Brussels, 7 March 2025

ERPB consultation

Fit of the digital euro in the payment ecosystem:

Theme Business model

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 business model" at the ERPB technical session on 3 February 2025.

1. Cost drivers, their analyses and possible mitigation measures

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

The below non-exhaustive list of potential cost drivers for the digital euro could be used to elaborate on PSP costs, which are far more diverse than those listed in ECB slide 8. It is important to note that one party can have or is required to fulfil multiple roles. For instance, a credit institution providing a commercial account is required to provide a digital euro wallet as well.

For Euro Commercial Account Holding Bank (particularly impacted by reverse waterfall):

- Cost of Central Bank Liquidity (DCA)
- Cost of fraud prevention
- Implementation and operation of an API for payment initiation (reverse waterfall or "manual" loading)
- Upgrade and redesign internal IT infrastructure
- Change management for front and back office employees (complaints management)
- Legal agreements with DE wallet PSPs
- Extension of existing CDD and AML policies and models

For Digital Euro Account PSPs (Wallets):

- Mandatory provision of the Eurosystem front-end
- Integration of Digital Euro functionalities into the banking mobile application, and provision of transaction information
- Portability of Digital Euro wallets back and forth between PSPs
- Secure design, manufacturing, and provision of Digital Euro cards (postal fees, activation, possible communication of a secret code, etc.), with very limited reuse of existing IT and logistical circuits for bank cards
- Fraction of the cost of establishing a relationship
- Fraction of the cost of KYC updates
- Development of a specific "shadow accounting" system, off-balance sheet, which is likely costly for banks as it must be isolated from all ALM management, reporting systems, etc. This is not merely the creation of specific account ranges or the introduction of a new currency into existing accounting systems.
- Real-time or batch conversion between Digital Euro and Euro Commercial, especially for merchants

- Cost of Central Bank liquidity (DCA)
- Implementation of all functionalities related to offline transactions
- Creation of all means of customer restitution, both regulatory and internal
- Predictable cost of extending seizure, third-party notifications, etc. to Digital Euro wallets
- Cost of fraud prevention (to be considered: centralized ECB fraud prevention tool, to which PSPs will nevertheless need to connect)
- Cost of residual fraud (with the principle of authentication by the Digital Euro account holder)
- Implications of potential implementation of EUDIW are unknown
- AML costs on Digital Euro transactions
- Management of funding / defunding (manual / automatic)
- Creation of support tools, back-office (for account opposition / phone), especially since the directive text provides for dedicated technical support for wallet users
- Change management for employees (equipment and operation of wallets)
- Reporting / system costs
- Connection to the Digital Euro Service Platform (DESP)
- Verification of compliance with potential uniqueness and adherence to the holding limit (note: joint accounts add complexity)
- Creation of PSD2-type APIs to allow access to Digital Euro wallets

For Digital Euro Account PSPs that are also ATM / Cash Machine Operators:

- IT costs for upgrading ATMs, with identification of customers holding Digital Euro accounts other than with a traditional bank card (replacement of any incompatible hardware)
- Establishment of funding circuits for Digital Euro accounts

For Digital Euro Account PSPs that provide Acceptance services (Merchant PSP):

- Upgrading of payment terminals (replacement of incompatible hardware)
- Upgrading of e-commerce gateways
- Integration of Digital Euro services into merchant tools (portals)

The maintenance cost depends on various cost drivers, such as the number, frequency, and complexity of changes in the Rulebook, interfaces, etc. However, the cost is not limited to maintenance alone; it also includes running costs. Some of these are more fixed, while others

depend on transaction volume. Banks also incur non-IT costs, such as fraud handling, investigations, dispute management, ATM cash handling/distribution, and communication.

Regarding the costs of an offline digital euro, it was stated during the ERPB session that the ECB expects limited costs for PSPs because it aims to offer a plug-and-play solution. However, offering the standard ECB app or offline solution does not say anything about the option to integrate the digital euro into banks' own apps.

It should be very clear to PSPs that currently offer cash services which digital euro services should be provided to digital euro users. During the ERPB session, we got the impression that no hardware changes would be required for the digital euro if an ATM does not currently support coins, cash deposits, or NFC/QR code options. This should be clear to all participants, as it will impact implementation costs and timelines.

Offering a physical card is also costly. We understand the reasons for providing a physical card for specific users, but that does not mean it must be offered for free. An account fee or a one-off payment for the card should be considered and discussed with legislators.

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

In our opinion, there are no major actionable mitigants without reducing the scope of the digital euro and removing unnecessary features in relation to the real critical strategic objectives (rather than the one-size-fits-all proposal of the ECB).

We recommend limiting the scope of the digital euro and minimizing complexity. For instance, removing the option of open funding, which would mean a digital euro account linked to a commercial bank account serviced by the same PSP. This would improve accountability, ensure faster processing and easy AML/KYC checks, reduce operational complexity and thus costs as transaction management simplifies (e.g. funding/defunding, waterfall).

A mitigation measure could impact the value proposition; otherwise, it would not be a mitigation measure but merely a solution for implementation.

Question: What would be your preferred sequencing of digital euro in a staggered rollout approach[1] to spread out cost and effort?

The answer to this question depends on the goals and problems the digital euro is intended to support or solve. A staggered approach could also impact the adoption rate of the digital euro. It should be clear to PSPs, consumers, and merchants what functionalities are available and at what stage of development. Furthermore, compared to existing products in the market, the offline digital euro could add more value by improving resilience and replicating cash features such as privacy and direct settlement.

When considering cost and effort, an agile approach is preferable, meaning small incremental releases to production. This limits risk and allows for multiple Minimum Viable Product (MVP) stages.

Another important factor is the reuse of existing standards and infrastructure versus adopting new ones. Starting with existing infrastructure reduces costs and shortens deployment timelines. If the open funding model remains under consideration, it should be moved to the last

[1] See e.g., previous ERPB presentations

implementation phase. Additionally, shared accounts and multiple accounts should not be implemented.

Overall, the more staggered the approach, the better. It is preferable to launch a simple product quickly and continuously improve it based on market needs and competitive developments rather than committing to a 2–3-year PSP implementation process. Ultimately, this will not significantly change costs for PSPs, but it will reduce the risk of the project becoming a major failure and a waste of PSP funds.

Question: Which additional standards should be leveraged to avoid double efforts and reduce implementation and maintenance cost?[2]

The emphasis on reusing existing infrastructure and standards aligns well with cooperative banks' focus on cost efficiency and leveraging established systems. This approach could help reduce the financial burden on (especially smaller) cooperative banks, which often operate with a strong focus on community and member benefits.

The ECB could consider the proposal to switch to SCT Inst settlement, which would offer the same value proposition as a dedicated digital euro settlement through the DESP from the consumer/merchant or PSP point of view.

See also our response on value driver 11 (consultation response on synergies).

