EUROPEAN COMMISSION

MEMO

Brussels, 8 May 2013

Proposal for a Directive on Payment Accounts - Frequently Asked Questions

See also IP/13/415

1. What does the proposal for a Directive on Payment Accounts[1] include?

The legislative proposal on Payment Accounts concerns three areas:

- Comparability of payment account fees: the aim is to make it easier for consumers to compare the fees charged by banks and other payment service providers in the EU on payment accounts;
- Switching between payment accounts: the aim is to establish a simple and quick procedure for changing from one payment account to another, with a different bank or financial institution;
- Access to payment accounts: the aim is to allow all EU consumers, irrespective of their country of residence in the EU or financial situation, to open a payment account that allows them to perform essential operations (like receiving their salary or pension, transferring funds to another account, withdrawing cash or using debit cards).

The three areas are closely related. The measures on comparability of payment account fees allow consumers to have a complete overview of the offers on the market, and the measures on switching make it easy for them to change their account if a better offer is available. All these elements aim to reinforce competition in the financial services market to the benefit of consumers. However, to guarantee that as many consumers as possible can really enjoy the benefits of these improvements, it is essential to ensure that every EU citizen has the right of access to basic payment account services.

[1] 'Payment account' means an account held in the name of one or more customers which is used for the execution of payment transactions. The concept is wider than that of bank account, as payment accounts can be offered by payment service providers other than banks, such as post office giro institutions. In practice however, most payment accounts are provided by banks. Bank accounts that can only be used as deposit accounts (without the possibility to do payment transactions) are not considered as payment accounts.

2. Why do we need legislation on payment accounts?

The existing rules on payment accounts are not sufficient to protect consumers. At present, there are no measures addressing the issue of fee comparability. Certain rules exist in the Payment Services Directive[2] to increase transparency of payment accounts, but they do not help consumers compare the offers of different banks [more information in answer 3].

With respect to switching between bank accounts, self-regulatory measures adopted by the banking industry in 2008 have not been followed consistently and as a result consumers often face problems and delays when trying to change accounts. It is therefore necessary to establish legally binding rules which can be effectively enforced when issues in the switching process arise.

Finally, even though the Commission adopted a Recommendation in 2011 on basic payment accounts (see IP/11/897 and MEMO/11/514), very few Member States followed it up by adopting adequate measures. Given the importance of guaranteeing access to basic payment account services to consumers, the Commission considers it necessary to adopt measures of a legislative nature.

Transparency and comparability of payment account fees

1. Is there really a problem with the transparency and comparability of payment account fees?

The Commission has carried out a number of studies[3] and surveys to identify if and why consumers find it difficult to understand and compare fee information. The evidence indicates that consumers are not familiar with fees associated with their payment account. When questioned about specific items of expense on their account, many consumers were unaware of the amount of fees on their account for varying reasons, including the fact that they were too complex. Most consumers surveyed indicated that they never compare the fees on their account with other payment accounts.

Generally respondents to the Commission's public consultation on bank accounts agreed that action was needed to improve fee transparency.

2. Which measures are proposed to improve the transparency and comparability of payment account fees?

The proposed Directive creates the fee information document which is a standard form document that must be given to consumers before they enter into a contract for a payment account. It must also be made available by banks and other payment services providers at all times. It lists the services most commonly offered on an account and the relevant fee. It will make use of standard terms to facilitate comparison between payment accounts offered by different providers. As a result, a consumer who would like to purchase or change accounts can easily identify the services they are most interested in and evaluate which provider charges the lowest fees. A glossary explaining the features of the services listed in the fee information document will also be made available to consumers.

[2] http://europa.eu/rapid/press-release_IP-07-1914_en.htm?locale=en
[3] http://ec.europa.eu/consumers/rights/fin_serv_en.htm

Moreover, consumers must be provided with another document, called statement of fees. The statement of fees must be provided to consumers who have an account and contains information on the fees they actually paid on that account in the previous year. Banks may decide, however, to provide consumers with this information even more than once a year. The statement of fees will make use of standard terminology.

Finally, the proposed Directive foresees that there should be at least one comparison website for payment accounts available in each Member State. In addition it establishes essential quality criteria for comparison websites via a voluntary accreditation scheme, such as a requirement to be operationally independent of any payment service provider and to ensure that the information provided to consumers is up-to-date and accurate. This will help consumers to compare payment account offers quickly, at low cost and be confident that the information provided is reliable and free from bias.

3. The Payment Services Directive already introduced a set of rules to improve the level of transparency of fees for payment services. Against this background, was there a need for an EU initiative that introduces further measures to ensure comparability of payment account fees?

