



Inquiry into foreign currency conversion services

Issues Paper

2 October 2018

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1. The Inquiry

On 2 October 2018, the Treasurer, the Hon Josh Frydenberg MP, issued a notice approving the Australian Competition and Consumer Commission (ACCC) holding an inquiry into the supply of foreign currency conversion services to consumers and small businesses in Australia. The inquiry commenced on 2 October 2018.

The inquiry will have a particular focus on the purchase of foreign cash, and the transfer or remittance of money overseas. It will also consider other ways that consumers and small businesses perform foreign currency transactions, such as via credit, debit or pre-paid travel cards.

Through the inquiry, the ACCC will examine the pricing of these services and evaluate whether there are impediments to effective price competition.

The inquiry will involve broad consultation and stakeholder engagement, including seeking feedback in response to this issues paper, targeted consultation with industry participants, regulators and consumer groups, and requesting information from industry participants.

The ACCC is to submit its final report to the Treasurer by 31 May 2019.

2. Terms of Reference

The matters to be taken into consideration by the ACCC include, but are not limited to:

- the pricing of and costs associated with supplying foreign currency conversion services;
- the nature and extent of competition between existing suppliers of the services;
- the existence and extent of any barriers to entry and/or expansion; and
- whether there are factors limiting the ability of consumers to effectively compare services and prices.

3. Timeline

The dates below are indicative. The ACCC will publish further information with confirmed dates on its website as the inquiry progresses.

2 October 2018	Commencement date
2 October 2018	Release of issues paper
22 October 2018	Due date for feedback in response to the issues paper
31 May 2019	Final report to be provided to the Treasurer

4. Inquiry Background

In the 2017-18 Budget, the Australian Government announced additional funding for the ACCC to establish a permanent unit to undertake regular inquiries into competition issues in the financial services sector. The role of the Financial Services Unit is to facilitate greater and more consistent scrutiny of competition in the economy's largest sector. The first task of the unit has been the Residential Mortgage Pricing Inquiry, which is due to be completed in November 2018.

The ACCC has been considering its forward work program and has identified foreign currency conversion services as warranting scrutiny. In addition to some recent articles alleging a lack of competition for such services in Australia, the ACCC has received a number of complaints from consumers about these services. The Productivity Commission (PC) also raised concerns about foreign currency conversion services in its *Inquiry into Competition in the Australian Financial System*.

In its final report, the PC found that consumers may have difficulty understanding the different types of prices charged for international money transfers. The PC recommended that the ACCC review the transparency of fees for these services, with a view to investigating whether additional disclosure methods could improve consumer understanding and the comparison of fees for different services (recommendation 17.4).¹

The ACCC now has the approval of the Treasurer to undertake such an inquiry, commencing with the release of this issues paper.

5. Process

The ACCC invites your views by way of written feedback to this issues paper. We would appreciate submissions from suppliers of foreign currency conversion services, as well as feedback from the people and small businesses that regularly use these services, and consumer groups.

The ACCC will also directly contact some industry participants to obtain specific information. Through the inquiry, the ACCC has the legal power to compel certain information from industry participants where required.

5.1. Feedback

This issues paper seeks feedback on a variety of issues, though the issues raised in this paper are by no means exhaustive. We provide these as an early indication of the questions we believe we need to answer as part of the inquiry. We would welcome guidance on whether this list of issues should be further refined, or expanded.

You may wish to address as many or as few of the identified issues as you like.

You should provide feedback by 22 October 2018. Responses should be emailed to forex@acc.gov.au.

Alternatively, consumers and small businesses may wish to instead complete a brief online questionnaire outlining their experiences using foreign currency conversion services. The online questionnaire is a streamlined process intended to make it easier for consumers and small businesses to have a say on the issues of most relevance to them. The questionnaire is available on the ACCC's [Consultation Hub](#).

5.2. Treatment of information

Broadly speaking, the inquiry is a public process and written feedback will be posted on the ACCC website.

The *Competition and Consumer Act 2010* contemplates that interested parties providing written feedback to the inquiry are entitled to make claims for confidentiality in certain circumstances.