2. "Open funding" as possible unintended consequence of the legislative proposal

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

Adequate compensation for PSPs is crucial, with a focus on fair remuneration for the services provided. We appreciate that the ECB mentioned open funding as a possible unintended consequence of the Commission's legislative proposal (ECB slides 13). A measure to avoid this would be to link a digital euro account only to a commercial bank account with the same PSP.

If the "open funding" model is maintained, the inter-PSP fee could be split between the distributing PSP and the funding PSP based on the proportional costs between both PSPs. It is not a viable option to just consider the service as non-basic and charge customers for it. This would not change the fact that a PSP that only distributes the digital euro but no other banking services would receive the full share of the merchant fee, although it would have significantly lower costs than PSPs that offer both services. Distributing digital euro services would therefore be particularly attractive to FinTechs and BigTechs, thus weakening European sovereignty.

We also believe that banks should be allowed to charge fees to their customers (see comment on value driver 15 below).

Additionally, the issue of the business model is not limited to the open funding use case but also applies to P2P payments (where no merchant is involved).

[2] If not already addressed in feedback after the Synergies theme session (value driver #11)

3. Innovation and revenue potential of non-basic services

Question: What segment do you see as most fertile for additional services (consumer, merchant, intermediaries)?

Many of the examples presented for consumers (ECB slide 16) are already available today at no additional cost. These services are part of the package or account fee paid by consumers. The most promising segment is the merchants. However, not all the ideas presented are unique to the digital euro.

Additionally, it is important to understand that value-added services will not be dedicated solely to the digital euro but will be part of a broader package or experience for the customer. For example, if a PSP offers cashback or insurance services to its customers, these will generally apply to all payment methods. In this regard, the additional services will not create extra value for PSPs but will instead lead to increased costs, as they will have to be replicated for each payment instrument.

Question: What services can be best monetised and which are already commoditised and/or are best offered for free?

In general, many of the current (commercial) consumer services are offered for free as part of the package/account fee. Therefore, it is not easy to communicate to consumers that they must pay for these types of services in a digital euro setting, especially when they receive services like conditional payments for free in the current system.

Digital euro implementation requires high investments, with limited value for consumers and merchants that cannot be monetized. We do not see much new potential for value-added services that could not be achieved without the implementation of the digital euro.

Question: What value-added services do you see most popular among customers at the moment? What is the outlook for the next five years?

This question cannot be answered for commercial reasons.

Question: To what extent should the scheme also facilitate non-basic services (e.g., to establish network effects)?

As a general remark, the digital euro scheme must intervene for services that require interoperability between members to function.

Question: How can the digital euro best be a viable distribution channel for core products/services?

This question cannot be answered for commercial reasons.

4. Value drivers

Value driver 14: Keeping investment and maintenance cost low through reuse of existing processes and infrastructure

ECB rationale and question: 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?

EACB comment

See answers under section 1 above (Cost drivers, their analysis, and possible mitigation measures).

In addition, POS will be impactful, especially if the regulator does not properly break open and control the entire chain. If the goal is to be independent, then the entire chain must be analysed, and all major "power concentration" bottlenecks must be removed.

Value driver 15: No scheme and processing fees

ECB rationale and question: Eurosystem will bear scheme and processing cost, impacting transactional cost favorably. Which concrete suggestions could further optimize the compensation model for all parties involved?

EACB comment

The following options could help optimize the compensation model for all parties involved:

- Digital euro account linked to a commercial bank account with the same PSP only.
- Possibility to charge an account fee for digital euro wallets (comparable to existing market propositions). This would align with the Payment Accounts Directive, which permits PSPs to charge a reasonable fee for basic payment accounts. This would allow PSPs to compensate for non-transaction-related costs such as on/offboarding flows, LCM, connections to DESP, KYC, and fixed app infrastructure costs.
- Limit the set of basic services that are free, especially for funding/defunding into cash. Consumers and merchants should pay a fee after a certain number of deposits/withdrawals.
- EU-wide interchange fee cap to create a level playing field across all jurisdictions within the EU.
- Ensure that all parties benefit, including the funding bank (e.g., in a 6-8 corner model).
- Funnel part of the seigniorage fee to banks as compensation for their forced loss of innovation costs (opportunity costs) and loss of interest income.

Value driver 16: Innovation potential and additional revenue from non-basic services

ECB rationale and question: 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?

EACB comment

See answers under section 3 above (Innovation and revenue potential of non-basic services).

Banks in certain Member States have a more advanced payments landscape than others. Some elements, such as conditional payments, are already a free service and can therefore not be a viable business opportunity.

5. Specific comments on ECB slides

Slide 12 – on the scheme and processing fees: The scheme and processing fees of the current solutions are a sub-cost driver of all transaction processing costs. Currently, these are paid by the users through an account fee.

Slide 7 – on leveraging AML/KYC standards: Standards and laws are partially defined at different levels. For instance, banks must adhere to UN, U.S., EU, and national sanctions. Additionally, there are non-binding but "highly recommended" best practices for banks' risk assessments in relation to AML and KYC topics from regulators. Moreover, there are EBA

guidelines, Q&As from regulators, and more. Banks must combine these elements into a coherent and executable policy. We therefore would appreciate it if the ECB took charge in ensuring that the standards credit institutions must adhere to are clear and implementable. They should be free from "noise" and minimize room for interpretation, providing credit institutions with clear do's and don'ts instead of interpretable expectations. This would create certainty about how execution should take place and allow credit institutions to invest the optimal number of resources to ensure appropriate execution that meets regulators' requirements.

Contact:

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

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EBF Written Feedback to ERPB Engagement on Digital Euro Fit in the Payment Ecosystem – Business Model

13 March 2025

Item	Value driver	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?*

EBF feedback on the value driver and its impact

We fully support the ECB's commitment to (re)use existing infrastructure, processes and standards to the maximum extent. As we clearly stated in our feedback to value driver 9 under the 'Synergies' theme, we firmly believe that the success of the digital euro will heavily depend on its ability to integrate seamlessly into PSPs' existing payment solutions, channels and interfaces, that would act as a bridge to the digital euro infrastructure.

Some of the major cost drivers of the digital euro value proposition would be the entirely new payment processing systems and the dedicated workflows and solutions that will have to be devised to cater for all digital euro processes. In addition, we expect huge impacts on existing products and processes since the current design of the digital euro, based on the work of the RDG, appears to be extremely - and we would argue unnecessarily - invasive in a significant part of today's banking processes (e.g. standing orders, order management internal processes, AML processes, etc.).

The cost of infrastructure investments and running costs for intermediaries distributing the digital euro should be optimized so that a maximum of existing infrastructure and procedures, such as those for fraud prevention and dispute management can be re-used for the digital euro.

On the other hand, the infrastructure on the merchant side accepting the digital euro requires particular attention and investments into a common merchant acceptance network for both the digital euro and other existing EU payment methods, that would be highly beneficial for the sovereignty of EU retail payments, even outside the euro area across the entire EU/EEA.

