EuroCommerce Retail & Wholesale

Position Paper
2 June 2023

RETAILERS SUPPORT DIGITAL EURO, BUT HAVE CONCERNS ON COSTS, IMPLEMENTATION AND CUSTOMER EXPERIENCE

1. KEY MESSAGES

- **Retailers welcome the digital euro as a widely adopted, cost-efficient addition to the payment landscape. To promote retailer adoption, acceptance costs must be as close to zero as possible.**
- **Designed in the right way, the digital euro has the potential to offer an enhanced value proposition to consumers and retailers in the EU that would boost adoption and ensure the overall success of the digital euro initiative.**
- **To keep costs low, the digital euro should go beyond replicating the existing payments landscape and would benefit from opening the door to innovation.**
- **We call for a resilient, easy-to-integrate, flexible design and functionality, to ensure a smooth implementation and operation.**
- **We see big benefits in the 'offline' use cases, keeping the economy running in case of power or internet outages.**

2. BACKGROUND

The retail and wholesale sector's key priority is to meet consumer demands and to offer the best possible experience. The focus on the consumer is paramount for any retailer to remain competitive, especially in times of digital transformation. 90% of foreseen growth in the retail sector until 2030 will come from online commerce.[1]

Lately, the sector is exposed to fundamental challenges, all impacting its core business and profitability. Rising energy costs, supply chain issues, the aftermath of the pandemic, and staff shortages greatly impact the sector in its ambition to excel in meeting consumer needs. The retail and wholesale sector operate in a low-profit margin environment, thanks to fierce competition for consumer choice. In economic downturns, the incidences of shrinkage and fraud increase, leading to further strain on retailers' margins, and price increases for consumers. In such an environment, bringing down excessive payment acceptance costs is a key priority for the sector.

Retailers need cost-efficient digital payment solutions that work for all our consumers and members across Europe.

3. OUR ISSUES

The introduction of a digital euro has the potential to offer a compelling value proposition to consumers and retailers, while at the same time overcoming some of the current limitations in the payments landscape.
To achieve this, the digital euro must be widely adopted by users across the EU.

[1] EuroCommerce – McKinsey study.

The extent of its adoption will be the key criteria to assess whether the digital euro will be considered successful or not. The following considerations need to be actively incorporated in the design and functionality of a future digital euro to drive adoption for both retailers and consumers.

a. Accessibility and usability

To promote adoption, any promising value proposition must be paired with an easy, seamless, and intuitive customer journey. The consumer must be at the heart of design and functionality of the digital euro.

A digital euro should be set up and distributed in a way that people without access to a bank account, people with disabilities, and elderly people can easily access and use the service. Facilitating self-custody wallets can help to achieve such an objective, especially if combined with a tiered approach to KYC as recommended by the European Data Protection Board[2]. The underlying infrastructure and interfaces should be technology agnostic to allow for varying customer journeys and behaviours (e.g. NFC for environments which requires fast checkout processes or QR Code to support loyalty programs). Consumers and retailers should be provided with easy portability mechanisms, allowing them to move their holdings swiftly and conveniently across intermediaries.

b. Consumer benefits

To be successfully adopted, the digital euro should offer tangible customer benefits that prompt consumers to select and pay with the digital euro. We understand that privacy, to the greatest possible extent, is a core feature that consumers demand. Greater privacy, not only from the ECB´s core settlement engine but from the intermediaries, could also offer distinct consumer benefits from existing electronic payment methods.

We could envisage supervised intermediaries to be able to issue different types of digital euro wallets depending on consumer choice. For example, there could be custodial and self-custody wallets. Consumers can choose which one they hold and pay in digital euro. Consumers will need options, either with the highest level of privacy and higher risk of loss just like cash or with lower privacy but greater protection and added functionality like with card-based payments.

