
**AGE Platform feedback on the core principles for the digital euro compensation model presented at the 6th ERPB technical meeting on 22/02/2023 - Item 4**

AGE Platform Europe (AGE) welcomes the proposed core principles for the digital euro compensation model presented by the ECB at the 6th ERPB digital euro technical session. These core principles seek to frame the digital euro as a public good brokered by private intermediaries in an inclusive approach for private individuals.

1. **Free basic use by private individuals**

We fully agree that the digital euro should be free for basic use by private individuals and 'basic use' should include all services necessary to enable EA residents to pay and be paid with digital euro in a convenient manner. Although the list is already quite comprehensive, we would like to suggest to add the following two basic services to be also provided free-of-charge to private individuals:

- The provision of up-to-date **easy-to-understand information about the digital euro**, its eligibility criteria, how to apply, how to use it (examples of online and offline use cases, accessibility features, the digital euro app, other means), how to fund/defund it (including from and to cash), the list of free-of-charge services and fees applied to additional optional services;
- The provision of **user-friendly technical support** to private individuals served by the intermediary (including support adapted to persons with functional limitations and individuals with low digital skills).

In addition, we would like to make a few remarks regarding the implementation of this core principle by issuers:
We agree that the distribution of the digital euro should be consistent with the current context of cash, but would like to recommend that this should not be interpreted as meaning that intermediaries will be allowed to limit the number of free-of-charge digital euro transactions initiated by private individuals per day/week/year as many PSPs do nowadays with free cash withdrawals at ATMs or other services. Although it is too early to have a clear vision of how private individuals will use their digital euro holdings, we expect that **persons at risk of digital financial exclusion** will mainly use their digital euro account/wallet for **low value transactions** to cover their daily needs. It is thus important not to limit the number of free-of-charge transactions and cash funding/defunding one can make per week/month/year to accommodate the needs of persons with low incomes.
If digital euro transactions are expected to be treated as instant payments (IP) we also wonder how this core principle will be implemented since PSPs are allowed to charge fees for IP?
Finally we would like to suggest to include in the digital euro glossary a clear definition of what 'private individuals' means in the context of free basic use of digital euro services: a natural person

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acting outside the scope of an economic activity (trade, business, craft, liberal profession[1], an ordinary consumer as defined in EU legislation on consumer protection in the field of retail payments services or a physical person as opposed to a legal entity (private for-profit and non-for-profit legal persons, and public authorities) ?

### 2. Network effects generating economic incentives for acquirers and merchants

We understand that since the interface with end users will be the sole responsibility of intermediaries who will have to bear all related costs, it makes sense to expect merchants and other legal entities to be charged fees for the acquiring services connected to digital euro payments they will receive or initiate, as for other private digital payments solutions.

Acquiring fees are directly paid by merchants and included in their overheads costs passed on to consumers. High acquiring fees would thus have a negative impact on both merchants and consumers. The issue here is how to ensure that acquiring fees will be reasonable from the moment the digital euro will be launched. The digital euro will take a while to reach a large enough distribution to expect market forces to be able to set the price at a comparable level with currently available digital retail payments solutions.

To support the digital euro as a public good and foster take-up by both categories of end users, a solution could be **to cap acquiring fees** based on a reviewable formula that would be decided by each NCB in consultation with their national market players. This would still leave room for competition between acquirers while preventing that too high fees are introduced in the early years (as was the case with instant payments in some countries).

One should not forget that although euro banknotes and coins have legal tender in the EA, this is not interpreted everywhere as meaning that cash acceptance is mandatory for merchants and other legal entities. **If acceptance of the digital euro by merchants and other legal entities becomes mandatory**, the acquirers' market dynamic will change and acquiring fees may need to be harmonised most probably at national level to reflect local markets realities, to ensure a level playing field between big and small market players,.

### 3. Comparable economic incentives for issuers

Finding comparable economic incentives for issuers in a context of free-of-charge basic services is indispensable. At first sight it seems that there are only two ways issuers will be able to raise income to cover at least the costs related to issuing basic free-of-charge services to private individuals, and both options present risks:

- Bundle the free basic services in a pack with paying services. Risks: this means that individuals will have to pay to access the pack in order to be able to use the free basic services (contradicting core principle 1 above) and would be charged for services they may not wish to use. This may create disincentives for individuals with low income to open a digital euro account. To prevent financial exclusion, would it be feasible for NCBs to mandate and support non-for-profit issuers when they provide only free basic services to

[1] The notion of 'consumer' in EU law (europa.eu)

private individuals (a bit similar as the public mandates some non-for-profit PSPs get to ensure access to cash in rural or underserved areas?

- increase the acquirer's fees they charge to merchants to cross-fund their issuers' charges. Risk: as said under point 2. above high acquirers fees will hamper take-up of digital euro by both merchants and consumers.

It is thus important to find sustainable solutions to ensure that intermediaries will not be only incentivised to act as acquirers. Without enough issuers ready to distribute widely the digital euro from its early days including to non or less profitable consumers' profiles, it will be difficult to achieve a wide enough distribution of the digital euro to promote an optimal usability and end-user experience, and make the scheme approach economically sustainable on the long term.

**4. Eurosystem bears its own costs, as with production and issuance of banknotes**

AGE agrees with this key principle but would like to recommend that a key element is missing in the list of bullet points describing the costs to be covered by the Eurosystem. We wonder who will bear the risk when something goes wrong due to issues connected with the scheme design/management or the settlement processing?
Such risks cannot be discarded and it seems logical that they should be included in the Eurosystem own costs (given the way roles and responsibilities are split in the scheme approach). It would indeed be unrealistic to expect intermediaries to carry the potential risk connected to activities which fall under the sole responsibility of the Eurosystem, unless they are adequately compensated for that (which could make the digital euro more expensive to distribute than other digital payments instruments). .
Bugs and teething problems may arise in the early years all along the end-to-end process flow. It is thus important that such risks are acknowledged and consumers' compensation budgeted by those responsible for the activity where problems may occur.
For consumers it will be important to get clear information on who will be responsible to compensate private individuals when something goes wrong, and how they can report problems and seek redress through their supervised intermediary even for issues which fall under the responsibility of the Eurosystem.

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**AGE Platform Europe feedback on proposed roll-out approach presented at 6th ERPB Digital Euro technical session – item 5**

**1. Is the proposed staggered approach the best way to ensure a successful rollout of the digital euro from market and policy perspectives, while ensuring a timely delivery?**

The logic behind the staggered approach will need to be explained to consumers when the first batch of products (P2P and e-commerce) will be launched to help them understand that POS and G2x will follow soon after. When A products will go live we can expect that the launch of the digital euro will attract great media interest which will focus on P2P and e-commerce use cases. This could send the wrong message to consumers with low digital skills that the digital euro is not designed for them.

2. **What are your considerations on the sequence and composition of the two different product releases: (i) P2P and e-commerce (ii) PoS and G2X use cases?**

We do not understand why on in the roll-out approach presented on slide 7, there is no rulebook development foreseen for B products (POS and G2x) despite the fact that it has been decided that both should be prioritised like P2P and e-commerce (cf. slide 3 of item 5 presented at RBDG kick-off meeting). On slide 7, for P2P should be clarified that only the offline solution is expected to be developed for the initial releases (cf. slide 4 of item 5 presented at RBDG kick-off meeting).

3. **Do you have specific considerations with regards to the technical and implementation efforts required for the different product releases?**

An inclusive approach should be mainstreamed in the technical and implementation efforts preparing the products that will be interfacing with end users. These products should be user-friendly and accessible not only from the latest state-of-the-art IT devices/apps.

*AGE work is co-funded by the **Citizens, Equality, Rights and Values Programme** of the European Union. The contents of this document are the sole responsibility of AGE Platform Europe and cannot be taken to reflect the views of the European Commission. Transparency Register ID: 16549972091-86*

**BEUC response to ERPB written procedure on digital euro following ERPB technical session of 22nd February 2023**

## 1. Compensation model for the digital euro

BEUC strongly supports the ECB in their objective to build the digital euro as a public good. Like cash, there will be systemic costs attached to the infrastructure of a digital euro, but these costs should be borne by the society as a whole and not by individual consumers in terms of fees for basic services.

Legal tender: Like cash, the digital euro should have a legal tender status meaning that consumers can use the digital euro in all payments to business and to government without exceptions. It should be noted that the legal tender status of cash is yet to be clarified by European legislation. BEUC therefore supports the European Commission intention to clarify the legal tender status of cash and the digital euro. Exceptions to mandatory acceptance of legal tender could only be allowed for narrow and well defined cases.

Basic use free of charge: All basic services should be free of charge and this basic account free of charge should be offered by default to consumers. BEUC shares ECB's objectives that basic use should "cover all services necessary to enable persons to pay and be paid with digital euro in a convenient manner". However, in our view, a number of important basic services are missing in the list to fulfil this objective and make the basic digital euro account fully functional. The basic services should correspond to the basic features of a basic payment account as listed in article 17 in the Payment Account Directive. When comparing the services listed in the presentation (slide 7), the following services are missing and should be added:

- **Funding and defunding**: In view of financial inclusion, also the funding and defunding **with cash** should be included as a basic service. For the funding and defunding with a payment account, it should be clarified that this commercial bank account is not necessarily linked to the digital euro account allowing consumers to use digital euros in a privacy-friendly way.
- **Recurring payments** such as direct debits and standing orders should be included to allow consumers to receive for example a salary/pension/social benefit directly on their digital euro account and be able to pay their bills (e.g. energy bill) by direct debit without additional costs.
- **Provision of a basic payment instrument**: it should be ensured that all payment instruments (be it a card or a QR-code) are offered free of charge. In view of financial inclusion, it should be for instance avoided that payment cards are not offered free of charge.

The basic services should be free of charge, no matter the medium used. For example, consumers should be able to top up a digital euro account for free, no matter if they use their personal computer/smartphone or an ATM or at the counter with the assistance of bank staff.

There needs to be legislative safeguards that the basic digital euro account is offered by default and that value added services are not offered to consumers by inferred agreements (e.g. pre-ticked boxes). As experience of the basic payment account shows that without an obligation, the basic payment account is often not offered to consumers (e.g. Asufin mystery shopping in December 2022 found out that when opening a payment account, only in 15% of the cases, a basic payment account was presented as an option).[1]

Economic incentives for PSPs:

BEUC agrees that there needs to be economic incentives for PSPs to distribute digital euros. However, BEUC questions that a system which is designed as a public good should generate a "similar level of economic incentives" than a commercial digital payment system. This would mean that PSPs are compensated with public money at the level of the economic returns of a commercial digital payment method which would create very high costs for people, either in their role as consumers (direct fees or indirectly via merchant fees) or as taxpayers. As for any other public good (as for instance: physical cash), the objective should not be to generate huge economic returns but to compensate PSPs for the costs when distributing the digital euro. When PSPs are not interested in distributing the digital euro under these conditions, an end-to-end solution which public/non-for-profit intermediaries should be explored instead.

