EBF Written Feedback to ERPB Engagement on Digital Euro Fit in the Payment Ecosystem – Competition theme

16 December 2024

Lessening payment fees – value drivers

Item	Value driver	Rationale
1	Better negotiation position vs ICS	In countries without domestic schemes: No scheme fees would be charged on behalf of the Eurosystem. Having digital euro as relevant alternative for intra-EU transactions will ensure better negotiation position and substantially lower costs, despite incumbent brands having strong leverage due to high switching cost. In countries with domestic schemes: The same logic applies but to cross-border transactions only, as domestic schemes already offer low fees to participating PSPs.
EBF feedback on the value driver and its impact		
We believe that the analysis should be broader than only the competition with international card schemes and consider the overall payment ecosystem, including other relevant alternatives that already provide EU PSPs greater bargaining power vs ICS. These include not only domestic card schemes but also other payment methods which are not card-based (e.g. Wero, Bizum, Bancomat Pay, Blik, …), do not have traditional scheme fees and involve very low costs for participating PSPs. In the countries where they are accepted, these payment methods are widely used by the consumers, and they compete with ICS. Additionally, although these solutions are currently aimed mainly at domestic transactions, there are initiatives (such as EPI and EuroPA) to expand their reach, making them also an alternative to ICS for intra-EU cross-border transactions. These solutions would therefore generate the same value drivers identified for the digital euro and would do so in a more cost-efficient manner, as they build on existing payment solutions rather than building new ones. We see a high risk that the digital euro, because of its mandatory acceptance, will unfairly compete with such methods, disincentivizing their development and taking away from them the existing payment volume instead of increasing it. This will not contribute to supporting European home-grown solutions which the Instant Payments Regulation is, inter alia, aiming at and, more generally, the objective of enhancing European sovereignty in payments. It is correct to say that countries with domestic schemes (both card-based and non-card based) generally have much lower scheme fees than ICS. Therefore, the claim that the		

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digital euro will reduce costs for banks is not such a relevant driver for PSPs in those countries. Moreover, such claim does not take into consideration the total costs of the digital euro that PSPs will have to bear (including the costs of fraud) and the expected transaction volumes.

Furthermore, large retailers, particularly those active in e-commerce, are likely to easily insource the acquiring functions for the digital euro. Acting both as merchant and acquirer, those firms will potentially cancel fees, which will give them an unfair competitive advantage against small retailers.

We would like to stress that scheme fees are also a means for the schemes to cover the cost of security, risk and fraud management and to fund innovation/evolution to the benefit of both acquirers and issuers and their customers, the cardholders and the merchants.

Moreover, scheme fees are only a small component of MSC. Adding payment methods to avoid scheme fee costs would also lead to reduction in economies of scale, while ICS negotiating power with acquirers would not be affected by the digital euro.

Indeed, the acquirer's internal cost is mostly driven by scale of its operations. The introduction of the digital euro as an additional (and technologically very different) payment method in the acquirer's operations is likely to introduce diseconomies of scale. It is by no means evident that any reduction in scheme fee costs will offset the economies of scale that are lost at the same time.

For acquirers, there is limited negotiating power when negotiating scheme fees, as the acquirer is largely passive in the choice of payment method by the payer. As for the merchants, they are simply informed by their acquirers about the terms and conditions established by the ICSs today and the digital euro tomorrow. Acquirers cannot afford to drop ICS payment methods from their merchant proposition. It is quite likely that ICS will be able to negotiate better scheme fees to offset any reduction in volume caused by uptake of the digital euro.

For issuers, a large part of their payments related income is from sources other than interchange fees. Sources of income include balance interests, recurring package fees and service fees. These sources of income are all non-existent in the digital euro. This offsets any conceivable cost reduction in issuer scheme fees.

Finally, we would like to highlight that the considerations of this value driver contradict the statement of several Eurosystem representatives in the past months that the main objective of the digital euro is to draw in transaction volumes of citizens who prefer to use cash today and want to move to a digital payment method. First, we caution the Eurosystem from conveying mixed messages. Second, the feedback outlined in this section clearly reflects that this is generally a misguided assumption.

Estimate likelihood of materialization for the value driver

Very unlikely per the reasoning above. Depends on the appetite of customers to use the digital euro which itself depends on the value proposition, privacy and security-related aspects of the digital euro.

Item	Value driver	Rationale
2	Better negotiation position vs payment processors	No digital euro processing fees would be charged on behalf of the Eurosystem. Having digital euro as relevant alternative for intra-EU transactions will ensure better negotiation position toward international processors, while potentially lowering the fees.

EBF feedback on the value driver and its impact

As a principle, the reduction of volume per payment method does not contribute to economies of scale and is not a basis for lower prices or better bargaining power.

Payment processing can mean a lot of different things. The discussion would benefit from precise description of what kind of processing is meant. For acquiring and issuing processing, the following applies:

As the technology underpinning the digital euro is distinctly different from current card-based and SCT Inst-based transactions, payment processing will experience a substantial reduction of scale in case the digital euro is to substitute volume from the current payment ecosystem. This will have a negative cost impact for issuers and acquirers.

To maintain economies of scale as much as possible, it is important to reuse as much as possible existing payment networks, processing systems and standards.

Even though the Eurosystem will not apply charges (it is however still unclear whether this will extend also to network costs to reach the DESP), domestic (payment) processors will have to be remunerated. The transaction costs could be lower, but the upfront investment required will be significant as well as the incremental operational costs to manage an additional payment scheme to instant payments and the ICS, which should be factored in this analysis.

Finally, a drop in payment volumes for ICS will most likely translate into an increase in ICS prices to compensate for the loss. This would mean the opposite of the actual value driver and the benefit for the industry will come from working towards the shift of transaction volumes to cheaper payment alternatives.

Estimate likelihood of materialization for the value driver

Likelihood is low. Whereby volumes matter, in terms of pressure on the international processors, first they need to see significant volume shifting out of their systems. Once this is the case and they have a need to re-acquire volumes, it would require a Europe-wide approach to claim a substantial and effective rebate towards international processors. Moreover, economies of scale for EU solutions, including for the digital euro, will only materialize in the longer term to achieve similar operational and processing cost per transactions as currently the case for large-volume infrastructures.

Increasing payment volumes – value drivers

<table>
<tr><th>Item</th><th>Value driver</th><th>Rationale</th></tr>
<tr><td>3</td><td>Digital euro bringing pan-European reach to issuing PSPs</td><td>Digital euro will be accepted by merchants operating in the euro area. This ensures a maximal reach for issuing PSPs, competing with global payment players or e-shop payment apps, and moving volumes to PSP channels.</td></tr>
<tr><td colspan="3">EBF feedback on the value driver and its impact</td></tr>
<tr><td colspan="3">Private European payment initiatives such as EPI or EuroPA also aim at bringing pan-European reach to issuing PSPs, thus leading to the same value driver without the need to build an additional payment solution. The only advantage of digital euro vis-à-vis these private-sector solutions should not be its mandatory acceptance linked to its legal tender status.

Also, the payment volume that could possibly be taken away from ICSs by the introduction of the digital euro may well go to large, non-European, online platforms providing digital euro services as non-bank PSPs - a model that is favored by the "open funding" concept - or providing just payment wallet solutions whereby due to the envisaged set-up of the digital euro ecosystem, these PSPs might have less implementation cost for offering digital euro services than banks.

Even more critical, on current discussion of a compensation model, these digital euro wallet providers would be remunerated, whilst the banks that hold the payment accounts linked to the digital euro wallets, would incur costs for operating the funding/defunding of the digital euro wallet but receive no compensation. This will inevitably affect the viability of European banks. It is essential that the compensation model moves from a "four corner" to a "six corner" setup.

The total number of payments is unlikely to be affected by the introduction of the digital euro. The increase of payment volumes is largely driven by the continued decrease of average payment amount, i.e. low-value payments are increasing. There is no evidence that payments, and in particular those via non-cash means, are not being made today because of a lack of a suitable payment method. Therefore, distribution across payment methods is a zero-sum dynamic in terms of payment volumes. In markets, like the EU, where electronic payments are well matured, electronic payment volumes will not be affected to any relevant extent. In markets where cash is still dominant, and irrespective of the potential introduction of a digital euro, we expect parts of the payment volumes to move from physical to electronic payments in the next decade.

