run retail bank offering a full range of banking facilities based upon a digital currency platform. Call it something like the Girobank, for example (to recycle the name of the last such state-owned bank that we had).

There is very good reason for such a bank. I could break the commercial oligopoly within banking. That oligopoly keeps bank charges high; keeps interest rates for borrowers high; charges excessive fees to retailers for the use of banking and electronic card facilities; rarely lends wisely or to the productive economy; and it is frequently seen as an opponent of macroeconomic policy, and the population at large through the

operation of their bond trading activities. There is very good reason to think why these banks act against the public interest, providing very good reason why the state should provide an alternative. Add to that the fact that this state run bank would then provide the opportunity to reach out to some of those who are currently unbanked and there is something real in policy terms to talk about here, but the Bank of England missed all that.

As it stands, Cunliffe made the case for an unviable service supplied by those who would have no interest in delivering it for no obvious social, political or economic purpose. All he left me thinking was, what is the Bank of England for?