

Cross-border euro transfers and currency conversions

A step forward in favour of the single market

OVERVIEW

Cross-border payments are crucial for the integration of the EU economy, and play an important role in ensuring that citizens and enterprises from all EU Member States enjoy the same rights offered by the single market. Currently, restrictions and excessive costs affecting cross-border payments are an impediment to the completion of this market.

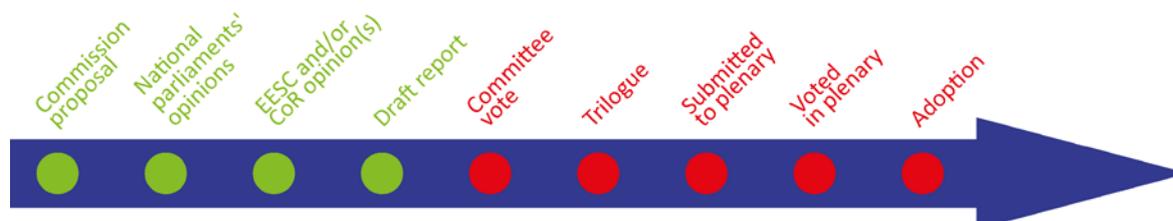
Since the introduction of the euro, the EU has launched various initiatives to reduce the cost of cross-border transactions, among them a set of single euro payments area (SEPA) standards, regulations on cross-border payments, and the Payment Services Directives.

Nevertheless, cross-border euro payments made in non-euro-area Member States are still subject to high fees. Furthermore, when paying with a card or making an ATM withdrawal in a country using a currency other than the euro, it is almost impossible to know exactly how much it is going to cost.

On 28 March 2018, the European Commission presented a proposal for a regulation amending Regulation (EC) No 924/2009 and aimed at making cross-border payments in euros cheaper across the entire EU, while also bringing more transparency to currency-conversion practices.

Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EC) No 924/2009 as regards certain charges on cross-border payments in the Union and currency conversion charges

<i>Committee responsible:</i>	Economic and Monetary Affairs (ECON)	COM(2018) 163
<i>Rapporteur:</i>	Eva Maydell (EPP, Bulgaria)	28.3.2018
<i>Shadow rapporteurs:</i>	Olle Ludvigsson (S&D, Sweden); Stanisław Ożóg (ECR, Poland); Petr Ježek (ALDE, Czech Republic); Miguel Viegas (GUE/NGL, Portugal); Sven Giegold (Greens/EFA, Germany); Barbara Kappel (ENF, Austria)	2018/0076(COD) Ordinary legislative procedure (COD) (Parliament and Council on equal footing – formerly 'co-decision')
<i>Next steps expected:</i>	Vote on report in committee	



Introduction

On 28 March 2018, the European Commission presented a [proposal for a regulation](#) to review [Regulation \(EC\) No 924/2009](#) on cross-border payments (hereafter referred to as 'Regulation (EC) No 924/2009').

Over time, legislation on cross-border payments has progressed through different steps, all of which have sought to lower the costs for citizens and businesses, most of the time through legislative initiatives in favour of more transparency and efficiency.¹

The current Commission proposal represents yet another step in this direction. It amends Regulation (EC) No 924/2009 with the aim of a) lowering the costs for cross-border payments in euros, and b) bringing more transparency regarding currency-conversion fees.

As regards the first aim, the implementation of the [SEPA Regulation](#) has already allowed the banking sector to decrease operational costs, which has resulted into lower fees for consumers in the euro area. However, this has only slightly affected the fees paid by non-euro-area consumers. The proposal aims to correct this inequality.

As regards the second aim, the proposal seeks to establish more transparency for currency-conversion fees, which would allow consumers to choose the best offer on the market and would thereby help lower conversion fees by triggering competition among market actors.

Both actions proposed by the Commission would represent a step forward in providing equal opportunities to citizens and businesses everywhere in Europe, unlocking the potential of the single market through deepening the internal market.

In the long run, the proposal aims to achieve greater integration between the Member States outside and inside the euro area, by creating a level playing field for small and medium-sized businesses. A second expected impact is the promotion of greater equality between people in the EU as regards access to low-cost cross-border payments.