In this context, we not only see significant merit in a continued public private partnership where the private sector continues to provide processing roles adhering to, among others, the digital euro scheme, but also in increasing the operational

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collaboration going forward in a joint project to first establish this common merchant acceptance infrastructure.

Besides the payment process itself, it should also be factored in that the distribution of the digital euro implies other fundamental activities for PSPs beyond the mere transactions (liquidity management through the (reverse) waterfall mechanism, holding limit monitoring, dispute management, fraud prevention and fraud management, access management, provision and maintenance of payment instruments/devices, reporting management, etc.) that need to be remunerated.

Hence, for the feasibility of a future compensation model, any optimization on the upfront investment and on the above-described maintenance/running cost will be beneficial to the cost of processing and accepting payments along the entire value chain for the digital euro and other EU payment methods.

Generally, when it comes to cost-drivers, the potential bottlenecks created by the simultaneous introduction of digital euro and ongoing payment related regulatory requirements and other IT-development expected from the banks and PSPs is also to be kept in mind.

Finally, as outlined in our feedback to value driver 11 under the 'Synergies' theme, we believe that the payment processing of the digital euro at the POS in particular would work best by decoupling authorization and settlement. Not only this would reduce latency, but it will contribute to roll out the digital euro in full synergy with private sector solutions on existing rails.

Estimate likelihood of materialization for the value driver

As we observe today, the ECB architecture will be created from scratch and the idea is to reuse only partially some standards and solutions. Hence, we unfortunately have to consider the likelihood of effectively reducing the PSP investment and maintenance cost as low. This being said, we continue to see significant merit in deepening the dialogue and effectively jointly work on a truly pan-European payments processing platform combining the digital euro with other EU payment solutions. This would help strengthening the EU's sovereignty in the currently changing geopolitical circumstances.

Item	Value driver	Possible opportunities
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?*

EBF feedback on the value driver and its impact

The ECB´s assumption of the scheme and processing costs does not necessarily imply that the digital euro will lead to savings for PSPs in comparison to other means of payment. Indeed, the total costs of the digital euro to be borne by PSPs (one-off and recurring) are not yet known, nor are the expected transaction volumes.

Additionally, important elements such as who will bear the costs of fraud handling or dispute management - let alone the cost of actual fraud itself - have not yet been clarified either. Also, national specificities must be considered. In some countries, the

existence of national payment processors may alter the calculation of those costs and lead to savings divergences.

What seems however clear from the Rulebook is that the digital euro will be structurally more complex than current private solutions "by design" because of the need to ensure continuous, real-time connectivity with the DESP.

In any case, the processing fees are a fractional part of the costs borne by PSPs and therefore its exclusion would have a limited impact. Moreover, it is still unclear whether the Eurosystem will also bear possible connection and architectural costs related to the interaction between DESP and the distributing intermediaries, especially if it is confirmed that an entirely new infrastructure needs to be put in place.

There is a need to match the distribution model and the compensation model. If the distribution model is a 6-corner model - i.e. if the PSP (bank) holding the deposit/liquidity/current non-digital euro payment account is different from the PSP handling the digital euro wallet - or the merchant PSP is different from the "acquirer" PSP) – then the compensation model should also consider 6 corners, instead of the currently proposed 4-corner model only. If the compensation model is not adapted to a 6-corner model, PSPs handling the non-digital euro payment account will be cut-off from any remuneration if they do not also hold the digital euro account while they will still have to face and manage the liquidity outflow.

It is indeed essential to consider all the intermediaries involved in the end-to-end payment chain. If not, the unintended effect would be that (non-EU) digital euro wallet providers - which are becoming increasingly popular as recognized by the ECB itself (see slide 3) - would be the real beneficiaries of the digital euro initiative, while EU PSPs – even when they distribute/acquire the digital euro - will essentially bear the largest part of the costs without any compensation. In addition, the ECB should be considering in full the differences between countries where payments are processed via domestic processors and those where those companies are not used, so as to ensure that the ECB bears all the processing costs in both cases, ensuring a true level playing field.

It is however essential that, in a 6-corner model, the PSP which holds the commercial bank money payment account as reference account cannot be held liable for a fraudulent digital euro transaction for which it would only have converted the payer's or payee's deposits/commercial bank money funds. Digital euro payment fraud shall only be the liability of the customer's direct digital euro intermediary.

High up-front investment and operating costs are expected for intermediaries with great uncertainty as to the extent of possible sources of revenue. Consideration should be given to the possibility of public funds helping the private sector investment, in particular the investment needed for the merchants and SMEs which will be obliged to accept the digital euro. Moreover, there would even be a risk of losing revenues (mainly to new entrants) if European PSPs are forced to mobilize resources for the build-up and roll-out of the digital euro while maintaining existing solutions thus diverting investments from innovation in private solutions.

More generally, the compensation model will be key as some decisions (such as a cap on merchant service charges and a list of functionalities/services that PSPs will have to provide for free) may have unintended consequences that could influence the whole payment market dynamics, and not only the distribution of the digital euro.

Estimate likelihood of materialization for the value driver
The absence of scheme and processing fees for the digital euro will only have a medium effect on the cost incurred by the PSP's distributing the digital euro. This is due to the fact that the scheme fees for other payment schemes, such as card schemes, typically cover central services that are provided by the schemes (e.g. fraud management, dispute management). Not all of these service components are expected to be provided by the ECB or the DESP. Hence, whilst PSPs do not pay the scheme fee, they will have to incur this operational cost elsewhere.

Item	Value driver	Possible opportunities
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?*

EBF feedback on the value driver and its impact
By definition, value-added services (VASs) are an additional and different source of revenue for PSPs. We however consider premature to think about the innovation and revenue potential of VASs when the underlying architecture and the reference technology are not defined. At this stage, there are insufficient elements to foresee if and how the DESP could cater for innovative payments provided by PSPs. Furthermore, the digital euro adoption rate – which, to date, is impossible to estimate - will importantly shape the offer of VASs, which will be designed to meet and satisfy customers' demand. We expect the vast majority of digital euro users, at least in the early phase of the introduction of the digital euro, to only use the basic services that will be provided free of charge. Consequently, only a small percentage of users will potentially use additional services for a fee from the start, which makes it extremely difficult and certainly economically problematic to build a business model that takes into account more than the basic services. We therefore believe that we should not consider VASs as assumed revenue for PSPs, hence VASs should be excluded from the business model discussion, which should be solely based on the basic design. In addition, as the experience has shown with PSD2, there will likely be no budget left for VASs considering the already massive investment needed only to offer the basic set of services.
Estimate likelihood of materialization for the value driver
This question is premature as much will depend on the final design and market demand after the introduction of the digital euro, as well as on the compensation model and the possibility for PSPs to build profitable services on top of the digital euro. Also, the private sector is already developing new innovative services that fulfil customers' needs and evolve along their demands, irrespective of the introduction of the digital euro. However, in the event that these additional and innovative services are developed, an equilibrium must be found so that the digital euro does not act as a substitute of

traditional banking services, specially taking into account that it is expected that major non-European companies (non-bank payment service providers) will also offer digital euro wallets and related services.

