

POSITION PAPER



ESBG Response to the European Central Bank public consultation on a digital euro

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EU Transparency Register ID 8765978796-80

January 2021



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The European Savings and Retail Banking Group (ESBG) welcomes the opportunity to respond to this public consultation from the ECB on a digital euro.

All comments are provided from a Member Banks' point of view. Only the parts that ESBG could comment to as an association of savings and retail banks are contained in this Position Paper. As such, please note that we only responded to the part of the consultation that is seeking feedback from a financial, payment and technology professionals' perspective. The responses are provided on a best effort basis, as the lack of information on key aspects of the project (its main purpose, technical implementation, and functionalities, the role of banks and other Payment Service Providers, the compliance with regulatory checks, as well as the interplay with SCT Inst, just to name a few) prevented us to submit more meaningful answers. In this respect, we would like to point out that the current 'one-size-fits-all' approach cannot be successful in the long run, and we believe further analysis should be carried out before developing a digital euro. Indeed, we believe any new form of currency brings about fundamental challenges and the introduction of a digital euro could have severe impacts on the entire functioning of the EU economy. Going forward, we recommend decisions be taken carefully and with a clear view on the main objectives. ESBG and its Members stand ready to further engage with the ECB and to support the development of a digital euro. **Hence, we would very much welcome a second report on a digital euro that analyses and describes in concrete how a digital euro would work. We also would appreciate a second public consultation before the ECB decides to proceed with an implementing phase.**

Before providing our answers to the actual consultation, we first want to provide some high-level comments that you can find in this section.

Main features

At this stage, we consider that if the ECB aims at developing a retail digital euro that both supports innovation and secures the digital economy, it will be necessary: (i) to complement the existing electronic payments services provided by banks, and (ii) to ensure that a digital euro does not replace the deposit account services provided by banks. A digital euro should be secure, easy to access and use, and adapted to the general public, while respecting existing banking and payment systems. In a second report on a digital euro, we would very much welcome further description as to how a Central Bank Digital Euro (CBDE) could complement – not replace – the existing market for payment services, including SCT Inst, as well as mobile payment services still in launch and market initiatives trying to leverage SCT Inst.

From a different perspective, it would also be crucial to have a clear and easy understanding of the features that would distinguish a digital euro from other forms of euro payments and that would make it attractive for both merchants and customer. Otherwise, without consumers' and merchants' trust, the project is deemed to fail. From this point of view, we believe it should be further assessed what gaps would be filled in by a CBDE, meaning what needs would be addressed by means of a digital euro that a 'physical' euro and the current payment system cannot meet. In doing so, the ECB should also analyse whether current payments solutions could not be simply adjusted to achieve said goals.

Finally, we strongly believe that in case the ECB decided to issue a digital euro, proper safeguards should be in place to ensure all players (i.e., not only consumers, but also merchants) are protected. For instance, if offline transactions are implemented, there is the risk of loss of only locally stored digital euro in case the device used for storage is lost or damaged. Most importantly, we believe under



no circumstances should a digital euro undermine the trust in existing means of payments. Additionally, we believe privacy should be protected in any case, and some restrictions or enhanced consent requirements may be necessary to protect consumers from certain business models that may use data on transactions to target ads or offers.

User perspective

We believe that the main features of a CBDE should make it easy to understand and to use for all kind of customers. Besides, if a digital euro does not offer significant benefits when compared to other payment solutions, it will simply not be widely used nor accepted. Putting aside the implementation costs, the ECB and commercial banks may face difficulties in explaining to customers what a digital euro is and why and for what purpose they should use it. Finally, we consider crucial to already develop an exit strategy, in case things do not work out as expected.

With respect to people without a bank account, we are not sure whether that represents an area that really needs coverage in the EU. It should also be considered that, as of today, everyone legally residing in the EU has the right to open a payment account (see the Payment Account Directive, PAD). Provided that any citizen/customer legally residing in the EU has the chance to open a bank account, we think that promoting a CBDE to people who chose not to have a payment account should not be considered a priority.

With respect to people who have disabilities, we believe the concrete implementation features would necessarily depend on the level of disability. For people who have a disability that prevents them from using cash, useful features would imply the option to operate with digital banking/funds transfers via e.g., smartphones and other mobile/electronic devices. For people who have a disability that prevents them from using digital devices, but can operate with cash, it should be considered to implement features that would make a digital euro and its usage similar to physical cash.

Impacts on retail banking

For banks, a retail digital euro consists in a new investment whose primary consequences threaten the economic balance of means of payment with no expected and perceptible benefits (clearing and settlement processing costs, security and resilience of the networks used, management of fraud, disputes, etc). Before issuing a digital euro, overall costs must be estimated and compared with the expected benefits, also considering alternative private-led solutions. Any costs associated with the development should be borne by the Eurosystem. In addition, there must be viable opportunities for the private sector to develop value-added services and generate revenues.

It should also be considered that the introduction of a digital euro might compete with bank deposits, since depositors can be attracted to transform part of their deposits into central bank liabilities. Therefore, issues like the applicable interest rate or the thresholds must be carefully designed due to their potential impact in banks' margin.