¹ Productivity Commission, *Competition in the Australian Financial System*, Report no. 89, Canberra, 2018, pp. 494-497.

The ACCC can accept a claim of confidentiality from the party if the disclosure of information would damage their competitive position. If the ACCC is satisfied that the confidentiality claim is justified, it must keep that information confidential unless it considers that disclosure of the information is necessary in the public interest.

If the ACCC considers that the confidentiality claim cannot be upheld, the ACCC will provide the parties with an opportunity to withdraw part or all of their feedback. If this information is withdrawn, then the ACCC will not take it into account. If a party elects not to withdraw the information, then the ACCC may disclose the information publicly. If the ACCC subsequently considers that disclosure of information that has initially been treated as confidential may be necessary in the public interest, the ACCC will consult with the party providing the information before any such disclosure is made.

The ACCC invites interested parties, where appropriate, to discuss confidentiality issues further with the ACCC in advance of providing written feedback.

Any information for which parties would like to claim confidentiality should be provided in a separate document (for example, as an annexure to public feedback) and should be clearly marked as 'confidential' on every page. Reasons must be provided in support of the claim for confidentiality so that the ACCC can properly consider whether the claim is justified.

6. Foreign currency conversion services in Australia

6.1. Overview

Currency conversion

Currency conversion involves the exchange of one currency for another, at an agreed exchange rate or price. Supplying currency involves supplying the rights that attach to that currency, such as the right to use it as legal tender in the country of issue.²

Large financial institutions, brokers and central banks engage in wholesale trading of foreign currency in the international foreign exchange market. This is a decentralised, over-the-counter market where participants worldwide trade with each other on behalf of themselves and their customers.³ Participants trade with each other directly, or through electronic broking systems that display the best bid and offer prices of participants. Participants have access to real-time prices across multiple platforms and venues, allowing easy comparison and a high degree of transparency.⁴ Point-in-time wholesale rates are also readily available on the internet.

Most consumers and businesses cannot access the wholesale market directly.⁵ If they want, for example, to exchange Australian dollars for US dollars, they will instead use the services of an intermediary, such as a bank, Western Union or Travelex, who will set their own 'retail' prices.

2 Under the Competition and Consumer Act 2010, a supply of currency is therefore a supply of services rather than of goods.

3 Australian Securities and Investments Commission, Promoting Better Behaviour: Spot FX, Sydney, 2017, www.asic.gov.au/regulatory-resources/find-a-document/reports/rep-525-promoting-better-behaviour-spot-fx, viewed 27 August 2018.

4 A Heath and J Whitelaw, Electronic Trading and the Australian Foreign Exchange Market, Reserve Bank of Australia, Sydney, 2011, www.rba.gov.au/publications/bulletin/2011/jun/6.html, viewed 24 August 2018.

5 *ibid.*

Retail prices in Australia can vary markedly from the wholesale price that the supplier pays in the (wholesale) foreign exchange market. The difference between a retail price and the wholesale price that the supplier pays to convert currency is often referred to as an **'exchange rate mark-up'**. Suppliers may also charge fees in addition to any exchange rate mark-up.

Currency conversion services are utilised by Australians visiting, working or studying overseas, by tourists, students and other visitors to Australia, and by migrants and seasonable workers who remit money to relatives in their country of origin. Currency conversion is also required to allow Australian consumers to purchase goods and services from overseas, or for Australian businesses to sell goods and services to overseas clients.

Currency conversion services and suppliers

Australian consumers and small businesses have access to a variety of types of foreign currency conversion services.

Before travelling overseas for holidays or business, Australians may seek to convert Australian dollars into the banknotes and coins of another currency. Consumers can purchase foreign currency in a number of different ways, for example by ordering currency online and collecting it from a particular physical location, by visiting their local bank or credit union, through kiosks in shopping centres and airports, and through their local post office.

