

Demystifying the digital pound and CBDCs – an introduction

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Speakers



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Agenda

 What is a CBDC / why have a CBDC

 Implementation of CBDCs in the UK / around the world and key design considerations

 Privacy and financial stability implications – how might the current banking model change?

 Q&A



How we got here?

Money

- ☐ Definition
- ☐ Present forms of money

Payments: from physical to digitized

- ☐ Physical payments
- ☐ Digitalized payments
- ☐ Digitized payments



New forms of digital money

Money: unit of account – medium of exchange – store of value

Public: liability of central bank

Cash /
Banknotes

Central bank digital
currency

Central bank
reserves

rCBDC

wCBDC

Private: liability of private issuer

Commercial bank
money

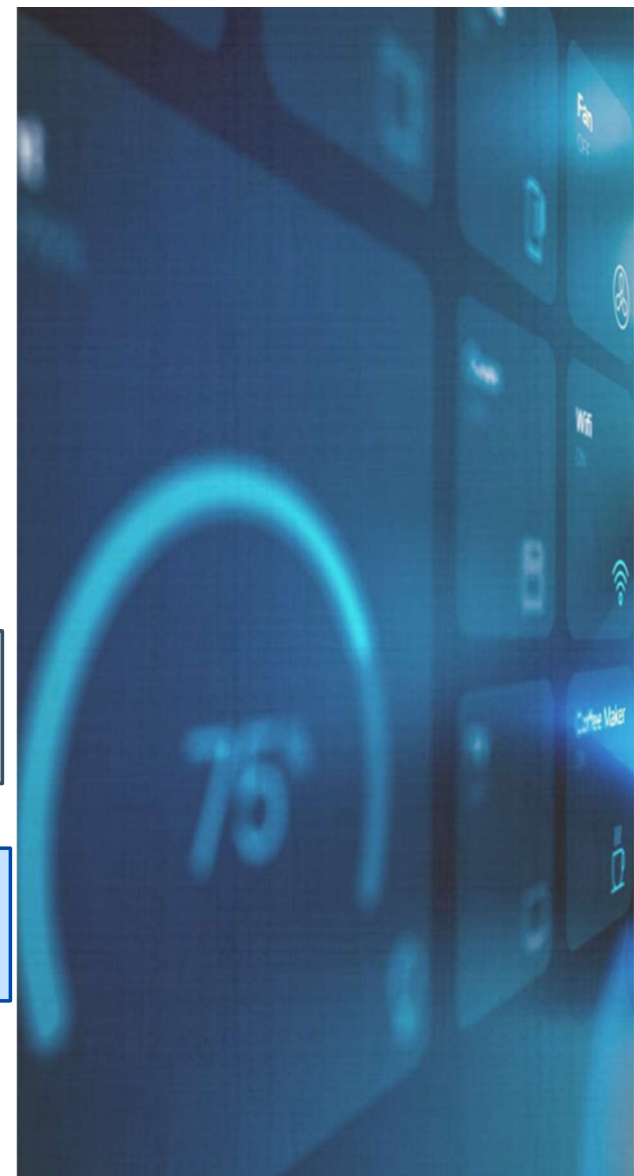
Electronic money

Traditional
deposits

**Tokenized
deposits**

Traditional
e-money

**Tokenized
e-money**



What is a CBDC?

Retail

A retail CBDC is "a widely available digital payment instrument denominated in the country's unit of account that is a direct liability of the country's monetary authority"