Additional questions from the slide presentation of 3 February

Additional feedback on cost drivers, their analyses and possible mitigations measures (see slides 8-9)
What would be your preferred sequencing of digital euro in a staggered rollout approach to spread out cost and effort?
In order to minimize initial investment and project risks, we generally consider that the first release of the digital euro should focus on the simplest use cases, followed by gradual releases that address users' needs leveraging on their use of the digital euro.
Which additional standards should be leveraged to avoid double efforts and reduce implementation and maintenance cost?
We have no comment.

Additional feedback on "open funding" (see slides 12-13)
What are alternative proposals that allow for compensation of funding PSPs while retaining safeguards for consumers and merchants?
It is essential to consider all the intermediaries involved in the end-to-end payment chain and the many different tasks they must perform. The distribution of the digital euro implies other fundamental activities for PSPs beyond the mere transactions (liquidity management, disputes, access management, provision and maintenance of payment instruments/devices, fraud management, KYC/AML, reporting management, etc.) that need to be remunerated. If not, the unintended effect would be that mostly non-EU digital euro wallet providers - which are becoming increasingly popular as recognized by the ECB itself - would be the real beneficiaries of the digital euro initiative, while EU PSPs – even when they distribute/acquire the digital euro - will essentially bear the largest part of the investments and operational costs without revenues nor a sufficient compensation. Therefore, either we keep a simple model where the PSP handling the digital euro account is the same as the one holding the deposit/liquidity (4-corner model), which we believe could be particularly appropriate for some time after the launch of the digital euro, or we face a more complicated 6-corner model with rules to ensure fair compensation of the PSP holding the non-digital euro payment account if it does not also hold the digital euro account. Generally, the simpler the model, the less prone it is to fraud – as we explained above - and the clearer the liability is. It will be key to enable a sustainable business model. If the costs for mandatory distribution of the digital euro are higher than the fees for comparable means of payments, banks will then lose money from distributing the digital euro. In this respect, dedicated in-depth analyses between the ECB and PSPs on the following aspects would be necessary: • Ensuring adequate transaction-level compensation; • Limiting mandatory free of charge basic services and allowing PSPs to charge an account fee for basic digital euro services;

- Eliminating the principle that users cannot be obliged to have a linked non-digital euro account/service (see Article 22 (2) of the legislative proposal);
- Ensuring that that the PSP handling the digital euro account is the same as the one holding the deposit/liquidity as a priority so that a 4-corner model is adopted;
- Recognising a 6-corner model and the compensation it requires only if a 4-corner model is not adopted;
- Remunerating of (reverse) waterfall.

Additional feedback on innovation and revenue potential of non-basic services (see slides 16-17)
What segment do you see as most fertile for additional services (consumer, merchant, intermediaries)?
This question – and the ones that follow - is premature as much will depend on the market demand after the introduction of the digital euro whose underlying architecture and core elements are still being worked out and will largely depend on the adoption of the legislative proposal for the establishment of the digital euro which is still under negotiation. Moreover, like all private companies, banks are subject to non-disclosure clauses which do not allow them to discuss market positioning and elaborate further on the possible additional services they are offering or are developing. See our above feedback to value driver 16.
What services can be best monetized and which are already commoditized and/or are best offered for free?
See answer to previous question.
What value-added services do you see most popular among customers at the moment? What is the outlook for the next five years?
See answer to previous question.
To what extent should the scheme also facilitate non-basic services (e.g., to establish network effects)?
See answer to previous question.
How can the digital euro best be a viable distribution channel for core products/services?
See answer to previous question.

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ESBG Feedback to the ERPB Fit in the Ecosystem
'Business Model – Workshop'

General comments

Investment and Maintenance Costs

On the Investments and Maintenance costs, as the digital euro project team is aware, some of ESBG´s members, with other banks, are conducting a survey with an external auditor to estimate the cost of implementing the Digital Euro based on the latest version of the Rulebook. Once available, we would like the ECB to take in consideration this study to find an adequate compensation model as well as considering changes to the programme to reduce the impact of crowding-out innovation budgets that could hinder our competitive position.

The private cost study will only identify possible investment costs (and not necessarily exhaustive). Ongoing maintenance costs should be investigated further, as well, prior to design or compensation decisions being made. The role of banks, and specifically savings and retail banks, in the digital euro (for instance, as account-and-liquidity managers) should be considered. The impact of deposit outflows should be considered from a balance sheet perspective, particularly for retail-focused banks, as well as in financial stability implications, with a view to the strategic and economic role of such banks in the EU economy. Compensation should provide for a sustainable business model for banks which provide critical services and support in local communities and national economies.

Financial Inclusion

On slide 8, on the potential cost drivers, financial inclusion is mentioned twice as perceived benefits. As per our genes, ESBG and its members support financial inclusion, however, we believe that the problem should be put into perspective, and a proper assessment is required whether the possible benefits (getting the last unbanked included) outweigh the required investments required for that particular segment.

When the latest Global Findex[1] data were published, ESBG analysed these in detail and concluded that in the European Union as a whole, at that point in time (the data stems from 2021) that more than 13 million adults, or 4% of the adult

[1] See: https://www.worldbank.org/en/publication/globalfindex

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population, face financial exclusion[2]. However, when looking at the same date for the euro area only, we derive that around 4,6 million adults in the euro are unbanked, or just over 1,5% of the adult population in the euro area. The comparable data for the euro area only can be found in the table[3] below.

Table: Financial inclusion in the euro area, unbanked adults				
	2017		2021	
Country	**Unbanked adults 15+**	**Relative share**	**Unbanked adults 15+**	**Relative share**
Austria	137.700	1,84%	3.761	0,05%
Belgium	128.041	1,36%	95.329	0,99%
Croatia	494.946	13,86%	283.466	8,20%
Cyprus	109.767	11,28%	69.197	6,87%
Estonia	22.137	2,01%	6.929	0,62%
Finland	9.866	0,21%	21.861	0,47%
France	3.270.789	6,00%	419.374	0,76%
Germany	613.053	0,86%	16.765	0,02%
Greece	1.341.302	14,53%	473.335	5,12%
Ireland	173.372	4,66%	13.310	0,34%
Italy	3.255.366	6,21%	1.401.949	2,71%
Latvia	112.583	6,78%	53.731	3,38%
Lithuania	419.049	17,12%	152.777	6,47%
Malta	10.302	2,64%	15.982	3,55%
Netherlands	51.485	0,36%	39.231	0,27%
Portugal	681.086	7,66%	658.625	7,35%
Slovak Republic	727.964	15,82%	201.923	4,38%
Slovenia	43.408	2,47%	16.937	0,95%
Spain	2.474.022	6,24%	689.696	1,70%
Totals (euro area)	**14.076.238**	**4,28%**	**4.634.178**	**1,57%**

We note the significant reduction of unbanked adults in the euro area over the time period observed (from 2017 to 2021) and it is not unreasonable to expect that over the past few years this number has further reduced.

