EUROPEAN CENTRAL BANK
EUROSYSTEM

ERPB engagement on digital euro fit in the payment ecosystem

Theme: business model

3 February 2025

Digital euro project

1

Housekeeping rules

Reminder: Engagement on "Fit in the Ecosystem" will be structured around three core themes*

Initiating discussion based on **internal, qualitative analysis**
Based also on previous bilateral engagement

Competition — How could digital euro impact EU players' **strategic relevance** vs global players?

Synergies — How could digital euro be as **cost-effective** as possible?

Business model — How could digital euro impact EU players' **business model**

Moving progressively **towards evidence-based discussions**
Further bilateral engagement can be initiated when required

* Identifying benefits and reducing potential risks/ unintended consequences

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Agenda of today's technical session on business model

ECB view: Investment and maintenance efforts

Tour de table

ECB view: Compensation model and "open funding"

Tour de table

ECB view: Business opportunities from additional services

Tour de table

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2

Investment and maintenance efforts

The business model for PSPs hinges on both investment efforts and the compensation for services

Eurosystem design decisions

Legislation

Set-up & Maintenance

Legislation

Eurosystem design decisions

Services & Compensation

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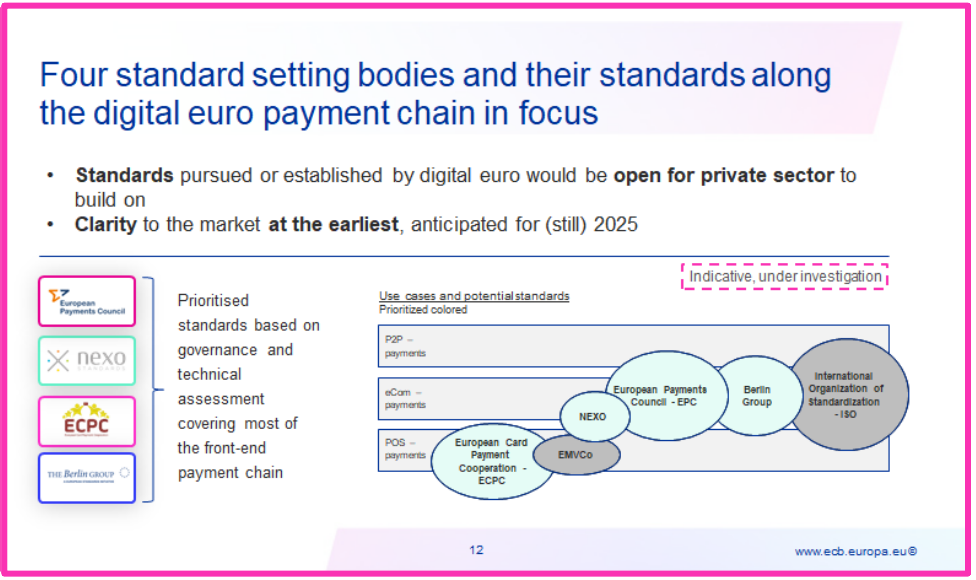
Recap: Commitment to using existing infrastructure, processes and standards to maximum extent

Digital euro **payment chain and processes similar** to that of established payment means:

- Payment processing, staying **close to established standards** (e.g., ISO 20022) for **data formats**
- ISO merchant classification codes (**MCC**) to classify merchants
- Draws from **existing KYC/AML standards** and processes
- Leverages **existing fraud and risk methods**
- Relies on **similar dispute management** processes
- Draws from established **operational risk management** requirements

Synergies, December ERPB



Constructive discussions with stakeholders essential to validate measures mitigating investment cost

Non-exhaustive

! **Cost drivers brought forward by PSPs; to be validated**

Potential investment cost drivers

1. **Offline digital euro**
   Caters to highest privacy needs; resilience tool; support financial inclusion

2. **ATM replacement due to mandated functionalities**
   Cater to diverse user behavior; facilitates cash (de-)funding

3. **Build-up of new IT infrastructure**
   Some new development needed but clear commitment to reuse processes/ infrastructure to maximum extent

