EUROPEAN CENTRAL BANK
EUROSYSTEM

Update on digital euro
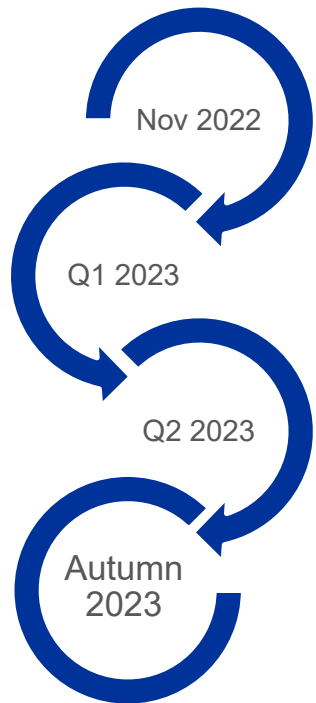
Euro Retail Payments Board (ERPB)

25 May 2023

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Interactions with the ERPB on design options

Nov 2022 — **Last update** on progress of the project in Euro Retail Payments Board

Q1 2023 — **Eurosystem assessment** on remaining key design decisions
cross-currency, scheme access, form factor, delivery approach, compensation model, core & value added services, end user onboarding, allocation of amount in circulation, issuance & redemption, back-end interaction requirements

Q2 2023 — **Eurosystem assessment** of high-level digital euro design: "bringing it all together", brought to ERPB technical session in early May

Autumn 2023 — **Governing Council decision** whether to launch the next phase of the digital euro project.

A digital euro should be widely available and usable across the euro area

Availability
for everyone

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

Usability
everywhere for everyday payments

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

Key objectives

Monetary anchor

(Open) strategic autonomy

European legislator

1

Privacy and data protection

Privacy remains of outmost importance in a digital euro ecosystem

	Online	**Offline**
Baseline privacy	Intermediary sees transaction data, as with current digital payments	Even intermediary may <u>not</u> see transactions
Role of co-legislators	Co-legislators to explore higher privacy for lower-value payments	Subject to co-legislator exempting proximity payments from monitoring
Settlement	Eurosystem will settle **without seeing nor storing users' personal data**	Settlement in the devices of users while reconciling the least amount of anonymized data for security

2

(Digital) Financial inclusion

A digital euro would employ several tools to enhance (digital) financial inclusion

Form factors

- **app**: easy to use, attentive of needs of low tech savvy and elderly, compatible with European Accessibility Act, translation (at least) in all EU languages
- provision of: **physical digital euro payment card**

Onboarding and portability

- availability of both **fully remote and in person onboarding**
- **easy switching** from a supervised intermediary to another

Functionalities

- **basic services free of charge**
- **customizable account settings** for budgeting and automatic functions
- **simple (de)funding** (also with cash at ATMs), with no need for a smartphone
- **offline** functionality

Advocacy*

- **public approach**
- **legal tender**
- **simplified onboarding**
- support for a **harmonized minimum age** for opening a digital euro account
- targeted **educational campaigns**

The Eurosystem can champion these causes in the relevant fora, but responsibility to take action would lie with co-legislators and Member States

A public approach requires coordinated efforts

Public approach

- dedicated **onboarding channel** via **public or private dedicated licenced entity** per member state **providing access to digital euro services and the necessary supports** to those vulnerable to digital financial exclusion

- availability of **human interaction** to guide users throughout all steps

- dedicated **customer services**

- distribution of a **physical digital euro payment card**

- **(de)funding via cash** ensured

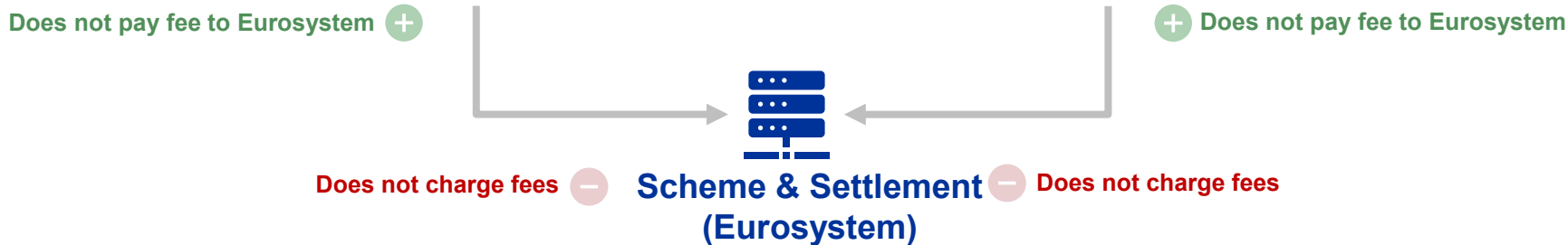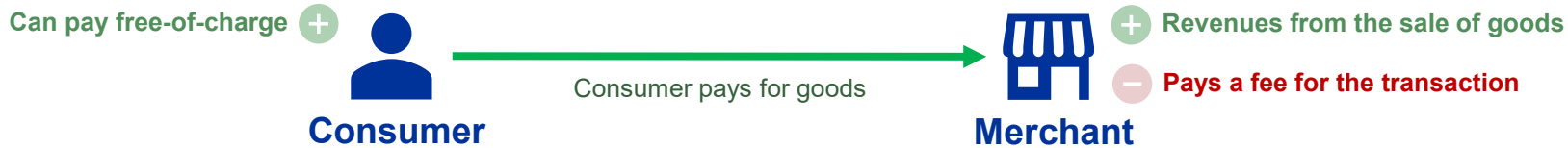- above services provided **free of charge for eligible individuals**