Many financial institutions offer cards that can be used by consumers and small businesses for foreign currency transactions. These include stored value or prepaid travel cards, which can be pre-loaded with and redeemed in a foreign currency. Credit or debit cards can be used to make purchases in a foreign currency, and they can also be used to access foreign currency through an ATM when overseas.⁶

Foreign currency transfers involve the transfer of money from an account in one country to another, with the money transferred being converted to the currency used in the destination country before being deposited into the overseas account. Remittance service providers, such as Western Union, may provide additional offerings, such as enabling funds to be collected at the provider's overseas office or transferred to a digital wallet. Transfers can also take place using online payment infrastructure such as PayPal, or through peer-to-peer online marketplace platforms like CurrencyFair and TransferWise, which aim to match customer deposits in one currency with payments of another.⁷

6 Productivity Commission, pp. 495-496.

7 S Moeninghoff and A Wieandt, The Future of Peer-to-Peer Finance, Schmalenbachs Zeitschrift für betriebswirtschaftliche Forschung, 65(5), 2013, pp. 466-487.

Example 1 – Consumer gets local currency for holiday

Andrea wants to convert Australian Dollars to Japanese Yen ahead of her holiday to Japan. She needs ¥25 000 to spend on food and incidentals. Andrea goes to her local bank and the teller quotes her AU\$335 plus a \$10 fee. Andrea gives the teller AU\$345 and the teller gives Andrea ¥25 000 in cash.

Andrea also asks the teller for a travel card with ¥135 000 to pay for her accommodation and other expenses. The teller quotes her AU\$1779 plus a \$15 fee. Andrea gives the teller AU\$1794 and the teller gives Andrea the travel card pre-loaded with Japanese Yen.



AU\$335 + AU\$10 fee

\$X wholesale exchange rate +
\$Y mark-up



¥25 000

Example 2 – Small business pays German supplier

Vivian and Kevin run a spare parts business specialising in European vehicles. They regularly import car doors from Germany for their clients. They go to the local money exchange agent, at the newsagency, to send €1650 to pay their German supplier. The newsagent quotes them AU\$3133, including an AU\$70 service fee. They pay the newsagent AU\$3133, who sends €1650 to the supplier's German bank account. The supplier receives the Euros and settles the invoice.



AU\$3063 + AU\$70 fee

\$X wholesale exchange rate +
\$Y mark-up



€1650

Suppliers of foreign currency conversion services in Australia include banks, credit unions, building societies, online transfer companies (such as, OFX), Travelex, Western Union and PayPal. Some suppliers offer customers a number of different options for currency conversion, while others specialise in only a few specific methods, such as online transfers. In some situations, suppliers utilise agents to supply the foreign currency conversion service.

6.2. Initial observations

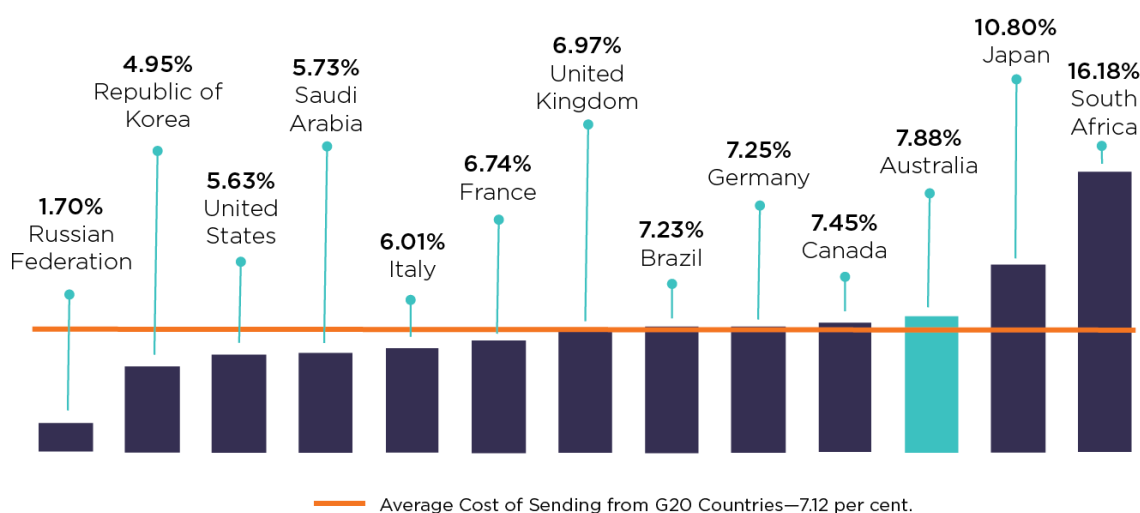
In 2016, Australians sent around \$8.8 billion overseas.⁸

We have observed that there are a significant number of suppliers of foreign currency conversion services operating in Australia, including a number of new entrants. Yet by international standards, prices for these services remain consistently high.

