



EUROPEAN CENTRAL BANK

EUROSYSTEM

ERPB engagement on digital euro fit in the payment ecosystem

Theme: competition



13 November 2024

Digital euro project

1

Housekeeping rules

Agenda of today's technical session on competition



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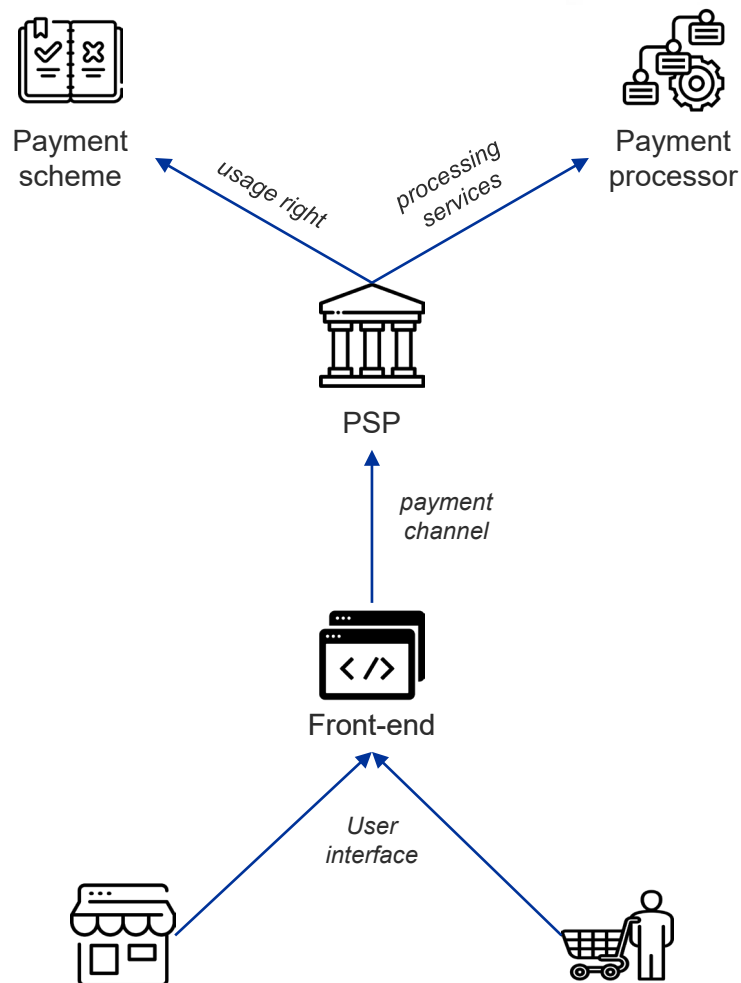
**Engagement on the
Competition theme**