4. **No or insufficient possibilities for “D€ as a service”**
   Outsourcing e.g., transaction/liquidity management necessary to relieve (smaller) PSPs of digital euro implementation efforts

Potential maintenance cost drivers

1. **Payment card and offline device management**
   Caters to highest privacy needs; resilience tool; support financial inclusion

2. **ATM operations**
   Facilitates cash (de-) funding; guarantees immediate convertibility to physical central bank money

Feedback is sought on cost drivers, their analyses and possible mitigation measures

? Which are **major cost drivers for your institutions**, both for initial investment and maintenance?
What **analyses** support this assessment?

&

? What are **actionable mitigants**, without compromising on the digital euro's value proposition also to merchants and consumers?

Linked; feedback on **both** necessary

? What would be your **preferred sequencing** of digital euro in a **staggered rollout approach*** to spread out cost and effort?

? Which **additional standards** should be leveraged to avoid double efforts and reduce implementation and maintenance cost?**

* See e.g., previous ERPB presentations
** If not already addressed in feedback after the Synergies theme session (value driver #11)

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3

A fair and balanced compensation model for basic services

The business model for PSPs hinges on both investment efforts and the compensation for services

Eurosystem design decisions

Legislation

Set-up & **Maintenance**

Legislation

Eurosystem design decisions

Services & **Compensation**

Recap: Adequate compensation for PSPs is a key component of the legislative proposal

Core principals of the compensation model for the digital euro

- Wide **usability** across the euro area
- **Free** for basic use by individuals
- Eurosystem bears its **own costs**
- **Safeguards for merchants**

Adequate compensation for PSPs linked to actual cost or comparable fees

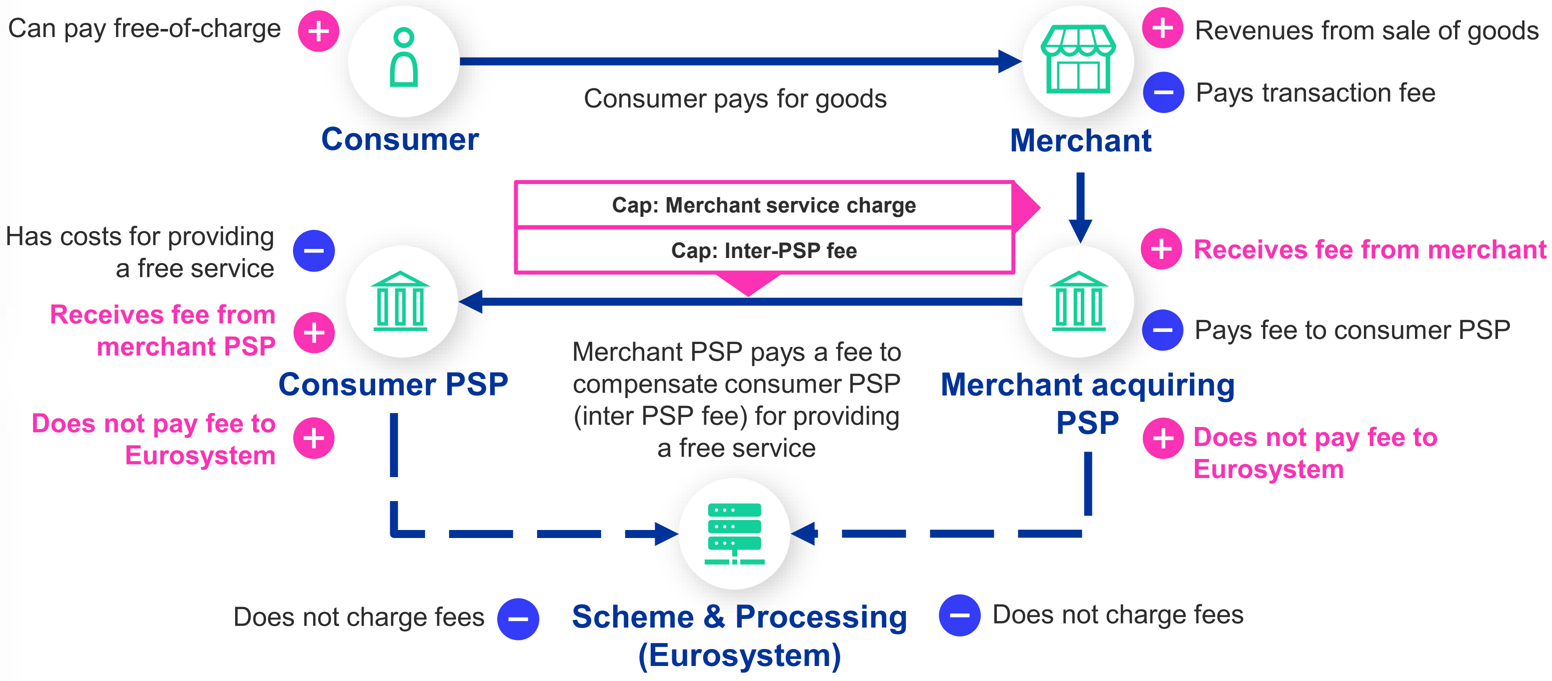
Reported cost for digital euro provision