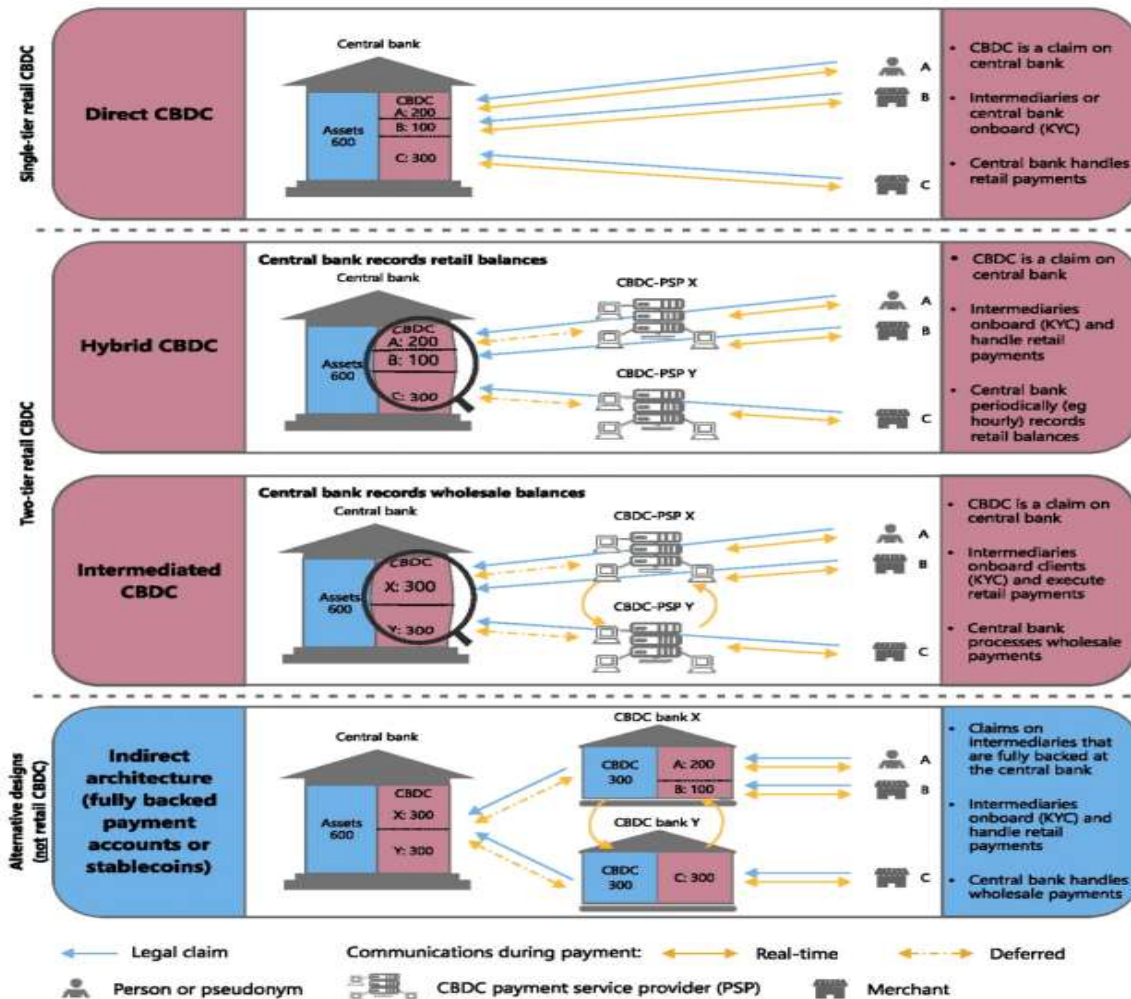
Wholesale

A wholesale CBDC is a direct liability of the country's monetary authority denominated in the country's unit of account that is used between financial institutions to settle trades in financial markets