Impacts on financial stability

This project could jeopardize financial and prudential balances of banks, by weighing on their solvency and profitability, and by increasing their risks (e.g., transfer of part of demand deposits, risk of bank runs, liquidity gaps, increased cost of refinancing, etc.). All these elements may threaten financial stability, to the detriment of customers and citizens. Therefore, we believe preserving financial stability should be a key goal when designing and deciding to introduce a digital euro. It is especially important that a digital euro does not become an alternative to bank deposits or a currency that will provide



refuge (safe-haven currency). To this end, we believe a digital euro should not be remunerated under any circumstances.

European Payments Initiative (EPI)

It would be a crucial opportunity for the ECB to have an acceptance network for its CBDE at low cost and in the short term, via the EPI wallet. However, it may be difficult to develop a portfolio in which free and paid products for the same use coexist. The question of the business model is central from our point of view: if this issue is not resolved in a reasonable manner, we believe there is the risk a digital euro may disincentivise banks to take part in the EPI project.

Intermediation/Competition

We also believe it is in the interest of central banks to keep the current intermediation role of commercial banks, as the latter already have all the mechanisms in place (AML monitoring, customer profiling via data, customer relations, administrative management, etc.) and do not have the means to replace them. A clear governance framework needs to be agreed upon to ensure that the central bank does not provide end-to-end payment solutions, but instead relies on supervised private institutions in the distribution and provision of user-facing services. In this regard, it is very important to avoid any distortion of competition between regulated and unregulated players. Commercial banks operate the largest electronic payment systems (i.e., cards and SEPA) which have all the characteristics required by regulators. Promoting a system providing a very similar service without regulatory constraints would put them at a structural disadvantage.



II. Financial, payment and technology professionals' perspective

1. What role do you see for banks, payment institutions and other commercial entities in providing a digital euro to end users?

Europe is at the forefront of innovation for retail payments, and especially banks and payments institutions, together with the Eurosystem and National Central Banks (NCBs), provide European citizens with the most efficient payments systems available, including via digital means. The retail payment system is of the highest quality available, and full accessibility has been provided both in terms of physical access (e.g., ATMs and payment terminals have included the latest technology available favouring accessibility; if this were not enough, the recently published Accessibility Directive will ensure every actor complies with strict requirements and provides accessible services in payments) and financial inclusion (the euro area has one of the lowest proportions of unbanked population in the world). We strongly believe allowing banks to maintain their role of intermediaries and distributors of money to the public – as this is currently the case with cash – by building on existing infrastructure will ensure a high level of consumer protection, user experience and trust, as well as financial stability. At the same time, this will ensure the efficiency of the retail payment system and transformation mechanism are preserved.

Simply put, a digital euro is just another currency, which happens to be bound 1:1 to the EUR. Banks should be enabled to offer payment services and electronic funds transfers in digital euro. Accordingly, a digital euro should be integrated into their commercial offers. If deposits were to be made directly to a central bank, this institution would have to maintain customer support, incident reporting and transaction monitoring to minimize the levels of fraud, misuse, and money laundering in the system. As the banking industry already provides such infrastructures, it would be more than reasonable to employ them, especially considering that neither the ECB, nor any other NCB, have sufficient know-how nor experience to provide fast and reliable retail payment infrastructures.

With respect to the end users' trust in a future digital euro, the Eurosystem should acknowledge that banks and payment institutions have been able to provide financial services users and retail payment users with a high level of consumer protection. Besides, commercial banks have the necessary know-how and experience required to deliver fast and reliable retail payments, and have built trustworthy infrastructures in coordination with public bodies. Nowadays, customers (both retail and business) expect banks to provide a full range of payment services; in turn, banks have matured a long experience in providing advice and customer care. Furthermore, customers will expect banks to provide additional services and features on top of a digital euro, as it is now the case with payment services. In this context, who will help customers, if banks do not have a role in distributing a digital euro? And how will banks ensure customers are provided with all the services they need? Moreover, if banks and payment institutions are defined as intermediaries of a digital euro, they will be the most interested parties to deliver the most trustworthy services and user experiences, as they can become a cornerstone of any kind of payment service provided in the euro area.

Deposits and financial stability aspects:

From a purely financial stability perspective, if the state of a bank's balance sheet is questioned by the market or the public, the existing deposit guarantee schemes decrease the incentives for the public to withdraw their money, thus avoiding bank runs. For commercial banks' money covered



by those deposit guarantee schemes, the difference from central bank money is therefore marginal. Through such schemes, Member States contribute to strengthening the public's confidence in the payment system. However, issuing a digital euro may entail that a big share of deposits will be reallocated to central banks. This would force commercial banks to increase their dependency on market financing, leading to higher loan interest rates for consumers and European SMEs. In the end, this could result in limited access to credit in the real economy. Additionally, even if the liquidity is lent back to commercial banks through operations of monetary policy, this would require commercial banks to keep additional collateral for the central bank liquidity, which in the end could impact prices (especially mortgages and other loans).

