

BENOÎT CŒURÉ

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We will start right away with Benoît, who will talk to us about payment systems and money. Benoît, you are on.

Benoît Cœuré

Good afternoon from Basel and my sincere apologies for being unable to join you in person in Abu Dhabi but I understand that some of us are present and others are on the screen, which is also a good illustration of the way the world works today. There are many ways in which Covid-19 has changed the world and more specifically how Covid-19 has accelerated the digital transformation. Finance is one of the areas and I think that what is now going in finance has useful lessons if you want to think about the future world.

I am going to spend a few minutes on that. I think it is fair to say that the pandemic has started the third stage in a transformation of money and payments that started a few years ago. The first stage of this transformation was about the consumer experience, or what technicians would call the front end of payment systems. That is payment interfaces, mobile payments, all the new ways to pay at the point of sale, QR codes, etc. That is not new, and we all use them every day now. That was exciting, new and good for consumers, but it did not fundamentally change the way payments work. Money continued to be shipped from one point to another, domestically and internationally, through banks, and when it comes to cross-border payments, through correspondent banks and the big systems that central banks have put in place, which in our jargon we call RTGS system, Real-Time Gross Settlement. They are the big pipelines that channel money from one place to another and from one bank to another. That was a first stage.

In the second stage we saw emerging what I would call closed loop payment systems, which in many ways are outside the reach of public authorities and central banks, and are the promise of decentralization and of short cutting a number of the processes I have just highlighted. This started with cryptocurrency, of course, but then cryptocurrency turned out to be a disappointment as payment instruments because it proved to be so volatile. It might be a proposition in terms of investment and even with that it comes with lots of risks and issues that I will not discuss here, such as money laundering, tax evasion, etc. I think it is fair to say that there are lots of cryptocurrencies, but they are not used as retail payment instruments any longer by and large. Then we had this new concept, which was called stablecoin, which is a cryptocurrency backed by safe assets or even by fiat money, which started emerging. A well-

known example is Facebook's Libra project, which is now called Diem, as of a couple of years ago. This was the second stage of a revolution in the sense that the proposition was that payment systems would become closed loops and walled gardens, that would be either fully decentralized or controlled by single companies, which in most cases would be big tech companies. These are companies with a lot of market power and a lot of opportunities to create positive network effects, but also the risk of excessive market power, as well as the risk of conflict of interest in the way personal data would be used across the system, and the risk of fragmenting liquidity. That came with both promises for the consumer but also end-user risks.

What is going to happen now and what should be the mission brief for public authorities for the third stage after the pandemic? This matters for public authorities because money is an attribute of sovereignty and because money is a key instrument of economic policy. As a government, as a central bank, you want to keep the possibility to use monetary policy, to use liquidity provision in the event of a crisis to stabilize the system. You also need a number of regulations and conditions to ensure that money will be trusted by citizens, which is a key expectation of society.

There are different, complementary answers to what is going on now. One first answer will be through regulation, and it is very clear that there are large parts of decentralized finance as we know it, that will need tighter regulation. Some of it may disappear as a result because the current business proposition is precisely not to be regulated. What remains can be very useful, but it has to be properly regulated, either as a payment system, a market infrastructure or an investment vehicle.

Then public authorities will also see good reasons to issue their own digital assets that they want to put at the heart of the system to deliver the key public policy functions that are currently delivered by central bank money. There is nothing new here, and we just want to keep that possibility in a digital world. Imagine a crisis like the one we had in March 2020. Central banks had to provide a lot of liquidity, stabilize markets, stabilize the whole system. You also want it to be possible in a digital world and for that you may need central bank digital currencies, which is a new form of money.

My last point, which I think matters for this conference, is about international cooperation. There are good reasons why international cooperation is needed around this discussion. One reason is that the financial system is global, and we want to keep it that way. We want workers in Europe, the US or in Abu Dhabi to keep shipping money to their families back home, also known as remittances, and this also has to be possible in the digital world; we want the system to work as a system. Second, some of the players are global players and that is particularly the case for big tech companies. Therefore, you will need international coordination on how you want to regulate them when they go into finance and start providing financial services. Last, it saves time and money to do things together, experiment and build together, which is the essence of what my group is doing in Basel. The BIS Innovation Hub is providing central banks with a platform where they can test new technology as prototypes and proofs of concept.

We should not fool ourselves: there are powerful forces acting against international cooperation in this field. First, as I said, money is an attribute of sovereignty, so in the end that



is something to be decided nationally. Second, we are talking about technology, and today's wars are technological wars. There is a risk that competition for technology creates disruption in this new world of finance or create additional fragmentation in a world that is already fragmented.

The question I would like to throw into the discussion is therefore: how do we carve out a safe space where we can continue to make the global financial system safe and stable despite technological tensions and wars? That question will become increasingly important in the future.

François Barrault

Thank you, Benoît, for your introduction, which will bring imagination and heart to this debate.