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White paper

The Future of Currency: Exploring the Digital Euro

Introduction

As societies around the globe continue to evolve in the digital age, the introduction of a digital euro has become a pressing matter that stands at the intersection of monetary policy, technology and societal needs. The digital euro represents a significant shift in the way we conceptualize and interact with money, offering the potential for increased efficiency, security and accessibility in financial transactions. With the rise of digital payment systems and cryptocurrencies, the European Central Bank must carefully consider the implications and opportunities associated with the issuance of a digital euro.

This paper aims to explore the social and regional necessity of a digital euro, considering its potential to foster financial inclusion, enhance cross-border transactions and support economic growth within the European Union. By examining the various monetary use cases for a digital euro, we can better understand its implications for European citizens and businesses, as well as its potential to shape the future of the digital economy.

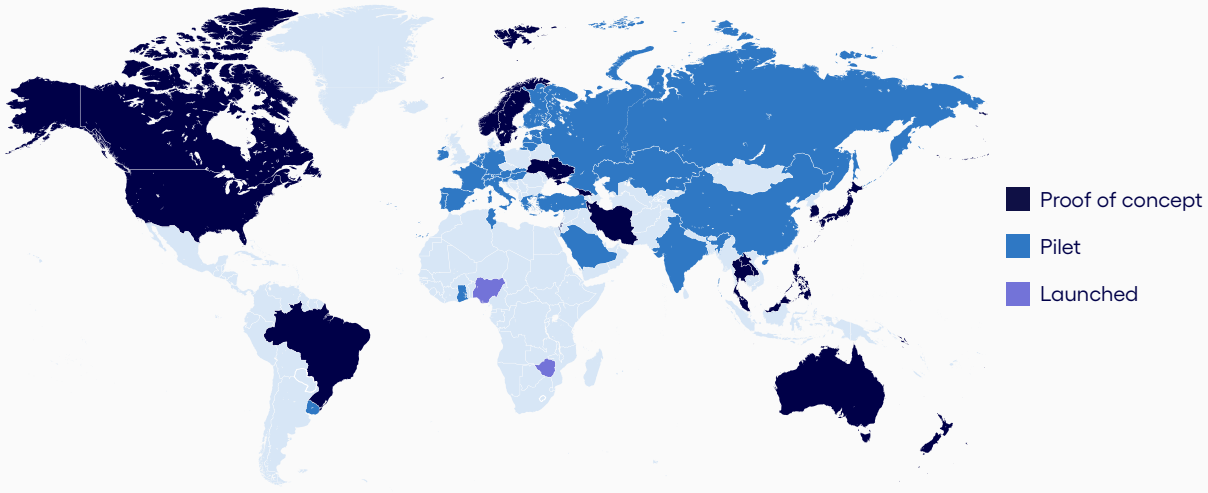
Background information on the concept of digital currency

To understand the social and regional necessity of a digital euro, it is crucial to delve into the background on the concept of digital currency. Digital currencies, such as bitcoin and Ethereum, have gained increasing popularity in recent years due to advancements in technology and changing consumer preferences. These virtual currencies operate independently of central banks and traditional financial institutions, utilizing distributed ledger technology to facilitate secure and transparent transactions. The decentralization of digital currencies has raised questions about their regulation, stability and potential impact on the global financial system.

As the world increasingly moves towards a cashless society, the introduction of a digital euro could offer European citizens an efficient and secure means of conducting monetary transactions both domestically and internationally. By leveraging the advantages of digital currency while addressing potential challenges, the digital euro has the potential to transform the European economic landscape. In summary, the digital euro presents an opportunity for the European Union to adapt to the digital age, enhance financial services for its citizens and remain competitive in the global economy.

Today's Central Bank digital currencies status

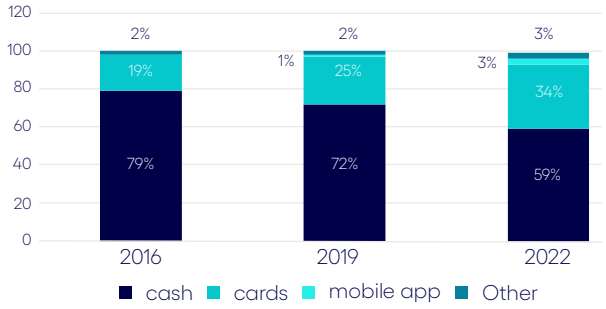
Database update: June 2024. New update: Jan 05 24



