ESBG response to the European Commission targeted consultation on a digital euro

Executive summary

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Europe is at the forefront of innovation in retail payments. Banks and other Payment Service Providers (PSPs) already serve EU citizens with an efficient and secure payment system that ensures full accessibility both in terms of physical access and financial inclusion. The existing commercial solutions meet all user's needs. Modifying these would be expensive and inefficient, unless it is done in a way that brings clear added value to the customer. In its response to the European Commission targeted consultation on a digital euro, ESBG stated the need to further assess exactly what gaps in the payments system could be filled by the introduction of a digital euro, and to analyse how the existing solutions could be adjusted to enhance their value to the customer.

FINANCIAL EDUCATION CHALLENGE

Most EU citizens are unaware of the difference between central bank money and commercial bank money. Therefore, the general public can not differentiate the risk levels inherent to each of these two forms of money. ESBG and its members consider there are risks associated with over-emphasizing the safety of a digital euro, as this might negatively affect public confidence in the financial sector. After all, even Central Bank Digital Currencies (CBDCs) are subject to risks such as fraud, theft, and loss.

HOW MUCH DIGITAL EURO?

To ensure financial stability and avoid dis-intermediation, mechanisms must be in place to ensure the European Central Bank (ECB) can manage the quantity of digital euro in circulation used for transactions.

A digital euro must be designed as an instrument for retail payments only, thus avoiding any possible use as an investment tool.

Holding limits should be established. Without these limits, customers could convert all their deposits into digital euro in a matter of seconds, with catastrophic consequences on the banking system. Therefore, ESBG and its members are in favour of limits to individual holdings of digital euro – ideally in the form of €1,500 cap. A higher limit might cause a deposit outflow that would not be manageable for most banking business models in the EU and would likely force banks to de-leverage massively. The negative impact of this on balance sheet would be particularly severe for savings and retail banks that currently have little to no access to market funding. The deposit outflow would not only impact liquidity, but also the volume of credit provision of deposit-intense banks, which in the past kept the lending stable even in crisis times.

PEOPLE FOCUSED

For a digital euro to be successful, it must provide a user-friendly onboarding process and it should be secure, easy to access and use, and adapted to the public. The main features of a digital euro should be distinctive to set it apart from other forms of euro payments.

Consumers will only use a digital euro if it is widely accepted for payments, and merchants will want to be reassured that enough consumers will use it. In this respect, the acceptance of merchants will be key and will require an understanding for onboarding of existing Point Of Sale (POS) terminals via enhanced functionality, aiming for acceptance of all devices and wallets. However, any measure aimed at introducing mandatory acceptance – and any eventual exemption – should be carefully assessed and designed at EU level to avoid affecting the level playing field between different means of payment and crowd-out the existing solutions.

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