

Crédit Agricole reacts today to the European Commission's proposal on the legal framework for the digital euro.

General impression

The D€ will put pressure on bank funding and have a significant impact on lending capacity and the cost of credit for households and businesses. As the legislative process gets underway, the debate should focus on the need for a D€ and its long-term implications.

The D€ would entail major investments for the ECB and, consequently, public debt. We believe that these costs should be assessed before a decision is taken to launch D€. At the same time, all intermediaries (PSPs, merchants, etc.) will incur significant costs to support the build and the run of new infrastructures. These costs will be added to ongoing and unavoidable expenditure. This will be to the detriment of issues that are considered priorities, such as the technological innovation needed to catch up with other players (GAFAM).

The Crédit Agricole Group takes note of the European Commission's intention to:

- authorise the holding of one or more "wallets" per citizen in several establishments
- not allow the digital euro to bear interest (Article 16.8). The ban on interest must be universal and firmly anchored for the future.

The D€ must be economically attractive for all stakeholders. The Eurosystem could create a competitive cost advantage over other payment methods by replacing European payment solutions and facilitating the market entry of non-European platforms through the provision of infrastructure. Such an approach would jeopardise the objective of European sovereignty in payments.

Mandate, competence and responsibility of the ECB

The legislative proposal for the D€ goes very far in granting power to the ECB. It is questionable whether the ECB's current mandate is sufficient to implement a solution that goes far beyond a digital form of cash. The decision will have to be discussed and decided by the co-legislators (European Parliament and Council).

Costs

On the expenditure side, there will be significant costs for both banks and retailers:

- Implementation costs related to the operational requirements of the new payment system
- Investment in new service equipment (loading and unloading)
- Compliance
- Financial impact on funding
- Business model (with deposit outflows).

In addition, the holding of multiple wallets per citizen, shared wallets and the setting of limits by holders will inevitably increase complexity and costs. Finally, the replacement of deposits lost by banks as a result of migration to the digital euro will involve a replacement cost. This is particularly significant in France, where a very large proportion of the deposits that would migrate are non-interest-bearing deposits held by individuals. For the same base of deposits at risk, the financial impact will differ from one national market to another.

Limited revenues

Banks will have little possibility to make a reasonable profit. With services either free (for consumers) or subject to regulated levels (for merchants), the ECB will frame the pricing of services. The pricing methodology does not ensure cost recovery at the market level, without even taking into account the impact of mandatory distribution by banks and the related implementation costs. New entrants will not be required to build and maintain the infrastructure necessary for funding and funding with euro banknotes and coins. The possible introduction of the digital euro will have no impact on the cost structure of the cash industry, which will remain fixed (independent or quasi-independent), with no savings in this area.

Holding

The European Commission has stressed that setting a holding limit D€ is crucial for financial stability and to prevent disintermediation of banks - however, the legislative proposal empowers the ECB to freely set and regularly change the holding limits. Crédit Agricole calls on the co-legislators to limit this freedom by setting a ceiling. This cap should be consistent with the banks' role in financing the economy, with the use of this digital euro as a payment method rather than a store of value, and, lastly, with the average amount of retail payments.

In order to set and adjust the holding limits, a solid impact analysis should be carried out, with the participation of the financial sector, to assess the outflow of deposits.

Pricing

The ECB would also be free to set prices and fees, which would disadvantage future and existing private payment solutions that should otherwise be preserved. Banks would be obliged to participate in the D€ system without clear financial compensation. In order to promote innovation and offer real value-added services to customers, PSPs must be able to charge for services according to the costs incurred. For Crédit Agricole, the criteria for identifying comparable means of payment should be clearly defined and used as a reference for the future MNBC' fees.

The methodology does not allow for cost recovery at the market level, which goes against the principle that fees should be based on costs. Fees related to other digital payment instruments cannot be considered as a maximum for fees related to the digital euro, as costs may be very different.

Legal status

According to the legislative proposal, the status of legal tender will be applied to D€, leading to its compulsory acceptance with minor exceptions. Crédit Agricole believes that it is necessary to allow Member States to propose exemptions within their own jurisdictions in order to meet needs specific to the realities of the Member State.

Distribution

The legislative proposal must avoid any distortion of competition between the intermediary PSPs that will have to offer MNBC services. PSPs with credit institution status as defined by the Payment Services Directive (PSD2) must not be the only ones subject to an obligation to distribute digital euro services, so as not to exempt certain large players who would also be legitimate to distribute the MNBC service (Big Tech).

Article 14, which obliges Credit Institutions to provide their customers, at their request, with all basic payment services linked to the euro (free of charge), is excessive and should be deleted. Since, under paragraph 3, the Public Institution make it possible to open a D€ account free of charge, there is no need to oblige banks to provide this service either.

Fraud

The Crédit Agricole Group considers that the liability rules in the event of fraud during the funding and defunding process should be clearly defined. In particular in the case of payment initiation by a third party: the liability for fraud should lie with the PSP that initiated the funding or defunding transaction and not with the PSP holding the D€ account.

The ECB should take responsibility for technical issues. Similarly, fraud management should not be entrusted to the banks free of charge.

In a centralised system, a disruption is equivalent to a complete breakdown, while an organization based on more decentralised players in the payments landscape promises to be more resilient. Is it reasonable to rely on a single player, the ECB, when the presence of multiple players in the payments landscape ensures greater resilience, particularly in the event of cyber-attacks?

EUDIW

At this stage, Crédit Agricole believes that it is premature to link this issue to euro digital until the DIW's functionalities have been stabilised.

Liability

If an incorrect transaction or similar were to occur as a result of incorrect programming of the ECB application, this should be the responsibility of the ECB.

Basic services in the digital euro

Clarification is needed regarding the consultation of balances and transactions. Users should be able to view transaction history over a limited period. PSPs could, for example, keep transaction histories for a maximum of ten years, with a fee-based consultation service of between 5 and 10 years.

Funding and defunding to/from cash is a high-cost service that should be provided free of charge to consumers. It should be removed from the list of basic digital services in euros or the number of cash-funded transactions should be limited.

In addition, the number of basic services should be reduced. It does not seem appropriate to us to maintain waterfall and reverse waterfall as a free service.