Digital euro business case

The Chair stated that the digital euro is a huge endeavour with political sensitivities and the question of the business case. The Financial Stability Board (FSB) advised in 2018 that Central Bank digital currencies (CBDCs) are dangerous and should not be touched, because they immediately institutionalise bank runs. Now opinions have changed. The project is advanced and has a proposal. The problems of convertibility can be solved. The question is value added for the retail client.

1. Possible added value from a digital euro

1.1 Targeted digital euro added value is not clearly perceived

An industry representative explained that, when the digital euro first emerged, there was fear of a private digital currency taking over the world. It is not anymore, the case. The only potential business case is in the wholesale market as, if clients want to pay tokenized asset by using blockchain, the available private currencies are not clean.

A civil society representative supported the project. Success will depend on added value for the EU in terms of security, confidence, acceptance, and accessibility, without cost. The need for a digital euro should be considered as a European public good. There will be a systemic cost borne by society.

An industry representative stated that the ECB has built a case based on a monetary anchor, European autonomy, or independence in the payments space so as not to be dominated by American players, and financial inclusion. However, he questioned whether those were the real issues to be solved as there are not real problems for citizens and there are other alternatives as well. He also highlighted that opportunities are much clearer in the wholesale space, where he recommended to start with.

Another industry representative explained that stakeholders are not at the centre of the project, and enthusiasm is missing. The main drivers are the threat of private stablecoin to Central Banks and possible international competition between digital currencies. The process has been mostly administrative and political, whereas commercial and economic answers are needed to benefit customers. The new use cases are not clear, so customers' reaction and whether the general public will adopt it cannot be predicted. Any failure would be negative for the euro and for the ECB. The ECB is trying to build a narrative and has regular meetings of technical groups, but after months there are the same questions.

1.2 Focus on providing first a safe digital currency for citizens' transactions in the digital context, which fosters innovation

A Central Bank official stated that there has been political support for the digital euro. The key reason is citizens do not have access to Central Bank money in a digital form. For a digitalised economy, a digital euro will be the natural evolution of currency. Paying in Central Bank money must remain an option and there needs to be a digital alternative to cash. There has been a strong level of support in engagement with consumers and merchant associations. Consumers look forward to a pan-European digital equivalent of cash and the ECB and the European Commission have echoed the call to make a digital euro free and widely available, with the availability of offline use.

1.3 Leverage privacy in the digital sphere

An industry representative stated that the main advantage of a digital euro to the client experience is privacy similar to cash, particularly regarding the offline option, mitigating money-laundering and fraud risks. This is the main challenge of the Digital Euro in order to be used by individuals as a mean of payment.

The Chair noted that, once it is online, the digital euro is e-money has anti-money laundering (AML) regulations that need to be fulfilled. There is privacy rather than anonymity.

1.4 Accelerate the creation of a European payment system

An industry representative stated that an advantage is the opportunity to have a European payments system. A Central Bank coin may trigger the private sector to speed up agreements with different platforms. It will otherwise be implemented by an American payment player or tech company.

A Central Bank official agreed that merchants look forward to a widely adopted, cost-efficient solution in the fragmented European payments market, where a pan-European solution is missing. For intermediaries, a digital euro does not seek to crowd out private payment solutions. It could allow banks and intermediaries to innovate, to achieve a pan-European reach and expand on use cases, as the ECB and Eurosystem ambition is not targeted for a specific market share. A digital euro would always be available. It would fill any vacuum left by lower cash usage and address any risk that means for citizens.

The holding limit is a safeguard for intermediaries and the figure of €3,000 can be discussed when issuing the digital euro. There are no plans to remunerate the digital euro and give an incentive for consumers to hold vast amounts. It is expected to be closer to the amounts of cash that people hold. The digital euro will go to places that cash does not. The underlying reason for the monetary anchor is as a digital alternative to cash.

