

Denis Beau: New payments landscape, but old challenges for central banks?

Welcome address by Mr Denis Beau, First Deputy Governor of the Bank of France, at the Central Bank Payments Conference, Paris, 18 February 2025.

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Let me start with stating the obvious: globally, the payments ecosystem has experienced significant transformations in the last couple of decades. New technologies have transformed products and services offered on the retail payment market; the ecosystem has expanded with new entrants notably BigTechs and Fintechs, which have now become key links in the payments value chain; and we have seen the emergence of new DLT-based private settlement assets, in tandem with the emergence of the so-called "tokenisation of finance".

Speaking from the perspective of a central bank which has in its mandate to ensure the proper functioning of the payment system, these transformations have raised traditional policy challenges to help mitigate risks and harness benefits of those transformations, given their potentially two sided impacts on efficiency and safety of payments. At the Banque de France, they have been addressed with 2 convictions: first a regulatory framework is needed that is sufficiently demanding but innovation friendly, to ensure confidence in our payment system; second, central bank money must remain at the heart of settlement between intermediaries, which is most sensitive from a systemic risk perspective. But those transformations have also brought to payments a new strategic dimension, owing notably to their wide-ranging implications on market concentration, data protection and sovereignty. And the first weeks of the new US Presidency are blowing in favor of deregulation, new and private crypto-based settlement assets, against multilateralism and multilateral institutions, which may be adding new challenges going forward.

Should this evolving payment landscape and policy environment lead us to alter in important ways the policies and tools we, central banks, have been using so far or considering using, like issuing Central Bank Digital Currencies (CBDCs)?

It is likely that all central banks may not have the same answer to that question, but what I would like to do now is simply share with you my own view on that topic. In a nutshell my conviction is that the Banque de France policy stance and toolkit may require more of an adjustment than a thorough overhaul going forward. I would like to take 3 key features of our payment systems policy so far to illustrate my view: our central bank money services, the role we give to cooperation with other stakeholders, and our involvement in the innovation ecosystem.

1 Central bank money services

In the wholesale space, the security and efficiency of financial transactions between financial intermediaries importantly hinge 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, the Banque de France and many other central banks have committed to promoting the use of central bank money in the wholesale payments space. This commitment is reflected in Principle 9 of the CPMI-IOSCO's Principles for financial market infrastructures (PFMIs). And we have been successful in the implementation of this policy, as central bank money is actually the very dominant settlement asset in the wholesale space, across many currency zones, starting with the euro area.

However, as tokenisation of assets gains momentum, private settlement assets, particularly so-called "stablecoins", are likely to become the settlement assets for those transactions, 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 have considered that we need to adapt the provision for the euro area of central bank money to the demands of an increasingly digital financial system, to prevent regression in the safety and efficiency of wholesale transactions. The urgency of such adaptation has certainly increased given the evolution of the geopolitical context I referred to earlier in my remarks.

Since 2020, the Banque de France has been 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.

Building on these experiments and promising outcome, the Eurosystem conducted a series of new experiments on the settlement of wholesale transactions in central bank money in 2024 with the active involvement of the Banque de France, Banca d'Italia and Bundesbank as solution providers. Actual settlement has been tested for the lifecycle management of securities and secondary market transactions. The Eurosystem will soon draw lessons from this work and I trust will roll out operational solutions rapidly, including on how to facilitate the provision of central bank money for wholesale transactions on DLT platforms.

At the international level, the BDF remains actively involved in several initiatives on wholesale CBDCs for cross-border payments. Three key initiatives working as bricks and coordinated by the BIS Innovation Hubs epitomize those investigations. First, Project Rialto, which focuses on improving cross-border settlement efficiency. Then, Project Mandala, which addresses regulatory frictions in cross-border payments. Finally, Project Agorá, which examines how a programmable platform and the tokenisation of cross-border payments can enhance the existing correspondent banking model, thus prefiguring the concept of shared ledger.

On the retail side, in the uncomfortable context of a lasting dependence on US payment solutions and networks, we have been since its inception supporting and involved in the digital euro project. We see it as an important one because it can provide a public alternative that preserves freedom of choice, sovereignty and competition in our euro area retail payment system. This new form of central bank money would be comparable to a "digital banknote", preserving the characteristics of cash in the digital space – notably its privacy, resilience and inclusiveness. As you know, the Eurosystem is

currently conducting a preparation phase - aimed at finalising the design, selecting potential suppliers and conducting experiments. At the same time, a **democratic debate** is underway in the Parliament and the Council. The decision to issue a digital euro has not yet been made and will only be taken once the legislative process comes to a conclusion.