Distribution of the overall payment volumes across a variety of payment methods will, however, result in a reversal of the benefits of economies of scale.</td></tr>
<tr><td colspan="3">Estimate likelihood of materialization for the value driver</td></tr>
<tr><td colspan="3">Likelihood requires a dedicated focus of the digital euro project on a euro area wide acceptance network for the digital euro integrated with existing solutions. This should be done in combination with an approach for issuing PSPs to integrate the digital euro into existing front-end solutions – but without an obligation to integrate the ECB app as well - that will expand their reach across the euro area while minimizing implementation costs.</td></tr>
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Item	Value driver	Rationale
4	Attractive pricing at the POI	With capped merchant service charges, digital euro would have attractive pricing at the POI, pushing merchants to prioritize digital euro payments over ICS at the POS and moving volumes to PSP channels.
EBF feedback on the value driver and its impact		
Today already, merchants in many EU countries accept digital means of payments (by law or by choice), so there would be no real difference. In any case, the final choice of the payment method must always remain by the user/consumer. The assumption that the merchant could decide or push the user to choose a payment method over another goes against legislation restricting pricing incentives and the ban on surcharging introduced by PSD2. Also, if capped MSCs push merchants to prioritize digital euro payments, this could also move volumes away from European home-grown private payment solutions that are being developed by EU PSPs, ultimately undermining their competitiveness. In addition, MSC caps could force some EU PSPs, particularly smaller ones, out of the acquiring market if the provision of services is not economically sustainable given the structure of their business model, which could negatively affect their competitiveness as well as the degree of competition and diversity in the market. In this regard, we note that there is already intense competition in the provision of acquiring services in the European retail payments which allows the market to establish competitive and reasonably low merchant service charges for the digital euro without the need for regulatory intervention. We therefore believe that setting a cap on the MSC is unnecessary and counterproductive. Capping MSCs charges corresponds to price regulation, which we disagree with as it would affect existing and future private payment solutions. It could also favour a greater role for non-European companies, such as large online platforms, whose business model allows them to operate certain activities at a loss to obtain other indirect benefits such as access to data and the strengthening of their core platforms. From a banking perspective, the competition in acquiring is on price. For large volume merchant clients, acquiring is sometimes even provided at a loss. This illustrates that competing on price is very difficult. Attractive digital euro pricing and legal tender status will cannibalise local and pan-European schemes, rather than the ICS. This illustrates that the framing of "digital euro vs ICS" leads to the wrong conclusion. Instead, the focus should be on European solutions to remain competitive, and how to achieve this. Finally, it is not clear how caps would factor risks, additional services and other pricing components into the MSC, or the flexibility on commercial offerings, which is key specially for small merchants.		
Estimate likelihood of materialization for the value driver		
Depends on the appetite of customers to use the digital euro which itself depends on the digital euro value proposition, privacy and security-related aspects.		

Item	Value driver	Rationale
5	Digital euro bringing offline solution to EU PSPs	In case of outage, payment volumes would partly move to DEUR offline functionality, further increasing volumes. Offline transactions would not be accessible to PSPs, but issuing PSP would still be compensated.

EBF feedback on the value driver and its impact

First, the existing payment infrastructures and solutions are resilient and observe rare outages, whose impact on volumes is negligible. Furthermore, most existing solutions are already built with a feature by design that caters for temporary internet disruptions.

Second, the offline digital euro functionality will require to replace or to upgrade almost all European POS and ATMs and this at a disproportionate cost in comparison with the potential benefits and unlikely to be recovered by any compensation scheme as we see in the discussion today. In this respect, while we recognise that an offline solution could bring value to society and merchants, by being more resilient, such resilience deserves further scrutiny.

As such, in order to define the actual impact of this value driver there must be a more granular definition of 'outage': network and infrastructure outages are different incidents, and if they occur, they will most likely impact the ability for citizens to use their offline digital euro wallet as is requires pre-funding.

Another example: offline might at first glance be considered an alternative in case of electricity outages. However, this also requires PoS terminals to be battery-driven, which for most terminals is not the case today. How long a PoS terminal could accumulate incoming payments in an offline state, before requiring online reconciliation, is also an important driver of the degree of resilience, which should be weighed against the increased AML/CFT risk of unscrutinised offline payments (see also below).

These adaptations on the side of banks controlling ATMs, acquirers and physical merchants will also have a major environmental impact and bear a massive cost, in the order of several billion of euros. Instead, e-commerce platforms (the biggest ones being based outside the EU) will not be impacted by the offline and will therefore benefit from a competitive advantage against physical shops. At this stage, it is also unclear how issuing and acquiring PSPs will be compensated for offline transactions.

Thirdly, in the current design of the offline functionality, there will be no transaction screening. We are concerned that this may undermine banks' obligations under AML/CFT/anti-fraud legislation.

Finally, since the digital euro will not replace cash, it is not certain that volumes will increase due to the introduction of the offline functionality. Citizens might indeed still want to use cash over any offline functionality for private and anonymous reasons that are their own.

For all these reasons, this does not seem to be a relevant value driver for increasing significantly payment volumes.

Estimate likelihood of materialization for the value driver

We expect the materialization to be very low. Indeed, in its nascent status of technical and operational capabilities, this value-driver will not materialize as a unique selling point for the digital euro.

Standardizing the front-end – value drivers

Item	Value driver	Rationale
6	Less dependencies on pass-through digital wallets	If digital euro adoption takes up, pass-through wallets will be less of an unavoidable solution for issuing PSPs, rebalancing negotiating power in partnerships talks. Additionally, pass-through wallets seeking to provide digital euro services would need to require tokenization services, which can be provided by issuing PSPs only, enhancing further issuing PSPs bargaining power vs pass-through wallets.

EBF feedback on the value driver and its impact

Dependencies on pass-through digital wallets provided by large online platforms arise mainly from these companies' control over the entire mobile ecosystem (e.g. NFC, operating systems, biometric authentication, …) in close connection with a variety of digital services across different industry sectors. Wallets provided by financial institutions will always be a separate application that must interoperate with these ecosystems.

This dominance has allowed them to establish very entrenched market positions that are difficult to challenge, even with the greater openness of mobile ecosystems mandated by the Digital Markets Act (DMA). It is therefore unclear how a new payment instrument could effectively challenge this dominance, particularly if it can also be integrated into these wallets and offered by these platforms as yet another integrated service, and benefit from the related fees that they will continue to charge on their services.

In addition, mobile wallet providers would also have the possibility of obtaining a PSP license to distribute the digital euro directly, thus contributing to increase their bargaining power vs PSPs, irrespective of the fact that mobile wallets would continue to hold significant leverage due to their dominant market positions and their ability to negotiate bilaterally with PSPs.

Moreover, and as described earlier, should wallet providers act as distributing PSPs, with users being able to link bank/PSP accounts for funding, the compensation will however only go to the digital euro wallet provider in the absence of the definition of a 6-corner compensation model.

Estimate likelihood of materialization for the value driver

Likelihood is very low in the context of the scenario described above. It is indeed very unlikely that the bargaining power of PSPs towards companies providing wallets can increase via the digital euro as PSPs cannot impinge on the choices of their customers who may not be attracted by a standalone digital euro but would rather see it integrated in the wallet they already use as part of an online ecosystem, thus even increasing the role of such players.

Item	Value driver	Rationale
7	Less dependencies on staged and stored value digital wallets	With capped merchant service charges, digital euro would have attractive pricing at the POI, pushing merchants to prioritize digital euro payments over expensive stage / stored value wallets, fostering a direct relationship between merchants and PSPs.
EBF feedback on the value driver and its impact		
Please refer to our comments under item #4.		
Estimate likelihood of materialization for the value driver		
Likelihood is low. Again, adoption will depend on consumer preferences. Besides, It is important also that other private payment solutions could also benefit from this access. The digital euro will not solve this issue for other private payment solutions building e.g. on instant payments.		

Item	Value driver	Rationale
8	Guaranteed access at the forefront of digital front-ends	*"Digital euro payment accounts should be accessed via one the main pages of the Internet website or an application, or any other front-end services, on an equal footing with non-digital euro payment accounts."* Recital 63 will make sure that digital euro will always remain an option at the front-end.
EBF feedback on the value driver and its impact		
While the goal of Recital 63 is shared, its implementation shall not be based on a mandatory integration of the Eurosystem app by all PSPs, including those which offer their own app, as this would increase their cost without any additional benefit to their clients. PSPs should remain free to decide how to offer digital euro services, either by integrating the digital euro within their own existing applications or by deciding to integrate the ECB's digital euro app. Encouraging competition between PSPs in the provision of digital euro services will be in our view more effective to foster adoption than setting requirements on how and where the digital euro should be provided. Integrating new services in the bank app has helped other services/solutions to grow quickly by leveraging the high bank app traffic.		
Estimate likelihood of materialization for the value driver		
High as regulation can ensure access to the digital euro.		

Brussels, 11 December 2024

ERPB consultation

Fit of the digital euro in the payment ecosystem: Theme Competition

EACB response

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%.

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This paper presents the EACB comments in response to the ECB presentation on "Digital euro fit in the payment ecosystem: Theme competition" at the ERPB technical session on 13 November 2024. Below, we first address the value drivers presented by the ECB, followed by specific comments on the ECB slides.

1. Value drivers

Value driver 1: Better negotiation position vs ICS

ECB rationale: The digital euro would improve the EU market actors' negotiation position vs International Card Schemes (ICS):

- *In countries without domestic schemes: No scheme fees would be charged on behalf of the Eurosystem. Having digital euro as relevant alternative for intra-EU transactions will ensure better negotiation position and substantially lower costs, despite incumbent brands having strong leverage due to high switching cost.*
- *In countries with domestic schemes: The same logic applies but to cross-border transactions only, as domestic schemes already offer low fees to participating PSPs.*

EACB comment

We believe that the analysis should be broader than only the competition with international card schemes. In several (large) European countries, there are domestic card schemes which would be negatively impacted by a digital euro. Moreover, several countries have payment methods which are not card-based and do not always have scheme fees. In the countries where they are accepted, these payment methods are widely used by the consumers, and they are often dominant (at POS, for instance). We see a high risk that the digital euro will unfairly compete with such methods and take away from them the existing payment volume instead of increasing it, thus not contributing to supporting European home-grown solutions, which the Instant Payments Regulation is doing.

