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WORKING DOCUMENT

From:	European Central Bank
To:	Working Party on Financial Services and the Banking Union (Digital Euro Package) Financial Services Attachés
Subject:	Digital euro - WP meeting on 29 April 2024 - ECB presentation on the European payment landscape

EUROPEAN CENTRAL BANK

EUROSYSTEM

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European payment landscape

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29/04/2024

Digital euro team

Compensation model: ECB opinion

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The Presidency requested ECB to provide:

- Its view on the **costs of the current EU payments landscape**; and
- An **overview on compensation** for 'comparable means of payment'.

These must be read together with the ECB Opinion, which states, in pertinent parts, that:

- Merchants would receive a chargeable service from PSPs but would be placed in a weak position if the requirement placed on them to accept the digital euro is not counterbalanced with a cap on the merchant service charge.
- An explicit recognition of inter-PSP fees would enable distributing PSPs to obtain comparable revenues to those earned in the distribution of comparable payment instruments, stimulating active distribution of digital euros and high-quality service levels for end users.
- Support that 25% of the 'most cost-efficient PSPs/comparable means of payments' should be used as a reference.
- The Eurosystem would bear its own costs, as is the case of the production and issuance of banknotes;
- The ECB lacks legal competence to determine caps and fees.
- The ECB nonetheless stands ready to provide technical support/expertise. Robust enforcement mechanisms would need to be put in place to ensure PSPs' reporting obligations.

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Overview of potential savings enabled by the digital euro

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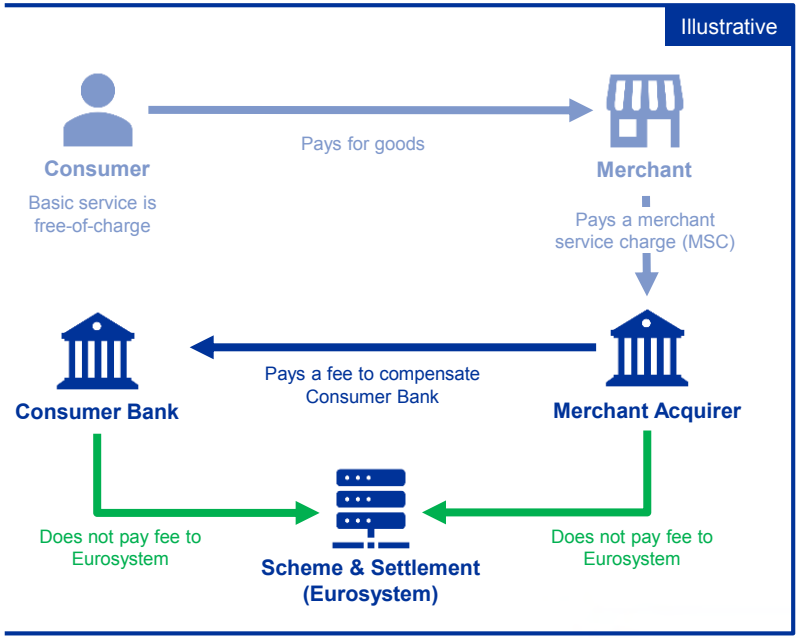
Compensation model and key drivers

Digital euro compensation model



Compensation model of the digital euro has the potential to generate **cost savings for PSPs, influenced by several key drivers**

1. **International Card Schemes (ICS)** are increasing their market share and margins:
   - Growing market share to the detriment of domestic schemes
   - Increasing **scheme fees** over time, while **interchange fees (IF)** remain capped by regulation
2. **Digital wallets** and **x-pays** are quickly gaining market share and their business model impacts PSPs' and merchants' margins
3. **Merchant Service Charges (MSC)** vary significantly across payment methods, pricing models and merchant size

