



BANK OF ENGLAND

News release

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26 February 2018

Jon Cunliffe – Looking after our money

In a speech delivered today at the University of Warwick PPE Society, Jon Cunliffe addresses the role of money in society and changes in the technologies that support it in our economy.

Jon opens by seeking to define what money actually is. He says: “It is in the end, a social convention or what has been called a ‘social technology’, by which we create, hold, use and measure claims on each other.”

This social technology is underpinned by other technologies – physical, legal and institutional – that evolve over time. Jon notes: “The role of the physical forms of money, of the transaction systems, and of the legal and institutional frameworks is to make the social technology function as safely and efficiently as possible to serve societies’ needs.”

Jon notes that we are seeing important changes in the way we use money as a means of payment. The amount of cash in circulation climbed from about £70bn at the end of 2014 to over £80bn at end 2017. Despite the increasing demand for cash, however, the volume of cash payments has actually fallen 16% over two years (2014 to 2016). This can be explained by the growing popularity of other technologies – cards, online payments and new e money providers – for smaller transactions.

Jon says: “Our responsibility is to ensure that people can use the money of the UK to transact safely and, subject to that, as efficiently as possible and in line with their preferences. The Bank of England has been very clear that it will issue cash to meet demand, as it has always done. Our investment in new cash technology, safer and longer lasting polymer notes is a demonstration of that commitment. At the same time however we will continue to support innovation and competition in the machinery for making payments in the economy.”

He adds: “We need to ensure that those who offer payment services, new and existing players alike, in any of the links of the transaction chain, are properly authorized and can manage the risks they bear. And that same risk, for example taking deposits and issuing claims, is treated in the same way, regardless of the business model of the firm offering the service. There needs to be a level playing field in all directions.”

The new EU Payment Services Directive (PSD2) and the Open Banking requirements for the major UK banks are significant developments that could affect the way we access and manage our money. These reforms are designed to increase innovation, competition and security in payments and banking services.

While these developments do not directly involve the Bank, Jon notes they will have an impact on the business model of the retail banking system. The Bank's 'exploratory scenario' exercise – conducted alongside the annual cyclical scenario during last year's stress tests – examined the strategic responses and preparedness of the major UK banks to increasing competitive pressures driven by Open Banking, PSD2 and other changes.

Jon says: "In their responses, the banks in the test judged they could maintain existing business models without increasing overall risk taking, meeting the requirements of both regulators and investors, and using technology to increase efficiency to offset lower margins.

"Our assessment was that there were a number of risks to the banks' projections in the exploratory scenario. In particular, Open Banking, PSD2 and other related changes might cause greater and faster disruption to business models and the forecast increases in efficiency may be more difficult to deliver than assumed. Investors might also demand a higher return than banks' forecast in the test."

The Bank will be following up with individual institutions on the results of the exploratory scenario.

In summary, Jon says: "The way we use the social technology of money has a long and very varied history. Money has manifested itself in very different forms over the centuries. The confidence that lies at the heart of the technology, that is money has been supported in very different ways."

He concludes: "The way we exercise our responsibility for the 'machine' that is the nation's money has of course changed over time. And it will continue to evolve with society and as the 'technologies' that support money change. But the underlying responsibility to ensure the machine runs in good order will remain."

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