

COMMISSION OF THE EUROPEAN COMMUNITIES

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EASIER CROSS-BORDER PAYMENTS : BREAKING DOWN THE BARRIERS

COMMISSION WORKING DOCUMENT

I. INTRODUCTION

1. Over 200 million retail cross frontier payments take place within the EC each year. Their number is growing steadily as the completion of the Single Market leads to greater trade flows and movement of people throughout the EC. The programme for Economic and Monetary Union agreed in Maastricht will lead to a further significant increase in cross-frontier payments as the costs associated with changing from one EC currency to another are ended. This underlines the importance of early action to bring the performance of cross-border payments systems up to the standard of the best national systems. The full benefits of the single market and EMU will only be achieved if it is possible for businesses and individuals to transfer money as rapidly, reliably and cheaply from one part of the Community to another as is now the case within most Member States.
2. In September 1990 the Commission published a discussion paper, 'Making Payments in the Internal Market', which focused on the need to improve the operation of Retail Cross Border Payments Systems (RCBPS) and highlighted the high cost and varying quality of existing services. In March 1991, in response to the many useful comments received on this paper, the Commission set up two working groups to advise it on how smaller value cross frontier payments could be improved. The first of these, known as the Payment Systems Technical Development Group (the Technical Group) with members drawn from commercial and central banks; the second known as the Payment Systems users Liaison Group (the Users Group) brought together members drawn from banks, consumers and small businesses. The two working groups met a total of 15 times since last April and have made separate reports to the Commission which are available from the Commission on request. The Commission is grateful for the invaluable work undertaken by these two groups and also for the many contributions received from other interested parties.
3. The Commission has drawn on the groups' work to describe the actions now underway to improve the transparency, speed, reliability and cost of retail cross-border payment systems. This Communication also lays down a programme of action to be set in hand immediately by the Commission to facilitate and encourage the improvements. Our objective must be to ensure that the European Community's payment systems are ready by the end of 1996 to meet the challenge of a single European currency.
4. The Communication and the two reports concentrate on what needs to be done to improve retail cross-border payment systems in advance of EMU. Many of the measures envisaged should also help the improvement of larger value payments systems. In this context an Ad Hoc Working Group on EC Payment Systems has been set up by the Committee of Governors of the EC Central Banks to consider how best to ensure the wider stability of European payment systems structures.

THE WAY FORWARD

5. The outcome of the working groups confirms the Commission's initial view that significant improvements need to be made to the transparency, speed, reliability and cost of cross-frontier payment systems. A continuing programme of work is needed in a range of areas. Detailed points for follow-up are set out in part IV of this Communication.
6. Immediate action can be taken to improve the transparency of payment systems. Users have a right to receive full information about the various possibilities open to them for sending funds across frontiers. The European credit associations have responded positively to this need by preparing guidelines on customer information (see annex A). These are being circulated to their members with the intention that they will be put into effect by 31 December 1992. Building on these guidelines the Commission is now publishing a 5 point users charter (see annex B) setting out in a clear and usable form the information to which users are entitled.
7. If an unacceptable level of service is provided the customer should have a guaranteed right to redress. The Commission proposes to call a meeting in the course of this year with the relevant Member States representatives to consider how national redress procedures can be extended to include cross-frontier payments and how small businesses could also be covered.
8. It is also important for consumers to receive clear information about the cost of foreign exchange transactions whether through banks or bureaux de change. A uniformly high level of transparency should be provided across the Community in this area; the Commission will take the necessary steps to achieve this.
9. There is a consensus that the development of electronic fund transfers offers the most promising way of improving the quality of cross-frontier remote payments. The encouraging message is that a variety of initiatives are either under way or in preparation in this area. It is clear that effective competition between systems has a central role in improving the efficiency of service and reducing the costs to the consumer.
10. In this context the development of electronic linkages between the various types of automated clearing houses is of paramount importance in assisting smaller banks to offer a significant improvement in cross-frontier service. The Commission strongly supports the work now underway in this area, and will remain in close contact with those involved.
11. For some Member States a precondition for improved cross-frontier service is modernisation of domestic payment systems. The Commission proposes to study in the context of its cohesion objective and the trans-European networks the possible provision of financial and technical assistance for the modernisation of national payment systems in certain Member States.
12. Telecommunications costs represent a significant proportion of banks' cost in cross-frontier payments. The Commission will work closely with the systems providers to ensure that action can be rapidly taken to deal with any difficulties of access encountered by the banks in this area, using the new consultative structure under the Open Network Provision Directive.

