

Welcome to the AFEP Conference 2019

Thank you to our Speakers



AFEP & FCA Engagement Meeting

- What is the Engagement Group?
- Direction of travel is TRANSPARENCY - specifically pricing before registration
- Behavioural Insights Team

1. Information displayed

You send: £10,000

You receive: €11,009

How we calculated your price:

Market exchange rate: €1.1234 for every £1

Total cost of service: £200 (2%)

Cost breakdown:

Currency conversion cost: £200 (2%)

Payment service cost: £0 (0.01%)

Your rate: €1.1009 for every £1

Options:

- Pop out vs constant
 - Your rate
- Order of the information

2. How long quote is available

Option: draw attention to the dynamic nature of the market

Date and time: 17 June 2019 10:00

e.g. This deal is available for the next 30 minutes/hour/24 hours

e.g. The market has moved significantly in the last 24 hours

You send: £10,000

You receive: €11,009

How we calculated your price:

Market exchange rate: €1.1234 for every £1

Total cost of service: £200 (2%)

Cost breakdown:

Currency conversion cost: £200 (2%)

Payment service cost: £0 (0.01%)

Your rate: €1.1009 for every £1

3. When the information is presented

Option: Before or after completing registration

Experimental measures

Key outcomes are choice of firm and shopping around

- Shopping around simulated by number of firms 'opened' or 'registered' for
- Time taken to complete experiment
- Participant's level of experience with foreign exchange
- Financial literacy questions

FCA's Principles for Businesses

Extension to EMIs and APIs on 1 August 2019

Contents

- 1. Background**
- 2. Principles for Businesses**
- 3. Communication rules in BCOBS 2**

1 Background

Background

- The Principles for Businesses and most other provisions in the FCA Handbook do not currently apply to payment and e-money institutions
- When PSD1 was being implemented in 2009, it was considered too complex to incorporate the directive into FSMA and, consequently, the Handbook.
- The decision was therefore made to implement PSD1 by means of standalone Treasury Regulations, namely the Payment Services Regulations 2009. This was repeated with the Electronic Money Regulations 2011.
- Time to level the playing field by applying rules already applicable to other PSPs and e-money issuers.

Background

- The FCA has been concerned for some time about misleading communication practices by some payment and e-money institutions, particularly in relation to misleading advertising.
- In particular the misleading use of the “interbank rate” on firm websites; such that consumers may believe the interbank rate shown on firm websites is available to them, rather than the (inferior) rate actually available.
- The FCA has also expressed concern about a tendency among some e-money institutions to use language in their marketing indicating that they are offering, for example, “guaranteed” rates, or “bank accounts”.
- A further concern relates to firm’s charging structures not being transparent, with some firms advertising their services as “free”, with the customer thus not realising that a charge is still incurred from other entities in the payment chain.

The Changes

1. Extending the Principles for Businesses to payment and e-money institutions.
2. Extending certain communication rules in the Banking Conduct of Business Sourcebook (BCOBS 2) to payment and e-money institutions.
3. New rules in BCOBS on the communication and marketing of currency transfer services.

So when do the new rules apply?

- Initially the FCA wanted to implement the rules with no implementation period.
- Following responses to the consultation, the FCA agreed to delay implementation until **1 August 2019**.
- This gives us just over **six weeks** more by when to comply with the new rules.



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Principles for Businesses

Principles for Businesses

- The Principles now extend to the following activities.
 - The provision of payment services.
 - Issuing of electronic money.
 - Activities **connected** to the provision of payment services and to the issuing of electronic money.
 - Communication or promotion of payment services and electronic money.
- Key question is what is a “connected activity”?
- Caveat: the Principles will not apply where “inconsistent” with the Payment Service or E-Money Directives.

The Principles

1. **Integrity** – A firm must...conduct its business with integrity.
2. **Skill, care and diligence** –conduct its business with due skill, care and diligence.
3. **Management and control** – take reasonable care to organize and control its affairs responsibly and effectively, with adequate risk management systems.
4. **Financial prudence** – maintain adequate financial resources.
5. **Market conduct** – observe proper standards of market conduct.
6. **Customers' interests** – pay due regard to the interest of its customers and treat them fairly.
7. **Communication with clients** – pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.
8. **Conflicts of interest** – manage conflicts of interest fairly, both between itself and its customers and between a customer and another client.
9. **Customers: relationships of trust** – take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgement.
10. **Clients' assets** – arrange adequate protection for clients' assets when it is responsible for them.
11. **Relations with regulators** – deal with its regulators in an open and cooperative way, and must disclose to the FCA appropriately anything relating to the firm of which that regulator would reasonably expect notice.

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BCOBS 2 – communication rules

BCOBS 2 - Purpose of the rules

- These rules reinforce Principle 6 (treating customers fairly) and Principle 7 (communication with clients)
- The focus of BCOBS 2 is to ensure that promotions are communicated in a way that is **fair, clear and not misleading**.

