



EUROPEAN CENTRAL BANK

EUROSYSTEM

# Summary of collected inputs from ERPB members

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## High Level Product Description

4 July 2023

Digital euro project team



# Funding/Defunding – Summary of feedback received

- The **consumer rights organisations** support the **various funding possibilities**. They stress that funding and defunding of **cash** should be **widely available** and **free of charge**.
- **Banking associations** argue **cash (de)funding** should **not** be **mandatory** as not all intermediaries handle cash, and should be **remunerated** in any case as this functionality would require **significant investment**. In addition, there are concerns **cross-PSP funding** may lead to a **complex structure**.
- The **non-bank PSPs** support the **possibility** for **cross-PSP funding**, but would propose **alternatives** to the **holding limit** in hopes of increasing access and competition.
- The **retailer associations** ask which institutions may offer **reverse waterfall functionality** (credit institutions only or also payment institutions). They also point to the fact that while this allows users to **exceed the holding limit** in a given **transaction**, there may be **existing transaction limits imposed** by the **credit institution**.

# Features – Summary of feedback received

- The **consumer rights organisations** support **instant settlement**, ambitious **fraud management**, and various **form factors (including cards)**. They also welcome the **development** of a **standalone digital euro application** for financial inclusion. The organisations would like to see more **ambitious dispute resolution**.
- **Banking associations** **question** the **value** of a **separate application** arguing it could **substantially increase costs** to support this one aside from their own offer. Some question whether **resilience** would significantly **increase** by a digital euro.
- The **non-bank PSPs** support the digital euro application, especially its **compatibility** with the **European Accessibility Act**. They argue that the **role and responsibilities** of the **Eurosystem** as **technical provider** are **not yet fully clear**, and would be needed to **assess** how this could **complement** the **offerings of intermediaries**.
- The **retailer associations** are interested to know how the digital euro could contribute to **budget management** and **spending awareness**. In addition, they seek **further information on PSPs** would be impacted when consumers use the **digital euro application**. The possibility of **alias-/proxy payments** is considered a **priority** for e-commerce.

# Compensation model – Summary of feedback received

- The **consumer rights organisations** believe the compensation model should aim to **compensate the distributors** for incurred **costs**, rather than generating sizable **economic returns**. These should be **tied** to legal obligations concerning provision of **infrastructure** and **services**, such as ATMs. There should also be **caps** on **interchange fees**, if there are no other fees leveraged on end users. **Distribution** should also be possible by **public** or **non-profit entities**.
- The **banking associations** argue that **additional compensation** should be awarded to **cover investments** and **fixed costs**, in addition to the transaction-based model. **Other costs** may include **lost revenues**, such as account management fees and interest income. Any **study of investment costs** needs **adequate granularity** to capture the impact on **different business models**.
- The **non-bank PSPs** support the proposed **4-party model** as well as the **supporting principles**. They do request some further **clarification** on the exact set of services included in the **free provision of services**, as this would impact the possibilities for remuneration. **Proportionality** for **PSPs** would be welcomed, especially for smaller institutions. While acknowledging the goals of the project, they **question possible competition with existing business models** or **products**, and would look favourably upon **further compensation of investment costs**.
- The **retailer associations** consider the **4-party model** as **fitting** for the **distribution model** of a digital euro. However, they **question** whether an **interchange fee** would be **appropriate**.

# Free provision of services – Summary of feedback received

- **Consumer rights organisations** consider **all services needed** to render an **account fully functional** to be **basic**, and **free of charge**. The **list** of basic services should **regularly** be **reviewed** for those that will **eventually** be considered **basic**.
- **Banking associations** question whether some of **basic services** such as **account opening** or **funding/defunding** should be **free**. **Core services** should **not** necessarily be **free**. **Recurring payments** are **suggested not** to be a **basic service**.
- The **non-bank PSPs** support the free provision of basic services for **end-users** since it would encourage inclusion. It is noted that there should be some **attention for smaller PSPs** with **limited resources**. Further questions are asked on the **respective roles of intermediaries** and the **Eurosystem** for provision for all use cases. More **clarity** is required to assess the **possibilities of optional services**.
- The **retailer associations** believe the free provision of basic services could lead to a **virtuous cycle** driving **adoption** and **innovation** for **value-added** and **optional services**. As the **cost for intermediaries** should be **lower** due to **the Eurosystem bearing its own costs**, it should spark **cost efficiencies**.

# Offline usability – Summary of feedback received

- **Consumer rights organisations** support a **bearer instrument** for offline use, as well as providing it with a **higher level of privacy**.
- **Banking associations** note **some solutions already exist** where **network connectivity** is **limited** for payer and/or payee. **Questions** remain on the **technical implementation** of such a solution, as well as whether the **necessary technology exists** to deliver the product on the **proposed timeline** according to the **scale** and **requirements**. It is suggested to **delay this functionality** for **after an initial release**.
- The **non-bank PSPs** believe this could be an **important feature** to ensure **financial inclusion** and the **link to cash**, as well as **innovation**. Nevertheless, the **underlying technology** should be **industry-proof**, and the **design choices** and their **impact** need adequate **analysis**. Implementation of **offline digital euro** at the **same time as online** may be **difficult**.
- The **retailer associations** see some **merit** in this functionality and **suggest** it could perhaps be used as a **solution not requiring KYC**.

# Privacy – Summary of feedback received

- The **consumer rights organisations** agree to **prioritise privacy** and **minimizing use of data** for essential tasks. The digital euro should provide a **higher level of privacy** than existing tools, and **usability of basic services** should not be diminished when **not sharing data**.
- The **banking associations** acknowledge the **public importance of privacy**, and look forward to seeing further details. They caution that some data will be required to **comply with legal obligations**, which is **technically impossible** for the **offline digital euro**. This could be **operated similar to cash** if **legislation permits**. Customer **consent for data-sharing** should also be possible, for **value-added services**.
- The **non-bank PSPs** support a **high level of privacy** as a **necessary element** for widespread adoption. They request **access** to the needed data to **perform monitoring** according to the **relevant AML/CFT legislation** or **value-added services** with **customer consent**. In cases where legislation would differ compared to other payment means, they request a **level playing field**.
- The **retailer associations** also support the **emphasis on privacy**, and suggest the **possibility** of **self-custody wallets**, or a **low-risk digital euro** product **exempt** from **KYC**.

# Limiting use of investment – Summary of feedback received

- **Consumer rights organisations** support the need for **holding or deposit outflow limits**. The **holding limit** should be set at an **adequate level for independent use** without necessarily requiring a linked bank account.
- **Banking associations** agree with the need for **holding limits**, which are considered a **critical tool** to **prevent build-up of liquidity**. Ideally, **low holding limits** should be set to **prevent financial stability risks**. **Remuneration** would **add unnecessary complexity** and could add another **layer of uncertainty** to deposit outflows.
- The **non-bank PSPs** agree with the aim to **maintain the equilibrium** between **deposits** and **cash**. **Holding limits** can **guard** against the risk of **excessive withdrawals**, but should **align** to **spending requirements per use case**.
- The **retailer associations** consider a **holding limit of zero** for **businesses** as acceptable, although this should **not lead** to **additional fees** for (reverse) waterfall. These **functionalities** should be working **optimally** to **accommodate refunds**.



**Thank you**

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