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



* Identifying benefits and reducing potential risks/ unintended consequences

How would digital euro help EU PSPs to increase their strategic relevance



1

Lessening payment fees

2

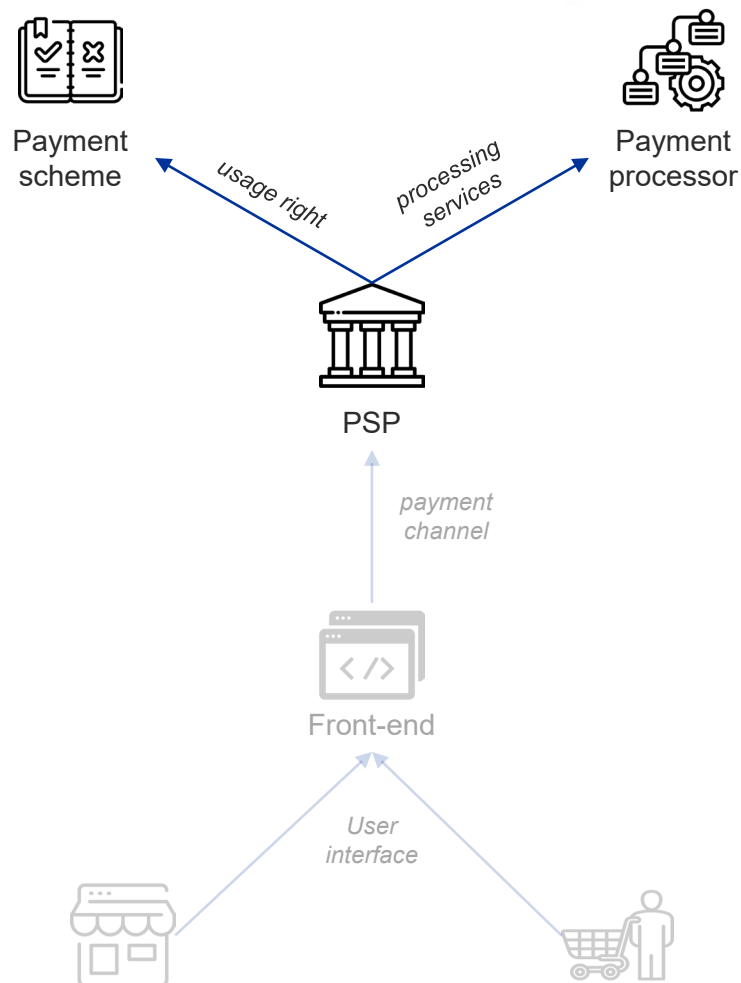
Increasing payment volumes

3

Standardizing the front-end

1 Lessening payment fees

How would digital euro strengthen EU PSPs bargaining power vs ICS and processors?



1

Lessening payment fees

2

Increasing payment volumes

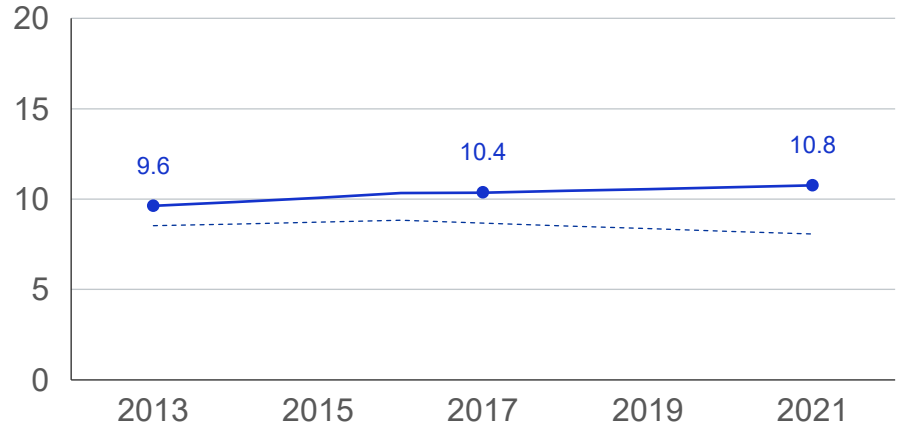
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Standardizing the front-end

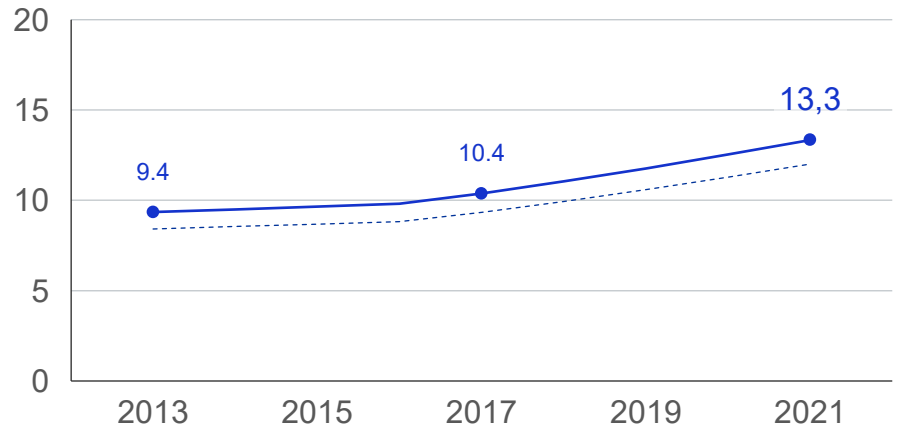
ICS Scheme fees have been increasing over time, especially driven by acquiring scheme fees