Fair, clear and not misleading

- Payment and e-money institutions “must take reasonable steps” to ensure that a communication or promotion is **fair, clear and not misleading**.
- This rule is to be applied in a “proportionate” manner, taking account of the means of communication and the information that it is intended to convey.
- So for example, a promotion to business customers does not need to be presented with the same degree of care as promotions directed to consumers. Or a promotion directed at high net worth individuals will look different than one presented to young people with limited financial knowledge.
- Particular care must be taken when using the words “guaranteed”, “protected”, “secure” or a similar term in describing the service. Where such words are used:
 - all necessary information must be presented with sufficient clarity to make the word fair, clear and not misleading.
- An exchange rate will be misleading if it gives customers the impression that the rate shown is obtainable with respect to a typical transaction, if that is unlikely to be the case. A disclaimer will not necessarily prevent this being misleading.

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BCOBS 2 – currency transfer services

Comparing with competitors

- The FCA has been frustrated with certain e-money and payment institutions making unsubstantiated comparisons with competitors in relation to currency transfer services. The new rules will now require firms to:
 - Such comparisons must be “meaningful” and presented in a “fair and balanced way”.
 - Where costs are compared, the claims must be able to be substantiated.

Bank-beating exchange rates

- ✓ Great exchange rates
- ✓ No hidden fees
- ✓ Award Winning Service
- ✓ Authorised by the FCA

Bank-beating exchange rates

With us you'll always get outstanding exchange rates with no hidden fees.

AFEP

FCA



Vyvian Bronk, Technical Specialist

Agenda

FCA engagement with AFEP good practice guide

- Supporting consistent implementation of our Principles and new communication rules from 1st August

Currency Transfer Services Engagement Group

- Forum to reach consensus on consistent core information on currency transfer costs
- In line with EU revised Cross Border Payments Regulation (CBPR2) from April 2020

Testing clear communication to consumers

- To support meaningful comparison between firms

FCA and AFEP's work

- AFEP and others asked for more guidance about how our Principles and communication rules apply in the payments and e-money sectors
- We believe developing industry guidance or examples of how our Principles and communication rules apply is the right approach – we welcome AFEP's pro-active work
- CBPR2 includes communication rules for currency transfers (finalised after our high-level rules) - we welcome AFEP's cooperation to improve and standardise cost disclosure in line with CBPR2, and we are engaging across industry on this
- We want firms to disclose costs in a way customers can understand. Unless we see improvements in disclosure we will consider consulting on additional rules and guidance in 2020

Currency transfer – what is the problem?

Incomplete information on currency transfer services costs	<p><i>EU publication consultation 2017</i></p> <ul style="list-style-type: none"> • Over 90% of individuals believe current information is insufficient for informed choice <p><i>UK Currency Market Report for FCA 2018</i></p> <ul style="list-style-type: none"> • For 90% of firms, difficult or extremely challenging for consumers to work out the total cost
Poor customer ability to compare providers	<p><i>Behavioural Insights Team research 2018</i></p> <ul style="list-style-type: none"> • Tested disclosures about currency conversion costs • Many consumers did not identify the cheapest option, but some disclosures are better than others
Misleading marketing by firms	<p>Claims of “best rate”, “no fees” and converters using interbank rates</p> <ul style="list-style-type: none"> • Action against individual firms by Advertising Standards Authority (ASA) and FCA • Misleading currency converters withdrawn • But not replaced with better information

FCA BCOBS 2: the fair, clear and not misleading rule

- Firms must take reasonable steps to ensure a payment service or electronic money promotion is fair, clear and not misleading
- Communications addressed to small business customers need not be the same as those addressed to consumers
- Communications or promotions relating to a currency transfer service are likely to be misleading if they present an exchange rate in a way that is likely to give the impression that this rate is available to a person or a class of persons if that rate is unlikely to be obtained by them for a typical transaction
- Stating in the communication or promotion that an exchange rate shown is not available to particular customers will not necessarily prevent the presentation of the exchange rate being misleading

BCOBS 2: Other requirements

Communications / promotions must:

- Give a fair and prominent indication of any relevant risks
- Present information in a way that is likely to be understood by the average member of the group to whom it is directed
- Not disguise, diminish or obscure important information, statements or warnings

If comparing costs of currency transfer services to those of other providers (identified or not):

- comparison must be meaningful and presented in a fair and balanced way, and firm must be able to substantiate the claims made