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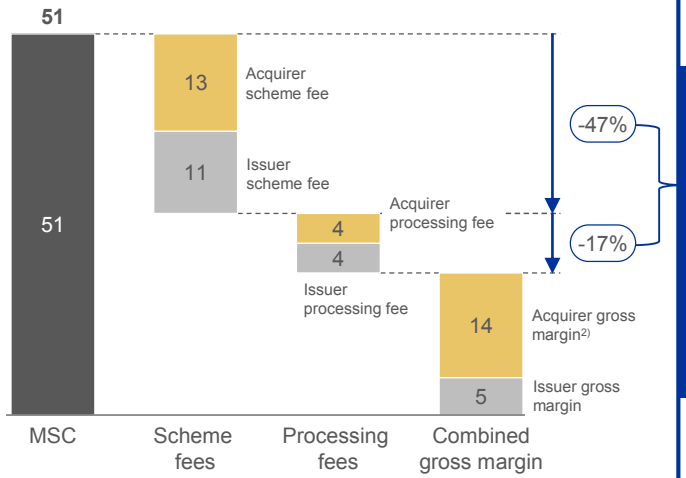
The digital euro could provide significant cost savings by omitting the scheme fees

Debit cards – ICS[1] processing scheme analysis in the euro area [bps of transaction value]

Breakdown of average MSC on ICS debit card transactions

[average bps on transaction value]

Illustrative



Scheme and processing fees represent **64%** of the overall merchant fees

Potential savings

- Like with banknotes, **Eurosystem will bear its own cost** and not charge any scheme and processing fees to PSPs (see *recital 41*).
- **Ceteris paribus**, compared to debit card ICS payments, digital euro payments could result in an average **cost reduction of more than 47% to PSPs**, part of which should translate into lower MSC for merchants

1) International Card Schemes considering debit cards transactions on Visa and Mastercard; 2) CMSPI & ZEPHYRE, 2021 analysis, average acquirer margin gross incl. processing fees 18 bps on ICS transactions

Source: Roland Berger analysis

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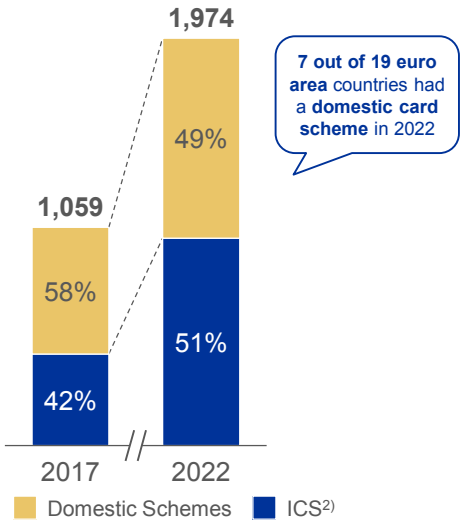
International card schemes outgrow domestic schemes in an overall growing market

Debit cards – Transaction value[1] by scheme [Euro bn, % on transaction value]

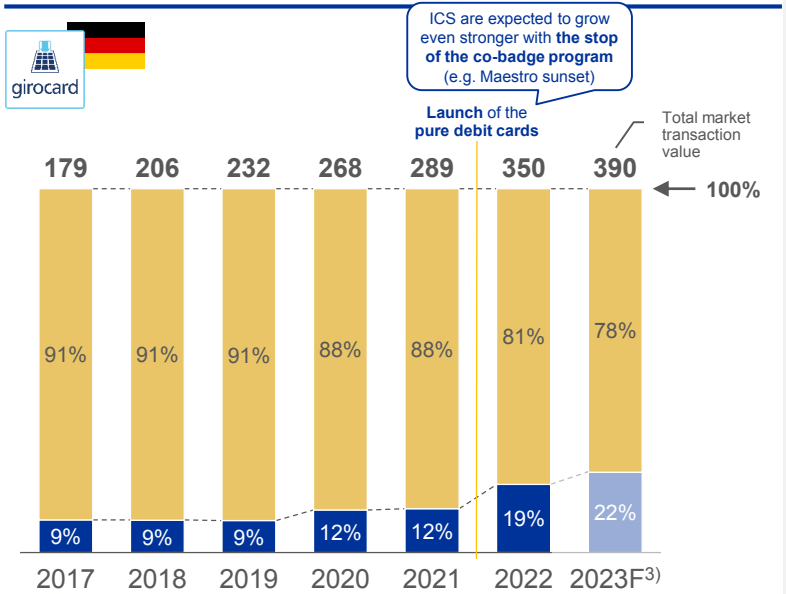
ICS trend in Euro area

[EUR bn]