For example, the World Bank has found that the average cost of sending money from Australia (7.88 per cent of the money sent) is significantly higher than both the G20 average (7.12 per cent of the money sent) and the global average cost (6.99 per cent of the money sent). Australia is the third most expensive G20 country to send money from.⁹

The cost of sending money from Australia is approximately 11 per cent higher than the G20 average, 13 per cent higher than the UK and almost 40 per cent higher than the US (see Figure 1 below).¹⁰

Figure 1: Average cost of remitting from G20 countries (June 2018)



Source: World Bank, *Remittance Prices Worldwide*, June 2018

The ACCC has received a number of complaints from consumers since 2012 relating to foreign currency conversion services involving various suppliers.¹¹ Complaints cover an array of issues, including concerns about:

- the size of exchange rate mark-ups and fees that apply to foreign currency transfers, the purchase of foreign cash, and card transactions
- a lack of disclosure and/or transparency around exchange rate mark-ups

⁸ The World Bank, *Annual Remittances Data (updated as of Apr. 2018)*, 2018, <http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data>; viewed at 5 September 2018. For the conversion of USD into AUD, we have used an exchange rate of 0.726 as reported by the RBA as at 20 September 2018.

⁹ The World Bank, *Remittance Prices Worldwide*, Issue 26, June 2018, <https://remittanceprices.worldbank.org/en/resources>, viewed at 27 August 2018.

¹⁰ *ibid.*

¹¹ Complaints have been made about a number of suppliers, including the big four banks, a number of online transfer companies, Travelex, Western Union, and PayPal.

- a lack of transparency around fees, particularly fees that arise after the fact, such as fees charged by intermediary banks and conversion fees on cards
- the difficulty of comparing prices between suppliers and services
- potentially misleading advertising of fees
- a lack of competition for particular services.

The PC has found that for international money transfers, different suppliers tend to offer different exchange rates and their rates vary throughout the day. Customers may not realise that they can be charged an exchange rate mark-up as well as a fee.¹²

The PC concluded that “*consumers struggle to understand and compare the different types of prices charged*” for international money transfers.¹³ The PC stated that one option to improve transparency of international money transfers is to give consumers a benchmark exchange rate to compare the rate offered by their financial institution.¹⁴ The PC recommended that the ACCC, in consultation with the Australian Securities and Investments Commission, should investigate what additional disclosure methods could be used to improve consumer understanding and comparison of fees for foreign transactions.¹⁵

7. Scope of the Inquiry

Based on our initial observations and our analysis of consumer complaints to the ACCC, we propose to focus on the nature and extent of price competition for foreign currency transfers and for foreign cash, as defined below.

Foreign currency transfers involves the transfer of money from an account in Australia, to an account in another country. As part of the service, the money transferred is converted from Australian dollars to the currency of the destination country, or another foreign currency. For example, sending money to the account of a family member overseas via a financial institution or remittance service provider.

Foreign cash involves the exchange of foreign currency banknotes and coins in Australia for Australian dollars, as well as the exchange of Australian banknotes and coins in Australia for foreign currency.¹⁶ For example, obtaining foreign cash in Australia before travelling overseas at a local bank branch or an airport, or using foreign cash to obtain Australian dollars upon return.

We also propose examining Australian consumer and small business use of debit and credit cards to make overseas purchases or access foreign currency through an overseas ATM, and their use of stored value or prepaid travel cards for foreign currency transactions. We recognise that in certain situations these alternative payment methods may constrain the pricing of cash conversion services in Australia.

Our proposed approach is subject to other issues coming to our attention as a result of responses to this issues paper and stakeholder consultation.

12 Productivity Commission, p. 496

13 *ibid.*

14 *ibid.*

15 *ibid.* p. 497.

