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

A financial 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)".

Score	Definition
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.

BRAZIL

Direct Access

Existing framework & access

The Brazil Central Bank's launch of Pix in 2020, among other existing payment systems, put it ahead of many other jurisdictions in terms of real-time payments and expanded access to payments systems. Pix has allowed authorised payments institutions to connect directly since the payment system's launch, with more than 800 financial institutions now connected to the system.

Banco Central do Brasil (BCB)'s Resolution BCB No. 1/2020 provides the operational procedures and the participation criteria for entities, including both banks and non-bank financial institutions, to connect to and operate within the Pix payment system. According to these guidelines, authorised payment institutions with over 500,000 active customers are required to participate in Pix, while other payment institutions that meet the necessary technical and operational requirements are also permitted to participate directly, which ensures inclusivity and innovation within the financial ecosystem. This includes payments institutions that are not authorised by the Central Bank. Authorised institutions are given the option to participate either directly or indirectly to Pix, while non-authorised institutions can become indirect participants. While both indirect and direct models require compliance with relevant regulations, this allows for institutions with differing levels of technical capacity to offer Pix services to their customers.

Ongoing policy developments

As it is a relatively new payment system, BCB is regularly issuing policy amendments to enhance clarity on different business models' adherence to Pix, as well as on the requirements and conditions for both direct and indirect participation.

Scorecard

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

Existing framework & regulations

In 2022, Brazil implemented new laws (Law 14,286/21 and Resolution BCB 277/22) aimed at regulating the foreign exchange market with its objectives of modernising, simplifying and bringing greater legal certainty to business in this market. While foreign exchange rules, including the concept of the 'Total Effective Value' of a cross-border transaction, have existed for decades, these new 2022 rules sought to simplify the rules, introduce further transparency and also bring Brazil in line with OECD standards.

The objective is to allow foreign exchange transactions to enhance transparency within the foreign exchange and remittance market in line with the best international standards, such as those established by the Organisation for Economic Co-operation and Development (OECD). In Brazil, providers can choose the exchange rate they provide their customer, as long as this does not constitute foreign exchange evasion, artificial formation or price manipulation. The VET (Total Effective Value) encompasses all charges applicable to a foreign exchange transaction, including the exchange rate, the financial operations tax, and additional fees. The Central Bank of Brazil also established a VET ranking page to facilitate cost comparability between different service providers: however, it should be noted that this page is not updated in real-time, which limits its effectiveness in acting as a comparison tool.

While these regulations have simplified and enabled some level of comparison in remittances, it has not fully achieved price transparency for consumers because while it includes all costs upfront, foreign exchange fees are still unclear to the consumer. This is because the regulations do not define a benchmark rate that providers should use to calculate Total Effective Value of the transaction. The regulations merely state that the exchange rate can be "freely agreed" upon with the customer. This provision permits service providers to obscure fees within exchange rate mark-ups by using significantly inflated rates. Consequently, the prevalent market practice of embedding additional fees in high exchange rates persists, reducing the competitive pressure to lower costs for remittances.

Customer experience

Within the customer flow itself today, most providers continue to hide fees in exchange rate mark-ups. While providers comply with the regulations by showing the total 'VET' amount, including the exchange rate, tax (IOF) and other provider fees, it is difficult as a consumer to compare prices because providers can choose their preferred exchange rate to calculate the VET. Put simply, customers are not aware that providers mark-up their rates, and the hidden exchange rate margin is not shown clearly in the flow.

For Brazilian consumers, this lack of transparency in foreign exchange fees is a significant issue, especially in a market where customers are accustomed to high foreign exchange costs and often find the calculations confusing. Banks and providers frequently advertise "no" or "low" fees for currency exchanges but fail to clearly explain what these fees actually entail. For example, while some may claim that the IOF (Tax on Financial Operations) is waived, this is misleading, as the IOF is mandatory and must be collected. Additionally, claims of offering the "lowest fees" are often made without clarifying the full composition of the foreign exchange fee, which includes the exchange rate, any additional tariffs (whether charged by the bank or not), and taxes. As a result, it is commonly perceived that foreign exchange services are too expensive, with consumers left with an incomplete understanding of the true cost of their transactions.

Brazilian payment providers' cross-border payment hidden fees based on customer payment journey data collected December 2023 - January 2024

Provider	Exchange rate markup/ hidden fee	Tranparency rating
Banco Do Brasil	1.72%	🔴
Bradesco	4%	🔴
Ramessa Online	1%	🟡
Santander	1.37%	🔴
Western Union	0.79%	🟡

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

The Brazilian Central Bank possesses the authority to provide clarity or issue new guidance related to VET rules. Currently, Brazil's Presidency of the G20 and its ongoing accession to the OECD have led to several reforms intended to meet international standards. Specifically, adherence to Principle 7 of the OECD's High-Level Principles on Consumer Protection could drive further actions towards fee transparency in Brazil. Principle 7 necessitates specific levels of disclosure, transparency, and consumer ability to compare products.

Holding the G20 Presidency presents Brazil with an opportunity to lead by example, particularly regarding the G20 Roadmap to Enhancing Cross-Border Payments, which includes ambitious targets for improving transparency in cross-border payments. As both a prospective OECD member and a current G20 leader, Brazil is in a strategic position to set high standards and drive international initiatives aimed at greater transparency and reduced costs in cross-border payment systems.

Brazil has been a clear pioneer introducing transparency in cross-border transactions and moving first in this space. More recently, the 2022 rules delivered more comparison-shopping and simplicity for Brazilians sending money abroad. To build upon these developments, the Brazilian Central Bank may consider clear guidance and/or regulatory adjustments to specify a benchmark rate which providers must use to calculate the Total Effective Value 'VET'. This would give consumers total cost transparency, allowing them to truly comparison-shop and understand the total cost of their payment (including all fees and any exchange rate mark-up). This will aid in the reduction of hidden fees and foster a more competitive and transparent market for international money transfers.

Scorecard

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.

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