A government official stated that it would have been good for retail consumers to have a bank-based solution like the European Payments Initiative (EPI). It is harder to explain why a digital euro is needed. There is no pan-European private sector solution, so one is needed for consumers that functions without relying on third-country providers.

1.5 Leverage banks' AML know-how

An industry representative mentioned that there is an opportunity for the banking industry to value AML and fraud controls and frameworks.

1.6 The digital euro should have leveraged the blockchain technology in the tokenisation context

An industry representative explained that tokenisation of assets becomes complicated, without a digital money to pay against delivery. A clean/safe Central Bank currency involved on such a blockchain-based transaction could be useful. At the beginning, it should probably be a wholesale system. However, if blockchain is generalising and is a promising technology, it could also be used for retail transactions. It is disappointing that what is on the table is different and not digital, because it is not blockchain-based. It is just an ECB current account open to all European citizens.

2. Rather than setting a strict monetary anchor, it is the confidence of citizens that comes from being able to carry out transactions in Central Bank money in all circumstances that is at the core of the digital euro project

A Central Bank official explained that there is a separate monetary anchor for the digital euro because there is less usage of cash. There will be a market where there will be no Central Bank money in circulation. The digital euro is not part of the transmission mechanism for monetary policy implementation. This is why there needs to be a Central Bank currency in digital form. There is not a difference between the monetary anchor on the digital euro part and the e-money part of a card.

The Chair stated that the monetary anchor concept needs to be explored further. It is an option for people to pay with Central Bank money. A Central Bank official agreed that it is important for the payee to be in the Central Bank realm because it is still considered commercial bank money. For counterparty risk in a retail transaction, there is a lot of faith in banks. There is value in commercial bank money with well-regulated financial institutions, but there is also a role for cash. There are geopolitical tensions that may be seen in the future, so authorities like Central Banks tend to prepare in advance.

3. Possible drawbacks and difficulties to address

3.1 Make clear the specifics of the digital euro added value versus other existing payment means, in particular cash and cards

The Chair explained that Austrian banks have created a consortium that provides Mastercard and Visa cards, so clients can pay and withdraw anywhere in the world with digital money. The difference the digital euro makes is different in other countries, where banks issue cards that only enable withdrawals and payments from that bank's terminals. The question is whether such cards should be enabled to use existing infrastructure with public money and special rules.

An industry representative advised the need to clearly explain all citizens what a digital euro is. The narrative is very important. It is not easy to explain what the difference is between cash, the digital euro and bank deposits. Public and private sector must work together on this. It will be key for the success of the project.

A civil society representative stated that the status of legal tenders is important. The European Commission proposed some possible exemptions. It is crucial to have a clear legal framework and to harmonise standards among member states. A communication campaign is important to explain that the digital euro is not a cryptocurrency or a threat to citizens' privacy, and is not cash, but a complement to it.

3.2 Underestimated infrastructures and interoperability costs

An industry representative advised that one underestimated cost is that of building an infrastructure for millions of customers. In the beginning, the investment is borne by the ECB with fewer dividends for governments, so it is borne by taxpayers. The additional infrastructure for enabling interacting with other payment systems would also be very expensive.

3.3 Addressing distribution challenges requires involving existing financial intermediaries

An industry representative warned that the difficulties of distributing the digital euro are being underestimated. An industry representative stated that European banks are the best distributors to assure the ECB is not taking new risks, as they are the same providers that distribute cash. This is also good for merchants as a new means of collection from their customers. It is going to be at a reasonable cost because there will be a cap, and merchants will have the opportunity to include this means of payment in their portfolio.

An industry representative noted that the second question is how to design a CBDC that fits with intermediaries and how long it is going to take. The representative highlighted also the challenges of the project regarding its implementation and operationalisation. Again, this should be something where the public and private sector have to work together. The intermediaries and the Central Bank should discuss how to operationally design something that fits with IT and other aspects, so as to leverage as much as possible on the successful payments grounds that we already have in Europe and that citizens know well as not to leave anyone behind.