Rest assured that financial inclusion is at the heart of ESBG and its members, or, as mentioned when ESBG presented their analysis: "Financial inclusion is at the core of our members' vocation and they put great efforts on serving individuals, families and SMEs, with a focus on leaving no one behind, which has surely contributed to the improvement of financial inclusion in the block", said ESBG Managing Director, Peter Simon.

Comparable Means of payments

[2] See: https://www.wsbi-esbg.org/number-of-unbanked-adult-eu-citizens-more-than-halved-in-the-last-four-years/

[3] Source: Global Findex – 2021

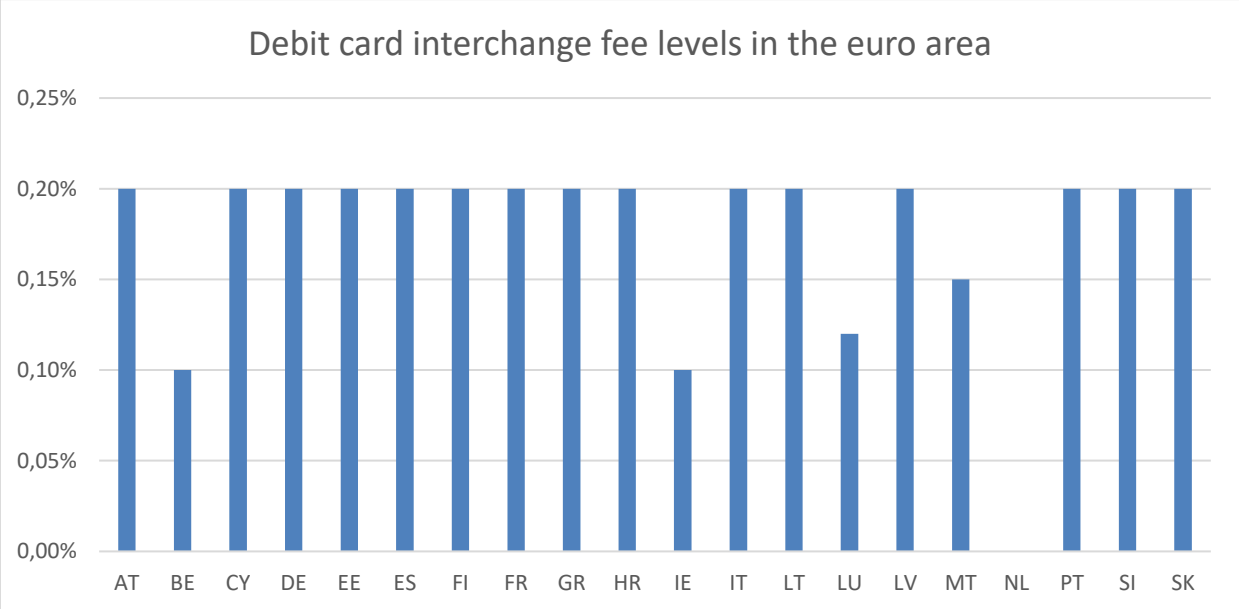
Notes : data on Luxembourg is missing in Global Findex so has been omitted, analysis by WSBI-ESBG.

In terms of the compensation model, ECB has shared some key pillars of the business model: 1) digital euro will be free to consumers, 2) ECB will not charge scheme fees, 3) PSPs will be able to charge competitive rates to merchants for the provision of their services and 4) Payer´s PSP (issuers) will receive an inter-PSP fee.

It is our understanding that the items 3) and 4) include also some price capping, limiting these to charges related to comparable payment means. Given the use cases at hand so far, it is our understanding that debit cards come closest as comparable payment means.

However, there are critical items around the business model that have not been defined yet and this lack of clarity hinder our ability to evaluate the impact of implementing and running the Digital Euro.

The revenue model based on inter-PSP rates could be considered adequate if the rates set are competitive (i.e. similar) to debit card transactions however no inter-PSP rate has been defined. Besides due to the different cap levels across European markets there might be challenges around how to set this rate at European level. The graph[4] below depicts the various interchange levels for debit cards across the euro area:



[4] Sources: Visa Europe Interchange fees by country and Mastercard European fees per location.
Notes: NL has a fixed fee of € 0,02. ES, GR and IT have lower levels for low value transactions.
In BE and GR the amounts are capped to a certain level of cents per transaction. In ES the debit card interchange fee is capped per the above, but according to the Bank of Spain the average debit card fee, as of June 2024, is € 0,0956 for transactions below € 20 and € 0,0968 for transactions above € 20.

From this overview it can be derived that some countries took the liberty (as allowed per the Interchange Fee Regulation[5]) to impose lower levels in that particular country – the result has, in fact, been a fragmented market, making it extremely challenging that these levels could be used as like-for-like for the inter-PSP fee for transactions in digital euro. If the levels would be used as-is, this would put banks in countries like Belgium, Ireland, Luxembourg and the Netherlands at a disadvantage, as they will have less opportunities to recover their costs via these inter-PSP fees compared to their peers in other countries. However, allowing higher inter-PSP fees in those countries will likely have an effect on the prices in that market towards merchants, making digital euro transactions then more expensive than transactions with debit cards. Our fear is that this fragmented landscape can only result to a race to the bottom (in terms of the level of the inter-PSP fee) – it goes without saying that we oppose that, as at the moment the inter-PSP fee seems the only viable income stream that can be identified for savings and retail banks offering the digital euro.

Funding Options

More clarity from legislation is required to have adequate visibility about the expected revenues.

ESBG has been raising the issue of the so called "open funding" for a while now. We welcome the fact that the ECB recognises this as a possible issue too. A possible inter-PSP fee should also acknowledge that the consumer bank and the party that holds the wallet can be different actors. Both actors should receive a fair share on the inter-PSP fee.

In such open funding scenario, both PSPs have to fulfil their obligations for KYC and AML purposes. And whilst the ASPSP may need to invest in the funding and defunding capabilities, the wallet holding PSP may need to invest in transactional capabilities. Maybe it is worth doing an investigation on what activities are performed by what actor, and derive the proper model and cost-base from there?

Design Implications

A revenue model only exists for an attractive product that finds adoption in the market (i.e.: relies on the value proposition).

The savings from eliminating scheme fees on the digital euro could compensate, or not, the very extensive investment needs and operating costs required for PSPs to provide the digital euro depending on certain design decisions and on who captures these savings (expectation from merchants is that a very

[5] Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions, Article 3.

substantial part of these savings will be passed to them to compensate for the mandatory acceptance). It must be noted that local/cross border European transactions from competing schemes have a low fee, and EU PSP would still need the ICS for inter-regional transactions to and from the euro area. While the main cost driver is not the ICS scheme fees but processing costs, which will remain for other payment channels, while paying consistently high ICS scheme fees for (presumably) less volume.