Overview of the status of the euro and the need for digital transformation

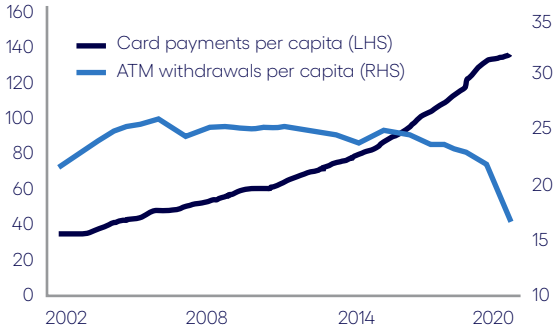
As the euro faces various challenges such as slower economic growth and increasing global competition, there is a pressing need for digital transformation to enhance its efficiency and relevance in the digital age. The status of the euro primarily as a physical currency limits its accessibility and convenience in an increasingly digital world. Therefore, the introduction of a digital euro can address these limitations by providing a more secure, cost-effective, and convenient payment method that aligns with the evolving needs of consumers and businesses. In addition, the integration of a digital euro within existing payment systems and infrastructure could stimulate innovations in financial services and contribute to overall economic growth and competitiveness in the eurozone.

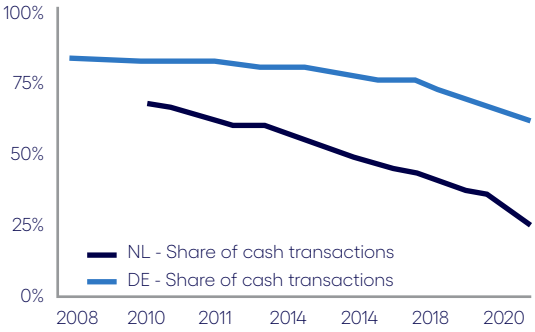
Central banks around the world have stepped up their efforts to explore and develop their own digital currencies (CBDCs) an electronic equivalent to cash. New technologies in retail payments (e.g. mobile payments, digital wallets and the potential future deployment of crypto-asset payments) and changes in people's payment habits have fueled the interest of central banks in CBDCs. In the euro area, for example, the share of transactions for which cash was used as a means of payment declined from 79% to 59% between 2016 and 2022.



Source: ECB: cash or cashless trends

To operate efficiently, a digital economy requires digital money. Since more and more business is conducted online, cash is losing its appeal as efficient means of payment. Consistent with the above graph on the left shows that





the number of card payments in the euro area has increased more than four-fold over the past two decades. Over the same time, cash withdrawals at ATMs have fallen by around 20%, with evidence of an accelerating decline over recent years. While the data on the right represents payment diaries in Germany and the Netherlands and shows that the use of cash as means of payment has declined strongly over the past decade. It also reveals some significant cross-country variation, as the prevalence of cash payments differs substantially across those two economies.

Despite its growing dominance over cash, today's digital money faces challenges. The current system of interbank payment rails has not fully caught up with technological change. Moreover, from the perspective of consumers, settlement remains slow: bank transfers, even within jurisdictions, continue to take 1-2 business days. More generally, retail payment systems are highly fragmented, and the development and adoption of instant payment systems continue to proceed at a muted pace. Moreover, they ultimately also rely on the same legacy settlement systems.

Social implications of introducing the digital euro

As the digital euro gains traction in discussions surrounding the future of currency, it is imperative to consider its potential social implications. The introduction of a digital euro could democratize access to financial services, particularly for underserved populations who may not have easy access to traditional banking systems. The European Savings and Retail Banking Group (ESBG) conducted an analysis of the Global Findex Database 2021 where more than 13 million adults, or 4% of the adult population, face financial exclusion. According to the Global Findex 2021 data, the highest number of unbanked adults are found in Romania with 30,88% followed by Bulgaria 16,03%. This could lead to greater financial inclusion and empowerment for marginalized communities. Moreover, the digitization of the euro could streamline transactions, making it easier and faster for individuals to make payments and transfer money. However, there are also concerns about data privacy and security that need to be addressed to ensure that sensitive financial information is protected. Additionally, the shift towards a digital euro may pose challenges for older generations or individuals who are not as tech-savvy, highlighting the need for robust educational programs to support digital literacy. Cross-collaboration research efforts among academic-healthcare-industrial discourses are required to design and innovate digital inclusion initiatives for older generations.