+

Reasonable **profit margin**

or if lower

Fees for **comparable means of payment**



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Talks with banking associations have identified “open funding” as possible unintended consequence of the legislative proposal

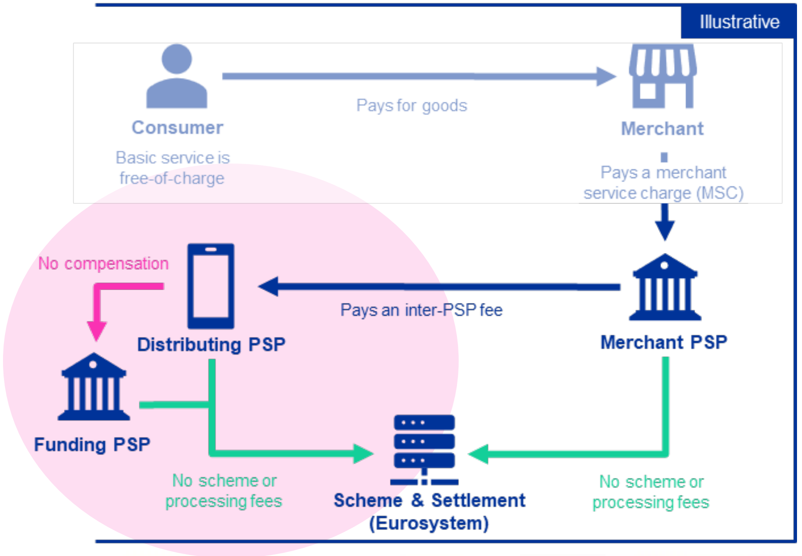
! ECB only provides solicited technical advice to support the legislative process

Legislative proposal: PSPs always required to support reverse waterfall open funding for free as a basic service

- The **draft regulation** mandates PSPs to allow end-users to link a non-digital euro account with a digital euro account to **use reverse waterfall**, **whether held with the same or another PSP for free**.
- The **distributing PSP is remunerated** as it provides digital euro payment services to the end-user, which also require the PSP to perform e.g., KYC, fraud prevention checks, transaction processing, dispute management. **The (open) funding PSP is not remunerated** for providing (de)funding services**.**

What are **alternative proposals** that allow for **compensation of funding PSPs** while retaining safeguards for consumers and merchants?

