Ecommerce Europe's Position Paper on a Digital Euro

Introduction

Ecommerce Europe welcomes the creation and roll out of a digital euro, as it has the potential to transform European payments - increasing efficiency, promoting innovation and placing Europe at the forefront of payments technology globally. We believe that under the right conditions, a digital euro could also be an important step for an inclusive digitalisation of our economy.

In our view, the success of the digital euro depends on two key factors:

- First, rather than replicating the existing compensation framework of existing private payment methods, the digital euro legislative framework must set a new incentive structure based on the fact that the infrastructure to be used will now be publicly owned rather than private. This should also come hand in hand with safeguards to keep the digital euro as affordable as possible.

- Second, the digital euro legislative framework must leverage the unique characteristics of this new public infrastructure to unlock benefits unavailable with legacy systems. Digital euro can bring forth faster and inexpensive transactions, greater innovation, and a more inclusive, accessible and consumer-centric solution.

Striving for an efficient and competitive solution

To be successful, a digital euro must be designed to address existing limits with the European retail payment market and ensure its uptake among end-users. One of the key factors in this is the remuneration model and the cost of a digital euro for actors throughout the chain.

While we understand the intention behind the legal tender status of the digital euro, we remain concerned that this affects the objective of making the digital euro a compelling and competitive solution. A legal tender status would indeed limit businesses' ability to negotiate with intermediaries. It would in effect create a situation where merchants would be obliged to accept a payment method, with very little control over and regardless of the pricing of this method. **This would be detrimental to small and medium sized companies, when instead the digital euro could represent an opportunity to address existing challenges and truly benefits even the smallest merchant.**

It is therefore important that the Regulation creates an innovative remuneration model and provides safeguards to maintain the cost of the digital euro as low as possible.

The EU's objective should be to boost competition by leveraging the unique technical properties of the digital euro and offer simpler fee structures to help drive its acceptance. **We therefore argue that there should be no inter-PSP fees for the digital euro.** Inter-PSP fees apply to private networks as a way to compensate intermediaries for the counterparty and settlement risk taken. There is no such risk on digital euro as all transactions settle instantly on the common public infrastructure managed by the Eurosystem. Moreover, by dropping interchange fees to zero it will be cheaper and easier for PSPs to provide value added services and new products to consumers. New and improved products can lead to increased consumer demand, which lead to increased acceptance by merchants and increased participation by banks. The creation of such incentive structure is essential as adoption in payment is driven by demand from consumers not by supply from merchants or intermediaries.

www.ecommerce-europe.eu | info@ecommerce-europe.eu | +32 (0) 496 273 060

Rue du Commerce 31, 1000 Brussels (Belgium)

In the same logic, we support that intermediaries should be allowed to recover their investments through services they provide to their customers. Intermediaries offering the digital euro should be able to recover their investments through the provision of new value-added services linked to the digital euro.

We also encourage policy makers to consider options to keep costs as reasonable as possible. We notably encourage further discussion on fees charged to merchants, particularly if inter-PSP fees are maintained. We would support a **remuneration model based on a fee-per-transaction rather than a percentage of value, complemented by removing fees for low-value payments**. This would allow economy of scales for merchants, while protecting SMEs. Strong safeguards can also be maintained by **capping fees impose on merchants** for the acceptance of a digital euro. In that sense, we do not believe that the proposed caps should be tied to 'comparable payment methods'. As detailed further below, we believe that a digital euro merchant fees should be considerably lower than any current payment method.

Finally, we strongly encourage policymakers to address the issue of merchants' holdings. Zero merchant holdings would entail a significant accounting, operational and administrative burden for merchants, who would be forced to convert instantly from digital euro to euro. This "high frequency conversion" would result in higher costs to merchants, particularly SMEs. We therefore propose allowing merchants to hold digital euros for a limited set amount of time (i.e intra-day) and allowing batch conversion, to preserve financial stability while reducing costs. Merchants should also be allowed to pay their suppliers in digital euro to ensure a simple operational set-up for digital euro transactions. It is possible to safeguard financial stability whilst enabling B2B payments by allowing merchants to hold digital euros for limited sets of time, as described above.

What makes a digital euro a more affordable payment solution ?

As opposed to existing electronic means of payment that rely on private infrastructure, with digital euro, the Eurosystem would own and maintain the essential infrastructure to process a digital euro payment (a ledger recording end user funds and the core settlement engine that moves funds between end users). Much like physical infrastructure promotes economic activity by making physical movement fast, inexpensive and resilient, this new digital public infrastructure can deliver the same kinds of benefits to payments. CBDCs like a digital euro have unique characteristics that provide this solution a clear advantage in terms of efficiency, and overall costs for intermediaries and merchants, for example:

- The fact that all transactions settle in a single authoritative ledger managed by the ECB can allow for costs to be significantly reduced as there is no counterparty risk and transactions would be processed in a public infrastructure rather than on a private network as it happens today. As a public owner of the infrastructure, the ECB would have no profit maximising objectives, and therefore will eliminate the need for scheme related processing fees charged to intermediaries. The cost of current payment system is largely dependent on the architecture's disparate ledgers that require intermediaries to reconcile, as these costs are the fees paid to these intermediaries.
- The fact that a digital euro could help avoid "data round trips", delayed settlement, and eliminate reconciliation expense across multiple data file and ledges. Existing electronic payments can take several days to settle to merchant accounts, increasing working capital needs and reconciliation expenses, and therefore leading to higher prices. By introducing an authoritative ledger that settles instantly, a CBDC will improve cash flow and reduce operating expense, further contributing to lower prices.

