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)".

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.

UNITED KINGDOM

Direct Access

Existing framework & access

Following a 2016 consultation by the Bank of England to open up access to the UK's RTGS system, the UK Treasury confirmed in October 2016 that it would include payment institutions defined as "non-bank payment service providers such as some 'fintech' firms" within the scope of the Settlement Finality Regulations (the national implementation of the EU's Settlement Finality Directive) to "allow PIs to participate in central bank settlement at the Bank of England and become members of the main UK retail payment systems". The Bank of England's Regulatory Policy Committee confirmed this didn't require an impact assessment as it was classified as a "non-qualifying regulatory provision".

The Bank then announced in July 2017 that it was extending RTGS accounts to non-bank PSPs (NBPSPs). The regulatory framework supporting this change involved amendments to the Bank of England's policies and procedures for access to the UK payment systems. This move was part of the Bank's strategy to enhance financial stability, resilience, competition, and innovation in the payments market.

This shift was aligned with the objectives of the Payment Systems Regulator (PSR) to promote competition and innovation in payment services. The change meant that non-bank PSPs, such as e-money institutions and payment institutions, could hold settlement accounts with the Bank of England and directly access the services of the RTGS system.

The first NBPSP to gain direct access to the UK's RTGS system was TransferWise (now known as Wise). They obtained a settlement account and were able to become a direct settling participant in the Faster Payments System (FPS) in April 2018. This marked a significant step in increasing competition and innovation in the UK's payment systems.

Prior to this change in policy, only 11 banks were directly connected to FPS. As of October 2024, this has now expanded to 29 banks and 16 NBPSPs in the UK.

Ongoing policy developments

The Bank of England conducted a consultation on opening up access to its balance sheet in 2019. In its June 2021 response, the Bank recognised the competition and risk reduction benefits of allowing EMIs to safeguard at the Bank. It did, however, flag its key risk concern as associated with a potential disorderly failure of a non-bank payments firm, and called for the Electronic Money and Payment Services Regimes to be strengthened before any changes to access.

In February 2024, the Bank of England launched a further consultation regarding expanding access to RTGS settlement accounts to more participants, and an additional consultation in July 2024 on innovation in money and payments. The Bank has yet to respond to these consultations.

These efforts are evidence that the Bank of England continues to be world-leading in innovating and opening up access to its services and payment schemes, while maintaining resilience and stability in the British financial ecosystem.

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

The EU's 2019 Cross-Border Payments Regulation 2 (CBPR2) included several provisions for cross-border payments to be transparent and show all currency conversion charges up front to customers, and was onshored in the UK post-Brexit via the Securities Financing Transactions, Securitisation and Miscellaneous Amendments (EU Exit) Regulations 2020. Through this regulation, financial services firms were required to:

- Inform a customer prior to the initiation of the payment transaction, in a clear, neutral and comprehensible manner, of the estimated charges for currency conversion services applicable to the credit transfer.
- Provide the actual exchange rate that will be applied to the transaction as well as all charges related to the currency conversion service.

This is the main regulatory vehicle through which transparency in cross-border payments was to be achieved for payments between the UK and the EU. However in practice, firms are circumventing these rules due to a lack of legal clarity that a firm using its own exchange rate, which is typically higher than the mid-market exchange rate, constitutes a 'currency conversion cost' to the customer. It must also be noted that the regulations only apply to intra-EU currencies (and now post-Brexit, GBP to intra-EU currencies), and not more generally to all international payments.

Separately, the UK's Payment Services Regulations (PSRs) 2017, which implemented the EU's second Payment Services Directive (PSD2), also has some provisions for providing transparency to consumers in cross-border payments. It is broader in scope and applies to payments generally, including cross-border. Again however, the language in the regulations isn't sufficiently robust to ensure price transparency is implemented in practice by industry.

CBPR2 specifically seeks to enhance transparency and cost consistency for cross-border payments, and the PSRs 2017 provides a complimentary framework for all payment services within the UK. Together, they were designed to ensure that consumers receive clear, transparent, and comparable information about fees, charges, and exchange rates, both before and after transactions. This has not been effectively realised across the UK market.

The UK's Financial Conduct Authority (FCA) also introduced its new Consumer Duty in July 2022, which came into force on 31 July 2023. It contains a specific 'price and value' pillar, which aims to protect consumers from unfair pricing practices, such as excessive fees, charges, or penalties that do not correspond to the product or service's value. It also has a separate 'consumer understanding' pillar, which requires firms to promote understanding by customers to help them make informed decisions, to ensure they are not misled or confused. Should the FCA look to examine how the cross-border payments market currently operates in the UK, it could choose to enforce greater price transparency through these pillars of the Consumer Duty. It has not done so to date.

Customer experience

The customer experience has shifted to providers lowering their upfront fee, or showing fees as zero, due to the equalisation of fees provision in CBPR2. However, this has led to providers raising their FX markups instead: market research shows that the vast majority of banks still hide fees, with these usually hidden deep inside Terms & Conditions (T&Cs) in consumer contracts. However, we have found evidence of some providers moving towards transparency but not fully: for example, some providers do calculate and show their FX margin as a fee or as a percentage, but this is hidden behind a tooltip and isn't easily available or found by consumers. This is some progress, but still goes against the spirit of what CBPR2 and the PSRs 2017 envisaged.

Based on market research of major UK banks and NBPSPs, fintech companies in the UK in both categories are largely transparent with their customers in cross-border exchange rates and fees, with traditional banks less so.

UK payment providers' cross-border payment hidden fees based on customer payment journey data collected September - October 2024

Provider	Exchange rate markup/ hidden fee	Tranparency rating
Natwest	2.49%	
Santander	3.36%	
HSBC	3.5%	
Revolut	0.19%	
Barclays	2.8%	
Halifax	3.6%	
TSB	3.56%	
Starling Bank	0%	
Monzo	0%	

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.

Exchange rate mark-ups and hidden fees are still commonplace amongst the UK's largest financial service providers, showing that full transparency is not yet realised in Britain. There is also little customer understanding around exchange rates offered by financial institutions: in 2018, the UK Government's Behavioural Insights Team conducted research which shows that the number of first time consumers (people who make their first cross-border transaction) who can identify the cheapest deal doubles once there is full price transparency - which includes FX markups.

Without this, there is little comparison shopping or effective competition between firms which would create a market-led downward pressure on prices for cross-border transfers. It is evidence that transparency only works if the whole market adopts the same model. Standardisation is the only way there is a strong customer impact.

Ongoing policy developments

In January 2023, the UK Government launched a consultation on reviewing and revising the PSRs to update the regulations and potentially utilise the decoupling of financial services regulation from the EU. In the consultation, the Government specifically asks for views on the Cross-Border Payments Regulation in relation to the transparency of currency conversion, and any changes industry would like to see. We note that several firms and trade organisations in the UK directly called for stronger transparency rules with regards to cross-border payments.

The consultation response was due to be published earlier this year, but has been delayed several times due to parallel policy initiatives, as well as the General Election in July 2024. There has been no progress or indication of positive development towards greater transparency since the consultation initially launched.

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.

G20 Roadmap for Enhancing Cross Border Payments

Scorecard report on direct access and price transparency

November 2024

wise.com/g20roadmap