3

Principles of a compensation model
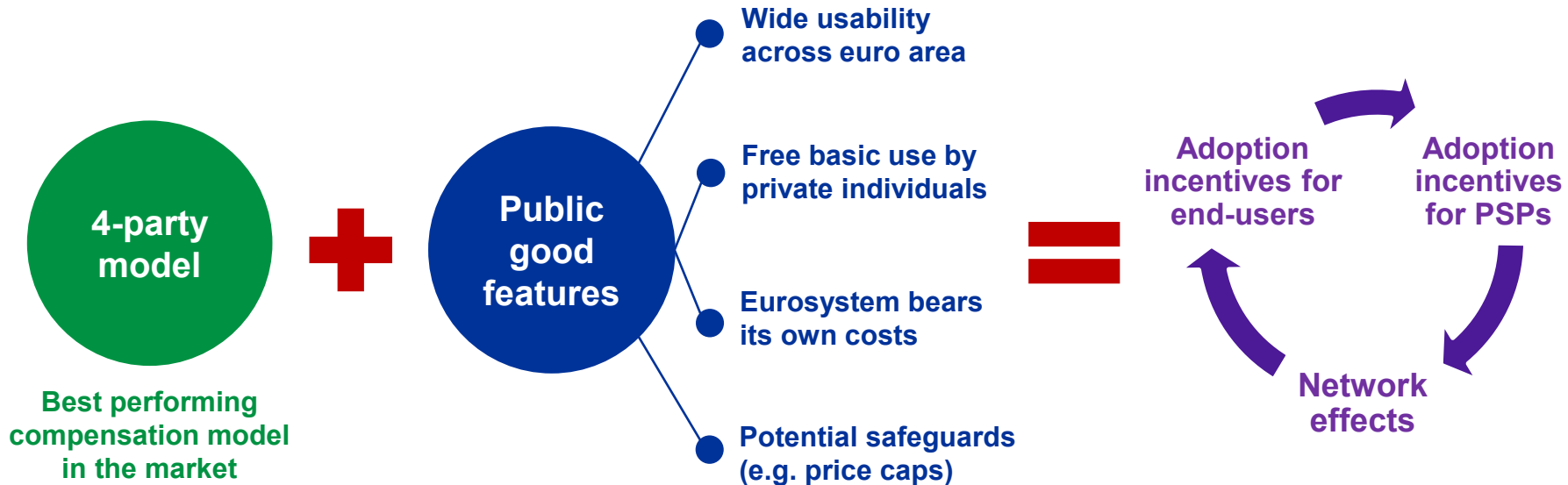
Principles of the compensation model ensure fair and adequate incentivization for distribution

1 Free basic use by private individuals

2 Network effects generating economic incentives for acquirers and merchants

3 Comparable economic incentives for distributing payment service providers

4 Eurosystem bears its own costs, as with production and issuance of banknotes

What a compensation model could look like subject to legislation

Can pay free-of-charge ⊕ **Consumer**

Consumer pays for goods

⊕ Revenues from the sale of goods
⊖ Pays a fee for the transaction
Merchant

Has costs for providing the service ⊖

Receives fee from Merchant Bank ⊕ **Consumer Bank**

Merchant Bank pays a fee to compensate Consumer Bank for providing a free service

⊕ Receives fee from merchant
⊖ Pays fee to Consumer Bank
Merchant Acquirer

Does not pay fee to Eurosystem ⊕

⊕ Does not pay fee to Eurosystem

Does not charge fees ⊖ **Scheme & Settlement (Eurosystem)** ⊖ Does not charge fees

The compensation model would foster network effects necessary to achieve the key objectives

4-party model

Best performing compensation model in the market

+

Public good features

- Wide usability across euro area
- Free basic use by private individuals
- Eurosystem bears its own costs
- Potential safeguards (e.g. price caps)

=

Adoption incentives for end-users

Adoption incentives for PSPs

Network effects

Thank you

Find more information on the digital euro [on the ECB website](http://www.ecb.europa.eu)

Taking stock and the road ahead

Foundational design options

First set (Q3-2022)	Online/offline	Tools to avoid excessive use
	Level of privacy	Transfer mechanism

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

Third set (Q1-2023)	Compensation model	Advanced functionalities
	Delivery approach	Core and value-added services

Use cases

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

Research and experiments (Q2-2023)

Focus group research	Market research

Prototyping exercise

High-level design of a digital euro and holistic review (Q2-2023)

Where do we stand?

Tentative – timeline subject to change

Governing Council decision to launch investigation phase

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

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

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

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

Q4-2021

Q2-2022

Q4-2022

Q2-2023

Q1-2022
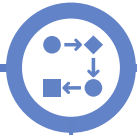
Q3-2022

Q1-2023

Q3-2023

- **Project team** onboarding
- **Governance** set-up

Focus on:
- **Online/offline** availability
- Data **privacy** level
- **Transfer mechanism**

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

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

Autumn 2023
Governing Council decision to launch next phase

Interactions with European policymakers and stakeholders

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