Indicative

Issuing



Acquiring



- Scheme fees bps paid by issuing PSPs to ICS have remained broadly stable over time
- While core fees haven't changed much, ICS have been granting high rebates/incentives (in some extreme cases up to 100% discount for very big issuers)

- The increase in scheme fees and the introduction of new fees have been mainly passed on to merchant service charges: MSCs for debit card payments were 0.44% in 2022, compared to 0.27% in 2018 (17 bps higher)¹⁾
- Rebates/Incentives mainly unchanged overall and are generally passed on to merchants

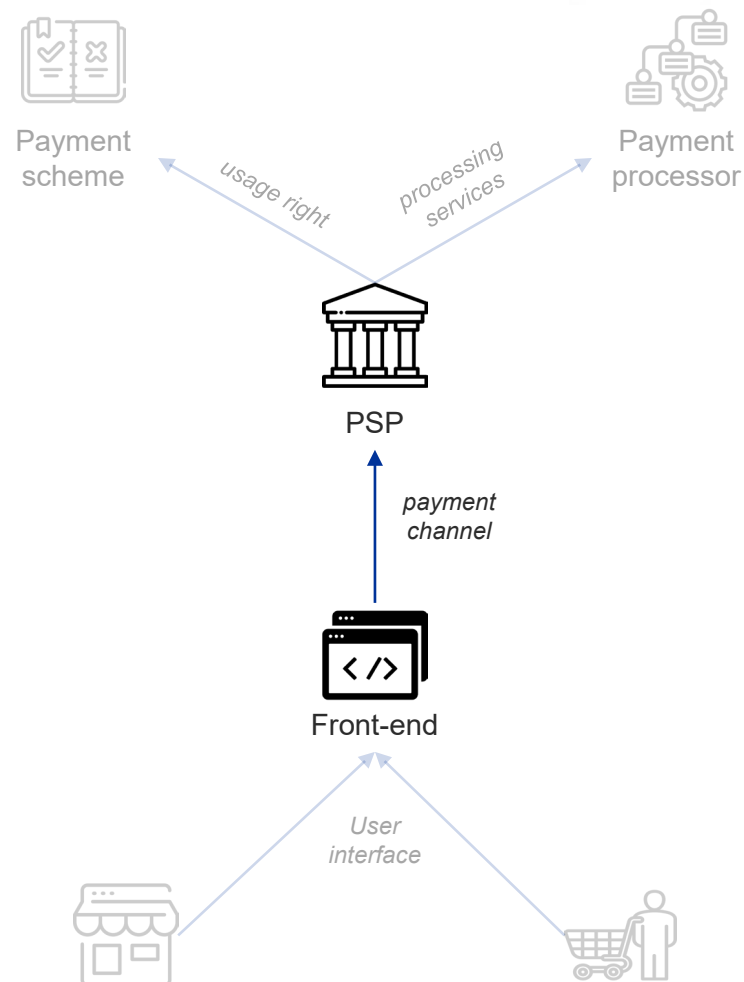
1) European Commission [study](#)

Lessening payment fees - value drivers

Item	Value drivers	Rationale
#1	Better negotiation position vs ICS	<p><u>In countries without domestic schemes:</u> No scheme fees would be charged on behalf of the Eurosystem. Having digital euro as relevant alternative for intra-EU transactions will ensure better negotiation position and substantially lower costs, despite incumbent brands having strong leverage due to high switching cost.</p> <p><u>In countries with domestic schemes:</u> The same logic applies but to cross-border transactions only, as domestic schemes already offer low fees to participating PSPs.</p>
#2	Better negotiation position vs payment processors	No digital euro processing fees would be charged on behalf of the Eurosystem. Having digital euro as relevant alternative for intra-EU transactions will ensure better negotiation position toward international processors, while potentially lowering the fees.

