
Reflections on the design of the digital Euro

Key messages

Banks are aligned with ECB's goal to develop an integrated and innovative pan-European payments market. The digital euro represents an opportunity to further progress in this direction. We believe it should also become an opportunity to develop pan-European account-to-account payment systems by connecting current domestic solutions based on instant payments.

Some design elements will be crucial for the success of the digital euro, and we invite the ECB to work closely with banks on these issues:

- **The digital euro should include limits to individual holdings avoid negative impacts on financial stability and on banks liquidity and capacity to finance the system.** A hard cap would be especially important in crisis times, where the digital euro would aggravate the intensity and speed of a potential liquidity crisis. Given its potential risks, a prudent approach is needed setting the right limits as we all learn how the digital euro is used.
- **The highest standards on cyber resilience and AML/CFT should be at the core of the design.** All digital euro service providers should comply with the highest standards, and especially those that provide digital euro wallet services. Besides, privacy will also be fundamental to ensure customer's trust. Privacy is about individuals' control on their data and should not be understood nor as anonymity neither as a general restriction on the use of data by intermediaries that should be able to access transactional data to provide value-added services with customer consent.
- **The digital euro could rely on current infrastructure and enable interoperability with local payment solutions.** This would be the most efficient way to deliver to consumers across Europe its benefits and respond to ECB's goals in a faster and more certain time frame. There would be high costs to create a completely new infrastructure.
- **Banks are ready to play a key role to support the successful adoption of the digital euro by bringing the digital euro closer to citizens and businesses that we serve today, integrating it into citizens daily financial lives.** It is essential to create the incentives and provide the flexibility for intermediaries to deliver these services and to innovate based on the digital euro. Intermediaries will play a prominent role also answering questions and responding to customers' demands. Customer services will need to be dimensioned to ensure the best customer experience as we learnt with the adoption of Strong Customer Authentication (SCA) requirements under the PSD2. **Costs for intermediaries should be factored into the compensation model.** In addition, it would be worth analysing the **provision of account services to citizens by non-bank PSPs.** Even if technically the digital euro accounts will be at the ECB and not on their balance sheet, in practice it may be confusing to understand the difference between banks accounts and digital euro accounts provided by non-banks.
- The digital euro should also become an opportunity to explore European payments innovation capabilities and new use cases.

We encourage authorities to work on a close public-private collaboration on the design of the digital euro to ensure the digital euro creates value for all stakeholders and avoid potential negative effects. As Santander we offer our knowledge and experience to work together on these fundamental topics.

A close public-private collaboration between EU authorities and market participants is essential for the success of the digital euro. We encourage the ECB to keep working this way.

- The digital euro is a fundamental project for the banking sector. It has the potential to transform payments in Europe, which has become the cornerstone of the financial relationship with customers.
- Banks are at the heart of payment services and are ready to play a key role in the support to the successful adoption of the digital euro by bringing it closer to citizens and businesses that we serve today and integrating the digital euro into their daily financial lives.
- We welcome the increased involvement of banks and other market participants in the design of the digital euro. This collaboration will be essential to ensure that the conditions are created for banks and other intermediaries to provide digital euro services and to build value on top of it.

Reflections

The digital euro represents an opportunity to develop pan-European payments. Banks are aligned with this goal to create an integrated and innovative European payments market.

- We agree with the ECB that the existence of local payments systems based on different rules and architectures allows international players to position strongly/to maintain a significant market share.
- We acknowledge the value that a digital euro could have to achieve this goal, e.g., enabling citizens to make a P2P payment from Spain to Latvia.
- Interoperability between domestic private solutions is key to ensure the success of the digital euro.

At the same time, the digital euro should also become an opportunity to enable domestic solutions across Europe interoperable, enabling European cross-border payments for both the digital and the commercial euro.

