Speech by François Villeroy de Galhau,

Central bank digital currency and innovative payments

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Ladies and Gentlemen,

One of the great things about the conferences organised by the ACPR is their sense of timing: they always come in the middle of heated debates. Today is no exception with the issue of the challenges faced by life insurance in a low interest rate environment. By way of introduction, let me agree with and sum up Bernard Delas's message of this morning: French insurers are resilient and thus have the capacity to make the necessary dual adaptation. First, the rates paid on life insurance policies need to be lowered this year from last year's average of 1.8%. Next, insurers must actively restructure and diversify their offering for savers, while at the same time paying very close attention to the quality of advice they offer. If, as a complement – and only as a complement – regulatory adjustments are needed to facilitate this change in life insurance, then we are ready to support them.

I would like to turn now to the topic for this afternoon which is dedicated to **innovation**. Allow me to both restrict and extend the scope of the subject: restrict it to the field of payments which has seen a proliferation of innovations over recent years. And extend it beyond the scope of the ACPR and the supervisory authority: I shall also speak as a central banker, and of a central bank digital currency (CBDC). Driven by new market entrants, the digital revolution has brought with it a wealth of advancements that we profit from every day: but it also raises major questions about bank intermediation, and even about our monetary sovereignty. I would like to propose today that we take a stark look at these questions (I), and that we answer them by reiterating the two main pillars of our strategy: safeguarding confidence and supporting innovation (II).

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I/ The advances and challenges associated with the proliferation of private initiatives in the payment industry

Let us first recall the **main trends** that currently characterise the European payments market. The increasing digitalisation of cashless payments – which is leading to a sharp fall in cash usage in certain countries, from Sweden to

China – has been driven by the rise of non-bank players. There is no denying that, today, the "centre of gravity" for payments is shifting towards these new players, especially the BigTechs. This displacement poses a challenge for banks' economic model, but could also be a threat to European sovereignty insofar that the infrastructures, knowledge and technologies underlying it are largely owned by non-European corporations.

The emergence, in parallel, of a new generation of crypto-assets is amplifying this disruption. The first wave of speculative crypto-assets such as bitcoin – which are very volatile, with no real underlying economic basis and perhaps no real future – has been succeeded by a second generation of assets – stablecoins – based on the same promising blockchain technology, but now backed by mechanisms designed to stabilise their value. Thanks to network effects, these stablecoins could offer a concrete solution for cross-border payments which are still – undeniably – far too costly and slow. But – and this is the downside – these crypto-asset projects, which are global in reach, also generate considerable compliance, financial and political risks. I'm thinking notably of money-laundering and terrorism, for which they could provide new channels of financing, and of the more systemic risks to financial stability.

II/ Our response: Step up the pace on payment solutions and consider the possibility of a CBDC

Of course, as central bankers and supervisors, there is no question of us **standing by** and letting this change happen unchecked. We have to remain fully committed to our dual objective – safeguarding confidence/supporting innovation – which is written into the very DNA of our institution.

We are determined, first and foremost, to **safeguard confidence** – at the global level – through strong and coordinated action. Under France's presidency, the G7 reacted swiftly and strongly last June: alongside Bruno Le Maire, we entrusted Benoît Cœuré with a mandate immediately after the announcement of the Libra project. Cœuré's report – compiled over four months and published in October – provides a full assessment of the risks posed by stablecoins from a microeconomic viewpoint, in terms of anti-money laundering and consumer protection, but also from a macroeconomic one, in terms of financial stability. Within the framework of the Financial Stability Board (FSB), we are now preparing a coordinated regulatory response to these challenges, due to be published by next summer.

I shall turn now to the second pillar of our response: **supporting innovation** to enhance our payment systems and meet the growing expectations of consumers. We first have to take advantage of the opportunities offered by the digital revolution to develop a **genuine pan-European payment solution**. As Steve Jobs said, “innovation is saying no to a thousand things”. This observation sheds light on the challenge that European banks are about to face with the PEPS-I project (Pan European Payment Solution Initiative). I have every hope that they will be able to forces – and go beyond “national” practices – and rapidly propose a **single**, pan-European payment solution, thus avoiding market fragmentation and the dominance of non-European solutions. The Eurosystem will be ready to provide support as and when needed, in line with what we are doing to promote the use of TIPS (Target Instant Payment Settlement). As a market infrastructure capable of processing pan-European instant payments, TIPS could be used for the interbank settlement of transactions initiated via PEPS-I. This pan-European solution would be a major step forward that would help European banks withstand the challenges posed by the BigTechs.

There is also another important area where we need to make headway: reducing the cost and speeding up the execution of **cross-border payments** by identifying concrete and useful solutions. Our aim should notably be to harmonise the technical standards used for transfers of funds, and to enhance the interoperability of payment systems and solutions. Between now and the autumn, the FSB, under the aegis of the G20, will propose concrete measures to make cross-border, extra-European payments significantly cheaper and faster.