The Payment Services Directive addresses fee transparency by ensuring that a consumer receives the full terms and conditions linked to payment services. In practice, this information is often far too complex and long to be used by consumers. The proposals in the Payment Accounts Directive targets related but separate aspects of payment services and fees, such as the way this information is provided to consumers and the terminology used to define the core services linked to a payment account. Moreover, the proposed Directive on Payment Accounts tackles additional issues, such as the procedure for switching accounts and the question of ensuring access to a basic account for all consumers.

4. What will change for consumers?

Payment service providers will make available a standard form fee information document detailing the fees for the most representative services linked to the account at all times such as withdrawals, wire transfers and overdrafts. Consumers will then be able to compare the prices of different payment accounts easily. Consumers will also receive information about the fees actually incurred on their payment account in a standard format and on a regular basis.

In addition, the proposed Directive also promotes the use of comparison websites to provide easily accessible and inexpensive information about different payment account offers for consumers. The proposal establishes a number of safeguards, including a requirement for websites that choose to sign up to the voluntary accreditation scheme to be operationally independent of any payment service provider and provide complete and up-to-date information in order to ensure that the results are reliable and of good quality.

5. What impact will the new provisions have on payment service providers? Will all banks be required to use the same terminology? Will they be obliged to make their products uniform?

Increased fee transparency will help consumers to make more informed choices and create dynamism in the market for payment accounts.

Payment service providers will be required to make use of standard terminology in the standard form documents established by the Directive. Standard terms will only be developed for a set of most representative services. As a result, for all other services, payment service providers will continue to use non-standard terminology in contractual or commercial documentation. Where relevant, payment service providers would need to refer to terms corresponding to standard terminology in contractual and commercial documentation.

These proposals do not prevent payment service providers from providing new services or from making changes to their prices for payment accounts in any way. It is not the aim of the proposed Directive to render products uniform; rather it seeks to set up the desired degree of harmonisation in the way fee information is provided to consumers without being too prescriptive.

6. Why regulate comparison websites?

Comparison websites are increasingly available to consumers who seek to obtain information about several payment accounts in the same place and with little effort. The proposed Directive seeks to promote the use of comparison websites by ensuring that they are available in each Member State.

In addition, via a voluntary accreditation scheme, it introduces a number of quality standards comparison websites will need to comply with to ensure that consumers receive information that is relevant to their needs, reliable and of good quality. These standards include operational independence of the website, the use of plain language in describing the products on offer and the provision of complete and up-to-date information.

Payment account switching

1. What is the problem with switching payment accounts?

Consumers often find it difficult to change their payment accounts. In particular, they face complications when trying to transfer recurring payments from one account to another (such as standing orders or direct debits). Many consumers use permanent payment orders to pay utility bills (telephone, gas, electricity) so they don’t have to make a specific transfer every month. Salaries are generally paid by means of permanent orders to a payment account indicated by the employee. If a consumer wants to change his account, these payments have to be transferred to the new account.

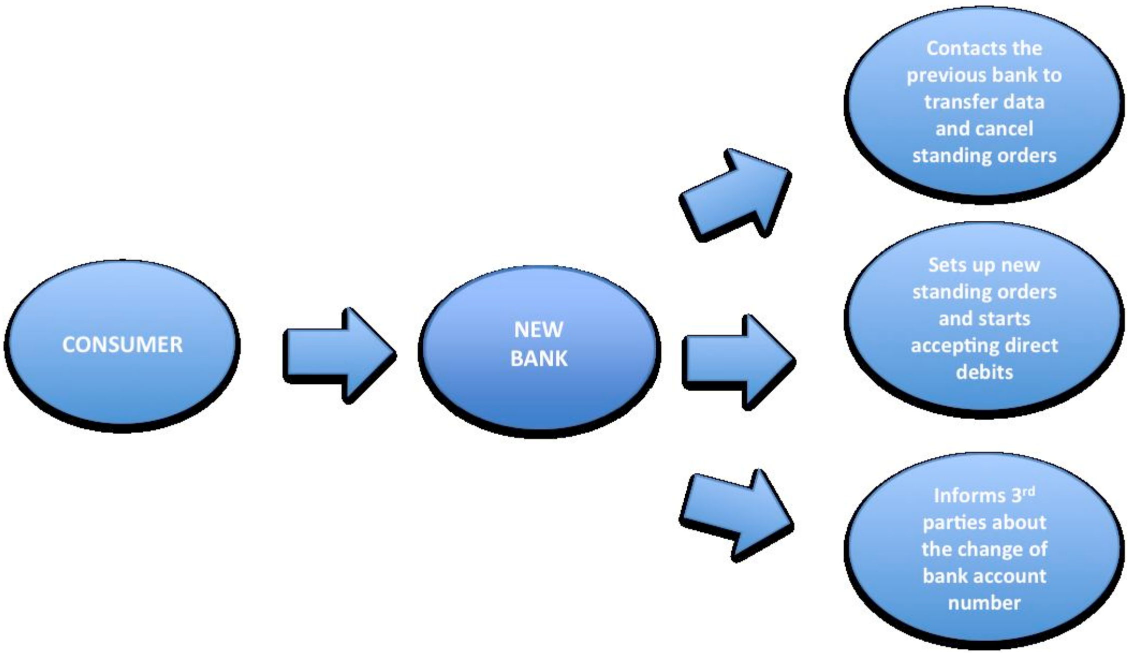
This process can be lengthy and difficult. The Commission’s research showed that consumers face a number of problems when trying to switch their payments to a different account, including: delays (the process can take up to 30 days), misdirection of payments or, in some cases, insufficient information from the bank on how the switching process works, how much time it may take or whether there are fees to pay. These complications often discourage consumers from changing their payment accounts, even where other banks offer a better product. The proposed Directive aims to solve these problems.