Context

In the present briefing, the term '**cross border transactions**' denotes electronic payment transactions that involve two EU Member States² either using the same currency (the euro) or different ones. A transaction thus might involve a currency conversion at one point in time and would therefore be cross-currency in addition to being cross-border.

Cross-border transactions are managed by **payment-service providers**,³ essentially banks and other payment institutions such as [e-money](#) institutions (e.g. TransferWise, PayPal). **Payment-service users** (consumers, enterprises) are at either end of a cross-border transaction: the one placing an order to execute the transaction, and the other receiving it.

Cross-border transactions represent an [important and growing part of total retail payments](#).⁴ Factors that contribute to this trend include increased international trade and cross-border e-commerce, and a significant volume of international remittances.

Compared with domestic payments, **cross-border payments may be costly**. The 2016 [Special Eurobarometer 446 on financial products and services](#) indicated clearly that EU citizens perceive the fees charged for cross-border transactions in an EU country with a currency other than the euro as high.

Intra-EU cross-border euro transactions are usually cheap within the euro area, but can be expensive at the sending or receiving end outside the euro area. Even though EU legislation has led to increased competition over the past 10 years, the effects on prices have not been the same in all Member States (see Table 1).

Table 1 – Average fee for a cross-border €100-equivalent transaction, 2012 and 2017

Year	2012	2017
Bulgaria	18,68 €	19,98 €
Croatia	N/A	8,23 €
Czech Republic	9,50 €	8,71 €
Denmark	2,17 €	2,69 €
Hungary	15,32 €	5,93 €
Poland	2,73 €	1,54 €
Romania	12,58 €	11,19 €
Sweden	0 €	0 €
UK	15,63 €	9,26 €

Source: European Commission, [Impact assessment](#) accompanying the proposed regulation on cross-border payments, March 2018.

Intra-EU cross-border payments both inside and outside the euro area have benefitted operationally from the introduction of the [Single Euro Payments Area](#) (SEPA). SEPA introduced a common set of payment instructions and standards, and a legal basis for making fast, efficient and safe payments across Europe.

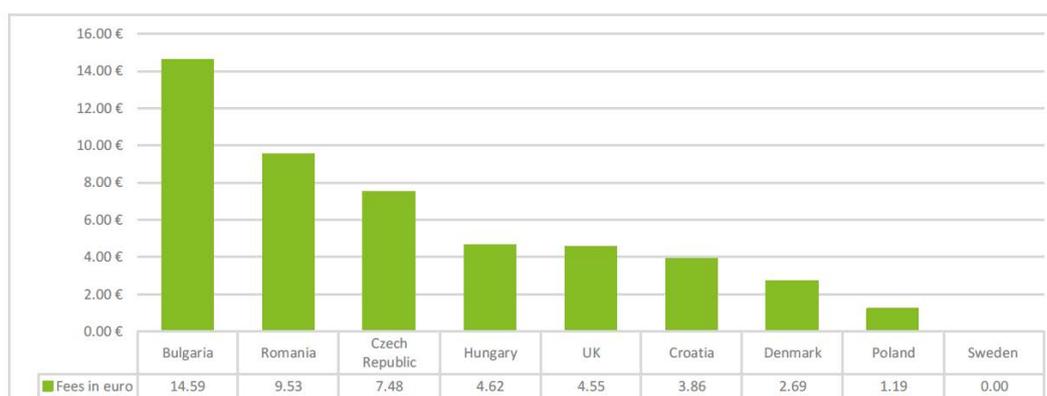
Since 31 October 2016, SEPA has also been fully operational in Member States outside the euro area, making it possible for payment-service providers to enjoy greater efficiency and lower operational costs when processing cross-border euro transactions. Nevertheless, these lower costs have not translated into lower fees for consumers and businesses in the Member States outside the euro area. The Commission proposal aims to establish an alignment between the costs and revenues for such operations across the EU.

