BANKING AND FINANCE

Public consultation on transparency and fees in cross-border transactions in the EU

Fields marked with * are mandatory.

Introduction

Since the introduction of the Euro, the EU has achieved a significant reduction in the costs of cross-border transactions (money transfers) through the establishment of a Single Euro Payments Area (SEPA) which:

- introduced a set of standards for euro transactions with the SEPA Credit Transfers and SEPA Direct Debits;
- prohibited IBAN discrimination (i.e. a single euro account, whatever the Member State, is sufficient to make any transfer in euro within the EU);
- and imposed, through Regulation 924/2009 on cross-border transfers, that euro transactions across borders must not cost more than corresponding euro transactions within a given EU Member States.

However, EU citizens who need to make transactions that involve EU currencies of EU Member States other than the euro still face major costs and obstacles which stand in the way of a deepening of the internal market. These issues were raised in December 2015 when the Commission presented a Green Paper on retail financial services to consult on the potentials of a more integrated market for these services and the actions needed to achieve this goal. The consultation sought views on how to improve choice, transparency and competition in retail financial services to the benefit of European consumers, and on how to facilitate the cross-border provision of these services. In relation to payments, two questions on transaction fees and currency conversion were asked (Question 12 and Question 13) which received about 270 answers each.

The feedback to the Green Paper indicated that opaque and potentially excessive fees are a deterrent to cross-border transactions within the EU, particularly when they involve non-euro currencies.

Following the Green Paper consultation, the Commission presented an [Action Plan on Consumer Financial Services] that set out further steps towards a genuine technology-enabled Single Market for retail financial services where consumers can get the best deals while being well protected. The present public consultation focuses on actions 1 (which was already included in the [2017 Commission work programme]) and 2 of the Action Plan and aims at collecting feedback on transaction fees and currency conversion.

Action 1

As already announced, the Commission will, following a REFIT review, propose an amendment to the Regulation on cross-border payments to reduce charges for cross-border transactions in all Member States.

Action 2

The Commission will review good and bad practices in dynamic currency conversion and, on that basis, consider the most appropriate means (enforcement of existing legislation, voluntary approaches, reinforced legislation) to allow consumers to choose the best rate.

Two questionnaires

All stakeholders (including private individuals, companies, organisations, public authorities, experts) are invited to take part in this consultation. Some questions are of general nature, others are more technical and would be answered more easily by experts.

To this end we are offering you the choice to reply to two different sets of questions:

- a **simplified version of the questionnaire** containing the questions of a genera nature, more suited to non-experts including **private individuals**. This questionnaire has **17 questions and answering it takes approximately 10 minutes**
- the **full questionnaire** containing all questions, including those aimed at **expert**

Please choose below which questionnaire you would like to complete:

* **I would like to respond to:**

- the **simplified version of the questionnaire** more suited to non-experts including **privat e individuals**
- (selected) the **full questionnaire** containing all questions, including those aimed at **experts**

Please note: In order to ensure a fair and transparent consultation process **only responses received through our online questionnaire will be taken into account** and included in the report summarising the responses. Should you have a problem completing this questionnaire or if you require particular assistance, please contact fisma-cross-border-transactions-fees@ec.europa.eu.

More information:

- on this consultation
- on the protection of personal data regime for this consultation

1. Information about you

*Are you replying as:

- a private individual
- an organisation or a company
- (selected) a public authority or an international organisation

*Name of the public authority:

Banking Stakeholder Group (BSG)

Contact email address:

The information you provide here is for administrative purposes only and will not be published

alin.iacob@conso.ro

*Type of public authority

- (selected) International or European organisation
- Regional or local authority
- Government or Ministry

- Regulatory authority, Supervisory authority or Central bank
- Other public authority

*Where are you based and/or where do you carry out your activity?

United Kingdom

*Field of activity or sector (*if applicable*):

at least 1 choice(s)

- [ ] Accounting
- [ ] Auditing
- [x] Banking
- [ ] Credit rating agencies
- [ ] Insurance
- [ ] Pension provision
- [ ] Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)
- [ ] Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)
- [ ] Payments
- [ ] Social entrepreneurship
- [ ] Remittances
- [ ] Other
- [ ] Not applicable

Important notice on the publication of responses

*Contributions received are intended for publication on the Commission's website. Do you agree to your contribution being published?

(see specific privacy statement)

- (selected) Yes, I agree to my response being published under the name I indicate (*name of your organisation /company/public authority or your name if your reply as an individual*)
- No, I do not want my response to be published

2. Your opinion

Transaction fees

The first action of the Consumer Financial Services Action Plan proposes to amend the Regulation on cross-border payments to reduce charges for cross-border transactions in all Member States.

The Regulation on cross-border payments equalised fees for cross-border and national payments in euro within the EU. However, payments involving currencies of EU Member States other than the euro are not covered by the Regulation, unless Member States extended the Regulation to their national currency on a voluntary basis. The Regulation gives the option to Member States to equalise fees for cross-border transfers in the local currency and corresponding domestic transfers. So far, only Sweden chose to opt in and align these fees with euro transactions. In all other Member States, fees for cross-border transactions in non-euro currency remain very high, and well above the level of fees for purely national transactions in non-euro currencies. In particular, high minimum fees can make small transactions very expensive.

An extension of the Regulation to all currencies in the EU would therefore bring down the costs of cross-border transactions in all Member States.

Non-Euro transactions

This section refers to cross-border transactions in a currency of a Member State other than the euro. Most frequently, this would be a transaction initiated in a non-euro Member State, either with another non-euro country or a euro area Member State.

Question 1. Cross-border transactions in currencies other than the euro can be priced differently than transactions in euro.

Question 1.a. Do you know the cost of making transactions from your country to other EU Member states in currencies other than the euro?

- (x) Yes
- ( ) No
- ( ) Don't know / no opinion / not relevant

Question 1.b. How expensive are fees for making transactions from your country to other EU Member states in currencies other than the euro?