7 out of 19 euro area countries had a **domestic card scheme** in 2022

Debit cards market share evolution 2017-'23



girocard vs. ICS figures 2023

Number of terminals in Germany

ICS 1 / ICS 2: 1.27 mn (+20% 2022-23)

girocard: 1.13 mn (+8.3% 2022-23)

Transaction value growth in Germany

ICS 1: +25% 2022-23

girocard: +7.1% 2022-23

Transaction numbers growth in Germany

ICS 1: +33% 2022-23

girocard: +11.5% 2022-23

1) Excl. ATM transactions; 2) Considering ICS debit cards transactions; 3) Second half of 2023 forecasted, as no public data available yet

Source: ECB, Girocard (DK), Visa, Payment&Banking

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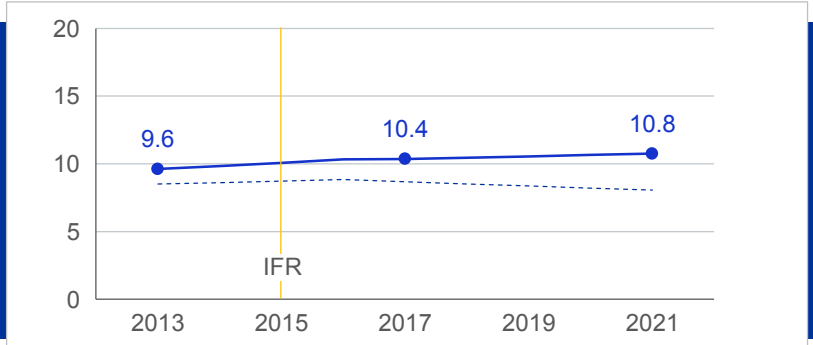
Scheme fees of ICS have been increasing over time, especially driven by acquiring scheme fees

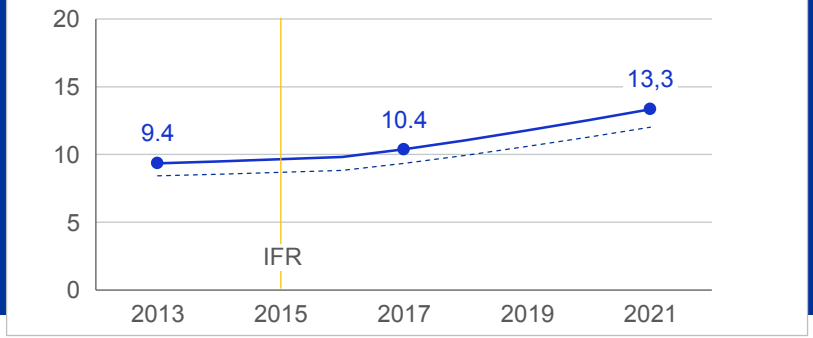
Issuing and acquiring scheme fees on debit cards [bps of transaction value]

Issuing



- Scheme fees bps paid by consumer banks to ICS have remained broadly over time.
- While core fees haven't changed much, ICS have been granting higher rebates/incentives to compete with other card payment schemes (in some extreme cases up to 100% discount for very big issuers)

Acquiring



- On the acquiring side, core fees with higher increase mainly due to lower bargaining power of single merchants
- After IFR introduction of additional transaction-based fees to benefit from overall transaction volume increase
- Rebates/Incentives mainly unchanged overall and are generally passed on to merchants

— ICS before rebates (weighted average by main players' trx. volumes)
--- ICS after rebates (indicative, weighted average by main players' trx. volumes)
IFR Interchange fee regulation 2015