Regarding the scheme fees: The ECB should also consider that scheme fees of commercial payment networks are covering various services the network provider is delivering. A non-exhaustive list of services the card schemes provide includes: support dispute processes between scheme members; stand-in operation for technical outages; fraud detection scoring; regular marketing support; innovation support to scheme members; enforcing rules within the scheme; statistics. Are these services are expected to still be delivered to PSUs either by the intermediary or the scheme provider (i.e. ECB)? If the first option is chosen, the according effort taken by intermediaries needs to be compensated. In this sense, setting the restricting compensation for payer intermediary and payee intermediary to the lowest market alternative will leave this aspect out of sight. If the second option is chosen, the ECB should clarify how it envisions to finance and provide such services. We strongly recommend for this analysis to be deepened.

Additional to this, scheme fee is only a small component of MSC; adding payment methods to avoid scheme fee costs also leads to reduction in economies of scale, while ICS negotiating power with acquirers would not be affected by the digital euro.

Typical components of the (acquirer) payment fees are: acquirer margin, interchange and scheme fee. Typically, the acquirer scheme fee is the smallest of these components[1]. The acquirer's internal cost is mostly driven by scale of its operations. Introduction of the digital euro as an additional (and technologically very different) payment method in the acquirer's operations is

[1] Study on the application of the Interchange Fee Regulation, Copenhagen Economics, 2020, Figure 67 on p.158

likely to introduce diseconomies of scale. It is by no means evident that any reduction in scheme fee costs will offset the economies of scale that are lost at the same time.

For acquirers, there is limited negotiating power when negotiating scheme fees, as the acquirer (and merchant) are largely passive in the choice of payment method by payers. Acquirers cannot afford to drop ICS payment methods from their merchant proposition. It is quite likely that ICS will be able to negotiate better scheme fees to offset any reduction in volume caused by uptake of the digital euro.

For issuers, roughly 75% of their payments related income is from sources other than interchange. Sources of income include balance interests, recurring package fees and service fees. These sources of income are all non-existent in the digital euro. This offsets any conceivable cost reduction in issuer scheme fees. Additional to that, issuers would still be dependent on ICS for payments outside the euro zone. With less transactions processed, the negotiation power decreases and could result in higher prices.

The starting point *"No scheme fees would be charged on behalf of the Eurosystem"* does not mean there are no costs. Funding of these costs would be done with public money (tax payers). It is questionable if this is an even and fair playing field.

Countries without domestic scheme: Several Euro countries are dependent on ICS for card payments at POS. We expect that dependence will continue despite the digital euro, because not all consumers will immediately switch and for non-EU payments the offering of ICS is highly appreciated by customers. For non-EU customers, the merchants are still dependent on ICS, due to their international presence but also on Asian (card) providers. Besides this, due to the presence of Visa and Mastercard there is still competition for cards, although they have a strong market power together. Bottomline: it's questionable if PSPs will have a better negotiation position vs ICS, and that the dependency on ICS would reduce.

When it comes to Euro countries with domestic schemes: For example, in the Netherlands, iDEAL has a very strong market position in e-commerce of more than 70%. Most transactions are within the Netherlands and not cross-border. Also, in most other EU countries, the vast majority of transactions are national, not cross-border.

A question to the ECB concerning the likeliness of the value driver: How would the EU actors' negotiation position be achieved and what is it constituted of?

Value driver 2: Better negotiation position vs payment processors

ECB rationale: No digital euro processing fees would be charged on behalf of the Eurosystem. Having digital euro as relevant alternative for intra-EU transactions will ensure better negotiation position toward international processors, while potentially lowering the fees.

<u>EACB comment</u>

Even though the Eurosystem will not apply charges, payment processors will have to be remunerated.

Reduced volumes per payment method would destroy economies of scale and are not a basis for lower prices or better bargaining power.

Payment processing can mean a lot of different things; the discussion would benefit from precise description of what kind of processing is meant.

For acquiring processing and issuing processing, the following applies: As the technology underpinning the digital euro is distinctly different from current card transactions, payment processing will experience substantial diseconomies of scale in case digital euro is to substitute volume from the cards ecosystem. This will have a negative cost impact for issuers and acquirers.

To maintain economies of scale as much as possible, it is important to reuse as much as possible existing payment networks, processing systems and standards.

At the same time how to convince clients to have the digital euro activated? What is the incentive on the issuer side? Especially in case of different PSPs for digital euro and commercial bank money there will be a risk that the commercial bank will have the cost and the issuer the interchange fee.

Value driver 3: Digital euro bringing pan European reach to issuing PSPs

ECB rationale: Digital euro will be accepted by merchants operating in the euro area. This ensures a maximal reach for issuing PSPs, competing with global payment players or e-shop payment apps, and moving volumes to PSP channels.

<u>EACB comment</u>

It cannot be excluded that the payment volume that will possibly be taken away from ICS by the introduction of the digital euro will go to large, non-European, online platforms providing payment wallet solutions without them paying the price of implementation of the digital euro. In fact, with the current wording on the compensation model in the draft Digital Euro Regulation, these players would be remunerated, while PSPs hosting the current accounts linked to the digital euro wallets would incur costs but receive no compensation. This will inevitably affect the viability of European PSPs. The Regulation or the ECB should ensure that the non-digital euro payment account and the digital euro wallet are managed by the same PSP. At the very least, the compensation model should move from a "four corner" to a "six corner" setup.

More generally, how does the ECB ensure that the digital euro strengthens the position of European PSPs without simultaneously benefiting global payment players, who could also leverage this new ecosystem to expand their influence?

The total number of payments is unlikely to be affected by the introduction of the digital euro. There is no evidence that payments are not being made today because of a lack of a suitable payment method. Therefore, distribution across payment methods is a zero-sum dynamic. In markets where electronic payment is well matured, electronic payment volumes will not be affected to any relevant extent. Distribution over a greater number of payment methods will result in reduced economies of scale.

Value driver 4: Attractive pricing at the POI

ECB rationale: With capped merchant service charges, digital euro would have attractive pricing at the POI, pushing merchants to prioritize digital euro payments over ICS at the POS and moving volumes to PSP channels.

<u>EACB comment</u>

In the end it's not only about the cost, but also the convenience for customers and merchants. Merchants are likely to prioritize digital euro payments over ICS only if customers are willing to adopt and actively use the digital euro. Simply offering lower fees to merchants may not be sufficient to drive this shift. A relevant comparison is the failure of Paydirekt in competing with

PayPal, where customer preference and convenience played a significant role. This raises concerns about whether the digital euro can overcome similar adoption challenges and gain traction with both merchants and consumers without significant incentives or added value beyond cost savings.

Regulated pricing at the POI does not only affect ICS, but also existing and new European payment solutions.

Merchants have limited power to influence payers in their choice of payment method, in part because of regulation restricting pricing incentives. Discontinuing the acceptance of commercial payment methods would be a powerful steering method for merchants, that is however not feasible in many cases.

Commercial providers of payment methods have multiple levers to react to the introduction of competing methods that could impact their bottom line. For instance, through influencing payer preference for their solution. This may produce unintended consequences that could result in higher merchant cost or a deeper lock-in with non-European BigTechs.

From a banking perspective, the competition in acquiring is on price. For large volume merchant clients, acquiring is sometimes even provided at a "loss". This illustrates that competing on price is very difficult.

Attractive digital euro pricing and legal tender status will cannibalise local and pan-European schemes, rather than the ICS. This illustrates that the framing of "digital euro vs ICS" leads to the wrong conclusion. Instead, the focus should be on European solutions to remain competitive, and how to achieve this, leveraging the digital euro (see also answer to value driver 3).

It is important to get the focus right, focus on European solutions as a category to remain competitive.

Value driver 5: Digital euro bringing offline solution to EU PSPs

ECB rationale: In case of outage, payment volumes would partly move to digital euro offline functionality, further increasing volumes. Offline transactions would not be accessible to PSPs, but issuing PSP would still be compensated.

<u>EACB comment</u>

With such high availability figures of existing payment methods, the ECB rationale is not convincing.

Depending on the reason of the outage, the client should first pre-fund the offline device. So, the question is how s/he can do this (if not funded before the outage). The compensation is appreciated, but still the question is how this will work, without losing privacy and in the case of peer-to-peer payments.

Increased resilience through offline functionality is a value driver of a very different nature from the other drivers presented by the ECB. It is like an insurance that has a known and recurring cost. On the other hand the value is released only in rare cases, unpredictable in time. Benefits, although arguably significant, are of a societal nature more than that they impact individual payers and payees or their service providers.

Overall volumes will not be significantly affected by the introduction of offline functionality.

We recognise that an offline solution brings value to society and merchants, being more resilient. At the same time, such resilience deserves further scrutiny. One example: offline might at first glance be considered an alternative in case of electricity outages. However, this also requires POS terminals to be battery-driven, which for most terminals is not the case (today). How long a POS terminal will accumulate incoming payments in an offline state, before requiring online reconciliation, is also an important driver of the degree of resilience. In addition, several stores will have to close their doors because they are too dependent on energy (think of cash register systems, but also cooling, lighting, doors, etc.).

We do not see direct advantage towards PSPs of offline capability.

Value driver 7: Less dependencies on staged and stored value digital wallets

ECB rationale: With capped merchant service charges, digital euro would have attractive pricing at the POI, pushing merchants to prioritize digital euro payments over expensive stage / stored value wallets, fostering a direct relationship between merchants and PSPs.

EACB comment

See our comment on value driver 4. Merchants have limited capacity to influence payment method choice by payers. Payment behaviour is largely driven by habits. In markets where staged wallets are the current habit, it will take powerful incentives to overcome habit inertia in payers. At minimum, the digital euro experience for payers will have to be (and stay) on par with the experience in commercial offerings. This is already a nontrivial bar to reach. From that point of view, additional value will have to be presented to the payer to seduce them to change habits.