In times of financial distress, the demand for a digital euro could increase dramatically, since it would constitute a risk-free asset. This could spur the crisis. Additionally, if all the deposits are made to a central bank in a fully digital system, the risk of “central bank runs” (i.e., flows of money into other central banks, not commercial banks) increases dramatically. A central bank can continue to print money, but it will be more difficult for the country or the region to maintain stability if all the monies are moved to another State as soon as they are issued. As a consequence, we believe the potential impact of a digital euro on bank runs, on banks' current intermediary role, and on their role of credit suppliers need a comprehensive analysis with a cautious approach. Apart from involving regulators, supervisors, governments, and industry representatives, ESBG and its Members recommend this initiative takes into account the expertise of various units/teams within those authorities or institutions, so that coordination, coherence, and strategy are properly previewed and defined. This requires, more specifically, a realistic analysis of the necessity to actually develop and issue a digital euro, in terms of (i) available options for retail payments through digital means, (ii) practical option to remunerate payment accounts, and (iii) benefits and risks for end-users of accessing central bank money.

It follows from the above that it is crucial for the Eurosystem to collaborate and coordinate closely with the industry, clearly defining the role that banks, payment institutions and other actors and intermediaries are expected to play. Such a role will have to be consistent and coherent with the ECB's design of a digital euro and the infrastructure behind it. At the same time, the European Institutions' regulatory and supervisory initiatives impacting the payments and financial services industries will have to be aligned with it. We believe that to achieve that, financial stability considerations, the future of payment services, any public initiative on digital identities, and monetary policy decisions, will have to be considered in a coherent and comprehensive manner. If a digital euro is intended as an alternative to cash, it is likely to attract deposits away from commercial banks. We believe its design should limit excessive decline in commercial banks' deposits to reduce financial stability risks and to ensure that banks can effectively provide financial services. The Central Bank Digital Euro (CBDE) should be a very basic payment product, without embedded incentives to switch from commercial bank money towards a digital euro.

The potential impact of a CBDE might also conflict with the purposes of global bank liquidity regulations adopted after the last financial crisis, i.e., the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). This is especially relevant with regard to the NSFR, since said requirement incentivises banks to use deposits as a funding source over other sources, because the rules backing the metric define deposits as a relatively more secure source of funding than e.g., market financing.

Payment system:

If the ECB intends to build a brand-new payment system, it will need to fulfil all complex service needs that are currently managed by commercial banks. Building such a system would of course imply extensive investments. If, on the other hand, the current payment systems would be used,



commercial banks and Payment Service Providers (PSPs) could serve as intermediaries to provide digital euros to end users. This would mean that the present payment systems will be connected to the CBDE system. Commercial banks' payments systems have been refined over the years and are today complex, secure and efficient.

KYC assessment:

Under the current system, commercial banks are responsible for Know Your Customer (KYC) and other Customer Due Diligence (CDD) requirements. We believe the quality, trust, and accessibility of the services connected to a digital euro will require a comprehensive discussion of the available options with the industry, and their roles as intermediaries ought to be clearly defined. If banks were to act as intermediaries and if transactions in digital euro are not part of transactions taking place over accounts of commercial banks, then this would probably require separate systems and controls to be set up. At the same time, if intermediaries are responsible for identifying users of a digital euro and apply to transactions in digital euro similar requirements to those of the current AML/CFT framework, then the Eurosystem will have to closely align its expectations with the industry's capabilities. If KYC and CDD requirements are to be complied in a similar manner but in separate technical systems, then rules governing those requirements and controls will need to be clear since the very beginning, and the allocation of responsibilities and duties of each party will have to be properly defined. This raises questions on the ECBs' and other parties' control functions that needs to be clarified.

In this respect, we believe banks are positioned as the best option to intermediate a digital euro, because of their experience and capabilities to undertake and comply with KYC and CDD requirements, and thanks to the fact that they can provide the most trustworthy solutions on digital identity. However, it should be noted that were commercial banks to undertake such regulatory checks not in their role of intermediaries, but on behalf of the Central Bank, such activity should be remunerated properly, also taking into account the liability burden.

Anonymity:

There might be potential challenges with an anonymous digital euro. Even if the digital euro is limited to a specific maximum amount, there might be a risk that users store the currency in different accounts. It is of utmost importance that any changes in the payments systems do not challenge the well-functioning framework and procedures that banks have established for being compliant with AML/CFT rules and to prevent financial crime. It should also be considered that the AMLD5 introduced clear restrictions on anonymous payment instruments and it is unlikely that a digital euro could ensure more usability than pre-paid anonymous instruments today allow.

2. A digital euro may allow banks and other entities to offer additional services, on top of simple payments, which could benefit citizens and businesses. What services, functionalities or use cases do you think are feasible and should be considered when developing a digital euro?