To promote innovation and customer choice, digital euro users should be allowed to complement their bank's core digital euro services by contracting additional intermediaries with the provision of digital euro value-added services. Supervised intermediaries should therefore be required to unbundle value-added services from core services. Such a setup could still be feasible considering the single holding limitation for citizens. Whilst digital euro core services should be subject to portability to a new intermediary, consumers should be left with the option to carry over contracted value-added services to the newly contracted intermediary for the provision of core services or to keep the value-added services with their current core services provider.

c. Legal framework

We are awaiting, with great anticipation, the European Commission's proposal that will lay the judicial foundation for the digital euro. It will very likely address legal tender status for central bank money, both the digital euro and cash. Independent of such status, retailers must be granted sufficient

[2] EDPB (europa.eu)

flexibility to operate retail outlets without obligation to accept cash (or the digital euro). The legal foundation should not bring additional burden to payment service users that may hamper the integration of digital euro services.

Based on the upcoming legal act and the digital euro scheme rulebook, we are expecting unique rules and implementation, regardless of the Eurozone country, meaning that the same rules and requirements to PSUs across SEPA will apply.

d. Technical integration

The digital euro scheme rulebook should set out rules and guidelines that will allow for an easy integration into existing retailer infrastructure and the devices used, i.e. it should not force merchants to make new investments (e.g. in QR code scanners). Standardised Application Programming Interfaces (APIs) and Software Development Kits (SDKs) should be made available, allowing retailers to onboard digital euro services in a simple manner, with an identical approach regardless of the intermediary.

Intermediaries must provide detailed and standardised line-item reporting that will enable retailers to reconcile digital euro payments with proprietary sales records. In addition to being credited digital euro transactions on an individual basis, retailers should also be offered the option of receiving daily consolidated batches of digital euro payments.

e. Cost-efficient compensation model

A fair and sustainable business and compensation model will be fundamental to the uptake of the digital euro. Basic payment services must be provided to consumers free of charge to allow for the widest possible adoption.

Fees levied to retailers should be determined by market forces provided that the level of competition is adequate for allowing cost-efficient pricing. Along with sufficient competition, the effort required to process a digital euro transaction also impacts the overall cost of the transaction. To ensure that prices stay low for merchants, we would welcome innovation in this space. For example, as per European Data Protection Board recommendations, supervised intermediaries could be allowed exemption from performing KYC/AML when issuing a digital euro payment instrument to users, so long as low-value, low-risk digital euro transactions are performed. This creates a cost-saving opportunity for KYC/AML incumbents. Costs they otherwise would have to pass on to merchants. Users wanting to perform higher amounts and/or higher-risk transactions, will then trigger stepped-up KYC/AML checks as required for each risk/value layer. Once a higher layer is reached, the user would stay on that level due to the KYC/AML checks performed. KYC identification via eIDAS should also bring a cost-saving opportunity for KYC/AML incumbents which can also be passed on to merchants. A potential legal tender status of digital euro will amplify the need for cost-efficient pricing as retailers will likely be obliged to accept digital euro payments. In case market forces do not contribute to efficient pricing, authorities and regulators may have to intervene to guarantee that central bank money is provisioned and distributed to secure business continuity on the retailer side.

Fees levied to merchants for accepting digital euro payments should be as close to zero as possible, meaning that the cost of existing payment methods, including cash, should not serve as a benchmark for pricing digital euro transactions. Contrary to the high fixed-cost nature of cash acceptance infrastructure, we estimate that digital euro acceptance will be substantially more cost-efficient. In addition, competing private means of payment come with higher risk profiles which enable intermediaries to ask for higher fees – this should not be the case for the digital euro.

Moreover, the fee structure should be as simple as possible and reported to retailers in a transparent way.

f. Use cases

Widespread adoption of the digital euro will only be guaranteed if the most relevant use cases are covered. Apart from one-off e-commerce or Point-Of-Sale (POS) transactions (including refunds), the following use cases need to be covered by the digital euro scheme to address the needs of both consumers and retailers:

- Future dated payments, which may be linked to pre-authorisation-like services, including payments with an unknown final amount.
- Offline payments, allowing payer and payee to transact when neither has online connectivity, with clearly defined liability regimes.
- Recurring payments, which may leverage account-on-file technology.
- Cross-currency, allowing digital euro users to transact outside the euro area, e.g., with other Central Bank Digital Currencies (CBDCs).

