Background information on the session proposal *Digital currencies paving a way for digital innovations*

IGF 2021 Theme: Emerging regulation: market structure, content, data and consumer/users rights regulation

Session format: Town hall

Organizers: Visa, Grayling, Polityka Insight

The concept of digital money - a virtual equivalent of cash - has been under discussion for more than a decade. The difference between an electronic version of state currency and a physical one lies primarily in the closer relationship of consumers with the central bank - without the intermediation of commercial banks.

Digital currency is a digital version of cash, controlled by a private cryptographic key. There are different forms of digital currencies: cryptocurrencies (non-sovereign digital currencies backed by on distributed ledger technology, e.g. Bitcoin), stablecoins (digital currencies backed by fiat held at commercial banks, e.g. US digital currency) and central bank digital currencies (CBDC - backed by the central bank). Cryptocurrencies are growing in popularity, as evidenced by the price of bitcoin varying from 30 to almost 60 dollars for 1 btc. Enormous volatility characteristic for cryptocurrencies makes digital currencies which value depends on the issuer – stablecoins – more and more convincing for consumers, making its turnover reach $20 billion in September 2020. The third form of digital currencies - Central Bank Digital Currency, or CBDC is a new form of fiat money issued by a country's central bank directly to its citizens. But unlike traditional paper currencies such as gold or the U.S. dollar, CBDC would only exist in virtual form. At Visa, we are seeing increasing interest from banks across the world who are looking to utilize digital currencies in new payment flows. We see also significantly more interest from consumer facing wallets than we do from traditional merchants and acquirers. 80 per cent of central banks report that they are engaging in works on central bank digital currencies, according to research from the BIS[1]. The product has been under public consultations organized by the European Central Bank, it's development was discussed at World Economic Forum.

Digital currency represents an evolution in money with the creation of the new form factor of a cryptographic bearer asset. As money evolves, we think it's important for the whole financial market to evolve with it to ensure that payments involving new forms of money can be processed in a secure and convenient manner. In this session we would like to focus on the potential of digital currencies for the global economy. Why digital currency is a noteworthy, forward-looking project, that could benefit consumers, businesses and states?

While we fully recognise the role that cash currently plays in society, cash is the single most important enabler of the informal economy, allowing transactions to sidestep government oversight and appropriate taxation. It is not surprising, therefore, that higher use of digital payments in a country generally correlates to a smaller informal economy. More than 65% of all measures currently implemented by governments to tackle the informal economy focus on

[1] BIS Papers No 107, "Impending arrival – a sequel to the survey on central bank digital currency," January 2020.

digital payments, compared with only a third in 2007. A 20 percent increase in digital payments per year for five consecutive years can reduce the GDP impact of the informal economy by up to 21.8 percent[2]. Moreover, cash-based revenue requires significant physical infrastructure and administrative effort – complexity that introduces multiple opportunities for fraud and theft.

Digital payment are often people's first contact with other financial services and they serve as an on ramp to the use of other digital products. Such products as digital disbursements can also be a catalyst for financial inclusion, helping to bring unbanked and underbanked populations into the financial services mainstream.

The motivations driving central banks and other financial institutions to explore CBDCs are varied, but one goal that appears to be common is to improve the efficiency and security of the payments system. With CBDC, it will be possible to streamline retail and wholesale payments, make cheaper cross-border transactions, and reduce government spending on printing money. A digital state currency can also help fight crime by eliminating illegal activities - making laundering money, illegal transactions and taxation harder.

Several countries have already taken concrete steps to improve the CBDC framework; however, most central banks are still engaged in analysing the potential benefits and risks. Leading central banks from all over the world, including People's Bank of China, European Central Bank, Sweden's Riksbank and Bank of Thailand, are exploring issuance of digital currencies with several pilots ongoing and expected launches in the next two years. Regulatory direction on CBDC design is broadly positive, with many areas yet undecided and some risks remaining. Tiering, infrastructure, privacy, user features, monetary stability, regulatory regime as well as cross-border application are those areas that still need to be established.

Privacy, anonymity, self-sovereignty will be crucial elements of safe and widely used digital currencies system. Privacy for consumers and businesses is a vital property of any payment network. At the same time, we recognize there need to be safeguards and controls to protect against illicit use. Finding this balance requires deep collaboration between public ad private sector. Further engagement of policy makers, regulators and global organisations like World Economic Forum and Internet Governance Forum are crucial to explore these issues.

Given this growing interest and the potential for digital currency to extend digital payments and pave the way for further digital innovations, we see an emerging need to shape digital currencies' regulation and support the role that it plays in the payments ecosystem.

As mentioned by IGF organizers, Town Halls are interactive sessions organized by entities dealing with Internet governance issues of international scope, particularly suitable for current and emerging issues. We see an IGF community as an unique group of professionals able to engage in the discussion on framing regulations for widely available and safe digital currencies, that already are of interest for public and private financial institutions, states and consumers. Adequate international regulatory framework is necessary to develop safe and efficient system of cross-border transactions. Taking into consideration pilot

[2] A.T. Kearney, "Digital Payments and the Global Informal Economy," (2018), commissioned by Visa

programmes of digital currencies conducted by selected central banks and sceptic approach of another ones – it is crucial to discuss the possibilities of engagement of different groups of stakeholders, in order to ensure that this technological advancement will benefit everyone and everywhere.