Article 7
We advocate against a legal tender status for the digital euro

Article 17
- There should be no inter-PSP fee for the digital euro
- Intermediaries should be able to compensate the cost of offering digital euro through new value added services
- Safeguard should be considered to keep the total cost of acceptance as close to zero as possible, with a fee-per-transaction basis, and no fee applying to low value payments.
- Caps on transactions fees, based on the cost incurred and not in comparison to existing methods, should be considered.

Article 16
- **New Article 16**(9) Merchants engaged in the processing of the digital euro shall be permitted to hold digital euros and to batch its conversion to fiat. The maximum duration of digital euro holdings must not exceed twenty four hours. Merchants should also be able to directly pay their providers and suppliers in digital euro.

Striving for innovation, convenience and privacy

As explained above, we strongly believe that the adoption of a digital euro depends on how convenient and compelling the solutions offered will be. We therefore encourage policymakers to make the right regulatory choices to ensure that actors throughout the chain can use and build on a digital euro to spark innovation in end user applications and improved paying experiences in a number of ways.

What are the design features needed to unlock the potential for innovation?

- **Unbundle intermediary services**

By allowing intermediary services to be unbundled to a greater degree than is feasible today would lower entry barriers, foster competition and allow for new types of products and services to be developed. This would create opportunities for users, which could gain flexibility, control and privacy, and as mentioned above would reduce the overall costs of processing.

We believe that intermediary service unbundling is an important principal for fostering innovation broadly, but the most pronounced opportunity lies in unbundling Know-your-customer (KYC) and anti-money laundering (AML) processes. If we take the example of KYC, it will enable users to change financial service providers without having to undergo a separate KYC screen for each new institution. It would reduce costs for intermediaries who currently perform duplicative KYC screens on the same individual, which today can create important friction. This could be done by leveraging eIDAS KYC process or by the integration of third-party offering eID based services for the identification of customers, which could seamlessly plug into a future digital euro wallet.

- **Allow for a tiered-approach to KYC**

To make digital euro more inclusive and offer a greater degree of privacy, an ad hoc KYC framework could be implemented for digital euro so that greater KYC scrutiny is placed on higher risk/higher volume transactions. This would allow low value transactions to become closer to cash. Having lower levels of due diligence applicable to low value transactions could make digital euro more inclusive if customers are able to onboard without a bank account.

It would grant consumers the freedom to choose privacy over lower risks of loss, just like cash. It would also make access to the digital euro almost universal.

- **Allow for self-custody wallet as an option**

Digital euro should allow for greater forms of privacy for online transactions that what electronic payment methods offer today. To achieve this, digital euro should also allow for self-custody wallets, in which the customer would directly hold the keys to sign a transaction with no intermediary oversight. Greater customer privacy would be a clear and distinctive customer benefit that could encourage adoption and overall success of the digital euro. Self-custody wallets are in line with the BIS report on *Project Tourbillon*. To enable self-custody wallets, we would welcome the legislation to go beyond the notion of off-line wallets to also allow for the self-custody modality for ecommerce transactions.

It is important to note that a self-custody wallet option would not conflict with a commitment to an intermediated model for a CBDC: self-custody wallet providers could be regulated as licensed software providers and self-custody wallets do not obligate the central bank to provide any customer service directly to users.

- **Allowing for multiple wallets**

Multiple wallets allow for innovation as intermediaries have greater incentives to offer value added services. If customers have only one, they are locked into a single solution, which is likely to be their main bank provider, which would create an unlevel playing field.

- **Allow for conditional payments**

The possibility to trigger payments when certain conditions are agreed through specific mandates could represent a clear added value for the digital euro and would make it a much more convenient payment solution for users. It can make it easier to deliver existing payments use cases (such as pre-authorisation, Account on File and Recurring Payments), and allow for the creation of entirely new ones (such as automating machine-to-machine payments or supporting contingent "delivery vs. payment" transactions). For example, some of these conditions could look like a "multi-signature" conditions, which would require the signature from another party to complete the execution of a payment, or for example a "pre-authorisation" process, which allows a payer to sign a balance transfer authorisation to a defined payee that can be claimed by the payee at a future date and subject to objectively verifiable conditions like time limits or maximum amounts.

There is a variety of options available and that could be safely designed and specified in a future digital euro rulebook. We therefore encourage policymakers to ensure the framework allows for such innovation.

Article 22
We support amending the proposal to create the possibility of opening a self-custody digital euro wallet under article 22, and adapt related articles on distribution of a digital euro (e.g. Article 25 or Article 28).

Article 25
We support amendments to Article 25 to allow for the unbundling of intermediary services.

Article 24
We support the European Commission's proposal on conditional payments.