Source: Roland Berger analysis

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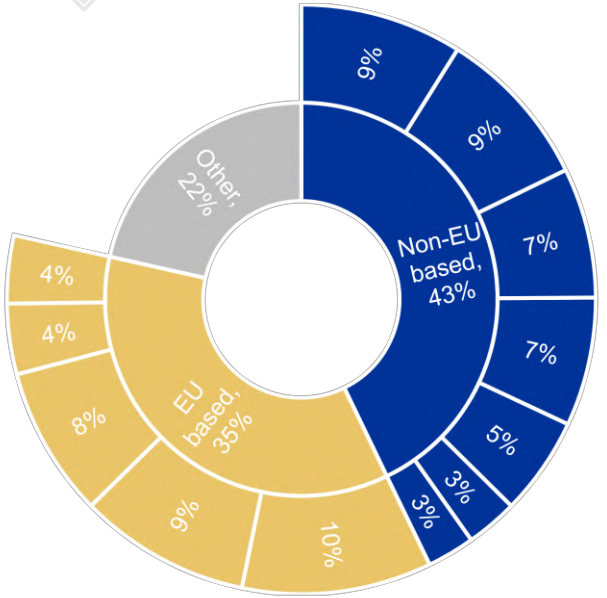
The acquiring market is highly concentrated as a result of active consolidation

- The European merchant acquiring market is **undergoing an intensive consolidation phase**
- **Top 12 acquirers control 78%** of the market
- Acquirers and processors may further merge, with **the risk of increasingly limiting choices for merchants**

Market share of top acquirers operating in Europe, 2022



Source: Nilson Report.

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Growing market share of “x-pays”

Innovative payments evolution 2017-’27E in Europe[1] [% on consumer payments transaction value]

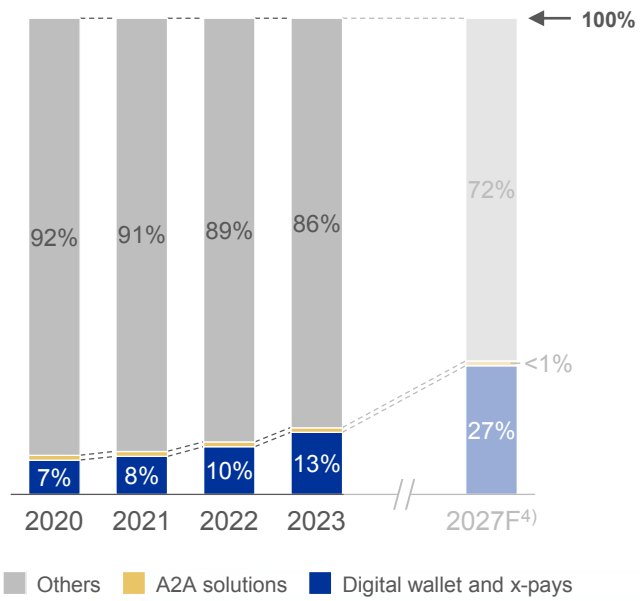
Digital wallets and x-pays[2]

Pay · amazon pay · Google Wallet · PayPal

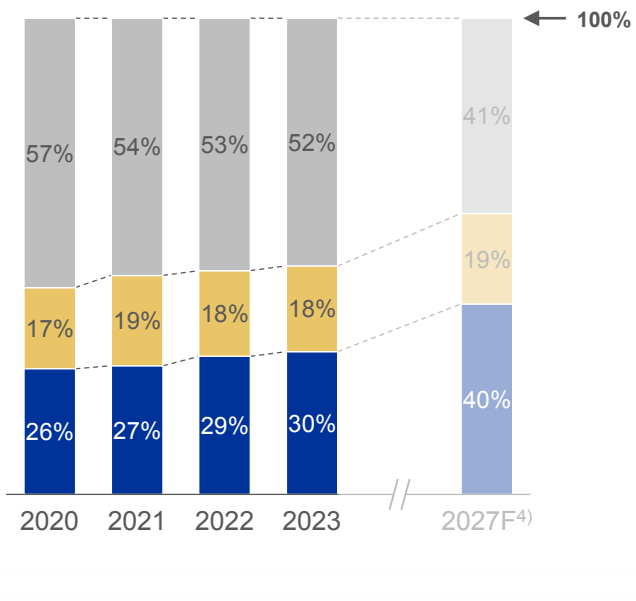
A2A solutions[3]

blik · TIKKIE · payconiq · iDEAL · bizum · satispay · PAY · Yippay · MyBank · SOFORT

