G20 Roadmap for Enhancing Cross Border Payments

Scorecard report on direct access and price transparency

November 2024

Wise

1. CONTEXT

The G20 Roadmap for Enhancing Cross-Border Payments was created to address inefficiencies and challenges in the global cross-border payments landscape.

These challenges include high costs, low speed, limited access, and insufficient transparency for wholesale and retail payments, as well as remittances.

Improving cross-border payments is critical because it can support international trade, financial inclusion, economic growth and development.

The G20 Roadmap for Enhancing Cross-Border Payments (2020 - 2027) has five main priority focus areas, divided into 19 building blocks. Of these, this document will focus on building blocks 2 and 10:

Building Block 2.	Implementing international guidance and principles (including transparency of information provided to end users about payment transactions)
Building Block 10.	Improving direct access to payment systems by banks, non-banks and payment infrastructures

The four pillars of the Roadmap are access, transparency, cost, and speed. This report focuses on access and transparency, as progress in these areas is essential for reducing costs and increasing speed. Despite four years having passed since the launch of the Roadmap, there remains a significant imbalance in the information available to retail consumers, which impedes their ability to make informed decisions. This, in turn, affects the competitive dynamics necessary for market change. Consequently, there are still considerable additional costs that exceed what can be reasonably attributed to the value of the service, adversely affecting some of the world's poorest consumers.

Our critique of the Roadmap lies in Building Block 2, which encompasses all elements of transparency in cross-border payments, not solely cost, making it challenging to measure meaningfully. Therefore, this report will concentrate specifically on price transparency.

This report aims to identify the position of each G20 member—both individually and in relation to one another—regarding their commitments to enhancing price transparency in cross-border payments for end users and improving direct access to payment systems for non-bank institutions. We will assess progress using a scorecard developed for each pillar, as outlined below.

2. CRITERIA FRAMEWORK

Direct Access

The Committee on Payments and Market Infrastructures (CPMI) Monitoring Survey provides a detailed analysis of RTGS (Real-Time Gross Settlement) payment system, Faster Payment System (FPS) and Deferred Net Settlement (DNS) system access across different organisation types and compares domestic and foreign entities. The CPMI has categorised various organisation types, which we have grouped together for simplicity in this analysis.

CPMI organisation categorisation	Alternative categorisation
Commercial banks with a local presence	Banks
Commercial banks without a local presence	
Banks other than commercial (e.g. investment banks, payment banks)	
Supervised non-bank financial institutions	Non-bank PSPs (NBPSPs)
Non-bank e-money issuers (including mobile money providers)	
Money transfer operators	
Post office (if not licenced as a bank)	Other
Central bank(s)	
DNS system operator(s)	
Faster payments system operator(s)	
RTGS system operators	
National Treasury	
Payment cards network operator(s)	

The 'other' category - public institutions and publicly mandated institutions or organisations, as well as card operators - are not a concern for the purposes of this analysis. It will focus on NBPSP access to domestic RTGS, DNS and FPS. The nuances within the NBPSP category, based on licensing regime, terminology and local requirements, will be explored in the analysis below.

Further, the CPMI Monitoring Survey categorises levels of access to a domestic RTGS, DNS and FPS, which again we have grouped together for simplicity in this analysis.

CPMI organisation categorisation	Alternative categorisation
Direct access to a settlement account and central bank credit	Direct access
Direct access to a settlement account but not to credit	
Can send transactions directly to the system, without having a settlement account	Indirect access
Can send transactions indirectly to the system via a direct participant, without having a settlement account	
No access allowed	No access

We have defined full direct access as a firm having direct access to the payment system and in control of its own settlement account at the central bank. Any other type of access that still requires working with a sponsor has been defined as indirect access.

Scorecard

Based on the above, we have created the following 'scorecard' system, against which we will evaluate members of the G20 on their progress towards Building Block 10:

"Improving direct access to payment systems by banks, non-banks and payment infrastructures".

1/5 Only licenced banks are permitted to have direct access to payment rails.

2/5 Licenced banks and some other institutions are permitted to have direct access to payment systems, but this is not extended to NBPSPs.

3/5 Licenced banks and some other institutions are permitted to have direct access to payment systems, and authorities are currently considering widening access to NBPSPs.

4/5 Authorities are actively exploring widening direct access to domestic payment systems to include NBPSPs.

5/5 Banks and NBPSPs are permitted to have direct access to payment systems and it has been adopted by at least 1 NBPSP.

