

Finance Watch response to the European Commission's public consultation on transparency and fees in cross-border transactions in the EU

Brussels, 30 October 2017

Finance Watch is an independent non-profit Members' association set up in 2011 to act as a public interest counterweight to the powerful financial lobby. Our mission is to strengthen the voice of society in the reform of financial regulation by conducting advocacy and presenting public interest arguments to lawmakers and citizens. Our Members are civil society organisations and expert individuals, supported by a full-time secretariat.

Finance Watch is registered under the EU Transparency Register with ID 37943526882-24

*Only the questions that are relevant to Finance Watch are reproduced here.
We agree to the publication of this response.*

General remarks

Finance Watch welcomes the opportunity to provide comments on the Commission's consultation document on transparency and fees in cross-border transactions in the EU. As we highlighted at the time of publication of the Consumer Financial Services Action Plan, we support the intention to reduce the cost of cross-border transactions. We recognise this consultation as a useful step towards that aim.

We believe there is a need to ensure that consumers can conduct cross-border transactions without incurring disproportionate costs. There are still issues with transactions between non-euro and euro economies, and also with transactions that take place between euro and non-euro denominations. Putting a cap on the maximum fees that can be charged for these transactions and looking to ensuring minimum fees are not higher than for domestic transfers are important elements here. We welcome a closer examination of this and the possible steps that can be taken to address it.

Consumers should be able to make transfers and payments across the EU without incurring significant costs. In particular this is important in the case of remittances, payments from expatriates to their home countries. In these cases, it is very important that the transfers can take place in order to support dependents.

Finally, we also welcome the examination of dynamic currency conversion. We believe that it is very important that consumers are aware of both any fees involved in a transaction, but also the exchange rate being offered. Dynamic currency conversion (DCC), where a merchant offers the consumer the option to pay in their own currency at the point of sale, may often be used by service providers to deliberately mislead consumers. We are therefore in favour of banning these activities.

Q1 (d): Cross-border transactions in currencies other than the euro can be priced differently than transactions in euro? Could you provide examples of fees that you have paid for such transactions?

The Financial Services Users Experts Group (FSUG) of the European Commission listed several examples in its response to the consultation for the Green Paper on Retail Financial Services¹. Several examples are listed in the response to question 12 of the consultation on page 21 of the report.

Q1 (e): Should the EU regulate the cost of these transactions or should this be left to individual Member States or the market?

Yes, the cost of cross-border transactions should be regulated at EU level. Payment markets in the different EU member states are currently operating in very different ways. Some of these markets are competitive, whilst others are not. To address these and ensure that the Single Market functions properly in this area, an EU Regulation is needed to ensure that cross-border and domestic transactions are subject to the same fees from PSPs. However, this Regulation must also ensure this is not achieved by raising domestic transaction fees to the same level and cross-border transaction fees.

Q2 (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, a money transfer to another EU member state should cost the same as a transfer within a country, once the currency conversion has been done. This should be achieved by reducing the fees for cross-border transactions and not by increasing fees for domestic transfers.

Q3 (a): 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. Do you consider that this type of pricing practice make transactions too expensive?

Yes [*multiple choice response*].

¹ https://ec.europa.eu/info/sites/info/files/file_import/1603-retail-finance-reply_en_0.pdf

Q3 (b): What is the rationale behind such a pricing model?

Given that these transactions are payments with a fixed cost there does not appear to be any financial or economic justification for using a variable pricing model.

There does not appear to be a clear rationale or justification behind this pricing model other than inflating profits for PSPs. Given that consumers do not have other options to complete payment transactions they are forced to accept whatever the PSPs put in place as pricing models.

Q4 (b): Often, a minimum fee has to be paid for cross-border transactions in currencies of Member States other than the euro. What is the rationale behind this practice?

This is a clear impediment to low-value transactions, as the minimum fee may be disproportionate to the value of the transaction. It is likely to create a disincentive for low-value transactions.

