

Cross-border payments in euro: reducing bank charges

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This Commission staff working document concerns the application of Regulation on the application of Regulation (EC) No 2560/2001 on cross-border payments in euro. To recall, Article 8 (Review Clause) of Regulation (EC) No 2560/2001 states that the Commission shall submit to the European Parliament and to the Council a report on the application of this Regulation.

The report highlights the **difficulties encountered** in application of Regulation No 2560/2001. These can be summarised as follows:

- **Geographic scope of application:** there is no link between charges applied to euro payments and SEK payments; they can be subject to very different fees. It is the principle of non-discrimination between cross-border and domestic payments which is maintained;
- **Credit transfers:** these are by far the most disputed category of payments under Regulation 2560. There are also difficulties relating to the pricing and execution of transfers. It should be noted that the use of all three cost options ('OUR', 'BEN', 'SHARE') is covered by Regulation 2560. There is no rule in Community law giving preference to one over the other. However, the principle of equality of charges in Regulation 2560 states that charges at both ends of the credit transfer (i.e. for the originator and for the beneficiary) have to be the same as for corresponding national payments. Domestic (national) transfers in euro area countries are generally executed by default as SHARE, with no other cost options available. In most situations cross-border transfers within the euro area should be therefore also executed by default as SHARE (no other cost option should be proposed to customers). The situation is usually different in non-euro area countries, where OUR, SHARE and BEN cost options are frequently offered for domestic euro transfers. In this case charges for cross-border payments in euro should correspond to the prices for domestic transfers in euro, accordingly for each cost option.
- **Cash withdrawals in ATMs:** a problem of euro withdrawals in non-euro area countries appeared when one UK ATM operator started offering withdrawals of euro notes through cash machines in the UK. The question arose whether the new service offered by this ATM operator to UK cardholders with sterling accounts – i.e. the possibility for these customers to withdraw euro notes from cash machines in the UK – would be subject to the Regulation.
- **Card payments:** the principle of equality of charges introduced by the Regulation is also applicable to the Merchant Service Charges (MSC). MSC is a fee paid usually for each transaction by a merchant to an acquirer, who processes the merchant's transaction through the network and obtains the funds from the cardholder's bank. Though no difficulty was encountered when applying the Regulation to MSC, the structure of fees for card payments and characteristics of the supply side (merchant-acquirer relations) in some Member States raise concerns about the degree of competition in the provision of card payments.

The review process and received complaints revealed wide discrepancies as regards powers and practices of existing schemes, questioning in some cases their ability to effectively solve Regulation-related cross-border disputes.

Consumer awareness of Regulation (EC) No 2560/2001: customers appear to receive the necessary information about any modification in the applicable charges. Nonetheless rules surrounding the date when any modification takes effect differ considerably between countries. In Italy and in Germany, for example, in some specific cases the information on modification of charges may be available only when

the change has already taken effect. In Sweden customers should be informed about any modification of charges at least 14 days prior to the modification taking effect or 'in reasonable time' where cards and ATM charges are concerned. In contrast, in France the information should be communicated to the customer three months in advance of the scheduled date. Over 50% of those surveyed expressed their total ignorance as regards charges for cross-border payments. It seems that only those groups of consumers directly interested in cross-border payment services (e.g. people working or studying in other Member States) may have a better awareness of the Regulation.

This low level of consumer awareness has its reflection in the misunderstandings and confusion that occur, particularly when cross-border credit transfers are concerned.

Some typical issues may be identified:

- use of other cross-border payments instruments and payments in other EEA currencies. Some consumers are convinced that the provisions of Regulation 2560 cover all EEA currencies and apply to all cross-border payment instruments in use (e.g. cheques);
- free of charge cross-border credit transfer. In some Member States of the euro area sending a domestic credit transfer is free of charge (or, in fact, the cost is included in the account service fees paid monthly, quarterly or yearly). By analogy some consumers are expecting that the same situation takes place in every Member State and argue that their cross-border transfers executed in these countries should be free of charge, too;
- transfer from euro to non-euro Member States. In contrast to the euro area, where charges on incoming transfers are rare, incoming transfers in the non-euro area Member States are usually charged. The misunderstanding stems then from the false beneficiary interpretation of the 'full amount transferred' principle (understood as no charges should be applied even in the separate transaction) and from the payer belief, that the amount will be received free of charge. Currency conversion fees usually add to the confusion. Furthermore, in many cases consumers from non-euro countries compare the cost of cross-border euro transfers to the cost of domestic transfers in their national currency;
- one other source of confusion is related to the already discussed problem of a cost option (OUR, SHARE and BEN). It should be noted that, when different charging options are proposed to the consumer, lack of information on charges faced by the beneficiary when using SHARE cost option may be seen as an incentive to choose a more expensive OUR option.

The report also takes note of **changes in cross-border payment system infrastructures** (such as the Single Euro Payments Area (**SEPA**) and the Payment Services Directive (**PSD**)). It states that consumers should be able to benefit from increased simplicity and convenience of making payments (the effect of SEPA), as well as from price and information transparency (as a result of PSD).

Lastly, the report notes that payment systems in the EU are still in the phase of transition towards modern infrastructures and new SEPA rules and procedures. This means that banks and other institutions offering cross-border payment services in different Member States have to join various national systems, adapt to different standards and face different costs. In most EU Member States there is one national clearing infrastructure, which is operated either by the central bank or by a membership association controlled by the main banks in the country.