Price Transparency

Transparency in cross-border payments is defined by the Financial Stability Board (FSB) as PSPs being required to provide a minimum list of information to end-users. The FSB outlines this as "including total transaction costs with relevant charges broken out - sending and receiving fees, FX rate and currency conversion charges; the expected time to deliver funds; tracking of payment status; and terms of service." As outlined above, this analysis will focus specifically on price transparency, i.e. FX rates and currency conversion charges (including FX margins).

Building on this framework, this analysis takes a more technical approach to how this is both achieved and enforced in domestic and regulatory environments, based on market research. This is because the FSB's latest consolidated progress report for 2024 claims that "the percentage of services for which a breakdown of total fees and FX margin was provided by remittance service providers increased from 98% to 99% since 2023", with the caveat that "to be included in the dataset, a payment service must be transparent about its cost." We believe this dataset does not accurately reflect the true state of the market, and that the 99% claim significantly misrepresents what is the most common practice in industry, namely the padding of FX rates and the failure to disclose that up front, or at all.

The FSB's consolidated progress report does not consider whether FX fees are obscured in the payment process, or if domestic price transparency regulations exist but are ineffectively enforced across the G20. We suggest that the FSB should reevaluate the KPI methodology and data gathering process and in the interim, qualify the 99% claim with a cautionary note. Additionally, the FSB's Legal, Regulatory, and Supervisory (LRS) Taskforce should allocate sufficient resources to support an urgent review of price transparency as a priority.

We have conducted user market research across all G20 nations covered in this report. Our methodology involved analysing the payment flow of making an international transfer with both banks and non-bank PSPs, and checking the exchange rate provided by the financial institution against the interbank mid-market exchange rate, provided by Google. We also checked through the payment flow for any tooltips or linked pages to see if any further information of FX margin padding was disclosed to the customer, up until the final execution of payment.

The country profiles in this report also feature examples of providers in each market, along with an assessment of their transparency regarding the pricing of international transfers. This evaluation employs a traffic light system based on the following definitions:

RED

Afinancial institution conceals foreign exchange markups from the customer. These charges are not disclosed in the payment flow but are instead found outside of the customer experience, e.g. within the terms and conditions.

AMBER

A financial institution obscures foreign exchange markups and/or other fees in the payment flow by promoting deceptive practices (e.g. "0% fee", "best rate"), and using tooltips or linked web pages that customers must click on to access this information and get an accurate idea of how much a transfer costs.

GREEN

A financial institution communicates the cost of an international money transfer upfront, clearly displaying all fees, including any foreign exchange fees or mark-ups, to the consumer in a clear and comprehensible manner.

