



EUROPEAN CENTRAL BANK

EUROSYSTEM

Summary of collected inputs from MAG members

Distribution model options
for a digital euro

16/09/2022

Digital euro project team



Disclaimer

The following presentation summarises findings of the answers provided individually or jointly by some digital euro MAG members; these findings need not necessarily reflect design decisions for the digital euro

Overall feedback received

- Overall, participating MAG members considered the **payment scheme approach** as the most appropriate distribution option for the digital euro, in line with the orientation taken by the HLTF-CBDC.
 - Ensuring the realization of a pan euro area reach and avoiding market fragmentation.
 - Creating an optimal operating model for access, inclusion, interoperability and governance.
- Some reactions on the payment scheme approach:
 - Its scope should be limited to technical elements ensuring interoperability and limiting fragmentation.
 - It should give room to the market in order to build their own solutions on top of it.
 - The private sector should be the one launching digital euro products on the market. A partnership could be considered for public-sponsored digital euro devices to citizens on specific underserved segments.
 - Importance of leveraging the know-how and market experience from intermediaries (e.g. analysing best and worst practices in existing payment systems; major business issues and opportunities identification and expectations)
 - Could re-use building blocks of the SEPA (international) schemes.
 - Some aspects flagged as key include the scheme legal basis and the definition of a sustainable, transparent and cost-efficient remuneration model.

1. What would be the potential drawbacks of the prioritised scheme approach and how could they be overcome?

Main potential drawbacks identified by members:

- **Governance complexities.** Potential conflict between Eurosystem's roles (e.g. as scheme governor and core platform provider). The EPC governance model was mentioned as good working basis, with its different hierarchical layers mixing public, private and other actors.
- **Less space for innovation.** This could be mitigated by excluding product design and innovation.
- **Market disruption.** Risk of crowd-out private initiatives and competition with existing commercial schemes. Mitigation measures for conflicts with existing schemes and solutions would be needed.
- **Significant resources required and complexity** for building and operating it (outside the expertise of central banks). Would become more relevant if the scope extends to commercial rules.
- **Potential risk of fragmentation** (as no end-to-end solution). Might be tackled by focusing on technical interoperability and common branding to ensure common UX at POI.
- **Lower efficiency** as a result of public-private cooperation, requiring agile procedures.
- **Challenges for delineating its scope:** drawing the border line between the “payment scheme layer”, the “processing layer” and the “commercial scheme layer”.

2. In terms of scope, which scheme elements (e.g., messaging standards, requirements for end-user interface design, branding, etc.) would you consider need to be covered under the scheme and which ones should be left to the market?

In addition to non-functional elements (e.g. governance, access rules), others related to formats, processing, back-end integration, and to a lesser extent commercial ones, were suggested to be **covered by the scheme**:



- **Technical standards (e.g. messaging, identification, encryption, integration - API), including tools, documents and environments to facilitate and promote integration by supervised intermediaries**
- **Payment initiation rules, both customer and consumer initiated, and proxy look-up services**
- **Data: standardisation (e.g. KYC, AML/CFT, payment initiation), sharing between intermediaries (transaction monitoring purposes) and accessibility rules to use payments data to develop VAS**
- **Security standards and service levels for Eurosystem and intermediaries**
- **ECB compliance requirements (e.g. remuneration, holding limits)**
- **Customer onboarding rules (e.g. eligibility, CDD)**
- **Fraud (including liability shift conditions) and disputes management (e.g. reversals, chargebacks)**
- **Minimum branding (e.g. single and clearly identifiable brand, alongside that of the intermediary).**
- **Remuneration model. Pricing principles and value sharing model among the intermediaries.**
- **Basic rules for end-users on funding and defunding**

2. In terms of scope, which scheme elements (e.g., messaging standards, requirements for end-user interface design, branding, etc.) would you consider need to be covered under the scheme and which ones should be left to the market?

Other elements were suggested to be left to the market:



- Back-end integration
- Processing of transactions
- Customers onboarding, AML/CFT/KYC
- Front-end solutions development and integration at merchants
- Value-added services developed by intermediaries on top of basic feature
- Fraud management and customer support

While different views and nuances on the [end-user interface and experience](#):

- Many members referred to the need for the scheme to cover certain/minimum aspects ensuring a certain level of quality, branding and security on final products. At the same, it was mentioned that end-user experience design should be left to the market.
- There was overall alignment in terms of minimum branding requirements under the scheme. However some members were of the view to include additional elements (e.g. acceptable form factors, user interface guidelines) while others showed a more restrictive approach (e.g. limit only to branding to support awareness, education and adoption).

3. How could the balance between public and private cooperation be achieved under a payment scheme approach?

Views from participating MAG members indicated that this balance could be achieved by...

- **Clearly separating roles:** the Eurosystem operating a “minimal scheme” to achieve its policy objectives; private sector in charge of operational aspects, developing payment solutions on top of it.
- **Supporting value creation** in the ecosystem: (i) ensuring that intermediaries are properly remunerated for both basic and value-added services; (ii) incentivizing the technical enablement of the digital euro; and (iii) promoting innovation experiments and awareness.
- Setting an **inclusive governance structure**, with a broad set of market actors, beyond financial services institutions. PSPs and technical providers should be actively involved.
- **Engaging the private sector** not only as a contributor but also represented in the decisional body. In this sense, it was also mentioned that a truly private-public scheme would require both public and private investors owning the holding company governing the scheme.
- **Closely consulting the market** (market supply and demand) during the design phase.
- **An initial financial public incentive** that would trigger the required investment necessary for the development of the technical layer, while limiting the risk and time of ROI.

Thank you!

Annex: distribution options prioritisation



- **End-user experience** might be hampered across the euro area by insufficient degree of interoperability.
- Difficulties for achieving **widespread distribution** and enhancing financial inclusion.
- Would give room to supervised intermediaries to foster **innovation**, but might introduce market fragmentation.

prioritised

not prioritised

- Facilitates a **homogenous end-user experience** across the euro area and interoperability via standardisation.
- Best positioned to ensure **pan euro area reach**.
- Respects the **role of supervised intermediaries** and still offers room for **innovation**.

- Would contribute to achieving **homogenous end-user experience** and **widespread distribution**.
- But challenges on meeting **end-user demands** and keeping up with **innovation**.
- Reduces the **role of supervised intermediaries**.