The payments industry is undergoing a digital transformation, and this transformation is accelerating. We can now pay with cards that are stored in our mobile wallets, ready for a transaction to be initiated at the touch of a button. Mobile payment apps allow us to easily pay or send money to friends. New services based on application programming interfaces, such as payment initiation services, are expanding consumers’ choice of e-commerce payments.

Fintechs have sparked the latest wave of innovation. In a recent survey by the European System of Central Banks, over 200 new payment solutions were reported, of which more than one-third were provided by start-ups.¹

New providers have progressively shifted their business models from fee-based to data-driven, where payment services are provided free of charge in exchange for personal data that offer deep insights into users’ preferences.

The global technology firms – the so-called big techs – are using this model to leverage their large customer base and expand in global markets. Thanks to their global footprint, they are uniquely positioned to offer services in the area of global cross-border transactions, where current solutions are low quality and expensive.

This is the backdrop against which stablecoins have emerged. They could be used by the big techs to offer innovative payment solutions that work both within and across national borders. While stablecoin initiatives are still in their infancy, they should be carefully analysed as they could radically transform the payments landscape.

Today, I will discuss the potential advantages and risks of stablecoins, and their implications for the payments market, the financial sector and the overall economy. I will then turn to the forward-looking policies that are needed to steer innovation towards welfare-enhancing outcomes.

Two sides of the same (stable)coin

Stablecoins are digital units of value designed to minimise fluctuations in their price against a reference currency or basket of currencies.² To this end, some stablecoin initiatives pledge to hold a reserve of State-issued currencies or other assets against which stablecoin holdings can be redeemed or exchanged. Stablecoins became the subject of heated debate last year, after the technology giant Facebook and its partners announced their own global stablecoin, Libra.
Global stablecoins are initiatives which aim to achieve a global footprint[3], without necessarily relying on existing payment schemes and clearing and settlement arrangements. For example, Libra is an integrated construct that simultaneously encompasses a new settlement asset, a new payment rail and new end-user solutions.

Global stablecoins could drive further innovation in payments, responding to the need for cross-border payments and remittances that are more efficient and cheaper. Indeed, the Financial Stability Board has proposed a roadmap to enhance cross-border payments that recognises a role for sound global stablecoin arrangements.[4]

The flip side of stablecoins is the host of risks they can pose to our social and economic life.

For example, data-driven models could pose a risk of misuse of personal information for commercial or other purposes, which could jeopardise privacy and competition and harm vulnerable groups. Another concern is that wide acceptance of stablecoins offered by foreign companies would make European payments dependent on technologies designed and governed elsewhere. This could raise potential issues of traceability in the fight against money laundering, terrorist financing and tax evasion. It could also make the European payment system unfit to support our Single Market and single currency and vulnerable to external disruption, such as cyberattacks.

**Risks to financial stability and monetary sovereignty**

Other risks involve the monetary and financial system. In fact stablecoins, if widely adopted, could threaten financial stability and monetary sovereignty.[5]

As I mentioned earlier, stablecoin issuers often promise that their stablecoins can be converted into fiat currencies. But this promise generally differs significantly from the convertibility mechanism for bank deposits or e-money.

In the case of bank deposits, one-to-one convertibility to the fiat currency is safeguarded by deposit insurance schemes and prudential regulation and supervision. The value and safety of e-money holdings are protected by the fact that e-money issuers must hold customer funds in custody by third parties.

These safeguards may not apply to stablecoins, which are therefore vulnerable to runs. If the issuer does not guarantee a fixed value, the price of the stablecoin will vary with the value of the reserve assets, and a run could occur whenever users – who bear all the risks – expect a decrease in the redemption price of the stablecoin. But a run could also occur if issuers do guarantee a fixed value of the stablecoin, if they are perceived as being incapable of absorbing losses.