13. The Commission is also working to ensure that the remaining national reporting requirements for statistical reasons of cross-frontier payments do not offer an obstacle to the provision of a cheap and rapid service.
14. It is agreed that work should be done to harmonise the technical and operational standards needed to ensure that payment systems can communicate effectively with each other and to prevent excessive fragmentation. There is also a need to harmonize certain legal rules in order to ensure finality of payment and to remove the uncertainty which can exist in net settlement systems. The Commission intends that such harmonisation should be consistent with wider international developments and therefore proposes to draw in particular on the work of UNCITRAL, due to be concluded shortly, in preparing legislation for the necessary minimum Community legal framework.
15. Annex C to this report is a set of competition guidelines designed to assist cross-frontier payments providers in setting up networks compatible with Community competition rules.
16. The importance of providing direct debit services cross-frontier has recently become apparent. This is a growing area of domestic banking and companies doing business across frontiers should be able to benefit from the same direct debit possibilities as they enjoy in their home Member States. The Commission will work closely with service providers and users to encourage steps which are already envisaged in this area.
17. More generally, the Commission's role as a catalyst in encouraging the provision of market based payment systems to complement and complete the Internal Market will continue, building on the spirit of cooperation between service users and providers which has already proven its worth.

II. THE USER PERSPECTIVE: GREATER TRANSPARENCY AND RIGHT OF REDRESS

18. The Payment Systems Users Liaison Group (PSULG), was composed of representatives of consumers, retailers, small and medium sized enterprises as well as representatives from the three major European Credit Sector Associations (ECSAs). This group concentrated on two main issues:
 - how to improve and make more transparent the information to be provided by banks to customers and
 - what redress procedures should be in place so as to examine complaints by customers.

Better information to users: Guidelines for the Banks

19. Users are rightly concerned to see a reduction in the cost of cross-border payments, so that these come down towards the level of charges for domestic payments. The steps needed to move in this direction are discussed in Part III of this Communication and in the report of the Technical Group.

20. The most effective short term measure to help payment system users is to bring the standard of information available to them concerning all aspects of the service on offer up to a consistently high level. By enabling customers to make a better informed choice, this should in itself both contribute to the overall efficiency of cross-border payment systems and exert a downward pressure on prices. Information also needs to be given in respect of cross-border payments after they have been made, showing, inter alia, how the cost is made up and the exchange rate used.
21. The banking industry recognises that there is certainly room for improvement in the quality of information provided to customers. This will be done in two stages.
22. The first stage will cover remote payments, these, where the sender and beneficiary are in separate countries, for which the ECSAs have already drawn up guidelines for their members, for implementation by the beginning of 1993. These guidelines are attached to the present Communication (Annex A). They are designed to ensure that every user is provided with information on
- the full range of payment services available;
 - the main characteristics of each service;
 - the time it will normally take;
 - all charges including the basis of the exchange rate applied;
 - the value dating arrangements;
 - how to obtain more information;
 - warnings about particular methods (where relevant);
 - complaints and redress procedures.

The Commission will monitor their implementation of these guidelines at the end of 1992.

23. For the second stage the Commission has invited the ECSAs to review the information given to customers about direct or so called face-to-face payments, in the light of the guidelines in Annex A. The Commission will examine with the ESCAs what improvements may be needed in this information and how these should be put into effect.

Paying net sums to beneficiaries - the problem of double charges

24. In the case of remote payments, particularly transfers, problems can arise if the originator, who wants to pay in full for the cost of transferring a specified sum, is unable to ensure that the latter will be credited in full to the beneficiary, without additional charges being made at his end. This problem can make it very difficult for small businesses, or those trading by mail order, to compete effectively across frontiers, since they will often not receive the full payment sent to them.
25. Banks should at least provide their customers with an estimate of the total charges. Moreover, the Commission has already recommended⁽¹⁾ that where the originator has specifically instructed his bank to ensure that

⁽¹⁾ Commission Recommendation 90/109/EEC of 14.02.1990 (O.J. L67 of 15.03.1990, page 39, principle 3, section 2).

the beneficiary is credited with the exact amount shown on the transfer order, the bank should apply a method of transfer which will make it possible to achieve this result. However, this has not yet had sufficient practical effect. Part of the problem here is that at present the originating bank does not always have the full information on the charges which may be made by the other banks through whom they route a transaction. However, improvements in the techniques of correspondent banking will facilitate the provision of this kind of information. Moreover, additional charges could if necessary be charged to the sender and not to the beneficiary.

26. A study carried out by the European consumer group - BEUC - in 1988 had cited a range of cases in which, even where an originator had ordered the transfer of a precise sum free of all charges to the beneficiary, the latter's banks had deducted charges. Banks have acknowledged that this practice is wrong and indeed in breach of contract with the originator. The Commission looks to the banking sector to ensure that this abuse is ended by the 31.12.1992. If problems persist the Commission will examine whether other measures are needed to end such double charging.