② Increasing payment volumes

How can EU PSPs use digital euro to enhance their competitiveness vs global payment players?



①

Lessening payment fees

②

Increasing payment volumes

③

Standardizing the front-end

The digital euro offers EU PSPs additional, more competitive payment channels



Digital euro would bring additional channels for PSPs

- Covering wide range of payment methods (NFC, QR-Code..) on multiple online form factors (mobile app, POS terminal...)
- Pan-European acceptance and distribution network enables immediate network effect
- Digital euro will always be a payment option at the merchant

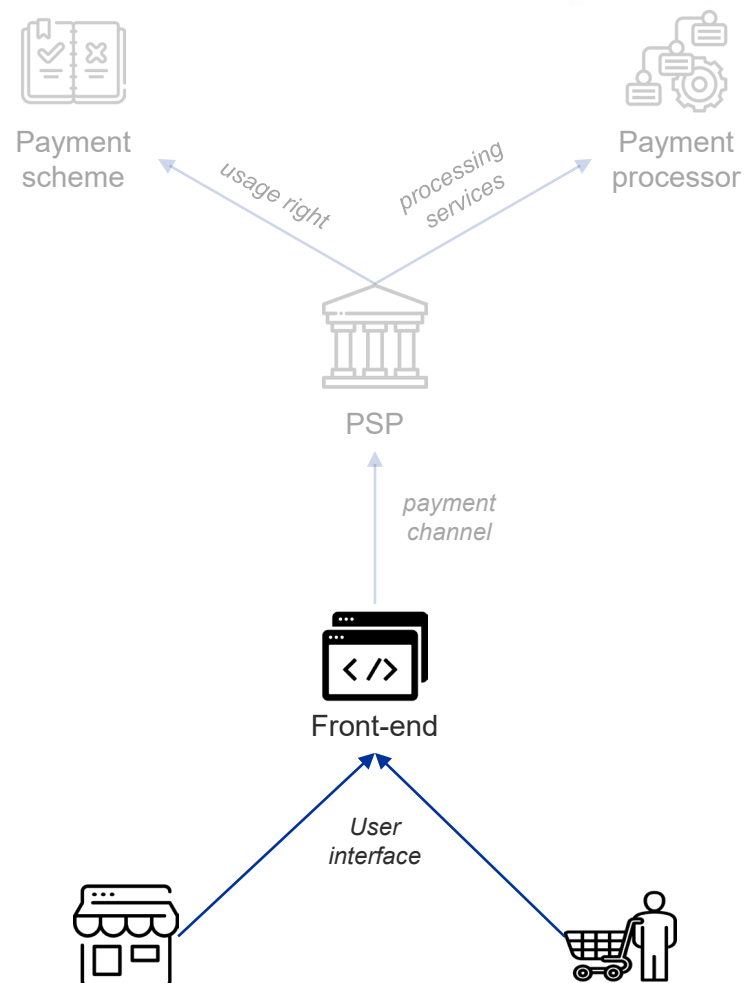
These channels would increase volumes for PSPs

- Additional transactions volumes would be processed in PSPs back-end.
- Online will be compensated, with a better mark-up for issuing PSPs, especially those which are not scheme shareholders.
- Offline transactions also to be compensated.

Increasing payment volumes - value drivers

Item	Value drivers	Rationale
#3	Digital euro bringing pan-European reach to issuing PSPs	Digital euro will be accepted by merchants operating in the euro area. This ensures a maximal reach for issuing PSPs, competing with global payment players or e-shop payment apps, and moving volumes to PSP channels.
#4	Attractive pricing at the POI	With capped merchant service charges, digital euro would have attractive pricing at the POI, pushing merchants to prioritize digital euro payments over ICS at the POS and moving volumes to PSP channels.
#5	Digital euro bringing offline solution to EU PSPs	In case of outage, payment volumes would partly move to DEUR offline functionality, further increasing volumes. Offline transactions would not be accessible to PSPs, but issuing PSP would still be compensated.