Please rate it from 1 to 5

- ( ) 1 (not expensive at all)
- ( ) 2
- ( ) 3
- ( ) 4
- ( ) 5 (very expensive)
- (x) Don't know / no opinion / not relevant

Please explain your reasoning when answering question 1.b.

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DISCLAIMER: THE MEMBERS OF THE BANKING STAKEHOLDER GROUP (BSG) IN THEIR
INDIVIDUAL CAPACITY HAVE DISCUSSES THIS ISSUE AND WANT TO MAKE A CONTRIBUTION
TO THIS EUROPEAN COMMISSION CONSULTATION.

We have a split view here.

Some members consider that non-euro transactions are more expensive than euro
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transactions as a consequence of the higher risks, higher number of intermediaries and higher complexity intervening in the payment chain. Another reason for which Non-euro transactions cost higher than those for the Euro is the reduced number of transactions concerned as part of the overall number of payments in the EU.

Other members doubt that in all cases are higher number of intermediaries involved, because many EU banks operate in both eurozone Member States or non-eurozone Member States. They argue that these transactions have very high prices, as it was mentioned also in the preamble to this question.
Concrete examples to support this conclusion could be found as part of the FSUG's work to the Retail Financial Services Green Paper (https://ec.europa.eu/info/sites/info/files/file_import/1603-retail-finance-reply_en_0.pdf, pages 21-22 and https://ec.europa.eu/info/file/46864/download_en?token=kAECD4-C, pages 5-6).

Another BSG member offered some examples from Poland: fees for SWIFT transaction range from 0,2% to 1% of the amount transferred (usually 0,25%), additionally minimum and maximum nominal amount of fee is set (usually the minimum fee is 20-30 PLN and maximum fee is 200-300 PLN). Fees for SEPA transactions are usually 5-10 PLN (regardless of the amount transferred). The examples concern a standard transaction (in case of express/immediate transfers additional fees apply).

Another BSG Member suggest that online payments are much better in terms of costs than standard ones - one Irish bank has no fees for payments to the EU Member States and EEA Countries (e.g Sterling to UK, Zloty to Poland), and just 5 EUR fee for transfers to countries which involve FX Conversion (e.g USD to United States).

Question 1.c. How transparent/clear are fees for making transactions from your country to other EU Member states in currencies other than the euro?

Please rate it from 1 to 5

- ( ) 1 (not transparent at all)
- ( ) 2
- ( ) 3
- ( ) 4
- ( ) 5 (very transparent)
- (•) Don't know / no opinion / not relevant

Please explain your reasoning when answering question 1.c.

We have split view here.

Some members consider that, as required by PSD1, PAD and soon PSD2 information on fees is freely available for clients and non-clients, included in payment accounts framework contracts, published on banks' web pages, displayed in banks' branches and informed before a specific payment transaction is executed.

Other members argue that in many cases the information provided is not complete (there are missing information about corresponding banks fees), in other cases the information is provided to consumers in a confusing way and PSPs are not transparent giving any reason whatsoever for the increasing fee as the sum being transferred increases. They also mentioned that the existence of comparison websites to compare such fees would be useful for consumers.

Question 1.d. Could you provide examples of fees that you have paid for such transactions?

(Please provide the amount transferred, the countries involved (from X to Y) and the total fees paid for the transfer)

Some members mentioned that information is publicly available at PSPs' or NCAs' websites.

One BSG member referred to a concrete transaction where a German consumer transferred 2,635 GBP to the UK for language courses. The consumer was informed by his bank that the payment will cost 12 Euros. But he had to pay altogether 60 Euros, which were partly charged by the payee's bank.

Question 1.e. Should the EU regulate the cost of these transactions or should this be left to individual Member States or the market?

- ○ It should be regulated at the EU level
- ○ It should be left to individual Member States
- ○ it should not be regulated (be left to the market)
- ● Don't know / no opinion / not relevant

Please explain your reasoning when answering question 1.e.

We have split view here.

National payment markets in the EU are very diverse, some of them being very competitive, some others being not. Some members considers that, in this respect, having in mind the principles of a Single Market, the only area that could be regulated would be imposing PSPs to have same fees for cross-border and national transactions in the same currency, that is, expanding the scope of Article 14 of Regulation 924/2009 to payments in all Member States currencies. Of course, it should be controlled that fees on national transactions are not artificially raised.

Other members highlight that they disagree with the idea of a regulation imposing such rule on fees, asking for market dynamics and competitiveness to decide the fees of transactions. They argue that the EU is based on the principles of a market economy and the EU as regulator should stay out of the regulation of prices for services of private sector companies. The focus of any EU intervention should be on ensuring that customers can easily compare and shop around to find the deal most suited to their needs. Intervention in prices, if at all, should only be decided upon in case of a clear market failure, the action to undertake is proportionate to the issue at hand and has a positive cost benefit analysis.

Other members argue that the ideal solution is that it should be left to the market, as the one size-fits-all approach would neglect the fact that the handling of Euro transactions cannot be compared to the handling of Non-euro transactions and consumers are nowadays offered a very wide range of consumers they can choose from to transfer funds outside the euro zone.

Question 2. An option is that the Regulation on cross-border payments is fully extended to all currencies of Member States. This would mean that a money transfer to another Member State would cost the same as a similar domestic transaction.

Question 2.a. Should the scope of the Regulation be extended so that a money transfer to another EU Member State costs the same as a money transfer within the country?

- ( ) Yes
- ( ) No
- (x) Don’t know / no opinion / not relevant

Question 3. Cross-border transactions in currencies of Member States other than the euro are often priced ad valorem – i.e. as a percentage of the total amount transferred.

Question 3.a. Do you consider that this type of pricing practice make transactions too expensive?

- ( ) Yes
- ( ) No
- (x) Don’t know / no opinion / not relevant

Question 3.b. What is the rationale behind such a pricing model?

We have split view here.

