



ACCC

AUSTRALIAN COMPETITION
& CONSUMER COMMISSION

Foreign currency conversion services inquiry

Final report

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Australian Competition and Consumer Commission
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Abbreviations and glossary

ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ADI	Authorised deposit-taking institution
AFSL	Australian Financial Services Licence
American Express	American Express Company
AML/CTF	Anti-money laundering and counter-terrorism financing
AML/CTF Act	<i>Anti-Money Laundering and Counter-Terrorism Financing Act 2006</i>
ANZ	Australia and New Zealand Banking Group Limited
APRA	Australian Prudential Regulation Authority
ARCPA	Australian Remittance and Currency Providers Association
ASIC	Australian Securities and Investments Commission
ATM	Automated Teller Machine
AUSTRAC	Australian Transaction Reports and Analysis Centre
Australian banks	Australian ADIs that use the term ‘bank’ in relation to their banking business
BECS	Bulk Electronic Clearing System. BECS manages the exchange and settlement of bulk low-value transactions between participants
Benchmark rate	An exchange rate, such as the WM/Reuters benchmark rate, which is indicative of the wholesale exchange rate at which financial institutions and central banks trade very large values and volumes of foreign currency
Big four banks	ANZ, CBA, NAB and Westpac
Card issuer	An ADI or other financial institution that is responsible for issuing a travel, credit or debit card to the cardholder. The card issuer makes the payment for the cardholder’s purchases and cash withdrawals, provided there are sufficient funds available in the card account to complete the transaction (including funds available under the line of credit in the case of credit cards)
CCA	<i>Competition and Consumer Act 2010</i>
CFR	The Council of Financial Regulators (CFR) is the coordinating body for Australia’s main financial regulatory agencies, which aims to contribute to the efficiency and effectiveness of financial regulation and promote financial stability. The CFR’s members include the RBA, APRA, ASIC and the Department of the Treasury

Charge card	Charge cards are similar to credit cards; however, unlike credit cards which are associated with a revolving line of credit, charge cards require the cardholder to pay their outstanding balance in full at set periods (typically monthly)
Commonwealth Bank or CBA	Commonwealth Bank of Australia
Consumer questionnaire	The ‘Foreign exchange—consumer & small business questionnaire’ conducted via the ACCC website from 2 October 2018 to 22 October 2018
Correspondent bank	A bank that is part of a correspondent banking network
Correspondent banking fee	A fee charged by a correspondent bank for an IMT. The fee may be deducted from the amount transferred
Correspondent banking network	An arrangement under which banks operate as agents for each other to facilitate the transfer of funds from one country to another
Credit card	A type of payment card that allows the consumer to draw on a line of credit, up to a certain amount, from the card issuer to make purchases or withdraw cash. For the purposes of this inquiry references to credit cards include charge cards
Currency conversion fee	A fee that is charged when a travel card is used for a transaction in a currency for which there is no value stored on the travel card
DCC	Dynamic Currency Conversion (DCC) is a service that provides an option for consumers to use their own currency (for example Australian dollars) when making a card payment for an overseas transaction
De-banking	The practice of an ADI withdrawing banking services from, or refusing to supply banking services to, a customer
Debit card	A type of payment card that is linked to a consumer’s deposit account and allows the consumer to use their own money when making purchases or withdrawing cash
ESA	Exchange Settlement Account. An account held at the RBA by financial institutions to settle financial obligations arising from the clearing of payments
EU	European Union
Fees	Includes fees, commissions or charges payable by a consumer for an inquiry service. Fees are separate from, and may be payable in addition to, the retail exchange rate applied to the amount of foreign currency being purchased
Foreign cash service	The supply of foreign cash to a consumer
FSG	Financial Services Guide. A guide that contains information about the entity providing a consumer with financial advice. It should explain the financial service offered, the fees charged and how the entity providing the service will deal with complaints
FX services	Foreign currency conversion services. These are services that involve the exchange of one currency for another at an agreed exchange rate or price