3.4 Determining the appropriate and balanced holding limit, notably to preserve financial stability and banks' ability to lend

An industry representative acknowledged that, when stability is needed, the digital euro creates instability. This problem could be solved with a threshold of zero. Payments could be made with the digital euro, but without a balance in digital accounts. The business case and how this affects banks' financial stability need to be considered.

A civil society representative stated that the project must not negatively impact on the lending potential of credit institutions or put the Eurosystem and the private financial system into conflict. It could create cooperation between the two drivers for the economy, providing an incentive for euro banks to have their own payment systems.

An industry representative explained that the digital euro is a means of payment, not a store of value. This is relevant in assessing the value added to citizens, intermediates, or merchants. The holding limit is a key question. Policymakers are being asked to align with the monthly card expenses of citizens, starting small as there will always be opportunities to adjust depending on the usage by citizens, performance, and overnight bank deposits.

One recommendation is that this should depend on the ECB rather than the European Parliament. The limit €3,000 is too high for the financial stability of commercial banks. A deeper analysis is recommended on whether to start with €1,000. There could be a second tranche for a lower offline limit, where privacy is important.

3.5 Mirroring citizens' current accounts in the Central Bank book and interlinking the digital euro with the various payment systems make it complex to operationalise it

An industry representative noted that another difficult aspect is that, for a digital euro to be a great opportunity, customers will require to understand that the euros in their current bank account and the digital euros to be available in a Central Bank form are different, and the need, which leads to duplicating accounts. This will be difficult to explain to our customers. The private sector, the ECB and politicians should discuss how this is going to work and how dislocation is going to happen.

The next discussion is how to operationalise the digital euro if the design becomes too complex for intermediaries to implement it, there is a risk it will not be fit for purpose. It could become very complex, and institutions might adapt slowly. The line between creating a currency, which is the remit of the Central Bank, and designing with a new payment system is complicated. Work is needed focusing on interoperability within Europe payments private solutions as well before approaching the US or the UK.

4. Understanding what makes attractive the business case for each stakeholder is a key success factor which requires sensitive political decisions

The Chair stated that banks and public sector officials have been fantasising what consumers want.

An industry representative agreed that it is difficult to find the added value, but it is time to move beyond the existential debate for a digital euro and to focus on advising the ECB and policymakers to ensure it succeeds. Success will depend on the design and the ability to create a system of incentives for citizens, entrepreneurs, financial intermediaries, and business. Time is needed to make an effective proposal. Another important issue is payment service provider costs, which need to be compared with the benefits for actors based on the shift of retail payments towards digital channels. The ECB is called on to evaluate and monitor the extent to which payment service providers can recoup investments.

A government official agreed it is key for the project to cooperate with the financial sector. Business models that work for banks and companies have to be explored with co-legislators in member states.

The Chair stated that this is a political environment. Retail clients will judge what is done. The upcoming election is also a vehicle for innovation. There is tension between the Central Bank and the financial sector, which is for legislators and policymakers to resolve.

One issue with the business case and the legal tender obligation is the cost to merchants of accepting the digital euro. If the fee is lower than the interchange fee for private solutions, private payment solutions are crowded out. If it is more expensive, the project is not very successful.

A Central Bank official noted that the legislation mentions comparable fees that intermediaries may charge, so there should not be crowding out or privilege. The value has to be low, because AML cannot be controlled in the same way in the offline mode as digital euro payments.

The Chair suggested that if the digital euro is successful, online traders may no longer accept credit cards. Then there will not be the same security for online customers who currently can countermand e-payments if their goods arrive damaged or not at all.

5. Europe is at the forefront regarding Central Bank digital currencies accentuating the challenge

The Chair stated that Europe is the first jurisdiction seriously trying to engage a CBDC.

A Central Bank official believed that others are watching closely. The UK is studying it but has made no commitment to issue a digital currency. It may be stronger on that side and promoting stablecoins, but it has strong contact with the market and something similar to the market advisory group.