Some members argue that ad valorem fees reduce the costs of low value payments and promote a more efficient use of payment services by payment users. Fees on non-Euro transactions have been set taking into account both the fixed and variable costs of providing the services. These costs include those incurred to mitigate the currency exchange risks as well as the cost of the provision of the service in PSPs’ wide network of branches and remote communication channels. Non-euro payments are subject to higher costs because of the higher number of intermediaries intervening in the payment chain and the higher complexity of the provision of this service. Non-euro payments are based on correspondent banking relations. Correspondent banks are chosen after a thoughtful assessment of the credit risk, operational risks and AML requirements, and require the maintenance of specific communication channels and continuous liquidity management.

Other members consider that it is very difficult to find any economic or financial argument for such a pricing model, because most of the costs associated with payments are fixed, not variable. Pricing ad-valorem would just help PSPs to make profit from those who make high value transactions. They also consider, even if it is an increasing complexity, it doesn’t mean that the pricing accurately reflects that and consumers only pay what it costs extra.

Regarding “liquidity management”, it is important how much this costs exactly, to see if consumers pay a fair price. In addition, it was mentioned that some FinTech players are also using currency pools and it doesn’t seem to be reflected in their pricing.

Question 3.c. Does this practice reflect the internal costs of payment services providers?

- [ ] Yes
- [ ] No
- [x] Don’t know / no opinion / not relevant

Question 4. Often, a minimum fee has to be paid for cross-border transactions in currencies of Member States other than the euro.

Question 4.a. Is this practice preventing low-value transactions?

- [ ] Very much so
- [x] To some extent
- [ ] No
- [ ] Don’t know / no opinion / not relevant

Question 4.b. What is the rationale behind this practice?

Some members consider that regardless the amount of the payment, any payment is exchanged by a technical and operational infrastructure which has a cost. Transfers in currencies other than national currency determine always basic costs that have to be covered. The minimum fee intends to ensure that at least part of this costs is passed onto the payment service user.

Other members argue that it is not clear how the minimum fee is calculated and if the costs are just in part passed onto the payment service user, or the minimum fee represents more than these costs.

Question 4.c. Should minimum fees be regulated to avoid disproportionate costs of low-value transactions?

- [ ] Yes
- [ ] No
- [x] Don’t know / no opinion / not relevant

Question 4.d. What rules on minimum fees would be reasonable and fair, taking into account internal costs?

We have split view here.

Some members consider that a regulation as the one proposed at point c) could lead to an increase of fees on low value payments if a recovery cost principle is established or to the reduction of competition in payments market in case the imposed price causes excessive losses on payment services activity. They also consider that the establishment of minimum fees should be left to the market and be a decision of PSP offering the service taking into account their cost structure for the provision of this service.

Other members have opposite view, considering that minimum fees should be regulated to avoid disproportionate costs of low-value transactions, taking into account internal costs. They argue that if markets worked as intended, the prices would have aligned with the prices promoted by Fintech companies. And this has not happened, so the markets must be failing for some reason. Regardless of the reasons, when markets fail, the EU should intervene, because that is what regulation is for.

Question 4.e. What would be the economic or social impact of your proposed rules?

We have split view here.

Some members suggest that in case of adopting a regulation the number of PSPs offering non-Euro payments would be reduced and so the payment market would become more concentrated and less competitive.

Other members consider that regulation would have a positive impact for consumers, who will pay a fair price for respective payments. They also consider that it could be expected to see a positive impact for PSPs too, because due to the reduced price of transfers it could be an increased number of payments. If the banks cannot find a way to lower their costs, they will have to outsource transfers to FinTech companies and contribute to the emergence of a more competitive market.

Question 5. Sometimes there is no maximum fee for cross-border transactions in currencies of Member States other than the euro.

Question 5.a. What is the rationale behind this practice?

We have split view here.

Some members argue that ad valorem fees reduce the costs of low value payments and promote a more efficient use of payment services by payment users. As it has been said above, high value payments imply a liquidity risk and require the provision of liquidity. The cost of this liquidity for the PSP is also set in relative terms by the liquidity provider. Also, larger payments tend to be associated with higher operational risk and compliance costs.

Other members consider that no maximum fee could generate exaggerate profit for PSPs, in case of high value transactions and they don’t see any reason to not exist a cap of fees in such cases. They argue that it is important to know how much the liquidity management costs in practice, since current FinTech companies manage it without high costs.

Question 5.b. Is this practice reflecting internal costs of payment services providers?

- [ ] Very much so
- [ ] To some extent
- [ ] No
- [x] Don’t know / no opinion / not relevant

Question 5.c. Should there be a mandatory cap on fees?

- [ ] Yes
- [ ] No
- [x] Don’t know / no opinion / not relevant

Question 5.e. What would be the economic or social impact of such cap?

We have split view here.

Some members consider that setting a maximum fee would cause an increase of ad valorem rates or would lead to setting a fixed fee on all transactions that would raise the cost of low value transfers. Any regulation that imposes artificial caps would lead to a cross subsidization of costs between products and customers. The number of PSPs offering non-Euro payments would be reduced and so the payment market would become more concentrated and less competitive.

Other members think that capping maximum fees would just generalize the practices already applied by some PSPs. If the PSPs that are applying today such cap don’t face any negative impact, it is improbable that imposing a cap to generate negative effects on other PSPs. Moreover, such cap would have also a positive impact for users of payment services.

Question 6. Markets may be developing solutions to the problem of high costs of cross-border transactions.

Question 6.a. What market practices or solutions do you know that reduce the costs of cross-border transactions in currencies of Member States other than the euro?

First, in case of banking players, there are different prices for the cost of cross-border transactions depending of the way of doing them - at counter or using internet banking, phone banking or mobile banking.
Using internet or mobile banking, it would be cheaper than using counter.
Second, more players in the market would increase competition and probably the prices would be reduced, especially in case of Fintech players.
This is already the case of the transfers using alternative payment solutions.

However, any kind of payment must always comply with regulatory framework in special with AML/CTF regulation and be subject to similar oversight. As for the euro zone, multicurrency ACHs and increased competition could help reduce the cost of cross-border transactions in currencies.

