

# Frequently asked questions: Cross-border payments

The [two amendments](#) proposed today to [Regulation 924/2009](#) on cross-border payments aim to reduce the cost of all intra-EU payments in euro and unify the single payment market for consumers and businesses. Today, cross-border payments in euro from non-euro area Member States can be as high as EUR 20 in some countries while equivalent cross-border payments from euro area Member States are very cheap or even free.

Since taking office, a key priority of the Juncker Commission has been to build a deeper and fairer Single Market, which allows people, services, goods and capital to move freely in an economy with an annual Gross Domestic Product of EUR 15 trillion. These excessive costs described above present an obstacle to the completion of the Single Market. Today's proposal will allow all consumers and businesses to fully reap the benefits of the Single Market when they send money, withdraw cash or pay abroad. In addition, the proposal also aims to bring more transparency and competition to currency conversion services when consumers are buying goods or services in a different currency than their own.

With today's proposal, the Commission is delivering on the first two actions of the [Consumer Financial Services Action Plan](#) that was published in March 2017: tackling transparency and fees in cross-border transactions.

## **CROSS-BORDER TRANSACTIONS FEES**

### **What will change for fees charged for euro payments?**

The first amendment related to fees for cross-border payments applies to **cross-border transactions in euro** sent or received within the EU. When payment service users (consumers or businesses) make cross-border transactions in euro (credit transfer, card payment, cash withdrawal) these transactions should be charged the exact same price as an equivalent domestic ones in the official currency used in the Member State from where the transaction is sent or received (i.e. the euro for euro area Member States and respective national currencies for non-euro area Member States). This system is already in place in the euro area and the Commission proposes to extend its benefits to non-euro area countries as well.

**Cross-border transactions made in EU currencies other than the euro are not covered by this amendment.** However, the Regulation already includes an option for Member States to extend the Regulation to other currencies. This option remains.

### **What is the situation today and how will it change following the amendments?**

Today, a transaction in euro within the euro area, i.e. from France to Portugal, costs exactly the same as an equivalent transaction within one

Member State. Depending on the bank, it costs consumers nothing or a few cents to make cross-border payments. This allows euro area consumers and citizens to make transactions across borders with a large number of citizens and businesses at the same cost as they would within their country.

In contrast, a cross-border transaction from non-euro area Bulgaria to euro-area Finland in euro is currently priced between EUR 15 and 24, even if the person transferring money from Bulgaria only sends EUR 10. This means that consumers and businesses in non-euro area Member States face higher fees for payments as soon as they operate across borders. This is a major barrier to cross-border exchanges and is detrimental to the Single Market. Furthermore, this raises issues of equal treatment of citizens and level-playing field for businesses across the EU. Non-euro area consumers and businesses should not have to pay more than their counterparts in euro area Member States when engaging in similar types of cross-border exchanges within the Single Market.

Thanks to the amendment proposed by the Commission, the price of a cross-border transaction from Bulgaria to Finland is expected to decrease, from between EUR 15 and EUR 24 to about EUR 1.

### **Why is today's proposal limited to euro payments?**

In its impact assessment, the Commission explored and evaluated various options of how to lower costs for cross-border payments to and from non-euro area Member States, including the possibility to extend the existing rules to other currencies. However, the assessment showed that this option was not only too cumbersome, but would also result in few benefits.

Specifically, today's proposal is limited to payments made in euro due to a variety of reasons:

- euro transactions benefit from efficient infrastructures and processes that are available to all banks in the EU, directly or indirectly.
- cross-border transactions in euro represent much bigger volumes than transactions in other currencies of the EU. You can pay, send money or withdraw cash in 19 Member States in euro. Transactions in other Union currencies are often effected in one Member State only.
- euro transactions are the same everywhere based on the [SEPA \(Single Euro Payment Area\)](#) standard, e.g. SEPA Credit Transfers, SEPA Direct Debits or SEPA Credit Transfer Instant.
- many banks in the EU, including in non-euro area Member States, have ties with the euro as they either are a subsidiary of a bank headquartered in the euro area or themselves own a subsidiary in a euro area Member States. Most banks in the EU conduct activities in euro. The contrary would not be true for any other EU currency.

## **Why is today's proposal necessary if Member States can already extend the current Regulation to other currencies?**

Current rules on cross-border payments require the same fees to be applied to cross-border euro transactions as they are applied to domestic euro transactions. While the Regulation already contains the option for countries to decide to apply the same principle to transactions in their own currency, this only impacts cross-border euro transfers indirectly.