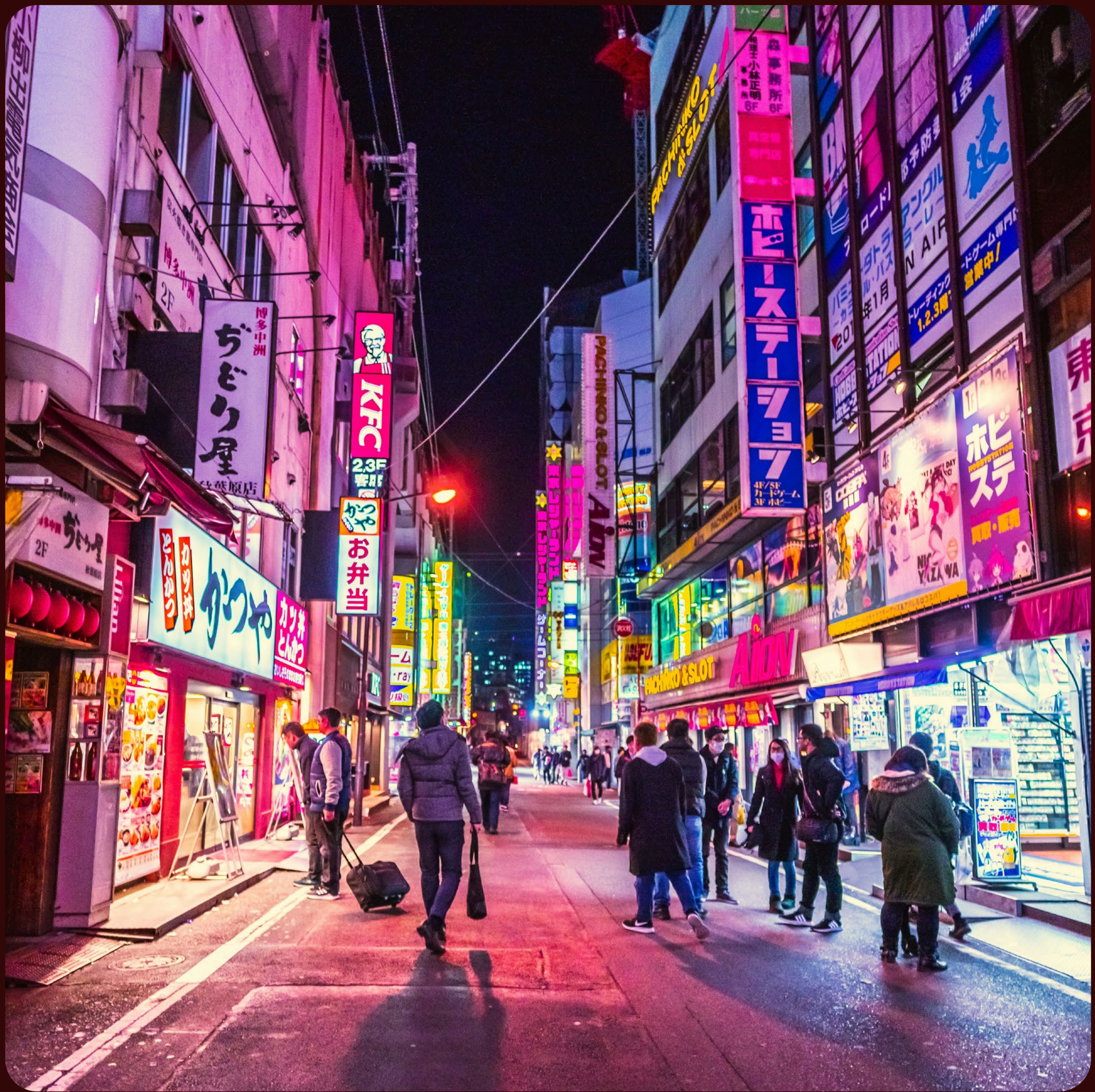
Scorecard

We have created the following 'scorecard' system, against which we will evaluate members of the G20 on their progress towards Building Block 2:

"Implementing international guidance and principles (including transparency of information provided to end users about payment transactions)".

1/5	There are no requirements on all financial service providers to disclose all fees associated with a cross-border transfer, including FX markups.
2/5	There is existing regulation for price transparency in disclosing all fees associated with cross-border transfers, but does not specify FX markups as a fee or cost to the end user.
3/5	Existing regulation requires price transparency in cross-border payments, including FX markups, but this is not well enforced or the regulation is not strong enough to deliver price transparency for end users.
4/5	Authorities are actively exploring new action/rules on price transparency to strengthen end user understanding and force all financial service providers to disclose all cross-border payment fees, including FX markups.
5/5	All financial service providers are required to disclose the total cost up front to end users, including FX markups, when making a cross-border transfer.

JAPAN



Direct Access

Existing framework & access

The Zengin Data Telecommunication System (Zengin System), established in 1973, is operated by the Japanese Banks' Payment Clearing Network (Zengin-Net). This online network links financial institutions and processes transfer messages arising from remittances and other transactions. Additionally, the Zengin System manages the daily settlement of inter-bank credit/debit relationships.

The Zengin System encompasses nearly all deposit-taking financial institutions in Japan. Since October 2018, it has supported 24/7/365 transfers, and since November 2019, it has been running on its 7th Generation platform. Historically, access to the Zengin System was restricted to deposit-taking financial institutions. However, in September 2022, Zengin-Net's Board decided to extend access to fund transfer service providers and non-banks.

The impetus for this policy change was a statement by the Japan Fair Trade Commission (JFTC) in April 2020. The JFTC suggested that, to ensure equal competitive conditions, it would be advantageous to consider allowing money transfer businesses access to the All-Bank System. In response, a task force conducted extensive discussions with stakeholders, including fund transfer service providers. By January 2021, the task force proposed expanding participation eligibility.

To enhance convenience and reduce burdens on both existing member banks and prospective fund transfer service providers, a new connection method utilising an API gateway was proposed during the current operation period of the 7th Generation Zengin System. This approach, eliminating the need for physical data centres with relay computers, led to the establishment of new technical and institutional requirements. These were agreed through numerous working group meetings that included NBPSP participants. Zengin-Net has announced the launch of the API Gateway will be ready for November 2025, and Zengin announced in October 2024 that Wise Payments Japan K.K. has been approved as the first non-bank PSP to gain direct access once the API Gateway goes live.