How digital euro would offer opportunities to strengthen customer relationships?



①

Lessening payment fees

②

Increasing payment volumes

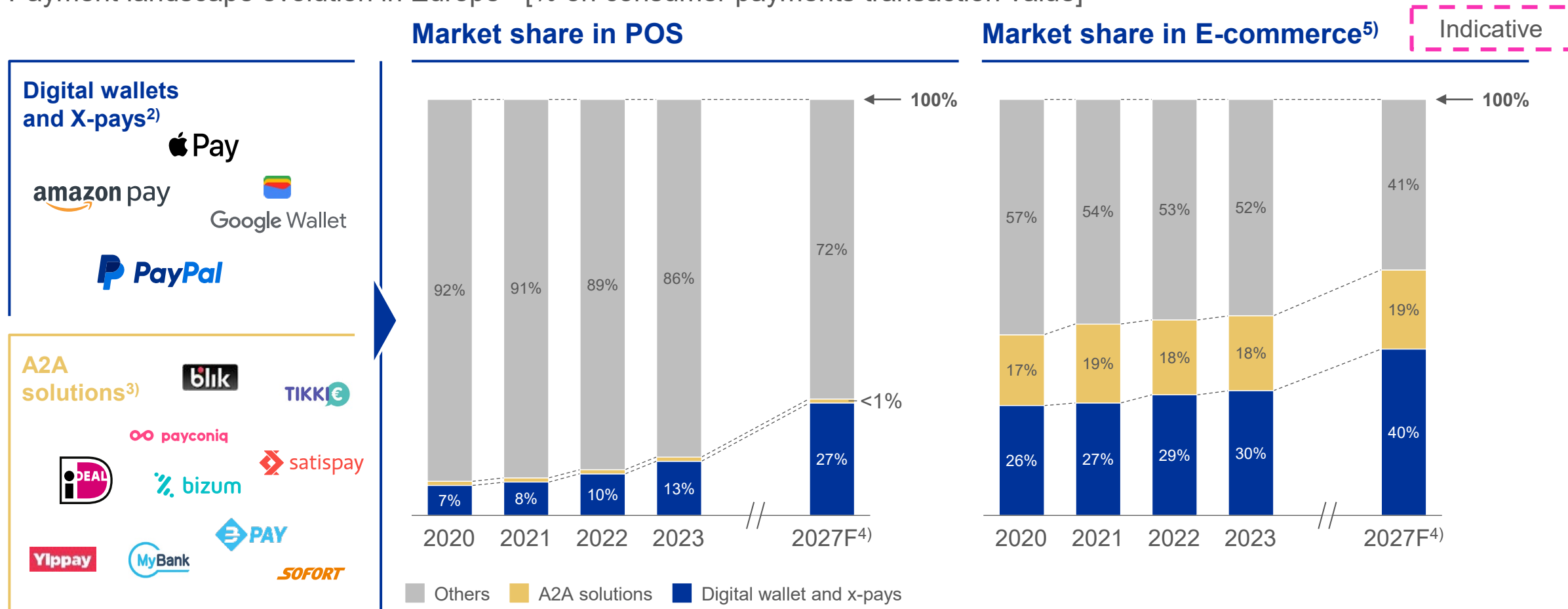
③

Standardizing the front-end

3 Standardizing the front-end

Digital wallets and X-pays set to double their market share in Europe over the 2023 – 2027 period

Payment landscape evolution in Europe¹⁾ [% on consumer payments transaction value]



