European Payment Institutions Federation aisbl

EPIF position on the Digital Euro

April 2023

The European Central Bank (ECB) Governing Council approved in June 2023 the start of an investigation phase for a possible retail central bank digital currency – the Digital Euro. EPIF welcomes the efforts of the ECB in evaluating the trade-offs between the different designs choices and fully supports its task to continue promoting the smooth operation of payment systems also in the digital age. With the advent of the digital economy, development of digital assets and the overall shift to online and digital payments, we agree with the importance of the ECB retaining a monetary anchor over monetary policy and sovereignty over Euro-denominated payments in the EU.

EPIF has been an active stakeholder in the various workstreams of the Euro Retail Payments Board (ERPB), including the Rulebook Development Group. We very much welcome the ECB's work to involve the industry in this important exercise of exploring a Digital Euro for Europe. With this position, we would like to stake stock of some of the elements that, for us, are crucial to assess further.

Before exploring further specific design elements, we would like to first elaborate on two high-level observations regarding the Digital Euro project.

High-level observations

The Digital Euro investigation process

The investigation phase is a two-year process to analyse the best design options for the Digital Euro. Should these design options be approved by the ECB Governing Council in October 2023, this will be followed by a realization phase expected to last until 2026 before the proper issuance of digital euros. We appreciate the ECB's efforts with this two-year assessment period of the design options. We reiterate however that even a two-year period is a very compact timeline for companies and possible intermediaries of the Digital Euro to assess the impacts of this project on payment chains and the EU's payments ecosystem.

In addition to the ambitious timeline, we also have concerns with the ongoing work on the Digital Euro Rulebook Development Group, which started its discussions in February 2023. While fully supportive of the Rulebook work and the efforts of the Chair of the RDG, we believe that the discussions are taking place under design assumptions that have not yet been approved by the ECB Governing Council (e.g., limiting one account per individual, strong focus on banks as intermediaries, etc.).

EPIF members would thus strongly discourage any rushed procedures in the Digital Euro project that could lead to a lock-in of specific design elements into the Digital Euro as well as create unintended consequences for the European Single Market as a whole.

Integration of non-bank payment service providers

EPIF sees with great concern the potential exclusion of non-bank payment service providers (PSPs) from the whole Digital Euro ecosystem. We appreciate that the design options under assessment by the ECB try to be inclusive of the different business models and diverse nature of PSPs. However, we note that most of these options are being put forward under the assumption that payment institutions (PIs) and e-money institutions (EMIs) are on equal footing when it comes to the access to payment systems. This is, for the time being, not the case.

Most of the features for the Digital Euro being discussed in the ERPB workstream are designed to align with account-based payments which imply a direct access to the intrabank payment infrastructure. PIs and EMIs do not, under the 2002 Settlement Finality Directive (SFD), have this direct access. This will prevent PIs and EMIs from settling transactions in Digital Euro. This would effectively mean that PIs and EMIs would be severely debilitated in the services they can offer in Digital Euros. This is clear when looking at the PSPs that are expected to meet the scheme access criteria[1]. For PSD2 licensed entities (PIs), only payment initiation service providers (PISPs) and account information service providers (AISPs) are expected to meet the criteria, which excludes a large part of the sector.

Moreover, the compensation model envisaged for the Digital Euro is strongly reminiscent of that employed by four-party card schemes. PIs and EMIs, on the other hand, have a variety of compensation models they employ. Unfortunately, the variety in compensation models is not taken into currently. In addition, the current approach to limit citizens to only one Digital Euro wallet is likely to strongly favour banks over non-bank PSPs and thereby limit innovation and competition in the digital payment market.

We therefore urge the European Commission to take this into consideration in its upcoming proposal. For legal certainty, it is imperative that the SFD is amended to include PIs and EMIs as system participants under Article 3. We highlight that financial stability considerations must address the maintenance of a competitive payments market that remains innovative and resilient and non-bank PSPs are an important part of the sector.

Specific design options

Against this backdrop, we would like to now turn to specific design options that are for us crucial to consider further. These are the considerations around legal tender, AML and privacy considerations, distribution, intermediaries, compensation mechanisms, and limits to holdings. We again note that the below views are presented with the reservation that our final position is conditional on the holistic design features expected this October 2023, following the design of the ECB Governing Council on whether to move forward with the realization phase.

Controlling the amount of digital euros in circulation

The ECB's efforts to maintain financial and monetary stability in the face of the Digital Euro are fully backed by EPIF members. The ECB has been considering a tiered-remuneration system for the Digital Euro, along with hard quantitative limits on how much Digital Euro people can hold, to prevent excessive circulation of the digital currency. EPIF acknowledges that this is a complex task and does not have any specific opinions on what these limits should be at this stage.

However, we strongly oppose the idea of limiting each citizen to only one Digital Euro account. This would create an unfair advantage for banks over other PSPs, since most people would open their Digital Euro account with their primary bank. This would also restrict the freedom of citizens to manage their funds across different accounts as they wish. Moreover, we wonder how this one-account limit would be enforced across the EU. It is unclear who would check if a citizen already has a Digital Euro account opened at another intermediary.

We therefore urge the ECB to explore other alternatives to controlling the amount of digital euros in circulation, which allows citizens to have the option to open and hold multiple Digital Euro accounts. This could, for instance, be through the use of eID for authentication, the possibility to have unlimited transactional wallets but only one wallet for storing digital euros, or the automatic defunding of wallets overnight. We also support the availability of different types of wallets for the Digital Euro: custodial and self-custody. This would foster more innovation and allow citizens to choose between a wallet that offers more security and oversight (like a bank account) or a wallet that offers more privacy and less protection (like cash) in the digital space.