Source: Bank of International Settlements, 2020



CBDC Distribution / Architecture



Source: Auer & Boehme (2021), BIS Working Papers 948

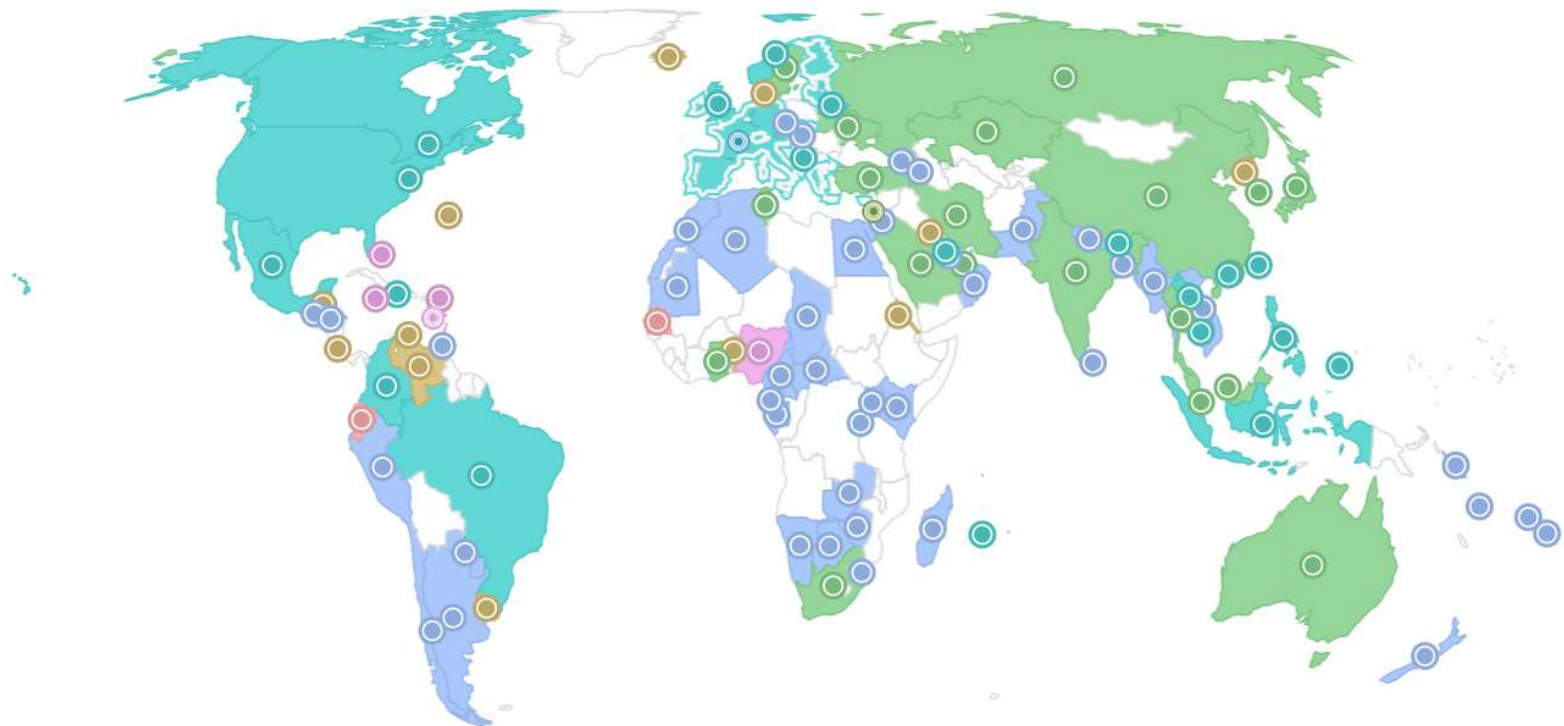
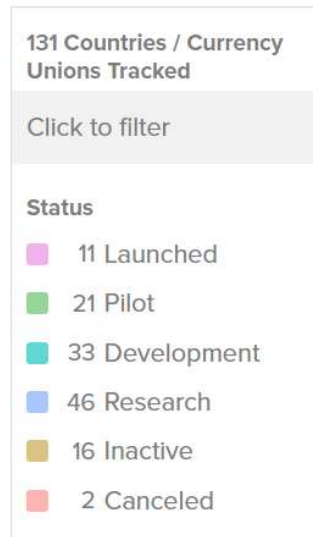


Why are CBDCs being considered?

-  Preserving central bank role
-  Strategic importance
-  Disruption and adaptation
-  Financial inclusion, payment resilience, etc..