Economic incentives should be paired with legal obligations to maintain a well-functioning infrastructure in place. In recent years, the cash infrastructure has come under pressure with ATMs and bank branches disappearing (e.g. Tests-Achats, UCL article, Consumentenbond). BEUC expects that the same infrastructure is needed for digital euros and cash so that all consumers can use the digital euro including those at risk of financial exclusion. Consumers must have ATMs, bank branches and personal telephone advice available where they can make use of all basic services of a digital euro account, where necessary with the assistance of bank staff.

In addition, it should be avoided that consumers pay twice. In the case of cash, consumers pay for the fees for their commercial bank account but nowadays the use of the cash infrastructure has regularly also a cost for consumers, namely the withdrawal of cash at ATMs (fee/withdrawal). For digital payments, consumers pay a fee for their online banking and payment instruments, but also pay indirectly via high scheme fees.Legal obligations ensuring that the infrastructure can be used free of charge and that the consumer's privacy is fully respected are needed.

Affordable fees for merchants:

BEUC strongly recommends capping merchant fees to avoid that the legal tender nature of the digital euro is exploited by PSPs. There is ample evidence from the card and e-Money sector showing that transaction fees are set at very high levels

[1] https://www.asufin.com/cuenta-pago-basica-15-casos/

where there is no legal limit. Legislative safeguards are therefore needed which should include all possible charges (interchange fees but also scheme fees etc.) to avoid circumvention of legal limits as this is currently the case for the Interchange Fee Regulation (2015/751/EU).

At the same time, the Commission recommendations on the legal tender of cash should be extended to the digital euro. In line with these recommendations, it should be clarified that digital euros must similarly to cash be accepted at full face value and no surcharges can be imposed on the use of digital euros.[2]

Costs of the Eurosystem: BEUC agrees with the proposals of the ECB to pursue the same logic as for cash meaning that the Eurosystem will bear its own costs, reflecting the public good nature of the digital euro.

## 2. Rollout approach for the digital euro

BEUC notes that no specific timelines (duration of different phases, time distances between different releases) are specified and therefore only initial comments could be shared. A final position will be established once a more detailed implementation plan is available.

As a general comment, BEUC recommends prioritising use cases which are most relevant for consumers currently excluded from using digital payment methods. Financial inclusion should be therefore added to the definition of market relevance.

### 2.1 Is the proposed staggered approach the best way to ensure a successful rollout of the digital euro from market and policy perspectives, while ensuring a timely delivery?

BEUC agrees with the staggered roll-out proposed in the presentation and starting with P2P payments and e-commerce. To promote the legal tender nature of the digital euro, long time gaps between the roll-out of different use cases should be avoided.

To ensure a successful implementation of a staggered approach, communication to consumers is key. Consumers should have at the beginning of the roll-out a full picture of the different use cases and as of when the digital euro can be used where.

### 2.2 What are your considerations on the sequence and composition of the two different product releases

(i) P2P and e-commerce

For P2P, it will be important that consumers can use from the start onwards the ECB digital euro app to ensure an optimal take up. It should be avoided that consumers first have to use a commercial app and then need to proactively switch to the public app at a later stage. The ECB digital euro app should also aim at promoting a financial inclusion for the P2P use case.

[2] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32010H0191&from=EL

For e-commerce, it will be important that consumers can rely on an inclusive payment method (e.g. physical card rather than QR code).

(ii) PoS and G2X

For Point of sale, in line with the foreseen legal tender nature of the digital euro, all merchants and businesses should be obliged to accept the digital euro as a payment method. A longer implementation period could be possibly foreseen for micro enterprises (e.g. doctors) where cash is accepted as a payment method.

For G2X, public services should contribute to the promotion of the digital euro as a payment method and should therefore be well-prepared to accept the digital euro. The acceptance of digital euros should be included in the digitalisation strategies of public services to avoid unnecessary hurdles when digital euro payments to government are rolled-out.

### 2.3 Do you have specific considerations with regards to the technical and implementation efforts required for the different product releases?

Besides technical implementation considerations, the consumer perspective should be carefully assessed: How will consumers be informed about the roll-out? Are resources made available at intermediary level to ensure that consumers are well-assisted when first using the digital euro? Have the technical solutions been tested to ensure inclusiveness? BEUC therefore supports careful piloting exercises with representative consumers groups.

Brussels, 23 March 2023

# Digital euro

# EACB feedback to ECB

## Compensation model for the digital euro

## Rollout approach for the digital euro

The **European Association of Co-operative Banks** (EACB) is the voice of the cooperative banks in Europe. It represents, promotes and defends the common interests of its 26 member institutions and of cooperative banks in general. Cooperative banks form decentralised networks which are subject to banking as well as cooperative legislation. Democracy, transparency and proximity are the three key characteristics of the cooperative banks' business model. With 2,700 locally operating banks and 40,000 outlets co-operative banks are widely represented throughout the enlarged European Union, playing a major role in the financial and economic system. They have a long tradition in serving 227 million customers, mainly consumers, retailers and communities. The co-operative banks in Europe represent 89 million members and 720,000 employees and have a total average market share of about 20%.

For further details, please visit www.eacb.coop


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The EACB welcomes the opportunity to provide input to the ECB following 6th ERPB technical session on digital euro held on 22 February 2023. The consultation covers the following aspects of the digital euro project:

1. Compensation model
2. Rollout approach

The EACB's views on the consultation questions as well as a number of questions for clarification are presented below.

## 1. Compensation model for the digital euro

*Question: What are your views on the suggested core principles for the digital euro compensation model?*

General comments

Before commenting on the ECB slides, we consider it necessary to set the scene by outlining a number of key elements that are relevant for the discussion on the compensation model.

It is necessary to study all potentially negative externalities that a CBDC could have on banks and their retail banking business model in Europe. Banks are particularly targeted by the digital euro project as they will have to face increased competition and will be impacted by:

- Additional investments: Introduction of the digital euro requires significant investments from both banks and retailers. If the Eurosystem decides to introduce a digital euro, emerging costs should be borne by the Eurosystem.
- Replacement costs of deposit outflows: Depending on the digital euro's design features, banks risk a large outflow of current accounts, term deposits (impact on liquidity) and shares for mutuals (impact on equity). Banks will have to face the cost of replacing these sight deposits, which increases with the rise in interest rates compared to the current 0% remuneration of the sight deposits.
- Loss of other income and increasing management costs: Banks will suffer a heavy impact linked to commissions on their different income from payment transactions (card fees, interchange, flow commissions, account transaction commissions, etc.). Plus, a significant costs of opening and management of digital euro accounts/wallets for citizens.

Faced with these very destabilizing effects, we wish to draw particular attention to the following important points:

- There should be a low holding limit per citizen set by law (maximum EUR 500) and transaction limits for digital euro.
- We disagree with the ECB's estimate that *"… keeping total digital euro holdings between one trillion and one and a half trillion euro would avoid negative effects for the financial system and monetary policy"*[1]. The EACB recent modelling of the potential impact of a digital euro indicates that, depending on its design parameters the digital euro would have a strong negative impact on deposit outflows and prudential ratios such as LCR and NFSR.

[1] F. Panetta speech at the European Parliament, 15 June 2022: https://www.ecb.europa.eu/press/key/date/2022/html/ecb.sp220615~0b859eb8bc.en.html

Therefore, a system of compensation for banks should be defined in case of outflow of funds, for example, through the use of free ECB refinancing envelopes without collateral.

- It is essential to clearly specify and calibrate the economic model to compensate for all banks' investments and opportunity costs related to the digital euro project.
- It seems the ECB proposal covers only transaction costs related to digital euro and omits all other costs that supervised intermediaries will face, such as onboarding, KYC/AML, possible fraud management, etc.
- With supervisory authorities on an ongoing basis scrutinising the performance of banks not only from the prudential perspective but also the business model sustainability[2], extreme care should be taken with decisions that maybe seen as justifyable from a public good perspective but significantly weaken business model sustainability.

Comments on the ECB proposals regarding the compensation model for the digital euro:

- ECB slide 5, 2nd bullet: "Free for basic use": What is meant by '*use*'? Does that also mean funding & defunding (to be more specific related to cash)? Free (unlimited) funding and defunding of cash is not common regarding funding and defunding cash from / to current accounts.
- Slide 7, 2nd bullet: "*… and have access free-of-charge*": Access to cash is not always for free. Use of ATM or deposit cash can be charged.
- Slide 8: The sentence "*Legislation might establish an expectation on merchant pricing considering the current levels for comparable retail payment solutions"* is by far insufficient in terms of details and amounts.
- Slide 8: The ECB considers offering a stand-alone digital euro app. Besides this banks would be allowed to integrate digital euro in their apps. Which kind of fees does the ECB see intermediaries could introduce for value added services (VAS)? Because VAS are now based on commercial bank money services.
- Slide 9, 1st bullet: "*PSPs … should have a similar level of economic incentives*": This is a good starting point. One of the differences between digital euro distribution and commercial bank money is the customer relationship and possibilities to earn money from interest differences (in a 'normal' interest rate environment). We welcome ideas to create such economic incentives. Which methods for creating those incentives are preferred (at which not)? But creating incentives could also mean that it could harm and crowd out market products and services. How does that correlate with the 'do no harm' and 'no crowding out' principles? It's a challenge to introduce a new product with similar characteristics without consequences for existing products.
- The business revenues of banks in payments consists of: a) fees for payment packages (paid by customer); b) interest income; and c) interchanges fees. Points a and b look like not possible (for free and no commercial bank money). Which implies that point c should be higher, or the ECB should create an additional compensation.
- Slide 9, 3rd bullet: Same as previous remark: Are additional incentives for commercial bank money promotion taken into consideration?
- Slide 10: General remark: The implementation of the digital euro is not for free. Although banks do not know what would be required, introducing a new payment method will have huge costs.
  Slide 10, 3rd bullet: The compensation model presented by the ECB seems to neglect the onboarding process that intermediaries have to provide. The compensation model should take the onboarding process into account.