Market share in POS



Market share in E-commerce[5]



1) Considering Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Poland, Spain, Sweden, Turkey, UK; 2) Also incl. local digital wallets; 3) Also incl. SCT and SDD payments; 4) 2023-27 projections based on consumer surveys, B2B surveys and desk research available macroeconomic projections at the time of writing (2024); 5) e-commerce market size estimates include retail, food and drink, travel, gaming, gambling, and digital content streaming

Source: Worldpay - Global Payments Report, Roland Berger analysis

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Consumer banks ready to distribute Apple Pay with a loss per transaction

Apple Pay use case

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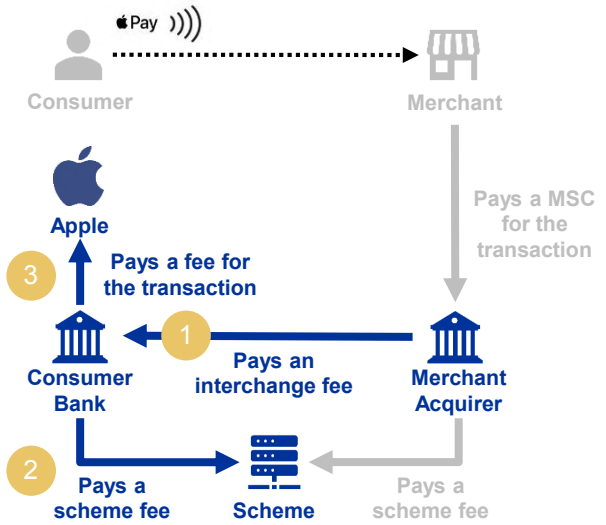
Fee model overview



There are not additional fees on users or merchants[1)]

Fees structure example – Apple Pay vs. digital euro

		Pay		*Digital euro*
		Large consumer bank	Small consumer bank[2)]	All consumer banks
1	Interchange fee	+ 0.20%		variable or fixed fee
2	Scheme fee	- 0.11%		-
3	Apple Pay fee	- 0.15%[3)]	- 0.20%[4)]	-
	Profit	**- 0.06%**	**- 0.11%**	**variable or fixed fee**

1) Possible impact on merchants in case their contract with the acquirer includes different aquiring fees for card present or card not present transactions; 2) Based on data available for a small payment institution focused on co-branded cards issuing, with volumes in line with the ones of a small bank; 3) Calculated considering EUR 1,000 as average yearly transaction value; 4) Calculated considering a portfolio of 1 m cards, EUR 1,000 as average yearly transaction value and EUR 41 as average transaction value

Source: Roland Berger analysis

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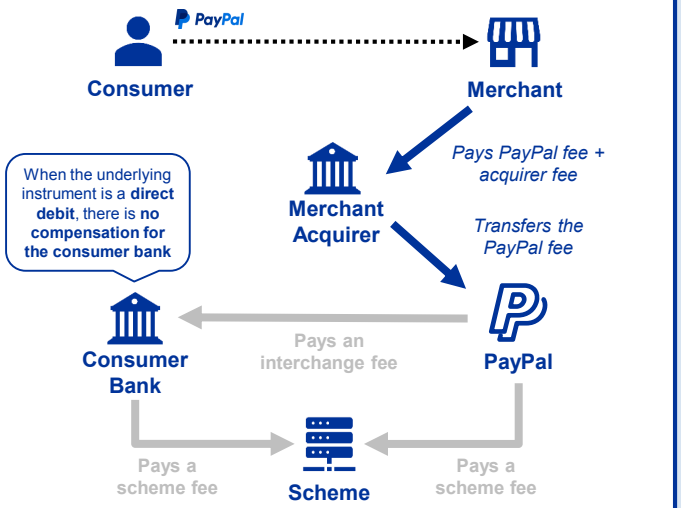
PayPal has relatively high merchant service charges without this necessarily generating revenue for the banks