We are aware of the complexity of this project, so we recommend the ECB follows a step-by-step approach and begins with identifying and developing the basic features and services a digital euro should support. Basically, such services would be those connected to already existing payment instruments and payment services and should be aimed at filling the gaps created by the decline on the use of cash. Trust will be key to ensure its success and we believe a digital euro should take advantage of all the existing payments infrastructure and instruments currently available, to minimise implementation and technical costs. Even in a second phase, we believe the Eurosystem



should be cautious in deciding to launch a full-service digital euro without a proper impact analysis and review of the role that intermediaries will be able to provide in practice. The fact that banks can provide value-added services on top of a basic digital euro should not put aside the fact that the industry can hardly identify which are those services that could be offered. These will completely depend upon the final design of the instrument and its infrastructure, and the rapid evolution of technology does not allow for an accurate analysis. Moreover, the payments industry in the euro area already provides the most efficient possible alternatives for retail payments, so there is no clear benefit, from a technical perspective, in providing central bank money through digital means.

If the ECB decides to launch a digital euro, we recommend following a simple approach based on payment functionalities to begin with. As lessons are learnt, additional refinements could be developed. In any event, at this point it is hard to identify the type of services that could be offered beyond some forms of programmable money, as this would critically depend on the final design of the digital euro. We believe a bank that acts as an intermediary for the CBDE could offer to its customers accessing CBDE additional services in competition with other players. Such services would be built on the intermediary service platform of the bank and would not interfere with the CBDE that needs at all times to adhere to its specification and functionality established by the ECB.

On the other hand, it is not clear from the report who would bear the costs of setting up and managing a digital euro. The report states that to satisfy the needs of users, the digital euro should be cheap to use (generating very low costs for users, like physical cash). With such an ambition, it might be difficult to add extra services upon its basic version. More in general, we recommend the ECB bears in mind that it will be of utmost importance that it facilitates the industry and helps it build the necessary infrastructure capabilities. Only a close cooperation with the industry will ensure that value-added services can be built on top of the basic digital euro, thus resulting in a user-friendly experience for end-users.

3. What requirements (licensing or other) should intermediaries fulfil in order to provide digital euro services to households and businesses? Please base your answer on the current regulatory regime in the European Union.

The current licenses and requirements to participate in the payments systems are set by historical events with the aim to maintain financial stability and consumer protection. Any new initiative should have the same objectives and should only make adaptations accordingly. Over the last decades, new regulation has forced commercial banks to find an appropriate equilibrium between customer protection and public services on the one hand, and profitability on the other hand. Commercial banks today are heavily regulated entities and must ensure compliance with several pieces of legislation (*inter alia*, KYC, CDD, AML/CFT and GDPR). Over the last years, banks have made huge efforts and have heavily invested to ensure full compliance with prudential regulation and to enhance their expertise, control frameworks, IT systems, etc. We believe this is key for economic and financial stability, especially in times of crisis. As such, we strongly recommend any intermediary licensed to provide digital euro services to households and businesses fulfil the very same regulatory requirements as banks are currently mandated to.

As supervised intermediaries would provide access to the use of a digital euro, new licensing requirements will need to be established. We consider that only PSD2-based account servicing payment service providers (ASPSPs) should be licensed to provide the services of primary intermediaries of a digital euro. As end-users will require a payment account denominated in digital euros, only payment service providers providing and maintaining payment accounts should be



authorised to provide for the “primary” digital euro account of a user. On top of this, other payment service providers would be able to provide payment initiation services, account information services, and other services. But if the logic and risk analysis preceding PSD2 are applied to this case, we consider that ASPSP are the best placed to provide that intermediary role. We believe that mandating all intermediaries providing digital euros to fulfil the same regulatory requirements is also crucial to ensure a level playing field. In this respect, we recommend sticking to the principle “same functionalities, same liabilities, same rules”. It is crucial the ECB carefully considers that regulation and supervision will be key elements for the success of the project, as any trust issues towards a digital euro will be passed on the entire Eurosystem.

It should also be noted that according to the recently adopted Retail Payments Strategy, the European Commission will consider extending the scope of the Settlement Finality Directive to include e-money and payment institutions, subject to appropriate supervision and risk mitigation. As of today, these institutions are not under the same supervision and same level of prudential and operational requirements as the European banks. Additionally, the recent proposal for a Regulation on the markets in cryptoassets (MiCA) stipulates the creation of new licenses in the EU, which could be linked to the services to be provided on top of a digital euro. The unification of those two types of licenses could also have an impact on the regulation and supervision on the intermediaries of a digital euro.

4. Which solutions are best suited to avoiding counterfeiting and technical mistakes, including by possible intermediaries, to ensure that the amount of digital euro held by users in their digital wallets matches the amount that has been issued by the central bank?