2. Which accounts and services will be covered by the rules on switching? What are the key steps of the switching procedure?

The proposed Directive applies to all types of payment accounts opened in banks or other payment service providers located in the EU. It provides a mechanism for the switching of recurring standing orders and direct debits from one payment account to another.

The key steps of the switching procedure are the following:

- The consumer contacts the payment service provider to which he intends to switch his payments and provides his consent to the switch. This is the only task that the consumer is required to do;
- The provider will take care of the following steps, including:
  - Contacting the transferring (previous) service provider and ask him to transfer data and cancel standing orders,
  - Setting up new standing orders and accepting direct debits,
  - Informing third parties, like the employer, social security provider, gas, electricity, phone, internet providers about the change of the payment account number.



3. The European Banking Industry Committee established in 2008 a set of principles to facilitate payment account switching.[4] Are these principles not sufficient to guarantee an effective procedure for payment account switching?

Common Principles were adopted by the European Banking Industry in 2008. However, they were implemented in different ways by the national banking associations and banks. The result is that not all payment service providers comply with the Common Principles. As a result, many consumers still face problems when they try to switch their accounts. A mystery shopping exercise undertaken by the European Commission in 2010 to monitor the effectiveness of the Common Principles across the EU demonstrated that consumers face a number of problems when trying to switch to a different account, including: a lack of information provided by banks (14% of consumers received no information; 32% of bank websites checked had no information on switching); switching a bank account including a standing order remains difficult (only 19% of switches with standing orders were successful); unclear information relating to timescales (no information given 79% of the time); as to compliance with deadlines, national studies showed that the 14-day timescale was not systematically complied with.

In light of these shortcomings, the European Commission has decided to take action and propose legislative measures to facilitate payment account switching both domestically and cross-border.

The main difference between the scope of the Common Principles and the proposed Directive concerns the introduction of the switching procedures for cross-border payment account switching. Consumers will be able to benefit from the mechanism established in the draft Directive when they switch between accounts held with providers located in different countries.

4. What will change for consumers? Will there be any additional costs?

All consumers who want to switch payment accounts will be offered a simple, smooth and quick switching service.

The Commission proposal aims to keep the switching service as cheap as possible for consumers. If banks decide to charge a fee for certain services, such as closing the old account, the fees applied should be reasonable. The proposed Directive provides criteria to define what constitutes a reasonable charge.

Moreover, if payment service providers do not meet deadlines or make mistakes in the procedure, consumers should not bear the economic consequences of these mistakes. The same happens in case of mistakes by third parties (such as a misdirection of payment).

5. What impact will the new provisions have on payment service providers?

Payment service providers would have to provide the switching service to consumers who request it and make information on the switching service available on their websites and in their branches.

[4] http://www.eubic.org/Position%20papers/2008.12.01%20Common%20Principles.pdf

If the consumer incurs costs because the provider failed to meet any of the deadlines established in the switching process, the service provider will have to refund those costs. In addition, consumers would be provided with an out-of-court dispute resolution scheme in case of a dispute with the service provider.

6. Does the draft Directive impose the use of specific technical means for switching payment accounts?

The draft Directive does not specify which technical means need to be introduced in order to carry out the switching process. It only lays down the principles and divides the tasks of the parties involved in the switching process. Banks are free to choose the technical means that will best serve the purpose, e.g. payment re-routing.

7. How does the Commission proposal facilitate cross-border payment account switching?

The European Commission's goal is that consumers should be able to operate in the European market as easily as in their domestic market.

The introduction of a cross-border switching service will reduce the complexity and uncertainty of the switching process, make it less costly for consumers and thereby facilitate their mobility. Consumers will have the opportunity to shop around and switch to a payment account in another Member State. This will improve competition and widen the range of products offered on the market, and in turn will lead to lower prices and better products for consumers.