The lack of transparency of currency-conversion fees mainly affects card payments or ATM withdrawals by consumers in a country using a different currency from their own. In the case of a debit or a credit transfer, the payment-service provider usually informs the payment-service users (consumers and businesses) transparently enough about the currency-conversion rate they are being charged. When making card payments or ATM withdrawals, consumers have the choice to pay either in the local currency, or in their home currency ('[dynamic currency conversion, or DCC](#)'). However, as they are usually provided with limited information about this option, [most of the time they make the wrong choice](#).⁵

Existing situation

As mentioned above, Regulation (EC) No 924/2009 on cross-border payments equalised, across the EU, the fees for intra-EU cross-border euro payments with the fees for domestic euro payments (i.e. within the same Member State). However, citizens and businesses in non-euro-area Member States, although covered by the regulation, did not benefit from its effects. In those Member States, according to a [study conducted by Deloitte](#) on behalf of the Commission, domestic transactions in euros tend to be very expensive (see Table 2), as further highlighted by the Commission's impact assessment (see Table 3).

Table 2 – Fees charged to non-euro-area consumers for domestic euro transfers



Source: Deloitte, [Study](#) on the extension of Regulation (EC) No 924/2009 to currencies of Member States outside the euro area, July 2017.

Table 3 – Fees charged to non-euro-area consumers for cross-border euro transfers

Member State	Cross-border transfer in euro (transfers of EUR 10 to EUR 1000)	
	Min	Max
Bulgaria	15.00	24.03
Croatia	4.05	10.80
Czech Republic	7.48	9.59
Denmark	2.69	6.72
Hungary	4.62	12.38
Poland	1.19	1.90
Romania	9.86	14.90
Sweden	0	0
UK	4.55	11.37

Source: Deloitte [study](#) (op.cit.), July 2017.

The Swedish example

In line with the current regulation, Sweden decided to align its fees for cross-border payments in Swedish krona with those for domestic payments in Swedish krona. This decision in turn had a positive impact on cross-border payments in euro, as banks lowered their fees for those types of payments as well.

Parliament's starting position

On 22 November 2016, in its [resolution on the Green paper on retail financial services](#), the European Parliament emphasised that, 'in order for the single market in retail financial services to be efficient and dynamic, there should be no unnecessary or unfair differences between euro and non-euro Member States'.

In the same resolution, in relation to card payments and ATM withdrawals involving currency conversion, the Parliament asked the Commission 'to present a coherent solution that would make it possible, including in practice, for the consumer to understand and control the situation fully, including for payments relating to the digital market'.

On 14 November 2017, in presenting its [resolution on the action plan on consumer financial services](#) and in addressing the first two actions laid down in the action plan, the Parliament adopted the following position:

Action 1 – Lower fees on non-euro transactions

The Parliament called on the Commission to 'rapidly propose an amendment to Regulation (EC) No 924/2009 in order to reduce charges for cross-border transactions in all Member States'; it also expressed regret over the lack of a common European online banking payment instrument, such as an EU-wide, European-owned credit or debit card.

Action 2 – Transparency in currency conversion

The Parliament stressed that 'consumers must be able to choose the best rates and should be aware of fees and additional costs when making transactions, payments abroad or ATM withdrawals, including when using dynamic currency conversion; [and] asks the Commission to ensure that providers disclose any exchange rate mark-up'.

Preparation of the proposal

Green paper, action plan and consultations

In December 2015, the Commission presented a [Green paper on retail financial services](#) to consult on the potential for a more integrated market and the actions needed. It followed a [public consultation](#) that gathered the opinions of various stakeholders, including industry associations, consumer organisations and national public authorities.

In March 2017, the Commission published a [Consumer financial services action plan](#), setting out a strategy to strengthen the single market for consumer financial services, based on the feedback received on the green paper. The action plan identified [12 priority actions](#); it was followed by a public consultation on transparency and fees in cross-border transactions.

Furthermore, stakeholders from the industry were consulted during a meeting of the [Payment Systems Market Expert Group \(SMEG\)](#); Member States' representatives were consulted at a meeting of the Commission's [Expert Group on Banking, Payments and Insurance \(EGBPI\)](#); input and observations were also collected from the [Financial Services User Group \(FSUG\)](#).