The time taken for a payment

27. The reliability and speed of cross-border payments, in particular of remote payments, are also important to businesses and other users. In the domestic systems of most Member States a payment will rarely take much longer than 3 working days to be credited to the beneficiary after being debited to the originator. For cross-border payments the time taken is often considerably longer; but perhaps at least as important as the actual time taken, cross-border payment systems should run to reliable time schedules.
28. In 1990 the Commission recommended a maximum 2 day execution time for each bank in a transfer chain. Given that most transfers involve 2 banks and few need involve more than 3, the maximum time schedule for transfers ought to be within the range of 4 to 6 working days. It may well be feasible, with greater automation, to achieve faster timing than this in the future. The Commission will be looking to those operating systems to set demanding targets for themselves and to include these in the information they provide to customers. The Commission will review progress in early 1993.

Over-the-counter foreign exchange transactions

29. There is considerable competition between banks and also bureaux de change to buy and sell foreign currency. It is important that the customer receives full and clear information as to the exchange rates to be used and in particular as to other flat rate handling charges.
30. The Commission considers that there should be a binding obligation on all banks, bureaux de change and others who offer cash foreign exchange services to display all elements of the transaction (if any) over and above the exchange rate very clearly and prominently so that there are no "surprise" charges. A uniformly high level of transparency would thus be provided across the Community in this area; the Commission will urgently discuss with Member States how this can be achieved.

Complaints and redress

31. There is a need to provide rapid and flexible arrangements for dealing with complaints involving retail cross-border payments. There are clear benefits for both parties in having available complaints procedures involving neutral "ombudsmen" and similar bodies which can arbitrate on complaints in a simple, inexpensive procedure.
32. The Commission has already recommended⁽²⁾ that such arrangements should apply to transfers; the same arrangements should - as agreed between banks and users in the Users Group - equally apply to all forms of cross-border payments, whether by transfer, payment card, cheque or other means.
33. Business users however are not eligible to use existing procedures in all Member States and as important users of cross-frontier payment systems wish the schemes to be extended to include them. The Commission is attracted by the extension of redress procedures to business users, in particular small or unincorporated businesses. It intends to examine the modalities of doing this with the Member States in the near future.

III THE INDUSTRY PERSPECTIVE: IMPROVING INFRASTRUCTURE AND REMOVING BARRIERS

34. The Payment Systems Technical Development Group (PSTDG), brought together representatives of providers of payment services, in particular Commercial, Savings and Cooperative Banks, of Postbanks and of the ECU Bankers Association. The Committee of Governors of the EC Central Banks nominated officials from six of the Central Banks to represent the Committee in the Group. While their report seeks to reflect the general consensus arrived at in the Group it does not necessarily commit each member to every conclusion in it⁽³⁾.

35. The group focused its work on three main areas:

- an assessment of present and future demand for cross border payments services ;
- a review of current developments and projects likely to improve cross-frontier payment and
- an examination of the obstacles that need to be removed and initiatives that should be envisaged to facilitate improved payment systems.

(a) Assessment of market developments

Volumes

36. There is no accepted definition of "retail" in the context of CBPS, but it does imply a relatively low value, whose upper limit can, for present purposes, be assumed to lie somewhere between 2.500 ecu and 10.000 ecu.

⁽²⁾ In Recommendation 90/109/EEC (see footnote 1).

⁽³⁾ In particular the participation of central banks does not commit specific central banks or the Committee of EC Central Bank Governors in any way.

37. On the basis of a 2.500 ecu threshold about 50% of the estimated 400 million cross-border payments made within the EC are "retail" payments. A large majority of these payments are made "face-to-face" by individuals travelling on business or on holiday or shopping across the border; the remainder are "remote" payments made by and to individuals or businesses in payment for goods and services, remitting salaries or paying pensions.
38. While relatively large in absolute terms, the number of retail cross-border payments is small as a proportion of total domestic payments, e.g. 0.8% in the UK, 4% in Belgium. Cards are the dominant means used in most Member States with credit transfer orders (henceforth transfers) rather than cheques being the main means of remote RCBP.
39. What banks, and others contemplating new investment in retail cross-border payment systems, consider important is the size of the future demand for RCBP. Indeed, banks will have to make their own assessment of the profitability of measures to improve the infrastructures of RCBPS. Demand will be boosted by the rapid growth in EC trade associated with the Single Market. A further stimulus will come from the move towards EMU, including from the reduction in intra-EC currency risk in stage 2 starting in 1994. Finally, the demand for RCBP will also increase as their speed and reliability improve, and their cost comes down.

Charges

40. The Technical Group carried out a limited survey of charges for RCBPS. While this was based on a small sample which may not be fully representative, it showed that the minimum charge is likely to be in excess of 10 ecu, of which the component relating to currency conversion is a relatively small part. It is difficult to compare these charges with those made for equivalent domestic payments which also vary considerably from bank to bank and between Member States. Nevertheless, even where a charge is made for a domestic payment this is unlikely to exceed 0,50 ecu in most cases, or 1/20th of the cost of a cross-border payment.