Access to a basic payment account

1. What is the problem with access to payment accounts? Why is the Commission intervening?

More than 58 million EU citizens currently have no bank account. In certain countries, like Bulgaria and Romania, around half of the population does not have a payment account. According to Commission estimates, around 25 million citizens without a payment account would like one[5]. Some of them have been refused an account because of, for example, their financial situation. Others find the accounts currently offered on the market too expensive or too complex to understand.

Citizens without a payment account are excluded from important aspects of life in their country. They may encounter substantial difficulties with receiving their salary or social security payments. They cannot transfer money or execute transactions other than cash-based ones and are excluded from any type of online transaction or purchase, which can be cheaper. As a result, they often face higher costs and larger risks as they can only use cash. The proposed Directive aims to solve these issues.

[5] Commission calculations based on data from Measuring Financial Inclusion, The Global Findex Database, World Bank, April 2012, Special Eurobarometer on Retail Financial Services, European Commission, February 2012, and Eurostat.

2. What is a payment account with basic features?

Payment accounts with basic features enable consumers to carry out all the core transactions that are normally offered with a payment account, including: making payment account deposits, withdrawing cash, receiving payments (e.g. salary, benefits, pension including by means of credit transfers) and executing payment orders (e.g. paying bills, purchasing goods and services, transferring money to third parties including by means of direct debits). A payment card should be included, enabling the withdrawal of money from ATM machines and the purchase of goods and services from either physical providers (e.g. grocery store, petrol station) or online merchants (e.g. books, hotel bookings) who accept debit payment cards. Access to online banking services should also be provided.

Unlike ordinary payment accounts, payment accounts with basic features do not include overdraft facilities, and do not allow for a negative balance on the account.

Member States will determine whether payment accounts with basic features should be offered to consumers for free or at a reasonable fee. A reasonable fee should be identified at national level on the basis of a set of criteria, such as national income levels, average fees paid for an account in that Member State and the cost associated with the provision of payment accounts.

3. What will change for consumers? Will everybody, including those people who are bankrupt, or with a poor credit history, be entitled to open a payment account with basic features?

The proposed Directive will create a right for all consumers to access basic payment account services irrespective of their financial situation. Banks will not be allowed to refuse to open a payment account guaranteeing the minimum essential payment services to a consumer with poor credit history or any other type of financial difficulty.

However, banks will still be entitled to refuse access to a basic payment account to consumers if they do not comply with the rules on money laundering and terrorism financing or if they already have an account guaranteeing the basic payment services with a bank located in the same country.

4. How does the proposal address the fact that many consumers choose not to have a payment account?

There is no obligation to open an account if a consumer does not wish to do so. The proposed Directive creates an incentive for citizens who currently do not have an account, either because they have been refused one or because they are not satisfied with the products currently on offer on the market, to open a basic payment account.

Moreover, the proposed Directive targets problems of insufficient knowledge about payment accounts and payment service providers, which is often the cause for not having an account. It requires information to be given to the public about the availability of basic payment accounts, their main characteristics and how to obtain such an account.

5. Will the proposed Directive oblige all payment service providers to offer payment accounts with basic features to all consumers?

The proposed Directive will not oblige all banks to provide basic payment accounts to all consumers. Instead, the Directive will ensure that Member States identify at least one bank that will be required to offer these accounts to consumers.

6. Will people have access to payment accounts with basic features in any EU country or only their country of residence?

The aim of this draft Directive is to enable consumers who want to open and use a payment account to access basic payment services anywhere in the EU for their everyday payment transactions.

Residency should not be used as a barrier to accessing payment services for those who need them. For many years, the Commission has received letters from citizens who are refused a payment account because they are not resident in the country concerned. Such consumers are often, but not exclusively, temporary workers, students, and trainees temporarily or partially residing in the host Member State. Consumers are unlikely to open a basic payment account in a Member State if there isn't any genuine rationale for them to enter a banking relationship in that country. As far as the risk for criminal exploitation of the financial system is concerned, these practices are covered under the Directive on the prevention of anti-money laundering and terrorism financing.

7. Granting access to or closing a payment account is a commercial decision. Why is the Commission willing to interfere in the contractual freedom of payment service providers?

The proposed Directive does not state that payment service providers will have to offer all types of accounts to every individual: it focuses on what is strictly necessary to enable consumers to use the most essential payment services.

Evidence shows that consumers are denied access to ordinary payment accounts due to industry practices concerning their financial situation and place of residence in the EU. Such denials lead to a high level of consumer damage, and have a negative impact on the internal market and broader society.