Compensation model for the digital euro

Euro Retail Payments Board

22 February 2023

Digital euro project team
Where do we stand?

Tentative - timing subject to change

Use case prioritisation
- Report on focus groups with citizens and merchants

Design options to moderate take-up
- Compensation model
- Access to ecosystem
- Value added services
- Advanced functionalities

Prototyping results

July 2021
- Governing Council decision to launch investigation phase

Q4-2021
- Project team on-boarding
- Governance set-up

Q1-2022
- On-line/off-line availability
- Data privacy level
- Transfer mechanism

Q2-2022
- Settlement model
- Distribution of amount in circulation
- Role of intermediaries
- Integration and form factor
- Funding and defunding
- Prototype development

Q3-2022
- User requirements
- Preparation for possible project realisation phase decision making

Q4-2022
- Selection of service provider(s) for possible project realisation phase

Q1-2023
- Decision making document including advice on potential issuance digital euro, its design and implementation plan

Q2-2023
- autumn 2023
- Governing Council decision to possibly launch realisation phase

Q3-2023
- Tentative timing subject to change
Objective of today’s exchange

Present Eurosysteem’s analysis on the core principles for the digital euro compensation model.

Invite you to share your input as part of a written procedure (deadline 24 March 2023).
The digital euro is a *public good*

Natural evolution of cash in the digital sphere

It should be **widely available and usable anywhere in the euro area** to make and receive payments.

This needs establishing an appropriate combination of **requirements & economic incentives** providing confidence that **network effects** will be achieved.
Objectives of the compensation model

**European scale**

- Easy access for Europeans to ‘public good’ features they enjoy with cash, also for digital payments:
  - Always an option for the payer
  - Free for basic use by private individuals

**Economic incentives for PSPs to actively distribute** the digital euro.

- **Optimal outcome**: In addition to cash and the digital euro as public goods, **multiple retail means of payment** achieve European scale

**Affordable fees for merchants** resulting from:

- An open competitive space in the euro area with greater choice
- Possible legislative safeguards

**Enhanced choice and competition**
Core principles for the compensation model

1. Free basic use by private individuals
2. Network effects generating economic incentives for acquirers and merchants
3. Comparable economic incentives for issuers
4. Eurosistem bears its own costs, as with production and issuance of banknotes
Free basic use by private individuals

1 Free basic use by private individuals

- The digital euro should be **free for basic use by private individuals**.
- This is **consistent with the context of cash**, which is a **public good** as well, where **people can pay, be paid, and have access free-of-charge**.
- The ‘**basic use**’ would cover all services necessary to enable persons to **pay and be paid with digital euro in a convenient manner**.

- **Onboarding to digital euro**, **opening and holding** of a digital euro wallet/account
- **Funding and defunding** the digital euro wallet/account from the payment account which the person associates it to
- **Provision of a basic instrument** to pay with digital euro
- **Making and receiving Person-to-Person (P2P) payments**
- **Making payments to merchants, businesses, or governments** (i.e., POI, including POS, e-commerce, and P2G)
- **Receiving payments from governments (G2P)**
- Combinations of the above elements such as **waterfall** (i.e., receiving a payment and defunding) and **reverse waterfall** (i.e., funding and making a payment).
Incentives for acquirers and merchants

2 Network effects generating economic incentives for acquirers and merchants

- PSPs offering digital euro acquiring services would be able to charge merchants for these services, in line with cash and other payment methods, where merchants also face costs.

- Price setting for merchants could be determined by market forces. The wide distribution of a digital euro could allow for a more open competitive space in the euro area with greater choice.

- Co-legislators might decide to implement safeguards to prevent potential abuse from the legal tender nature of digital euro (i.e., possible mandatory acceptance). Legislation might establish an expectation on merchant pricing considering the current levels for comparable retail payment solutions.
Comparable incentives for issuers

3 Comparable economic incentives for issuers

• PSPs distributing digital euro and offering wallet/account management services to private individuals should have a similar level of economic incentives to do so as for electronic payment alternatives.

• This is to ensure an effective distribution of a public good like the digital euro.

• The objective is that PSPs have comparable incentives to promote an optimal usability and end-user experience as they have with alternative electronic payment instruments they distribute.
Eurosystem bears its own costs

- The Eurosystem will bear its own costs, reflecting the public good nature of the digital euro.

- Same logic which currently applies to cash.

- PSPs would have their own costs related to the distribution of the digital euro services they provide, but they would not be charged Eurosystem costs such as those related to scheme management and settlement processing.
For feedback

We invite **reflections by participants**

What are your views on the suggested **core principles** for the digital euro compensation model?

Thank you for your attention