Among the techniques suggested in the Report, we consider that enabling real-time audits of the systems belonging to supervised intermediaries and end-user devices would consist in the most appropriate solution for all parties involved. Indeed, said solution requires tight integration of all systems in which private and public entities take part, but technical advances allow for the use of cryptographic proof to prove to the central bank that the amounts recorded remain valid. Additionally, this system would be under the control and/or supervision of the Eurosystem. Ideally, it should be combined with a pan-European eID(AS)-based approach, which binds the wallets to a specific (set of) persons or legal entity(ies). We suggest the Eurosystem also address the issue of how to link blockchain and potential APIs, and consequently how to secure said link. Additionally, we are of the view that not every feature should lead to a separate payment scheme, but rather to evolve and extend the digital euro features (programmability, i.e., business logic integration into the payment scheme, including possible automatable and optimisable AML/CFT logic, as well as smart contract functionalities, tokenisation of digital rights, offline capability, etc.) to already existing SEPA schemes.

On the other hand, we argue that with a digital euro it would not be possible to fulfil the requirements of full anonymity (i.e., anonymity on all levels, from counterparty to commercial banks to Central Bank), avoiding counterfeiting and ensuring an efficient system at the same time. Indeed, to be able to combat counterfeiting, each transaction should carry a clear audit trail and be registered in the central bank system, meaning that anonymity cannot be ensured. At the same time, a system where each transaction of a digital euro has its own trail would require a complicated technical system.



5. What technical solutions (back-end infrastructure and/or at device level) could best facilitate cash-like features (e.g., privacy, offline use and usability for vulnerable groups)?

Cash has distinct intrinsic features – its physical nature, the capacity to ensure privacy in payment transactions and the possibility to be used without any technical infrastructure – that are not (fully) matched by current electronic payment solutions. To match one of the most required features of cash, a digital euro aiming to tackle the decline in the acceptance of cash should permit offline payments. Similarly to how cards ensure their services work offline and in case of power outage, the ECB could build an infrastructure with offline capability making use of Hardware Secure Element (HSE, e.g., the secure chip on a mobile phone) to store sensitive data in a decentralised way. Furthermore, cryptography could be used to depersonalise and decouple transactions from persons, although we do not recommend fully anonymous solutions to ensure compliance with AML/CFT requirements. Physical smart cards that can be charged at ATMs, bank branches or smartphones may be best placed to fit those needs: smart cards would need to be connected to an online digital euro account in order to add a certain amount of digital euro to it, but then transactions between smart cards and payment terminals would be ensured privacy. Another option could be to link the digital euro to a possible future EPI wallet. As for the backend, we would recommend the “decentralized – hybrid bearer digital euro and account-based infrastructure” as it corresponds with the current infrastructure and can therefore be seamlessly integrated. We recommend further to define respective standards or re-use existing settlement standards.

Although we agree on the importance of ensuring that payment solutions are available to vulnerable groups, it is not obvious how a user-friendly solution of a digital euro could be easier to use than today's existing payments solutions, such as paying with credit card up to a specific amount without code or signature and voice-over devices and functions. We suggest the ECB runs appropriate stock taking exercises to assess the best technical approach on the topic. Furthermore, the necessary inclusion implies to keep the intermediation role of the commercial banks. As neither the Eurosystem nor supervised intermediaries would be interested in allowing for an increase of large-volume anonymous transactions in digital euro, we recommend these offline transactions be limited to low-volume payments. This, in turn, would also help limit the use of a digital euro as an investment vehicle, and focus its design on its use as an instrument for retail payments currently or previously done in cash.

6. What should be done to ensure an appropriate degree of privacy and protection of personal data in the use of a digital euro, taking into account anti-money laundering requirements, and combating the financing of terrorism and tax evasion?

The banking industry is considered as the “notary of flows”. Current banking products are not compatible with full anonymity nor with massive offline transactions. These transactions must meet AML/CFT requirements, meaning the need of an at least tokenized solution that would respect regulation and traceability while meeting a certain degree of privacy. The Report on a digital euro states that if users are identified when they first access digital euro services, different degrees of privacy can still be granted by both the issuer (the Eurosystem) and the providers of intermediary services. It further observes that full privacy would be typical of offline digital euro payments, even when users have been identified by the provider(s) of digital euro services beforehand. Overall, we agree with the need to properly identify the parties involving in financial and payment transactions and acknowledge that those objectives have become increasingly significant as digital channels have



become more relevant. Therefore, any design of a digital euro should respect the full current AML/CFT framework, as well as the existing GDPR and ePrivacy rules.

As such, we consider that any online payment in digital euro should be identified by supervised intermediaries, regardless of the amount of the transaction. In turn, we would support the full respect of privacy and anonymity in low value payments carried out in an offline environment. If the offline use of a digital euro is limited to low value payments, the whole offline system could be designed in a manner that allows for every transaction to respect full privacy of the end user. The connection from the digital channel to the offline means (e.g., smart cards) would necessarily somehow identify the user, but this would resemble the current withdrawal of cash at ATMs and would still respect anonymity in the offline transactions that would follow it. Besides the full compliance with AML/CFT and GDPR requirements and the other measures (also laid down in answers 4 and 5), we suggest implementing the mandatory binding of an European eID(AS)- based identity to a payment instrument.

7. The central bank could use several instruments to manage the quantity of digital euro in circulation (such as quantity limits or tiered remuneration), ensuring that the transmission of monetary policy would not be affected by shifts of large amounts of commercial bank money to holdings of digital euro.