The compensation scheme should consider the existing and expected operating costs and the stock of investment in new infrastructure. Particular attention should be paid to the possibility of reducing running costs and fees for other payment channels (contrasted with new costs being introduced via a digital euro).

1. Investment and maintenance efforts

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

Main cost drivers:

- **Adaptation and infrastructure costs:** resources are scarce because of all the other legal obligations for banks whether from politics or oversight. Most of the time those obligations have a deleterious effect on innovation capacities. That is already state of play regarding EPI/Wero. Regarding maintenance, we expect the same way of working and costs with comparable (payment) systems - around 20 % of the investment costs.
- **Accumulative costs:** banks need to adapt the current infrastructure, implement requirements for the digital euro and maintain existing payment channels. As it is still not clear what the digital euro design will be, it is hard to predict the related cost – e.g. the impact on ATMs costs. But these new and existing costs will both be borne by the participating parties. While legal tender, we do not see why banks have to support all channels concurrently (e.g. offline digital euro and ATM provision, which resolve the same challenges such as financial inclusion). It is not a cost-effective model.
- **Offline solution:** there is no demand from consumers for a separate offline payment scheme, but rather for offline functionality, as is already the case with existing payment methods.
- **Non-digital features:** a stand-alone battery-operated card is not in demand by consumers. Instead, co-badge cards could be considered in cooperation with the private sector. Other “non-digital” features that are particularly expensive are in-branch handling in access management and liquidity management and the withdrawal of digital euro at ATMs, for example in exchange for cash. A digital alternative would be the option of automatically topping up digital euro via the current account.

- **Unnecessary transaction management features:** according to our members' assessment less-relevant features for their markets would be the function to pay by QR code and pay-by-link. Furthermore, pay-by-link raises security concerns.

Our analysis is based on a cost estimate, by DSGV, prepared together with PwC in 2024 and which is now being carried out across Europe (including several other ESBG members).

If the offline payment method and non-digital features were abandoned or introduced at a later date, initial estimates suggest that more than half of the previously estimated investment costs could be saved over the first three years.

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

We believe in following a **'keep it simple'** approach.

Mitigants:

- **Market positioning:** business model would benefit from a refined purpose and market value of the digital euro. The digital euro was presented as an equivalent to cash in use, therefore, in P2P and POS contexts and possibly as a fallback option for POS via offline capabilities. The problem is the investment costs for a lot of parties to come to offline infrastructure, if possible at all. I think it doesn't compromise the value of the Euro. It was seen as an additional payment method and not to take over the private schemes.
- **Slim-down design:** merchants are more concerned about the complexity of the digital euro and relative consumer adoption. A focus on fewer features would therefore help to increase the value proposition of the digital euro for merchants.
- **Focus on NFC:** for consumers and retailers alike, a focus on NFC payments would be appropriate without compromising the value proposition of the digital euro. Whilst pay-by-link raises security concerns. Merchants, businesses and municipalities are concerned about possible payment abandonment, as too many clicks are required and there are regular warnings about phishing links.
- **Hybrid-infrastructure model:** another option is to introduce the digital euro in a hybrid approach, where the digital euro could be used as a payment object/funding source for existing payment rails, with acceptance networks and front-ends of existing payment systems (like a split payment). This would also allow a smooth and optimised digital euro to go-to-market while using already scaled up systems with high adoption rates and wide acceptance networks.

*What would be your **preferred sequencing** of digital euro in a **staggered rollout approach*** (see e.g., previous ERPB presentations) to spread out cost and effort?

Preferred sequencing

We propose introducing the digital euro as a "digital-only" solution first. This not only reduces the complexity of the digital euro but may also make an earlier introduction possible. In order to ensure offline functionality and the availability of a physical card in particular, we propose cooperation with European payment methods such as wero or bizum.

The sequencing, for the digital-only use cases, would be P2P and POS first. These are simple use cases and excludes use cases (in the rulebook) which have no consumer demand or cost-efficient case for adoption.

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

Additional standards:

- "Wrapped" solutions could be used to avoid double efforts, so existing networks/ protocols will be allowed to 'tunnel' D€ protocols.
- The use of EMVCO and NFC, backed by mobile operators, could best be used to overcome a lot of investment costs.

2. A fair and balanced compensation model for basic services

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

Compensation Alternatives

One alternative would be for the funding PSPs to receive a portion of the MSC/inter-PSP fee in proportion to the amount of the payment.

A distinction should be made between "manual" funding and (reverse) waterfall. In the case of manual funding, one possibility would be a "subscription model" – e.g. a fixed fee per year.

An obstacle to moderating compensation is the lack of visibility that the has over the relationship between distributing PSP - funding PSP for data privacy reasons. So, it is questionable who monitors the relationship between distributing PSP and funding PSP and penalizes possible breaches of contract.

Members highlighted the limited alternatives within the payment infrastructure and have proposed considering alternatives outside the payment structure.

3. Business opportunities from optional- and value added services

*What segment do you seen as **most fertile for additional services** (consumer, merchant, intermediaries)?*

Intermediaries could be the best placed to provide additional services if they have the flexibility and innovative capacity. It is, therefore, important not to direct innovative capacity, for example through an offline payment method, as well as non-relevant 'non-digital' features.

However, while banks provide basic services, the most likely areas for additional services are not directly core segments for retail or savings banks. Merchants and, perhaps more so, 3rd party intermediaries will be more likely to benefit from services relating to open banking.

*What **services** can be **best monetised** and which are already commoditised and/or are best offered for free?*

Our members have not highlighted any use cases, for which there would be market demand that are not already commoditised by banks. Offering services for free is not considered an engine for innovation but many comparable payment channels include low costs for efficient services.

*What value-added **services** do you see **most popular among customers** at the moment? What is the **outlook** for the next five years?*

The most popular value-added services with customers, in the Netherlands, today are cashback, loyalty programs, personalized product recommendations, finance and instalment offers, digital receipts and embedded payments. We are now seeing an increase in AI adaptations and expect to see existing product placement and paid content models from incumbent search providers displaced by personalized, embedded AI search and suggestion models that offer multiple integrated purchase and payment options.

Payment services have to be convenient, fast and simple with a very good UX. That still will be the case in the (near) future.

Consumer preferences:

- **Online:** manual recharging of the offline card fund is perceived as rather unattractive by consumers.
- **No card:** there is no consumer demand for a stand-alone digital euro card. Instead, the possibility of a co-badge should be explored in cooperation with European payment schemes. Due to complexity in handling a battery-operated card with a PIN pad would possibly also not be conducive to inclusion.

*To what extent **should the scheme also facilitate** non-basic services (e.g., to establish network effects)?*

The current successful cases are developed and maintained by intermediaries themselves especially in the food market and related to gift cards etc. The scheme is better placed to moderate an efficient, mutually beneficial infrastructure.

*How can the digital euro best be a **viable distribution channel** for core products/services?*

Two-way interoperability (digital euro as funding source and payment method as well as private schemes as funding source and payment method) could create the widest spectrum of innovative capacity.

