Written evidence submitted by Digital Moneybox Limited

Introduction

Digital Moneybox Limited is a savings and investing app designed to encourage people to grow their money into something greater. From our initial mechanism of rounding up spare change into a savings or investment product, we have grown rapidly, expanding our offering into the retirement and homebuying spaces, becoming our own pensions provider and offering a mortgage service. We have also developed a more sophisticated investment offering, which we are looking to extend to cryptocurrency. With this in mind, we felt it was prudent to provide our perspective on how crypto-assets could be employed alongside other investment products, and how regulation could improve consumer trust and resilience.

Could regulation benefit crypto-asset start-ups by improving consumer trust and resilience?

Moneybox strongly believes that regulation would be of significant benefit to crypto-asset providers and consumers. Interest in this asset class is growing and rather than being a niche investment for hobbyists, crypto-assets can have a place within a diversified investment portfolio, provided they are subject to regulation in the same way as other high risk investment classes, as this will help to protect the consumer from the potential volatility of cryptocurrency. Due to the fact that currently cryptocurrency is unregulated, there is the potential for consumers signing up without fully understanding the risks of investing in cryptocurrency. Educational content prior to the provision of service is therefore paramount to mitigating this risk.

Currently, customers investing in crypto-assets do not benefit from the protections afforded by regulation, in particular FCA oversight beyond anti-money laundering arrangements, Financial Services Compensation Scheme protection and recourse to the Financial Ombudsman Service. There are additional risks where regulation would help, for example currently when a firm fails resolution arrangements do not protect customers' crypto assets on the money related to that activity - this was recently confirmed by Coinbase in a Securities and Exchanges Commission (SEC) filing. Finally, the FCA's planned changes to financial promotions rules for crypto-assets will help ensure customers properly consider the risks as well as the benefits of investing in crypto-assets.

As with other asset classes, crypto-assets can be used in fraudulent transactions or suffer from market manipulation, however we believe that the risks here can be managed through regulations requiring use of blockchain analytics tools, as well as applying full KYC measures in line with other asset classes. Regulations limiting the use of tumblers would be beneficial in mitigating further financial crime risks.

Bringing crypto-assets and their providers within the full scope of UK regulation will ensure common standards in anti-money laundering, financial promotions, reporting standards, operational resilience and overall consumer protection. Regulation of crypto-assets would therefore drive significant improvements in customer protections and drive up standards in the industry, both of which would act to increase consumer confidence in the UK crypto industry. Much of the required regulatory infrastructure already exists in the UK and so it could be relatively straightforward to apply where traditional investment activities intersect with crypto-assets.

Consideration should be given to the costs of regulation for start-ups and the potential for this to stifle innovation in offering crypto-assets to consumers. Use of a regulatory sandbox would be really beneficial here.

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