



Dear Marius Luta,

In this edition of SAFE Update, the digital newsletter of the Leibniz Institute SAFE, we discuss central bank digital currencies as well as the benefits of open banking policies for mortgage applicants.

We hope you enjoy this newsletter and welcome your feedback at newsletter@safe-frankfurt.de.

A Digital Euro for Everyone?



At the request of the European Parliament, SAFE Senior Fellow Ignazio Angeloni examined the extent to which the European Central Bank and Europe are ready for a digital euro – and the associated opportunities and risks.

The digital transformation is remaking all aspects of society, including the financial sector: Since July 2021, the ECB has been investigating the possible introduction of a European digital currency as a complement to cash. In October, the project team will present its recommendations, and the ECB Governing Council will then decide on whether to move ahead with the next preparatory phase (called “realization phase”).

Meanwhile, the European Commission recently presented a first draft law to Europe’s finance ministers, which advocates a digital euro as a complement to physical currency alongside existing national and international payment systems offered by the private sector. According to the Commission, this would mean more choice for consumers and a stronger international role for the euro.

The issue is very complex and needs to be carefully considered. On the one hand, conducting preparatory work for the introduction of a digital euro would have advantages. It would put the central bank in closer contact with the technology sector generally and fintech firms more specifically. This could help the ECB carry out its responsibilities in the area of payments, given the increasingly digital nature of the payments ecosystem. Moreover, preparing for a digital euro could represent a valuable backstop, as it would position the ECB to offer an alternative to payment systems run by the private sector, should they become less efficient or unreliable in the future.

On the other hand, it is difficult to identify a clear use case for a digital euro at present. Launching a digital euro would put the ECB in a novel position: that of offering a new payment instrument in competition with

banks and other payment service providers (PSPs). Whether there is a market niche for a prospective digital euro (PDE) remains uncertain. Indeed, the ability of a PDE to establish itself in today's highly diversified, competitive, and innovative retail payment industry is far from clear.

An additional concern is that a digital euro could interfere with the exercise of monetary policy and possibly undermine financial stability. Both of these risks, as well as other issues, are examined in detail in the report, which was prepared on behalf of the European Parliament's Committee on Economic and Monetary Affairs.

[Read the full document here](#)

Notable Research: The Benefits of Open Banking Policies



Open Banking and Customer Data Sharing: Implications for FinTech Borrowers

By [Rachel Nam](#), doctoral student in SAFE's Research Department Financial Markets.

In SAFE Working Paper No. 364, Rachel Nam investigates how open banking policies affect borrowers in consumer credit markets. Open banking policies seek to break up banks' long-standing monopoly over customer financial data by shifting data ownership from the bank to the consumer. Under open banking, consumers have more control over their own financial data and greater discretion concerning whom to share data with.

Technology-enabled firms such as FinTech lenders can train their algorithms using granular financial data to improve credit quality inference and acceptance rates, yet they may also engage in price discrimination. Until now, the empirical literature has not yet identified the types of customers who actually decide to share their data and whether they benefit from their decision in the loan application process.

The author responds to this gap in the existing scholarship by exploring a rich set of granular loan application data from Germany. Her findings show that riskier borrowers (who have a lower credit score) share their data more readily; the gap to safer borrowers is 3.8 percentage points. While borrowers across all credit risk groups benefit from sharing their financial data during loan applications, riskier borrowers boost their chance of receiving a loan to a greater extent than safer ones, while the latter experience a larger reduction in interest rates.

Based on the finding that customer-directed data sharing has allowed previously disadvantaged borrower groups underserved by mainstream banks to enter the consumer credit market, the author concludes that open banking policies have the potential to promote financial inclusion.

For her paper, Rachel Nam received the prestigious Ph.D. Student Paper Award from the *Journal of Financial Intermediation* (JFI) and the Financial Intermediation Research Society (FIRS) at the 17th Annual FIRS Conference in June 2023.

[Read the full paper here](#)

#SAFEHappenings



Krahnens Departure, Heider Welcomed

On May 25, SAFE's Founding Director Jan Pieter Krahnens was honored for his groundbreaking work in a ceremony attended by nearly 200 guests at the Westend Campus of Goethe University Frankfurt. The ceremony not only marked the departure of Jan Krahnens as SAFE's first Scientific Director, but also welcomed Florian Heider as Krahnens's successor. [Read the full report here.](#)

Empowering Women

On June 27, SAFE hosted a networking session at the 2023 Annual Conference of the Western Finance Association. The session, which aimed to bring together women in finance, was open to all female conference attendees and was co-organized by the Academic Female Finance Committee (AFFECT) of the American Finance Association (AFA). Loriana Pelizzon, Director of SAFE's Financial Markets Research Department, represented the institute at the meeting. [Read more about the event here.](#)

Upcoming Events

SAFE will be hosting the 7th SAFE Market Microstructure Conference on 25 September 2023 and the 10th SAFE Asset Pricing Workshop on 26 September 2023, which is co-organized by Deutsche Bundesbank and the DFG Research Unit FOR 5230 "Financial Markets and Frictions."

Both events will be held at the House of Finance on the Westend Campus of Goethe University Frankfurt. Additional information is available online about the [conference](#) and the [workshop](#).

Handpicked Podcast Episode

Andreas Hackethal, Professor of Finance at Goethe University Frankfurt and Coordinator of the Pension Finance Lab at SAFE, recommends an episode from *The Tim Ferriss Show* featuring Morgan Housel, the author of *The Psychology of Money: Timeless Lessons on Wealth, Greed, and Happiness*:



“This podcast episode offers new insights into the relationship between finance and human behavior. Together with Morgan Housel, Ferriss delves into the complex connection between psychology and money. A renowned financial writer and thinker, Morgan Housel takes us on a special journey, illuminating the hidden forces that govern our financial choices. During the discussion, he illustrates principles of behavioral psychology with real-life anecdotes, providing fresh perspectives on wealth, investing, and personal finance. Housel dissects our inherent biases and the cognitive fallacies that often lead us astray in the pursuit of financial success. He unravels the impact of emotions, societal influences, and our desire for instant gratification. This thought-provoking conversation provides

novel perspectives on risk, patience, and the importance of delayed gratification. Housel's eloquence and knack for explaining complex concepts will leave you inspired and armed with practical knowledge to better navigate the complexities of money management. Grab your headphones, find a quiet corner, and enjoy this enlightening conversation!"

[Listen to the podcast episode here](#)

Further Content

- **News:** [Direct interaction with bank employees speeds up loan repayments](#)
- **Video:** [SAFE-CEPR Policy Web Seminar: European Lessons from Silicon Valley Bank Resolution](#)
- **SAFE Finance Blog:** [What the financial industry can do to help combat climate change \(by Jan Pieter Krahn\)](#)
- All [upcoming events](#) and [SAFE publications](#)

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