[1] https://www.ecb.europa.eu/paym/digital_euro/investigation/governance/shared/files/ecb.degov221110_item41schemeaccessintermediaries.en.pdf?c6fe876eb728cc4e38f68d9e1984820b

Legal Tender

The discussion around granting legal tender status to the Digital Euro is an important one. Should the Digital Euro be a new form of legal tender, the ECB will in effect be adding a new form of distribution into the traditional monetary policy transmission mechanism, where cash is one form. It will also give European citizens an additional digital means of payment.

While EPIF is in principle supportive of the legal tender status for the Digital Euro, we note the importance to differentiate between legal tender and mandatory acceptance. We fully align with the ECB on the need to make the Digital Euro widely accepted, however, equating this to mandatory acceptance would create difficulties for merchants and potentially undermine the overarching objective of financial inclusion. Let us address this in turn.

- For merchants, especially smaller merchants in less digitalized Euro Area regions, mandating the acceptance of Digital Euros would demand a great amount of investment in their point of sale (POS) infrastructure. This investment is on top of the uncertainty about the (geographical) adoption of the Digital Euro by European citizens;
- From another perspective, admitting that both cash and digital euros could in principle be legal tender, there is a risk of merchants opting to only accept digital euros as a mean of payment at POS (i.e., no cash acceptance). This would significantly hinder financial inclusion, particularly to those citizens with lower levels of digital adoption.

For these reasons, we would caution against mandatory acceptance for the Digital Euro. Alternatively, we could envisage a staged mandatory introduction, granting merchants, providers and consumers enough time to make the shift.

AML and privacy considerations

EPIF members are fully aligned with the double objective of the European Commission and the ECB to ensure a high-level of privacy in Digital Euro transactions while minimizing the risk of money laundering and terrorism financing (ML/TF). As recognized in the first Progress Report on the Digital Euro[2], it is important to align the design of the Digital Euro with the current AML/CTF regulatory framework. Transactions in Digital Euros must to this end be subject to the same levels of privacy as those applying to existing electronic payment solutions.

Drawing from our experience, this is best achieved through a risk-based approach that allows a targeted allocation of resources, the leveraging of new technologies and a focus on “out-of-pattern” transactions. This is fully aligned with the ECB’s ambition to have higher degrees of privacy for certain lower-risk transactions (e.g., low value transactions and close proximity transactions). This possibility would also allow the Digital Euro to replicate more cash-like features.

Nevertheless, it is worth stressing that exempting lower-value and close proximity payments from certain customer due diligence (CDD) measures is currently not envisaged under the ongoing AML/CTF Package. Effectively, this mandates obliged entities to carry out CDD checks on all transactions, regardless of the transaction amount. We note that it is crucial to ensure a level playing field between payments in digital euros and those carried out by existing payment solutions. We cannot face a situation where a central bank-led solution has different requirements than those applicable to electronic payment solutions by private entities.

Distribution, intermediaries and compensation

As mentioned previously, EPIF members are fully supportive of the efforts of the ECB to develop a scheme-like approach to mediate the intermediation and distribution of a Digital Euro. The outcome of this exercise is still to be seen, with the work of the RDG expected to be concluded in Q3 2023. It is, however, important to ensure that the Rulebook leads to a level playing field between the bank and non-bank PSPs. At a higher level, we also agree that distribution should be subject to authorization and supervision by the central bank (i.e., ‘supervised intermediaries’).

[2] https://www.ecb.europa.eu/paym/digital_euro/investigation/governance/shared/files/ecb.degov220929.en.pdf?8eec0678b57e98372a7ae6b59047604b

While the exact distribution model and intermediation is still to be confirmed, we believe it is essential to ensure that certain core principles are observed.

First, the scope of entities that are able to distribute the Digital Euro must be broad enough the capture all PSPs. Our understanding is that only account servicing payment service providers (ASPSPs) that offer payment accounts are envisaged to be able to distribute the Digital Euro. Not only does this excludes a significant part PIs from participating in the Scheme, but would also be problematic because Member States have varying interpretations of what constitutes a payment account.

Our recommendation is thus to not make the distribution of the Digital Euro dependent on offering a payment account and simply recognize that all APSPSs can distribute it, allowing truly all PSPs to participate in the Scheme.

Second, in terms of the intermediary services envisaged for the Digital Euro, we understand that the ECB is currently envisage a separation between core, optional and value-added services. EPIF members fully support this approach. We in fact highlight that the benefit and attractive factor for end-users for payments in Digital Euros will rely on the ability for PSPs to build added-value services on top of the core and optional functions.

We stress that it is crucial for the Open Banking provisions under the PSD2 to remain mandatory for supervised intermediaries in the Digital Euro. This implies that services such as AIS and PIS must be considered as core services. Retaining this equivalence between supervised intermediaries and payment account providers is imperative to ensure a level playing field and technological neutrality.

Finally, we stress the importance to discuss what the expected compensation model for the Digital Euro will be. The ECB has so far presented its compensation principles (i.e., free basic use by private individuals, incentives for acquirers and merchants, comparable economic incentives for issuers, and issuance and settlement costs to be borne by the ECB). While it is important to have these principles – with which EPIF members agree with – it is important to have a more in-depth discussion on the compensation mechanisms. In particular, the current model envisages a compensation model akin to that of four-party card schemes. Given that innovative PSPs outside the four-party model have many different compensation models, more thought should be given how to include a variety of compensation models into the rulebook.

This is particularly important when considering the differentiation between core, optional and added-value services as these would, we understand, be differently compensated. The compensation for the costs incurred to distribute Digital Euros (especially if these are to be legal tender) need to be carefully assessed.

European Payment Institutions Federation aisbl

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).