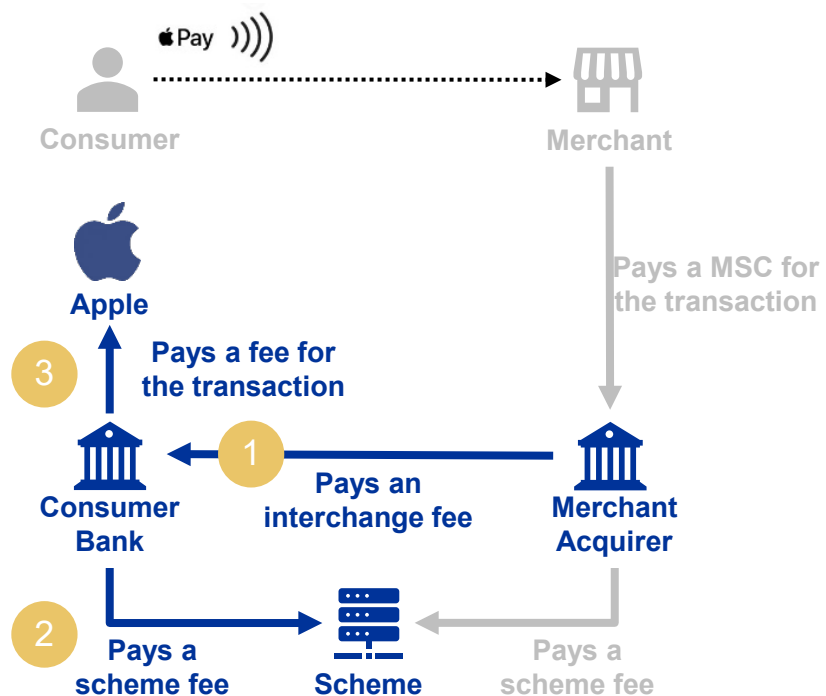
1) Considering Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Poland, Spain, Sweden, Turkey, UK; 2) Also incl. local digital wallets; 3) Also incl. SCT and SDD payments; 4) 2023-27 projections based on consumer surveys, B2B surveys and desk research available macroeconomic projections at the time of writing (2024); 5) e-commerce market size estimates include retail, food and drink, travel, gaming, gambling, and digital content streaming

3 Standardizing the front-end

Consumer banks are ready to distribute demanded pass-through wallets at the expense of revenue

Example: Apple Pay

Fee model overview



There are not additional fees on users or merchants¹⁾

Fees structure example – Apple Pay vs. digital euro

Indicative

	PoS	E-Com	Digital euro All consumer banks
1 Interchange fee	+ 0.20%		variable or fixed fee
2 Scheme fee	- 0.11% ²⁾		-
3 Apple Pay fee	- 0.08% ³⁾	- 0.12% ³⁾ (-0.02% to -0.03% for 3DS) ³⁾	-
Profit	0.01%	- 0.03% (-0.05% to -0.06% incl. 3DS)	variable or fixed fee

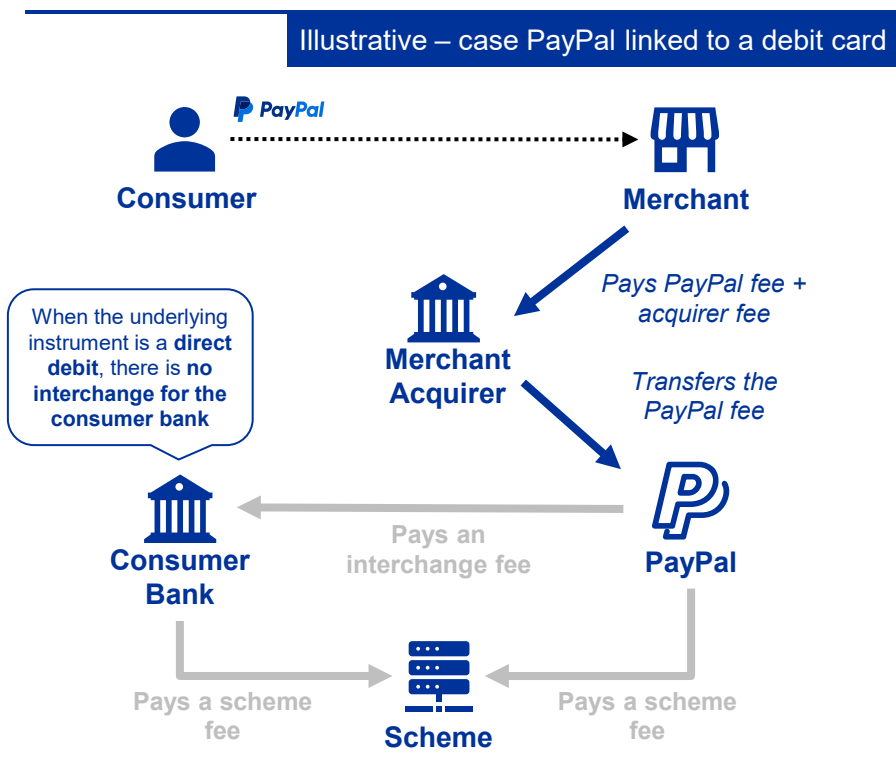
1) Possible impact on merchants in case their contract with the acquirer includes different acquiring fees for card present or card not present transactions; 2) Roland Berger analysis; 3) ECB assumptions.

