

Position Paper

The digital euro from the German insurance industry's perspective

German insurers welcome the European Central Bank's (ECB) decision to work resolutely towards **introducing a digital euro**. As an important group of institutional investors, the insurance sector has a vested interest in a stable and efficient financial system as well as in corresponding payment systems. With more than 450 million insurance policies the sector's payment transactions could be impacted as well.

Digitalisation has already brought significant changes to our payment systems. New digital payment solutions are now commonplace, while the importance of cash is waning. Meanwhile, private payment infrastructures are also being developed (for example Stablecoin Diem planned by Facebook) and other central banks are moving forward with their own plans to launch central bank digital currencies (CBDC).

Just like cash, a CBDC represents a direct claim on a central bank, while other types of digital currencies are provided by private organisations. These so-called cryptocurrencies come in two varieties: pegged (Stablecoins that are usually backed by a currency) and unpegged (e.g. Bitcoin). The latter are not suitable for payment transactions, however, because of the associated default risks and high volatility.

A digital euro would make a material contribution to securing the eurozone's **monetary sovereignty**, the **euro's international role** and the eurozone's **competitiveness**. It would offset the risk of the eurozone becoming dependent on private payment solutions or CBDC issued by foreign central banks, which could have serious implications for both the financial and the currency system. Securing the eurozone's monetary sovereignty and integrity through the digital euro is also necessary for upholding an effective ECB monetary policy focusing primarily on price stability.

The success of the digital euro depends on its design. This raises many questions as the digital euro can affect the economy and the financial system in a multitude of ways. German insurers therefore welcome the ECB's announcement that it will maintain dialogue with all stakeholders regarding the digital euro's design. From an insurance perspective, the **following aspects are particularly important** with respect to the requirements and design of the digital euro:

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- **Function and role of the digital euro**

The insurance sector shares the ECB's position that a digital euro should be designed exclusively for payment purposes. The digital euro could be used as an additional, contemporary form of central bank currency and a **modern additional means of payment** besides cash (retail CBDC). At the same time, the digital euro should also be eligible as a wholesale CBDC.

Just like conventional central bank money, the digital euro should serve as a **basis for and an addition to private payment services** instead of replacing them. It will need to fit seamlessly with end-to-end digital process and value chains. This would broaden the range of applications of digital payment solutions and accelerate innovations by private providers.

- **Financial stability – limiting access to the digital euro**

Avoiding threats to financial stability must be key in designing the digital euro; an extensive conversion of bank deposits into the risk-free digital euro for example (keywords: disintermediation and digital bank run) would destabilise the banking sector. As a general rule, analysing the effects on the financial system and especially on banks should be among the top priorities.

Restricting the currency's function to a means of payment and limiting access to the digital euro seem reasonable in the initial implementation phase, in order to **gradually gain experience with such a currency** and keep stability risks low. The proposals to limit access to EUR 3,000 per person form a good basis for discussion.

- **Reliable legal framework**

Financial market stability and a stable currency system are of the utmost importance for the insurance industry with its 448 million insurance contracts and in its capacity as a significant group of institutional investors. Central bank money is fundamental to the economy, not least in terms of maintaining public and business confidence in the currency and financial system. That's why it is essential to create a **reliable legal framework for the digital euro ensuring its security, stability and integrity**.

- **Security of the digital euro**

The digital euro should have the **same security and payment function as euro cash**. That requires a resilient infrastructure with the highest IT security and data protection standards to effectively address the risk of cyber-attacks and cyber theft. As shown by the outcome of the ECB consultation in autumn 2020, a high standard

of data protection will be another important condition to ensure the appeal of the digital euro.

- **Implementation requirements**

The digital euro's success will depend on companies being able to use it **in payment transactions with customers and consumers, i.e. accept and use it as payment and return it**. This means that **conversion of digital euros into euros** must be guaranteed **at all times**.

Acceptance and use, particularly in business, will also depend to a large degree on the digital euro being **part of the overall payment services system**. In this context, the programmability of payments should be an important aspect to consider going forward.

- **Sustainability**

Sustainability considerations have to play an important role in the design of the digital euro to help put Europe's economies on a more sustainable footing. Any **implementation solutions should therefore strive for high energy efficiency**, for example. Seeing as the new German Climate Change Act targets climate neutrality by 2045 already, the digital euro should support the efforts by avoiding energy-intensive technologies and standing on a climate-neutral basis from the get-go.

German insurers believe that in a time of fundamental transformation and growing geopolitical competition the eurozone needs a central bank digital currency. At the end of the testing phase, the digital euro should offer a rapid, secure and cost-effective payment system that offers convincing advantages over current systems.

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