- Although fragmentation occurs at European level, at local level popular payment initiatives are growing strongly, showing the important role they can play in the future of payments. For example, in Spain Bizum has been very successful in the P2P space so far. With more than 22 million users Bizum accounts for more than 85% of instant payments in Spain and has reached a 4 -5% share in e-commerce in just two years since this option is available. New present payment with NFC will be launched this year. It has become a reference for the rest of the countries.
- To that end, we propose to design a viable and efficient roadmap to adapt domestic solutions to made them interoperable across the Eurozone. Having an efficient and secure infrastructure for payments is essential to ensure sovereign autonomy.
- We are willing to share our knowledge and expertise on Bizum with other countries that still lack an instant payments solution.

Some design elements will be crucial in determining the success of the digital euro, but also in mitigating the associated risks:

1. The digital euro should include the right limits to individual holdings to avoid its potential negative impacts on banks capacity to finance the economy and financial stability.

- We welcome the intention of the Eurosystem to incorporate in the design limits to individual holdings to curb the use of the digital euro as a form of investment. It will be necessary to monitor and control the amount in circulation and to set limits as we all learn how the digital

euro is used by customers and businesses, as well as to anticipate potential stressed scenarios given the risk of a significant substitution in times of crisis.

- We believe that hard caps will be the most effective way to ensure it, as well as the easiest for users to understand. While the take-up of a digital euro is likely to be gradual, such safeguards should be provided from the outset. In addition, we would invite the ECB to also consider the need of alternative sources of funding for banks if needed.
 - At the same time, it is essential that the Digital Euro does not call into question the security of savings deposited in banks, nor the functioning or the safety of the existing payment system.
2. ***It is essential to **guarantee privacy and cybersecurity while ensuring that AML and other controls remain in place. At the same time intermediaries should be allowed to **access transactional data to provide value-added services*******
- As the ECB has already highlighted, ensuring **cyber-resilience will be a fundamental issue. The whole digital euro system**, including any device or participant that could be capable of connecting to the system, **should comply with the highest cyber security standards**. This is especially relevant for those PSPs providing digital euro wallet services to customers. The digital euro infrastructure will become an attractive target for cybercriminals. We believe it is essential to work with the industry on this issue, given that **intermediaries will be the front-end of the system for the users**. We would like to offer to the ECB our knowledge and experience to work together in this area.
 - In the same vein, we support the ECB in ensuring that any **money laundering or terrorism financing** risks are properly addressed, and we welcome the decision that **anonymity is not considered a viable option. In addition, options being considered to provide higher privacy for certain transactions should be carefully assessed**. Low value transactions can still be used for serious predicate offenses.
 - As the ECB has highlighted, the **privacy design of the digital euro will be a fundamental feature to maintain citizen's trust. Privacy is about individuals' control** and empowerment over their data. As it happens with other payment means, citizens **should have the right to allow regulated intermediaries to use their data**, ensuring both security and privacy, to create personalized value-added services.
 - The data generated from transactions is not only necessary for security and compliance with AML/CTF requirements, but also to make personalized and innovative services available to the customer, in line with the European Commission's vision for a European Data Economy. Payment's data plays an essential role in the provision of financial services, e.g., to analyse risks better and provide credit more accurately and at better price. Therefore, it is important that the **authorities' focus on providing a high level of privacy does not translate** into a general ex-ante restriction on the use of data from digital euro transactions.
3. ***We believe that the **current instant payment infrastructure would facilitate the interoperable approach, while at the same time would be fit for the use cases identified by the ECB*****
- The current infrastructure allows to build the use cases identified by the ECB.
 - In addition, building on the current instant payment's infrastructure would provide some advantages, e.g. regarding the costs of deploying the digital euro for intermediaries (adaptation of POS terminals, etc.), which can be considerable. This would be the most

efficient way to deliver to consumers across Europe the benefits of the digital euro and respond to ECB's goals in a faster and more certain time frame. There would be high costs to create a completely new infrastructure.