16 Physical currency (banknotes and coins) only has value because of the rights attached to it.

As noted previously, we will focus on the use of these services by consumers and small businesses. The ACCC will not examine foreign currency conversion services used by banks, large corporates and sophisticated investors, such as wholesale foreign exchange and derivatives, as part of the inquiry. The ACCC also will not examine the use or potential use of cryptocurrencies to perform foreign currency transactions.

8. Issues to be examined in the inquiry

As part of the inquiry, the ACCC proposes to examine the particular issues set out below for foreign currency transfers, and foreign cash.

The ACCC does not expect or require submissions to cover all of the issues raised below. We encourage interested parties to provide information in response to this issues paper as they see fit. We have signposted some questions where they are targeted at particular audiences to assist interested parties in responding.

The ACCC welcomes any further information or comment on issues that are not identified below, but which are relevant to the inquiry.

In providing responses, please include supporting evidence of your experiences, including data where possible.

Issue 1 – The pricing of foreign currency conversion services

We have observed that the price that consumers and small businesses pay for foreign currency conversion services in Australia may include an exchange rate mark-up and/or one or more fees, which can be fixed dollar amounts or variable depending on the value of the transaction.

We note that some suppliers quote the same, or a similar retail exchange rate regardless of the type of foreign currency conversion service. For example, suppliers may charge the same exchange rate for foreign currency transfers, as they do for foreign cash. Fees, however, tend to differ. Some service providers advertise that they do not charge fees, while others charge multiple fees for their services.

We also note that prices can differ depending on how a consumer accesses the service. Some suppliers will charge different prices depending on whether the consumer accesses the services via a face-to-face interaction, such as through a bank branch, or online.

Pulling all of this together, it is possible that an Australian bank providing foreign currency transfers may quote a transaction fee that varies depending on the size of the transaction and how the consumer accesses the service (for example, the bank may charge a higher fee for transactions conducted in a branch as opposed to online). The exchange rate quoted to the consumer will unlikely be the wholesale rate that the supplier pays, but instead will be a retail exchange rate that incorporates a mark-up set by the supplier.

The ACCC is interested in examining how suppliers set retail exchange rates, which fees they charge, if any, and the amount of each fee they charge. Where suppliers provide a range of foreign currency conversion services, the ACCC would like to understand whether they price differently depending on the method of supply, and how these prices reflect underlying costs. Optimally, we would like to examine this over time to identify trends.

We are interested in input from consumers, small businesses and consumer groups on:

- (a) any pricing practices of concern, for example, drip pricing, where a headline price is advertised at the beginning of a purchase, and additional fees and charges are then incrementally disclosed (or 'dripped')
- (b) concerns about the pricing of foreign currency conversion services by specific suppliers and, if so, an explanation of your concerns
- (c) concerns about the pricing of particular currency pairs with the Australian Dollar and, if so, an explanation of your concerns.

We also seek information from suppliers of foreign currency conversion services on:

- (a) what types of foreign currency conversion services your business offers to consumers and small businesses
- (b) how many transactions under each type of service your business performed in the last year, and an explanation of how this has changed over time
- (c) the factors you take into account when setting the retail exchange rate for each of your foreign currency conversion services, including an explanation of the relationship between the retail exchange rate and the wholesale price you pay
- (d) whether the way that you set retail exchange rates has changed over time and, if so, how
- (e) the structure and level of fees that you charge for each type of service and why you charge each fee
- (f) the factors you take into account when setting fees, including underlying costs
- (g) whether the number of fees for each service and/or the amount of each fee has changed over time and, if so, the reasons for this.

Issue 2 – Costs to supply foreign currency conversion services

Costs and margins

We would like to examine the margins suppliers are making on foreign currency conversion services and how stable these margins have been over time. If suppliers are able to sustain relatively high margins, we want to understand why this may be the case. This involves assessing and understanding the costs incurred in supply.

We understand that the fixed costs to supply each type of foreign currency conversion service may differ in value and nature. For example, suppliers of foreign cash may incur significant fixed costs to source and store banknotes and coins for a variety of foreign currencies. In contrast, a supplier who only supplies electronic transfer services may substantially avoid these costs.