Value driver 8: Guaranteed access at the fore front of digital frontends

ECB rationale: "Digital euro payment accounts should be accessed via one the main pages of the Internet website or an application, or any other front-end services, on an equal footing with non-digital euro payment accounts." Recital 63 will make sure that digital euro will always remain an option at the front-end.

EACB comment

See our comment on value driver 7. On-par performance with other offerings does not provide any basis for preference, and is as such just a hygiene factor (that is arguably hard to achieve).

2. Specific comments on ECB slides

General comment about the business case: The digital euro project appears primarily driven by macroeconomic and strategic geopolitical concerns. However, the business case for it remains unclear. The ECB/EU have yet to provide a compelling rationale for why users would adopt this new solution over existing card schemes or other existing payment solutions. This lack of clarity risks hindering the widespread adoption of the digital euro, potentially relegating it to a marginal role. In such a scenario, the significant investments required from banks would be hard to justify, especially for going beyond the legal minimum to offer additional services. It is therefore crucial for the ECB/EU to clearly articulate the business case for the digital euro and outline how it intends to secure broad customer acceptance.

Slide 5: The theme of "competition" seeks to address the question: *"How could the digital euro impact the strategic relevance of EU players compared to global players?"* However, the slides do not provide clarity on why global players could not also benefit from the digital euro. As potential PSPs, they could become significant market participants within this new ecosystem. Since most global players are not European, this could create an opportunity to empower BigTech while potentially undermining the European payment industry. Therefore, it is crucial to design the digital euro in a way that suits Europe.

Slide 7: Lessening payment fees will also impact banks, not just Visa and Mastercard. Banks also benefit from card fees, and their business models could be negatively affected by the introduction of the digital euro.

Slide 8: Regarding *"MSCs for debit card payments were 0.44% in 2022, compared to 0.27% in 2018 (17 bps higher)"*. This statement is not true for all countries. In some countries, the numbers are much smaller, which is partially with respect to how different payment markets have been formed in the past. This means if the costs decrease, there will not necessarily be advantages for all the markets.

Slide 11:

- Regarding *"The digital euro offers EU PSPs additional, more competitive payment channels"*: This is dependent on the PSP. Which channels are new? Offline payments are not offered yet. But we have mobile, internet, phone (landline), wearable etc.
- Regarding *"Covering wide range of payment methods (NFC, QR-Code..) on multiple online form factors (mobile app, POS terminal…)"*: It is unclear what is new here. Furthermore, due to the acceptance obligation for merchants and the distribution obligation for banks, *"covering a wide range of payment methods"* instead of focusing on one channel means not only opportunities but also additional costs.
- Regarding *"Pan-European acceptance and distribution network enables immediate network effect"*: That is also the aim of different private market initiatives. If the goal of the ECB is to limit the influence of players like Visa / MC, other solutions could help better. We call for active support of European market initiatives like EPI.
- Regarding *"Digital euro will always be a payment option at the merchant"*: We expect that merchants will appreciate it if they will be able to support only one instrument which makes payments possible for all their clients. But also here, the consumer has an important voice, because s/he will have to be willing to pay with the digital euro. In many regions of Europe, merchants will continue to support ICS anyway, simply because international tourists make up a significant proportion of their customers. Although the option for tourists to use the digital euro is foreseen, we doubt that this option would be used by a significant number of visitors.
- Regarding *"Additional transactions volumes would be processed in PSPs back-end"*: Why should the digital euro increase payment volumes for EU PSPs? Introducing a new payment method or form of money will not inherently lead to more transactions. Instead, it is likely to crowd out existing payment solutions, whether established digital methods or cash. The latter should not be the ECB's goal, as they have stated that the digital euro is intended to complement current forms of money, not replace cash. In any case, in countries where POS payments are mostly cards, additional digital payments are not expected to replace cash. This raises several questions: Where would the anticipated increase in transaction volumes actually originate? Would the digital euro incentivize customers to pay more? If not, what transactions would the digital euro substitute/compete mainly with, according to the ECB?

Slide 13: Does standardizing the front-end truly foster competition? Moreover, does the ECB realistically anticipate developing a UI/UX that surpasses that of global players like Apple? How can the ECB ensure that the digital euro does not inadvertently provide global players with an advantage, allowing them to seamlessly integrate the payment value chain into their ecosystems and dominate the customer interface?

Slide 14: Regarding *"Digital wallets and X-pays set to double their market share in Europe over the 2023 – 2027 period"*: It is important to compare the right things together. We would suggest presenting the different figures for the different countries with a European aggregate to make clear what the impact could be. Apple/Google/Samsung Pay is about tokenization of the card. For Apple and Google it is a card payment. However, the Tap to Pay solution on acquiring and issuing side is impactful.

Slide 15: Regarding *"Fees structure example – Apple Pay vs. digital euro"*: If the scheme fees and Apple fee are not applicable in the digital euro example, that does not mean that the fees are not there. They occur in a different flavour: taxes (or other public funding). Besides this, Apple will invent a method to get revenues, also with an 'open NFC chip'.

Slide 16: The situation described, particularly in relation to PayPal (which is based in Luxembourg) results from regulatory arbitrage, where the quality of regulation and supervision varies across EU countries. This significant issue needs to be addressed as a priority. Due to regulatory arbitrage – especially with respect to KYC regulations – it is possible for fraud to be shifted to other countries within the EU.

Contact:

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

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ESBG Feedback to the Fit in the Ecosystem - 'Competition' - Workshop

General comments

At POS, the likelihood of materialization for each value driver will highly depend on the digital euro payment UX. For ecommerce, the likelihood of materialization for each value driver will depend on the payment UX and whether many digital euro front-end providers offer similar features as staged and stored value digital wallets that add value to both merchants and consumers.

Lessening payment fees

1. Better negotiation position vs ICS

Feedback on presented value drivers:

International (Cross-border) Reliance on ICS

Until digital euro remains regional without outlook to grow beyond EU, banks will need to run both digital Euro and ICS (at minimum for international transactions). Obviously for newcomers, e.g. non-bank PSPs, digital euro could be a good core pillar in their payment business models, but for universal banks covering all daily needs of society, including the capability to transact in global economy is inevitable.

Therefore, for maximum success, to replace ICS (and related fees for EU banks), the ECB should consider designing connectivity towards ICS themselves – for all digital euro issuing partners. This would be essential for the EU's most significant PSPs to not be structurally reliant on ICS.

Unintended consequences

- Big-/FinTechs could integrate digital euro as free funding method in their wallet solution → creation of a payment and account system without a role for EU players.
- ICS take advantage of the Digital Euro as public good to release Co-Badge cards → deterioration of competitiveness of national payment solutions, e.g. Girocard in GER.
- Non-European merchants integrate Digital Euro in their own wallet solution ("backward integration"), preferred option at check-out (no MSC) → creation of payments ecosystem with limited role for European banks.

- European banks would need to invest a relevant amount to be ready for Digital Euro introduction, which will stop innovation capability → deterioration of competitiveness of payment solutions of European banks as they fail to maintain pace with technological and preference developments.
- A lack of scheme fees would not only be competitive against ICS. It would also impact on other (EU) schemes, like those of the EPC and also for initiatives like EPI.

Likelihood

As payments are a volume business for all schemes, it is doubtful that one would come to a better negotiation position with less volume.

Although it is true that ICS fees have grown over the years (as volumes of digital transactions grow and thus processing costs on the schema side as well), for bigger issuers fee structure is with caps and, as you reach a cap, the fee is mostly flat. So, bringing in digital euro will not only not decrease overall costs – they will not move from ICS to digital euro – but costs on ICS side for issuers will grow as they will step down the volume discounts ladder

This value driver presumes that merchants can really influence consumer behaviour to boost digital euro adoption. While merchants may attempt to encourage the use of the digital euro by offering incentives or rewards, consumers will ultimately prioritise convenience, the overall payment experience, and their own personal preferences when choosing how to pay.

In addition, it is unclear whether ICS would respond by reducing their scheme prices. Instead, they could choose to maintain their current pricing while enhancing their value proposition by offering complementary value-added services for free, so that merchants perceive their value beyond just the cost. By doing so, they could differentiate themselves from the digital euro and justify their pricing, ensuring merchants do not favour digital euro solely for its lower price. In such a scenario, PSPs may not have a better negotiating position vs. ICS (or the improved negotiating position may be temporary).

2. Better negotiation position vs payment processors

This argument only holds if PSPs can steer merchant and consumer behaviour to favour the digital euro over other payment methods. While PSPs may attempt to influence their behaviour (by offering incentives, discounts, enhanced value-added services), the final choice rests with consumers, who ultimately decide how to pay depending on the overall user experience and their individual needs and payment preferences.

Again, payments are a volume business, we do not envision a better barging position with less volume. In fact, due to a decrease of volume other payment schemes (methods) would likely become more expensive.

Increasing payment volumes

Complexity of Proposals

Proposal of ECB to mitigate inclusion risks by wide range of mandatory acceptance of technologies will drive costs and complexity for merchants, as well complexity of communication.

Current proposals for instore payment to be processed via NFC wallet, NFC payment card (possibly contact chip as well) and QR code (unclear whether this means static, dynamic, or even both). This is too much.

Especially as we are speaking of 5 years ahead – when mass uptake for instore will take place. By that time, cards will be niche, smartphones (or equivalent personal payment device) will be ubiquitous (to the point of being a fundamental right). Therefore, prescribing technology-specific obligations for acceptance is not only onerous but likely misguided.

