Open Identity Exchange

The digital pound: An new form of money for households and businesses?

Consultation

OIX Response

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1   Context

This document contains DIX response to the UK government consultation: _The digital pound: A new form of money for households and businesses?_

The consultation is largely concerned with the mechanisms of technically and operationally governing the proposed digital pound. Within the consultation it references the use of Digital ID to KYC proof the user who is going to hold the digital pound in their digital wallet.

DIX has a number of general points to make regarding the use of Digital in the context of the UK pound.

DIX's feedback has been submitted in response to question 4. _What are your views on the provision and utility of tiered access to the digital pound that is linked to user identity information?_

Please note that this document does not represent the views of Ofcom.

2   Feedback on the Consultation

DIX's mission is to enable to the use of trusted reusable Digital IDs across the globe. As such, DIX wholly supports the UK government's proposal to leverage Digital ID as part of the KYC process for users to hold digital pounds.

A key consideration is whether the Digital ID is only used as part of the KYC process, and then the wallet provider issues the user with credentials to access and manage the wallet, or whether the Digital ID is also used by the user to manage the wallet on an on-going basis. DIX would advocate for the latter.

The consultation refers to offering different tiered access to the digital pound based on identity information. If existing AML guidelines for ID proofing are to be followed, the lowest bar for identity information is not achievable by many citizens from a digital-only perspective today. Users without passport, driving licence or a credit file – the ID Challenged – will struggle to pass ID proofing through digital means and will need access to other ID proofing methods to ensure they can access the digital pound. Access to such methods can be achieved through an overall strategy for Digital ID inclusion that involves:

- Better levering data that is already in the marketplace (through GPG45)
- Access to government data sources, such as those held by DWP/HMRC
- The introduction of Digital Vouching, where a voucher leverages their own personal Digital ID to bring someone else into the ID ecosystem
- Use of One Login for government as a credential for private sector ID proofing.

It is therefore recommended that before Digital ID is used for the digital pound, many of these Digital ID inclusion initiatives must be addressed.

The consultation references the use of GPG45 as proofing methodology. GPG45 is not used for ID proofing in financial services today. Financial services use guidelines/from their regulator, such as those from the Joint Money Laundering Steering Group (JMLSG). GPG45 has several issues that mean that 'out of the box' it is not suitable for financial services ID proofing, for example:

- It is possible to obtain a High level of confidence without having proofed the users address
- It is possible to obtain a Medium level of confidence with bank data alone, which would constitute reliance under the KML guidelines.
- It does not recognise data sources commonly used for proofing by financial services, such as Electoral Roll, thus excluding users who can pass financial services ID proofing today.

To leverage GPG45 in financial services an 'Overlay Scheme' will be required to ensure financial services requirements for ID proofing, per existing guidelines, can be met. An overlay scheme extends or modifies the UK Digital Identity and Attributes Trust Framework for specific sector or use case needs, such as those of the digital pound

Other considerations that may be addressed by an overlay scheme for Digital ID for the digital pound may include:

- If tiered access based on ID information is to be implemented, how will different risk appetites dependent on digital pound holding be mapped to ID proofing requirements? GPG45 levels of confidence could be used as a start point, but to the previous points around GPG45, this has a number of challenges today.

- When the user moves from a lower tier to a higher tier, when does step up ID proofing occur? When the user tries to receive digital pounds and this takes them above their limit? Or before they can then spend or transfer their over limit digital pounds out of the wallet?

- Use of re-usable Digital ID (via an ID wallet, as opposed to a payment/pound wallet) to open many PIP accounts needs to be supported.

- GPG45 proofing only covers ID proofing. It does not cover other required AML due diligence elements such as Sanctions and PEPs. Presumably the PIP must do these checks and therefore this will be in scope of their responsibilities?

- Holding of digital pounds by non UK residents. How will ID proofing be done for non UK residents? GPG45 does not cover this very well today, unless passport is relied upon entirely (which has no add-on). GPG45 does allow an eIDAS ID to be used as part of the proofing process, which will help EU citizens access the digital pound, especially as EUDI Wallets are rolled out that contain an EU High trust Digital ID.

- If the Digital ID is used to manage the wallet containing the digital pound, then the Digital ID will become a target for fraudsters who will try and takeover the users

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Digital ID to gain access to their digital pounds. Robust account takeover fraud controls will need to be put in place to manage fraud risk. Digital ID providers should have fraud control obligations commensurate with those run in financial services today. These need to be thoroughly specified and Digital ID providers will need to be certified to those controls.

- How will consumers know who a genuine PIP is? Fraudsters will set up rogue PIPs to target consumers to deposit real cash, which will then be laundered. A digital pound consumer 'trustmark' is required, that includes digitally traceable trust for end users.

- How will organisations know who a genuine PIP is? A centrally maintained trust registry of authorised PIPs is required so that PIPs can be digitally verified. PIPs and financial services providers must only transfer pounds to verified PIPs.

Consideration needs to be given as to how digital pound holding fits into any overall UK wallet ecosystem that covers ID, Payment and Token wallets. Liaison with DGT on the scope of the Digital Identity and Attribute Trust Framework with reference to wallets, CDBC holdings and payments should be undertaken.

DIX has several more general non-ID related questions that will need to be addressed as part of the governance approach to the digital pound.

- How will limits be monitored if users can have multiple holding of digital pounds with different PIPs?
- Must the information known to an organization about user in the role of a PIP be constrained to the PIP role. If the organization is also playing other roles (e.g., a retail bank or lender) can they use the information visible to them as a PIP? If so, will need user agreement?
- PIP tracking / profiling of currency user - is this forbidden?
- How can users easily move from PIP to PIP to allow them to move their CDBC to other providers? Vendor lock in must be avoided.
- How does the user prove holding of digital pounds to someone who they wish to do business with (e.g., for proof as a mortgage deposit).