[2] Introductory statement (europa.eu) Andrea Enria, press conference on the results of the 2022 SREP cycle

- For the level of compensation model it is of crucial importance which responsibilities belong to whom. For example, the merchant fees in existing payment solutions are shared for: a) acquiring business model (but market driven due to freedom of choice); b) scheme costs (e.g. for marketing, infrastructure, development); c) fraud costs (in other schemes responsibility of the acquirer or the scheme, like charge back paid by the acquirer); d) interchange. So if this responsibilities in the context of the digital euro are changed and the fraud costs are to be paid by the issuer bank, then this part of the margin would need to be compensated to the issuer.
- Huge part of the cost related to payments is KYC and AML related. This is besides the processing costs. What kind of incentives does the Eurosystem think of to compensate the intermediaries?
- There should be no difference between countries: each PSP, independent of their location, should receive the same compensation, i.e. same rules for the whole euro area.
- The P2P use case exemplifies the lack of income sources: private individuals on both ends of the transaction not paying for anything, while cost cannot be recouped by intermediaries, e.g. via a subscription (all-in) fee for the wallet services.
- If the compensation is going to be regulated, the regulation shall be linked to the compensation rules for physical cash in the particular country. This would on the one hand allow banks to make their own decision but would also prevent from destroying the digital euro marketing. A few examples:
    - It is up to the bank to charge for ATM cash withdrawal or not. Transferring deposits in/out the digital euro wallet should then be the equivalent use case and therefore be not higher charged than physical cash.
    - A somehow similar principle is also applied to SEPA transactions. It is up to each PSP to decide whether or not to charge for a transfer but it is not allowed to charge a different fee for cross-border transfers (within SEPA) than the PSP charges for domestic transfers.
    - Fees for cash, also sometimes including card distribution, are included/calculated in the different account packages for private customers or there are different models how many withdraws at an ATM or at the desk are included in the account packages. And if customers withdraw cash at an ATM in another eurozone country fees are charged.
    - The pricing of cards and other payments instruments to the customer also contributes to the financing of cash distribution. Will there be a similar compensation/billing for the digital euro?

## 2. Rollout approach for the digital euro

*Question 1. Is the proposed staggered approach the best way to ensure a successful rollout of the digital euro from market and policy perspectives, while ensuring a timely delivery?*

A staggered approach seems to be the best method. The staggered approach would allow spreading the burden of banks to implement the requirements set by the ECB.

Regarding the foreseen scope of use cases covered by the digital euro, it is important to stress that implementation work will require important investments and time, especially when there will be an impact on hardware, e.g. ATM and POS. As an example, updating POS fleet may take only short time period or otherwise may require 10 plus years, depending on many details of the digital euro's design decisions and due to technical capabilities.

*Question 2. What are your considerations on the sequence and composition of the two different product releases: (i) P2P and e-commerce (ii) PoS and G2X use cases?*

- Additional argument for P2P: It adds functionality to existing account-based payments, comparable to cash, e.g., offline P2P payments.
- E-commerce: What does this use case add to the existing solutions? Does it take into account different situations across Europe? For instance, in some countries up to 70% of all e-commerce payments goes via non-card payment solutions, and non-EU card players do not play a huge role there.
- POS: current customer experience of some payment methods at POS are highly appreciated by customers and retailers. That is the challenge for the digital euro.
- The EACB preference for the staggered approach would be in following order:
  - P2P
  - POS (knowing that implementation complexity depends on technical solutions)
  - E-commerce
  - G2X

*Question 3. Do you have specific considerations with regards to the technical and implementation efforts required for the different product releases?*

- Apple NFC opening for payments other than Apple Wallet, otherwise only QR-Code and/or BLE can be used (especially relevant for POS terminals).
- Full Dual-Offline capability (in all aspects) with full preservation of account balance/funds transfer-chain, etc.
- Wallet/Payment Services also provided via Software Development Kit (SDK) to be embeddable into banks' own Wallets/Apps (and not "re-invented/-implemented/-maintained" all over again).
- Compliance / convergence with existing and future EU standards.

**Contact:**

The EACB trusts that its comments will be taken into account.

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24 March 2023

# ERPB written procedure on compensation model and roll-out plan

# EBF response

**EBF response to ERPB Written Procedure on compensation model and roll-out plan**

## General remarks

If it is decided to issue a digital euro, the role of the private sector will be paramount for the success of the digital euro, providing core services, value-added services and other innovative solutions to users. Therefore, we strongly believe that a robust system of incentives is necessary to realise the network effect that could bring about the success of the digital euro and achieve the Eurosystem objectives underpinning the project. This requires convenience for users, advantages for merchants and for intermediaries alike.

Although the costs of the provision of the digital euro for intermediaries would depend on its final design, putting into the market new payment solutions and creating new payment ecosystems always requires a major initial investment. This initial investment is higher when the existing payment elements and infrastructures cannot be used for the provision of the new payment solution. In particular, the general cost impact of the digital euro increases exponentially if merchants have to be equipped with new devices to accept those new payments or their current devices have to be adapted for accepting them, or if the bank apps already provided to individual customers must be substantially modified to be used for digital euro (and more importantly if a standalone ECB app must be integrated).. For this purpose, in addition to **leveraging as much as possible existing payment infrastructures,** it is key that **the compensation model can neutralize investment and cost impact on intermediaries.**

Further to the implementation cost, the provision of the digital euro would also increase the **running and maintenance costs** associated with new functionalities such as the wallet custody, funding and defunding or duplicated ones such as dispute management, fraud control or payment initiation.

Therefore, it is essential that the digital euro includes compensation principles that allow intermediaries to develop a fair and sustainable business model and that does not hinder the ability to compete of other means of payment. In general terms, we support that the Eurosystem principles follow a market-driven approach consistent with the business model of existing payment solutions.

We welcome the core principles identified, for which key feedback are provided below. However, in order to assess the compensation model in its entirety, many additional details would need to be clarified. It is imperative on the one hand to thoroughly delve into the model's details alongside the further specifications of the design of the digital euro and, on the other hand, to target a clear and unquestionable framework with transparent and solid mechanisms. A conversation of the ERPB representatives with ECB and DG Competition together on the topic would greatly help the market participants to both grasp the depth of the topics summarised in the very high-level principles and present more detailed considerations. This should be done as a matter of urgency as part of the requirements gathering stage.

## Feedback on the suggested core principles for the digital euro compensation model

### Feedback on principle 1: Free basic use by private individuals

In order to ensure adoption, we agree that there must be a set of services not paid for by users, but this should not entail that private intermediaries must bear the costs of providing these services. An adequate **compensation from the Eurosystem** should be considered as it is not known how the system could be sustainable without any kind of fee for the distribution of wallets and the related liquidity mechanisms or without any limit(s) on digital euro usage. Also, a further reflection on the core vs optional array of services would be welcome as it is necessary to define core services/basic use in a narrower way.

The compensation model is one of the factors that must guarantee competitive neutrality between digital euro and other payment services.

Considering the model for cash distribution, a distinction should be made between the intermediary side and the user side. Today, the individual citizen indirectly sustains a cost for cash usage (e.g., account fee which includes ATM withdrawals or limitations in case of accounts without fees). On the intermediary's side, cash management has many maintenance costs associated: from distributing banknotes and coins to the many branches that banks have, to securing and providing clients with the infrastructure that allows them to receive physical money (ATMs for example). Other related costs include, but are not limited to security, alarms, recyclers, banknote deterioration, counterfeit treatment. On the user's side, cash is not always free to obtain, as there can be fees that users pay when withdrawing cash from ATMs or any of the operating bank branches. Cash withdrawal and deposit are usually for free for consumers when made at the ATM of the bank where the payment account is held but, even when cash withdrawals are free of charge, cash provision to consumers is not a standalone service, but is connected to account servicing which is not (or not necessarily) free of charge. There are also various business models in the market where a package fee for the account includes a given number of payment transactions and cash withdrawals/deposits over a certain period of time. At least such a principle could apply also to digital euro. Further, under the current assumption that all core services are for free for the citizen, it would be impossible for distributing PSPs to include digital euro in a "package fee". This can have serious impact on market dynamics.

It is important to point out that free unlimited **funding and de-funding mechanisms** could incentivise uneconomical behaviour by digital euro holders. Therefore, **fees and/or some limits should be set** also on these activities as these mechanisms could guide a more sustainable digital euro usage. This is for instance already the case in some countries for the accounts with basic features where transactions exceeding the number included in the basic package can be charged at higher prices. Furthermore, the availability for continuous (24/7/365) funding and de-funding services to the digital euro appears to be a basic requirement of the Eurosystem. This requirement should not apply to cash deposits.

We would also like to stress the importance of clearly defining professional users of digital euros and **setting some usage limits for free services** (e.g. on the number of P2P transfers during a certain period of time), also to exclude undue overlap with commercial bank money SEPA instant credit transfers. This is needed to ensure that digital euro access and use is free for citizens  for non-professional purposes and that intermediaries can charge users when sending or receiving digital euros linked to a business activity. This means that only truly P2P transactions between private individuals could be for free. This would also limit possible distorted usage, whereby a merchant could receive digital euro on a personal account instead of a business account.

In case of **vulnerable customers** not holding an account with a PSP, a specific framework for their access to basic digital euro services could be established, in line with the Payment Accounts Directive. While we understand the concerns about financial inclusion and accessibility, tailoring the compensation model to cater for this share of customers would not necessarily ensure a sustainable model for the whole spectrum of customers. It is suggested that the compensation model is set on the basis of economic equilibrium for distributing PSPs and that the specificities of vulnerable or less advantaged people is then taken into consideration by means of targeted provisions/exemptions (taking into consideration the above-mentioned limits to free services). In addition, if the issuance of a physical payment card associated with a digital euro wallet/accounts were to be required, it should be subject to a fee and not be the default method. Physical cards have higher costs (plastics, shipping), are less sustainable, and tend to be also more prone to fraud. It should be assessed the benefits and risks of issuing physical cards linked for online payments linked to the wallet.

Finally, for the **reverse waterfall functionality,** it should be allowed to include this service into fee agreements. Pricing reverse waterfall for high-value payments would disincentivise high value payments been moved from "traditional" credit transfer services to the digital euro infrastructures, thus reducing potential impacts on liquidity and overall payment revenues.

Finally, intermediaries should be able to create value added services on top of core services, and charge clients for their use in order to address the costs of developing, implementing, and maintaining the Digital Euro components on their side.

### Feedback on principle 2: Network effects generating economic incentives for acquirers and merchants

First, as already highlighted above, it is important to have a proper definition of merchant/business/professional user in the context of payment with digital euros. This definition impacts the acquiring activity and delineates the role of the acquirers. As the ECB presentation only refers to merchants and private individuals, the Eurosystem should clarify that public administrations and other organizations are to be treated as merchants in the digital euro environment.

Second, we acknowledge that the Eurosystem supports a framework of incentives similar to that of other payment solutions already available in the market. From our point of view, this acknowledges the high competitiveness of the acquiring market. Establishing safeguards does not seem necessary in relation to the digital euro, as  market forces will establish fair rates in accordance with the offer/demand in the market, as ECB states. While it is conceivable that a digital euro scheme might be simpler and involve less players than current solutions for payments at POI, and hence create expectations for lower merchant fees compared to other payment solutions, still we consider that — as suggested in the ECB presentation – **merchants should pay a fee which should be close to the ones currently paid on debit card acceptance**. This in turn would presuppose a level of interchange fees in favour of issuers comparable to those set by the Interchange Fee Regulation. The business model must incentivise the payer side intermediaries to large scale distribution of wallets for active use at merchant locations and also incentivise acquirers to sell digital euro acceptance to merchants. This model is necessary in order to convince payers that there will be a large merchant acceptance and merchants that there will be many payers capable and willing to pay in this new way. It should also be considered that some actors may disappear, as well as new costs will also emerge, mainly related to the infrastructure:

- Acquirers will need to deploy a new infrastructure compatible with the digital euro.
- The operational model, as well as the compensation model, should be aligned with the one in place currently for acquiring services. Consequently, there is a need for intermediaries to be able to issue digital euro wallets to collect the funds on behalf of its merchants.