Furthermore, QR codes are not very convenient and widespread (even today). Therefore, we propose to drop QR codes from mandatory acceptance and distribution, which would substantially decrease both the complexity and costs both for development and operations.

Thus, we advocate focusing on contactless – NFC – and in the smartphone wallet or card form factor. It is important to note that ICS, in comparison, are substantially less complex to deploy. Therefore, to achieve volumes they should have a competitive level of complexity.

3. Digital euro bringing pan-European reach to issuing PSPs

A digital euro may enable large issuing PSPs to reach merchants who prefer a single or limited number of PSPs to handle all their transactions within the euro area. However, this advantage may not be relevant for smaller banks that are not involved in this market.

The advantages for nationally-oriented payment schemes would only materialize with a pan-European alignment of domestic schemes under the adaptation of the digital euro acceptance infrastructure.

This advantage may materialize with ECB assistance. It is important to note that this could be achieved for existing and developing EU payments solutions with similar ECB assistance. In our view focus should be given to facilitating pan-

European market solutions – which could then be better synergized with the digital euro in the future.

4. Attractive pricing at the POI

While merchants and payment service providers can offer incentives and promote the digital euro, the final choice rests with consumers, who will select the payment option that offers greater UX and best aligns with their personal needs and preferences (in terms of convenience, familiarity, security, rewards etcs.). Moreover, merchants will continue to require to offer other payment solutions (e.g., credit cards). In this respect, the digital euro payment UX needs to be attractive and be complemented with value-added services in order for consumers to choose the digital euro over their current preferred payment methods.

In addition, it may be challenging to balance the incentives that Payment Service Providers (PSP) and merchants focus on. Specifically, merchants would be strongly incentivised to prioritise the digital euro over other payment methods if inter-PSP fees for digital euro transactions are significantly lower than those for debit and credit card transactions. However, in such a scenario, PSPs would have less incentive to promote the adoption of the digital euro among their customers. Alternatively, if inter-PSP fees were equivalent to those of cards, PSPs could use part of their profit margin to promote the use of the digital euro and attempt to influence consumer behaviour (e.g. by offering incentives such as rewards and discounts, investing to make digital euro payment UX truly competitive with that of cards…).

This vector will not only impact ICS. This approach makes it even more difficult for other European payment solutions, i.e. domestic schemes but also for EPI and Instant Payments. Indeed, studies of at least one of ESBG's members indicate that the digital euro particularly threatens to cannibalize the established domestic schemes at POS.

5. Digital euro bringing offline solution to EU PSPs

Impact on EU Payment Schemes

Offline may increase, in certain circumstances, volume. But, in our estimation, overall payments volume will shift to digital euro impacting other payment schemes.

Market Demand

In our view, there is very limited market demand for an offline digital euro – and limitations to policy objectives. This limits the value-to-investment of this functionality (as not consumer-driven).

The lack of consumer demand also undermines certain perceived benefits of a digital euro, as if consumers have not prefunded their online wallets (because they do not rely on it in 'normal times'), they will not be able to use the digital euro in stress moments (if other payment methods are unavailable) – see explanation below.

Technical Functionality and Policy Alignment

Members have voiced concerns of a perceived misalignment between the policy aims being discussed at a political level and the technical possibilities of a digital euro – and its related impact and role in the payment ecosystem.

In relation to offline, this specifically refers to the political ambition, in some cases, for the digital euro to be a payment means which is resistant of data transmission disruptions (mitigating existing security threats).

In technical reality, with centralized/single ledger concept, there is effectively only one option: a wallet within a wallet. One must set aside offline value on physical digital memory and use the balance in physical proximity. Therefore, if data transmission is down, topping up offline balance from online account is not possible.

One will need to balance between 3 balances – salary/commercial bank account, digital euro main account, and digital euro offline balance. Of these, offline balance is the least useful, as it can be used only in physical proximity and requires regular funding (via data transmission). If stored on payment card, most probably it will need a device that changes the balance – not at home.

While we recognise that the ECB is aware of these limitations, we consider it important for the ECB to highlight the intended use cases (and related policy objectives) in line with technical limitations, in order to correctly contextualise the discussion.

Cost and Compensation

Compensation for offline payments is not yet defined. "Outages" are unpredictable (and irregular), making it questionable whether payment volumes would shift from online to offline during such events. In the event of an unforeseen network outage, the user would no longer be able to prefund from the online to the offline wallet.

For P2P cash transactions, no PSP is involved; however, in a P2P offline digital euro transaction, a PSP and issuer would be involved during the subsequent synchronization of balances. This represents a systemic disadvantage for banks compared to the current cash system if the transaction volume and acceptance structure of cash are to be maintained.

Due to its high complexity, corresponding costs and unclear benefit for the customer, we propose to launch the digital euro without the offline functionality.

Standardizing the front end

Consumer Preference

Ultimately, the final decision on what payment method to choose rests with the consumer. The value proposition of the digital euro may not be sufficient to persuade consumers to favour it over other current payment methods, even if merchants incentivize its use. If that were the case, PSPs would have to invest a portion of their profit margin to promote and attempt to encourage the adoption of the digital euro among consumers. In this scenario, depending on the level of inter-PSP fees, the benefits PSPs could derive from distributing the digital euro could be relatively small or even insufficient to offset the associated initial investment and distribution costs.

Market Standardisation Through Standardised Standards

Standardized digital euro front-end would not be necessary in countries with existing national payment scheme/wallet. Leveraging these through a public-private partnership would be the more cost-effective approach (building on the work of wero, bizum etc.).

It should be further highlighted that the digital euro, as currently discussed, is intended to be a payment scheme, not a wallet solution (like Apple Pay or Google Pay). Therefore, it would come into more direct overlap with EU PSP scheme developments. In order to facilitate these EU schemes being increasingly standardised (and facilitating of a digital euro), work should continue to standardise EU acceptance (as well as to compete with the pass-through wallets).

6. Less dependencies on pass-through digital wallets

In theory, we consider this to be potential strength of the digital euro. However, not without concerns and market risks.

Requiring pass-through wallets to use tokenization services for providing digital euro services could prevent these wallet providers from unilaterally enrolling digital euro front-end services (without the agreement of issuing PSPs).

However, if only a few PSPs decided to enroll digital euro wallets on pass-through wallets, current non-European wallet providers such as Apple and Google could be incentivized to bypass PSPs and apply to become an issuing PSP themselves (given that they would be losing a portion of their income and access to valuable customer data). In such a scenario, even though banks could develop their own (or sector-wide) front-end digital euro services, at least over the short to medium term, X-Pays would offer a far superior user experience (due to their years of experience, control over mobile operating systems, and larger investment capacity) and so consumers could favour their digital euro wallets.

At the same time, in accordance with current proposals of PSR and digital euro regulations, PSPs will not be able to prevent consumers from turning to payment initiation service providers (PIS) to initiate payments with digital euros. Therefore, the customer will ultimately decide which app to use to initiate payments in digital euros.

Indeed, the growing use of Apple Pay is not coming from issuer push or even Apple marketing, it is convenience driven. This means that consumers who are now reliant on its convenience are not coming back to a cards form factor.

This then sets a UX expectation level for digital euro – i.e. it must work in at least the same smooth, frictionless way as Apple Pay.

Opening NFC chip for 3rd party wallets would be a major step, but would it work the same way on Apple Watch (for example) as Apple Pay – e.g. staying "unlocked" while watch is on the wrist. Would it be possible to make a 3rd party wallet primary wallet in so far single wallet experience. And, finally, opening the wallet for 3rd parties would open it for ICSs as well.

7. Less dependencies on staged and stored value digital wallets

A capped MSC as the sole advantage for the digital euro is unlikely to drive adoption.

In ecommerce, staged and stored value digital wallets (such as PayPal) provide significant value to merchants by enhancing the payment experience and offering additional services -for which they charge additional fees. Specifically, these wallets simplify the checkout process, making it faster and more convenient for consumers to make online payments, which can then lead to higher conversion rates and increased sales for merchants. Furthermore, they offer additional services to merchants, including enhanced security features (which help to reduce fraud risk), valuable consumer data insights and analytics, and Buy Now Pay Later (BNPL) options (which lead to higher conversion rates). In this context, merchants would only promote and prioritize payments with digital euro if it provided at least the same benefits staged and stored value digital wallets currently offer.

8. Guaranteed access at the forefront of digital front-ends

Although the digital euro will always be available as a payment option, consumers will ultimately prioritise convenience, overall payment experience and their personal preferences when deciding how to pay.

<ins>Additional value drivers.</ins>

The most critical factor for digital euro success is uptake which, in turn, will rely on the onboarding issuing side.

The primary key to successful onboarding will be **user experience** – which, from our experience, depends on smooth working of the solution. This will require to at least match, but preferably better, existing solutions (i.e. ICS, Apple Pay etc.)

Secondly, **marketing and communication** across European society will be vital. ICS have huge expertise over the years and huge marketing and communication budgets to launch and maintain image, UX etc. E.g. sponsoring of big sports and small local venues. They are visible and likable – and thus associated as fully integrated in society and economy. Example: MasterCard is between top recognized and liked brands in Baltics (and Visa is investing to catch up).

EPIF comments on the Competition Session of the ERPB engagement on how the digital euro is fitting in the payment ecosystem

Within its workstream for assessing how the digital euro fits in the payment ecosystem, the ERPB identified three ways in which the digital euro could help EU PSPs to increase their strategic relevance: potentially 1) lessening payment fees, 2) increasing payment volumes, and/or 3) standardizing the front-end of the transaction.

