

## **Denis Beau: Perspectives on increasing prominence of digital money**

Keynote speech (virtually) by Mr Denis Beau, First Deputy Governor of the Bank of France, at the Hong Kong Fintech Week, Hong Kong, 28 October 2024.

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Good afternoon, Ladies and Gentlemen,

I am glad to join you virtually today for the Hong Kong FinTech Week, to share our perspective at the Banque de France on the development of digital payments and its implication for the fulfilment of our mandate to ensure the proper functioning of payment systems.

Although wholesale and retail payments are being transformed by distinct trends, they present similar challenges from a safety and efficiency perspective. To meet these challenges, we have been at the Banque de France simultaneously acting on three key levers. First, the provision of central bank money services. Second, the support to industry initiatives in line with our policy goals. Third, the promotion of adjustments to the regulatory and supervisory framework.

In that context, I would like to explain in my introductory remarks how we consider using our first lever, the provision of central bank money services.

### **1. Wholesale digital payments**

In the wholesale space, the security and efficiency of financial transactions between financial intermediaries importantly hinges on the nature of the settlement asset chosen.

Lessons learned from past financial crises have underlined the critical importance of using secure settlement assets. In response, members of the Bank for International Settlements have committed to promoting the use of central bank money in the wholesale payments space and mitigate both liquidity and counterparty risks. This commitment is reflected in Principle 9 of the CPMI-IOSCO's Principles for financial market infrastructures (PFMIs), designed to strengthen and preserve financial stability. And they have been successful in the implementation of this policy as central bank money is actually the very dominant settlement asset in the wholesale space.

However, as tokenisation of assets gains momentum, private settlement assets, particularly stablecoins, are being used and are likely to be settlement assets of choice, to settle transactions in tokenised assets, absent the availability of central bank money on Distributed Ledger Technology (DLT). In addition, the proliferation of uncoordinated settlement solutions resulting from the lack of public sector response to the tokenisation of finance could lead to increased liquidity fragmentation.

This is why we consider that we need to adapt the provision of central bank money to the demands of an increasingly digital financial system, particularly as transactions involving tokenised assets gain prominence, to prevent regression in the safety and efficiency of wholesale transactions.

Accordingly, the Banque de France was one of the first central banks to launch an ambitious experimental program focused on the use of wholesale central bank digital currency (CBDC) in various settlement processes for varied assets.

In addition, in an evolving landscape, where traditional infrastructures are likely to coexist with new DLT systems, interoperability will be crucial in preventing market fragmentation and central bank money can help ensure it. The Payment-vs-Payment (PvP) experiment in CBDC we recently conducted with the Hong Kong Monetary Authority is an illustration of this, with an interoperability mechanism supported by SWIFT to ensure synchronised settlement of both legs of the transaction.

Since May 2024, the Eurosystem has also been testing various interoperable solutions for settling tokenised financial assets via central bank money and we are actively contributing to it. Looking further ahead, the BIS has put forward the vision of a global unified ledger—a long-term vision that could begin with the establishment of regional unified ledgers, such as a European Unified Ledger. Project Agorá is likely to be an important building block in an exploratory approach to make this vision concrete and test it, and we are also taking part in it.

## **2. Retail digital payments**

In the retail space, contrary to the wholesale one, we observe the coexistence and complementarity of central bank money – in the form of cash – and private money. While their respective role has evolved over time with users' habits, in Europe it has undergone very rapid and significant changes in the past few decades, in relation with the development of the digital economy. The use of cash has steadily declined: in 2022, cash was used in 50% of in-store payments in France, compared with 68% in 2016. Meanwhile, cashless payment solutions have rapidly developed, boosted by the growth of e-commerce and innovative solutions such as contactless and mobile payments.

These changes bring many benefits for consumers, with payments becoming increasingly convenient, faster and innovative. The Banque de France therefore strongly supports and encourages innovation by payments stakeholders and the private sector.

However, digitalisation also comes with challenges for central banks.

- First, regulatory and supervisory frameworks need to be adopted to foster innovation in a trusted environment. This is what we have done in the case of private digital assets in Europe where the MiCA regulation has provided a clear, harmonised regulatory framework for crypto-asset service providers (CASPs) and stablecoins issuers, with the support of the Banque de France.
- Second, the development of digital payments comes with increased dependence on a few dominant non-EU players – international card schemes and global

technology providers (BigTechs). Those stakeholders exploit large network effects and own many proprietary standards used in retail payments. In Europe, that trend raises issues in terms of operational resilience, market competition and innovation, and ultimately, challenges the strategic autonomy of European players.

The Banque de France has helped to address those dependency issues with first a clear support, along with the Eurosystem, to the emergence of pan-European solutions for retail payments such as the European Payments Initiative. Their digital wallet called Wero has just been launched in France, after Germany and Belgium, for person-to-person payments in the first stage. It will gradually expand coverage, to other countries and use cases (e-commerce and in-store payments) in the next years.

We have also intensively contributed to the preparation underway of a retail CBDC, namely the digital euro. This new form of public money would be comparable to a "digital banknote". Its legal tender would make it usable everywhere in the euro area, in all contexts – therefore supporting European integration. It would offer cash-like privacy – notably thanks to the offline functionality that would also strengthen our resilience. The underlying standards and infrastructures would be governed by European players – also supporting our strategic autonomy.

The digital euro is also intended to perpetuate the "public-private partnership" that lies at the heart of our monetary system. It would be distributed by banks and other private intermediaries, with a viable and attractive business model, therefore preserving financial intermediation. It could also facilitate the development of private pan-European projects that could benefit from its open and harmonised standards to extend their scope and benefit from large network effects.

## **Conclusion**

As payments become increasingly digital, central banks face the issue of revisiting the way they provide central bank money services to their economy. At the Banque de France, we consider that the Eurosystem should stand ready to adapt its provision of central bank money both in the wholesale and retail spaces. We see this as necessary to maintain the 'singleness of money' in our economy and the robustness of our monetary system, both from a stability and sovereignty perspective. On the wholesale side, a CBDC would appropriately accompany and secure a trend towards the tokenisation of financial assets. It could also be a first step towards the provision of a new and decentralised form of infrastructure, a European Unified Ledger. In the retail sphere, we see the deployment of a digital euro as a natural evolution of, and complement to cash, whose success should be built on a strong public-private partnership.