

Response to the ECB following the ERPB Digital Euro Focus Session for the non-bank payment sector, 31 May 2022

3 July 2022

Dear Evelien,

Thank you again for your team and you making the time to meet with EPIF and the wider non-bank payment sector on 31 May 2022 for the first ERPB Digital Euro Focus Session. We take note of the provisional date of the next such Session on 5 July on possible distribution models for the Digital Euro.

In advance and during our meeting you asked us for written comments on the theme of our meeting which was potential use cases for the Digital Euro.

As you might have seen in our response during our meeting, EPIF somewhat struggled with this question. Much of the use cases will depend in essence on the design of any potential Digital Euro. We are therefore in a 'chicken and egg situation' where it is hard to identify the use cases when not knowing the design of the Digital Euro or inversely to provide advice on the design of the Digital Euro when not clear on the use cases.

The first and foremost priority therefore has to be to know the design of the Digital Euro. In essence there seem to be two alternative scenarios. Scenario One is that the Digital Euro is a new form Legal Tender. Scenario Two is that it is de facto a new payment system. Let us take these in turn.

If the Digital Euro is a new form of Legal Tender then the ECB is in effect adding a new form of distribution into the traditional monetary policy transmission mechanism where cash is one form, issued via counters and ATMs, and electronic account-based distribution via the intra-bank system is currently the other. The Digital Euro could potentially offer a third distribution channel which could be used by regulated PSPs to build innovative solutions upon.

If the ECB were to opt for Scenario Two and directly distribute the Digital Euro this would create an entirely new and separate payment infrastructure. While EPIF could see some merits in such a solution, this Scenario would widely extend the remit of the ECB, go against what the ECB had set out for itself as the purpose of the Digital Euro and importantly put into question the role and efficiency of third party payment providers such as the EPIF membership. Our membership is uniquely placed to develop and provide payment solutions for clients that have a market need. Our members are on the constant lookout for new use cases, as well as offering seamless, safe and secure payment solutions to our customers. In effect, EPIF's membership is uniquely placed to promote the acceptance of a Digital Euro across the EU.

We therefore believe that leaving the acceptance to the wider payments sector, including importantly the non-bank payment sector represented by EPIF, speaks to the Treaty responsibilities of the ECB and leave it to the payment ecosystem to act as the transmission mechanism for the Digital Euro.

In this context, you had asked us to comment on three possible, not mutually exclusive designs for the Digital Euro:

- Offline peer-to-peer validation: We believe that such a solution would replicate cash. EPIF sees potential for such a design and the possible use cases that could arise from this.

- Online peer-to-peer validation: We agree with the ECB that such a model that relies on the validation between the two parties (payer and payee) raises important questions, including in relation to anti-money laundering concerns.
- Online third party validation: We initially read this as the ECB being at the centre of a new payment system. As already mentioned, EPIF does not see value in the Digital Euro replicating existing payment systems and the ECB taking over the role of the existing payment ecosystem. We therefore feel very reassured by the explanations by you that this design also includes all other types of payment validation provided by private actors.

Just to reiterate our earlier point, the attractiveness and success of any potential use cases will depend on the exact design features of the Digital Euro. Even then, any assessment of potential use cases will remain somewhat theoretical. The existence of potential use cases does not yet in itself tell us whether they will fill a gap in the current offering of available payment solutions, whether there is real-life demand for these use cases, and whether there is therefore an economic incentive to develop them.

As a consequence, EPIF believes that a Digital Euro should be rolled out gradually and from one use-case to another. So as to facilitate such a gradual and generic approach based on market demand, we welcome that the ECB shares our assessment that the Digital Euro needs to provide legal certainty by being recognized as Legal Tender but that this does not need to go hand in hand with immediate mandatory acceptance of the Digital Euro by all parties and at the same time. Instead, acceptance should at least initially be voluntary, particularly for all merchants currently not accepting digital payments, until a particular potential use case has established itself in the market.

We hope these written comments are of use. EPIF looks forward to further collaborating closely with the ECB on this exciting and important new project.

Best regards,

Yours sincerely,



Nickolas Reinhardt, Head of the EPIF Secretariat

ABOUT EPIF (EUROPEAN PAYMENT INSTITUTIONS FEDERATION)

EPIF, founded in 2011, represents the interests of the non-bank payment sector at the European level. We currently have over 190 authorised payment institutions and other non-bank payment providers as our members offering services in every part of Europe. **EPIF** thus represents roughly one third of all authorized Payment Institutions (“PI”) in Europe. All of our members operate online. Our diverse membership includes a broad range of business models, including:

- Three-party Card Network Schemes
- E-Money Providers
- E-Payment Service Providers and Gateways
- Money Transfer Operators
- Acquirers
- Digital Wallets
- FX Payment Providers and Operators
- Payment Processing Services
- Card Issuers
- Independent Card Processors
- Third Party Providers
- Payment Collectors

EPIF seeks to represent the voice of the PI industry and the non-bank payment sector with EU institutions, policy-makers and stakeholders. We aim to play a constructive role in shaping and developing market conditions for payments in a modern and constantly evolving environment. It is our desire to promote a single EU payments market via the removal of excessive regulatory obstacles.

We wish to be seen as a provider for efficient payments in that single market and it is our aim to increase payment product diversification and innovation tailored to the needs of payment users (e.g. via mobile and internet).