Payment services have to be convenient, fast and simple with a very good UX.

EPIF feedback to the ERPB Technical Session on Business model – Digital Euro fitting in the Payment Ecosystem

10 March 2025

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

The distribution of the digital euro should benefit from established, and trusted, payment solutions and PSPs and avoid duplicating channels to distribute the digital euro, i.e., digital euro app. In terms of major initial investment and maintenance costs, EPIF members would, in particular, point at settlement engines on the PSP side, connections and physical adaptations, support of processes such as AML, funding and re-funding.
EPIF members would also like to mention the possibility that the costs related to maintaining a "network" may be underestimated. There are cost of making the network operate, but also costs to stay secure, resilient, and compliant. Further costs can be expected when use cases expanded to cross border and interoperability with multiple networks.

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

If the distribution of the digital euro benefits from existing channels and takes into account the factors mentioned in Question A above, the digital euro distribution and the user adoption would be streamlined. Moreover, the costs incurred by PSPs and merchants offering similar services would be reduced, and there would be more resources available to the private sector for developing innovative value-added services. EPIF members would particularly welcome it if the new IT environment was built in accordance with the data privacy regime of instant payments.
Allowing interoperability with instant payment-based initiatives to the maximum extent would be a cost-effective approach to the development of digital euro. EPIF members suggest to consider network redundancy for payment resiliency, especially for offline features. For example, India leverages existing instant payment rail to get cost efficiency for their Digital Rupee; while China went to network redundancy due to the need of reliability and resiliency requirements - with subsidized cost from government.
The digital euro scheme could enable European payment solutions (e.g., instant payments-based), to use its adopted/newly created POS layer/standards to expand their reachability across borders, allowing interoperability with the instant payment rails/settlement.

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

The staged approach is preferred by EPIF members and considered as highly valuable, in particular, when assessing the scope, use cases, and online and offline standards.

D. Which additional standards should be leveraged to avoid double efforts and reduce implementation and maintenance cost? *If not already addressed in feedback after the Synergies theme session (value driver #11)*

Generally, EPIF members favour a technology-agnostic approach regarding standards; they should be left open to allow for a degree of market choice. Should all the standards be dictated by the ECB platform, PSPs would have to constantly rely on ECB terminals, for example, issuing QR codes.

EPIF members also find it valuable to hyperscale ledger technologies together with plug-ins to support L2 programmable use-cases outside of the core CBDC ledger, that in our opinion can significantly reduce costs and increase system resiliency.

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

EPIF is concerned that the current compensation model foresees a regulated merchant service (MSC) charge, rather than allowing for competitive pricing through negotiations between payment service providers (PSPs) and merchants. Price regulation should be an ultima ratio to address a market failure and not the starting point upon introduction of a new product. As such, our members suggest exploring alternatives to the proposed compensation model.
Moreover, the definition of core services should be narrowly defined to allow for competition among existing PSPs.

F. What segment do you see as most fertile for additional services (consumer, merchant, intermediaries)?

EPIF members have identified some popular value-added services that are likely to emerge in the next five years. These are services that are fully offline, privacy-preserving, offering secure payments and lower costs via programmable plug-ins for easier money movement between accounts. They can also offer reduced fraud, higher authorization rates and lower transaction fees.
Many added services might not yet have evolved. The membership of EPIF is constantly looking for new types of added services.

G. What services can be best monetised and which are already commoditised and/or are best offered for free?

H. What value-added services do you see most popular among customers at the moment? What is the outlook for the next five years?

EPIF members advocate for a digital euro that is interoperable with existing solutions, therefore requiring minimal new technical integrations while delivering an improved user experience.

I. To what extent should the scheme also facilitate non-basic services (e.g., to establish network effects)?

The digital euro needs to be interoperable with all existing payment solutions and notably those using the European instant payments scheme. The digital euro should allow for the on- and off-ramping via alternative payment solutions such as e-money, remittances or cards.
Importantly, the digital euro should focus on complementing existing European payment solutions, offering them a platform and tools to expand reachability, and not as a replacement– directly or unintendedly.

J. How can the digital euro best be a viable distribution channel for core products/services?

EPIF is certain that its members will find means to develop added-value services on the back of the digital euro in the same way as they have done for transfers, card, and account-based payments. Nonetheless, these benefits will only materialize if customers can own multiple digital euro wallets linked to different payment offerings and added values. Without this the digital euro is likely to be linked to customers' existing bank accounts which could end up reducing the choice of available payment services and strengthen the market position of the banking sector.
EPIF members believe that the digital euro should enable offline payments that are maximally privacy preserving, reduce friction for both sign-up and checkout and enable users to build programmable experiences like recurring payments on top of the digital rails.

However, it remains crucial that the digital euro is available to all EU citizens and residents, regardless of the national currency of their country of residence. Lack of access to the digital euro may create barriers for free access to goods and services between Member States. To ensure smooth payments in cross-border transactions, all EU payment services providers, without discrimination, should be eligible to provide payment services associated with the digital euro.

ETPPA feedback to ERPB Digital Euro Fit for the Ecosystem - Business models

Deadline 10-March 2025

Following the technical presentation made on 3-Feb-2025, ETPPA would have two important questions to raise with the project team, as follows:

1. How will direct P2M and PISP-facilitated payments fit into the suggested 4-corner business model, where basically no Acquirer is involved?

2. Will variable/dynamic recurring payments be provided by the ECB directly as well, or only basic/fixed amount recurring payments?

Furthermore, we have the following feedback to questions raised in the technical presentation of 3-Feb.

What value-added services do you see most popular among customers at the moment? What is the outlook for the next five years?

ETPPA fully supports that value added services (VAS), their development and provision by supervised intermediaries, would be left fully to the market so that only core and optional services would be regulated by the forthcoming digital euro scheme rulebook.

Many VAS will be independent of the underlying type of money used (D€, commercial bank euros, e-money euros), so this will go hand in hand with leaving the programming of payments to the market.

To what extent should the scheme also facilitate non-basic services (e.g., to establish network effects)?

ETPPA believes that any digital euro scheme should stay at the technical level like SCT or SCT Inst, and not venture into the commercial space. Programming payments is a value-added service above the technical level, and it would be beneficial for everybody if this can be done independent of any individual payment instrument at the technical level below. Standing orders, for example, should be implemented once and available in the same way for instant, non-instant and any other, incl. Digital euro, money transfers.

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

ETPPA fully agrees with bringing the digital euro first to the euro area and then expanding that later via a staggered approach to the EEA and other relevant jurisdictions.

However, such phasing should also apply to the scope, i.e. it should first complement the current scope of ECB money, which is its offline use, and only add an online, account-based version later on if (and only if) needed.