The ECB identified some value drivers for the digital euro project and asked participants to share their feedback on these value drivers, their impact and the likelihood of them materialising. The ECB also asked participants to share any additional value drivers that could impact the market dynamics as a result of the adoption or issuance of the digital euro.

1. Lessening payment fees

The digital euro could introduce more competition into the current payment infrastructure and lower the costs of transactions.

1st value driver: Obtaining a better negotiation position vis-à-vis international card schemes (ICS)

ECB Rationale:

In countries without domestic schemes, no scheme fees would be charged on behalf of the Eurosystem. Having the digital euro as a relevant alternative for intra-EU transactions could ensure a better negotiation position and substantially lower costs, despite incumbent brands having strong leverage and due to high switching cost. In countries with domestic schemes, the same logic applies but to cross-border transactions only, as domestic schemes already offer low fees to participating PSPs.

Feedback and impact of the value driver:

EPIF supports additional competition as long as it is fair competition.

In countries with domestic schemes, these are competing successfully with ICS. The digital euro might weaken their relevance and ability to compete with the ICS, potentially limiting the impact of this value driver.

Likelihood of materialization:

Low in countries with domestic schemes.

2nd value driver: Having a better negotiation position vis-à-vis payment processors

ECB Rationale:

No processing fees would be charged for the digital euro on behalf of the Eurosystem. Having the digital euro as a relevant alternative for intra-EU transactions could ensure a better negotiation position vis-à-vis international processors, while potentially lowering the fees.

Feedback and impact of the value driver:

One the one hand the ECB rational might materialize for the marginal costs/fees in the long-term. On the other hand, the upfront implementation costs might be significant with a possible impact and pass through to the fees, especially in the light that this will be an additional scheme and infrastructure PSPs will need to manage.

Likelihood of materialization:

Hard to assess.

2. Potential for the Digital Euro to increase payment volumes

The digital euro could introduce an additional payment channel to be used by PSPs. The additional channel could increase payment volumes for PSPs.

3rd value driver: Digital euro bringing a pan-European reach to issuing PSPs

ECB Rationale:

The digital euro could be accepted by merchants operating in the euro area, ensuring a maximal reach for issuing PSPs, competing with global payment players or e-shop payment apps and moving payment volumes to this new PSP channel.

Feedback and impact of the value driver:

If the technical standards at the Point of Interaction (PoI) become open to non-bank PSPs and European payment solutions can expand their reachability, digital euro transactions should be interoperable with settlement solutions in instant payment in e-money/commercial bank money. This possibility should already be foreseen in the design options and new standards (e.g. QR-code, NFC) and not be limited to digital euro transactions.

Ultimately though EPIF does not believe this would be a value driver because the digital euro does not cover new use cases. Payment volumes would not necessarily increase. Any increases would be related to other customer decisions and not necessarily arise alone from the introduction of the digital euro.

The digital euro could lead to an increased migrating from the ICS. These would amount to a shift and reconfiguration in the market rather than an overall increase in payment volumes. However, for this shift to occur, there would need to be incentives for customers to adopt the digital euro.

Likelihood of materialization:

Depends on the design options of the scheme.

4th value driver: Attractive pricing at the POI

ECB Rationale:

By capped merchant service charges, the digital euro could offer an attractive pricing at the POI, encouraging merchants to prioritize digital euro payments over ICS payments at the POS and moving volumes to PSP this payment channel.

Feedback and impact of the value driver:

The digital euro will only be considered a value driver if the compensation model is sustainable and caters for all the costs of the involved parties in the long-term.

EPIF does not believe that capping merchant charges would not lead to the success of the digital euro because fee caps would also disincentivise PSPs from innovating.

Likelihood of materialization:

Hard to assess.

5th value driver: Digital euro bringing offline solutions to EU's PSPs

ECB Rationale:

In case of outage, payment volumes would partly move to the digital euro offline functionality, further increasing volumes. Offline transactions would not be accessible to PSPs, but issuing PSP would still be compensated.

Feedback and impact of the value driver:

Outages nowadays are very limited and payment systems are very resilient, so it is not evident to which extent this value driver will be relevant. Cash is and remains a good alternative for those situations. Taking also into account the upcoming legislation on cash, EPIF does not see a particular added value.

Likelihood of materialization:

Low

3. Standardizing the front-end

This assessment is based on the prediction that digital wallets are set to double their market share in Europe over the 2023-2027 period, that banks are ready to distribute demanded pass-through wallets at the expense of revenue, and that the most relevant staggered wallets has a high merchant service charges, without necessarily generating any revenue for the banks.

6th value driver: Lessen dependencies on pass-through digital wallets

ECB Rationale:

If the digital euro adoption takes up, pass-through wallets will become less of a barrier for issuing PSPs, rebalancing the negotiating power in partnership talks. Additionally, pass-through wallets seeking to provide digital euro services would require tokenisation services, which can be provided by issuing PSPs only, enhancing further the bargaining power of issuing PSPs vis-à-vis the pass-through wallets.

Feedback and impact of the value driver:

EPIF does not share this assessment.

Likelihood of materialization:

Low

7th value driver: Lessen the dependencies on staged and stored value digital wallets

ECB Rationale:

With capped merchant service charges, the digital euro could offer an attractive pricing model at the POI, encouraging merchants to prioritize digital euro payments over staggered or stored value wallets and fostering a direct relationship between merchants and PSPs.

Feedback and impact of the value driver:

EPIF does not share this assessment.

Likelihood of materialization:

Low

8th value driver: Guaranteed access at the forefront of digital front-ends.

ECB Rationale:

Recital 63 sets out that “digital euro payment accounts should be accessed via one of the main pages of the relevant website or application, or any other front-end services, on an equal footing with non-digital euro payment accounts”. This could ensure that digital euro will always remain an option at the front-end.

Feedback and impact of the value driver:

This objective should not be achieved by introducing a privileged status for the digital euro, in the form of regulation and/or any pricing cap, compared to other equivalent European-based payment solutions/schemes. Otherwise, this might crowd out private payment solutions. This could also lead to the disintermediation between the PSPs and consumers reducing the incentives for distributors to promote the respective payment solutions. For these reasons, EPIF does not see any concrete added value.

Likelihood of materialization:

Low

ETPPA feedback to ERPB engagement on digital euro fit in the payment ecosystem
Theme: Competition

Feedback deadline 16-Dec-24

Q.1 How would digital euro help EU PSPs to increase their strategic relevance?
From the outset, ETPPA would like to flag that there are two different categories of PSPs that need to be categorised and the answers below will differ for PSPs in each category. Firstly, there are PSPs that have created their own, or invested in private payment solutions (e.g. Bizum, Blik, EPI, VIPPS, Swish etc.). This category of PSPs would include PISPs. Secondly, there are PSPs that are not involved in any private payment solutions. So it is important to take into account whether a PSP falls into the first or second category, as the impacts will be different. PSPs in the first category will face competition from the digital euro to the investments they have already made. PSPs in the second category may be more in favour of a digital euro, but may also question the business model when it comes to compensation.

ETPPA believes there is limited scope for a digital euro compensation model, given the digital euro is expected to be free for the customer and have close to zero costs for retailers. This will be a rather negative point for PSPs falling into the second category.

A digital euro will be a major factor in weakening any other payment initiative as the digital euro will not be available outside the EU, hence it will weaken global perspectives. A digital euro will compete with the likes of EPI and anybody else in the EU so it will weaken their position, and act as a major hurdle for others in the EU to become a global player in payment services. That said, a digital euro will impact both categories differently, as mentioned above.

Q.2 How would digital euro strengthen EU PSPs bargaining power vs ICS and processors? (Lessoning payment fees)
During the 13-Nov ERPB digital euro technical session, the slides presented highlighted that *"ICS Scheme fees have been increasing over time, especially driven by acquiring scheme fees".* ETPPA believes that pay-by-bank i.e. PIS@POS is a currently existing alternative to cards. There is no investment needed. The rails currently exist under PSD2 (soon to be replaced by PSR/PSD3) and the EU's Instant Payments Regulation which comes into effect in 2025. Anyone with a bank account can use pay-by-bank as a means of payment.

ETPPA would, therefore, like to point out that Instant Payment solutions could represent direct cost savings for merchants, and also lead to savings on other payment methods by increasing their bargaining power vis-à-vis PSPs. Similarly, consumers could enjoy more choice amongst safe, convenient and modern payment solutions, and benefit from lower prices if the merchant savings were to be passed through.

Q3. How can EU PSPs use digital euro to enhance their competitiveness vs global payment players? (Increasing payment volumes)

During the 13-Nov ERPB technical session, the slides presented stated that *"the digital euro offers EU PSPs additional, more competitive payment channels"*. ETPPA would remind the ECB that, given the array of pre-existing payment solutions in Europe, it must keep in mind the cost to EU taxpayers and ensure a digital euro is sustainable in the interest of all (first and foremost consumers, then merchants, PSPs, acquirers, banks etc.).

The creation of a new digital euro scheme involves astronomical costs e.g. scheme infrastructure, pricing model and scheme governance, not to mention manpower and resources from the private sector in order to contribute and ensure a workable digital euro which limits any crowding out of the private sector. There will also be a cost for ECB participation in a new digital euro scheme.

ETPPA recalls 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.

For this reason, ETPPA 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. The 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. However, the more successful an account-based digital euro 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 ETPPA fears that the Eurosystem would have to bear a lot more than its own cost. Again, serious consideration must be given to the end cost for EU taxpayers and whether it is sustainable.