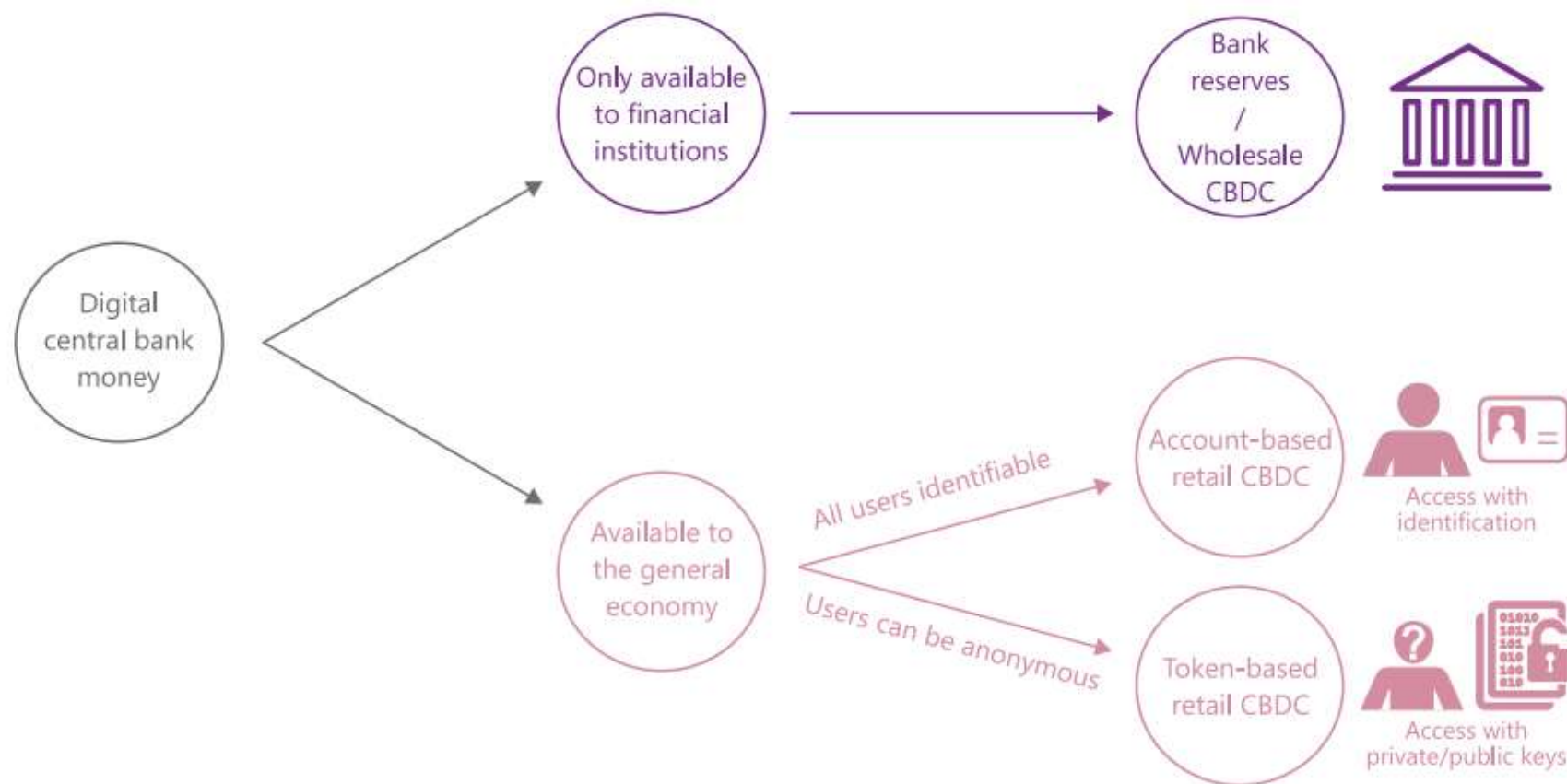
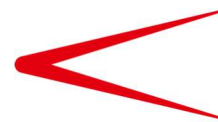
CBDC implementation around the world <



