

FUTURE OF PAYMENTS FORUM 2024: FRANKFURT

Promoting European integration through digital innovation



Moving towards a digital euro

The ECB is upgrading Europe's payments infrastructure and leading the way in CBDC development.

'The European payments landscape is evolving very quickly to the detriment of existing national and regional schemes.'

THE EUROPEAN Central Bank is working to innovate retail and wholesale payments. The preparation phase for the digital euro is entering its second year, while trials for wholesale central bank digital currencies are advancing. In Frankfurt, OMFIF's Future of payments forum brought together representatives from central banks, scheme operators, regulators, commercial banks and technology providers to unpack the progress and challenges in upgrading the payments infrastructure within Europe.

Ulrich Bindseil, director general of market infrastructure and payments at the ECB, explored in a keynote address how the digital euro aims to provide a pan-European digital retail payments solution. The European payments landscape is evolving very quickly to the detriment of existing national and regional schemes, and private initiatives and domestic schemes have been unsuccessful in scaling up to a pan-European level.

The ECB aims for the digital euro to 'bring the key features of cash into the digital age', while retaining a pan-European reach, no cost to users, privacy and offline usability as features and ECB issuance. The preparation phase of the digital euro should end by October 2025, at which point the ECB will continue to finalise the scheme rulebook, select service providers and explore technical features for further testing.

On the wholesale side, the Eurosystem concluded exploratory work focusing on interoperability between distributed ledger technology systems and existing central bank infrastructure in November 2024. These included the Deutsche Bundesbank's Trigger Solution, Banca d'Italia's TIPS Hash-Link

solution and the Full-DLT Interoperability solution from Banque de France.

The Swiss National Bank's Project Helvetia also seeks to explore the potential of wholesale CBDCs in real-world applications. Participating banks can settle transactions with tokenised bonds using wholesale CBDCs on SIX Digital Exchange, a regulated trading and settlement platform for tokenised assets. So far, four tokenised bond issuances and one secondary market transaction have successfully been settled in wholesale CBDCs.

Demand for digital innovation

While wholesale central bank money is not a novel concept, central banks are exploring the use of DLT to streamline and modernise capital markets. Settlement challenges, particularly fragmentation, persist. Presently, there are 35 different exchanges operating across the European Union. As such, central banks are seeing a clear demand from the market to deliver short-term solutions for this fragmentation. The Eurosystem is aware of the pressure to continue with trials to utilise DLT to address fragmentation and will strive to balance short-term needs with long-term adaptability.

Within the euro area, there has been a general decline in physical cash usage in point-of-sale transactions, and many countries depend on foreign private sector providers. In response, like many central banks, the ECB in October 2021 began looking into the issuance of a digital euro. As Bindseil highlighted in his keynote address, central banks are aiming to preserve the role of central bank money in the economy, and



Left to right: Salvatore Alonzo, Banca d'Italia, Oliver Sigrist, Swiss National Bank, Katie-Ann Wilson, OMFIF, Martin Diehl, Deutsche Bundesbank



Left to right: Jan Rosam, EY, Evelien Witlox, European Central Bank, John Orchard, OMFIF, Mikael Svensson, Mastercard, Jens Reich, Deutsche Bundesbank



Ulrich Bindseil, European Central Bank

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the role of banks in money creation, payments and credit provision while avoiding the potential negative implications of a CBDC.

However, besides convincing commercial banks and other private sector actors of the benefits of their participation in the digital euro ecosystem, there may be resistance from citizens towards adopting the CBDC. Forum participants outlined the example of Germany, where the digital euro may face some cultural resistance due to the population's conservative stance on cash. Despite this, the digital euro is expected to replace part of cash usage to align with Germany's strategic objectives, in addition to protecting the euro as a reserve currency and enhancing cross-border payments solutions.

Privacy is another concern for the digital euro in Germany that may influence public demand. The ECB will need to emphasise how the digital euro offers privacy protections that are superior to current private sector solutions, safeguarding users from potential big-tech encroachments.

At this point, it will be important for the ECB to maintain its momentum in digital euro preparations and to finalise the legal framework. Only when the legislative process is completed will the ECB consider the decision to issue a digital euro.

Public-private partnerships

In both sessions at the forum, public-private partnerships was an important recurring theme. Project Helvetia demonstrated the first issuance of a wholesale CBDC on a regulated third-party platform to settle commercial transactions with tokenised assets – the SNB is only involved as the provider of the settlement asset, while the private sector handles platform management and innovation.

Participants highlighted the novelty of this arrangement as the central bank has handed over control to third parties and questioned whether other central banks may be comfortable with it. However, as Thomas Jordan, chairman of the governing board of the SNB, pointed out in May 2024, 'roles and responsibilities must be clearly defined, as must rights and obligations', where the SNB delegates contractually agreed tasks to SDX while retaining control and monitoring capabilities.

On the retail side, private sector participants at the forum emphasised the need for public-private partnerships to ensure the digital euro's success. One attendee said the private sector can offer particular expertise in areas such as security and systems design.

However, forum panellists argued that the success

of the project will depend on convincing commercial banks of their participation in the ecosystem. While commercial banks have since warmed up to a 'cautious acceptance' of the digital euro, participants highlighted that European central banks will need to address concerns around holding limits and the business model.

The debate lies in ensuring that the digital euro is widely used while maintaining financial stability. The ECB aims to set holding limits – the maximum amount of digital euro that users could hold in an account to maintain financial stability and resiliency. The ECB had announced a reverse waterfall functionality, where users would not have to prefund a digital euro account as it can be linked to a commercial bank account. There may also be access restrictions, where permanent and temporary residents would be able to carry digital euro within the limits.

Different ecosystem members disagree on the limit amount. For instance, commercial banks may prefer lower limits as using the digital euro as a store of value may impact their deposits, while consumer groups might prefer higher limits for usability and convenience. Part of the work of the preparation phase will involve setting the holding limit, based on the ECB's methodology of a dedicated workstream, data collection exercises and reflections on the impact on economic conditions.

The business model of the digital euro was another important concern raised by participants. For the private sector, competing against free scheme fees will be challenging. Private sector attendees stressed the need for a level playing field between private and public stakeholders, noting that zero fees for consumers could help achieve this. Participants also reflected on the Eurosystem's progress towards the unified ledger concept and the opportunity to create a digital capital markets union. Beyond the benefits in a reduction in risk, cost and settlement, a single unified ledger could be key to a robust, stable and integrated European capital market. By moving towards a DLT-based European ledger, tokenised central bank money, commercial bank money or other digital assets could come together on a single programmable platform to create a unified European financial market infrastructure.

However, it will be important for the ECB to offer clear and consistent guidance to ensure both public and private sector players are aligned in efforts to foster interoperability through this union. With a clear vision and careful coordination, a shared ledger could bring more efficiency, resilience and innovation for Europe's financial landscape.

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