Some fixed costs are likely to be common to all or many of the services offered by a supplier, including services that are unrelated to foreign currency conversion. We would appreciate input from suppliers of foreign currency conversion services on how they allocate their fixed costs, including overheads, to each type of foreign currency conversion service they offer.

We seek information from suppliers on:

- (a) the nature and level of fixed costs you incur to supply foreign currency conversion services, including fixed costs that are specific to each type of service and those that are common to all or many services
- (b) how the structure and level of these fixed costs has changed over time

- (c) the nature of the variable costs you incur to supply each type of currency conversion service you offer
- (d) for each type of service you offer, the typical or average margin you earn on transactions (and how you measure the margin)
- (e) an explanation of how this margin has changed over time, and reasons why it has changed
- (f) how the margins earned by suppliers in Australia compare to overseas suppliers, as well as reasons for any differences
- (g) the contribution that foreign currency conversion services make to your businesses' overall profits and how this has changed over time.

Differences in operating models

Representatives from some of the major banks have stated that online suppliers have an operating model that is not comparable to that of the banks.¹⁷ We recognise that different operating models may have an impact on the costs of supply, as well as potentially the type and quality of foreign currency conversion services that suppliers provide. We are seeking to understand these differences further.

Traditionally, major banks enter into a series of bilateral agreements with foreign banks to execute payments on their behalf in the foreign bank's jurisdiction, and vice versa. An individual bank may not have bilateral relationships with every bank in each country. However, they can access almost any bank in the world via the network of these bilateral relationships where necessary.¹⁸ This is known as correspondent banking.

For example, if a customer of an Australian bank wanted to transfer money to a bank account in the Netherlands, the Australian bank may utilise its bilateral agreement with a UK bank, which in turn may have a bilateral agreement with the relevant Dutch bank. The Dutch bank account is paid by the UK bank, which is then paid by the Australian bank. Each transaction in this chain attracts a transaction charge that is usually passed on to the end customer.

We also understand that major banks are likely to participate regularly in the wholesale market to source foreign currency, including banknotes and coins.

In contrast, some online suppliers of foreign currency transfers operate on a peer-to-peer model where the supplier matches payments in different countries. For example, an online supplier may have a bank account in Australia and one in the Netherlands. Its Australian customer deposits Australian dollars in the Australian bank account. The service supplier matches this payment with one of its customers in the Netherlands, who has deposited euros in its Dutch account. These euros are then used to complete the Australian customer's transfer, with technically no foreign exchange actually needing to take place.

17 House of Representatives Standing Committee on Economics, Review of the Four Major Banks (Third Report): Hearings held on 11 October 2017 and 20 October 2017, 2017, www.aph.gov.au/Parliamentary_Business/Committees/House/Economics/FourMajorBanksReview3/Public_Hearings, viewed at 24 August 2018.

18 Bank of International Settlements, Committee on Payments and Market Infrastructures – Correspondent banking, Bank of International Settlements, Switzerland, www.bis.org/cpmi/publ/d147.pdf, viewed 24 August 2018.

It has been suggested that this operating model may incur lower operational costs and transaction charges as the supplier requires less access to the wholesale foreign exchange market. However, the ACCC understands that this model is reliant on a symmetry in the value and location of transfers, and the customers of these suppliers may need to assume some risks akin to those usually borne by intermediaries in a traditional banking model.¹⁹

We seek information from suppliers on:

- (a) the different types of operating models through which your services are currently being provided in Australia
- (b) the differences between these operating models and the cost implications of each
- (c) the least cost operating models currently used in Australia and why we do not observe more, or even all, suppliers using them.

Issue 3 – The nature and extent of competition between suppliers

Competitive dynamics

We aim to assess the nature and extent of competition in the supply of foreign currency conversion services.

We do not currently have reliable indicators of market share, and we are aware that there are competitive dynamics that we may not fully understand at this time. We are keen to understand who suppliers consider to be their closest competitors and why. For example, do the major banks regard new online peer-to-peer suppliers, such as CurrencyFair and TransferWise, to be close competitors for foreign currency transfers? We would also like to understand how existing suppliers have reacted to the entry of new suppliers.