Therefore, we believe that only interchange fees – obviously set in compliance with the general antitrust framework – could trigger the network effects generating economic incentives for acquirers and merchants, which will have a relevant role to the adoption of digital euro, thus making digital euro a convenient choice for merchant and creating a sustainable and profitable network for distributing intermediaries.

**Feedback on principle 3: Comparable economic incentives for issuers**

Intermediaries, including issuers, should be able to conduct business on the basis of a sustainable economic business case for their activities. The economic incentives for intermediaries should support this. The proposed economic package seems to exclude any scope for **income from wallet-holding private individuals.** Neither account fees, transaction fees or balance income are part of the issuer business case, leaving only usage-related incentives from the acquiring side (aka interchange) at a 'comparable' level, a concept that has in any case to be further clarified (see for instance the assumptions underlying the answer above). Intermediaries that do not accrue fee income from a commercial account proposition with their wallet (earning account fees and balance income) will have the least incentive of all to provide free wallets to individuals. Hence, competition between intermediaries for the business of individuals is impeded in this approach.

Note that, if the economic incentives for issuers are to be drawn only from the acquiring side, such as is the case in the ecosystem for card payments through the mechanism of interchange, this would not apply to the P2P use case. Here, private individuals are on both ends of the transaction, and they would not pay for anything according to principle 1.

Therefore as mentioned before it is necessary to establish limits to free services once the user exceeds a reasonable level of usage for personal use.

Many of the costs related to the provision of payment services are not transaction-related (but rather related to e.g. KYC, cost of the technical infrastructure); having compensation incentives that are strictly transaction-related (such as interchange in card infrastructures) would make the intermediary's business case extremely dependent on volumes and value of the digital euro transactions processed, which is very hard to predict for an infrastructure that does not exist yet. In any case, this could distort market competition favouring players that can bundle the provision of digital euro wallets with non-banking services offered e.g. on digital platforms.

As for merchants and acquirers, the sustainability and full commitment of the issuers should be granted to allow optimal usability, innovation for value added services and widespread usage. This to avoid difficulties to materialize investment from intermediaries. This is even more relevant in the case of the digital euro, as it is assumed by the ECB to be free for basic use by private individuals (not only the payment services but also the onboarding and maintenance of wallets/accounts). In addition, if an obligation to distribute the digital euro is imposed on all (or a set of) PSPs, PSPs that are not in a position to offer acquiring services to merchants (or do so at a relevant scale) will critically depend on the incentives for the issuing side. Therefore, this core principle about comparable economic incentives for issuers should be permanent to guarantee a successful adoption.

Current redistribution models (e.g. **interchange fees**) are working well in creating efficient and successful constantly growing and evolving payment networks. Therefore, the Eurosystem should take them into consideration when proposing a comparable incentive scheme.

Finally, intermediaries should be able to charge end users for **value-added services.**

**Feedback on principle 4: Eurosystem bears its own costs, as with production and issuance of banknotes**

For transparency reasons, it would be important that the ECB calculates and discloses the investment needed for the Eurosystem to issue a digital euro.

We welcome that the Eurosystem is willing to bear its own costs. At the same time, we believe that intermediaries should receive **public funds** in order to fund part of the infrastructure and service developments to be carried out by intermediaries, such as onboarding, wallet maintenance, app, AML/CFT and fraud controls, etc.

Given the technological innovation needed for putting in place a new form of digital money and the potential recurrent costs of the new network, intermediary costs could increase compared to cash and other payment instruments. This risk should be also mitigated by ECB, for example extending the cover not only to the cost of using Eurosystem platforms, but also always bearing the network costs to connect to them.

**Feedback on the Rollout approach: general comments**

**1) Is the proposed staggered approach the best way to ensure a successful rollout of the digital euro from market and policy perspectives, while ensuring a timely delivery?**

We do not support the suggested staggered approach, whereby the roll-out at PoS would be left at a later stage. **PoS should be part of the initial roll-out** in order to ensure wide adoption from the start. Payments at PoS are particularly important not only in terms of volumes, but also for more vulnerable or less digitally savvy citizens. Therefore, launching the digital euro in all the envisaged use cases at the same time would lead to more adoption by end-users than a staggered approach.

More importantly we believe prioritisation of e-commerce would favour non-Eu players, contrary to the sovereignty goal of the ECB.

Intermediaries would also like to have some clarification on the degree of prioritisation of the offline capability of the digital euro. It would seem prudent to **postpone the launch of the offline functionality** to a second phase given the complexity involved.

However, should a staggered approach be retained it would be necessary to develop a clear definition of the expected timeframe of the processes related to each stage. The ECB has not disclosed a timeframe for each of the phases for the first stage, which would be necessary for intermediaries to manage expectations and distribute resources based on priority tasks. In that unfavoured scenario (for the reasons explained above) it would be very important to know, for example, the distance between phase 1 and phase 2. Finally, albeit a piloting exercise is mentioned for both stages, the conditions for these piloting exercises are not established. The ECB should determine the scope underlying this piloting exercise, such as expected timeframe, geographical area where it would be applied, the number of customers that would be enrolled and what intermediaries would participate in this piloting exercise before releasing P2P and e-commerce payments.

### 2) What are your considerations on the sequence and composition of the two different product releases: (i) P2P and e-commerce (ii) PoS and G2X use cases?

A roll-out at merchants might be more complex than P2P and e-commerce payments and hence it makes sense to start with P2P and e-commerce. At the same time, the successful adoption of the digital euro will depend on it offering any functionality that is appreciated by payment users. Thus the ability to use the digital euro in any use case at the same time would be a unique selling proposition.

Moreover, as in some cases it may be very difficult for merchants to differentiate between physical and online experiences, it is not clear why e-commerce and physical PoS should be separated. In this scenario, merchants that are present on both channels could not achieve synergies.

Concerning the **government payment use cases,** they might even be more complex than PoS use cases but can create great efficiency gains as many governments in Europe still do not have an efficient means to pay or get paid. Therefore, close collaboration with national governments and municipalities needs to be ensured. In addition, PSPs need to build efficient solutions with complex and individual tech setups of public agencies.

Including the governments and authorities from the very beginning is a key success factor for a new payment method. This was shown with other payment solutions. There should be no attempt for them to delay their participation to the latest possible phase.

### 3) Do you have specific considerations with regards to the technical and implementation efforts required for the different product releases?

In general the technical implementation efforts will be lower, the more existing payment elements and infrastructures (e.g. those for instant payments) the digital euro re-uses. However, factoring various regulatory initiatives running in parallel across the payments industry (digital euro, instant payments, PSD2 review, open finance), intermediaries will need to deal with resource constraints. In addition, some PSPs may not have access to appropriately skilled resources in-house and will need to source/contract accordingly. Hence, a clear prioritisation of technical specification, roll-out iterations and infrastructure scenarios is essential. Skilled resources are a critical concern that should not be underestimated.

The holding limits for individuals and the intraday holding limit for corporates will be a challenge for banks to implement. Currently banks might not have a platform that they can use to automatically perform the holding limits. Banks would potentially have to create a new infrastructure or make adjustments to existing infrastructures. This could be a demanding project with direct cost and very substantial risks.

It is important that the launch of the digital euro does not have unintended consequences, for that reason we think the digital euro should be launched with a low holding and transaction limit that is enough for private individuals to make their daily payments.

As a general principle, we propose to start with a digital euro as simple as possible that enables citizens to pay and receive payments for the use cases prioritized by the ECB. Before thinking of additional and more complex functionalities (e.g. offline payments), it should be first assessed how complex and costly it would be to implement and deploy them both for the ECB and intermediaries, as well as if there is a need from the user and the potential benefits exceed those costs. We invite the ECB to develop a new market survey to validate the need of some of the functionalities that are being discussed during this investigation phase.

With regard to testing, an industry wide test window should exist with transparency around readiness of participants and scheme. Lessons learnt from initiatives like T2/T2S consolidation should be factored in.

Furthermore, a digital app including digital euro wallet functionality should be provided by the market and not in a stand-alone ECB app. On the one hand, intermediaries could support digital euro adoption making the wallet functionality appear after a normal bank app upgrade. On the other hand, users will be comfortable to see another functionality already integrated in their apps instead of downloading a new one that is creating a proliferation of financial services in the same mobile.

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**About EBF**

The European Banking Federation is the voice of the European banking sector, bringing together national banking associations from across Europe. The federation is committed to a thriving European economy that is underpinned by a stable, secure, and inclusive financial ecosystem, and to a flourishing society where financing is available to

# Ecommerce Europe's reply – Consultation on Digital euro compensation model and roll-out

## Compensation model for a digital euro

**A fair price for a digital euro is necessary and justified.**

- It is essential to keep cost low for merchants for two mains reasons. First, to drive adoption among merchants and create a clear incentive to not just accept digital euro, but also actively promote it. The digital euro should offer a low-cost structure, becoming less expensive than existing electronic payment methods.
- Second**, in case of a legal tender status mandating merchants to accept digital euro, there is a need ensure that the cost of acceptance is not disproportionate** to the extent that they would have to be amortise by raising retailer prices for consumers. A potential legal tender status for a digital euro would limit their ability to negotiate with intermediaries and would therefore likely require safeguards to ensure that the cost remains acceptable. The digital euro is a welcomed geostrategic instrument for Europe, but it should not deprive competition in the payments market by allowing some to gain incontestable positions.
- Similarly, the issue of a zero holding limits for merchants could further impact their negotiation leverage. If that is the direction being pursued, **then automated waterfall and reverse waterfall mechanisms should be accessible to merchants for free** as they will be unavoidable, especially for the handling of refunds.
- The future infrastructure of a digital euro and the services offer fully justifies much lower costs than other available means of payments today, notably in terms of fraud management. The costs of acceptance should therefore logically be lower for merchants.
- We would therefore also like to challenge the ECB's assumption in the slides that legislation might be establish an expectation on merchant pricing "*considering the current levels for comparable retail payment solutions*". Legislative measures aiming to ensure a fair price for digital euro should also consider the difference between a digital euro and existing methods, which should not serve as a benchmark.

**Building the right conditions for healthy competition.**

Considering the pricing will be left to market forces, it is important to create the right structures and safeguards to ensure healthy competition.