The most relevant staged wallet has high merchant service charges, without necessarily generating revenue for the banks

Example: PayPal

Fees model overview¹⁾

Indicative



There are not additional fees on users or PSPs

Pricing for C2B domestic transactions²⁾

Listing prices – to be negotiated with big merchants

	EU ³⁾	France	Germany
Variable fee on transaction value ⁴⁾	3.40%	2.90%	2.49%
Fixed fee ⁵⁾	EUR 0.35	EUR 0.35	EUR 0.35
Maximum MSC on transaction value ⁶⁾	4.25%	3.75%	3.34%

Charges can vary across merchants since fees can be directly negotiated with PayPal

1) Based on a individual C2B payment using a debit card linked on the PayPal account; 2) Pricing April 2024 for ecommerce transactions – additional fees for international transactions up to 2.99% or QR code transactions on POS channel up to 2.00% (it can change per each country); 3) Default price in Europe; 4) Different fee in case of card payment by a user without a PayPal account (e.g., 1.20% France, Germany and Italy, 1.80% for Belgium); 5) It can vary based on currency received from ≈ EUR 0.10 to ≈ EUR 0.40 equivalent; 6) Calculated considering EUR 41 as average transaction value without using QR code

Strandardizing the front-end - value drivers

Item	Value drivers	Rationale
#6	Less dependencies on pass-through digital wallets	<p>If digital euro adoption takes up, pass-through wallets will be less of an unavoidable solution for issuing PSPs, rebalancing negotiating power in partnerships talks.</p> <p>Additionally, pass-through wallets seeking to provide digital euro services would need to require tokenisation services, which can be provided by issuing PSPs only, enhancing further issuing PSPs bargaining power vs pass-through wallets.</p>
#7	Less dependencies on staged and stored value digital wallets	<p>With capped merchant service charges, digital euro would have attractive pricing at the POI, pushing merchants to prioritize digital euro payments over expensive stage / stored value wallets, fostering a direct relationship between merchants and PSPs.</p>
#8	Guaranteed access at the forefront of digital front-ends	<p><i>“Digital euro payment accounts should be accessed via one the main pages of the Internet website or an application, or any other front-end services, on an equal footing with non-digital euro payment accounts.”</i> Recital 63 will make sure that digital euro will always remain an option at the front-end.</p>

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Next steps: Feedback
we seek from the
ERPB associations