ERPB technical session on digital euro

Engagement workstream – 3 Feb meeting on 'Business model'

Link to document: 2025-02-03 Fit in the Ecosystem - Business model.pdf

10 March 2025

1. General comments – slides 9, 13 and 17

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

EuroCommerce:

The cost drivers for the merchants in terms of the initial investments are:

- Depending on the user experience solution the adaptations that the merchants must do are different:
  - ~ Accept D€ with "contactless" technology (in some countries represents more than 90% of the payments) → depending on the solution (e.g. the kernel used, etc.), investment can be updating the software or replacing all payment terminals. Please note that in case of Point—to-Point Encryption (P2PE) solutions, security keys can't be remotely updated, meaning a physical swap-out program must be put in place.
  - ~ Accept D€ with QR code presented by the merchant at the payment terminal → merchants have to update the software of the payment terminal (e.g. to show the QR code) and they must invest in the necessary hardware and software to guarantee customer payments work for all the mobile network operators (e.g. Vodafone, Telefonica, etc.) at the POI. If the customer doesn't have connectivity with his phone an offline D€ payment would be triggered.
  - ~ Accept D€ with QR code presented by the customer at the payment terminal → merchants have to invest in the hardware and software to scan the QR code shown by the mobile phone (example. scan readers, etc.) and if the solution requires network connectivity to create the QR Code shown by the phone, the merchants must make investments in the necessary hardware and software to guarantee it works for all the mobile network operators. *For completeness' sake, as we are aware that this option is not pursued by the D€ project.*

  For the investments mentioned above, it is important that merchants should not be forced to accept all the technologies (e.g. if the merchant decides to accept contactless, does not have to accept QR payments), since it would mean for the company an unjustified and unaffordable investment.
- Open new connections to the D€ acquirer, adapt the payments gateway and certify all the solution with the acquirer (example, develop the payment protocol, etc.).
- Update the internal systems and processes to accept a new payment method (example, adapt the POS systems like screens, adapt the accounting with a new payments method, adapt the process with the bank to manage D€ transactions, create the reconciliation of the D€ payments, etc.).

It is important to ensure that technological and infrastructure requirements are technology neutrality and ensuring maximum use - for reasons of efficiency and sustainability of the assets with which the companies currently work (e.g. terminals, payment gateways, etc.).

- The merchant must train all the cashiers to accept this new payment method.

The cost drivers for the merchants in terms of the maintenance are:

- Update and certify the software to the new specifications of the D€ acceptance as the same way as now occurs with other payment methods (e.g. software of payment terminals, adapt the payments gateway, etc.).
- Repair the hardware used exclusively to accept D€ payments (e.g. scanners, etc.).
- Depending on the solution there can be additional costs like the monthly quotes to guarantee the mobile network connectivity to allow QR code payments or for the new connections to the acquirer.
- Continue training the new employees.

This assessment is based on the normal procedure that merchants follow to accept a new payment method depending on its features.

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

   The possible mitigation in terms of the initial investments for the merchants considering a mandatory acceptance of the D€ can be:

   - Investments to be paid by the Eurosystem (or the public organism responsible for this) before the integration must be done. This, however, does not cover maintenance costs.
   - The merchant fee to accept the D€ should be much lower than the comparable payments methods to recover investments when the customers pay with D€. However, at the same time these investments should be protected in the case of low usage of D€ and merchants wouldn't be able to recover their investments.
   - The merchants should not be forced to accept all the technologies (e.g. if the merchant decides to accept contactless, does not have to accept QR payments), since it would mean for the company an unjustified and unaffordable investment.
   - Technological and infrastructure requirements must be neutrally defined and ensure maximum use - for reasons of efficiency and sustainability of the assets with which the companies already have in place (e.g. terminals, payment gateways, etc.).

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

   The implementation of the digital euro should include a grace period in which it would not be mandatory for merchants to accept it, giving time to phase and make the investments as part of the natural replacement process.

   It is important to test the solution correctly before in a real environment before launching to all the population and areas and a controlled roll-out must be defined to not create a disruption in the market.

   There must be sufficient PSPs enabling the D€ to the customers hand in hand with integration of the acceptance at the merchant side.

4. Which additional standards should be leveraged to avoid double efforts and reduce implementation and maintenance cost?
   EuroCommerce:

See our comments in the feedback to the Synergies session.

5. What are alternative proposals that allow for compensation of funding PSPs while retaining safeguards for consumers and merchants?
EuroCommerce:

The funding PSP could be compensated by the Eurosystem for managing D€ wallets. Funding PSPs should not require an interchange-like compensation, because they bear no counterparty risk for D€ transactions. They can derive additional income from additional services that they can offer. Getting rid of an inter-PSP fee will significantly reduce complexity of the D€ system. UPI in India and PIX in Brasil show us that that can be done successfully.

The fee that the merchants would pay should be substantially lower than the fee than they pay for comparable payment methods (*). The fee should be:

- A fixed amount per transaction as close as possible to €0 - instead of percentage that has been applied to other payment methods - since the processing cost of a transaction does not depend on the purchase amount. As a minimum, any %-based fee should be capped to a certain amount.
- Free for low value transactions to encourage consumers and (small) businesses to embrace the D€.

(*) In most cases the nearest comparable payment methods are:

- (Instant) SEPA credit transfers
- Domestic debit schemes or domestic arrangement based on former domestic schemes (E.g. in the Netherlands).

Payment methods with a credit component are by definition not comparable as the D€ does not come with credit.

6. What segment do you seen as most fertile for additional services (consumer, merchant, intermediaries)?
EuroCommerce: consumers, businesses and merchants

7. What services can be best monetised and which are already commoditised and/or are best offered for free?
EuroCommerce:

The main services that must been offered for free are the normal one-off payments (online and offline) and the traditional acquiring services as the same way as now occurs with the comparable payment's methods, the funding and de-funding of the D€ account from a bank account. And the option for merchants to receive D€ transactions grouped in one batch at the end of the day.

(De)funding from/to cash should be a paid service.

8. What value-added services do you see most popular among customers at the moment? What is the outlook for the next five years?
EuroCommerce:

Split and conditional payments, including pre-authorisation.

9. To what extent should the scheme also facilitate non-basic services (e.g., to establish network effects)?

EuroCommerce: the scheme should only develop boundary conditions to facilitate innovation by private parties.

10. How can the digital euro best be a viable distribution channel for core products/services?
EuroCommerce: unclear question, so unable to answer.

2. Comments on value drivers

11. **Keeping investment and maintenance cost low through reuse of existing processes and infrastructure**

EuroCommerce:

- We have answered above.

12. **No scheme and processing fees**
EuroCommerce:
    - The absence of scheme and processing fees to intermediaries is welcomed by merchants. (Even if in the end the taxpayer is covering them). This is key to keeping overall merchant fees low, but, as we've outlined above, we call for further simplification from getting rid of inter-PSP fees, forcing intermediaries to be more innovative and creative in deriving value from their D€ customer portfolio.

13. **Innovation potential and additional revenue from non-basic services**
EuroCommerce:
    - See comment under 12. This should be the main driver to fund PSPs.

Contact:
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