For instance, in line with the current Regulation, Sweden decided to align fees of *cross-border* payments in Swedish krona with *domestic* payments in Swedish krona. This decision in turn positively impacted cross-border payments in euro as banks lowered fees for those types of payments as well. However, so far no other Member State has made use of this option, which continues to render cross-border border euro transactions expensive. These unnecessary costs continue to pose a problem to the Single Market.

The amendment proposed today, namely aligning cross-border euro transaction with domestic national currency transactions, is addressing an issue that had not been directly tackled before. This ensures that all EU citizens benefit from cheaper euro payments.

## **Why did you not propose this earlier?**

The Regulation on cross-border payments dates back to 2001 and 2009. At the time, necessary conditions for the amendments we are proposing today were not yet in place. Payments in euro were neither cheap nor efficient and the Single Euro Payments Area would only fully become a reality in euro area Member States in 2014 (October 2016 for non-euro area Member States). Under these conditions, instead of extending the scope of the Regulation, the rules provided the option for Member States to apply existing rules to other currencies.

However, after conducting further impact assessments and a [consultation](#) with stakeholders it has become clear that cross-border transactions in euro from non-euro area continue to pose a substantial problem to the Single Market. This is why the Commission is today proposing to amend the existing rules.

## **Will your proposal put an additional burden on banks?**

The new rules only affect cross-border payments in euro for banks situated in non-euro area Member States. These payments already benefit from an efficient infrastructure and are processed without manual intervention.

Furthermore, the proposal will have a limited administrative impact on banks as they will merely have to adapt their products and services fees documentation, which is already done on a regular basis.

## **Will consumers be charged more when banks recover the losses from lower cross-border payments fees?**

This proposal will incentivise payment services providers across the EU to provide cheaper cross-border payments in euro to the benefits of consumers

and the EU economy as a whole.

When similar requirements were imposed on banks in euro area Member States in 2001 payment service providers did not increase other fees. On the contrary, fees for all types of payments continued to decrease in euro area Member States. Furthermore, increased fees on other products and services in order to cover potential losses will be subject to national and EU competition rules, to ensure they remain fair and competitively-priced.

## **DYNAMIC CURRENCY CONVERSION**

### **What is dynamic currency conversion and how will today's proposal change consumers' lives?**

When consumers make card payments while travelling abroad or when paying online, they can often choose whether to pay in local currency or their home currency. When choosing the local currency their bank will convert the amount of the transaction and consumers only know a few days later, when looking at their bank statement, how much the transaction really cost. If consumers decide to pay in their home currency, a payment service provider converts the amount of the transaction on the spot in exchange for a fee. This process is called dynamic currency conversion (DCC). While DCC allows consumers to know immediately how much they have to pay, the use of this service is often more expensive than their bank's.

Today's proposal increases the transparency in this process so that consumers are aware of the costs of currency conversion services applied to cross-border payments in the EU beforehand. The amendment will apply irrespective of whether those payments are denominated in euro or in a currency of a Member State other than the euro.

Specifically, payment service providers will have to disclose the full costs charged to consumers. When consumers are offered more than one option for currency conversion – for instance from their banks' services and dynamic currency conversion services – they will then be able to compare offers and choose the most favourable one. Considering the technical dimension of this provision, the Commission has asked the European Banking Authority (EBA) to define Regulatory Technical Standards (RTS) on this issue.

### **Why does the proposal provide for a three-year transition period? How will consumers be protected?**

The transition period is based on discussions with service providers. Making currency conversion more transparent entails various technical developments, such as updates of software and in some cases hardware changes (e.g. at the Point of Sales terminal). This transition period will allow enough time for the EBA to develop the Regulatory Technical Standards needed and for the market to adapt to these changes.

In the meantime, the EBA will define a transitional cap on currency conversion fees. This cap will protect consumers from being charged fees for currency conversion that are not in line with the service offered. It is too

early to speculate on the exact amount of this cap as the EBA will first consult the market and carry out an impact assessment.

**Why is the Commission not simply banning Dynamic Currency Conversion, if it is so costly?**

Prohibiting an activity that could prove useful for consumers under certain circumstances would be disproportionate. Instead, the Commission's proposal will make it possible for consumers compare offers and take an informed decision. This increase in transparency will ultimately boost competition among payment service providers. If the fees for dynamic currency conversion become more competitive, banks may also provide better rates for their currency conversion services. This might eventually lower costs for consumers.