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Unplank: Next-Gen Financial Services to Speed Monetary Transmission

A Use Case for AI in Financial Services

Summary: An AI-enabled frictionless debit-credit payment interface (Unplank) is not only in the government's interest for big banks to adopt to speed policy transmission and increase broad-based growth but also in the interest of the big banks. Counterintuitively, collaborating over a shared, cross-border network to offer next-generation financial services in a merchant-driven reward marketplace—a by-the-participating-banks-for-participating-banks type private market operating structure—will not only markedly increase the banks' net non-interest and interest revenue but also dramatically lower the cost of going to market.

In contrast, the old credit card model of interest-only terms to extract a month of free credit at the merchant's expense as an interchange fee and vying for customers through monopoly merchant reward partnerships serves no one, least of all banks.

- Interest-only terms and partner payments push the cost of borrowing at the point of sale by, on average, 20% higher than personal loan rates and impede policy transmission where needed most. As monetary policy is impeded, rates need to be much lower for longer, directly affecting bank earnings. Moreover, prime borrowing is suppressed, and as only the desperate carry balances at high interest rates, delinquency is self-fulfilling, and credit card portfolios are loss-making.
- Merchants are burdened by the interchange fee that feeds into price pressures. BNPL to get around high credit card rates add as much as 6% in merchant costs, while the cost of credit at personal loan rates for a prime borrower over a 3-month window is 1.5%.
- Consumers face the brunt of higher price pressures and borrowing costs at the point of sale, where they are most likely to be used, in return for meagre reward payments.
- Meanwhile, low interest rates make increasingly heavy debt loads affordable, worsening financial fragility and amplifying any economic shock into a major conflagration. A mild economic slowdown or rise in inflation risk premium can quickly snowball into a financial implosion as credit spreads widen and risk-free rates rise.

Biography: Anjum Hoda worked for nearly 18 years at JP Morgan and Swiss Re, latterly as Head of Interest Rate Strategy and Volatility Trading as Managing Director at Swiss Re before leaving to develop a scalable solution (Unplank) to minimise the impediments to monetary policy transmission and enable a direct macroeconomic stabilisation mechanism at the point of sale, run by AI and effectuated by the banks.

Anjum is the author of Bluff: The Game Central Banks Play and How it Leads to Crisis (Oneworld Publications, 2016). *Kirkus* review read, '*Sound post-Keynesian economic reasoning well argued—a book that one hopes, against the odds, the heads of the Federal Reserve and the Bank of England will entertain'* while the *Financial Times* said '*..rarely has it been more clearly explained*.' Her Op-ed on monetary policy was published in the Financial Times.

She has an MSc. in Financial Mathematics from King's College, London, a Master's degree in Economics from L'Iuhei, Universite de Geneve in Switzerland and a Bachelor's degree in Economics from the University of Delhi. She qualified as a CFA charter holder.

The Urgent Need to Speed Monetary Transmission

1. The difference between house prices and wages is met by debt, more and more of which becomes affordable as the Bank of England lowers rates to deliver "monetary stimulus." It is how we have arrived at a quintupling of house prices versus a doubling of wages and consumer prices since the turn of the century. Often misunderstood as a consequence of a housing shortage, house price inflation is an entirely monetary phenomenon of too much money chasing too few goods and, indeed, an intentional one.

2. 'Asset-pumping'—of equities, bonds, and real estate—by lowering the interest rate used to discount a future stream of income is, in fact, the centrepiece of monetary policy stimulus. In using CPI as a sole barometer of excess liquidity, there is an assumption that the wealth created from higher asset prices leads to a commensurate increase in consumer spending via home equity withdrawal, lower savings, higher earnings from jobs in construction, etc. Except when house prices roughly double every 10 years, everyone wants a house to live in and another to live off, and there is little incentive to cash in to spend more than necessary. The **lagged impact on consumer demand is too little and too late**, all the while that secondary assets become speculative objects, sucking both human and financial capital to detract from real growth and productivity with even corporates borrowing only to finance equity buybacks.

3. **As CPI remains quiescent, the BoE is blindsided into lowering rates** further to make increasingly heavier debt loads affordable in the name of growth, which ultimately needs high inflation to wash away like in 2022-23 with the Bank dragging its feet to raise rates given the high fragility, much as it finds excuses to cut now despite inflation being almost double of target. But that has a price of a higher inflation risk premium on gilt yields. In the medium to long term, **low-for-long interest rates have a high economic cost**—higher inflation, higher cost of servicing national debt, housing unaffordability, losses on asset purchases, pension shortfalls and an immeasurable opportunity cost of misallocated capital—leading to a sustained erosion of living standards.

4. A **strategic shift is needed to change the country's economic mix** towards higher productivity and sustainable growth, moving away from low-productivity, cheap money-fuelled asset flipping. Chancellor Reeves' budget is perfectly on point. In addition, **monetary policy transmission needs to be tailored to modulate broad-based demand directly at the point of sale** rather than unleashing infinite bank capital on a fixed housing stock to reignite house prices through outsized debt relative to a lifetime of earnings and balance sheet reengineering. How can this be done?