- The digital euro must be integrated into existing banking apps and payment rails that consumer already use to manage their finances. Banks can help distributing the digital euro by integrating it in its solutions. In this regard, the proof of concept with Bizum, Redsys and Iberpay is a good starting point to demonstrate how the existing infrastructure could be adapted for the distribution and processing of the digital euro and its coexistence with current payment instruments and processes. We have already presented this initiative to the ECB with a very satisfactory result, and we have the challenge to show how this could be applied to Eurozone.
 - The new Digital Euro Scheme could rely in Instant payment infrastructure interconnecting domestic schemes, to be able to send a Digital Euro through the domestic solutions we already have. In those countries that currently don't have a domestic solution, mainly Germany and France, the new EPI is being implemented, so this interoperability should also connect with this new EPI.
- 4. It is essential to provide the flexibility and to create the incentives for intermediaries to deliver services and to innovate based on the digital euro.**
- The role of the private sector will be paramount for the success of the digital euro, providing value-added services and other innovative solutions for consumers. For this it is essential to create the right conditions so that banks can build sustainable business models in a competitive space underpinned by a level playing field with other payment means.
 - The **digital euro scheme should include the right compensation model** for intermediaries to provide digital euro basic services as well as **allow the financial sector to build and provide advanced services** on top of the digital euro subject to remuneration, not defined at scheme level but agreed individually in contractual terms.
 - We welcome the decision of the ECB to leverage on the private sector for the distribution of the digital euro and to manage customer relationships. As different design options and possible core services are being explored it will be therefore necessary to assess the costs of implementing and providing these services by the intermediaries. These costs should be factored into the compensation model.
 - Note in addition that as the front-end for consumers, intermediaries will play a prominent role answering questions and responding to customers' demands. **Impact on intermediary's customer support** (offices, call center...) should also be considered in the discussion on remuneration/costs. Customer services will need to be dimensioned to ensure the best customer experience as we have learnt with the adoption of Strong Customer Authentication (SCA) requirements under the PSD2. Given that the Eurosystem will perform settlement activities for the intermediaries, it will also be necessary for intermediaries to have **the support 24x7 of the Eurosystem** so that we could provide the best service to end-users ensuring all processes related to customer interaction work properly.
 - Besides, the rulebook should warrant the right balance to ensure on the one hand a homogenous end user experience across the euro area, as the ECB has highlighted, and at the same time, it should **leave sufficient room for private innovation to compete and design new business models** based on the digital euro.

- The role of intermediaries will be another key element under discussion. In this regard, it is worth analysing how citizens might understand that PSPs can provide account services to citizens to store their digital euros. Even if technically the digital euro accounts will be at the ECB and not on their balance sheet, in practice it may be confusing to understand the difference between banks accounts and digital euro accounts provided by non-banks.
- We highly appreciate the establishing by the ECB of a **digital euro scheme Rulebook Development Group** to work together on all this crucially important topics for the banking industry. The contribution of industry practitioners will be key to ensure the right framework for the digital euro.

Finally, we would like to highlight the opportunity for the digital euro to enhance European payments innovation capabilities. We welcome the ECB to further explore together with the industry how to enable these capabilities both for the digital euro, as well as for commercial bank money payments.

- The digital euro should enhance the **development of programmable payments by the private sector both for Digital Euro and commercial bank money**. We should think of new programmable use cases to add value for customers such as for example, delivery versus payment, enabling that in the purchase of an asset (e.g., a package or a security) the transfer of the asset and the payment are executed in a single transaction. Using smart contracts, for example, it would be possible for shares to automatically pay dividends directly to shareholders. Or even to think of new forms of micro-credit. These potential innovations could be introduced gradually, as users and authorities gain experience and confidence.
- Programmability capabilities could be implemented in an **additional layer on top of the digital euro that would provide the private sector with the platform to program and execute programmable payments**. This programmability layer should enable payments in both central and commercial bank money, which would add more value to customers and the payment ecosystem.
- Besides, there would be merit in exploring the opportunities for the digital euro and commercial bank money to meet emerging needs of the digital economy and the digital asset ecosystem (such as e.g., enabling machine-to-machine payments, DLT payments, or payments in the metaverse).
- We appreciate that **the ECB has offered to explore together** with the private sector the design of this new programmability layer as well as to design future use cases and new business models.