Compensation model in open funding



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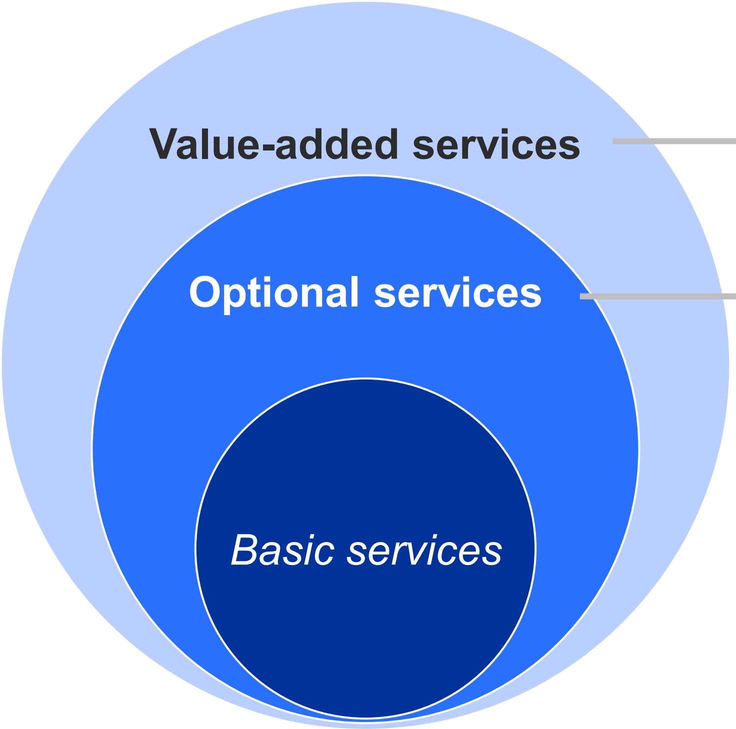
4

Business opportunities from optional and value-added services

Additional services will either be facilitated by the Eurosystem or left for the market to develop

Additional services are explicitly referred to in the proposed legislation for intermediaries to develop, offer and monetise:

“To enable a wide usage of the digital euro and keep pace with innovation in digital payments, digital euro payment services should include basic and additional digital euro payment services.”



Development and provision by supervised intermediaries would be **left fully to the market**

Development and provision by supervised intermediaries would be **supported by the Eurosystem** (e.g., via the digital euro scheme rulebook or/and by back-end functionalities developed)

The distinction between optional and value-added services resides on the **role of the Eurosystem** towards its facilitation

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Different areas of interest for additional services can be identified across payers, payees, other intermediaries

Preliminary

Illustrative[1]

	Services to **payers / consumers**	Services to **merchants / payees**		Services to **other intermediaries**
Optional services *(facilitated by the scheme)*	**Special payments use cases** (e.g., pay-per-use, recurring payments[2], split payments, conditional payments)			
Value-added services *(not facilitated by the scheme)*	**Consumer liquidity management solutions** (e.g., expense management, savings programs)	**Enhanced security solutions** (e.g., fraud prevention, dispute portability)	**Loyalty solutions** (e.g., cashback, gift cards)	**Open banking** (e.g., AISP, PISP)
	"Beyond payments" (e.g., in-app purchases, lifestyle app)	**Merchant admin** (e.g., scheduled payout, merchant portal, accounting & tax, data analytics)		
		Alternative business models (e.g., integrated software vendors, "digital euro-in-a-box", agency)		
Other	**Digital euro as distribution channel** for traditional banking solutions (e.g., consumer loans, working capital financing, insurance, banking-as-a-service)			

1. Based on existing market practices
2. Non-fixed fee recurring payments only

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Feedback on innovation and revenue potential of non-basic services is sought

- What segment do you seen as **most fertile for additional services** (consumer, merchant, intermediaries)?
- What **services** can be **best monetised** and which are already commoditised and/or are best offered for free?
- What value-added **services** do you see **most popular among customers** at the moment? What is the **outlook** for the next five years?
- To what extent **should the scheme also facilitate** non-basic services (e.g., to establish network effects)?
- How can the digital euro best be a **viable distribution channel** for core products/services?