2 Cooperative approaches

The second key feature of our payments policy is the reliance on cooperation across authorities and with private sector stakeholders. An important driver for this is related to the fact that payments are increasingly challenged by the fragmentation of the payment value chain and the rise of sophisticated fraud patterns. This context calls for regulators and supervisors to share knowledge and best practices to foster **payments security**. To that end, I believe that central banks have a key role to play in facilitating cooperation across authorities in charge of data protection, cybersecurity, regulation of telecommunication and digital platforms, together with the private sector.

We have promoted and experienced successfully such cooperation in France for more than 20 years now, through the Observatory for the security of payment means. We therefore intend to maintain and extend it going forward at national level. We have just extended the participation to the OSPM to telcos and we plan to develop work with social media going forward. I believe that a dedicated forum on payment security at EU level could be usefully created on similar grounds.

Another important driver is that digitalization and the increasing role of BigTechs in payments raise novel challenges in terms of **level-playing field**. This should encourage central banks to explore new avenues of cooperation with competition authorities. This is a path we have started to take, to prevent and address non-compliance practices in payments markets, for example in the card market with access issues to NFC antenna on iPhones, or in the choice and selection of payment brands under the Interchange Fee Regulation.

The last driver I would like to mention is the increased dependence on non-European players in the euro-area payments market. In the uncertain geopolitical context we live in, **payment sovereignty** has become a key issue for public authorities, including central banks, for both retail and wholesale payments. This is why we and the other central banks of the Eurosystem have made the development of a pan-European payment solution an important goal of our retail payment strategy and that we support the roll-out of the European Payment Initiative (EPI) and its digital wallet, wero. The development of a digital euro as a platform for innovation could also contribute to this objective, allowing private payment solutions like wero to re-use its open standards to extend their reach and scale up. Furthermore, the provision of central bank money settlement for wholesale asset transactions on DLT platforms by the Eurosystem in the future months, and the development of a European Shared Ledger in the future years could directly contribute to this objective.

3 Involvement in the innovation ecosystem

A third and last key feature of our current payments policy I would like to mention is our active involvement in, and use of, technological innovations. I have already mentioned

illustrations of that feature through the wide ranging CBDC experiments, based on DLTs we have been performing over the last years. But there are other fields we are involved in like AI, cybersecurity, post-quantum cryptography.

Those experiments are run first to allow us to better understand those new technologies, building on dedicated resources and innovative tools we have put in place in-house, like our Lab, the Banque de France innovation center, and the Fintech Innovation center at the ACPR, or tools provided by others like the BIS, with its innovation hub, to which we actively contribute.

The knowledge base developed through this active participation to the innovation ecosystem can then be usefully leveraged for the conduct of our traditional activities to ensure a safe and efficient payment system, as an overseer, catalyst or service provider. Indeed, it allows us to acquire a good command of technologies which may be driving important change in the payment landscape going forward.

This operational model has served us well so far and we intend to keep it as a core feature of our payments policy.

To conclude, let me share with you three convictions regarding the conditions under which the transformations underway of the payments landscape can bring sustainable benefits (from an efficiency and safety perspective), and how we can best contribute as central banks.

First, we need a regulatory framework that does not stifle innovation but that is sufficiently demanding to ensure that stakeholders are reasonably protected, stability of our payment system is guaranteed and prevention of new system wide financial crisis is ensured.

Second, within the remit of our mandate vis-a-vis payment systems, we need to persevere with the policy goals we have been pursuing so far, where new issues such as sovereignty have gained a critical importance, while adapting the tools we use to evolving and more challenging geopolitical circumstances. An important area for this will be the adaptation of central bank money services to the digital age of payments we are now facing, including in the form of CBDC. This is all the more warranted for us at the Banque de France that it could provide a stepping stone towards the provision of a new, decentralised and European infrastructure in the form of a European Shared Ledger that we have started considering with attention.

Third, like in the past, collaboration will remain essential: between central banks, with authorities in other sectors and with market participants.