Most Europeans now juggle different cards, apps and devices depending on each payment situation, finding that the convenience of digital payments doesn't always live up to the promise. In the euro area, people are stuck in a fragmented system, where digital payment solutions don't cover all their needs. While one might easily use a card to pay contactless for a taxi ride in cities like Madrid or Paris, rural areas in Germany or Croatia often only accept cash or local debit cards. Similarly, some mobile apps work well for sending money to family or friends but aren't accepted for online purchases or by local businesses. In a nutshell, people still don't have a digital payment solution that works effectively everywhere in the euro area in all payment situations. A digital euro would allow the people to reclaim the freedom to pay digitally, seamlessly, anytime and anywhere – including when shopping online.

In summary, the introduction of a digital euro has the potential to revolutionize monetary transactions, but careful consideration must be given to its social impact to ensure a fair and inclusive financial system for all.

Accessibility and financial inclusion for all socioeconomic groups

As the digital euro becomes a potential reality, it is imperative to consider the implications it may have on accessibility and financial inclusion for all socioeconomic groups. The shift towards digital currency has the potential to bridge existing gaps in financial services, offering a secure and efficient means of conducting transactions for individuals who may have limited access to traditional banking services. By providing a digital alternative to physical cash, the digital euro can empower underserved populations to participate more fully in the mainstream economy, enabling smoother financial transactions and promoting economic empowerment. However, it is crucial that measures are put in place to ensure that the adoption of the digital euro does not inadvertently exclude vulnerable groups or exacerbate existing inequalities. Through targeted policies and initiatives, such as education programs and tailored support services, the digital euro can truly serve as a tool for promoting financial inclusion and economic well-being for all.

The digital euro would make the lives easier by giving people the choice to pay with a secure means of payment universally accepted throughout the euro area. Like cash, paying with digital euro would be free of charge for everyone in the euro area. It would make the euro area more robust. Help in supporting Europe's strategic autonomy and monetary sovereignty, making payments landscape more competitive and resilient to non-European payment providers.

Impact on reducing financial crimes and enhancing transparency

In the context of the digital euro, the potential impact on reducing financial crimes and enhancing transparency is significant. By digitizing transactions, the digital euro can provide a traceable and immutable record of financial activities, making it more difficult for criminals to engage in money laundering, tax evasion or other illicit activities. This increased transparency can also make it easier for regulatory authorities to monitor and enforce compliance with financial regulations. By promoting digital transactions, the digital euro could help mitigate the risks associated with cash-based illicit activities. Overall, the implementation of digital euro has the potential to enhance financial stability and integrity in the European Union. Moreover, supporting digital euro has the added benefits:

Regional benefits of implementing the digital euro

From a regional perspective, implementing a digital euro could bring many benefits.

- The digitization of the currency would lead to increased efficiency gains in the structure and flow of commercial & retail order placement and order processing. This would promote greater economic integration and growth within the region.
- A digital euro could pave the way for innovative financial products and services, stimulating technological development and attracting investment in the digital economy.
- It could enhance financial inclusion by providing access to banking services for underserved populations. The digital euro could also serve as a powerful tool for central banks to implement monetary policy, ensuring price stability and financial sovereignty within the eurozone.

In summary, the implementation of a digital euro presents many potential advantages for the eurozone region. Some monetary use cases could include facilitating more efficient transactions within the euro zone, fostering economic integration, promoting technological innovation, improving financial inclusion and enhancing monetary policy tools for central banks.

Strengthening economic integration within the eurozone

The process of strengthening economic integration within the eurozone is a multifaceted endeavor that requires a nuanced understanding of the interplay between economic dynamics and sustainable development goals. Similarly, the impact of Euro-Atlantic integration on digital modernization underscores the imperative for enterprises to adapt and modernize in response to regulatory and technological advancements. By delving into the challenges and opportunities presented by eurozone integration, policymakers can leverage digital technologies, such as the digital euro, to streamline cross-border transactions and enhance financial inclusion. The digital euro, with its potential for efficient payment systems and increased transparency, emerges as a promising tool for fostering economic cohesion within the eurozone and addressing regional disparities.

Possible monetary use cases for the digital euro

In addition to serving as a medium of exchange for everyday transactions, the digital euro could potentially introduce innovative monetary use cases that leverage its digital nature. One such use case could be the implementation of smart contracts on the blockchain, enabling automated and secure transactions without the need for intermediaries. This could streamline processes such as supply chain management, international trade, and financial agreements, reducing costs and increasing efficiency. Another potential use case could be the incorporation

of programmable money features, allowing for the creation of customized payment structures, recurring payments, and conditional transfers based on predefined criteria. Furthermore, the digital euro could facilitate micropayments, enabling new business models and revenue streams in areas such as content monetization, IoT transactions, and value-added services. By exploring these and other innovative use cases, the digital euro has the potential to revolutionize the way money functions in the digital age.