- We believe that there should be concrete safeguards **to ensure the transparency of pricing** for merchants. This is crucial to ensure that merchants understand the price structure, and are able to compare offers.
- Regulators also have to consider **the possibility of intervening to cap fees** (the totality of the fees, and not specific components of the overall service charge). Fees applies to retailers should be determined by market forces only if the level of competition is sufficient to allow for cost-efficient pricing.
- Along with sufficient competition, the number of layers required to process a digital euro transaction also impacts the overall cost of the transaction. To ensure that prices do remain low for merchants, we would welcome innovation in this space (e.g. explore the possibility of lowering operating and administrative costs for merchants, for example through a central communication layer for merchants which would facilitate operating across different markets through different providers)

- PSPs may have to be mandated to participate to fully exploit network effects and make the infrastructure more efficient. A mandatory issuance of digital euro could also be supported, as it could be considered a public good. The more intermediaries can participate, the lower the costs would be.
- More competition and lower costs could also be achieved by allowing **bespoke ways of provisioning wallets to end users**. For example, we would support consider the co-existence of custodial and self-custody wallets offered by licensed intermediaries to promote innovation but also allow consumers to opt for more private ways of transacting.
- On the public good and pricing aspect, we also support the idea that “incentives” for issuing intermediaries should not be comparable to incentives in the context of private means of digital payments.

## Roll-out of a digital euro

We support the EU authorities to develop a digital euro for the benefit of Europe and its consumers.

- Regarding the choice to begin with e-commerce as one of the use-case, it is very important to focus on customer needs: attention to convenience, customer-journeys, and costs will be crucial. There is no obvious gap to fill for consumers buying online today, as they are generally satisfied with the methods available to them, and rather loyal to their preferred payment method. It is therefore a sector where boosting adoption for consumers might be difficult if the experience through digital euro does not match or exceed expectations. Rather than requiring merchants to accept payments in digital euro by giving it legal tender status, it is necessary to make the consumer willing to make payments in digital euro, thus making it attractive to consumers.
- The Rulebook Development Group for a digital euro will have to consider carefully **how to handle omni-channel use cases** with a staggered roll-out, where consumers shop at a merchant’s physical store but still perform a “remote” transaction (e.g. click-and-collect payments).
- We agree with the staggered approach, but this **will need to be communicated efficiently** to consumers, as they will most likely have the expectations that once available, a digital euro could be use in all scenarios.
- We should strive for a pan-European roll-out, or at the minimum closely coordinated.

# EDPIA feedback to the ECB following the 6th ERPB technical session on the digital euro held on 22/02/2023

*24th March 2023*

## ITEM 4 – Compensation model for the digital euro

1. **What are your views on the suggested core principles for the digital euro compensation model?**

- The objectives of the compensation model define a first approach that shall be consolidated after the full design of the solution. We welcome the objective of enhanced choice and competition as suggested in this first proposition.
- We appreciate that the network effect must be achieved to make the digital euro an effective means of payment. However, special attention should be paid to allow private players to successfully develop their own electronic payment alternatives and also ensure that new public means of payment do not crowd out private parties, including PSPs and acquirers. This might be a relevant concern in the context of the compensation model, given the unique nature of the central bank in the financial landscape and the potential reliance on public fundings: this could unbalance a healthy market dynamic and confer an unfair competitive advantage to the public solution.
- **We particularly welcome price settings determined by market forces.** In parallel, safeguards could be implemented to prevent the potential abuse from the legal tender nature of the digital euro, given the impact a possible mandatory acceptance could have. Private electronic payment means of course require significant investment in reachability and would not benefit from any comparable mandate.
- The Digital Euro shall be considered as **an alternative payment method in the competitive landscape**: merchants may remain free to decide which payment methods they are willing to accept. Next to merchant acceptance, other success factors may be leveraged to achieve the targeted network effect, such as a compensation model that ensures that intermediaries are willing to distribute it and an attractive value proposition for individuals (Payer-to-payee) and firms to use it.
- We consider that issuers, as defined in the ECB glossary, should be given the possibility to charge a service fee to help cover fixed costs such as Know-your-customer (KYC) and AML/CFT checks. Concretely, such back-office costs are high when dealing with new customers[1].
- The proposition highlights that issuers should count on comparable economic incentives, to actively support the distribution of the new digital currency and activate the network effect.
- It could be argued however that merchants/payee PSPs are not the adequate party to pay this operational cost supported by issuers.
- Some cases like person-to-person transactions don’t involve a merchant, which implies no Merchant Service Charges (MSC) income for acquirers. Likewise, offline transactions may involve more risk, complexity and business logic on the trusted intermediary side, which could

[1] https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2022/1045497/Report%20on%20the%20thematic%20review%20on%20fees%20and%20charges.pdf

pose additional costs. In such instances, acquirers may not be the right party to support these extra risks and costs.

- The absence of scheme management and settlement processing costs for intermediary is positive. It is important to clarify which of the digital euro components will be included in the perimeter of the cost bore by the Eurosystem and under what conditions (especially noting that the final perimeter of the processing is not fixed yet).
- Maximum and/or minimum thresholds for merchant pricing risk distorting the market: EDPIA again believes pricing should be set by market forces
- Finally, to ensure a fair competition between actors, the model should ensure that Payee's PSP with a PI or EMI license can manage their own DCA's (Dedicated cash account) and independently access to the settlement infrastructure for funding/defunding. This would ensure that they don't need to rely on third-party competitors (e.g., banks with CI licence), which would induce additional costs for non-CI PSP's and create competitive distortions. Another point concerned the liquidity management: we can read that the CI DCA balance in digital euro will merge with the balance of CI DCA RTGS for the calculation of the CLM (central liquidity management), and potentially be incorporated in the calculation of reserves. If this means bringing additional collateral then it would represent an additional cost for owner of DCA among PI and EMIs.

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## ITEM 5 – Rollout approach for the digital euro

1. **Is the proposed staggered approach the best way to ensure a successful rollout of the digital euro from market and policy perspectives, while ensuring a timely delivery?**

- **The staggered approach appears to be the best way to ensure a successful rollout of the Digital Euro given the novelty, size, and complexity of the project.** Effective prioritisation is vital. An effective rollout of education and communication campaigns are also key success factors for the product release.
- Given the scale of this product, the proposed two releases at the beginning is likely very ambitious.
- EDPIA believes that the right methodology, taking in account relevant indicators, should be considered to breakdown the product releases. However, we also recognize that the technical and implementation aspects are probably more difficult to assess at this stage, despite being the most critical factors for a timely delivery.
- The current lack of visibility on the scheme rulebook specifications and inherent implementation complexity directly correlates to the delivery timeframe, also factoring the integration and coordination of solution providers.
- **The prioritisation of use cases is important to ensure the best management of their complexity.** Amongst the 4 proposed macro use-cases, the person-to-person use-case must indeed have the highest priority for the reasons mentioned in the analysis. We favour a less complex one-sided integration use-case over others, which also generates high user adherence. We also recommend starting other workstreams in parallel, to optimize the release path.
- Delivery dependencies and efforts may be clarified on the flow when user journeys, their priorities and technical aspects are clearer, based on stakeholders (including solution providers) inputs regarding potential timeframes. Ultimately, the rollout approach (i.e., number, content, and sequence of releases) may then be established based on relevant

information from concerned actors, which would make all involved parties more confident to deliver according to expectations regarding time, quality and scope.

- To conclude, if mandatory acceptance is validated by the future regulatory framework, the timeline should be adapted to consider the effective go live of all stakeholders and users.

2. **What are your considerations on the sequence and composition of the two different product releases: (i)P2P and e -commerce (ii) PoS and G2X use cases?**

- EDPIA agrees with the proposed sequencing and composition of product releases.
- As above, EDPIA supports the prioritization of the P2P scenario: favouring a less complex one-sided integration use-case over others which also generates high user adherence.
- It is worth noting that, eCommerce is easier to implement for intermediaries compared to PoS and provides an innovative spending opportunity for consumers[2] . This will contribute to the desired network effect of which P2P alone cannot ensure.
- The time between the two product releases should be sufficient to allow both the Eurosystem and all the stakeholders involved to gain trust and experience, and to consolidate all technological and operational components of the system before moving to the subsequent use case.

3. **Do you have specific considerations with regards to the technical and implementation efforts required for the different product releases?**

- Technical and implementation efforts are critical factors for timely rollout of the Digital Euro but are nonetheless conditioned by the different use cases. We would therefore recommend clarifying that solution providers are included in the definition of the time plan.
- In particular, because of high upgrading costs and timing POS payments should be developed upon a careful implementation strategy.
- EDPIA calls for the development of an implementation strategy with the participation of solution providers, actively supported by European and National institutions

[2] Roughly two thirds of European citizens are e-shoppers; 84% in the 25-34 years segment. Source: Eurostat

**From:** EMA

**To:** ECB Digital Euro Project Team

**Subject**: EMA response to Eurosystem on the ERPB Technical session of 22 February 2023
**Date**: 24 March 2023

We welcome the opportunity to engage with, and respond to the Eurosystem's digital euro plans.

## I. Compensation model and its objectives

1. We note the objective of free basic use by private individuals, but also note that there will be a cost in making the product available to users. We remain therefore open to proposals by the Eurosystem for how this cost will be recovered, and revenue generated, within the contemplated model.

   We note additionally however that the comparison with the cost of cash is not a perfect analogy, given that cash comprises the product in its entirety, being capable of deployment and use in its printed form. A digital euro ("**DE**") product, as currently envisaged, only manifests itself in manner that can be utilised when products and services are created by intermediary distributors, and which then have to be integrated into different POIs, whether online or in a physical context. This brings an investment cost, an operational cost, and an ongoing opportunity cost.

   This means that the proportion of cost overhead borne by intermediaries in the DE context is significantly different to that of cash, when when the costs of receiving, counting, storing, securing and transporting cash are taken into account.

   It would be helpful to consider this, and to conceive a way in which these costs can be mitigated.

2. The need to make the DE an affordable solution for merchants is also welcome, but we note again potential conflict with the first principle, resulting in a distorted charging model that seeks to recover most of the cost from the merchant business. If the system is to meet its public good objectives, we suggest exploring the possibility of meeting some of these costs from seignorage income, on an ongoing basis, or at least until a more mature model has developed that can perhaps sustain its costs independently.

   The legal tender status could indeed have a distorting effect on acceptance, on pricing and consequently on competition. We do not have sufficient detail in this respect to express a view.

   We do express our concern over the competitive impact of the DE on existing payment products and services.

3. We acknowledge the need for an economic incentive for PSPs to actively distribute the DE, and again await a better understanding of how this will be manifested. We note for example that:

- If distributors are obliged to offer a basic DE product at no cost to consumer users, there will be a need to address the absence of a direct revenue stream in such circumstances. This may otherwise conflict with the first principle.
- It is unclear whether the incentive will extend to investment in developing a DE solution at the outset, competing perhaps with other product development, and having an opportunity cost.
- This will naturally favour the bigger PSPs and it would be helpful to know if the Eurosystem or the EU would like to encourage smaller PSPs, many of whom will be the most innovative, to enter the market at the outset. This could take the form of grants or investment pools that may be made available specifically for this purpose.

