

PAYMENTS EUROPE'S RESPONSE TO THE DIGITAL EURO PROPOSAL

Key Takeaways

- To succeed in the current European payments landscape, which offers a myriad of payment solutions to consumers and merchants, the Digital Euro will need to have defined use cases and deliver clear benefits. Payments Europe welcomes the development of a legislative framework for this new payment instrument.
- The current proposal allows the ECB to act simultaneously as market competitor and supervisor. To ensure that the level playing field between different payment methods is preserved, Payments Europe invites the regulator to ensure clear definition and appropriate separation of the ECB's roles as a Digital Euro issuer, clearing and settlement provider, and supervisor.
- The timeline for rollout of the Digital Euro will require taking into account the need to build public trust as well as to prioritise the implementation of offline payments features.
- Digital Euro rollout shall begin within the eurozone and, to ensure quicker uptake, the proposal should promote open acceptance and interoperability with existing technologies and networks.
- As currently designed, the compensation model presented does not ensure a level playing field between the Digital Euro and other payment methods. To ensure that the business model of payments service providers remains sustainable and they provide their services on the long term, the market should be allowed to determine the appropriate merchant service charges.

The European payments market has seen much change in the last years. Today, there are more brands and solutions available than ever before. The market is working well, and consumers and merchants benefit from the multiple payments options available every day.

The Digital Euro can further enrich Europe's digital payments landscape. It can complement existing payment instruments, adding further diversification to the market. Similarly to any other payment method, to succeed the Digital Euro will need to have defined use cases and deliver clear benefits to European consumers and merchants.

In the context of the future issuance of a Digital Euro, Payments Europe welcomes the development of a legislative framework.

On ensuring fair competition in the payments ecosystem

To ensure the offering of payment options continues to grow, it is essential to ensure that regulators work to maintain and protect the existing level playing field and ensure that all payment instruments are able to compete on an equal footing.

Payments Europe takes note of the different responsibilities given to the ECB that could present a challenge to fair competition. By empowering the European Central Bank to replicate a variety of infrastructure and services currently operated by payments service providers whilst also determining the pricing of Digital Euro-related services for intermediaries, the current proposal allows the ECB to act simultaneously as market competitor and supervisor. With this in mind, Payments Europe invites the regulator to ensure clear definition and appropriate separation of the ECB's roles as a Digital Euro issuer, clearing and settlement provider, and supervisor. One way to achieve this would be the designation of the Digital Euro as a systemically important payment system (SIPS).

On rollout

For the Digital Euro to be properly received and adopted, it is essential to build public trust with end-users. The phased rollout designed by the Digital Euro proposal aims to prioritise functionalities that reduce complexity and burden for users, something that will certainly support the uptake of this new method of payment.

Prioritising the implementation of offline payments features with cash-like characteristics would also facilitate uptake. And, to ensure consumer choice and nurture competition and innovation, the industry should also be allowed to provide such offline payment capabilities under the same legislative conditions as the Digital Euro. This would also require the adjustment of the anti-money laundering (AML) and counter-terrorism financing (CTF) frameworks.

The timeline for adoption of the Digital Euro should not be set too ambitious if we want this payment method to garner the support and trust of European consumers. Moreover, Payments Europe seconds the proposal's approach to commence Digital Euro rollout within the eurozone first, to allow thorough testing and implementation of the necessary system changes and processes. Distribution outside the eurozone should be only considered after successful rollout within it.

Regarding the compensation model

The current compensation model for the Digital Euro provides for limits and imposes the provision of basic services for free. However, this approach does not account for the cost of research, development, and implementation incurred by merchants and payment service providers to provide these services.

As such, the compensation model presented does not ensure a level playing field with other payment methods. Payments Europe would much welcome further clarification as to how ECB will set the inter-PSP fee level. By allowing the market to determine the appropriate merchant service charges and therefore ensuring that implementation, recurring service, and processing costs can be covered, the regulator would ensure that the business model of payments service providers remains sustainable and can continue to provide these services on the long term.

On interoperability

Additionally, the proposal should promote open acceptance and interoperability with existing technologies and networks to minimise complexity for both consumers and merchants and ensure quicker uptake. Similarly, wherever possible, payment service providers should be allowed to use existing infrastructure for Digital Euro transactions to reduce additional costs and fees.

Consumer choice

To guarantee consumers' choice, merchants should be required to display all available payment options on their payment platform. Appropriate user education regarding the attributes, implications and costs of the Digital Euro will be of critical importance, as consumers need to be empowered to make informed choices regarding their preferred payment methods in each situation.

Mandatory acceptance

The acceptance of a Digital Euro should not be imposed on all businesses, but on large enterprises only, with small to medium enterprises (SMEs) having the possibility to opt-in. Mandating SMEs to accept Digital Euro payments would require terminalisation of all merchants. It could also discourage cash usage and make it impractical for them to handle cash transactions. This would ensure continued access to cash and reassure customers that cash payments will still and always be available at smaller retailers.

Regarding privacy

Privacy is a top concern for European citizens, especially with regards to the Digital Euro. To ensure this new method of payment is trusted by end-users, it will be fundamental to have clarity as to the interplay between conflicting requirements on privacy and data protection and the efforts to limit the use of the digital euro as a store of value.

This could be achieved by requiring that users link all their Digital Euro accounts to a single nominated payment service provider to mitigate financial and data risks and the risk for deposit substitution. Consumers should be free to decide which provider they would link their wallet to and to switch their wallets to other providers.