PayPal use case

Fees model overview[1)]

Illustrative – case PayPal linked to a debit card



There are not additional fees on users or PSPs

Pricing for C2B domestic transactions[2)]

Listing prices – to be negotiated with big merchants

	3)		
Variable fee on transaction value[4)]	3.40%	2.90%	2.49%
Fixed fee[5)]	EUR 0.35	EUR 0.35	EUR 0.35
Maximum MSC on transaction value[6)]	4.25%	3.75%	3.34%

Charges can vary across merchants since fees can be directly negotiated with PayPal

1) Based on a individual C2B payment using a debit card linked on the PayPal account; 2) Pricing April 2024 for ecommerce transactions – additional fees for international transactions up to 2.99% or QR code transactions on POS channel up to 2.00% (it can change per each country); 3) Default price in Europe; 4) Different fee in case of card payment by a user without a PayPal account (e.g., 1.20% France, Germany and Italy, 1.80% for Belgium); 5) It can vary based on currency received from ≈ EUR 0.10 to ≈ EUR 0.40 equivalent; 6) Calculated considering EUR 41 as average transaction value without using QR code

Source: PayPal, Roland Berger analysis

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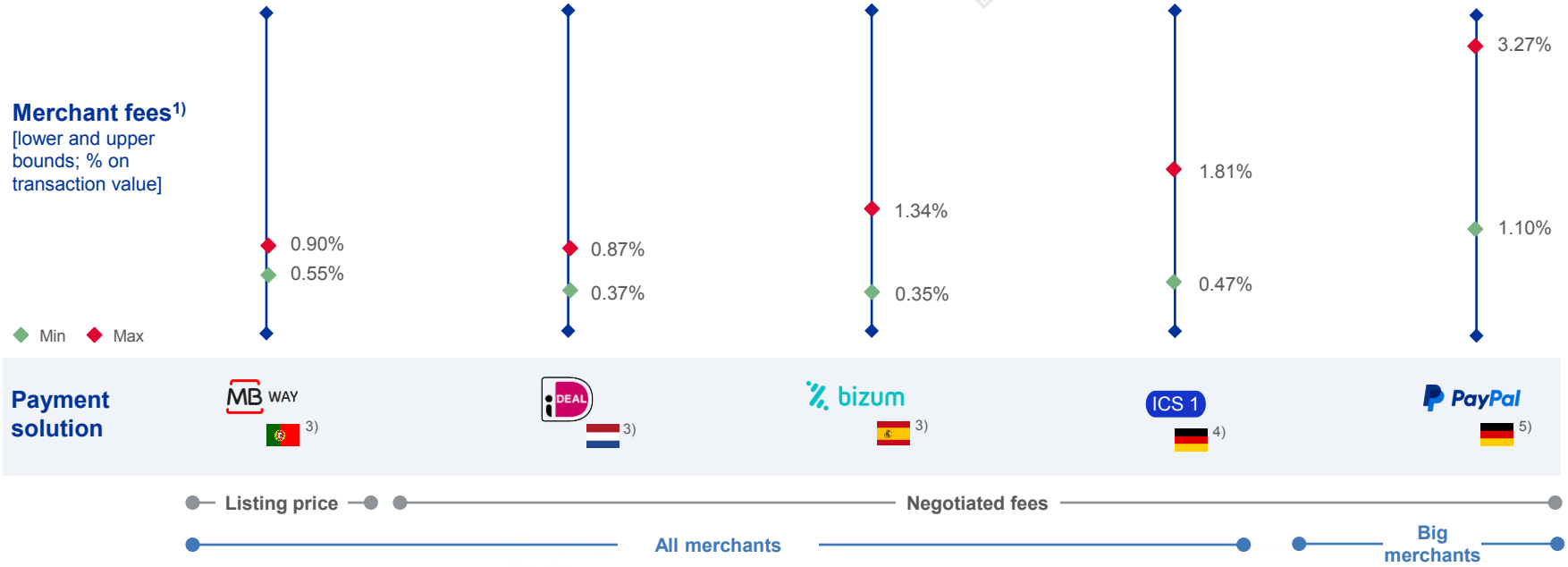
National payment solutions seem to have lower merchant fees than those of international solutions

MSC may be based on fixed cost per transaction, percentage of value, or both. For comparability purposes, all charges are translated into a percentage fee for a given transaction size.

