

Brussels, 26<sup>th</sup> June 2003

## **Cross-border transfers in euros as from 1 July 2003 - Frequently asked questions**

(see also IP/03/901)

### **How will things change after 1 July 2003?**

Regulation 2560/2001/EC on cross-border payments in euros established as from 1 July 2003 the principle of equal charges for a cross-border transaction and a strictly domestic transaction within the European Union. When a payment is made in euros between two euro accounts, there is no reason why charges should be different if a payment crosses a border. In today's euro area, geographical borders are no longer monetary borders.

The Regulation provides that a cross-border transfer in euros using the IBAN and BIC codes is to be treated in the same way as a domestic transfer. Accordingly, the costs at either end of the transfer must be the same as for domestic transfers.

The rules applicable are those of the country in which the account is held. In the case of a transfer from the Netherlands to Germany, the originator will pay the Dutch costs and the recipient the German costs (if costs are charged for receiving domestic transfers).

### **Which transfers will benefit from the same charges as for domestic transactions?**

Transfers that satisfy all the following conditions:

- transfers in euros not exceeding €12 500 to an EU country;
- the IBAN and BIC codes of the beneficiary must be indicated by the originator on the standard document used by his or her bank (the forms are not identical to those used for domestic transfers);
- originators pay their own costs.

### **What happens if these conditions are not satisfied?**

If one of the three conditions is not satisfied, the Regulation is not applicable and the charges could therefore be much higher.

### **Are there any changes regarding transfers in excess of €12 500?**

The Regulation is not yet applicable in this respect. The increase to a maximum of €50 000 will take effect on 1 January 2006. The extra time is needed to compile statistics. Statistics on cross-border payments are used by statisticians to calculate trade flows, including within the EU. All transactions will therefore have to be reported. The Regulation abolishes such systematic reporting for payments of less than €12 500. For payments involving larger sums, the statisticians need time to develop new arrangements for compiling data.

## What are IBANs and BICs?

The Regulation is also intended to help banks automate their transfer systems. An International Bank Account Number (IBAN) and a Bank Identifier Code (BIC) are the prerequisites of automation and so the customer must supply these data.

IBAN is the international bank account number of the payment beneficiary. Existing bank account numbering systems are strictly national and do not include any particulars indicating the country in which an account is located. The IBAN standard consists simply in each account number being preceded by a group of four characters: two letters identifying the country, like an international telephone number, and two figures enabling the IBAN to be checked in order to avoid transcription errors. It comprises a maximum of 34 characters but has a fixed length per country, i.e. 16 characters in Belgium and 27 in France.

| <b>Country</b> | <b>IBAN example</b>         |
|----------------|-----------------------------|
| Austria        | AT617601300035746811        |
| Belgium        | BE62510007547061            |
| Denmark        | DK5000400440116243          |
| Finland        | FI2112345600000785          |
| France         | FR1420041010050500013M02606 |
| Germany        | DE8937040044532013000       |
| Greece         | GR160110125000000012300695  |
| Ireland        | IE29AIBK93115212345678      |
| Italy          | IT40S0542811101000000123456 |
| Luxembourg     | LU280019400644750000        |
| Netherlands    | NL39RABO0300065264          |
| Portugal       | PT50000201231234567890154   |
| Spain          | ES0700120345030000067890    |
| Sweden         | SE3550000000054910000003    |
| United Kingdom | GB29NWBK60161331926819      |

The BIC (Bank Identifier Code) simply designates the payment beneficiary's bank. It adds to the information provided by the IBAN code. It usually consists of 11 characters, but sometimes only 8. The BIC is also known as the SWIFT code or address.

## How can I find a beneficiary's IBAN and BIC codes?

This information must be supplied by the payment beneficiary to the person making the payment. To ensure that the information is made available to customers, the Regulation requires bank statements to show a customer's IBAN and BIC as from 1 July. Similarly, invoices that can be paid by means of a cross-border transfer must show this information. Every effort must be made to ensure that the information is always available. In addition, customers must know how to make use of the information. That is why the Commission has on several occasions drawn the attention of the banking world to the importance of disseminating information on how to use the IBAN and the BIC. The Commission has also circulated an information brochure that is available on the Europa website:

[http://europa.eu.int/comm/internal\\_market/en/finances/payment/area/index.htm](http://europa.eu.int/comm/internal_market/en/finances/payment/area/index.htm)

### **What happens if the IBAN and BIC are not supplied?**

A non-automated credit transfer costs the bank a lot more. That is why banks have already established charges that vary according to the information supplied. Customers making a cross-border payment will pay far more if they are unable to give the beneficiary's BIC and IBAN codes. The Regulation makes specific provision for the possibility of extra charges being levied if the IBAN and BIC are not provided.