Impact assessment

In defining the proposal, the Commission carried out an [impact assessment](#), in which it analysed the available policy options. Apart from the baseline scenario (status quo, no action) and the soft-law option (recommendation to non-euro Member States on taking voluntary initiatives), which is already contained in the current regulation, four additional options were analysed:

Option 1: Extending Regulation (EC) No 924/2009 to cross-border transactions in the same national currency;

Option 2: Extending Regulation (EC) No 924/2009 to cross-border transactions in the same national currency and in euros;

Option 3: Extending Regulation (EC) No 924/2009 only to cross-border transactions in euros;

Option 4: Extending Regulation (EC) No 924/2009 to all transactions in any currency of the EU, regardless of where they take place.

After considering the advantages and disadvantages of all four options, Option 3 was selected as the most efficient one. This option involves extending Regulation (EC) No 924/2009 to cross-border intra-EU transactions in euro by aligning their fees with the fees for the corresponding domestic transactions in the national currencies of the non-euro-area countries.

An [initial appraisal of the Commission impact assessment](#) has been produced by the European Parliamentary Research Service.

Deloitte study

The Commission asked Deloitte to conduct a study to gather data on the fees charged by the top three-to-seven banks in each non-euro-area Member State and in three euro-area Member States, for cross-border-payment transactions covered by the proposal (credit transfers, card payments and cash withdrawals).

The [study](#) concluded that transactions in euros benefited from efficient cross-border infrastructure, standards and processes that should allow their prices to be aligned with those of domestic-currency transactions at much lower levels than those observed today. This conclusion constitutes a further element supporting the feasibility of option 3.

The study also concluded that cross-border transactions in currencies other than the euro are still governed by unmodernised processes and suffer from a lack of centralised infrastructure. These processes remain costly, preventing payment-service providers from offering competitive pricing for such transactions. This situation makes the adoption of options 1, 2 and 4 less feasible.

The changes the proposal would bring

Fees for cross-border transactions in euro

It is proposed that the price of intra-EU cross-border-payment transactions in euros should not be different from that of domestic transactions made in the national currency of the Member States.

Article 1(2) establishes the principle that payment-service providers must align the fees for cross-border payments in euros with those for the corresponding domestic payments in the national currency of the payment-service user's Member State (this includes Member States that do not have the euro as their national currency).

The proposal would reduce the price for cross-border euro transactions in non-euro countries to the price applied for domestic payments in the national currency. That should result in cheaper cross-border euro transactions made in non-euro-area countries. This price reduction would affect both credit and debit transfers.

Transparency in currency conversion

The second element of the Commission proposal addresses the issue of the non-transparency of currency conversion for card payments and ATM withdrawals made by a payment-service user in a country having a different currency than that of the payment-service-user account linked to the card payment or the ATM withdrawal.

Article 1(3) further clarifies Articles 45 and 59 of Directive (EU) 2015/2366 on payment services in the internal market related to currency conversion and introduces requirements for payment-service providers to ensure transparency prior to a payment, as well as comparability of alternative currency-conversion options. This article tasks the [European Banking Authority](#) with developing regulatory technical standards to ensure transparency and full price comparability of the different currency-conversion-service options available to users of payment services.

After a three-year transition period, fees will need to be transparent and consumers should be able to make an informed choice and choose the cheaper of the two options: paying in the local currency or in the currency of their home country. The proposal will also establish a temporary cap on currency-conversion costs until the transparency measures devised by the European Banking Authority take effect.

Advisory committees

The European Economic and Social Committee (EESC) adopted an [opinion](#) on the proposal during its July 2018 plenary session. The opinion seems to confirm the EESC's [opinion on the Action plan on consumer financial services](#). In the latter opinion, the Committee 'calls for a greater focus on the cost to the banks arising from this proposal'. Furthermore, the Committee points out that 'despite this being a very technical issue, there is undoubtedly a great opportunity here for fruitful and clear communication with all citizens in the Union. The changes made here can be used to explain how the EU brings positive changes for all and solutions for day-to-day problems'.

National parliaments

The [subsidiarity deadline](#) for national parliaments to submit comments on the proposals was 8 May 2018. The Czech Chamber of Deputies provided a [contribution](#).

Stakeholders' views

Stakeholders expressed their views on the Commission's green paper in 2015 and on the action plan in 2017, through the following two public consultations:

- [on the Green paper on retail financial services](#) (10 December 2015 – 18 March 2016);
- [on transparency and fees in cross-border transactions](#) (24 July 2017 – 30 October 2017).