4. The Eurosystem bearing its own costs is helpful, and should enable the offering of the DE by intermediaries at a lower initial cost. This is welcome, and we wonder if this can be properly extended beyond direct immediate costs.

   As set out at our response to the first objective, the comparison to cash in not a perfect analogy. The costs of implementing the DE extend significantly into the realm of product design, operation and support, which are significantly in the domain of intermediaries.

   The costs of the product implementation, including the creation of product propositions, identifying business opportunities, allocating investment and resources, competing perhaps with intermediaries existing product lines will all generate explicit and implicit costs that would benefit from being assessed and a view taken as to whether it is appropriate to extend compensation to cover some of tehse costs.

   There will also be costs associated with on and off-ramp payments, the purchase and redemption of DE or funding and defunding. The cost may be an acquiring cost that will need to be borne by the intermediary, it could have a cost of fraud component, where stolen payment instruments or unauthorised payment transactions are made, as a means of funding a DE product, and there will be instances of fraudulent merchants, which could be exacerbated by the need to defund such merchants on a daily basis, resulting in a higher velocity of money.

   It would be helpful to begin to develop a more detailed commercial model, perhaps as a straw man that could be addressed in more detail.

## II. Rollout Approach

A staggered roll out approach makes sense and will allow issues to be addressed in a more manageable manner. The proposal to address e-commerce and P2P in advance of POS does reduce some of the complexity.

E-commerce may however be a broad category that comprises a wide range of payment opportunities, business needs, transaction values, technological implementations, IT system dependencies and user preferences. The ‘alternative payments’ industry learnt at an early stage that adoption of new payment products was enhanced by addressing a range of factors that were specific to categories of payment opportunities. Solving for these more specific problems could create USPs and incentives to users to adopt, take-up, or change habits.

It may be helpful to identify sub-categories within these roll-out work streams that are more specific and which can be addressed in greater detail by the parties concerned to ensure a successful launch.

## III. Ongoing competition and strategic issues arising from the above

1. The DE could have two significant advantages compared to privately issues payment products: a critical mass of consumers who may be able to use it, and a potential obligation to accept the product by merchants – being legal tender. Care will need to be taken however to avoid bringing about distortions to the market, which may in turn reduce the incentive for intermediaries to create payment solutions that utilise the DE. A better understanding of these issues would be welcome.
2. Whilst business and market growth will mitigate some of the competition issues associated with the DE, the e-money industry, having taken up the role of an electronic surrogate for notes and coins (see Recitals 3 of Directive 2000/46/EC and 13 of Directive 2005/60/EC), will be in direct competition with the DE. This issue merits further discussion and an understanding of the Eurosystem's approach to its resolution. We welcome engagement on this issue in particular. It does become more acute if e-money issuers are unable to access funding and defunding rails directly, having no access to Eurosystem accounts.
3. There may also be some benefit in considering the impact <u>from a systemic perspective,</u> taking into consideration the combined effects of: the impact of the DE as contemplated on the relative cost of existing products and services, its impact on merchant preferences for payment products, the impact on consumer preferences, impact on investment in new technologies, products and services, and impact on the opportunity to invest in new technologies and payment services.
4. We note that more advanced technologies and sophisticated payment products, are under constant development, whether centralised or distributed, and the Eurosystem will wish to see the EU PSPs at the forefront of such efforts.
5. This is an objective that will benefit from being addressed when considering costs borne by, the commercial model, and Eurosystem expectations of private supervised intermediaries.

Evelien Witlox

European Retail Payments Board

60640 Frankfurt am Main

Germany

23 March 2023

# EPIF input to the ERPB 6th industry session on the digital euro

Dear Evelien,

EPIF would like to thank you again for the opportunity to provide written feedback to the ongoing discussions in the ERPB with regards to the different design options that are being considered for the digital euro. We again reiterate our support for the ECB's efforts to continue to contribute to the smooth operation of payment systems, also in the digital age.

The latest discussions in the Technical Sessions concern the compensation model and the roll-out approach for the Digital Euro. As mentioned in our previous input, these are essential elements with a determinant role in the different features discussed in the last months, especially on the core, optional and added-value services.

Before exploring further our views on the ECB proposals for the compensation model and the roll-out approach, we would like to stress that the compensation mechanisms at this stage are still in a very preliminary and abstract phase for our members to have a permanent view. We also very much welcome the initiative by the ECB to have a dedicated session as part of the Rulebook development with stakeholders to understand the current ECB vision for the Digital Euro from a holistic manner capturing the customer journey that is envisaged. This will support, we believe, a better understanding from stakeholders on the final product and relevant design options.

Our more detailed views on the compensation model and roll-out approach are expressed below.

- **Compensation Model**

We understand that the ECB's focus at the moment is on establishing the core principles to guide the compensation mechanisms for the Digital Euro. Four core principles are presented: (1) free basic use by private individuals; (2) network effects generating economic incentives for acquirers and merchants; (3) comparable economic incentives for issuers; and (4) the Eurosystem bearing its own costs, as in the production and issuance of banknotes. We will take this at a turn.

**Free basic use by private individuals:** EPIF aligns with the ECB that the Digital Euro should be free of charge for end-users to the extent that it is limited to its "basic use". On this point, EPIF members would like to better understand how the differentiation will be made between "core services" and the services the correspond to the "basic use" of the Digital Euro. We also stress that added-value services should be chargeable to end-users and, in line with the 5th Technical Session, voluntary for authorized intermediaries.

While we understand that the Digital Euro is (and must be) an independent project from other initiatives, we note the recent UK consultation on the Digital Pound, that foresees the possibility of charging transaction fees to individuals in certain types of transaction, including higher-value transactions and international payments. EPIF would like to have this possibility with the Digital Euro assessed further.

**Incentives for acquirers and merchants:** Our understanding is that acquirers would still be able to charge for their services, with the prices for merchants to be set by market forces and strong competition in this space. This is an important element welcomed by EPIF members. However, we also understand that the ECB foresees the possibility of capping the applicable fees. EPIF agrees with the ECB that this is an option to be further assessed by the expected proposal by the European Commission on the Digital Euro and by co-legislators but this would like to note that this is something that EPIF would not support. In general, EPIF is against any interference through price regulation.

The ECB also foresees the possibility of capping the fees, which we assume will be further assessed in the expected proposal by the European Commission on the Digital Euro.

**Comparable economic incentives for issuers:** EPIF welcomes the ECB's principle that PSPs distributing the Digital Euro and offering wallet/account management services to private individuals should have strong economic incentives. On this, we would like to note that EPIF members differentiate between the usage of Digital Euro, which should be free of charge from end-users, and the distribution. For distribution, the incentives need to be attractive enough to enable PSPs to continue delivering (and improving the delivery) of Digital Euro services. Nevertheless, on this point, EPIF members still have reservations about two important issues.

Firstly, it is still not clear whether PSPs would be mandated to make and receive digital euro payments and we also note that further clarity is needed on the notion of "issuer". We reiterate the lack of direct access by payment and e-money institutions to the intrabank settlement systems. EPIF would be strongly against a similar situation to the one currently faced with the proposal on instant credit transfers, which mandates instant payments but excluded PIs and EMIs from the scope of the proposal. While we understand this to be a decision for EU legislators, excluding PIs and EMIs from the direct engagement with the Digital Euro would significantly harm the overall innovation and usage of the Digital Euro.

Secondly, we also have questions about the compensation for the costs incurred to make and receive digital euro payments. While we understand that the core of the discussions at present are on the broader compensation models, and as stressed in our previous input, the specific compensation mechanisms are of the upmost importance for PSPs to determine the feasibility of offering optional and added-value services.

**Costs borne by the ECB:** EPIF welcomes the ECB the core principle that PSPs would not be charged to access the services of the Eurosystem, such as settlement processing and scheme management. However, EPIF has some concerns about the reference to "scheme management" costs as borne by the ECB and would like to seek clarifications on whether this implies that the ECB will be taking the role of scheme manager for the Digital Euro Rulebook.

As stated in the input for previous Technical Sessions, EPIF would in fact support the European Payments Council (EPC) as the scheme manager for the Digital Euro Rulebook. The EPC has extensive experience in managing the SEPA Schemes and has already the protocols and processes well established to take up such as role. We would like to clarify whether "scheme management costs" imply indeed that the ECB will be taking over the management of the Rulebook Scheme.

- **Roll-out approach**

EPIF very much supports the approach by the ECB to have a staged introduction of the products into the Euro Area markets. Our members agree that the gradual introduction to end-users will ensure a smoother adoption and understanding of the product, as well as allow for *finetuning* the different complexities of the Digital Euro on an ongoing basis, if necessary, after the release. We also fully support the ECB's efforts to assess the best staged introduction based on the market relevance and the different policy objectives, while taking into account the reality of the technical implementation of such a project.

EPIF looks forward to further engaging with the ECB on these important questions.

Please allow us to reiterate once more that EPIF will be in a better position to make concrete recommendations once the design and unique contribution to the existing European payment landscape is better known.

Yours sincerely,

Nickolas Reinhardt, Head of the EPIF Secretariat

Doc 0149/2023 | 23 March 2023

# 6th ERPB technical session on a Digital Euro

# ESBG input

ESBG welcomes the opportunity to provide feedback to the ECB on the various topics discussed at the 6th ERPB technical session.

## Compensation model for the Digital Euro

1. **What are your views on the suggested core principles for the Digital Euro compensation model?**

***General comments***

The compensation model, as presented by the Eurosystem, should be adjusted to allow for the compensation of:

- initial investments made by the distributors and credit institutions that provide bank accounts for funding and defunding;
- running costs of distributors and credit institutions that provide bank accounts for funding and defunding;
- adverse impacts on funding costs in banks due to the forced change of the funding structure as regards deposit losses to the ECB.

In general, the compensation model must be built to support growth.

***First core principle: Free basic use by private individuals***

The first core principle states that *"the Digital Euro should be free for basic use by private individuals. This is consistent with the context of cash, which is a public good as well, where people can pay, be paid, and have access free-of-charge."*.

We want to point out that this comparison with cash is misleading, as cash is not always free-of-charge. The underlying cost model for commercial banks is different and can be significant. In some cases and countries, consumers pay either their issuing bank or the owner of Automated Teller Machines (ATMs) for withdrawing money or these are subject to package pricing. In other scenarios, banks need to pay a service fee to the ATM owner – this is usually not visible to the consumer. The compensation model should not lead to market distortions due to more favourable terms for Digital Euro payments compared to commercial bank money payments.

Moreover, it is important to note that, if a Digital Euro will be free for P2P transactions, the associated costs will have to be carried by the involved intermediaries and there should be an incentive to compensate the involved banks for the lack of compensation in the P2P use case.

Therefore, a more differentiated approach should be taken regarding the first core principle.