Furthermore, all emerging innovations such as Swift CGI, distributed ledger technology (e.g. blockchain) which can definitely bring a significant addedvalue to customers since this technology enable banks as PSP to design more customer-centric and convenient products and services. Once the new technology is implemented, the costs will go down. Based on that fact banks will be able to decrease the overall costs in the near future. Yet, in order to reach this outcome, huge investments on PSP side will be required.

Question 6.b. Should these practices be encouraged?

- (x) Yes
- ( ) No
- ( ) Don't know / no opinion / not relevant

If these practices should be encouraged, please explain how.

Some members consider that a reduced profit tax or other fiscal incentives could be beneficial in this case.

Other members argue that PSD and PSD2 already open payments activity to new players. The effect of this increased competition should be a reduction of costs. They consider that a reduced profit tax or fiscal incentives could lead to a relaxation of regulatory compliance in order to meet the fees level eligible for the tax incentive.

Question 7. The costs of cross-border transactions in currencies of Member States other than the euro are determined by various factors, including correspondent banking fees, Swift fees and currency conversion fees.

Question 7.a. What is the weight of each of these factors in the total cost of transactions?

There are different weights of these factors in the total cost of transactions depending on the PSP policy and market strategy as well as on the country of the currency in which the payment is denominated, the number of PSPs involved and the transaction amount.

One BSG Member refers to a study (Global Payment Map 2016) according to which FX costs are estimated to represent 15%.

Question 7.b. Are there other factors that come into play?

- (x) Yes
- ( ) No
- ( ) Don't know / no opinion / not relevant

Please explain your reasoning when answering question 7.b.

Costs linked to liquidity management, IT infrastructure, transaction screening and local practices.

Question 7.c. What scope is there for reducing such costs and how can this be achieved?

We have split view here.

Some members highlight that compliance regulations are increasing costs related to cross-border payment service, making it more expensive as a result, regardless of the currency (euro and non-euro payments). They indicated very low volume and no European wide unique infrastructure like SEPA.

Some other members mentioned that from a regulatory perspective, only an extension of Regulation 924/2009 to all Member States currencies seems feasible, as PSD 2 and PAD already set transparency obligations, limits on the processing of intermediation charges. Any step taken to reduce the complexity of cross-border payments infrastructure will have a positive impact on costs. They highlight that any cost explicitly passed onto the customer such as the cost of SWIFT messages or corresponding bank costs should reflect the cost effectively supported by the PSP.

Other members suggest that IT infrastructure and transaction screening should cost the same between Euro Member States and Non-Euro Member States. They consider that the scope could be achieved using the same principles as those mentioned in Regulation 924/2009. So, no correspondent bank fees may be demanded from the payer or the payee or deducted from the transferred amount. Similarly, no additional charges should be levied for Swift messaging services, if it is offered as the only way of making a cross-border transfer (and it is not an optional services, especially chosen by consumers).

Question 8. Are there further comments that you would like to make in relation to cross-border transactions in a currency of a Member State other than the euro?

Some members consider that the issue is not national vs cross-border payments, the issue is Euro payments vs payments in other currencies. Euro transactions are exchanged through pan-european Euro Clearing and Settlement Mechanism (CSMs). Using CSMs reduces the number of intermediaries, eases the liquidity management and creates economies of scale, but the willingness to join a non-Euro CSM depends on the number of payments exchanged in that non-Euro currency. As a result EUR currency payment services can be provided at a lower cost than other non-Euro payments.

Other members recalled that less then 1% of all transactions in a currency other than Euro are cross-border and any EU-intervention should be done just in case of significant distortion of the internal market.

Euro transactions

This section refers to transactions in euro between two Member States of which at least one does not have the euro as national currency.

Question 9. Euro transactions are priced at a very low level in euro countries. However, this is not the case in non-euro countries even though payment services providers offering these services can benefit from the same infrastructures as payment services providers from euro area Member States for transactions in euro.

Question 9.a. Do you know the cost of making euro transactions in non-euro area Member States?

- (selected) Yes
- No
- Don’t know / no opinion / not relevant

Question 9.b. How expensive are fees for euro transactions in non-euro area Member States?

Please rate it from 1 to 5

- 1 (not expensive at all)
- 2
- 3
- 4
- 5 (very expensive)
- (selected) Don’t know / no opinion / not relevant

Please explain your reasoning when answering question 9.b.

We have split views here.

Some members mentioned that it depends on the bank and the type of payment executed.

Other members highlight that these transactions have very high prices. Concrete examples to support this conclusion could be found as part of the FSUG’s work to the Retail Financial Services Green Paper (https://ec.europa.eu/info/sites/info/files/file_import/1603-retail-finance-reply_en_0.pdf, pages 21-22 and https://ec.europa.eu/info/file/46864/download_en?token=kAECD4-C, pages 5-6).

One BSG Member offered the Polish example: in case of SEPA payments (both domestic and cross-border) the fee is flat and substantially lower than in case of SWIFT transaction, ranging from 3 to 30 PLN (usually 5 PLN). This price is only a bit more expensive than the price of transfers in domestic currency.

Question 9.c. How transparent/clear to you are fees for euro transactions in non-euro area Member States transparent?

Please rate it from 1 to 5

- 1 (not transparent at all)
- 2
- 3
- 4
- 5 (very transparent)

- [x] Don’t know / no opinion / not relevant

Please explain your reasoning when answering question 9.c.

We have split view here.

Some members consider that, being required by PSD 2 and PAD, information on fees is freely available for clients and non-clients, included in payment accounts framework contracts and informed before a specific payment transaction is executed.

Other members argue that in many cases the information provided is not complete (there are missing information about corresponding banks fees), in other cases the information is provided to consumers in a confusing way and PSPs are not transparent giving any reason whatsoever for the increasing fee as the sum being transferred increases. They also mentioned that the existence of comparison websites to compare such fees would be useful for consumers.

Question 9.d. Could you provide examples of fees that you have paid for such transactions?

(Please provide the amount transferred, the countries involved (from X to Y) and the total fees paid for the transfer)

Some members mentioned that information is publicly available at PSPs’ or NCAs’ websites.