Survey of existing techniques and current developments for improving payment systems

(i) Transfers

41. Today, most cross-border transfers are effected using the correspondent banking system. Under this system one bank provides payment and other services to another bank; payments, primarily across national boundaries, are often executed through reciprocal accounts of correspondent banks, to which standing credit lines can be attached. Many banks have made major investments in recent years (e.g. replacing manual with automated procedures) and much more is planned in order to improve the efficiency of correspondent banking. The Commission welcomes these developments. Many of the points contained in the action programme should contribute to them.

42. The Technical Group examined in some detail a particularly promising option for improving retail cross-border payment systems through linkages between Automated Clearing Houses (ACHs) which handle almost all internal transfers in most Member States. An ACH is an electronic system in which data on payment orders are exchanged by magnetic media or via a telecommunication network and handled by a single data processing centre or an integrated system. The Commission has offered its active support to the national ACH organisations to link across the borders those ACHs or equivalent systems, which include a vast majority of banks and individual Member States. Banks in several countries, including some from the European Economic Area, as well as the Community, are already examining the feasibility of such a system. ACH linkage offers a structure which should be capable of handling large volumes of small cross-frontier payments quickly and cheaply and may be particularly attractive for smaller banks.
43. Larger banks are seeking to exploit the availability of a single banking licence from end-1992 which creates the possibility of banks increasingly branching into other Member States or to provide direct services there. Where such banks obtain membership in host country domestic payment systems they would then be able to transfer payments "in-house" (i.e. from a branch in one Member State to a branch in another Member State, for subsequent transfer to the ultimate beneficiary).
44. Organisations which operate and manage electronic card networks are also investigating whether these networks can be adapted to carry retail cross-border transfers. The attraction of this option is that a card system with surplus capacity could carry the extra traffic of transfers at a low marginal economic cost. The Commission will continue to encourage developments on these lines.

(ii) Direct debiting

45. The technique of 'direct debiting', i.e. the possibility for a creditor to initiate a debit on the debtor's account, based on the prior written agreement of the latter, seems a promising means of improving the efficiency of RCBPS. While not a payment system in itself (this technique can use existing and in particular future linked infrastructures), this is an instrument which could facilitate a large number of future cross-border, and in particular retail recurrent transactions. Many service payments are now made by direct debit, and it is therefore important that this technique should become available for cross-frontier businesses as rapidly as possible. The Commission will work closely with service providers and users to determine what specific further measures may be required in this area.

(iii) Payment cards

46. As regards payment cards, which are primarily used for face-to-face payments, the situation is already quite satisfactory; in any case, the Technical Group did not recommend particular studies or improvements. The Commission notes that the interoperability of payment cards is making good progress; very widespread with regard to access to Automated Teller Machines, it should also progress in the area of debit cards used for automated payments at the point of sale. Work on European Standards for machine-readable cards (ic-cards) is underway; in this context, the possibilities offered by the technique of prepaid cards should be kept in mind.

(iv) Cheques

47. The use of paper cheques is unlikely to increase significantly, given that electronic and in particular payment card techniques are more efficient for many transactions. However, the standardisation of the messages contained in paper cheques, allowing for better automated processing of cheques issued in other countries, requires further study and would produce useful savings.

(b) Creating the environment for change

48. It is clear that the development of RCBPS in general will be determined by a combination of market forces - exemplified in the various types of schemes already identified - and Community and national initiatives. In order to ensure that the Community encourages the development of efficient systems work is urgently required in the following key areas. These are:

- standards;
- telecommunications;
- legal issues;
- competition policy;
- supervision;
- membership;
- reporting requirements;
- data protection;
- domestic payment systems.

Standards

49. While competition between different systems is the best way to improve performance, there is a risk that the payment systems as a whole will remain fragmented if systems are operating on competing standards, given that there is a need for these systems to communicate. In certain areas, particularly payment cards, international and European standards have been agreed; it is however important that agreement on further standards which would facilitate the automation of RCBP is reached soon, notably those allowing to identify with precision the account of customers, in particular beneficiaries of transfers, but also more widely those used for credit transfers and direct debiting in general. The main European Banking Federations have set up a Committee on European Banking Standards (CEBS) one of whose objectives will be to secure the necessary degree of agreement in this area. The Commission welcomes this initiative and will offer its full support to the CEBS, in particular when the CEBS comes to request status as an Associated Standardising Body under the rules of the Community standards bodies. The Commission would hope that the Committee will take into consideration existing European and international standards already in use for data transfers, and, where such standards exist, make sure that they receive priority over proprietary standards.