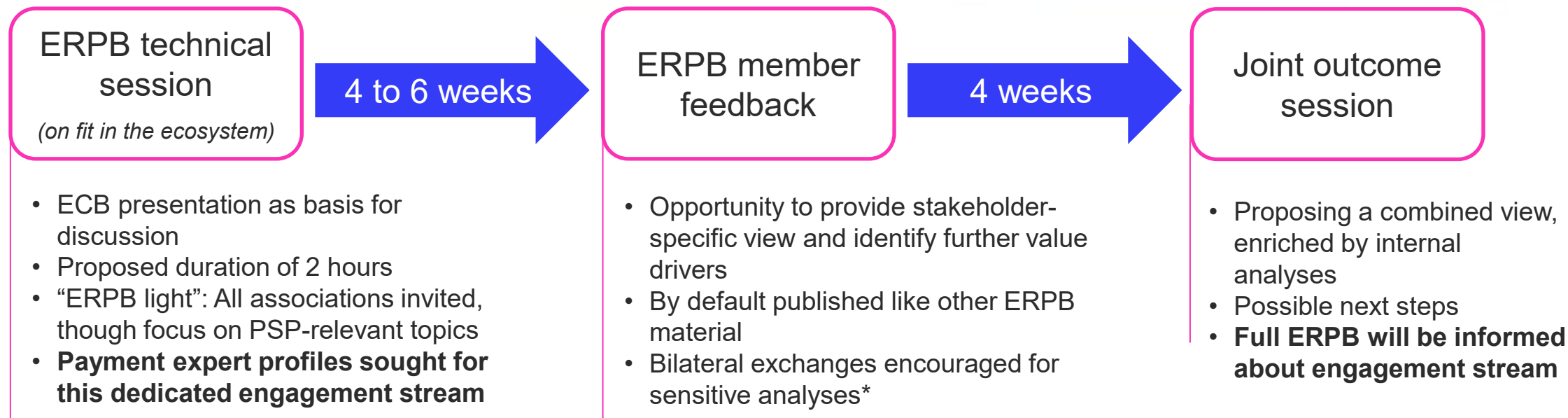
ERPB technical session members are invited to:



Provide views on the technical presentation **by 16 December**

- Members are invited to share:
 - **Feedback** on the presented value drivers and their impact.
 - Estimate **likelihood** of materialization for each value driver.
- Would members see any **additional value driver** that would reflect substantial market dynamic impact caused by the adoption or the issuance of the digital euro?

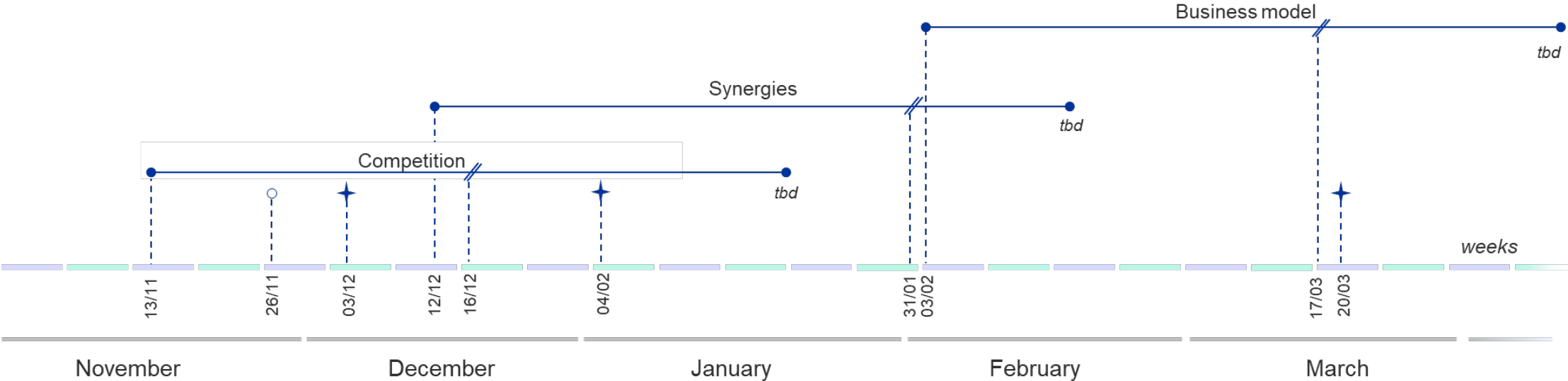
Reminder: proposed structure per theme is in line with the tried-and-tested approach of the ERPB technical sessions



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

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

Reminder: high-level timeline proposal



- ★ RDG meeting
- ERPB technical session on fit in the ecosystem
- Regular ERPB technical session
- // Cut-off date for collecting members' views on specific themes