Other members provided some examples of fees paid or requested for such transactions. For instance, a consumer was charged 48 Euros for a 10 Euros transfer to Hungary. In other case, a Romanian bank asked a consumer to pay 50 Euros for 79 Euros credit transfer to the Netherlands. After his rejection, they offered him an alternative - to pay just 10 Euros for the same transaction, using SEPA channel.

Question 9.e. Should the EU regulate the cost of these transactions or should this be left to individual Member States or the market?

- [ ] It should be regulated at the EU level
- [ ] It should be left to individual Member States
- [ ] it should not be regulated (be left to the market)
- [x] Don’t know / no opinion / not relevant

Please explain your reasoning when answering question 9.e.

We have split view here.

Some members consider that the EU have regulated these transactions through Regulation 924/2009, equalizing charges for corresponding national and cross-border payments in euro offered by any PSP within the EU. Of course, it should be further controlled that fees on national transactions are not artificially raised.

Differences in prices between Member States or PSPs stem from their own cost structure and the lower number of payments in Euro effected by PSPs of non-Euro countries.

However, other members argue that it should not be regulated, being left to the market.

On the other hand, some members stressed out that it is an important difference between regulation and enforcement. If previous EU regulation is properly enforced, it would not probably be necessary to introduce new EU regulation.

Question 9.f. Which elements still justify such a difference in pricing for euro transactions between payment services providers of the euro area and payment services providers outside the euro area?

- ○ Volume
- ○ Correspondent banking fees
- ● Other

Please detail which elements still justify such a difference in pricing for euro transactions between payment services providers of the euro area and payment services providers outside the euro area?

Some members argue that volume and correspondent banking fees seem to be the most plausible explanation.
Euro payments in non-Euro countries are subject to higher costs because of the higher number of intermediaries intervening in the payment chain and the higher complexity of the provision of this service. PSP's are seeking to recover the cost of their use of different schemes and method by which the payment is made. Euro payments in non-Euro countries are usually based on correspondent banking relations. Correspondent banks are chosen after a thoughtful assessment of the credit risk, operational risk and AML compliance, and require the maintenance of specific communication channels and continuous liquidity management.

Other members suggest that the PSPs active outside the euro area (most of them banks) are trying to make profits from these transactions to compensate the decreasing of revenues in other products and services which are stronger regulated than payments. This is because reduced volumes cannot justify the huge difference in prices. They consider that for Euro transactions, banks can use SEPA channel and TARGET 2, which is offered by ECB, where costs are very reasonable.
They also consider, even if it is an increasing complexity, it doesn't mean that the pricing accurately reflects that and consumers only pay what it costs extra. Regarding "liquidity management", it is important how much this costs exactly, to see if consumers pay a fair price. In addition, it was mentioned that some FinTech players also using currency pools and it doesn't seem to be reflected in their pricing

Question 9.g. Should the Regulation on cross-border payments mandate that euro transactions in non-euro area Member States be priced as domestic transactions in local currency?

- ○ Yes
- ○ No

Don’t know / no opinion / not relevant

Question 10. Are there further comments that you would like to make in relation with cross-border transactions in euro between two Member States of which at least one does not have the euro as national currency?

Some members highlight that the issue is not national vs cross-border payments, the issue is local currency vs payments in other currencies (being Euro one of those currencies). Local currency transactions are exchanged through local CSMs. Using CSMs reduces the number of intermediaries, eases the liquidity management and creates economies of scale, but the willingness to join a Euro CSM depends on the number of payments exchanged in Euros. As a result local currency payment services can be provided at a lower cost than Euro payments.

Other members appreciate that, even so, this doesn’t mean that the excess cost is “fair” or reflects the “real” cost incurred by banks.

Some other members mentioned that the part of the transaction that takes place in Euro and is executed through SEPA infrastructures is already streamlined and harmonized.

United Nations Sustainable Development Goals

On 1 January 2016, the United Nation’s 17 Sustainable Development Goals (SDGs) of the 2030 Agenda for Sustainable Development officially came into force. Among the SDGs, goal 10 calls for reduced inequality within and among countries and sets notably the following target: "By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent". Reducing the costs of cross-border transactions would help achieve this goal within the EU.

An amendment to the Regulation on cross-border payments to reduce charges for cross-border transactions in all Member States (action 1 of the Consumer Financial Services Action Plan) could make a significant contribution to achieving this target within the EU.

Question 11. The costs of remittances (the transfer of money by expatriates to their home country) can be significantly higher than the goal set by the United Nations.

Question 11.a. How far is the EU from attaining the goal set in the context of the Sustainable Development goals?

BSG members are not aware of the average cost of remittances in the EU, but we acknowledge that there are many EU citizens working abroad, most of them in the EU.

Some members consider it is important to meet the UN goal as soon as possible. 3% of the transaction is still a generous percent, so if the EU has the opportunity offered by the changes of the legislation, it would be good to do it now.

Other members indicate that some remittances services already in place meet the goal, while others believe this is more appropriately achieved through competitive forces.

Another BSG member mentioned that the outrageously expensive cost of money transfers in his country, which is affected the most vulnerable and uninformed consumers.

Question 11.b. To what extent can the market be expected to drive down costs in the foreseeable future, notably through FinTech innovations including virtual currencies?

FinTech companies will probably help in this direction, but it will require some time for them to be well known. However, the exact impact will depend on the pace of adoption of these innovative technologies and the number of alternative solutions available in the market. Scale will nevertheless remain an important obstacle to a substantial reduction of costs.

Question 12. Remittances occur both within the EU and between EU Member States and countries outside the EU. The most important flows of remittances involve countries outside the EU.

Question 12.a. Should an amendment to the Regulation on cross border payments aim at implementing the UN target and explicitly prohibit fees higher than 3% for all transactions within the EU?

- ○ Yes
- ○ No
- ◉ Don’t know / no opinion / not relevant

Please explain your reasoning when answering question 12.a.

We have split view here.

Some members fully agree with such amendment, some others agree but insist on making clear that the sustainability goal refers to money remittances, so the prohibition should address just these transactions.

