

Towards a retail Digital Euro

A perspective from the payments industry on retail Central Bank Digital Currencies

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About EDPIA: The European Digital Payments Industry Alliance (EDPIA) represents the interests of independent Payment Services Providers headquartered in the European Union. Its purpose is to contribute to EU policy debates that define the business environment for electronic payments, and to strengthen the visibility and understanding of the European payments industry amongst policy makers and society as a whole. Find out more about EDPIA and its membership [here](#).

EDPIA supports the exploratory discussions on a digital Euro

The purpose of this paper is for the European Digital Payments Industry Alliance (EDPIA) to contribute to the ongoing discussion on the creation of Central Bank-issued Digital Currencies (CBDCs).

In this paper, we focus on “retail” CBDCs, and the digital Euro in particular. We interpret a “retail” digital Euro as a CBDC that could be used by the general public, as opposed to so-called “wholesale” CBDC that can be used to settle transactions between financial institutions.

EDPIA’s vision is for Europe to remain a global leader in digital payments, and for digital payments to be a driver of innovation. The digital Euro could help make this vision a reality.

Therefore, we support exploratory discussions about the potential issuance of a retail digital Euro by the ECB, which is taking place in the wider Eurosystem. A digital euro could further strengthen digital payments on the EU’s own terms especially if it is built in a way to leverage the existing banking and payments ecosystem.

We believe that the ECB’s role should focus upon the issuance of the digital Euro, and oversight. The distribution of the digital euro, and the operation of new payment systems based on digital euro, should be largely left to the private sector (similar to current practice both in cash and electronic payments). Ideally, the design would allow the private sector to provide the development of enhanced functionality and customer facing services, facilitating innovative payment use cases. The European payments industry, including banks and specialized payment service providers such as the members of EDPIA, is innovative and robust. We believe the private sector is well positioned to help the digital Euro, if launched in the coming years, reach its full innovative potential.

A clear signal from policy makers that the private sector has a central role in making a digital Euro project successful would safeguard continued robust investments at a crucial time for the industry.

On a separate point, a readily accessible digital euro could also contribute to its international use. This might be a benefit for consumers, including Europeans travelling or buying abroad. However, the impact of extraterritorial availability on the domestic market should be assessed carefully in any digital euro pilot project. That said, EDPIA firmly believes that the contribution of the digital Euro to the broader digitalisation of European society does not depend upon these international elements.

Creating a digital euro does not automatically mean it will become a widespread means of retail payment. Like any other means of payment, its success will depend on whether it will be widely demanded by customers and accepted by payees – notably merchants.

In the remainder of this paper, we outline our views on how a digital Euro could contribute to the digitalisation of retail payments and provide some thoughts on potential next steps.

How can a digital euro contribute to the digitalisation of retail payments?

Digitalisation of retail payments is fundamentally driven by consumer demand, which is typically channeled through businesses (or “merchants”) and public administrations that continuously endeavor to improve their customers’ payments experience. This dynamic is very apparent in the online environment but is equally important for physical “point of sale” situations.

It is therefore important to consider the consumer benefit offered by a digital Euro compared with existing means of digital payments; whether in terms of availability, convenience, cost, data protection, privacy, security, enhanced functionality, or widespread usability in different environments.

Below we have outlined what we believe are characteristics and possible use cases that could contribute to a digital Euro’s success as a means of retail payments.¹

Characteristics

- 1. The digital Euro needs to support innovation by leveraging the existing payment ecosystem** – as a means of payments, the digital Euro would compete with already existing forms of payment methods (electronic and cash) as well as other digital currency initiatives. Competition in the digital currency space may in the future come from other central banks, but also from the private sector, in the form of both cryptocurrencies that can be used as means of payment as well as stablecoins issued by private companies. This potentially heavy competition will require the digital Euro to be top of class in terms of usability (including speed, reliability), cost-efficiency, but crucially also interoperability with other means of payment. The best way of doing this is to leverage the existing payments ecosystem. For example, it should be possible for single end-user solutions (like a physical or online payment terminal) to accept central bank digital currency along with existing payment instruments. This would ideally lead to a strong integration of digital Euro infrastructure with the existing payments infrastructure. This integration will require investment which should be backed by a viable business model. This should operate similar to the acceptance of other electronic payment instruments where the market has proven to be competitive and effective. A digital Euro could be developed either using centralized or decentralized infrastructure. This choice has relevant implications for the use-case for a digital Euro (for example, a decentralized “bearer” approach could support programmable money).
- 2. The digital Euro should complement cash and mirror some of its features** – The digital Euro might help preserve some of the privacy and integrity features that cash payments undoubtedly offer. This would mean a digital Euro could help absorb the effects of a decline in cash acceptance in the Eurozone that will likely continue in the coming years. To complement cash, by essentially digitalising some of its features, the digital Euro should mirror cash in some ways, including:
 - **It should function as a means of payment in an offline environment without complex infrastructure.** Payments in digital Euro should be possible between two offline systems. Such payments should be risk free and final for payers and payees.
 - **A digital Euro should allow those that, for legitimate reasons, want to pay with a higher level of anonymity.** To avoid abuse by criminals, traceability features of cash

¹ We were particularly inspired by the ECB’s thoughtful scenario analysis in its October 2020 report on the digital Euro https://www.ecb.europa.eu/pub/pdf/other/Report_on_a_digital_euro~4d7268b458.en.pdf#page=4

could be replicated quite easily for example by establishing a system of unique hashes for each denomination of digital Euro, while the value of anonymous payments could be capped.