For settlement, fund transfer service providers can opt to become direct-settling participants in the Zengin System, necessitating a settlement account at the Bank of Japan and Bank of Japan's approval. Alternatively, they can join as indirect-settling participants through a clearing bank.

Eligible fund transfer service providers will be governed by the Financial Services Agency (FSA) under the guidelines of the Payment Service Act, which was revised in 2022 to enhance the responsibilities and roles of participants in the Zengin System.

Ongoing policy developments

In Japan, the drive for direct access is not government-led, and with the system now open to non-banks, policy developments concerning direct access are not a primary focus of the government. This approach underscores the collaborative efforts between regulatory bodies and industry participants to adapt the payment infrastructure to modern needs while fostering a competitive and inclusive financial ecosystem.

Japan continues to evolve its payment systems infrastructure, ensuring it remains a leader in innovation and efficiency. The gradual inclusion of non-banks and the introduction of advanced technical solutions like API Gateways signify a progressive shift towards greater financial inclusion and operational efficiency within the Japanese payment landscape.

Scorecard

4/5 Authorities are actively exploring widening direct access to domestic payment systems to include NBPSPs.*

*Japan has confirmed that it will integrate its first NBPSP into the Zengin payment system next year, expected in November 2025 - this rating will then be upgraded to 5/5.

Price Transparency

Existing framework & regulations

In Japan, there are no specific laws or regulations that mandate transparency in the banking industry's fee structures for cross-border transactions. Unlike the securities industry, which has clear regulations to ensure transparency, the banking sector remains largely unregulated in this regard.

Customer experience

The customer experience for making cross-border transactions in Japan varies significantly based on the method used.

- **At the bank branch or over the phone:** When conducting transactions in person at a bank branch or over the phone with call centre agents, all fee breakdowns are typically explained to both the sender and the recipient. This includes details about the transaction fee, Telegraphic Transfer Selling (TTS) exchange rate (which includes an additional mark-up fee on top of the mid-market rate), intermediary bank fee, and lifting charges. These transactions generally cost much more than online transactions. It can also be a time-consuming process, with some banks indicating that processing a transaction with a customer at a branch can take up to an hour.
- **Online Transactions:** Transparency is significantly lower for online transactions. Customers often find it extremely difficult to locate all associated fees upfront. Fee details are scattered across several different web pages, and the user interface is generally not customer-friendly. Banks often provide vague instructions such as "See exchange rate" or "See real-time exchange rate" with page links, without explicitly explaining what fees the customers should be looking for. Furthermore, some banks do not show the exact exchange rates applied during the transaction but only provide approximate amounts in the destination currency, making it hard for customers to gauge the total costs.

The process for conducting online cross-border remittances can be cumbersome. For instance, one major Japanese bank requires customers to submit an online application for due diligence, which can take about five business days. Following approval, registering a recipient triggers another due diligence process typically taking one business day. If a recipient is initially flagged as a sanction hit but later cleared, the bank may still restrict online transactions to that recipient, directing customers to complete the process at a bank branch instead.

Japanese providers' cross-border payment hidden fees based on customer payment journey data collected December 2023

Provider	Exchange rate markup/ hidden fee	Tranparency rating
JP Post	3%	●
Sony Bank	0.18%	●
MUFG	2.28%	●
Mizuho	2.29%	●
SMBC	1.17%	●
Resona	2.29%	●
Prestia (SMBC Trust)	0.52%	●

This information has been collected from each of the featured providers, by following their money transfer flows. This is a one-off snapshot from the provider's payment journey at a specific point in time. These payment flows are subject to change. The exchange rate markups may fluctuate.

Ongoing policy developments

Japan is currently grappling with prolonged economic stagnation and a weakened yen, key areas of concern for both the government and the Bank of Japan. Economic growth has stalled due to factors like a shrinking workforce, low productivity, and subdued consumer spending. The yen's depreciation against major currencies has exacerbated issues, increasing import costs and putting additional pressure on businesses and consumers. In response, Japanese policymakers are implementing strategic measures to stimulate the economy, such as fiscal stimulus packages and monetary easing, aimed at boosting inflation and reinvigorating growth. Both the government and the central bank are closely coordinating their efforts to stabilise the yen and foster a more robust economic environment.

As a consequence, the Japanese Government has not focused on consumer payments policy as an area of immediate concern. While transparency measures are robust in the securities industry for consumer protection, similar measures have not been extended to the banking sector.

Scorecard

1/5

There are no requirements on all financial service providers to disclose all fees associated with a cross-border transfer, including FX markups.

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