Limited comparability as listing price may not reflect actual fee charged and can vary based on merchant size



1) Calculated considering EUR 41 as average transaction value in a POI transaction; 2) Refers to invoicing with payment guarantee; 3) Based on data collected from NCBs' questionnaire on national payment fees; 4) Based on a EHI deep dive on MSC in Germany as of 2022/23 for ICS on credit and debit card transactions; 5) Based on a EHI survey on negotiated fees of 25 German merchants with more than EUR 1 m transaction value per year

Source: Roland Berger analysis

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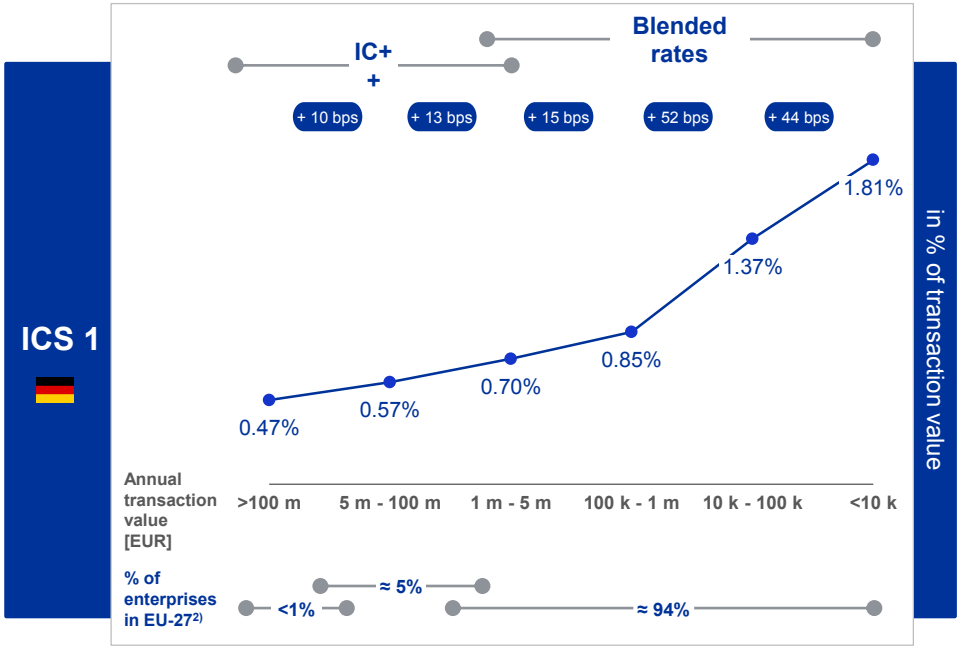
Merchant size is the key factor: smaller merchants pay 3 to 4 times higher MSC than larger merchants

ICS MSC[1] based on merchant size



MSC pricing models

IC++ model

- Model usually charged to large merchants, which negotiate fees directly with acquirers
- Shows full transparency about fee components

Interchange fee + Scheme fee + Acquirer fee

MSC

Blended rates model

- Model usually charged to small to medium sized merchants
- Blends fees together with less transparency about components for the merchant

Interchange fee & Scheme fee + Acquirer fee

MSC

xx bps incr. per merchant size cluster

1) Deep dive on MSC for credit and debit cards in Germany as of 2022/23; 2) Enterprises class size defined by total annual turnover (EUR >10 m, 2 m - 10 m, <2 m)
Source: EHI – Zahlungssysteme im Einzelhandel 2023; European Commision

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