- A digital Euro could certainly allow a certain number of today's cash transactions to be displaced (P2P, retail payments to microbusinesses, ...). That said, **EDPIA would see a digital Euro as a complement to cash, rather than a replacement for it.** While we believe that the digital Euro can contribute to digitalisation of payments, it is unrealistic to expect every cash transaction today to switch to a digital Euro, even in the medium term.

Possible use cases of a Digital Euro

- 1. Programmable money (i.e. funds that can only be used for a specific purpose) could be a specific use case for a digital Euro** – This could serve as a genuinely innovative use-case, as a digital euro could encourage and support the wider implementation of programmable money (beyond means of electronic payments available today including limited use cards). This could be a powerful tool for economic and social policy, including in the aftermath of the COVID-19 pandemic. The ECB should support the development of frameworks and standards for programmable money in the same way as this is currently done for the existing forms of electronic payments. This could be done within the existing bodies such as the ERPB or through new instances dedicated to the topic.
- 2. It could reach EU residents that fall through the cracks of the EU's existing financial inclusion framework.** Whilst the EU has a successful framework for all residents to have access to basic payments accounts through the Payment Accounts Directive (PAD), a digital Euro might help to provide those falling through the cracks of the system access to a reliable digital means of payment. Policy makers could consider providing universal access to a means of very low value digital Euro payments instrument that are subject to lighter KYC/CDD requirements (similar to the regime for pre-paid cards below €150 under the AMLD). An easily accessible digital Euro infrastructure could support inclusion by:
 - allowing residents with limited access to digital services (e.g. no smartphone or internet connection) to pay digitally without additional costs or risk (see point on off-line usage above).
 - serving as a specific solution for those who have access to digital tools but who do not necessarily have access to a payment account with a financial institution (for example older children under some specific circumstances)

EDPIA recommendations for next steps

EDPIA welcomes the exploratory discussions about the digital Euro and is looking forward to constructively contributing to these discussions in the years to come. We also strongly welcome the spirit of openness in which these debates have taken place.

Should the ECB decide to launch the study phase of a digital Euro project in 2021, we would welcome the continuation the structured stakeholder dialogue with the private sector and civil society in the initial stages of this project, particularly in the first two years. This is important as we believe this will increase the chances of the digital Euro becoming a success as a means of payment.

Aside from involving key players in the payments industry in the wide sense (including banks), we believe merchants, corporates (including SMEs), consumer end-users of payments, and representatives of public bodies should be involved in this dialogue. The existing Euro Retail Payments

Board, chaired by the ECB, might be a good starting point for this structured dialogue as it brings together all these segments of the payments ecosystem. For the specific case of the digital Euro, participation might be expanded beyond the ERPB to include more experts, including from academia and civil society.

While it is too soon to provide detailed comments on a future EU regulatory framework for the digital Euro, which will strongly depend upon its design, we believe there are some general guiding principles that should be taken into account when thinking about a future framework

- **If a digital euro is issued as legal tender then a sensible transition will be crucial** - Legal tender status could be an attractive policy option for a digital Euro to preserve the characteristics of cash.² This would help to safeguard its universal accessibility, safeguard its fungibility/convertibility with other forms of central bank liabilities, and ensure a smooth transition of successful frameworks preventing bank note forgery (including through criminal sanctions). It would also legally safeguard the Eurosystem's monopoly on issuing digital Euro. However, legal tender frameworks vary across Member States and obliging payees to accept a digital euro in the near-term could be unnecessarily burdensome. Policymakers should therefore consider:
 - limiting the obligation to accept the digital euro based on the circumstance
 - taking a phased approach to such obligations with suitable transition periods
 - introducing complementary measures to support the acceptance of digital payments
- **Use the existing regulatory framework to integrate digital Euro into the ecosystem** - Regulated payment service providers should be allowed to compete on a level playing field to provide intermediary services related to the digital Euro, under a strict and harmonized EU framework that exists today and is being further developed. Although a digital euro will not fall under the MiCA proposal it is important to coordinate all efforts to allow for a frictionless EU payments landscape. This of course includes the upcoming review of PSD2. When there is a direction of travel on the design of a digital Euro, it would be worthwhile performing a fitness test of the existing regulatory framework, in order to prevent both shortcomings and regulatory duplication. This should range from fundamental definitions (such as "funds") to specific regulatory requirements.
- **The ECB should not offer consumer-side solutions** - We believe the role of the ECB should focus on issuing the digital Euro, as well as maintaining its oversight and supervision role. The private sector is best suited to develop payment instruments and payment arrangement services to facilitate convenient and secure use of the digital Euro in innovative use cases and business models. The ECB should not compete directly with other payment intermediaries.
- **Consider limitation on holding and use** - Depending on its design, policy makers should consider whether holding and/or use of digital Euro should be subject to limitations (including in terms of volume). As mentioned above, it may also be worthwhile exploring a tiered system regarding both privacy and AML/CFT for example.
- **A digital Euro should not weaken the EU's defenses against financial crime** - Clearly, digital Euro intermediary services should be subject to the EU's strict AML/CFT framework as appropriate. The digital Euro should not lead to a weakening of the sector's gatekeepers' function when it comes to financial crime.

² For an analysis of the legal feasibility of a digital euro as legal tender, see Chapter four of the ECB report.