What is your assessment of these and other alternatives from an economic perspective?

To ensure financial stability and credit intermediation, we believe there must be mechanisms in place that ensure the ECB can manage the quantity of digital euro in circulation. The potential consequences for such limitation should be further elaborated. A limited amount of digital euro for a single account or limitations through remuneration may lead to increased demand for digital euro resulting in different values of commercial bank money and central bank money. In the end, this might impact the value of the euro, which could lead to negative effects on the implementation of the monetary policy measures.

That said, we believe the main objective would be to design a digital euro as a means of payment only, thus avoiding its use as an investment tool. In other words, managing the quantity of digital euro in circulation should be the means to an end, while the end should be to avoid it becomes an investment vehicle. This, in turn, would ensure financial stability. Another aspect that would need to be analysed further is whether or not limitations or remunerations of the digital euro could lead to deposits becoming an instable funding source for commercial banks. This is especially relevant in a crisis situation where depositors might want to shift from bank deposits to CBDEs. This could also negatively impact banks' liquidity levels, resulting in unstable levels of indicators and regulatory requirements such as LCR.

When political reasons call for a respective limit, we do agree with the instruments suggested in the Eurosystem report: the individual limits to holdings in digital euro and/or tiered remuneration. Especially the former limit would ensure the digital euro is designed as a means of payment only, thus avoiding its holding as an investment instrument. Overall, we believe that the aggregate amount of digital euro in circulation will not be as relevant as the individual limit of holdings, which could be set better in coordination with public policy objectives. This option would require: (i) that the Eurosystem applies a "waterfall approach"; and (ii) that every digital euro user is identified during the onboarding process (it would be the only way to avoid the misuse of the digital euro by impersonating multiple users, hence avoiding the individual limits to holdings). The cap should be



relatively low (notably, in terms of hundreds) and single payments in digital euro should be limited to an amount similar to cash (possibly, within specific time limits).

We consider individual limits to holdings a critical tool to prevent an excessive buildup of liquidity in digital euro accounts or wallets, which could seriously impinge on the transmission of monetary policy through the credit channel as well as raise financial stability issues due to bank runs that could be facilitated by a digital euro. Individual limits could be set, for instance, based on the amount of cash payments that most consumers make during a certain period (say a month) or the amount of cash that consumers typically carry in their wallets. Limits on balances outstanding should be complemented with limits on the number of individual transactions and on cumulative transaction amounts in a given period (per week or per month) to avoid the risk that consumers circumvent balance limits by splitting payments into smaller amounts and instantaneously recharging their digital euro wallets.

As to remuneration, we do not see a good reason for the digital euro to be remunerated while cash is not. This is especially true if the main objective behind the issuance of a digital euro is the need to fill the gaps generated by the decline of the use of cash in the euro area. Furthermore, due to the current zero-interest rate monetary policy (that will probably persist for several more years) any remuneration would encourage end users to hold high amounts of digital euro as an investment tool.

8. What is the best way to ensure that tiered remuneration does not negatively affect the usability of a digital euro, including the possibility of using it offline?

We believe the best approach would be no remuneration for private sector and similar remuneration for commercial banks as with non-digital euro. However, quantitative limits or tiered remuneration could limit the supply, resulting into different values of the digital euro commercial bank money and cash. This could lead to an unstable value of the euro with potential wide-reaching consequences for monetary policy, financial stability, and the wider economy.

Although we agree with the ECB that a digital euro that is available offline would face additional challenges if it were remunerated, we consider that the offline holdings of digital euros should not be remunerated, as currently happens with cash.

We suggest this be further analysed.

9. If a digital euro were subject to holding balance limits, what would be the best way to allow incoming payments above that limit to be shifted automatically into the user's private money account (for example, a commercial bank account) without affecting the ease of making and receiving payments?

As a general remark, it is rather difficult to answer this question without knowing the chosen technology first.

However, in general terms, we agree on the 'waterfall system' envisaged by the ECB in its Report, although such a system would require all payees to hold an (EU-based) account. We believe that with close coordination and cooperation with the Eurosystem and public authorities, the private



industry is prepared to build the necessary infrastructure for it. That infrastructure could take advantage and be built on top of the existing settlement and clearing infrastructures in the euro area, and the private-public collaboration should provide enough trust on the infrastructure through protocols, standards, and manuals. The Eurosystem could provide the criteria to follow in those cases that required a waterfall approach, and the supervised intermediaries would just need to apply those criteria in the agreed infrastructure.

10. What would be the best way to integrate a digital euro into existing banking and payment solutions/products (e.g., online and mobile banking, merchant systems)? What potential challenges need to be considered in the design of the technology and standards for the digital euro?