If the digital euro was token-based, many essential use cases would look quite different, for example allowing the digtial euro scheme QR-code to contain all the data needed to initiate a payment via the existing PSD2 API standards; maximising the end-to-end security, incl. a dynamically linked SCA, whilst minimising any friction in the payment flow; allow self-checkout (not requiring queuing up to a cashier or terminal) and, very importantly; allowing "offline payments" without network coverage for the consumer/payer device. Digital euro tokens and payments could then be built into the EU Digital Identity Wallet (EUDIW) and the P2P and POS use case handled very easily and very similar to how consumers and merchants are handling cash today, just without all its downsides.

Q4. How digital euro would offer opportunities to strengthen customer relationships? (Standardizing the front-end)

- **Digital wallets and X-pays set to double their market share in Europe over the 2023 – 2027 period**
- **Consumer banks are ready to distribute demanded pass-through wallets at the expense of revenue**
- **The most relevant staged wallet has high merchant service charges, without necessarily generating revenue for the banks**

To date, the design for a digital euro appears to have focused on creating something for online. From a TPP perspective online means access. As TPPs, we want to be able to do what we do on digital euro accounts i.e. value-added services. But then when we look at the digital euro plans, we see a myriad of problems of central bank money in account form in addition to private money in account form. People will have two bank accounts for private and public money. This is on top of any savings accounts,t so there will be a lot of confusion and the general public may not understand it.

Priority seems to be for a digital euro to be used in e-commerce. Which is exactly where we already have more electronic payment options than needed. We understand the aim to ensure the overall share of ECB money stays at a high level and that it is not diminished by more and more money being spent online. However, ETPPA questions who the ultimate beneficiary is from a digital euro? Currently, it seems this would be retailers. Retailers want to have lower fees and cheaper services. And they are right. But the very reason for paying an interchange fee to have real time payment guarantees (despite a later settlement) and to allow money getting pulled, is not existing with the current digital euro plans. A digital euro is a push payment and it is done in real time. So there is an implicit payment guarantee and no two-step process. Which is why it is an unreasonable expectation that a lot of money can be made with any digital euro interchange fee. Acquirers will still have some additional services for merchants like collecting, but there is no reason to share that with issuers. The reasons for paying an interchange fee to issuers will not be there anymore. We would therefore question the business model for a digital euro.

ETPPA would like to reiterate our view for the reasons above, and for those described in our previous feedback, a digital euro should be designed along the following lines:

1) Focus on digital cash - anything else would be hard to explain
2) Anonymous up to legal limits and strong privacy thereafter
3) **Bundle with EU Digital Wallets**
4) Enforce low/no cost
5) Maximise usability and avoid any unnecessary friction

ETPPA believes that a 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”.

We see numerous problems with suggestions to date to extend the scope of central bank money into new territories, e.g. e-commerce, and add an account-based variant and thereby duplicate the infrastructure of private electronic payments. These ambitions of the digital euro pose very clear risks for crowding out existing market players and acting as an extreme detriment to EU players strategic relevance. A digital euro would not play a role outside the EU, yet it would compete with many pre-existing private sector payment solutions which have seen years, if not decades of private sector investment. Whilst EU based PSPs focus their attention on contributing to the development of a digital euro they risk diverting focus and investment on private sector innovation in payment services. This is not the case for PSPs outside the EU, who may ultimately benefit and leap frog EU based PSPs in terms of innovation.

ETPPA notes the European Commission’s proposal for a digital euro clarifies that any account-based digital euro would fall under PSD2 and therefore be accessible to TPPs as any other ‘online payment account’, and it mandates an offline version right from the start, where bank and non-bank PSPs should be able to compete on a more level playing field, and which is likely to be more popular. Yet, despite the Commission proposal, we understand that these provisions are now being questioned. This may be a matter for the co-legislators to address, but ETPPA would again urge the ECB to ensure these provisions are respected, in order not to act as a detriment to existing EU players, their strategic relevance, and their customer relationships.

This content is classified as Internal

ECB material			**Market input to be collected by 2nd of December**		
				Estimate likelihood of materialization for each value driver: high-mid-low and comment	
Item	Value drivers	Rationale	Feedback on Value drivers and related ECB rationale		
1	Better negotiation position vs ICS	<u>In countries without domestic schemes:</u> No scheme fees would be charged on behalf of the Eurosystem. Having digital euro as relevant alternative for intra-EU transactions will ensure better negotiation position and substantially lower costs, despite incumbent brands having strong leverage due to high switching cost. <u>In countries with domestic schemes:</u> The same logic applies but to cross-border transactions only, as domestic schemes already offer low fees to participating PSPs.	The baseline assumption is that the digital euro offers the possibility for intermediaries to better negotiate on scheme fees with ICS. For acquirers the impact of the absence of scheme fees shall be evaluated along with (i) caps on merchant fees and cost of providing the service, (ii) the incentives provided by ICS and (iii) the existing value added services provided by ICS (e.g., fraud management) that will be required also in Digital Euro context. From this point of view the presence of a cheaper alternative could push ICS to provide higher incentives both on acquiring and issuing side (influencing citizens' choice), jeopardising the adoption of the digital euro. Trigger a price war between the Digital Euro and ICS shall be evaluated carefully. It should be also mentioned that providing alternative payment methods could also be at the detriment of effective national or pan-european solutions.	Low	Negotiation power highly conditioned by the level of citizens' adoption, with important dimensions to consider here being user journey experiences, trust on privacy mechanisms, adoption by ecosystem stakeholders. Plus to be assessed the net effect of investments required and digital euro compensation model vs. ICS payments
2	Better negotiation position vs payment processors	No digital euro processing fees would be charged on behalf of the Eurosystem. Having digital euro as relevant alternative for intra-EU transactions will ensure better negotiation position toward international processors, while potentially lowering the fees.	The ECB provided infrastructure (for which no fees are charged to intermediaries) covers only a part of the whole value chain of the Digital Euro payment system. For the remaining components, intermediaries will need to deploy their own infrastructure (possible for large intermediaries) or rely on a payment processor (most likely choice for small intermediaries). Within digital euro scope, processing fees are then expected to be lower than market average (but not zero) and this would be beneficial for digital euro intermediaries. However, it remains to be seen how the digital euro's reduced processing fees can exert competitive pressure on the the fees for other means of payments.	Low	Low/limited competition expected on processing fees for digital euro vs non-digital euro (while competition is expected between processors on processing fees for digital euro as stand-alone service, as it exists today for other types of payments)
3	Digital euro bringing pan-European reach to issuing PSPs	Digital euro will be accepted by merchants operating in the euro area. This ensures a maximal reach for issuing PSPs, competing with global payment players or e-shop payment apps, and moving volumes to PSP channels.	On principle, yes, but the benefits stemming will be to the same extent as those of the euro. It is important to also highlight that effects shall very depending on the type of digital euro issuer: - For Issuers of ICS-branded payment cards: they can already rely on an almost global reach, so Digital euro area acceptance does not add signficant value - Wallets' issuers: the euro area reach could have a positive effect - For Digital euro issuers: the euro area reach could have a positive effect	Mid	The key question here is what are the economic rationale and interests, in a context of free distribution and capped acquiring revenues, to have that maximal reach. Topic seems relevant only for intermediaries providing only Digital Euro services to citizens (not issuers of ICS-branded cards)
4	Attractive pricing at the POI	With capped merchant service charges, digital euro would have attractive pricing at the POI, pushing merchants to prioritize digital euro payments over ICS at the POS and moving volumes to PSP channels.	Selection of the payment method is first and foremost a citizen's choice, which can be influenced by the merchant up to a limited point. Influencing payers' preferred, and as of today very consolidated, payment method requires economical advantages and/or better/faster/simpler user experience. Being a cheaper payment method for merchants will not succeed in driving payers' adoption. It is possible for merchants (based on regulation) to set digital euro as prioritized payment system on POS only in case of digital euro-ICS co-badged cards, which will likely not be the most common digital euro payment instrument used by citizens (mobile wallet digital euro payment expected to be most adopted within D€ transactions). The most effective way for a merchant to drive citizens' choice is through a discount on good/service which would by hardly justifiable with a benefit for the merchant itself in the order of few basis points on acquiring costs.	Low	*1/ Merchant services charges is a secondary element to the whole "tech fee" paid by merchants, the absence of ICS toll is per se already a cost cutting achievement* *2/Capping fees on merchant services charges will only trigger doubts on the economic viability on digital euro for european PSP. If there is no incentive to provide value added services then you risk undermining the potential for innovation.* *3/ POI pricing is not the key factor of success for adoption (Apple Pay with Visa counter example). Capping fees will result, for the minority of PSPs that will find an interest in d€, in lesser investment, notably on innovation and end user journey that ultimatly makes the difference. Ultimately, merchants have a limited capicity in driving citizens choice towards adopting digital euro payments*
5	Digital euro bringing offline solution to EU PSPs	In case of outage, payment volumes would partly move to DEUR offline functionality, further increasing volumes. Offline transactions would not be accessible to PSPs, but issuing PSP would still be compensated.	Based on available information, use of offline digital euro will be always a citizens's option and not only a "fallback" option in case of network outage, which is not a common event. In case of sudden unavailabilty of online features, to switch to offline payment the citizen should have pre-fund the offline wallet, which is not to be taken for granted. The increase in trasaction volumes due to the use of offline Digital Euro in situations which are by nature offline (remote locations, travelling airplanes and ships) is to be assessed. Given the "enahanced privacy" approach for offline payments (PSPs having no visibility on payments' details) it is still unclear how the compensation model will be implemented on issuing side, also given the difficulty to distinguish between P2P (not subject to intra-PSP fee) and C2B offline payments	Low	There again, trust, privacy and end user journey will probably be the real drivers. It comes with an attractive compensation to PSPs offering it. Otherwise, people will use cash. Important to also consider the outage cases referred given that current infrastructures are resilent and internet connection is widely available in Europe
6	Less dependencies on pass-through digital wallets	If digital euro adoption takes up, pass-through wallets will be less of an unavoidable solution for issuing PSPs, rebalancing negotiating power in partnerships talks. Additionally, pass-through wallets seeking to provide digital euro services would need to require tokenisationservices, which can be provided by issuing PSPs only, enhancing further issuing PSPs bargaining power vs pass-through wallets.	- Enabiling cards to be stored in pass-through wallets is an Issuers' decision usually driven by customers' demand, since customers are attracted by superior user experience of these pass-through wallets and the convenience of having the wallets integrated with existing big ecom merchants /marketplaces. Lacking this feature is one of the reasons behind the decline in usage of some European domestic card schemes. So it is difficult to assume that negotiations power with these wallets will be rebalanced (i.e., wallets could continue to stay dominant and unavoidable). - Already today, in the current implementation of pass-through wallets, the card tokenization process needs the intervention of the card issuer. This has not prevented wallet providers from eroding issuers' margins and charging high fees. - Still to be decided (as per available information) if pass-through wallets will have a role in the Digital Euro payment system. If it will be possible to integrate Digital Euro into pass-through wallets, we expect many customers to do so.	Mid	Citizens' adoption of the Digital Euro is the real driver, and as such it remains to be seen whether the digital euro will really be a competitor to pass through wallets. The same reasoning applies: trust, reliability, end user journey are three key factors of sucess. They can only be achieved with significant appetite for investing, innovating, and creating value.
7	Less dependencies on staged and stored value digital wallets	With capped merchant service charges, digital euro would have attractive pricing at the POI, pushing merchants to prioritize digital euro payments over expensive stage / stored value wallets, fostering a direct relationship between merchants and PSPs.	The merchant has a limited power in driving consumers' choice on which payment method to use. Influencing customers' choice of payment method is a significant challenge for merchants. Customers tend to stay loyal to their preferred methods, often due to the direct and indirect benefits they receive, making it difficult for merchants to guide them toward other payment options. In selected cases the higher merchant fee charged by wallet providers entail merchant protection against disputes/chargebacks which is of high relevance for e-shops	Mid	Merchants have a limited capacity in driving citizens' choice. Prioritisation will be given to solutions requested by citizens,e those offering trust, reliability, convenience, with limited/no friction. These solutions may only be provided by actors that can invest time, ressources, and innovate. Identifying a sustainable business model for payment service providers is key.
8	Guaranteed access at the forefront of digital front-ends	*"Digital euro payment accounts should be accessed via one the main pages of the Internet website or an application, or any other front-end services, on an equal footing with non-digital euro payment accounts."* Recital 63 will make sure that digital euro will always remain an option at the front-end.	In theory yes. Assuming the provision will remain in the final version of the Regulation, involved banks and PSP will comply ensuring front-end access to digital euro. It will be important to ensure a consistent user experience across the different front-ends.	High	Banks and PSPs will comply with Regulation's provisions and ensure Digital Euro front-end access
If needed, add below Value drivers and corresponding feedback and likelihood of materialization					
XX					