5. **Enter an AI-enabled application interface** that allows consumers, merchants, and banks to interact at the point of sale for frictionless payments, rewards, and credit provision across weekly spending amortised over 12 months on a declining balance basis at personalised loan rates.

How does it work, where is the AI, and what is the benefit?

6. The **interface is engineered to create a self-propagating confluence of consumers, merchants and banks** via a value proposition that renders it superior to existing payment rails and card models.

7. It is built atop a frictionless payment rail that goes around QR codes and card terminals to save 1.5% to upwards of 6% in interchange fees and service costs. It also has an embedded sales platform that allows merchants to acquire customers through customised campaigns, passing on savings to consumers as lower prices or rewards not contingent on credit.

8. Banks pay no commission to acquire and lend to users to finance daily spending, allowing them to charge their personalised loan rates, which are, on average, 20% lower than credit card rates directly at the point of sale. The difference is most material for prime borrowers, who, according to data from the websites of the big banks, comprise 51% of bank customers for personal loan rates and are offered rates as low as 6%. The interface takes care of soliciting, originating and bundling borrowing by several users, on behalf of the banks, into a single daily amount that far exceeds the minimum threshold for the lowest rates, making it very cost-effective for the banks.

9. The consumer is drawn by the neat user experience and greater choice: higher rewards, the provision to pay with debit or credit, a much lower cost of borrowing, the amortisation of bundled weekly spend over 12 months on a declining balance basis instead of disaggregated per ticket items and fixed instalments, no minimum spending, and the choice of upfront reward instead of provision of a longer interest-free window.

10. The interface then **drives demand via an AI engine that trains itself on the consumer and merchant footprint**, bringing together merchants and consumers drawn by the value proposition, similarly to how social media companies show content to users and charge for ads to create a revenue stream. 70% of the ad revenue is flipped to the bank to incentivise them to compete for users by providing credit competitively. The remaining 30% is sufficient to run the network and further develop it to drive demand and traffic while covering the cost of any payment fraud. The ad revenue is projected to be higher than the interchange fees and increases per customer with network depth. Broad coverage of, say, 40 million bank users in the UK via the big banks could yield upwards of £4 bn in net non-interest revenue for them.

11. As traffic grows, **economy-wide demand and price data are trained** to signal merchants when to offer promotions to increase volumes in the face of compressed margins or a drop in demand. Simultaneously, AI will signal banks to adjust the cost of borrowing, i.e., the spread over base rates, **effectuating a first line of easing or tightening before base rates change.**

12. Notice that from the current starting point of borrowing rates and the cost of doing business, the demand modulation can work forcefully via merchants and banks, acting rapidly at even higher market rates, without necessitating a base rate response. Ultimately, private investment and employment are buoyed by higher demand for consumer goods and services. In the short term, excess corporate leverage, fuelled by years of low rates, risks conflagrating an economic slowdown in the US into an acute home-grown credit crisis. Any attempt by the BoE to cut rates when inflation is twice the target will add fuel to the fire. Also, gilt yields may be pulled higher, along with US Treasury yields, if capital inflows abandon US assets in a changing world order.

Given these risks, the described private demand modulation combined with fiscal capital investment will prove a stabilising force.

13. Over the longer term, this **demand modulation mechanism will shorten the lag** with which monetary policy acts, thereby curtailing the pumping of asset prices to stimulate demand, reserving it as a policy solution only for when they are at "deeply" depressed versus historical levels and risk widespread bank failures. Inflating house prices when they are already vastly unaffordable compared to a lifetime of wages in a backdrop of booming bank profits is a policy trade-off in favour of asset owners. It risks a wholesale rejection by the young of the political and monetary order. Ideally, the BoE's CPI target must also be supplemented with a target ratio of median house prices to median earnings.

14. A central bank reaction function that abets asset price inflation far above wage growth makes it rational, especially for the younger generation, which faces a wealth deficit, to gravitate towards cryptocurrency and speculative activity. Shortening the lag with which monetary impulse acts, lowering dependence on asset prices as an endogenous variable, and enabling a direct macroeconomic stabilisation mechanism at the point of sale, **run by AI and effectuated by the banks**, will prove far more effective than TikTok talk downs to people who understand better than the Bank that the infinite stream of money being unleashed is for the most part not captured by CPI or expectations thereof, and that there is more and more of it coming to sustain the unsustainable. A CBDC by association will not win. Moreover, the main appeal of cryptocurrency or stablecoin entering the payment network is lower friction costs. Creating a frictionless network removes merchants' main incentive, removing any imperative for a tax-payer funded CBDC.

15. Technology integration with banks is via a simple API that hooks users to their bank provider of choice. To be clear, Unplank itself does not run lending algorithms. The bank comes to own every user as they pass its ID validation for regulatory purposes and uses its own credit lending algorithm to lend, which, in many instances, is now AI-driven as well. Participating banks need to make no changes to their existing Visa and MasterCard cards. For merchants and consumers, adoption is at the speed of an App download. Some integration to checkout terminals will be needed for large merchants, but it should be reasonably straightforward. IP and details on the architecture and flow of funds will be shared with banks.

March 2025