***<u>Second core principle: Network effects generating economic incentives for acquirers and merchants</u>***

This principle needs to be looked at with caution, as network effects generated with the Digital Euro might be to the detriment of network effects generated with other payment instruments, for example in the case of significant volume shifts.

Furthermore, the compensation model does not indicate how original investment costs will be compensated.

***<u>Third core principle: Comparable economic incentives for issuers</u>***

The third core principle states that *"PSPs distributing Digital Euro and offering wallet/account management services to private individuals should have a similar level of economic incentives to do so as for electronic payment alternatives."*.

To avoid an unlevel playing field with private schemes, the incentives for issuers should be clearly defined, as relating to other electronic payment instruments is too vague considering that there are currently other electronic payment instrument with no incentives (SCT, SCT Instant).

For acquirers it may be challenging to develop value-added services that can be monetised. It is also challenging to develop value-added services that would incentivise usage by consumers or merchants.

If the costs for merchants might reduce, it should be clarified who will bear these costs and for how long, given that, technologically, it does not seem that efficiencies are produced that justify such a reduction.

Furthermore, the business modell should be designed to give the distributor credit institutions incentives to recruit end user participants to the Digital Euro ecosystem.

***<u>Fourth core principle: Eurosystem bears its own costs</u>***

The fourth core principle states *"PSPs would have their own costs related to the distribution of the Digital Euro services they provide, but they would not be charged Eurosystem costs such as those related to scheme management and settlement processing."*.

A clear definition of what is to be understood as *"The Eurosystem will bear its own costs"* is needed. It should also be clarified for how long the Eurosystem will bear its own costs, particularly regarding settlement processing and scheme management, as well as if the Eurosystem intends to, at a later stage when the scheme is more mature, let PSPs bear the costs related to scheme management.

Furthermore, it should be noted that, at large volumes, the price of settlement only makes a small part of the overall costs.

**Rollout approach for the Digital Euro**

1. **Is the proposed staggered approach the best way to ensure a successful rollout of the Digital Euro from market and policy perspectives, while ensuring a timely delivery?**

We recommend to roll out the Digital Euro in a targeted use case, focusing on small amounts of transactions, for example, focusing on the P2P segment with lower amounts. When this segment is established and working efficiently, more use cases can evolve over time and widen its use cases, if there is a demand and need.

A big bang scenario allowing maximum holdings on day 1 needs to be avoided. We see major practical, technical and legal issues to be managed for the Digital Euro to be able to service private citizens in e-commerce and brick-and-mortar merchant payments due to the complexity of the multi-facetted merchant payment and acceptance ecosystem with multiple parties involved in addition to the payer and payee and their respective payment service providers. Therefore, the Digital Euro needs to establish itself first for P2P and interbank transfers before attempting to enter even one single merchant sector.

Moreover, the possibility of including a pre-controlled pilot phase in the rollout should be considered. In such a pilot, we would propose to carry out an A/B test of different implementations of Digital Euro, to validate if the desired positive effects are achieved and minimize the negative ones identified. Specifically, the pilot would confront the following three models:

1) *Current model of the Digital Euro.* This pilot model would be done in highly banked and digitized countries. For example, it could be tried in some areas of Spain where solutions like, e.g. Bizum, already exist.
2) *Programmable Digital Euro model.* As in model 1), this pilot would be tested in a specific geographical region that is very banked and digitized. In addition to test the use cases of basic payments, others of added value could be tested, e.g. a wallet in which euros can be staked to generate returns.
3) *Basic Financial Digital Kit model.* This pilot model consists of offering a digital financial kit through an app in which the client has a current account and a payment instrument, such as Bizum, for free. With this kit, the ECB would meet its objective of having a way to get money directly to customers and sovereignty against foreign payment schemes, but it would not involve the development of new technology or the displacement of customer liabilities off banks' balance sheets. This test could be carried out in less geographical regions that are less banked or digitized.

In general, the timeframe between phase one and phase two shall not be high. The intermediaries will lose money with P2P transactions while some fees collected from merchants are to be expected with PoS.

Furthermore, it should be clarified to which *"market gaps across EA countries"* the ECB is referring in its presentation.

**2. What are your considerations on the sequence and composition of the two different product releases: (i) P2P and e-commerce (ii) PoS and G2X use cases?**

A stepwise launch order with multiple steps over a ten year launch period should be considered. This would allow for volume build-up and acceptance area adaptations by sector.

Such a launch plan could be designed as followed: *(please note that this is just an example)*

(i) P2P payments and bank-to-bank transfers
(ii) Payments from citizens to government and government to citizens
(iii) Subscription / recurring payments for low value
(iv) E-commerce low value payments with no/low risk of refund demands
(v) Regular e-commerce payments except travel and entertainment area
(vi) Brick-and-mortar merchant payments in no/low refund risk sectors
(vii) The remainder of e-commerce and merchant payments
(viii) X-currency use

**3. Do you have specific considerations with regards to the technical and implementation efforts required for the different product releases?**

The more parties to involve in a payment environment, the more complex it becomes. The ECB should launch the Digital Euro first with itself and four additional stakeholders: payer, payee and their respective payment service providers/distributors. In this manner, the ECB and the payer and payee banks would be in control of the construction and operations in a similar way as in the case for SEPA Instant Payments today with TIPS settlement. A first threshold to manage is to provide the citizens with a payment tool/instrument for this first purpose.

When a well-working environment with a growing number of end user citizens and their banks are in place, the ECB and the distributor banks can start a stepwise launch of first government payments.

Afterwards, sectoral merchant payments should be started by including multiple technical service providers and processors necessary to add new payee groups. Both the acceptance technology and administration of payments will vary between different sectors that provide goods and services to the general public. In addition to the waterfall service, these new payees need mass-market capable payable accounts administration tools. An additional complexity to manage is the merchants that work in different currency areas. In the EEA alone, there are 10 currencies in addition to the Euro to manage.

Brussels, 24-Mar-2023

# ETPPA response to
# ERPB technical session #6 on a Digital Euro (questions from 22-Feb-2023)

First up, please let us highlight again our appreciation for the opportunity to participate in the ECB's design phase for the Digital Euro (D€) via the ERPB technical sessions and the possibility to provide written feedback. It is of essential importance for us to explain our preferences and to highlight any material issues for our sector of the industry.

The more this investigation phase advances and the more design and approach options are being presented, the more we come to the view that the Digital Euro should focus on the established home ground of central bank money as tokens in a wallet, exchanged offline peer-to-peer, i.e. essentially providing a more flexible and less costly "better version of cash".

The numerous problems we see with the proposed suggestions are all boiling down to the apparent ambition to a) extend the scope of central bank money into new territories, e.g. e-commerce, and b) add an account-based variant and thereby duplicate the infrastructure of private electronic payments.

Addressing the two new topics of the 6th technical session, we would like to comment as follows:

## 1. Compensation model for the digital euro

We would agree that the euro in its current form of retail central bank money tokens and wholesale central bank accounts, is a public good, because it serves as the monetary anchor enabling a trusted exchange between all its private euro versions issued by commercial banks or e-money institutions. The cost of that has been managed for many decades and shows a downward trend, as the underlying infrastructure is well established and further optimising with new technology on an ongoing basis: ATMs, TIPS, T2-T2S-consolidation, etc.

Introducing a digital twin of the retail central bank euro could also be seen as a public good in the sense of becoming a necessity to support the general digitisation in this day and age. It is worthwhile to note here that the wholesale central bank euro is of course digital already and hence would not need additional investment.

So from this perspective, we would agree that a "*digital euro is a public good as a natural evolution of cash in the digital sphere*", but this would not hold true for any expansion of its scope beyond cash or any unnecessary duplication of account handling infrastructures.

### 1.1 Free basic use by private individuals

Based on the logic above, we would agree that a natural evolution, i.e. complementing physical tokens (coins and notes) in a physical wallet with digital tokens in a digital wallet, should follow established principles and not cause extra cost to end-customers. The intermediary's cost in relation to cash is mainly relating to converting their private euros to cash and back (funding and defunding), and their customer fees relating to that should not increase, when adding the option to convert those into digital cash. To our knowledge, these fees are not always zero, but we would support setting this as a new principle when introducing a future digital cash alternative.

Please note, however, that "*basic use*" under the assumption above is more or less limited to funding and defunding. It would not extend to introducing digital euro accounts and all the needs arising from that, i.e. onboarding, offboarding, account management, waterfall, etc. In our mind, this would not be "*consistent with the context of cash*".

### 1.2 Network effects generating economic incentives for acquirers and merchants

Many thanks for the very informative Technical Q&A on the compensation model, which was held on 17-Mar. From that we understand that the intermediaries are expected to cover their cost and margins mainly from merchant fees charged by acquirers and then shared with the other intermediaries involved, including the issuers (distributing PSPs).

This expectation seems to be based on the cards' interchange business model, which has also been the role model for the existing and upcoming account-to-account payment methods, e.g. SPAA. However, it must be noted that these are all based on merchant-triggered payments, where the acquirer plays the essential role of getting the money from the payer to the merchant. Naturally, this is limited to the acquirer's connections to the electronic payment methods, which are the rails via which the money is moved. Depending on their acquirers' portfolios, merchants are then able to "accept" specific payment methods or not.

All the suggested digital euro design options and customer journeys we have seen so far, seem to imply payer-triggered payments, i.e. push payments from the payers' accounts initiated by themselves using their intermediary's D€ app. This would push the money via the new D€ rails directly from the payer's account at their PSP to the merchant's account at their PSP. **This is not using any acquirer rails.** Instead, it is like a standard credit transfer from the payer to the merchant for which acquirers are not needed. Notably, this is also the only way to achieve the desired "universal acceptance", which otherwise could not be guaranteed.

As acquirers could never offer universal acceptance, there is no risk that they could abuse a legal tender status of the D€, which means that we can't see the need for any merchant pricing regulation. The only way merchants could comply with that would be by opening up their D€ account directly to payers for direct transfers.

The only service a merchant may want in this case is that of a payment collector and reconciliation provider, so that they don't have to deal with all the individual payments arriving to their account, matching them to their receivables and getting instant notifications into their POS. Some acquirers are playing this role as well, so they can continue to do that, but **the basic role of an acquirer, i.e. to pull the money from the issuer, would fall away and with it the reason to pay any interchange to the issuer**.

Hence, rather than fostering the acquirer model to retrieve interchange-type fees to feed the other intermediaries involved, we fear that this design is turning everything upside down and thereby jeopardising the whole acquiring ecosystem.

Last, and by all means not least, we cannot see any room for PISPs in this scenario. For retail payments use cases, their role is on the merchant side in an acquirer-type role, i.e. helping the merchant to get the payment without needing the payer to initiate and push the money themselves. Hence, no need for PISPs either, if the payer intermediary's app is doing that job.

