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## EFA Policy Paper on the Issuance of a Digital Euro

### Introduction

The European FinTech Association (EFA) welcomes the discussion around the digital euro and the various considerations on its upcoming design. The EFA supports an open and competitive payments landscape. If correctly designed, the issuance of a digital euro could transform the economy, generating new competitive value chains, which would lead to potential benefits to consumers and businesses, including a more efficient and integrated pan-European ecosystem for Financial Services.

### High-Level EFA messages:

- To ensure universal access to retail payments, Payment Service Providers (PSPs) and Third-Party Providers, both non-banks and banks should have access to the digital euro account upon registration. This would enable receiving access to customer acceptance easily, safeguard the level playing field, and foster competition in the European payments landscape.
- The EFA would be in favour of a retail digital euro under a two-tier model as it would allow European citizens and businesses direct access to it. Under the two-tier model for the digital euro, intermediaries, PSPs, including non-banks and third-party providers, would get access to the digital euro from the central bank.
- Fintech solutions are widely used by many consumers, and would heavily facilitate the distribution of the digital euro to consumers and business, also driving acceptance and trust.
- As such, the EFA would like to stress the importance of the digital euro becoming a legal tender and that its acceptance would become mandated.
- A retail Central Bank Digital Currency (CBDC) would also increase competition by reducing the operational disparities (e.g. fees) between smaller banks and non-banks which run their payments through the larger market players.

### Access to Infrastructure

The EFA believes the infrastructure that will underpin the digital euro will be of fundamental significance. Against this backdrop, it becomes important that the model used for the digital euro ensures access of FinTechs to the underlying infrastructure.

For the digital euro to realise its true potential, it needs to give all actors (PSPs, FinTechs etc.) the ability to access digital euro funds freely, in order for money exchanges to be the best experience possible for customers. **In this context, the EFA would be in favour of a retail digital euro based on a two-tier model as it would allow European citizens and businesses direct access to it.**

Under the two-tier model for the digital euro **PSPs, including non-banks and third-party providers, would act as intermediaries, receiving access to the digital euro from the central bank. As Fintech solutions are widely used by many consumers, this would heavily facilitate the distribution of the digital euro to consumers and business, also driving acceptance and trust.** Such a model would also lead to more efficient, seamless, and cheaper services to consumers. In parallel, ensuring equal access to market participants **would also drive innovation, and keep a level playing field in the EU single market.**

A retail CBDC **would also increase competition by reducing the operational disparities (e.g. fees)** between smaller banks and non-banks, which run their payments through the larger market players that are currently able to set the market rules due to their size.

The EFA **is also of the view that the amount for each digital euro account should be capped to avoid the confluence of significant capitals to digital euro accounts.** Moreover, it is necessary to ensure that the digital euro would be an available choice for consumers on par with cash at point of sale (POS). The amount of digital euro should also be capped to mitigate the possibility of digital euro being used for ML/TF in the EU.

## Universal Acceptance and Platform Interoperability

The EFA believes that creating an interoperable ecosystem around the digital euro is vital for its wide-scale acceptance in the EU. **Thus, the EFA would like to stress the importance of the digital euro becoming a legal tender and that its acceptance is mandated in digital platforms.**

This would guarantee interoperability between different digital platforms that could otherwise control payment methods utilised on their platform. This approach would create a level playing field and ensure merchants always have a reliable and cost-efficient payment method available to sell their products, and consumers are not locked into platforms issuing their own digital currency.

Regarding the point of sale integration, the payment could be performed by multiple payment methods, including a PSP proprietary payment or by providing a common standardised mechanism such as a QR Code.

Ensuring this universal and interoperable access to a digital euro **can create an even more competitive ecosystem contributing to the EU's objectives for the European Retail Payments space.** Introducing the digital euro as a safe and efficient payment method available to all would ensure all payment methods would have to compete on pricing and added-value at the point of sale, rather than through bespoke deals and incentives to issuers, especially if merchants could choose how to route transactions.

## Security

Over the past years fraudsters and criminals have been deploying new means to engage in criminal activities through the financial system. Hence, it becomes of critical importance that the digital euro not only provides a seamless experience to the end-user, but also ensures adequate security standards and safeguards that protect the European consumers and market integrity against any possible risks (e.g. ML/TF).

The two-tier intermediation model would firstly transfer the risk away from the Central Bank. In parallel, Fintechs (TPPs, PSPs) would be able to deploy diligent procedures under their obligations as licensed entities, while at the same time use further innovative tools, such as emerging technologies (data analytics) to prevent and mitigate the impact of such incidents.

## Conclusion

The EFA fully supports new and innovative methods that can facilitate and improve European retail payments within the EU. A digital euro has the potential to improve cross-border payment flows, provide new solutions to consumers, and enable new payment methods via online platforms.

**About us:**

*The European FinTech Association (EFA) is a not-for-profit organization representing leading FinTech companies of all sizes from across the EU. It brings together a diverse group of 35+ FinTech providers ranging from payments, to lending, banking, robo-advice, investment as well as software-as-a-service for the finance sector, with a clear focus on enabling a single market for digital financial services.*

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