Payment-service users (consumers and businesses) stressed the high price they pay for cross-border transactions and the lack of transparency of fees charged to them. On the other hand, payment-service providers indicated that the major difference between payments in euros and payments in other currencies is due to the different operational costs for processing them.

In general, payment-service providers tended to support the status quo, while payment-service users tended to favour also regulating cross-border non-euro transactions. They justified such a move, among other things, with the need to lower the charges for remittances as much as possible, in line with the target of 3 % under the UN's [sustainable development goal 10](#).

In a [position paper](#), the European Savings and Retail Banking Group supported the Commission proposal, arguing that, as cross-border euro transactions and cross-border non-euro transactions have different operational costs, alignment in terms of prices is only viable for cross-border euro transactions.

In a [press release](#) of 28 March 2018, Finance Watch qualified the Commission proposal as a 'missed opportunity to put a cap on money-transfer fees and help tackle inequality worldwide'. In particular, Finance Watch released a [policy brief on remittances](#) and urged the Commission to consider solutions to remove the many barriers to fair competition on money transfers.

Legislative process

The legislative proposal (COM(2018) 163) was presented on 28 March 2018. It falls under the ordinary legislative procedure (2018/0076(COD)) and Eva Maydell (EPP, Bulgaria) has been appointed rapporteur for the Parliament's Committee on Economic and Monetary Affairs (ECON). The Committee on Internal Market and Consumer Protection (IMCO) and the Committee on Legal Affairs (JURI) decided not to give an opinion. The rapporteur published her [draft report on 26 July 2018](#). The rapporteur's amendments aim to improve the proposal of the Commission with regard to ensuring full transparency of currency conversions.

In the Council, on 27 June 2018, EU ambassadors agreed the [Council's negotiating mandate](#) on the Commission proposal.

EP SUPPORTING ANALYSIS

Kononenko V., [Levelling off European cross-border payments in euros](#), initial appraisal of European Commission impact assessment, EPRS, July 2018.

Dinu A., [Cross-border payments in the European Union](#), implementation appraisal, EPRS, October 2017.

Szczepanski M., [Integrating the EU's electronic payments market](#), library briefing, European Parliament, November 2012.

OTHER SOURCES

[Regulation amending Regulation \(EC\) No 924/2009](#), European Parliament, Legislative Observatory (OEL).

[Report from the Commission to the European Parliament and the Council on the application of Directive 2007/64/EC on payment services in the internal market and on Regulation \(EC\) No 924/2009 in the Community \(COM\(2013\) 549 final\)](#), European Commission, July 2013.

[Study on the application of Regulation \(EC\) No 924/2009](#), London Economics and the Institute for Financial Services, in association with PaySys Consultancy, February 2013.

[Consumers hail proposal to limit transaction costs in EU](#), EurActiv, Jorge Valero, 28 March 2018.

[Don't get burnt by foreign credit card charges](#), Financial Times, Claer Barrett, 19 October 2017.

ENDNOTES

¹ The EU has launched various initiatives to reduce the costs of cross-border transactions, such as [SEPA Regulation \(EU\) No 260/2012](#), which introduced a set of standards for euro transactions (SEPA credit transfers, SEPA direct debits). Moreover, the [Payment Services Directives](#) increased the transparency of fees and allowed new players to enter the market. [Regulation \(EC\) No 2560/2001](#), later replaced by [Regulation \(EC\) No 924/2009](#) on cross-border payments, also contributed to this development by equalising the fees for cross-border and national payments in euro within the EU.

² Regulation (EC) No 924/2009 covers cross-border electronic-payment transactions. Within the meaning of this document, according to Article 2 (Definitions) an 'electronic transaction' is any payment, such as a credit transfer, a direct debit, a card payment or a cash withdrawal that is processed electronically.

³ Payment-service providers are defined in Article 1 of the [Payment Services Directive](#).

⁴ Bank for International Settlements, Committee on Payments and Market Infrastructures, [Cross-border retail payments](#), February 2018, p. 3.

⁵ [Dynamic Currency Conversion](#), European Consumer Organisation (BEUC), paragraph on 'The conversion trap', p. 1.

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