### 1.3 Comparable economic incentives for issuers

We fully agree that all PSPs, including the distributing PSPs (issuers) should have "*comparable incentives to promote an optimal usability and end user experience [with the D€] as they have with alternative electronic payment instruments they distribute*". Unfortunately, the current plans do not seem to lead that way.

As explained above, a design where payers use the issuers app to initiate a D€ payment themselves is bypassing the acquiring side and largely reducing any revenue potential from merchant fees. Charging the payers directly for the payment would be a no-go, at least not on a per-transaction basis, and even any other way of charging the payer, e.g. monthly fees, does not seem to be an option given principle 1.1. above.

Consequently, we would favour a completely different design, which does not try to conquer the world of account-based electronic payments, but sticks to the current rules and scope of cash with peer-to-peer exchanged tokens.

### 1.4 Eurosystem bears its own costs, as with production and issuance of banknotes

This would be a welcome principle if there were no other significant additional costs imposed on participants as a result of design choices led by central bank monetary policy requirements.

The more successful an account-based D€ scheme would become, the more it would reduce the share of private electronic money payments. As it stands, we cannot see any compensation for that or other motivation leading private PSPs down this route. Requiring them to pay their own bill on top is not making it more attractive.

With that we fear that the Eurosystem would have to bear a lot more than its own cost.

## 2. Rollout approach for the digital euro

When you say that “*multiple use cases are required to address the variety of end user needs and market gaps across EA countries*'', we would not expect a requirement for the D€ to address more use cases than the current non-digital euro does. We are also not seeing any gaps in the already over-crowded e-commerce arena, but rather in person-to-person and machine-to-machine electronic payments.

We would certainly agree to a “*staggered approach*”, but your suggestion to “*offer a sufficiently broad and impactful set of use cases from the start*” does not seem to support that.

We would suggest starting with a single use case to thereby “*ensure a smooth end user payment experience*” and “*reduce the implementation complexities associated to rolling out at pan EA level*”. This would more likely lead to a “*gradual understanding and adoption of the different use cases and technologies by end-users*”.

In line with the public understanding of cash and digital cash, we would suggest starting either with P2P or POS, but not both, and as explained above based on the offline exchange of peer-to-peer tokens. Given the higher complexity of POS we would lean towards P2P.

And before going to POS, where many electronic options are usually offered already, it might be better to tackle the offline X2G use case next, where cash is often the one and only option. Preparing public institutions and then requiring their acceptance of (offline) D€ payments would surely be well received by the public.

In conclusion, our biggest concerns in relation to session #6 are the foreseeable disruption of the retail payments ecosystem, the missing incentives for intermediaries to drive the use of a D€ and the high number of use cases being considered for launch.

Once more, we would like to reiterate that the ECB's monetary policy objectives should not be the only, and not even the most decisive factors in designing the D€. Acceptance by payers and payees and the whole financial services ecosystem should prevail and define at least the initial basic principles, which can then be fine-tuned to ensure that the most important monetary policies are respected.

For all the reasons listed above and all those described in our previous feedback, a Digital Euro should be designed along the following lines:

1) Focus on digital cash, i.e. tokens in a wallet - anything else would be hard to explain and could create a myriad of competition issues

2) Anonymous up to legal limits, strong privacy thereafter and no fixed holding limits, which would otherwise result in usage restrictions and undermine the monetary anchor status

3) Enforce low/no cost to the customer, there must not be any per-transaction fee, and do not impose any costly new (account-based) infrastructure

4) Maximise usability, including offline use, and avoid any unnecessary friction

5) Maximise accessibility and payment handling via APIs to enable value-added services by TPPs

6) Bundled with EU Digital Wallets if and when available

+++ END +++

# ERPB technical session on digital euro

## Compensation model

Low acceptance costs to drive adoption for merchants and consumers

The lower the cost, the higher its impact on conversion for both merchants and consumers. When merchants are faced with high costs for accepting specific payment instruments, then these incremental costs are passed on to consumers via an increase of prices for goods and services. All consumers, regardless of whether they are paying with an expensive or less expensive means of payment are faced with an increase of retail prices. While basic services offered free of charge to consumers will have a positive effect on customer adoption of the digital euro, such offering must not be at the expense of the merchants. Retaining the overall acceptance costs for digital euro at a low level will therefore stimulate conversion and allow merchants to endorse its acceptance, while keeping prices for end-consumers on a low level – an essential aspect to consider in times of high-inflation rates.

Cost of acceptance for digital euro should be substantially lower compared to competing means of payments for the following reasons:

- Risk of fraud and individual losses should be reduced vis-à-vis usage of cash and cards with high security standards and authentication in wallets' applications and onboarding procedures by intermediaries
- Incentive to issue for existing means of payments (i.e., interchange fee) includes credit risk premium – especially for credit products. Digital euro will be processed and settled instantly. In addition, user's holdings do not appear on intermediaries' balance sheet, hence no impact of credit risk on intermediaries. Incentives for core services should therefore be lower than existing inter PSP fees.
- As all digital euro functionalities and processes will be highly standardised and based on straight through processing, we expect the cost of the transactions to be very low. Each transaction is expected to have the same execution and settlement costs, regardless of the payment amount or environment. We would therefore expect the merchant acceptance costs to be a very low fixed amount, which will cover both acquiring fee and incentive to the issuing intermediary.

Fees levied to merchants for accepting digital euro payments should be as close to zero as possible, meaning that the cost of existing payment methods, including cash, should not serve as a benchmark for pricing digital euro transactions. Contrary to the high fixed cost nature of cash acceptance infrastructure, we estimate that digital euro acceptance will be substantially more cost-efficient. In addition, competing private means of payments come with higher risk profiles which warrant intermediaries to ask for higher fees – this should not be the case for the digital euro.

Although transaction fees should be lower than competing means of payments, merchants will still be faced with considerable costs for a mandatory acceptance. Equipment will very likely have to be replaced or upgraded, processes amended and staff to be trained. An introduction of a broad legal tender based payment instrument across the eurozone will therefore have a substantial impact on merchants' infrastructure, investments, and cost structure.

Transparency in fee reporting will be fundamental to allow merchants to perform active cost control measures. The fee structure should therefore be as simple as possible. Also, ancillary costs related to digital euro acceptance, such as fraud scheme cost components and chargeback fees, should be priced on a cost-efficiency basis.

Digital euro as public good

Characterised as public good, the digital euro will be considered as *monetary anchor* in the economy. A fair and sustainable business and distribution model for all members of the payment ecosystem must be supported by the public authorities to guarantee a widespread adoption at reasonable costs. While we don't disagree with the fact that issuing intermediaries will have to be incentivised to participate in the digital euro scheme, we believe that such incentives for a public good payment instrument must not be comparable to those for private means of digital payments.

A potential legal tender status of digital euro will amplify the need for a cost-efficient pricing as retailers will likely be obliged to accept digital euro payments and be limited in their ability to negotiate with intermediaries. In case market forces will not contribute to efficient pricing, authorities and regulators must intervene to guarantee that central bank money is provisioned and distributed to secure business continuity on retailer side by introducing regulatory safeguards in form of fee caps. Such caps should then be applied to the totality of fees, not only to a specific portion.

Zero holding limits for merchants will further limit merchants' capability to negotiate prices with their counterparts, specifically regarding waterfall and reverse waterfall mechanisms that would be fundamental for a smooth operating procedure, especially for the handling of refund transactions. Merchants would only be able to support the proposed zero holding limits in case these automated funding mechanisms will be offered free of charge for merchants.[1] With physical cash, merchants can choose to not deposit and thereby limiting acceptance costs for cash. As outlined in our earlier contribution, we would welcome a more balanced approach regarding holding limits for merchants or alternatively no charges associated with reverse waterfall or waterfall mechanisms.

Network effect and open competitive space

Mandatory acceptance under a legal tender regime will have a big impact on conversion and network effects. Similarly, account servicing PSPs may have to be mandated to participate to fully exploit network effects with the result of rendering the infrastructure more efficient. A mandatory issuance of digital euro could also be supported in light of digital euro being considered as public good.

[1] Back-end processes also need to be in place allowing the merchants to perform automated reconciliation of digital euro entries.

*To allow for a more open competitive space in the euro area with greater choice* digital euro should be open to bespoke ways of provisioning wallets to end users. Self-custody wallets offered by licensed intermediaries could be a valuable addition to traditional custodial wallets that will not only promote innovation but also allow consumers to opt for more private ways of transacting.

We welcome the decision that also EMIs, PIs, and TPPs will be able to distribute digital euro. To avoid duplication of work, the digital euro project should incorporate findings of the SEPA Payment Account Access (SPAA) scheme for PISP access, compensation, and operating models.

24 March 2023

# ERPB technical session on digital euro

## Rollout approach

### Is the proposed staggered approach the best way to ensure a successful rollout of the digital euro from market and policy perspectives, while ensuring a timely delivery?

Yes, we believe a staggered approach is indeed the most suitable way to ensure a successful rollout in a timely manner. The underlying criteria used for the selection of the prioritised releases also is appropriate to derive to the decision taken. A comprehensive communication approach needs to be developed and be published alongside the releases. This will be needed to inform citizens and businesses about the services in scope of the different releases, the expected delays until the subsequent release and how the services will work in practice for citizens and businesses.

### What are your considerations on the sequence and composition of the two different product releases: (i) P2P and e-commerce (ii) PoS and G2X use cases?

The selection of e-commerce and P2P use cases as the first release appears to be logical. These use-cases typically prove to be less complex compared to providing the fully-fledged POS use cases including all implications on interfaces and technology. There are multiple examples of alternative payment methods (APMs) having followed a similar approach. Only after a later stage those providers moved into the physical POS. Launching P2P services is a cost-efficient way to launch the solution and to raise awareness amongst citizens. In addition, this will allow the scheme to fix potential bugs and improve the underlying infrastructure without impacting the high-volume POS transaction business.

Extra attention needs to be paid to omni-channel use cases in which the lines between physical POS and e-commerce POI blur. In multiple different scenarios citizens may shop at a merchant's physical store but still perform a "remote" transaction. Typical examples include click-and-collect payments, pay at pump for petrol retail, or endless aisle processes.

### Do you have specific considerations with regards to the technical and implementation efforts required for the different product releases?

As outlined above, a comprehensive and widespread communication and marketing campaign must be launched to accompany the different releases of the digital euro payment services.

It must further be guaranteed that offline payments are available as early as the first release for P2P payments. In addition, e-commerce use cases must also enable users to pay within a *metaverse* context.

Timelines of digital euro rollout should be closely aligned with EU digital ID wallet initiative as currently defined by the European Commission.

Rolling out a new way to pay at the physical POS comes with a lot of constraints and associated effort. This is especially the case for merchants operating multiple sites across the EU. The rollout approach as defined by the Eurosystem should therefore consider that the impact of the POS solution on the infrastructure be limited to a minimum. This can be achieved by aligning trial and rollout coordination across countries for the different releases, preferably also alongside other initiatives endorsed by the European authorities.