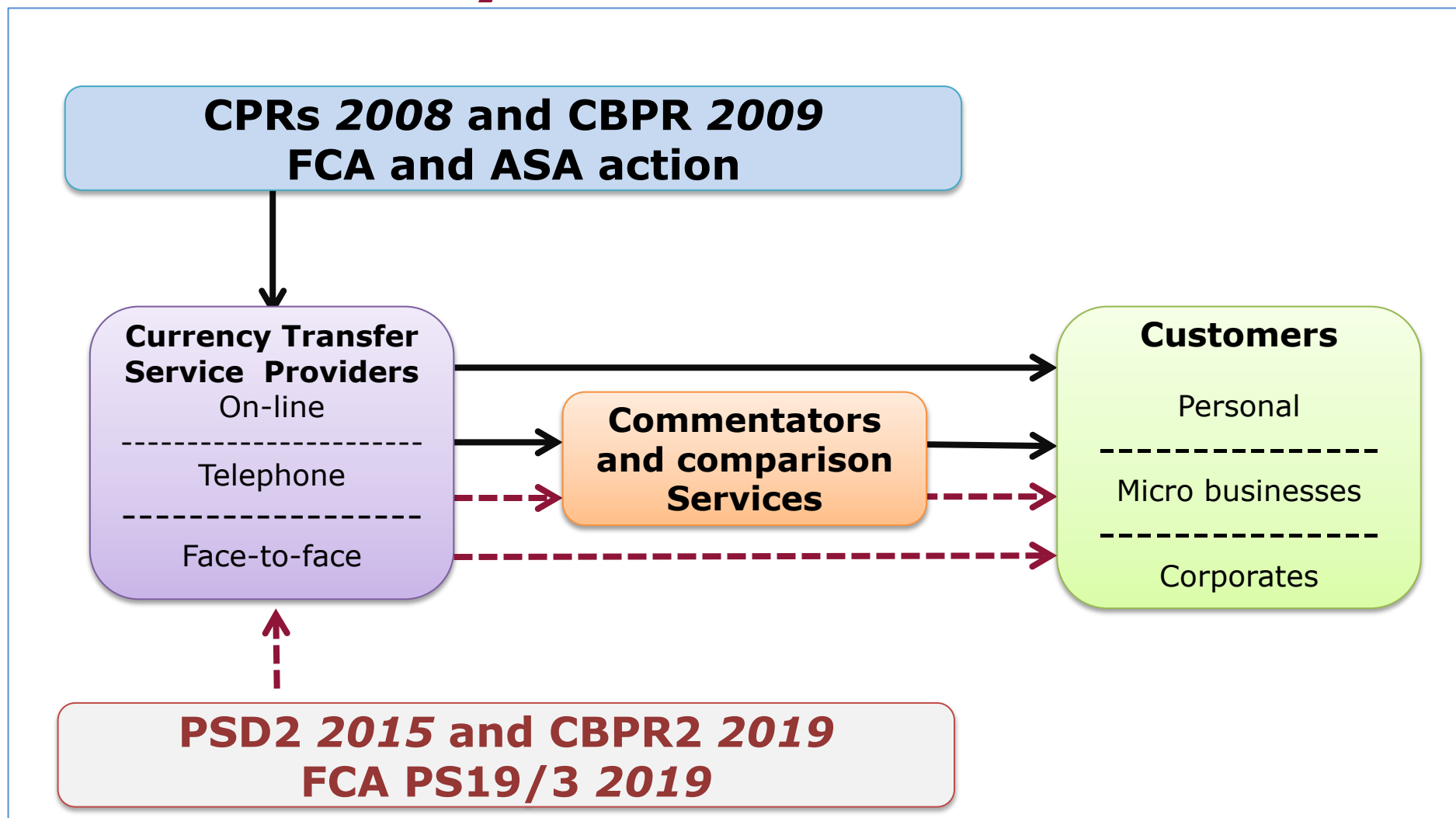
The cost of a currency transfer service includes:

- (1) any charges payable in relation to the currency conversion
- (2) any charges payable in relation to a connected payment service or electronic money issuance; and
- (3) the margin between the exchange rate that would be offered to a majority of persons of the class at whom the promotion is directed and a currently applicable interbank exchange rate, calculated using an independently published interbank spot rate.

Currency Transfer Services Engagement Group

Role and Purpose	<ul style="list-style-type: none">• Forum to discuss any key differences of view• Not a decision-making body - meeting 3 or 4 times
Chair and members	<ul style="list-style-type: none">• Mark Chidley - member of FS Consumer Panel• Members invited to represent firms providing currency transfer services or for their expertise in customer understanding of payment services and e-money• Includes some consumer and small business representatives and comparison services as well as trade associations
Possible research	<ul style="list-style-type: none">• Group advising on possible FCA consumer-testing of how people may use core cost information and compare between providers

Currency transfer services



Issues raised and how to resolve them

Engagement Group Agenda

1) Scope/detail of regulations

2) Core information blocks

3) Types of customer

4) Dealing channels

5) One-off / repeat business

EBA Q&As about CBPR2

Customer research?

What core information is meaningful / comparable / trustworthy?
Would it help to choose a provider?

Commentators / comparison sites

Could they use this information?
How would they integrate it to their output?

Reflection in industry guidance

Publicising industry guidance

Potential further FCA guidance / rules

Conclusion

Applying our Principles and communication standards from 1st August will enable:

- Customers to make more effective decisions and enjoy services that better fit their needs
- FCA to address harm more effectively

Improvements in firm conduct will improve trust in innovative business models

We welcome AFEP's development of good practice guidance and contribution to our Engagement Group