Five success factors for the establishment of the digital euro

EU Regulation on the establishment of the digital euro

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bankenverband

Summary

The digital euro is intended to strengthen European sovereignty and independence in payments. Policymakers are therefore keen to introduce it swiftly. However, high complexity and unclear priorities risk undermining these objectives. There is a danger that implementation will be slow, uncoordinated and misaligned with the needs of citizens and businesses.

The Council and the European Parliament now have an opportunity to change course. To achieve this, there are five success factors:

1. **Simplify its design:** Avoid requirements with an unclear cost–benefit ratio.
2. **Adopt a phased approach:** The legislator must allow the Eurosystem and banks to limit risks.
3. **Take account of existing solutions:** Incorporate successful national and European solutions into the policy strategy.
4. **Balance roles effectively:** Reduce role conflicts within the Eurosystem and preserve innovative capacity over the long term.
5. **Ensure economic incentives:** Align the fee model with economic principles so the digital euro is accepted by businesses and remains successful in the long term.

Five success factors for the establishment of the digital euro

1. Simplify its design

The requirements proposed by the Commission and legislators – particularly in terms of functionality – go beyond what is actually needed. This results in unnecessary effort without clear benefits for banks, the Eurosystem, merchants or citizens. In discussions with the Eurosystem and legislators, market participants have already proposed simplifications. These should be taken into account in the ongoing legislative process.

2. Adopt a phased approach

Even with reduced requirements, establishing the digital euro will remain challenging. Having an overly complex set of features from the outset will delay implementation and increase implementation risks – to the detriment of trust in the single currency and in a well-functioning payments system. This applies in particular to the currently envisaged simultaneous rollout of the online and offline variants, which are fundamentally different from a technical point of view. Also, the scope of the online variant, covering a detailed range of functionalities for e-commerce, physical retail and account management, calls for a step-by-step implementation by banks and retailers. The legislator should enable the Eurosystem to plan the rollout in phases, taking account of risk and market considerations.

3. Build on existing solutions

The girocard is the leading payment method in German retail and underpins payment sovereignty. Other Member States also have successful solutions in place. At the same time, wero and other European solutions are currently converging into a pan-European solution. This strengthens the resilience and innovative capacity of the European payments landscape, but is not reflected in the current positions of the Council and the European Parliament. This diversity should be preserved by the banking industry, legislators and the Eurosystem – and does not amount to a decision against the digital euro.

4. Balance roles effectiverly

A wide range of parties are involved in payment systems, including users, providers and central banks in their various roles. The current approach of concentrating these roles within the Eurosystem does not reflect this reality – and creates conflicts given its supervisory role. In the long term, innovation and the introduction of new features can only be sustained through joint decision-making. The legislator should therefore establish a governance body involving all stakeholders.

5. Ensure economic incentives

Without viable business models, the digital euro will not be economically sustainable. Providers must be able to recoup their investments and deliver services on an ongoing basis. This includes being able to generate sufficient provision income. Otherwise, the digital euro could even weaken the competitiveness and innovative capacity of European providers, rather than strengthen them.

The compensation model is therefore particularly important. It must take into account the interests of all affected parties, in particular banks and merchants. For the legislator, this means:

1. The compensation model must recognise that banks will bear the bulk of the costs. Fees associated with the digital euro must not be set at levels that place banks at a disadvantage – relative to equivalent payment solutions or even leading to negative contribution margins.
2. Long-term market distortions to the detriment of privately operated European payment solutions must be avoided – for example, if fee regulations for the digital euro were to put those solutions at a competitive disadvantage.

Fees for retail payments

Transaction-based fees to be paid by merchants consist of two elements:

- the *Merchant Service Charge:* fee charged by the acquirer and
- the *Inter-PSP Fee*: fee charged by the issuer.

It is positive that fees for debit card payments are intended to serve as the benchmark. However, the specific arrangements proposed by the legislators would unduly disadvantage banks and are also excessively complex.

The overly restrictive rules proposed for the *Merchant Service Charge* fail to recognise that effective competition exists in the market for acquiring services. Therefore: Legislators should allow acquirers to base their fees on the average fees they charge for comparable payment instruments, namely debit cards.

The proposed rules for the *Inter-PSP Fee* are doubly counterproductive. Under the current state of legislation, the Eurosystem would be responsible for setting the fee level based on data reported by market participants. This approach is highly burdensome for all parties involved and increases uncertainty for banks and merchants, as the outcome cannot be predicted in advance. In addition, the Council's position would even disadvantage banks in countries that currently offer particularly cost-efficient payment solutions. Under this approach, those banks would receive a lower Inter-PSP Fee than banks in other countries, even though their implementation costs are the same. Therefore: When setting the regulatory level for the inter-PSP fee, the legislator should adopt the existing legal framework for debit cards – which provides for a cap of 0.2%.

Fees where multiple payment service providers are involved

Under the current proposal, consumers may hold their settlement account for the digital euro with another bank. However, this adds considerable complexity and is therefore a significant cost driver – even though only a limited number of consumers are likely to make use of this choice.

That the Council has already proposed making this an optional service based on contractual arrangements between participating banks is to be welcomed. This would create positive incentives for cooperation, product innovation and a fair allocation of the associated costs and revenues. Legislators should adopt this approach as a shared position.

Fees charged to consumers

Under the Commission's proposal, all services related to the digital euro – including transactions and account management – would be free of charge for consumers. This is intended to make the digital euro more attractive and encourage its use. However, this would remove the ability to use fees as a market-based mechanism to recoup costs and acknowledge the value of services facilitated and provided by the private sector.

The Council and the European Parliament have already identified ways in which particularly costly services could be priced – for example where they require modifications to ATMs. This approach should be retained in the ongoing legislative process.

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