The rationale is that payment transactions have a fixed cost, which does not depend on the amount transferred. There is not currently sufficient transparency over these fixed costs to be able to determine if they are truly reflected in the minimum fees set for transactions.

Q4 (c): Should minimum fees be regulated to avoid disproportionate costs of low-value transactions?

Yes [*multiple choice response*].

Q4 (d): What rules on minimum fees would be reasonable and fair, taking into account internal costs?

The minimum fees charged for cross-border transactions should be the same as the fees charged for national transactions. This would ensure that the internal costs for PSPs can be reasonably met, but that the fees are also fair.

Q4 (e): What would be the economic or social impact of your proposed rules?

Ensuring that fees for transactions are not disproportionate would incentivise and enable more consumers to make transfers. This could have both a positive social and economic impact. It would, for instance, remove one of the many obstacles that currently limit the mobility of workers and families in the EU.

Q5 (a): Sometimes there is no maximum fee for cross-border transactions in currencies of Member States other than the euro. What is the rationale behind this practice?

There is no justifiable rationale for not having a cap on fees, to ensure that the maximum charge for cross-border transactions is not disproportionate. Without a cap PSPs can put in place extortionate fees, with the rationale of creating inflated profits.

Q5 (c): Should there be a mandatory cap on fees?

Yes [*multiple choice response*].

Q5 (d): If yes, at which amount should this cap be set?

The setting of a cap should be based on PSPs internal costs for transactions. The cap should also be applicable to both cross-border and national transactions.

Q5 (e): What would be the economic or social impact of such cap

A cap would help to ensure that fees for transactions are not disproportionate would incentivise and enable more consumers to make transfers. This could have both a positive social and economic impact.

Q6 (a): Markets may be developing solutions to the problem of high costs of cross-border transactions. 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?

The use of technology is an important potential way to reduce the costs of cross-border transactions. If these transactions are carried out remotely and digitally, rather than at a PSP branch it will cost less.

New companies are also emerging and using financial technology solutions, which may also be able to increase competition and innovation to reduce the cost of transactions.

Q6 (b): Should they be encouraged and, if so, how?

Yes, technological solutions that reduce costs for consumers should be encouraged. This can be done by ensuring that there is an appropriate harmonised regulatory framework across the EU. It is important to point out, however, that some of these newcomers are currently not regulated in the same way as incumbents despite providing essentially identical services. A harmonised framework should restore a level playing field without taking away incentives for participants to compete. It should also be kept in mind that there is no one-size-fits-all

solution and that the specific needs of vulnerable consumers such as elderly, disabled people and digital illiterate people, should also be met and not generate higher costs for these specific groups.

Q7 (a): 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. What is the weight of each of these factors in the total cost of transactions?

Swift fees are understood to be an important factor for PSPs to determine the costs of cross-border transactions. Different PSPs, however, can and do give different weights to the different factors, depending on their market strategy.

Q7 (c): What scope is there for reducing such costs and how can this be achieved?

There are two potential ways to reduce these costs. Firstly, by ensuring that there are no extra charges for swift messaging services, on top of the fees for transactions. Secondly, PSPs should not demand correspondent fees, which are then deducted from the amount being transferred.

Q9 (e): 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. Should the EU regulate the cost of these transactions or should this be left to individual Member States or the market?

Transactions in euros between two member states of which at least one does not have the euro as national currency should be regulated at EU level. The regulation should build on existing EU rules to set a cap on transactions based on PSPs internal costs for transactions. The cap should also be applicable to both cross-border and domestic transactions. These rules should ensure that cross-border transaction fees are reduced to be in line with domestic transaction costs.

The EU has regulated these transactions through Regulation 924/2009, equalising charges for corresponding national and cross-border payments in euros offered by any PSP within the EU. The Regulation did not equalise the differences in prices between Member States or PSPs. Given the apparent lack of transparency on the cost structure and profitability of participants, and the likely presence of an oligopolistic market, at least in some Member States, EBA should be tasked with conducting a representative study. Insights obtained by such as study could provide an empirically sound basis for setting price caps for national and cross-border payments.

Q9 (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?

