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SUMMARY

DIALOGUE FORUM E-KRONA

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Meeting 2: Possible use cases for an e-krona

Introduction

The second meeting of the e-krona dialogue forum took the form of a workshop on possible use cases for an e-krona. Prior to the meeting, participants had been asked to reflect on three main questions, which structured the discussion.

Question 1 - what are the biggest challenges in the Swedish payment market today and going forward?

Participants had slightly different perspectives, depending on which sector they represented. Several of them mentioned the increase in fraud and various forms of criminal activity. This entails fraud against, for example, the elderly and various forms of on-line fraud made possible by the digitalisation of society.

Processes for know-your-customer (KYC) and combating money laundering (AML) were also said to be applied repeatedly for the same customer, and financial institutions found complying with the legislation in this area as challenging. In some cases, institutions preferred to avoid certain customers for fear of making mistakes.

Several participants discussed the dependence on digital identification and technology and their inherent problems. Cyber risks attract much focus, while card and/or Swish

system breakdowns may leave end-users without an available payment method. Also, BankID is not accessible to all citizens, excluding them from part of the digital society.

In addition, costs of today's payment options were claimed to be high. This was related to competition issues. A recent development was major global players offering end-to-end solutions in closed systems. Leveraging on their customer base, these so-called big techs could come to dominate the payments market in a few years' time.

Some participants pointed to the transformation of the Swedish payment infrastructure, which is currently ongoing. Besides P27, other initiatives (RIX-INST, ISO 20022) are competing for the same development resources within the banks. This reflects a 'technology debt' built up over the years as needed modernisation has been postponed.

Another problem mentioned was that the lack of anonymous digital payment means besides unregulated crypto-assets. Cash can also be used anonymously, but not digitally, and acceptance is decreasing. It should be remembered that end-users may wish to pay anonymously also for legitimate purposes.

On the same note, customers are required to handle multiple digital payment instruments because there is no acceptance requirement for cash or a specific digital payment instrument. This complicates making payments for customers who have difficulty in adopting digital technology.

Cross-border payments were mentioned as well. They are known to be costly, slow, opaque and inaccessible and have given rise to a G20 programme to improve and simplify cross-border payments. Recent EU legislation has made the costs of cross-border payments more transparent to end-users.

Finally, it was stated that the attempt of PSD2 to open the payment infrastructure for third party PSPs has not yet achieved its intended effects. If this had been the case, and with RIX-INST fully implemented, new players could have entered the payment market and developed new services with access to real-time processing.

Question 2 - which of these challenges could an e-krona solve and what design features are needed for this?

Several participants thought that an e-krona could increase resilience of the payment system and be an alternative when other payment methods are down. This requires that an e-krona is set up as a fully independent infrastructure. A question to address is who should bear the cost of building and operating such a parallel payment system.

The e-krona could contribute to increased competition in the payment market if it developed into an open system where more actors can access a real-time settlement system. Several participants saw great potential for innovation and development based on an e-krona platform as envisaged.

Some participants also highlighted the potential of a common system for handling KYC and AML, as well as a standardised system for handling power of attorney. It was also mentioned that an e-krona with a standardised interface could facilitate payments for certain customer groups with specific needs.

Other potential advantages raised by some participants were a possible enhancement of the monetary policy transmission mechanism. Further, it was suggested that an e-krona could facilitate for companies to automate their internal payments handling. This is difficult today, partly due to a lack of space for information in payment messages.

The participants generally saw many valuable usage cases for a possible e-krona. They envisaged that the adaptation may be difficult, but also that there are market segments where an e-krona could have a positive and immediate impact. One such market segment is e-commerce, where payment volumes are growing.

Question 3 - how can an e-krona be relevant and create value for a wide range of actors (consumers, traders, regulated financial operators, others) in different transaction segments?

In the *peer-to-peer (P2P)* segment, there could be room for an e-krona despite the existence of an already very popular solution. However, one challenge, at least temporarily, would be to get the public to understand what an e-krona is. An e-krona could provide value as a backup solution working offline and by including end-users with restricted access to current solutions.

In the case of *peer-to-business (P2B)* payments, challenges relate to financing and liability for losses generated by offline usage. Value could come from reduced transaction costs and risks if e-krona payments are settled in real time. It was also mentioned that an e-krona could reduce risks of money laundering and fraud, while a central system may reduce monitoring costs.

For *business-to-business (B2B)* payments, the e-krona could play a role as settlement asset for large transactions between financial institutions. Participants referred to international pilot studies exploring the potential for a wholesale CBDC in integrated security settlement systems. Conditional and cross-border payments were other important use cases within the B2B segment.

With regard to *new/non-traditional segments*, it was pointed out that the e-krona could become relevant, for example, for new business models for micro payments supporting Internet of Things (IOT) purchases and/or automatic payments between machines. Payment solutions for such purchases may likely be developed by non-bank PSPs, which may find benefits in an e-krona platform offering instant processing and settlement.

Planning for the period ahead

Three more meetings in the dialogue forum are planned during the autumn with the next scheduled for 7 September.