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I shall turn now to a topic that is a major challenge for the future of the international monetary and financial system: **the possible creation of a central bank digital currency (CBDC).** The creation of a new form of currency by central banks goes beyond the challenges I have just mentioned: it is neither a precondition for nor a guarantee of more efficient payments. However, we as central banks must and want to take up this call for innovation at a time when private initiatives – especially payments between financial players – and technologies are accelerating, and public and political demand is increasing. Other countries have paved the way; it is now up to us to play our part, both ambitiously and methodically.

To this end, **the Banque de France is to be reorganised**. The current *Direction de la surveillance des paiements et des infrastructures de marché* (DSPM – Payments and Market Infrastructures Oversight Directorate) will become the *Direction des infrastructures, de l'innovation et des paiements* (DIIP – Infrastructure, Innovation and Payments Directorate), and its scope will be extended to cover all payment innovations, infrastructures and central bank digital currency. Additional skills will be recruited to strengthen its expertise, and, with the help of our Lab, the DIIP will work with industry innovators from the private sector: we want to start running experiments rapidly and will launch a call for projects before the end of the first quarter of 2020. We are particularly keen to take part in experiments to integrate a "wholesale" CBDC into innovative procedures for exchanging and settling tokenised financial assets. Nathalie Aufauvre, Director General of Financial Stability and Operations, will coordinate the Banque de France's acceleration process. Our actions will naturally contribute to the work of the Eurosystem, which should make looking into the possibility of an "e-euro" one of its next focuses: Christine Lagarde referred to it on Monday in front of the European Parliament. Beyond this, we intend to take part in the work of the "innovation hub" recently created by the BIS.

On a substantive level, I would like to share with you some first thoughts – which are still open to discussion, of course – on three aspects: the objectives, externalities and possible modalities of a central bank digital currency.

1/ At this stage, I can see **three different – but not mutually exclusive – objectives** for digitalising central bank currency. The first relates to the desire, in countries such as Sweden where cash use is declining rapidly, to guarantee all citizens access to central bank money. A CBDC would help to preserve the trust in the financial system that stems in part from being able to exchange assets for legal tender. The second argument relates to the efficiency gains, reduced intermediation costs and resilience that would potentially result from the "tokenisation" of a central bank currency, especially in settlement and post-trade activities (which is also one of the objectives of JP Morgan's JPM Coin project). The third and final reason – and the most important one for political authorities, including in France and Europe – is that creating a CBDC would give us a powerful lever with which to assert our sovereignty in the face of private-sector initiatives such as Libra. This is also one of the concerns highlighted by the People's Bank of China with its Digital Currency Electronic Payment (DCEP) project.

In this context, **what form should our CBDC take**? Public expectations on this differ significantly from those of financial institutions. As a result, in the long term, two different uses of the CBDC could exist side by side: one for payments between financial sector players (a so-called **"wholesale"** currency) that uses blockchain technology and all its possibilities, notably smart contracts; and another for the general public (a so-called **"retail"** currency) that is simpler and better suited to retail transactions. In this respect, financial institutions are much more digitally mature than private individuals as they already access central bank currency digitally via the bank accounts they hold with the central bank. In addition, following on from the questions raised by the Governor of the Bank of England, Mark Carney, on the idea of creating an international digital currency in response to the dominance of the US dollar, I think there would be some advantage in moving rapidly to issue at least a wholesale CBDC, as we would be the first such issuer in the world and would thus reap the benefits of having a benchmark CBDC.

2/ The issuance of a CBDC can generate significant **positive externalities** by increasing the productivity of the financial sector and by extension the economy, and by shoring up confidence in the currency and in the financial system. But, in parallel, it is vital that we examine the **potentially negative externalities** that a CBDC could generate for liquidity, profitability and bank intermediation. In particular, we need to look very closely at the risks linked to large-scale and/or sudden conversions of bank deposits into central bank money.

3/ The third aspect is the **modalities** that could be used to circulate the CBDC, especially the “retail” version, about which we need to be particularly vigilant. I'm thinking about the issue of its **legal tender** status – which is not indispensable but probable; the conditions under which it can be **held** – in the form of accounts rather than tokens; and last, whether non-residents will have access to it, which would certainly help to raise its international status. Moreover, thanks to their proven expertise in payment instruments, know-your customer requirements and transaction monitoring, financial intermediaries will be able to play a front-line surveillance role in the distribution of the CBDC. In parallel, we will also need to launch a reflection to define the conditions under which the CBDC could circulate anonymously “from person to person”. Limits could be set for the size of anonymous transactions, such as those already applicable in France for e-money and cash payments.

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Today, probably more than at any other time in our history, innovation has the potential to profoundly alter banking activities. It is no longer just about transforming our payment systems, it is our very currency that is at stake. The Banque de France fully intends to guide these developments, as it has done for more than two hundred years, and will adapt the way it operates to this change in paradigm. But in doing so it will also make sure that **confidence**, the cornerstone of innovation, is maintained on two levels. Confidence first and foremost in the **currency**: everyone will be free to use the payment instrument of their choice, and that still includes cash. Confidence, as well, in the **ability of financial institutions to finance the economy**. And the ACPR will continue and step up its efforts – notably through its FINTECH Innovation unit – to monitor all innovations that impact these methods of financing. Thank you for your attention.