We believe it is crucial that commercial banks are involved in the digital euro project, at least by giving the user the ability to connect via a user interface, view the details of their digital euro account, and be able to provision or empty their digital euro wallet from or to their regular bank account. Another priority will be to avoid any distortion of competition between regulated and non-regulated actors. Commercial banks operate the largest electronic payment systems (cards & SEPA) with all the features required by the regulators. Promoting a system providing a very similar service without regulatory constraints would put them in a structurally unfavourable situation. The success of a digital euro also relies on the ability to ensure full integration of different end-user access solutions to make digital euro services universally accessible and allow their interoperability with the financial market ecosystem. If the Eurosystem decided to provide digital euro payment devices or applications, they should conform to industry standards to the extent possible, being interoperable with existing market solutions and facilitating inclusion and pan-European integration.

A digital euro could fundamentally change the role of the ECB and commercial banks and non-bank service providers in the financial system. The division of labour hence needs to be very transparent and a clear governance framework needs to be agreed upon – e.g., who owns, administers, develops and is liable for which part of the infrastructure. The central bank should not provide end-to-end payment solutions, but instead rely on supervised private institutions in the distribution and provision of user-facing services, as it happens already.

In line with these considerations, we believe it is of utmost importance that end-user interfaces and back-end infrastructures built for a digital euro are fully interoperable and integrated with the existing infrastructures and payment systems in the euro area. The latter have proved to be as efficient as possible and have quickly accommodated the latest technological advances, with significant efforts undertaken by the private industry to deliver payment services users with the most innovative and efficient payment tools. As such, the Eurosystem should avoid creating a digital euro that competes with those payment solutions and hence integrate with them as much as possible, without undermining said efforts.

We would also like to highlight that PSD2 has been implemented very recently and its impact on the payment services industry is yet to be fully analysed. Moreover, the European payment services industry is under way of supporting a pan-European payment solution (EPI, the European Payments Initiative), which has been taken up with the objective of enhancing the euro area's autonomy and sovereignty in the payment services and technical and digital markets. In this respect, we acknowledge that the ECB is also considering the possible integration of a digital euro into a potential future EPI wallet. However, it may be difficult to develop a wallet in which free and paid products for the same use coexist. The question of the business model is central from our point of



view. Hence, we insist on the fact that it will be necessary for the Eurosystem to ensure a close cooperation, coordination, and integration with the private industry and its infrastructures, systems and solutions, if unintended consequences are to be avoided with the launch of a digital euro.

Finally, if the ECB considers the development of features that would make a digital euro anonymous (i.e., no traceability of transactions), it is not clear who will be conducting all the AML/CFT and other regulatory checks (nor how these will take place). Besides, both the ECB and NCBs will have to necessarily increase their technical capabilities and resources devoted to technical infrastructures. Ensuring interoperability and integration with private solutions, as well as compliance with the most advanced industry standards on emerging technologies, requires the Eurosystem to work under a very innovative approach to payments, and take up on the rhythm at which private actors will want/need to innovate.

11. What features should the digital euro have to facilitate cross-currency payments?

First and foremost, it would be helpful to know if the question relates to exchange between digital euro and commercial foreign currencies or cross-digital currency transactions. Challenges are very different depending on both situations. Besides, it should be highlighted that not all EU Member States adopted the euro as their currency.

In our view, and in general terms, to facilitate accessibility to a digital euro on a cross-border basis, people should be provided with an eID(AS)-based electronic identity. This would help the digital euro become the least vulnerable currency towards financial crime and foster inclusion (refugees, developing country citizens, etc.). At the same time, we would like to point out that the process of facilitating cross-border payments is already ongoing in the banking sector (For instance, SWIFT GPI Instant at global level and P27 in the Nordics). If also a digital euro, or even several different central bank digital currencies (CBDCs), were to manage cross-currency payments, the ECB would need to establish links with other central banks and will have to assume the associated forex risks that today are managed by commercial banks. Different challenges would arise in case the ECB wanted to manage cross-digital currency transactions, as in this case the ECB and other central banks would have to agree on global minimum standards to ensure the interoperability of different central bank digital currencies.

As laid out in the Report on a digital euro, a strong international role of the euro is an important factor in reinforcing European economic autonomy. The issuance of CBDCs by major foreign central banks can enhance the status of other international currencies at the expense of the euro, and in such a situation, the ECB might consider issuing a digital euro in part to support the international role of the euro. Overall, we agree with said ambition, but we do not support the objective of “stimulating demand for the euro among foreign investors” (see p. 14 of the Report). The Eurosystem should keep in mind that the main objective of creating a digital euro is not for it to become an investment tool, and therefore it should not be designed in a manner that it is attractive to be used by foreign investors. As a consequence, we believe that efforts should focus on the interoperability between the infrastructures underpinning the digital euro and other CBDCs, as well as with integration with private solutions that allow for cross-currency payments.

12. Should the use of the digital euro outside the euro area be limited and, if so, how?



Not by default, as it would probably be difficult to discriminate the use/access to a digital euro towards individuals and corporates outside the euro area, due to legal and single markets perspective. Regardless, we agree with the concerns raised by the ECB on potential negative effects, for example on the foreign exchange rates between different currencies, which could be particularly problematic for countries with fixed exchange rates. Additionally, monetary policy will need to take into consideration all levels of currency and take measures accordingly.