Design features of a CBDC


Design choice	Digital pound proposal
Retail vs wholesale	Retail
Account based vs tokenised	Account based
Central ledger vs block chain	Central ledger run by central bank
Capped vs uncapped	Capped – £10,000 – £20,000
Interest-bearing vs no interest	No interest
Access – residents vs non-residents	UK and non-UK residents
Online vs offline payments	Online payments only
Programmability	Not programable by the central bank

Forms of digital central bank money



Main Risks

 **Cybersecurity**

 **Financial stability**

 **Privacy**



Financial stability implications

- **Disintermediation**
- **Systemic bank runs or abrupt money-market withdrawals**
- **Spillover negative effects on monetary policy**

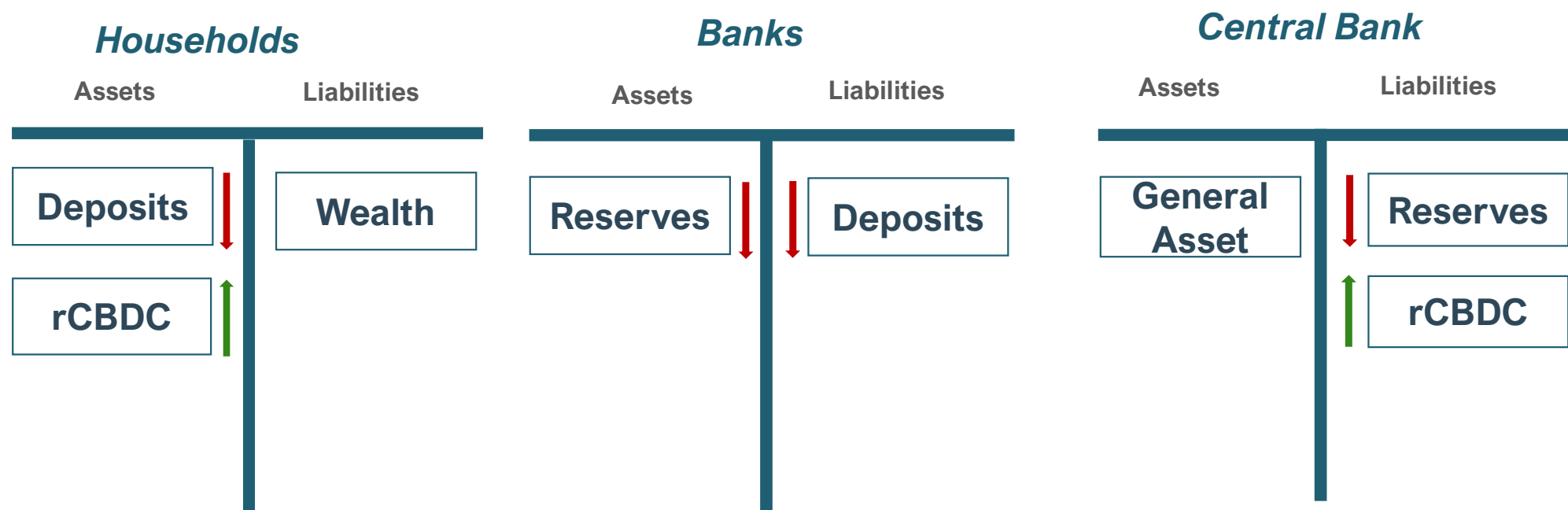


Privacy

- Privacy and anonymity of payments
- Data protection & privacy vs prevention of financial crime
- Technical framework and privacy scenarios



Effects on banking business



Effects on banking business cont.

- Increased funding costs (deposits & interbank)
- Smaller balance sheets
- Liquidity management fluctuations
- Overall decrease in profitability



Questions

- ☐
- ☐
- ☐
- ☐