However, other members mentioned that the reduction of fees for non-euro payments within the EEA will benefit more from the support of European Authorities to develop efficient ans simpler non-Euro payment infrastructures than from the imposition of artificial price restrictions that could hinder the access to cross-border payments within the EEA.

Question 12.b. With regard to non-EU countries, should the target be achieved through action at EU level or should this be left to individual Member States or the market?

- ○ It should be regulated at the EU level
- ○ It should be left to individual Member States
- ○ it should not be regulated (be left to the market)
- ◉ Don’t know / no opinion / not relevant

Please explain your reasoning when answering question 12.b.

We have split view here.

Some members believes that target could be achieved through action at EU level, while other members think that this should be left to the market.

Other members consider that Non-EU countries are out of scope of EU regulation. Therefore, imposing that target on international payments could lead to most PSPs stop offering remittance services due to the impossibility to meet it. This assumption is not backed by other members, who mentioned that there are some companies which can do it for even less then 3%.

Question 12.c. In particular, should the Regulation be amended to apply also to remittances between Member States and third countries?

- ○ Yes
- ○ No
- ◉ Don't know / no opinion / not relevant

Question 12.d. Should another EU instrument be envisaged?

- ◉ Yes
- ○ No
- ○ Don't know / no opinion / not relevant

Please explain your reasoning when answering question 12.d.

International cooperation among competent authorities to reduce the complexity and favor the development of more efficient international payment infrastructures. Promoting cheaper alternatives should also be encouraged.

Question 12.e. What actions could non-EU countries take in particular with regard to limiting the costs of cross-border transactions?

Some members highlight that the costs of cross-border transactions should be set according to market forces, non-EU countries as well as EU countries should focus on creating conditions to foster competition in payment markets, supporting the development of more efficient payment infrastructures and simplifying regulatory requirements applicable to payment transactions to ease compliance.

Other members stress out that market forces don't seem to work as intended, so an involvement of regulators should be necessary.

More competition in currency conversion

Currency conversion costs are inevitable when it comes to cross-border transactions involving non-euro currencies. Currency conversion rates are often not transparent for consumers when making credit transfers or when paying with a card or a mobile device in a shop, or when withdrawing money from an ATM, in a country with another currency than that of the consumer's home country. The rates fluctuate in line with foreign exchange markets, and internal bank margins applied to currency conversions differ from bank to bank.

The situation is becoming even less transparent as more and more consumers are offered, by merchants or ATM operators, the option to pay or withdraw cash using a service converting the amounts into their home local currency. This is called 'dynamic currency conversion' (DCC). By giving a choice to consumers, this could stimulate competition in currency conversion. However, in practice, it is very difficult for consumers to know which currency conversion offer is the most advantageous, and there are numerous examples of consumers being oriented towards a more costly currency conversion option at the point of sale or when using an ATM. The European Commission announced that it will review good and bad practices in dynamic currency conversion before considering the most appropriate means (enforcement of existing legislation, voluntary approaches, reinforced legislation) to allow consumers to choose the best rate.

More transparency for both currency conversion options (the merchant's and that of the customers' payment service provider) would enable consumers to make informed choices and could drive down costs.

The Payment Services Directive in its Title III - already in force – imposes a certain degree of transparency of conditions and information requirements for payments services on payment services providers. In particular, article 37 requires that payment services users be informed of

- *"all charges payable by the payment service user to his payment service provider and, where applicable, the breakdown of the amounts of any charges".*
- *and "where applicable, the actual or reference exchange rate to be applied to the payment transaction".*

Regarding DCC services, article 49 indicates that

1. *Payments shall be made in the currency agreed between the parties.*
2. *Where a currency conversion service is offered prior to the initiation of the payment transaction and where that currency conversion service is offered at an ATM, at the point of sale or by the payee, the party offering the currency conversion service to the payer shall disclose to the payer all charges as well as the exchange rate to be used for converting the payment transaction.*

   The payer shall agree to the currency conversion service on that basis.

Question 13. Currency conversion can be done for the consumer by the payment services provider (PSP) of the consumer/payer, the PSP of the payee or a dynamic currency conversion provider working with the merchant or ATM operator.

Question 13.a. How big are the differences in the costs between these various options? Which one is less costly for payment services users?

Some members consider that the conversion done by the PSP of the payer is less expensive than the other options. This is partly explained by the business model used by DCC providers, which involves also incentives offered to merchants to convince consumers to use DCC.

However, other BSG member mentioned that there are examples when DCC transactions are cheaper from customers than the conversion done by PSP. Other members believes that the costs of these services depend on the specific conditions of each payment and therefore none of them is consistently cheaper than the other.

Question 13.b. How are currency conversion costs priced by payment services provider and what is the usual pricing model applied?

To our best understanding, payer's PSP use a conversion rate indicated in the contract (VISA, Mastercard, etc.), and in some cases it also exists a small margin for the conversion. VISA and Mastercard conversion rates are published daily on their websites, and they are very close to the "official" exchange rate, calculated by the Central Bank.

However, it must be noted that some PSPs also use not transparent models for FX card transactions – they charge additional FX fees and use their own conversion rates (which can significantly differ from the "official" rates of Central Banks). In case of cards with one specified settlement currency (different then the account currency) two FX fees are applied (customers therefore are charged spreads on two FX transactions). Additionally, for a consumer it is difficult to be aware of the actual conversion rate, as PSPs use the rates not from the transaction date but a settlement date.

Some members' understanding is that DCC providers use a conversion rate plus a big margin but very often the margin is included in the conversion rate and is not indicated separately.

For an average consumer, is very difficult to be aware if the conversion rate suggested by DCC providers is advantageous for them or not, especially when the currency of the card used is not their own currency (for examples, cards in EUR used by consumers from non-eurozone Member States).

Question 13.c. How aware are consumers of the different options for currency conversion that exist and their prices?

Please rate it from 1 to 5

1 (not aware)
- 2
- 3
- 4
- 5 (fully aware)
- (x) Don’t know / no opinion / not relevant

Question 13.d. How empowered are consumers to make the best choices for service provider for currency conversions?

