BANK OF ENGLAND

Item 2: Use cases

CBDC Engagement Forum

February 2022

Use cases and the CBDC ecosystem

Central Bank

Public policy objectives

Intermediaries

Ability to develop and market propositions

Consumers & businesses

End use cases for CBDC

Use cases and public policy objectives

Public policy objectives (*Slide from EF1*)

Sustain access to, and utility of, central bank money

The availability of, and convertibility into, a central bank asset underpins the concept of ‘money’ and ensures confidence in the currency.
Important for monetary policy and financial stability.

Support wider policy objectives

As well as supporting inclusion, CBDC could provide the right ‘open’ infrastructure to support private innovation, enable the digital economy and promote competition within payments.

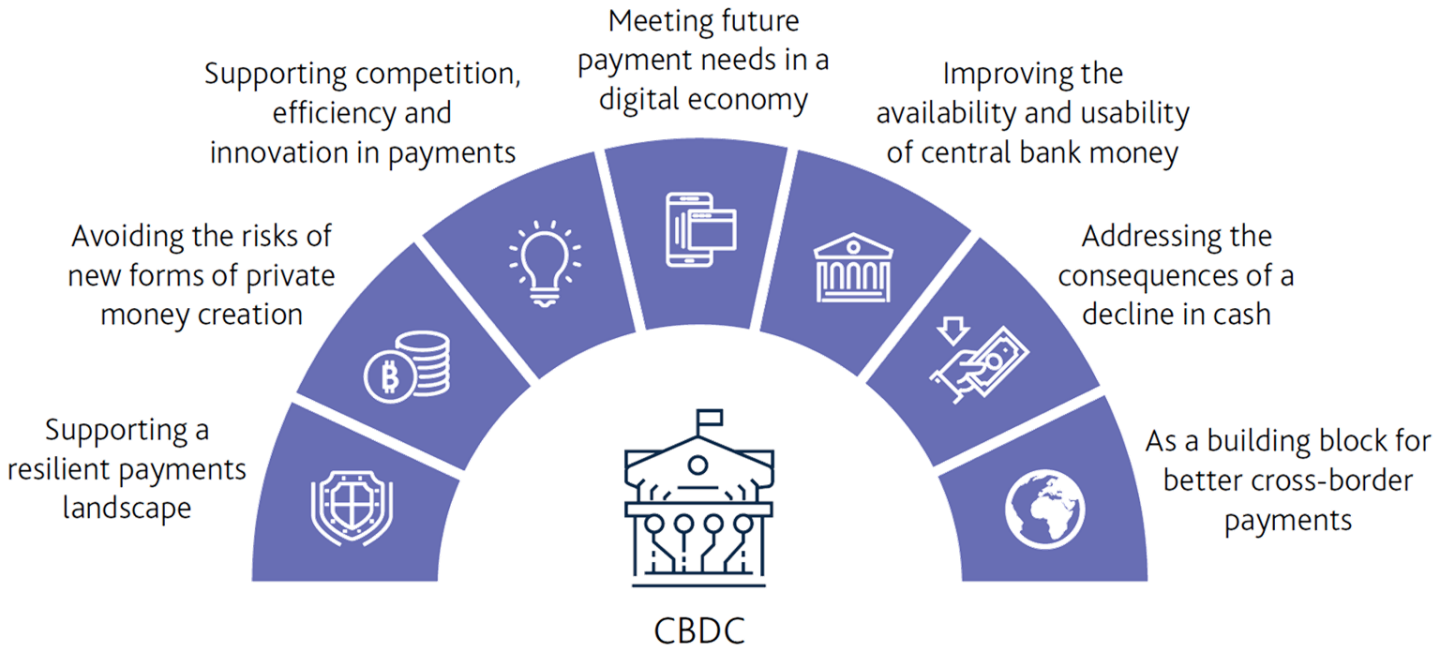
User need and functional design

A CBDC can only achieve these public policy objectives if it gains sufficient adoption.

To achieve adoption, a CBDC would need to support user needs and have requisite functionality with which intermediaries could develop user products.

Why might CBDC be useful? A policy maker's perspective

In first Discussion Paper, the BoE published a dial of 7 motivations for CBDC:



- These are all ambitions of **public policy**
- But many also point to use cases from the perspective of the **end user use**

Use cases and the end user

Translating CBDC motivations into ‘types’ of CBDC for end users

Everyday payments
‘Universal public money’

Innovation
‘An open platform to enable development’

Inclusion
‘You can’t spend cash on the internet’

Cross-border
‘Breaking down monetary borders’

Important: these ‘types’ are illustrative for discussion and are not intended to be comprehensive descriptions