We also want to better understand the closeness of competition between the different types of foreign currency conversion service for different user requirements. For example, to what extent are consumers and small businesses who travel overseas likely to respond to an increase in the price of foreign cash by increasing their use of credit or debit cards to perform foreign currency transactions?

We are interested in input from consumers, small businesses and consumer groups on:

- (a) how the currency conversion needs of consumers and small businesses differ, and what types of foreign currency conversion services are best for these different needs
- (b) the importance (or otherwise) of price in making decisions about which type of service to use
- (c) the suppliers that you consider offer the best price for each type of service
- (d) the suppliers that you consider offer the best service for the prices charged
- (e) whether the way in which you access a service is important. For example, do you value face-to-face interactions over online?
- (f) whether the ability of a supplier to offer a variety of types of foreign currency conversion services is a key consideration for you.

¹⁹ S Moenninghoff and A Wieandt, pp. 466-487.

We are also seeking input from suppliers on:

- (a) trends in the demand for each type of foreign currency conversion service in Australia and key drivers
- (b) market shares (including how this was calculated or sourced), with a breakdown by type of service where possible
- (c) the identity of suppliers that you regard as your closest competitors and the reasons why, including whether this differs by the type of service or by the way that the service is provided (such as online services in comparison to face-to-face or in-branch services)
- (d) the extent to which the pricing of foreign currency conversion by credit or debit card influences the pricing of
 - i. foreign currency transfer services in Australia, and
 - ii. foreign cash in Australia
- (e) the extent to which the pricing of pre-paid travel cards influences the pricing of
 - i. foreign currency transfer services in Australia, and
 - ii. foreign cash in Australia
- (a) your observations about the pricing practices of competing suppliers compared to your own
- (b) your response to changes in competitive conditions, such as changes in prices charged by competitors or the entrance of new competitors. Please provide specific examples, if possible.

Barriers to entry and/or expansion

We will consider the nature and extent of barriers to entry and/or expansion in the supply of foreign currency conversion services. This will include consideration of how large incumbent suppliers react to new entry and/or expansion.

We are aware that new, 'low-cost' suppliers have begun offering services to Australian customers in recent years but that, anecdotally, it appears that they have not captured a significant share of the market and that their entry has not significantly impacted the prices charged by some existing suppliers, such as the big four banks.

For example, as at 31 August 2018 the big four banks were charging exchange rate mark-ups on foreign currency transfers of around 4 to 5 per cent. They also charged their customers transaction fees for initiating each transfer, ranging from AU\$0 to AU\$32 per transaction.

In comparison, on the same date, online suppliers TransferWise and OFX charged significantly less. For a transfer of AU\$1000 to US dollars, TransferWise charged its customers 0.45 per cent of the amount that is converted, plus AU\$1.50. This would amount to a total price of around AU\$6. OFX charged a flat AU\$15 fee for transfers under AU\$10,000, as well as an exchange rate mark-up of around 1.8 per cent as at 31 August 2018.²⁰

²⁰ Whether transferring via bank or an online supplier, we note that additional charges may also be levied by other parties involved in the transfer, for example, the beneficiary's financial institution or correspondent banks.

We understand that larger incumbent suppliers may have advantages of scale and scope and extensive branch networks, and there may be customer loyalty or inertia that makes it difficult for new entrants or smaller incumbents to win market share. The ACCC is interested in better understanding the challenges that new entrants and small incumbents face in attracting customers.

We are also aware that there is a reasonably complex regulatory environment to be navigated by new entrants, which may contribute to overall high sunk costs to enter. The ACCC understands that new suppliers must ensure that they have an Australian Financial Services Licence and meet *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* obligations.

New suppliers will also require a certain level of upfront funding, and access to payment systems and customers, which often requires the services of banks which are also competitors. New suppliers may also need to engage with regulations for purchased payment facilities, which has been characterised by the PC as “complex and potentially stunting”.²¹

We seek input from consumers, small businesses and consumer groups on:

- (a) whether you switch service providers and/or types of services when prices change or the level of service changes and, if not, why not
- (b) how easy it is to switch between suppliers when prices change or the level of service changes
- (c) the nature and extent of any barriers to switching including:
 - i. the importance to you of brand, customer relationships and the range of services offered by suppliers
 - ii. whether you prefer particular suppliers, such as the big four banks, and why
 - iii. other factors that you consider may prevent you switching, such as difficulty in comparing prices across suppliers and types of services.