Moreover, the need to cover redemptions could force the stablecoin issuer to liquidate assets, generating contagion effects throughout the entire financial system. In the case of a global stablecoin, this would affect multiple markets at once.

The payment network of a systemic stablecoin arrangement could also be a source of instability. Stablecoin arrangements are payment systems, insofar as they permit the transfer of value between stablecoin holders. Moreover, stablecoin arrangements can qualify as a payment scheme.[6] Just like any other payment system or scheme, if liquidity, settlement, operational and cyber risks are not properly managed, they may threaten the functioning of stablecoin arrangements and lead to systemic instability.

Large investments in safe assets by stablecoin issuers could have implications for monetary policy. By affecting the availability of safe assets, these issuers could influence the level and volatility of real interest rates, with potentially undesirable consequences for financial conditions from a monetary policy perspective. Market functioning could also be negatively affected. Furthermore, to the extent that stablecoins are used as a store of value, a large shift of bank deposits to stablecoins may influence banks’ operations and the transmission of monetary policy.

Extreme scenarios are probably not around the corner. Under current conditions, the reserve assets of the stablecoin issuers would be remunerated negatively[7], so non-interest-bearing stablecoins would hardly be viable unless they were subsidised by the issuer. We must nonetheless remain alert to possible developments that may affect how a central bank exercises its core mandate.
Risks would seemingly be mitigated by allowing stablecoin issuers to deposit funds in accounts at the central bank. This would eliminate custody and investment risks for stablecoins and underpin their issuers’ commitment to redemption at par value into fiat currencies.

But other fundamental problems would then emerge. In fact, the perceived safety of a private settlement asset – the stablecoin – would come at the risk of relegating other settlement assets, especially public assets, to a minor role. A large take-up of stablecoins could replace sovereign money – a public good offered for centuries by the State to its citizens – with a “club good”, whereby payment services are offered to a select group of people in exchange for platform membership and personal data.

This would not be acceptable. The function of sovereign money reflects citizens’ need for safety and their trust in the State. Central banks offer sovereign money to all citizens, and manage it in the public interest. Citizens should not have to choose between the convenience of their favourite apps and devices and safety, of which central bank money remains the highest expression. And we should safeguard the sovereignty of public money.

Market structure, competitiveness and technological autonomy

Stablecoins would profit from the comparative advantages that characterise big tech business models and their control of large platforms. They could therefore amplify the risks inherent to big tech’s expansion in the payments market.\[8\]

The advantages of big tech firms are largely based on the control of crucial infrastructure for commerce and economic activity across Europe – from online marketplaces to social media and mobile technologies.\[9\]

If access to this infrastructure by third-party payment solutions were unduly restricted to benefit a stablecoin issuer, competition and consumer choice might be harmed. Furthermore, big techs may discourage investment by firms that are prone either to sweeping competition or acquisition.\[10\]

As I mentioned earlier, there is also a risk of global stablecoin issuers being handed the keys to vast amounts of personal data sitting on big tech platforms. Besides raising data privacy concerns,\[11\] this could become a powerful vehicle to transmit market power from one market to another, especially in the provision of financial services.

Ultimately, entrusting foreign providers with the control of large pools of personal data could entail significant costs for both EU citizens and firms. The issues at stake range from data security and compliance with EU data protection law to cutting off the lifeblood of European financial innovation.

From analysis to policy

European authorities need to respond to the ongoing transformation of the European payments landscape and to the potential expansion of large foreign players by promoting a competitive and innovative market and completing the regulatory and oversight framework.

In order to contribute to reaching these objectives, the Eurosystem is implementing a comprehensive policy based on complementary elements.

The first element is the Eurosystem retail payments strategy. It pursues objectives such as promoting pan-European initiatives that allow consumers and merchants to have easy access to efficient payments,\[12\] rapidly deploying instant payments, and harmonising electronic identity and electronic signature services and their use in payments.