The digital euro has the potential to foster innovation in the retail payment ecosystem. Request-to-pay message standards should be available to facilitate the exchange of payment relevant information required to initiate digital euro transactions. In addition, a multitude of new and promising use cases could be leveraged by the disposition of smart contracts, allowing for conditional payments. Licensed intermediaries providing digital euro payment services to end users should be incentivised to market innovative payment services, building on the digital euro infrastructure.

g. Resilience and trust

Central bank money can be considered a public good and plays an important role in safeguarding trust and in relying on resilient infrastructure. The need for such resilient infrastructure, to ensure trust in the payment ecosystem in using digital euro payments is of the utmost importance, especially in times of crisis. Trust in the digital euro can further be strengthened by introducing a high-level of privacy settings so that transacting with the digital euro comes as close as possible to transacting with cash.

The implementation of a centrally organised dispute management framework would also greatly support users' trust in the digital euro.

h. Strategic autonomy

The introduction of a digital euro would likely create a counterweight to the existing non-EU big tech players that currently dominate intra-European cross-border retail payments, positively contributing to Europe's strategic autonomy. Increased competition in this space should have a downward effect on pricing while contributing to increased transparency in the current opaque pricing models. The digital euro, being a publicly led project, bears the opportunity to create an open-governance framework, to which not only direct scheme members but also consumers, retailers and PSPs would be able to contribute.

i. Link to cash

The share of cash used for retail payments is declining across many euro area countries. As costs associated with accepting cash are mostly fixed, the relative per-unit costs of accepting cash are steadily increasing. Such a development is amplified by a highly concentrated cash collection market, often allowing retailers to only procure cash collection services from a maximum of two suppliers in a market. In times of bank branch closures and operations optimisation of the financial sector, we would welcome a digital euro that also brings a stabilising potential on the costs for handling cash.

The introduction of the digital euro will further help authorities combat the informal economy which heavily relies on physical cash and so to create a more level playing field for all retailers.

4. OUR POSITION: A DIGITAL EURO THAT IS BOTH EFFICIENT AND WIDELY ADOPTED

The European payments market is highly fragmented, without a European based solution allowing consumers to pay across Europe. Multiple private-led initiatives have tried to overcome this but, so far, with only limited success. The retailer community is committed to assist the Eurosystem and the European Commission and co-legislators by putting in place a successful digital euro scheme. This initiative represents a unique opportunity to establish a pan-European payment solution based on European values, rules, and technology, bringing together the public and private sector, as well as the demand and supply side. An appropriate governance structure must be created that allows a fair representation of all the stakeholders concerned in the value chain. Only when sustainable business propositions can be presented to all participants can the digital euro be successful. It is therefore important that the future digital euro governance includes relevant interest groups.

The consumer needs to be at the heart of any decision taken by the digital euro project. The underlying user experience needs to be designed in a way that ensures paying via digital euro is easy, seamless, and secure – regardless of the use case. All consumers should be able to access the digital euro and should be able to transact, irrespective of their digital competence, their age or whether they have a bank account or not. To support financial inclusion, the digital euro should allow its users to make transactions in the same way they do with cash today in risk-free proximity situations, namely in an offline mode, without Strong Customer Authentication (SCA) verification steps. Such features will also strengthen the resilience of the payment system in case of prolonged unavailability of electronic payments.

In line with existing payments ecosystems, merchants should not be made responsible for the following activities:

- AML checks, sanction screening, checking holding limits of payers
- Mandatory cash-back services in the form of digital euro by loading funds in a digital euro wallet from merchant POI
- KYC or identify controls of consumers for paying in digital euro with retailers

While the introduction of a digital euro will positively contribute to competition in the retail payment market in Europe, we are also aware that the digital euro will very likely have impact on the economy as a whole and the financial industry. We, therefore, call for the decision-makers to carefully consider any decisions by opting for a balancing approach. This will help mitigate the risk of unintended consequences when moving the project into the next phase.

5. NEXT STEPS

- EuroCommerce calls on the EuroSystem, the European Commission and co-legislators to continue to pursue this project with the high priority it currently enjoys.
- We will continue our involvement as key stakeholders in this and future phases of the digital euro project and welcome every opportunity to share our vast experience in retail payments.
- To do so, we will work closely with other organisations on the demand side to ensure consistent communication, implementation, and operation, fully in line with the future digital euro scheme rulebook and guidelines.

Contact: Atze Faas +31 6 1908 2598 Faas@eurocommerce.eu Transparency Register ID: 84973761187-60