There is no clear element or justification for differences in pricing for euro transactions between PSPs within and outside the euro area.

Q9 (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 [*multiple choice response*].

Q10: 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?

Yes, as previously stated in the consultation this should be a key aim of EU regulation in this area. This should be achieved by reducing the fees for cross-border transactions and not by increasing fees for domestic transfers.

Q11 (a): 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. How far is the EU for attaining the goal set in the context of the Sustainable Development goals?

Current evidence would suggest more needs to be done to be to attain the UN SDG goal on remittances. At a recent conference held by the European Consumer Organisation BEUC and the European Financial Inclusion Network on 'Big Data, FinTech a solution to financial exclusion?' in Brussels on 17 November 2017, the representative of the National Bank of Belgium stated that the average cost of remittances from Belgium had decreased last years , but it's still around 6% on average. This clearly shows that there are countries in the EU that still have some way to go in order to reach this goal and is further supported by the World Bank report on remittance prices from March 2017².

A contributing factor is the lack of competition, as some big international money remitters that operate worldwide have established exclusive dealing arrangements with their intermediaries (bank or local agent) that prevent these latter from selling competing services. Large money remitters that are also present in Europe have been involved in cases recently

² https://remittanceprices.worldbank.org/sites/default/files/rpw_report_march_2017.pdf

with the competition authorities in Mauritius³. This leads to monopoly situations that have a negative impact on the cost of money remittances. The European Commission should launch an enquiry to analyse the functioning of this market from a competition perspective.

Q11 (b): To what extent can the market be expected to drive down costs in the foreseeable future, notably through FinTech innovations including virtual currencies?

Whilst FinTech companies and innovations have the potential to drive down costs, the established remittance corridors and companies are likely to remain in a dominant market position for the time being. The incumbents may also use FinTech developments to reduce their own costs without passing on any savings to the consumer.

Q12 (a): Remittances occur both within EU and between EU Member States and countries outside the EU. The most important flows of remittances involve countries outside the EU. Should an amendment to the Regulation on cross border aim at implementing the UN target and explicitly prohibit fees higher than 3% for all transactions within the EU?

Yes, the UN target is important to help reduce inequality and in the context of this Regulation it would also ensure fairer conditions for EU consumers.

Q12 (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?

EU level [*multiple choice response*]

Q12 (d): Should another EU instrument be envisaged? Please detail

In response to question 12.c: there are EU citizens who work and study in third countries and would benefit from amendments to the Regulation.

Q13 (a): 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. How big are the differences in the costs between these various options? Which one is less costly for payment services users?

³ <http://www.lemauricien.com/article/devant-la-commission-la-concurrence-western-union-et-moneygram-prennent-des-engagements>; <http://www.ccm.mu/English/Documents/News/INV029-MediaRelease%20WU%20and%20M.pdf>

The costs of currency conversions made by the PSP of a payer tend to be less expensive than the other options indicated. This appears to be due to DCC providers incentivising merchants or ATM operators to convince consumers to use DCC, which then raises the cost of this option.

Q13 (b): How are currency conversion costs priced by payment services provider and what is the usual pricing model applied?

DCC providers commonly add costs into the conversion rate to increase their margins, but do not provide this information to consumers. The payer PSPs tend to rather use a conversion rate that is published daily on their websites and which can therefore be easily compared with the exchange rates calculated by Central Banks. These conversion rates tend to include small margins, compared to those of DCC providers. Consumers are generally not aware of currency conversion rates and often do not have the information or time to properly assess the rates being proposed in a foreign currency.

Q13 (c): How aware are consumers of the different options for currency conversion that exist and their prices? (From 1 to 5– 1: not aware– 5: fully aware + don't know?)

2

Q13 (d): How empowered are consumers to make the best choices for service provider for currency conversions? (From 1 to 5– 1: not aware– 5: fully aware + don't know?)

2

Q14 (b): Better information would allow consumers to choose the most advantageous currency conversion option. Are the transparency and information obligations regarding currency conversion in title III of the Payment Services Directive sufficient for consumers nowadays?