Please rate it from 1 to 5

- 1 (not empowered at all)
- 2
- 3
- 4
- 5 (fully empowered)
- (x) Don’t know / no opinion / not relevant

Question 14. Better information would allow consumers to choose the most advantageous currency conversion option.

Question 14.a. Are the current transparency and information obligation regarding currency conversion in title III of the Payment Services Directive fully complied with when consumers are making cross-border transactions?

- Very much so
- (x) To some extent
- No
- Don’t know / no opinion / not relevant

Please explain your reasoning when answering question 14.a.

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Transparency and information obligation is complied, even if is difficult to
appreciate if all PSPs are fully compliant with PSD.
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Question 14.b. Are the transparency and information obligations regarding currency conversion in title III of the Payment Services Directive sufficient for consumers nowadays?

- Very much so
- To some extent
- (x) No
- Don’t know / no opinion / not relevant

Please explain your reasoning when answering question 14.b.

The PSD said that the consumer should be informed of all charges as well of the exchange rate to be used. It is not said how this information must be provided. Therefore, it can be, for example, oral information provided by the merchant. But even if the information is also displayed on the ATM or on the POS screen, even very experienced consumers may not be able to make an informed choice, as they don't have in the same place also the information on the charges and on the exchange rate used by the PSP.
Taking into account that the final conversion rate (including FX conversion rate and fee) is dependent on the settlement date rate (and not the rate at the date of transaction), consumers cannot be aware of the price of the transaction while making their decision.
The lack of transparency, together with high costs for consumers (currency spreads and additional fees) lead avoiding card transactions for cash.

Question 14.c. If changes are needed, what could be the changes required and in which time frame?

All the information necessary for a consumer to make an informed choice should be put in the same place and in a very easy manner, making it understandable for an average consumer.

This should be done as soon as possible, because every day consumers are guided to use DCC, most of them being overcharged.

Question 14.d. Could real-time exchange rate quotation and estimates of real time final fee/price quotation be a reasonable target for all currency conversion service providers?

- ○ Very much so
- ● To some extent
- ○ No
- ○ Don't know / no opinion / not relevant

Please explain your reasoning when answering question 14.d.

BSG members consider that it could be a reasonable target, but it is not clear how much acceptable is in terms of costs of implementation and how much rapid it could be done.

One technical solution could be that the card scheme itself provides the value of the transaction in the consumer's home currency at the time of the authorization of the payment. When the authorization response is received, the device indicates the value of the transaction also in the currency of the card. Seeing this information at a payment terminal or ATM, the consumer can appreciate the exact value of the purchase (with and without DCC) and choose the best option. But it is not very clear how this could be managed when the authorization is not done, as it is sometimes the case for contactless cards.

However, there are BSG members which warn that the development of a real-time exchange rate quotation and the adaptation of underlying IT systems supporting cross-border payments would induce a substantial cost increase for payment service providers that would probably be reflected in an increase of the fees to be paid by the payment user.

Question 14.e. Could, over the longer term, terminal upgrades be envisaged to provide this information to users?

- (x) Very much so
- ( ) To some extent
- ( ) No
- ( ) Don’t know / no opinion / not relevant

Please explain your reasoning when answering question 14.e.

Question 14.f. How much time would be required to implement these changes?

- ( ) Less than 3 years
- (x) 3 to 5 years
- ( ) More than 5 years

Please explain your reasoning when answering question 14.f.

As no specific technical requirements are available, no exact cost and period can be estimated at this moment. Implementation depends strongly on the exact functionalities to be developed and the user/regulatory requirements to be met.

Question 14.g. Should ancillary transparency measures be taken on the technical side?

(e.g. imposing obligations on currency conversion service providers or users’ banks to offer publicly available online calculators and applications on currency exchange)

- (x) Yes
- ( ) No
- ( ) Don’t know / no opinion / not relevant

Please explain your reasoning when answering question 14.g.

Almost everything is possible on the technical side, but it is quite unrealistic to expect that consumers will make an informed choice, even if such tools will be available, because both information must be displayed in the same place to really help consumers.

Question 15. Dynamic currency conversion (DCC / option to pay or withdraw cash using a service converting the amounts into their home local currency – see explanation in opening paragraph) could, in principle, provide more choice for consumers and bring more competition into the market for currency conversion.

Question 15.a. How justified are concerns about DCC services misleading consumers towards more costly currency conversion options?

Most BSG members consider it very much or at least to some extent justified. Some of the DCC devices are set up or information presented on the screen is designed in such way to suggest consumers to use DCC. And there are also situations when merchants are encouraging consumers to use DCC.

However, there are other BSG members who mentioned, to the best of their knowledge, that information on the cost of using DCC is provided in the POS and the ATM when offered and is, for example, subject to very detailed rules set by International Card Schemes (ICS). These rules establish the minimum information to be given, the way to display the available options and the way merchants have to offer this option to their customers. In particular, merchants are required to remain neutral towards this option and not to lead the customers to make use of DCC. Compliance is periodically audited by ICS and is subject to penalties that range from an economical compensation to banning the use of this option.

Question 15.b. Are there situations in which DCC services enhance competition and allow consumers to benefit from better currency conversion deals?

- ( ) Yes
- ( ) No
- (x) Don’t know / no opinion / not relevant

Question 15.c. Please provide examples of good practices.

Most BSG members didn’t find any positive examples of better deals for consumers using DCC, but on the contrary. They mentioned that the internet is full of negative examples and webpages where DCC is considered to be a scam.

However, there are other BSG members with a different opinion. They think the DCC transactions can be beneficial for customers, exception for very instable currencies - depending on the pricing models and level of fees charged by PSPs and DCC providers.

One BSG member mentioned the Polish model, where PSPs fees for foreign currency card transaction are usually high. Banks’ FX spreads are quite high (amounting to 10%). Majority of Polish banks charge additional fee for FX card transactions (amounting to 2-6% of the transaction value) - even after Visa /MasterCard apply their FX rates. If the transaction is in foreign currency different than card settlement currency, two exchange transactions occur, the consumer is charged twice for one transaction. Moreover, the conversion rates used by PSP are not from the transaction date, but the settlement date. Therefore the consumer making transaction cannot know the actual price in his /her home currency.