Four illustrative ‘types’ of CBDC: ‘target’ users

	Inclusion	Everyday payments	Innovation	Cross-border
Individuals	Those unbanked or on a budget. People not served by commercial propositions. Those unwilling to use privately issued digital currency.	‘Average’ individual, comfortable with current options but open to changes	Individuals who live a largely digital life, perhaps those happy to eliminate ‘the moment of transaction’	Individuals with large foreign currency payments – e.g. overseas workers sending money home (remittances)
Merchants	Businesses that find it clunky to receive electronic payment but don’t particularly want cash	Merchants, both online and in-store, potentially due to cost or other advantage over existing means	FinTechs and businesses with heavy payment element to their models	Businesses with extensive retail-facing cross-border payments – e.g. internet retailers

Important: these are just propositions, they would need more work to evidence

Four illustrative ‘types’ of CBDC: fundamental requirements

Inclusion

- Easy to access and use
- Widely used and accepted
- Low barriers to entry for both individuals and merchants

Everyday payments

- Widely accepted
- Low barriers to entry for merchants
- Some benefit relative to existing payment methods (efficiency, cost, resilience)

Innovation

- Supports newer functionality (e. g. micropayments, programmable)
- Accessible to innovators

Cross-border

- Compatible with CBDCs in other jurisdictions
- Smooth and easy cross-border payments
- Standards (eg AML) in line with international agreements

Observation: many/most features are common across ‘types’

Question: do these end use cases fundamentally need different requirements of a CBDC or are they simply different product propositions from PIPs?

Use cases and intermediaries

How does a platform cater to PIPs developing a range of products

Suggest **common requirements** are:

- Accessible, low barriers to entry
- Secure, resilient
- Open, interoperable, extensible

Ultimately, end user propositions would be for PIPs to develop

Suggests some broad questions in developing thinking around CBDC:

- Do different use cases demand different functionality of a CBDC?
- What information does the private sector need to develop use cases?
- How does the private sector feed their thinking back to authorities?

Does use case influence functionality and/or vice versa?

Different functionality of retail payment schemes means they tend to be used for different purposes

Are there equivalents for CBDC?

Scheme	Features	Typical retail uses
Notes and coins	Physical (holding is proof of ownership), widely recognised and accepted, hard to forge	Retail payments, P2P payments
Faster Payments Service	Electronic, clear near-instantly, settle 3 times a day, access via bank	P2P payments, paying for a service
Bacs	Electronic, 3-day settlement cycle, good for batch payments and pull payments	Payroll, pensions, direct debits
Debit cards	Electronic, can be initiated at POS, consumer protections and refunds	In-store/online payments
Cheque Imagine Service	Physical, 5 day settlement	P2P payments
CHAPS	Real-time, settled over RTGS, larger value	House purchases

Questions for discussion

- *Should a CBDC be designed with a primary use case in mind or aim to be as adaptable a platform as possible with use case left to PIPs?*
- *Does optimising design for some functionality limit scope for other functionality?*
- *What information does industry need from UK authorities to be able to develop use case propositions?*

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Item 4 – Mitigating exclusion: digital, financial, socioeconomic etc.

CBDC Engagement Forum

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HMT definition of inclusion

Building a CBDC in line with our financial inclusion objectives means ***'promoting access to useful and affordable financial products and services, whatever a person's background or income'***

Member presentations

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Item 5 – Coexistence between CBDC and other forms of digital money

CBDC Engagement Forum

February 2022

CBDC and coexistence with other forms of money

- A future CBDC must coexist with current and future new forms of digital money. These include: cash, commercial bank money, stablecoins, e-money

Requirements for coexistence

- Interoperability – the ability of users to switch with minimal cost in time or money – between CBDC and other forms of money is likely to be an essential requirement
- New and consistent regulations relating to privacy, risk, and competition

Benefits of coexistence

- Interoperability could potentially create benefits such as greater functionality of systems
- Reduces fragmentation risks in payments
- Potential for greater competition and innovation as a result of multiple forms of money
- Potential for greater user choice and lower user cost
- CBDC could have an anchoring role which may support confidence in other systems

Challenges for coexistence

- Interoperability could create dependencies on existing infrastructure
- Ensuring security and certainty of value between different forms of money
- Technology and data/messaging standards to allow for seamless sharing of information between systems
- Regulatory interoperability or compatibility
- Ensuring functionality, such as block movement/transactions of different forms of money
- Legal, dispute and resolution issues

Objective of the session

To understand how a CBDC fits into the current UK payments landscape, how it might coexist and interact between different forms of money, and the different ways this might be achieved, considering the trade-offs and risks associated with the different approaches.

Member presentation

Questions for discussion

- *A CBDC system should coexist with other payment systems and contribute to broader accessibility, resilience and diversity. What are the necessary requirements to achieve this?*
- *What are the main barriers to achieving interoperability?*
- *How could public policy support interoperability and promote coexistence?*