The German Banking Industry Committee's key requirements of the digital euro (December 2024)

The introduction of a digital euro will make Europe more independent, more competitive and more resilient. The German Banking Industry Committee supports these aims. We are convinced that, under certain conditions, a digital euro will strengthen the sovereignty and competitiveness of Europe in the payments market. This presupposes, in particular, that the digital euro offers real market value not only for users and merchants but also for payment service providers, and that it is widely accepted on the market.

This will require close cooperation between the ECB and the private sector in both the design and implementation of the digital euro, in order to bundle their respective competences and achieve these aims. Strengthening European competitiveness is a matter of maintaining existing and proven European payments offers as well as promoting existing and new procedures such as SEPA, Bizum and EPI/wero, which will help pave the way for a digital euro. This would help avoid high implementation costs and allow the private sector to strengthen their innovation projects by the time the digital euro is launched on the market.

A digital euro must be designed in such a way that the costs and complexity are minimised based on market economy principles. Existing infrastructures proven to work in practice should be used to guarantee planning security for investment and innovations by European payment service providers. The intended strengthening of European sovereignty in the payments market also means creating a balance between European and non-European providers.

We will not, however, be able to achieve these goals based on the current design of the project and of the 'digital euro' product. We believe there is a need for improvement: In particular, the digital euro must be designed specifically and exclusively for digital payments, and it must offer real added value to all stakeholders – consumers, merchants, businesses and banks. Only then can we expect it to be accepted widely across the market. In addition, it is vital that unintended consequences are avoided and that we create a level playing field of competitive conditions and planning security for offerings in the European payments market. Ultimately, a legally secure framework is the prerequisite for trust and acceptance of a digital euro.

The German Banking Industry Committee will support this process constructively and will contribute its extensive expertise in order to make the digital euro as successful as its physical counterpart, euro cash.

1. The proven division of roles between the government and the private sector ensures a sustainable and marketable solution

The digital euro must be developed in even closer cooperation with the private sector. This would unlock innovation potentials and ensure that the needs of users are even better understood.

The digital euro must complement existing and future European private-sector payment market offers or it must be made possible for it to be used within them, instead of squeezing them out of the market. This would require a balanced and clear division of roles between the ECB as the issuing institution of the digital euro and the banking industry. Banks, as intermediaries, give their customers access to the digital euro via a frontend of their choice and create innovative added value for their customers. This allows it to be integrated into payment market offers while using established standardisation initiatives and organisations in the European banking industry (e.g. European Payments Council).

The role of the ECB should be to focus exclusively on making the digital euro available as legal tender and on providing the backend infrastructure.

Only by clearly dividing these roles can potential conflicts of interest be avoided, such as in cases where supervisors would also act as providers of payment market offers (e.g. as part of the PISA framework).

2. Significantly reduce complexity and implementation costs

The planned use cases and functions of a digital euro are currently very extensive and have not yet been subjected to a cost-benefit analysis. In its current design, the introduction of the digital euro would generate huge costs for the private sector and tie up resources for many years. We can already predict that these resources would no longer be available for other innovation projects for years to come, which would adversely affect the competitiveness of all European payment service providers in the long term.

It is therefore vital that the design of the digital euro is clearly aligned with actual market demand. The digital euro should make central bank money available where cash cannot be used as a means of payment, primarily in the digital space, in the sense of 'digital only'. In doing so, existing standards, infrastructures and payments market offers (e.g. SEPA, EPI/wero etc.) should be used since these are already being continually further developed in line with the needs of consumers and merchants. Also, the goal of securing a high degree of privacy cannot be achieved with offline functionality only but would also require further developing the existing infrastructure and the underlying legal framework. As a result, offline functionality does not necessarily have to be implemented at the same time as online functionality.

3. Strengthen sovereignty, prevent unintended consequences
It is of key importance to European legislators that the digital euro helps strengthen European sovereignty, also in the finance sector. The digital euro should counteract the increasing dominance of non-European actors in the ongoing competition for payment solutions for citizens on their smartphones. European banks have been doing this for some time now by creating offers in the form of national card schemes and driving forward pan-European initiatives (e.g. EPI/wero).

The digital euro must not be allowed to undermine European sovereignty in the finance sector. However, the current design generates disproportionately high costs for European banks and ties up resources which then cannot be employed to further expand European offers. In turn, this leads to existing participants in the growing wallet provider market being able to further expand their competitive advantages and market shares if they are able to use the digital euro and its connection to current accounts provided by the banks free of charge.