The second fundamental element is the possible introduction of a digital euro. A digital euro would be a digital equivalent of banknotes. It would provide citizens with costless access to a simple, risk-free and trusted digital form of central bank money. It would both shape and promote the digitalisation of payments, in turn supporting the modernisation of the European economy. The Eurosystem is assessing the economic, financial and technological challenges a digital euro would raise, as well as its societal and strategic implications. Earlier this month, we published our Report on a digital euro and started a public consultation.\[13\] We will assess the feedback we receive, so that if and when developments around us make it necessary, we will be ready to issue a digital euro that meets the needs of European citizens.
A digital euro would complement cash, not replace it. While its role is diminishing, cash remains the main way people make retail payments in the euro area, and we will ensure that it remains widely available and accepted as a reliable payment instrument and store of value.

These policies are being complemented with appropriate regulation capable of addressing the risks posed by new players while enabling innovation in financial services.

The ECB is introducing an innovative payment oversight framework. We have just launched a public consultation on a new framework for electronic payment instruments, schemes and arrangements (the PISA framework). This new framework reviews some of our oversight tools and responds to the various technological and market changes by redefining the scope of our oversight activity and providing a future-proof, harmonised and proportional framework inspired by the principle of “same business, same risks, same rules”.

In parallel, the European Commission has published a proposal for a Regulation on Markets in Crypto-assets (MiCA), which sets Europe on a steady path to tackle emerging challenges. The legislative journey has just begun and will provide further opportunities for fine-tuning the proposal. The ECB is analysing it with a view to providing a formal legal opinion.

Implementing these oversight and regulatory initiatives will guarantee that the prospective use of stablecoins to provide payment services within the EU will respect the same standards that currently exist for payment systems and instruments.

A multi-sectoral response from central banks, financial regulators, data protection authorities and competition authorities is necessary. The European Commission, in its Retail Payments Strategy for the EU, announced that it will examine the need for legislation in this area.

Introducing systemic products based on stablecoins before the necessary elements of a comprehensive policy have been implemented, especially as regards the oversight and regulatory response, could endanger rather than benefit the European financial system. In September, five EU Member States (Germany, Spain, France, Italy and the Netherlands) issued a joint statement which maintained that no global stablecoin project should begin operation until the relevant legal, regulatory and oversight requirements have been addressed and met by the project. And in October, the G7 Statement on Digital Payments recognised the regulatory and public policy issues arising from global stablecoins.

**Conclusion**

The process of digitalisation cannot be reversed – on the contrary, it is picking up speed. Global stablecoins are an expression of the need for change.

However, they can pose serious risks, both to our monetary sovereignty and financial stability and to the EU’s market structure, competitiveness and technological independence. We should continue to be open to global competition in order to foster innovation. But we should first ensure that we are prepared to make the most of it, to the benefit, not the detriment, of EU citizens.

The ECB’s response to the ongoing transformation of the payment system is first and foremost a policy response. Our focus is on stimulating the development of safe and efficient EU payments that are fit for global competition.

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[6] This is the governance body that sets the rules for the transfer of value using the underlying payment systems.
In comparison, around 1.25% of euro-denominated deposits (mostly short-term deposits by non-financial corporations) are currently estimated to be remunerated at negative rates.


The European Commission reports that at least one million businesses in the EU are selling goods and services via online platforms, and 58% of Europeans use social media at least once a week. European Commission (2019), *How do online platforms shape our lives and businesses? – Brochure*, 18 September.

The Economist (2018), *American tech giants are making life tough for startups*, 2 June.


In 2019 the ECB’s Governing Council formulated the five objectives that any such initiative needs to fulfil: pan-European reach and seamless customer experience; convenience and low cost; safety and security; European brand and governance; and global acceptance.


European Commission (2020), *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on a Retail Payments Strategy for the EU*, 24 September.


**Related topics**

- Payment systems
- Crypto-assets
- Financial stability
- Financial market infrastructures
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