We seek input from suppliers on:

- (a) recent examples of entry, expansion and failed entry/expansion, including information on the time and sunk costs incurred to enter. For failed entry, it would be useful if you could provide details on why the entry failed
- (b) the nature and value of the (sunk) costs a prospective new entrant faces to enter the market and how these are likely to vary for different types of services and operating models
- (c) whether there is a minimum scale of operation required to be competitive and whether this differs between operating models and/or types of service
- (d) the nature of regulatory obstacles to entry and/or expansion, including whether there are particular regulatory obstacles to providing services in a novel or innovative way. If so, please provide details
- (e) the impact of bank ‘de-risking’ on the ability of suppliers to offer foreign currency conversion services and/or compete on an equal footing. Bank de-risking refers to a bank refusing to provide a bank account to a business that they deem as high risk, such as some suppliers of foreign currency transfers.

²¹ Productivity Commission, pp. 497-498.

If you are a new entrant or a prospective entrant, we are particularly interested in your input on:

- (a) the barriers you are confronting, or consider you are likely to confront, in entering
- (b) your ability to achieve sufficient scale and scope of operation to compete effectively against incumbents. For example, are you able to access the same wholesale prices for currency or offer a similar range of services?

Issue 4 – How prices are communicated and factors limiting the ability of consumers to effectively compare prices

We intend to test whether consumers are able to effectively compare prices for foreign currency conversion services. The ability of consumers to compare prices offered by different suppliers is an important contributor to effective price competition.

We have received a number of complaints from consumers about exchange rate mark-ups. Some of these complaints suggest that consumers are often not aware that the retail exchange rate that they pay includes a mark-up on the wholesale exchange rate. Other complaints relate to consumers being unaware of the exchange rate charged until after the transaction was completed.

We are also aware that some suppliers advertise that they provide “no fee” services, while still charging an exchange rate mark-up.

The PC found that “*each financial institution tends to offer customers a different exchange rate that changes throughout the day. This alone makes it difficult for consumers to compare exchange rates. However, it can be even more difficult when customers try to compare exchange rate mark-ups and foreign transaction fees across multiple institutions.*”²²

One reason why consumers may arguably find it hard to compare prices could be the way prices are presented. For example, the exchange rate mark-up is generally contained within the retail exchange rate quoted, not separately disclosed. Suppliers may charge different fees which are calculated on a different basis (such as a fixed fee or a variable fee) for the same service.

The ACCC seeks further information on how retail exchange rates and fees are presented to consumers, whether consumers are able to make effective price comparisons and, if not, why not. The ACCC would also like to understand the extent to which non-price factors, such as transaction speeds, are valued by customers.

We are seeking input from consumers, small businesses and consumer groups on:

- (a) how retail exchange rates and fees are communicated to customers of each service. In particular:
 - i. whether the way prices are communicated make it difficult for customers to compare prices across suppliers and, if so, how
 - ii. customer understanding about “no fee” services, and whether that understanding is accurate
 - iii. whether there is otherwise a lack of transparency in the way prices are presented, including how any exchange rate mark-ups are presented
 - iv. whether fees or exchange rate mark-ups are communicated as necessary for obtaining better service quality, such as faster transactions speeds

²² *ibid.* p. 496.

- (b) the adequacy of information about prices available to customers
- (c) whether there are any other factors which limit the ability of customers to compare prices and service quality across suppliers
- (d) the types of customers who commonly use these services and any particular vulnerability these consumers have that may affect their ability to compare prices across suppliers
- (e) whether there are alternative methods of communicating prices that would assist customers to make effective price comparisons across suppliers.

We are also interested in seeking input from suppliers on:

- (a) what you may know about how customers behave and make decisions about foreign currency conversion services, and how this knowledge is reflected in the way you set or communicate prices for foreign currency conversion services
- (b) how responsive your customers are to changes in price
- (c) how you tailor your service offering to attract customers, apart from price.