ERPB technical session on digital euro

Engagement stream – 13 Nov meeting on ‘Competition’

Link to document: 2024-11-13 Fit in the Ecosystem - Competition.pdf

12 December 2024

1. General comments

Consumers can choose between different digital payment methods. Yet, the European payment market is still fragmented and dependent on solutions provided by third-country companies. International card schemes (ICS) have so far had the upper hand on other digital payment methods, and these have proven to be increasingly costly for merchants. Scheme fees imposed by ICS are complex to understand and have increased dramatically in recent years. The interchange fee regulation (IFR) caps the interchange fees of consumer debit and credit card payments but does not cover scheme fees. Hence, the need for a new European payment tool, such as the digital euro, should bring more transparency and competition to the payment market and lower the cost of digital payments.

Lowering the costs associated with digital payments includes the ability for merchants to clearly understand the type and value of fees associated with them. The introduction of the digital euro should pave the way to the comparability of digital payment costs, allowing merchants (including especially micro-enterprises) to make an informed decision when they choose the payment methods they want to use to run their businesses.

The recent failures of Worldline to run its payment network in Italy and France emphasise the need for a public scrutiny of the operations conducted by operators of payment schemes and networks. With the digital euro being a public currency, failure of operators of payment schemes and networks to seamlessly run their business would cause a disruption of public service. Furthermore, the impossibility for a consumer to make a transaction to purchase a good or a service due to the failure of a payment scheme or network to properly function might lead to an economic loss for a merchant. To guarantee fair competition and ensure that a digital euro works for the whole payment ecosystem, merchants should not suffer if consumers are not able to finalise a transaction and can’t complete their purchase at the POI due to failures of the payment scheme or network. And the digital euro needs an offline mechanism that allows payments to be completed when there is a problem with the network connections.

To increase competition and transparency of the payment markets, the proposed digital euro regulation should clearly cap merchant service charges to ensure businesses can effectively embrace the digital euro project. It is important to note that a digital euro would constitute the digital version of cash and should therefore be treated as public money. From a business point of view, basic digital euro services should be offered for free to consumers and should foresee a close-to-zero fee on merchants.

The justification for this near-zero fee:

Interchange fee: The closest instrument to the digital euro is the debit card where this fee is regulated at 0.2% at European level. However, in some EU countries it is lower and those markets are still competitive and efficient. For example, Spain with a maximum interchange fee of 0.07€ or Netherlands with a fixed fee of 0.02€ per transaction. Since settlement is immediate, there is no counterparty risk, justifying a low and fixed interchange equivalent.
Scheme fee: Since the Eurosystem will cover these, there will be no charge to merchants.
Acquirer fee: Commercial negotiation between each merchant and his PSP.

Finally, the digital euro should promote the scale up of European payment service providers. The EU should aim at having a "single European champion" capable of offering digital payment services, including the digital euro, throughout the 27 member states. This European champion should help the EU strive for its strategic autonomy and resilience in the payment market.

2. Comments on value drivers

1. **Better negotiation position vs ICS**
   EuroCommerce: we believe there is little to no room for PSPs to negotiate. Interchange and scheme fees are more or less a 'given' and simply passed on to merchants by acquirers. Large acquirers will be able to negotiate volume bonusses or get incentives for specific projects. We don't see how PSPs will be able to get better prices or conditions from ICS once the digital euro is established. The cards of the ICS are 'must take', so non-acceptance is hardly an option.

2. **Better negotiation position vs payment processors**
   EuroCommerce: Of course it will help payment processors to have alternative payment methods, including the digital euro to offer their customers. However, as merchants can negotiate with payment processors mainly on the basis of total volume, we don't see (yet) how the digital euro will materially change those volumes. For sure some now cash transactions would turn into digital, but we would expect a larger part of now cards transactions turn into digital euro (and/or instant payments). So, net-net there we hardly expect any incremental volume, hence little room for lower fees.

3. **Digital euro bringing pan European reach to issuing PSPs**
   EuroCommerce: we could see this benefit also on the acceptance side. Perhaps that will be addressed in the later merchant session.

4. **Attractive pricing at the POI**
   EuroCommerce: only if merchants retain or get the right to surcharge for payment methods for which the full cost is not regulated, we will be willing to discount for payments with lower costs, such as we expect for the digital euro and instant payments. It's a two-way street.
   We are concerned that the European Parliament and some member states incorrectly think a total surcharging ban will lower consumer prices and increase competition. In reality the opposite will happen.
   So, merchants will only price digital euro payments attractively at POI if we can discount AND surcharge others.

5. **Digital euro bringing offline solution to EU PSPs**
   EuroCommerce: the offline functionality is a key feature of the digital euro and merchants look forward to seeing this becoming a reality. In low-cash countries such as Finland, where they have no domestic scheme, an offline digital euro will be crucial to survive any outages, for instance due to sabotage.

6. **Less dependencies on pass-through digital wallets**
   EuroCommerce: merchants believe that current pass-through wallets users will be very hard to

convince using other wallets. The convenience, ease of use and speed are currently unrivalled. So only those consumers that don't use these wallets, may be enticed to use competing wallets, even if the latter have access to the NFC interface (now also possible on Apple devices).
It is worrying to see some banks giving up on their own wallets in favour of pass-through digital wallets, making it less likely to offer digital euro outside of these.

7. **Less dependencies on staged and stored value digital wallets**
   EuroCommerce: merchants could see that this offers a value, however a stand-alone digital euro wallet adjacent to existing staged and stored value wallets would mean app/wallet switching when consumers want to change their default wallet. As these are perhaps used more frequently in e-commerce, the wallet would be less of an issue. We do see the benefits of more favourable pricing, provided digital euro merchant service charges are significantly lower and provided there are no total surcharging bans (see also under 4.)

8. **Guaranteed access at the forefront of digital front ends**
   EuroCommerce: while it will be good to be 'front of wallet' and/or 'front of mind', merchants don't believe this will lead to consumer preference. We have however had success with putting our preferred payment method as the first choice at the top of a check-out page either in the browser or in-app. Some merchants even put the other (=non-preferred) payment methods behind a separate small drop-down menu.

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