4. "Same business, same risk, same rules" – proposed legal framework must prevent competitive distortions
According to current ECB and Commission considerations, payments with the digital euro are to be subject to the requirements of the Payment Services Directive (PSD2, PSR in future). Within this framework, it must be ensured that all regulations of payment services legislation (liability, value date, information obligations), which apply to payments with scriptural money, are also applied to the digital euro. Giving preference to the digital euro would constitute a disproportionate market intervention and lead to distortions of competition. The exception to this would be the envisaged, legally standardised obligation to accept digital euros as legal tender, which will be an important component in the success of the digital euro.

5. The digital euro must offer added value
The digital euro should not only represent an additional digital option to make payments with central bank money on top of cash, it must also be attractive for all involved (consumers, merchants, governments, banks and payment service providers) and offer added value. Its design must meet the highest security and data protection standards and have user-friendly functions that fit seamlessly into people's everyday lives and help to further improve access to financial services. Otherwise, it will not achieve the required market acceptance.

6. Enable appropriate remuneration mechanisms for all participants
Banks will have to cover the largest share of costs for implementing and operating the digital euro, such as for providing top-up and payout functionalities, also for other payment service providers that only offer a wallet. There must be appropriate compensation for these costs. Furthermore, banks will have their basic right to entrepreneurial

freedom disproportionately curtailed: Credit institutions will be legally required to offer and distribute the digital euro. At the same time, they will have to offer consumers extensive services free of charge or for a capped fee. This cap is based on already established payments systems. However, the digital euro requires new infrastructure for payment systems and account management in the banking industry. These costs cannot be adequately recouped with the proposed statutory remuneration regulations. In the interests of market stability and to guarantee we have reliable and robust systems for the digital euro, it is important to find appropriate market-based remuneration models for all participants.

7. Appropriate holding and transaction limits to safeguard financial stability and protect consumers

An appropriate and legally secure holding limit for the digital euro is essential to ensuring financial stability. This limit should prevent significant amounts of bank deposits being channelled into the digital euro, which would impair the liquidity of the banks and could weaken their lending capability. This would be particularly important in crisis situations to prevent an accelerated outflow of deposits from the banking system.

As with all payment systems, a transaction limit is essential, especially for protecting consumers and combating fraud. And as with existing current accounts, banks should be free to tailor this limit to individual customer needs in order to meet the requirements and risk profiles of the respective customers.

8. The digital euro must meet requirements under the rule of law

A digital euro will only be successful if it is accepted by the citizens and economy of Europe. This presupposes that the legal framework for the introduction of the digital euro meets requirements under the rule of law, thus creating legal certainty and predictability. The design of the digital euro must remain within the mandate of the EU legislator and, at the same time, respect the basic right to entrepreneurial freedom of market players. It is crucial that the legal framework conditions are clearly defined, particularly with regard to the application of national requirements (inter alia, property law) when transferring the digital euro and/or applying EU payment services legislation.

Excursus: Prompt introduction of a wholesale settlement solution will strengthen the European financial market

International development activities, for example those of the Bank for International Settlements (BIS), seem to be focusing more on research and development of a wholesale CBDC. WCBDC is digital central bank money for the interbank and financial markets. Financial service providers and businesses within the Eurosystem are interested in the implementation of options for settling transactions on Distributed Ledger Technology (DLT) in central bank money. Introducing such options would provide a basis for innovations such as automatically processing securities transactions, payments and collateral.

Use of new technologies such as tokenisation and smart contracts on DLT will create the potential for significant efficiency gains here. It could reduce processing costs, speed up processing and minimise the risk of defaults. The wholesale settlement solution tested by the Eurosystem in 2024 would, if implemented, promote innovation and improve the ability of the Eurosystem to compete on the global stage. Now is the time to take the next step and work towards prompt implementation in cooperation with the private sector. In line with Piero Cipollone (Member of the ECB's Executive Board and Chair of the Eurosystem High-Level Task Force on the Digital Euro), we believe that DLT offers a way to promote the European capital markets union with cutting-edge technology.

A Eurosystem solution should further expand the international role of the euro and act as a trailblazer for the European DLT-based capital markets. In Asia, in particular, central banks are actively involved in developing wholesale settlement solutions. As such, a wholesale settlement solution would strengthen the position of both Europe and the euro on the global stage.