### **Are domestic transfer charges affected by the Regulation?**

The Regulation simply establishes the principle of non-discrimination between domestic payments and cross-border payments in euros. This alignment of charges will produce a considerable reduction in cross-border transaction charges. The price for payment services is fixed by the bank. If a bank considers that it has to offset its loss of income resulting from the introduction of the Regulation by increasing the price of domestic transfers, the Regulation does not prevent it from so doing. The banking world frequently points out that there is one cross-frontier transfer for every 100 domestic transfers. Assuming that the cost of a transfer is €25, a simple calculation shows that domestic transfers would cost an extra 25 cents. But this reasoning does not take account of the enormous gains in productivity resulting from the automation of formerly manual operations.

### **Some banks are increasing their charges for domestic credit transfers. What does the Commission think of this?**

The measures being taken by the banking community will pave the way for cross-frontier transfers that cost as little as domestic transfers. It is therefore surprising to note that some banks are using the EU Regulation as a reason for applying tariff increases that appear to be unrelated to actual costs. The banking community had been opposed to the Regulation on the ground that cross-border transfers accounted for only 1% of all transfers. It is therefore not consistent to decide two years later that domestic transfers which, in June 2003, had cost only a few cents should suddenly cost several euros in July 2003 and to claim that this increase is the result of the entry into force of the EU Regulation.

The banks are free to decide their pricing policy. The Commission would nevertheless point out that higher charges cannot be levied if the customer has not been previously informed (Article 4(2) of Regulation 2560/2001). The Commission must also present a report on changes in the charges levied for national payment transactions to the Council and Parliament in July 2004.

### **Why were cross-border payments so expensive?**

At national level, transfers are now completely automated: when a payment instruction is electronically recorded (at a branch or processing centre), the entire transaction takes place without any human intervention. This high degree of automation explains why the cost of domestic transfers is only a few cents. By contrast, a large proportion of cross-border transfers were processed manually, chiefly owing to the lack of standardised account numbers. That is why the Regulation provides that this principle of equal charges applies to a comparable transfer, i.e. a cross-border transfer that can be automated using the IBAN and BIC codes.

### **Is any work under way to improve the processing of transfers?**

Immediately after the Regulation was published in December 2001, the European banking industry set up the European Payment Council. This structure is piloting the introduction of a European payments area that is as efficient as the former domestic payments areas. Thus, on 28 April 2003, a clearing/settlement system (STEP2) was launched for transfers involving small amounts. This first Pan-European Automatic Clearing House (PEACH) will deal initially with cross-border transfers. New standards and rules have also been introduced for such transfers (Credeuro project). Similar work is under way on the setting up of, among other things, a European direct debit system.

The Commission for its part is in the process of reviewing the entire legal framework for payments. It will shortly be publishing a communication that will include a list of the remaining barriers and proposals for removing them.

### **What is the single payments area?**

It is the application to payments of the principle of the disappearance of borders. The guiding principle is to regard as domestic transactions, transactions which, even if they cross a border, are conducted in a single currency, the euro. It is therefore necessary that cross-border transactions should gradually be carried out at the same cost and take the same time as domestic transactions.

In each of the twelve national payments areas within the euro area, the costs of a transaction are the same, whether the payment crosses the road in a capital city or moves from one remote area to another. This principle of a single payments area transforms the twelve national areas into a single domestic euro area.

The same principle also applies to euro transactions to and from other EU countries.

### **What is Commission policy as regards the building of this single payments area?**

It will take several years to construct this area. The Commission is now working on a recasting of the statutory framework for payments. The Regulation simply harmonises charging principles. The different legal rules applicable to the different payment instruments also need to be harmonised. It is almost impossible at the moment to set up automatic cross-border direct debit systems. This is due chiefly to the different and more often than not incompatible legal rules in each country. Yet direct debit is one of the simplest means of payment.

There are, however, other dimensions that are also very important such as interoperability and security. As regards the former, the electronic cash cards in use today in the EU are all strictly national. As regards the latter, it is important that the new standards connected with the use of smart cards and confidential code checks are identical throughout the EU. If different security standards are applied, security falls to its lowest level as soon as a transaction becomes cross-border in nature. The Commission is holding a conference on this subject on 16 September 2003:

[http://europa.eu.int/comm/internal\\_market/en/finances/payment/conference/index.htm](http://europa.eu.int/comm/internal_market/en/finances/payment/conference/index.htm)

### **How will the Regulation apply to transactions with EU countries that are outside the euro area?**

If a Belgian firm sends a transfer in euros to a UK firm with a euro account, the Regulation is applicable. The payment originator will pay the same charges as for a domestic transfer. If the UK firm makes euro payments to the euro area, the charges to the issuer will be the same as for a euro transfer within the United Kingdom, and costs to the recipient, if any, will be the same as for a domestic transfer.

### **What penalties are provided for?**

Article 7 of the Regulation provides that "compliance with this Regulation shall be guaranteed by effective, proportionate and deterrent sanctions".

Each Member State is responsible for such sanctions. This is a principle of Community law: each Member State must ensure that infringements of Community law are penalised in a similar way as infringements of national law.