In this respect, we would also welcome further clarification as to how will the ECB manage to maintain a stable amount of digital euro in circulation to minimise monetary impacts. For instance, what would be the impact of large – SEPA and non-SEPA – companies like Amazon amass large quantities of digital euro, thus becoming a ‘sink’? Are there any limitations/mitigations foreseen? Besides, does the ECB intend to limit or forbid the usage of a digital euro outside EU/SEPA realm? And if yes, how will the ECB control such limitations/prohibitions in the non-EU/SEPA realm (e.g., only via wallets with European eIDs, similar to the Chinese DCEP approach)?

Although there is no reason – at least in principle – to not allow the use of the digital euro outside the euro area, as long as there is an acceptance network outside the euro area, practical challenges and risks will need to be addressed. For example, in order to become a means of payment also for cross-currency transactions, significant changes for e-commerce providers and merchants would be required to recognise a digital euro payment method and to be able to accept digital euros. In addition: (i) there could be implications for capital flows and the exchange rate of the euro; (ii) there could be knock-on effects on the Eurosystem’s monetary policy stance and transmission; (iii) if non-euro area residents were to heavily rebalance their portfolios towards digital euro holdings, the size of and risks to the Eurosystem’s balance sheet would increase significantly; (iv) those shifts could also strengthen the euro exchange rate and harm the competitiveness of euro area firms; (v) said shifts could also amplify the real and financial cross-border spill overs of domestic monetary policy shocks by creating a new channel for their propagation; and (vi) could lead to currency substitution in third countries, facilitating a digital “Europeanisation”, leading to the full or partial replacement of other currencies with the digital euro for local payments, as a savings vehicle and, ultimately, as the unit of account, significantly impairing monetary policy sovereignty in affected economies. Finally, it might facilitate international criminal activities.

In this context, we consider that the possibility for a digital euro to be used outside the euro area should be limited. In order to do that, specific limits to individual holdings of digital euros could be set, and remuneration should be avoided for non-euro area residents too. Also, the use of digital euro should be limited to tourists and temporary residents, as they are the only that could be affected by the decline in the use of cash and by the availability of other CBDCs to execute payments. As such, for tourists to find it attractive and user-friendly, the use of a digital euro should be available both online and offline, and their onboarding should be made available through digital means, whenever possible. However, this would require a close coordination with public authorities from third countries, and a significant technical effort from all actors providing services related to digital euro.

13. Which software and hardware solutions (e.g., mobile phones, computers, smartcards, wearables) could be adapted for a digital euro?

We believe a digital euro should be easy to access, easy to use, and secure. Using a smartphone would probably be a good option for individuals, however any solution provided on commercial



grounds and demanded by consumers will work. For sure hardware solutions such as end-user devices and merchants' acceptance devices will require adaptations, while software solutions, such as web interfaces, digital wallets, and applications, will need to be modified if not developed from scratch in order to provide user-friendly and high-end quality channels to end-users. In this respect, we are of the view that the ECB should bear part of the costs, as all these adaptations and development pursue public policy interests. Additionally, the ECB should play a role in awareness-raising campaigns necessary to implement them correctly and on time. While the private industry would need to make a significant effort to create and maintain those technical solutions, the Eurosystem and other public bodies should make sure they also invest in the success on the implementation of a digital euro.

14. What role can you or your organisation play in facilitating the appropriate design and uptake of a digital euro as an effective means of payment?

ESBG and its Members recommend that savings and retail banks are heavily involved in such a project. We are ready to play our role especially regarding our value-added procedures: KYC, AML/CFT, allow customers to select digital euro as payment means at the Point of Sale and to perform SCT Inst payments via CBDC account, just to name a few. Additionally, banks can provide a view on customer expectations on payments services due to close proximity to customers and long experience in providing the full range of payments customer services and care. In particular, banks could: (i) support in the functional and technical design; (ii) advise and support in the eID(AS based) electronic identity binding and integration; and (iii) act as pilot and prototyping by adopting selected set of friendly employees/customers as pilot users.

A well-functioning payment system is crucial, and we therefore welcome the ECBs report on digital euro. We are welcoming further discussions and dialogue with the ECB with the purpose to find solutions. We stand ready to provide any input and participate in any discussion that central banks would like to have in the continued work on the project of issuing CBDC.

We very much welcome a second report on a digital euro that analyses and describes in concrete how a digital euro would work, and we would also appreciate a second public consultation before the ECB decides to proceed with an implementing phase.



About ESBG (European Savings and Retail Banking Group)

The European Savings and Retail Banking Group (ESBG) represents the locally focused European banking sector, helping savings and retail banks in 21 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 885 banks, which together employ 656,000 people driven to innovate at 48,900 outlets. ESBG members have total assets of €5.3 trillion, provide €1 trillion in corporate loans, including to SMEs, and serve 150 million Europeans seeking retail banking services. ESBG members commit to further unleash the promise of sustainable, responsible 21st century banking. Learn more at www.wsbi-esbg.org.



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Published by ESBG. January 2021.