No, consumers are not currently given all of the information they need to take a decision on the cheapest option for them. Under the Payment Services Directive consumer must be informed of all charges that may be incurred for payments were a currency conversion is made without specifying how the information should be provided to consumers. This information is not currently provided often does not include the currency conversion rate used by PSPs or all of the information on the costs and charges being introduced.

Q14 (c): If changes are needed, what could be the changes required and in which time frame?

Consumers should be provided with all the information they need to decide which currency conversion rate would be cheaper for them. An ideal solution would ensure that a consumer can make a side-by-side comparison of the charges for the different currency conversion options that they are being provided with. This should make it clear to the consumer what the final amount to be transferred is after the charges and the charges themselves in their own currency.

Q14 (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?

To some extent, this could be a useful development if consumers receive the information in an easily understandable and comparable format when they go to authorise a transaction. The information provided should make the cost of the currency conversion and transaction clear in the consumer's own currency.

Q14 (e): Could, over the longer term, terminal upgrades be envisaged to provide this information to users?

Very much so [*multiple choice response*].

Q14 (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)

Yes, we are not aware of any obvious technical barriers to providing this information to consumers. However, providing the information to consumers in different places and from different sources will not necessarily allow them to compare different currency conversion rates side-by-side, when they need it. Consumers need to be provided with all the necessary information in one place to be able to properly compare and choose the best option for them.

Q15 (a): 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. How justified are concerns about DCC services misleading consumers towards more costly currency conversion options?

DCC services are currently often presented to consumers to seem like the best option, or attract consumers to them. This clearly justifies serious concerns over DCC services making concerted attempts to mislead consumers.

Q15 (c): Please provide examples of good practices.

Based on public scandals involving available DCC services listed online there do not appear to be any that would allow consumers to benefit from better currency conversion rates. There rather seem to be many situations where DCC services are deliberately aiming to mislead consumers. Examples of these scandals have been widely reported on⁴. The examples provided by the FSUG in its response to the consultation for the Green Paper on Retail Financial Services, referred to in the response to question 1(a) are also relevant here.

Q15 (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?

On the basis of the current evidence that can be seen online and elsewhere, DCC service providers seem to deliberately mislead consumers. On this basis these DCC providers should be banned, because there does not appear to any other clear way to ensure that they can benefit consumers.

Q16 (a): 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. Should consumers be made aware of the interests of merchants/ATM operators to promote their own DCC services?

Yes [*multiple choice response*].

Q17 (a): It may be technically too difficult to provide full information on the different currency conversion options at the point of sale or cash dispenser. 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 [*multiple choice response*].

⁴ <http://www.dailymail.co.uk/news/article-3208024/Holidaymakers-warned-avoid-currency-conversion-scam-costing-British-tourists-300-million-year.html>, <https://transferwise.com/us/blog/choose-local-currency-at-foreign-atm>, https://www.tripadvisor.co.uk/ShowTopic-g186591-i88-k10329189-Hertz_Car_Rental_Beware_Possible_Currency_Conversion_Scam-Ireland.html

Q17 (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?

This would only be necessary if DCC services were not banned (see response to Q15 (d)). This option would not address the root cause of the problem and consumers would likely have to invest considerable time and effort to be reimbursed.

There does not appear to be a clear way to ensure that the consumer is aware of prejudice suffered here and this would only be necessary if DCC services were not banned (see response to Q15 (d)). Only a ban on DCC services will address the root cause of the problem.

Q18 (a): EU consumers travelling to countries outside the EU and non-EU consumers travelling in the EU may also face high currency conversion costs. What measures could be envisaged to protect EU consumers against high currency conversion charges in third countries and should such measures be taken?

PSPs should ensure that DCC options, which are currently often the key cause of high currency conversion charges, are not proposed to EU consumers, including when they are travelling to third countries outside the EU, or for non-EU consumers.

Q18 (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?

Non-EU consumers would not be proposed DCC services in the EU if they were banned, given that this would regulate all currency conversions in the EU.