

Innovation and its impact on the European retail payment landscape

Among all attributes of money, its function as a means of payment is particularly central to people's daily lives. Safe, efficient and inclusive payment infrastructures are vital for fostering public trust in a currency. This reality is reflected in the ECB's Treaty mandate to ensure the smooth functioning of payment systems.

Technological innovations are transforming the European retail payment landscape. They may offer new ways of meeting the social demand for payment services that work across borders and that are faster, cheaper and easier to use. Global stablecoins are the last in a long list of recent initiatives. Their costs and benefits should be investigated thoroughly and in an internationally consistent manner. At the same time, due attention should be given to the shortcomings in existing retail payments, relating to speed, cost and inclusiveness, which have been highlighted by such initiatives.

In light of these developments, the ECB finds that the time has come to provide new impetus to European retail payments, building on past achievements such as the Single Euro Payments Area (SEPA). This impetus should be led by the industry, with support from the public sector where needed, mainly through the provision of core infrastructures and an adequate regulatory and oversight framework.

For its part, the ECB will continue to monitor how new technologies change payment behaviour in the euro area – by reducing the demand for cash, for example – and explore how, and to which extent, central banks would need to adapt their policies and instruments to face challenges to consumer protection and monetary policy transmission that could arise from such changes. The ECB will also continue to assess the costs and benefits of issuing a central bank digital currency (CBDC) that could ensure that the general public will remain able to use central bank money even if the use of physical cash eventually declines. Prospects of central bank initiatives, however, should neither discourage nor crowd out private market-led solutions for fast and efficient retail payments in the euro area.

European payments strategy

In recent years, significant progress has been made towards a safe, efficient and integrated European payments market, especially with the introduction of pan-European back-end schemes and infrastructures under SEPA. However, progress at the “back end” has not translated into similar progress at the “front end”, which remains fragmented with no European solution emerging for point-of-sale and online payments.

The European payments industry needs to address this front-end fragmentation and provide a competitive pan-European solution that meets the needs of European users and exploits the benefits of the Single Market. The ECB fully supports market-based initiatives that are working towards a pan-European payment solution for point-of-sale and online payments.

In the view of the ECB’s Governing Council, such initiatives would have to fulfil five key objectives: full pan-European reach and a seamless customer experience; convenience and cost efficiency; safety and security; European identity and governance; and, in the long run, global acceptance. In addition, any new solution should be centred around instant payments. Market-led solutions should be open and comply with European competition rules. Public initiatives may be useful and necessary in supporting these solutions, also in the legislative and regulatory field.

Global retail stablecoins

Global retail stablecoin¹ initiatives seek to tackle current shortcomings in cross-border retail payments and financial inclusion by providing a new, separate payment ecosystem. However, stablecoins are untested on a large scale and, as outlined in the report of the G7 working group, raise a number of legal, regulatory and oversight risks.² Before stablecoins can go live, these issues must be addressed through appropriate design and oversight requirements, as well as regulation that is proportionate to the risks. Regulatory approaches must be coordinated across jurisdictions in order to reduce the risk of regulatory arbitrage. At the same time, it is equally important not to stifle innovation. The private and public sectors should continue to explore

¹ A stablecoin is a digital asset that relies on a stabilisation mechanism to minimise fluctuations of its price expressed in a given currency (or basket thereof).

² <https://www.bis.org/cpmi/publ/d187.pdf>

innovative ways of making payments cheaper, more efficient and more inclusive. Europe should be leading by example.

Central bank digital currency

If industry efforts fall short of developing an innovative and efficient pan-European payment solution, the social need for it could potentially be met by issuing a CBDC. For instance, a CBDC with the status of legal tender could guarantee that all users have, in principle, access to a cheap and easy means of payment.

CBDC could also ensure that the general public remain able to use central bank money should cash usage decline. However, cash is still a popular means of payment across the euro area. Signs of a future decline in cash usage could be a catalyst in accelerating central bank efforts in the area of CBDC.

The concrete design of CBDC could have far-reaching implications for the financial system that need to be carefully assessed. CBDC could alter the way in which monetary policy is conducted and transmitted to the real economy. It could also affect the role of the banking sector, credit intermediation and bank funding. The desirable design features for CBDC and its economic and financial implications therefore warrant further analysis.

On this basis, the ECB will continue to analyse CBDC with a view to exploring the benefits of new technologies for European citizens and to be ready to act should the need arise in the future. Prospects of central bank initiatives, however, should neither discourage nor crowd out private market-led solutions for fast and efficient retail payments in the euro area.