Update on digital euro

Euro Retail Payments Board (ERPB)

25 May 2023

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Interactions with the ERPB on design options

**Last update** on progress of the project in Euro Retail Payments Board

**Eurosysteem assessment** on remaining key design decisions:
cross-currency, scheme access, form factor, delivery approach, compensation model, core & value added services, end user onboarding, allocation of amount in circulation, issuance & redemption, back-end interaction requirements

**Eurosysteem assessment** of high-level digital euro design: “bringing it all together”, brought to ERPB technical session in early May

**Governing Council decision** whether to launch the next phase of the digital euro project.
A digital euro should be widely available and usable across the euro area

Availability for everyone

“It should be simple for people to start using the digital euro, and there should be no need to change bank in order to do so.”

Usability everywhere for everyday payments

“Legislators assigned the legal tender status to euro banknotes. The digital euro could also be given legal tender status.”

Key objectives

Monetary anchor

(Open) strategic autonomy

European legislator
Privacy and data protection
Privacy remains of outmost importance in a digital euro ecosystem

<table>
<thead>
<tr>
<th>Baseline privacy</th>
<th>Online</th>
<th>Offline</th>
</tr>
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<tbody>
<tr>
<td>Intermediary sees transaction data, as with current digital payments</td>
<td>Even intermediary may not see transactions</td>
<td></td>
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<table>
<thead>
<tr>
<th>Role of co-legislators</th>
<th>Online</th>
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<tbody>
<tr>
<td>Co-legislators to explore higher privacy for lower-value payments</td>
<td>Subject to co-legislator exempting proximity payments from monitoring</td>
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<table>
<thead>
<tr>
<th>Settlement</th>
<th>Online</th>
<th>Offline</th>
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<tbody>
<tr>
<td>Eurosistem will settle <strong>without seeing nor storing users’ personal data</strong></td>
<td>Settlement in the devices of users while reconciling the least amount of anonymized data for security</td>
<td></td>
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(Digital) Financial inclusion
A digital euro would employ several tools to enhance (digital) financial inclusion

<table>
<thead>
<tr>
<th>Form factors</th>
<th>Onboarding and portability</th>
<th>Functionalities</th>
<th>Advocacy*</th>
</tr>
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<tbody>
<tr>
<td>• <strong>app</strong>: easy to use, attentive of needs of low tech savvy and elderly, compatible with European Accessibility Act, translation (at least) in all EU languages</td>
<td>• availability of both <strong>fully remote and in person onboarding</strong></td>
<td>• basic services free of charge</td>
<td>• public approach</td>
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<tr>
<td></td>
<td>• easy switching from a supervised intermediary to another</td>
<td>• customizable account settings for budgeting and automatic functions</td>
<td>• legal tender</td>
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<td></td>
<td>• provision of: <strong>physical digital euro payment card</strong></td>
<td>• simple (de)funding (also with cash at ATMs), with no need for a smartphone</td>
<td>• simplified onboarding</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• <strong>offline</strong> functionality</td>
<td>• support for a harmonized minimum age for opening a digital euro account</td>
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<td></td>
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<td>• targeted educational campaigns</td>
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*The Eurosystem can champion these causes in the relevant fora, but responsibility to take action would lie with co-legislators and Member States*
A public approach requires coordinated efforts

Public approach

- dedicated onboarding channel via public or private dedicated licenced entity per member state providing access to digital euro services and the necessary supports to those vulnerable to digital financial exclusion
- availability of human interaction to guide users throughout all steps
- dedicated customer services
- distribution of a physical digital euro payment card
- (de)funding via cash ensured
- above services provided free of charge for eligible individuals
Principles of a compensation model
Principles of the compensation model ensure fair and adequate incentivization for distribution

1. Free basic use by private individuals
2. Network effects generating economic incentives for acquirers and merchants
3. Comparable economic incentives for distributing payment service providers
4. Eurosystenm bears its own costs, as with production and issuance of banknotes
What a compensation model could look like subject to legislation

- **Consumer**: Can pay free-of-charge
  - Consumer pays for goods
  - Has costs for providing the service
  - Receives fee from Merchant Bank
  - Does not pay fee to Eurosystem
  - Does not charge fees

- **Merchant**: Revenues from the sale of goods
  - Pays a fee for the transaction
  - Receives fee from merchant
  - Pays fee to Consumer Bank

- **Consumer Bank**: Merchant Bank pays a fee to compensate Consumer Bank for providing a free service
  - Does not pay fee to Eurosystem

- **Merchant Acquirer**: Receives fee from merchant
  - Pays fee to Consumer Bank
  - Does not charge fees
  - Does not pay fee to Eurosystem

- **Scheme & Settlement (Eurosystem)**: Does not charge fees

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ERPB/2023/007
The compensation model would foster network effects necessary to achieve the key objectives.
Thank you

Find more information on the digital euro [on the ECB website](https://www.ecb.europa.eu)
Taking stock and the road ahead

Foundational design options

First set (Q3-2022)
- Online/offline
- Level of privacy

Second set (Q4-2022)
- Role of intermediaries
- Funding and defunding

Third set (Q1-2023)
- Compensation model
- Delivery approach

Use cases

- Person-to-person
- E-commerce
- Physical store
- Government payments

Research and experiments (Q2-2023)

- Focus group research
- Market research
- Prototyping exercise

High-level design of a digital euro and holistic review (Q2-2023)
Where do we stand?

Tentative – timeline subject to change

July 2021
Governing Council decision to launch investigation phase

Q4-2021
Project team onboarding
Governance set-up

Q4-2021
Prioritisation of use cases
Publication of report on focus groups with citizens and merchants

Q2-2022
Focus on:
- Design options to control take-up
- Distribution model

Q3-2022
Focus on:
- Compensation model
- Access to digital euro ecosystem
- Value added services
- Advanced functionalities

Q1-2023
Focus on:
- Settlement model
- Amount in circulation
- Role of intermediaries
- Integration and form factor
- Prototype development

Q2-2023
Finalisation of user requirements
Preparations for project preparation phase
Prototyping results

Q3-2023
Selection of sourcing strategy for project preparation phase
Preparation of decision-making document with advice on potential digital euro issuance, design and implementation

Autumn 2023
Governing Council decision to launch next phase
## Interactions with European policymakers and stakeholders

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<td>• Close coordination with the Eurosystem on design and business model decisions. The European institutions and policymakers provide <strong>important input/feedback on the analysis of design decisions</strong>.</td>
<td><strong>European Parliament</strong></td>
<td><strong>Eurogroup</strong></td>
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<td>• The European Parliament and euro area finance ministers in the Eurogroup <strong>discuss major design issues and policy-relevant aspects of a digital euro on a regular basis</strong>.</td>
<td><strong>European Parliament</strong></td>
<td><strong>Eurogroup</strong></td>
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<td>• The Commission will present a <strong>legislative proposal to establish and govern essential aspects of a digital euro</strong> for adoption by the European Parliament and the Council of the EU.</td>
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<td>• <strong>Listening to the market stakeholders</strong> from both the demand and supply sides of the retail payments ecosystem – this includes consumers, merchants, payment institutions and banks.</td>
<td><strong>ECB Civil Society Seminars</strong></td>
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<td>• Seminars where ECB experts <strong>present the work and exchange views</strong> with representatives from European civil society organisations.</td>
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