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5

Next steps: Feedback we seek from the ERPB associations

Business model theme value drivers

Item*	Value drivers	Possible opportunities
#14	Keeping investment and maintenance cost low through reuse of existing processes and infrastructure	PSPs and the Eurosystem may jointly identify relevant cost drivers and actionable mitigation measures, improving the overall business model of a digital euro. *What are major cost drivers, how are those assessed and what would be actionable mitigation measures without compromising the digital euro's overall value proposition?*
#15	No scheme and processing fees	Eurosystem will bear scheme and processing cost, impacting transactional cost favorably. *Which concrete suggestions could further optimize the compensation model for all parties involved?*
#16	Innovation potential and additional revenue from non-basic services	PSPs can offer a range of additional and innovative services linked to or built on digital euro. These services are not subject to caps and can be fully monetised. *How is the innovation and revenue potential for additional services considered?*

* Continuing from value driver #3 from the Synergies theme

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ERPB technical session members are invited to:

Provide views on the technical presentation by 10 March 2025

- Members are invited to share:
  - **Feedback** on the presented value drivers and their impact; see also questions on slides 9, 12, 13, and 17.
  - Estimate **likelihood** of materialisation for each value driver.
- Would members see any **additional business model value drivers** that could be considered in the work on the digital euro?

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Reminder: proposed structure per theme is in line with the tried-and-tested approach of the ERPB technical sessions

ERPB technical session

(on fit in the ecosystem)

4 to 6 weeks

- ECB presentation as basis for discussion
- Proposed duration of 2 hours
- "ERPB light": All associations invited, though focus on PSP-relevant topics
- **Payment expert profiles sought for this dedicated engagement stream**

ERPB member feedback

4 weeks

- Opportunity to provide stakeholder-specific view and identify further value drivers
- By default published like other ERPB material
- Bilateral exchanges encouraged for sensitive analyses*

Joint outcome session

- Proposing a combined view, enriched by internal analyses
- Possible next steps
- **Full ERPB will be informed about engagement stream**

Main objective:
Identifying, enriching and sizing value drivers considering all viewpoints

* By default, ongoing individual engagement on "fit in the ecosystem" (e.g., with bank associations, schemes, PSPs etc.) to be subsumed in this stream

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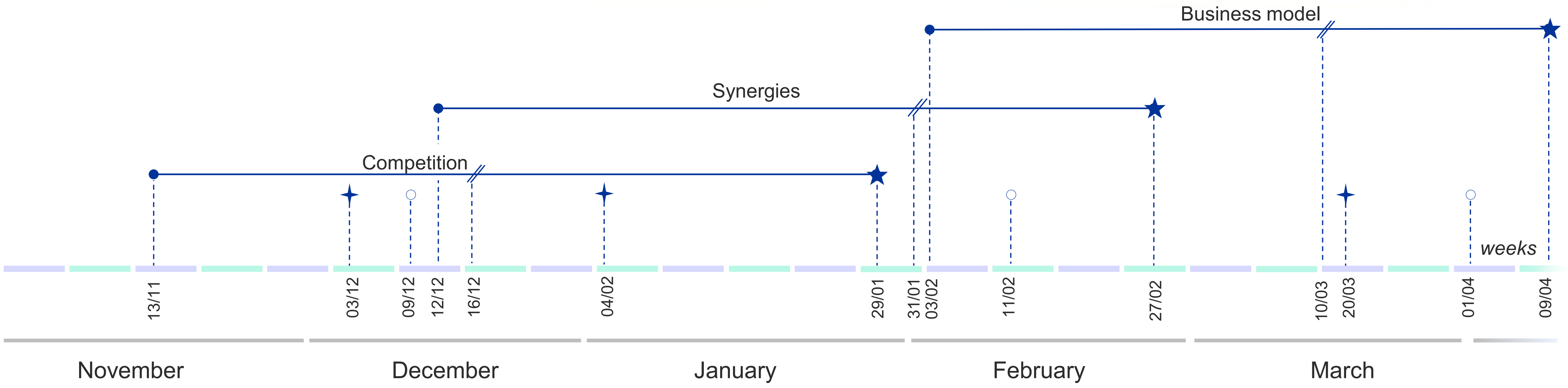
Reminder: high-level timeline



- RDG meeting
- ERPB technical session on fit in the ecosystem
- ERPB technical session on fit in the ecosystem joint outcome session
- Regular ERPB technical session
- Cut-off date for collecting members’ views on specific themes

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