Due to an increased competition, some PSPs started on the Polish market to offer products and services more beneficial to consumers.

Examples include:

- lowering the PSPs’ FX spread and conversion fees (rarely observed),
- issuance of multi-currency cards (they allow to avoid double currency conversion and therefore lower the total fee for the consumer),
- offering e-FX services by banks (with lower spreads than in case of card transactions) – they allow buying currency to make a transaction and to avoid the additional fees connected with fx card transactions (the inconvenience is the additional transaction the consumer must make).

Obviously the development and dissemination of such practices is dependent on consumers’ knowledge and understanding of pricing practices. The above mentioned very poor transparency in this area does not help to widespread the good practice (and rather lead to avoid card transactions for cash transactions).

Question 15.d. If this is not the case, should DCC services be banned or are there ways in which it could be ensured that they benefit consumers?

Some BSG members cannot see any practical and with reduced costs way to change DCC in the benefit of consumers. So, they consider that the best option for consumers is to ban DCC.

Other members don’t agree with this opinion, having diametrically opposingly different views. They argue that DCC is offered with the highest level of transparency and operators shall fully comply with improved information obligations.

Another BSG member thinks that even there are many examples that DCC cause higher costs for consumers, on the other hand opposite examples can be found (depending in the PSPs’ practices and price models, DCC transactions can be cheaper). Therefore, it was suggested that regulations should support good market practices rather than prohibit DCC. It would be more valuable to allow the consumer to make an informed decision, i.e. to make the transaction prices more transparent.

Question 16. DCC users may not be aware that merchants proposing the service may receive as a reward part of the margin earned on the transaction through the DCC service provider.

Question 16.a. Should consumers be made aware of the interests of merchants/ATM operators to promote their own DCC services?

- (x) Yes
- ( ) No
- ( ) Don’t know / no opinion / not relevant

Question 17. It may be technically too difficult to provide full information on the different currency conversion options at the point of sale or cash dispenser.

Question 17.a. Could merchants or ATM operators be obliged to reimburse customers making a payment within the EU if the currency conversion they proposed was not economically beneficial to their customers?

- Yes
- No
- (selected) Don't know / no opinion / not relevant

Question 17.b. How could a consumer be made aware of the prejudice suffered as a result of having been oriented towards an unfavourable currency conversion option?

We have split view here.

While most BSG members think it is very difficult to make aware consumers of the prejudice suffered, therefore they are in favor of a ban of the DCC service, other members don't agree with the ban. Some of them are suggesting that customers are already informed in advance of the exchange rate to be applied before the approval of the payment.

Question 18. EU consumers travelling to countries outside the EU and non-EU consumers travelling in the EU may also face high currency conversion costs.

Question 18.a. What measures could be envisaged to protect EU consumers against high currency conversion charges in third countries and should such measures be taken?

We have split view here.

Some members suggested that PSPs who are issuing cards should have the obligation to block the DCC option on their cards for EU consumers.

Other members consider that the EU shall monitor instable international foreign exchange rates and match them against an objectively fixed reference exchange rate. Rates diverging from reference rate shall not be obeyed. In any case, there is no need to regulate that banks of EU Member States should indemnify their customers for unfavourable non EU transactions.

Other members suggest to offer the comparison of the final transaction price for the consumer (after including FX conversion rate and any additional fees) for both alternatives: PSP transaction and DCC.

Some other members are in favor of transparency measures such as informing European consumers in advance of the exchange rate to be applied before the approval of the payment.

Question 18.b. What measures could be envisaged to protect non-EU consumers staying in the EU against high currency conversion charges and should such measures be taken?

We have split view here.

Some members are on the opinion that if the DCC were to be banned in the EU, the non-EU consumers will be protected because they will not find in the EU devices who will propose them DCC.

Other members mentioned that as for EU consumers making payments outside the EU, the same reasoning applies to for non-EU consumers staying in the EU.

Other members suggested that if consumers will be able to make informed decision (will be able to compare final prices including FX conversion rates and any additional fees), they will be protected against high charges.

Question 19. Are there further comments that you would like to make in relation with currency conversion or DCC services?

Some BSG members found Dynamic Currency Conversion (DCC) as a very useful tool for those consumers who prefer to pay in their home currency, so they are against banning this service. In line with the provisions of both PSD1 and PSD2, it must be accompanied with proper information on the cost of such currency conversion to allow consumer to make an informed choice when paying at a terminal or withdrawing money at an ATM. This intangible requirement is then to be implemented by the market as appropriate, depending on the environment and type of terminal used.

Other BSG members mentioned that the actual EU legislation hold all necessary and practically possible provisions to allow transparency in pricing of DCC to be provided. The problem is however not with transparency itself, but not all cost factors are known in advance and that there is thus always an ex-post cost element which may come as a surprise, if customers are not sufficiently conscious of the variable cost element existing. The preferred option would be therefore not changing legislation but rather in ensuring compliance of PSD2 and in some form of customer education (at the point of sale) on the pro’s and con’s of the payment options available.

DISCLAIMER: THE MEMBERS OF THE BANKING STAKEHOLDER GROUP (BSG) IN THEIR INDIVIDUAL CAPACITY HAVE DISCUSSES THIS ISSUE AND WANT TO MAKE A CONTRIBUTION TO THIS EUROPEAN COMMISSION CONSULTATION.

3. Additional information

Should you wish to provide additional information (e.g. a position paper, report) or raise specific points not covered by the questionnaire, you can upload your additional document(s) here:

fb177a38-b294-4bc4-98ee-e1c9f7761bce/Considerations_on_Dynamic_Currency_Conversion.pdf

Useful links

More on the Transparency register (http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en)

Consultation details (https://ec.europa.eu/info/consultations/finance-2017-cross-border-transactions-fees_en)

Specific privacy statement (http://ec.europa.eu/info/files/2017-cross-border-transactions-fees-specific-privacy-statement_en)

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