1. Providing a secure and efficient payment method for online purchases and e-commerce.

Furthermore, the digital euro has the potential to revolutionize online purchases and e-commerce by providing a secure and efficient payment method. With the increasing prevalence of online transactions, ensuring secure and reliable payment options is paramount to building consumer trust and encouraging widespread adoption of digital currencies. By leveraging advanced encryption technologies and blockchain technology, the digital euro can offer a level of security and transparency that traditional payment methods may struggle to match. This heightened security can protect both consumers and businesses from fraud and unauthorized transactions, enhancing the overall integrity of online commerce. Moreover, the efficiency of digital euro transactions can significantly streamline the payment process, reducing transaction costs and increasing the speed of transactions. These benefits make the digital euro a promising solution for the future of online payments, reinforcing its social and regional necessity in the digital age.

2. Supporting government initiatives such as direct benefit transfers and subsidies.

The introduction of a digital euro holds immense potential for supporting government initiatives such as direct benefit transfers and subsidies. By leveraging the efficiency and transparency of blockchain technology, the digital euro can streamline the distribution of public funds, reducing bureaucratic inefficiencies and minimizing leakages. This would enable governments to reach a broader segment of the population in need of financial support while ensuring accountability and traceability of funds disbursed. Moreover, the digital euro can facilitate targeted subsidies based on specific criteria, such as income levels or employment status, making sure that resources are allocated more effectively. Additionally, the digital euro can enable innovative monetary use cases, such as programmable money for conditional transfers, automated tax refunds or frictionless cross-border payments, further enhancing the efficacy of government initiatives in fostering economic growth and social welfare.

3. Enhancing financial stability by offering an alternative to cash and traditional banking systems.

In conclusion, the implementation of a digital euro can contribute significantly to enhancing financial stability by offering an alternative to cash and traditional banking systems. With the rise of digital currencies and the increasing digitization of financial transactions, a digital euro can provide a secure, efficient, and transparent payment system that reduces dependence on cash and enhances financial inclusion. By leveraging cutting-edge technology such as blockchain, smart contracts and electronic wallets, the digital euro can streamline financial transactions, reduce costs and increase accessibility for individuals and businesses. Moreover, the digital euro can also facilitate cross-border payments, promote financial innovation and strengthen the resilience of the European financial system. Overall, the adoption of a digital euro can play a crucial role in advancing financial stability and economic growth in the digital age.

Conclusion

Considering the increasing digitization of financial transactions and the growing importance of cryptocurrencies, the introduction of a Digital Euro has become a necessity to ensure the European Union remains competitive in the global economy. The rapid development of digital payment systems has highlighted the need for a secure, efficient, and centralized digital currency that can complement traditional forms of money. Moreover, the emergence of private cryptocurrencies poses a potential threat to the stability of the financial system, making it imperative for central banks to offer a trustworthy alternative. The Digital Euro would not only enhance financial inclusion by providing access to digital financial services for all citizens but also streamline cross-border payments within the Eurozone. Its introduction would also pave the way for innovative monetary policy tools and strengthen the resilience of the European financial system. The value of a digital euro for many people could lie in it being a payment instrument that "ticks all the boxes". The digital euro would achieve this in two ways. First, its use cases span across all retail payment situations. Second, it would be available and usable throughout the euro area. No other retail payment instrument can offer the same degree of universality.

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About the authors

Rahul Goveas

Rahul Goveas is a manager consultant in the Cognizant Business Consulting Practice. He has 18 years of experience in the payment product chain across wholesale banking domainwith a specialty in the SWIFT Payment Product, KYC and Sanctions.

Maitry Bhadra

Maitry Bhadra is a senior consultant in the Cognizant Business Consulting Practice. She has 11 years of experience in the P&C insurance, commercial insurance, and corporate banking domain.

World Headquarters
300 Frank W. Burr Blvd.
Suite 36, 6th Floor
Teaneck, NJ 07666 USA
Phone: +1 201 801 0233
Fax: +1 201 801 0243
Toll Free: +1 888 937 3277

European Headquarters
280 Bishopsgate
London
EC2M 4RB
England
Tel: +44 (01) 020 7297 7600

India Operations Headquarters
5/535, Okkiam Thoraipakkam,
Old Mahabalipuram Road,
Chennai 600 096
Tel: 1-800-208-6999
Fax: +91 (01) 44 4209 6060

APAC Headquarters
1 Fusionopolis Link, Level 5
NEXUS@One-North, North Tower
Singapore 138542
Tel: +65 6812 4000

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