IMT	International money transfer
IMT service	The transfer of money from a sender in Australia to an overseas recipient. As part of the service, the money transferred is converted from Australian dollars to the currency of the destination country, or another foreign currency
Inquiry services	IMT services, foreign cash services, payment card FX services and travel card services
Inquiry suppliers	ANZ, CBA, NAB, OFX, TransferWise, Travelex, Western Union and Westpac
InstaReM	InstaReM Pty Ltd
International ATM fee	A fee applied for withdrawing cash (debit card) or obtaining a cash advance (credit card) at an overseas ATM
International card scheme	A card payment network that enables cardholders to make transactions in more than one jurisdiction. Examples include American Express, Mastercard and Visa
International transaction fee	A fee applied whenever the card issuer and the merchant (or the financial institution processing the card transaction for the merchant) are in different countries
Issues Paper	The <i>Inquiry into foreign currency conversion services Issues Paper</i> , published by the ACCC on 2 October 2018
Kiosk operator	Supplier of FX services from a physical outlet such as a kiosk or store located in airports or other locations. Some kiosk operators augment their physical outlets with an online service, such as those allowing consumers to order foreign cash online and collect it from a kiosk or store
Know Your Customer (KYC)	An AML/CTF obligation that requires businesses to perform certain customer identification checks and due diligence for all customers prior to providing any designated service to them
Mastercard	Mastercard Incorporated
Merchant's acquirer	The financial institution that processes credit, debit or pre-paid card payments on behalf of a merchant
Monoline or mono-line	A financial entity that deals in only one particular segment of the financial industry, such as IMT services or foreign cash services
National Australia Bank or NAB	National Australia Bank Limited
NPP	New Payments Platform. The NPP provides clearing and settlement infrastructure through which financial institutions can provide fast payment services to their customers
NPPA	NPP Australia Limited. NPPA owns and operates the NPP
OFX	OzForex Limited trading as OFX
Originating bank	The bank that supplies the IMT service to the consumer and from which the IMT originates
Payment card	Debit or credit card

Payment card FX service	The foreign currency conversion that occurs when a consumer uses their debit card or credit card for an international transaction, including to purchase goods and services in a foreign currency or withdraw foreign cash while overseas
PayPal	PayPal Australia Pty Ltd
PDS	Product Disclosure Statement
Peer-to-peer arrangement	<p>An arrangement that involves a supplier matching IMTs that flow in opposite directions for two currencies. For example, the supplier:</p> <ul style="list-style-type: none"> ■ uses the funds received from the sender of the first IMT to make payment to the beneficiary of the second IMT in one jurisdiction, and ■ uses the funds received from the sender of the second IMT to make payment to the beneficiary of the first IMT in the other jurisdiction. <p>When the funds in one jurisdiction do not match the funds needed in the other jurisdiction, the supplier will buy the relevant currency to make up the shortfall</p>
Price	The combination of the retail exchange rate applied to the amount of foreign currency being purchased, and any fees, including correspondent banking fees where they apply
Price data collection	The ACCC engaged a consultant to collect price data on the inquiry services. Data was collected over five business days from 6 February 2019 to 12 February 2019 on the two key price components for each service: the retail exchange rate and fees
Price data collection period	6 February 2019 to 12 February 2019
RBA	Reserve Bank of Australia
Receiving bank	The bank of the recipient of an IMT
Receiving bank fee	A fee charged by the receiving bank for an IMT. The fee is typically deducted from the amount transferred
Retail exchange rate	The exchange rate offered to consumers by suppliers of FX services
Retail margin	The margin or mark-up on the wholesale exchange rate that suppliers of FX services include to form the retail exchange rate
Review period	<p>Refers to the period:</p> <ul style="list-style-type: none"> ■ 1 July 2016 to 26 November 2018, during which the ACCC reviewed the pricing and strategies adopted by the inquiry suppliers, and ■ 6 February 2019 to 12 February 2019, during which the ACCC conducted its price data collection
SMEs	Small to medium-sized enterprises
Supported currency	A currency that can be loaded onto a travel card

SWIFT	Society for Worldwide Interbank Financial Telecommunication; a cooperative organisation that operates a network for the exchange of payment and other financial messages between financial institutions
SWIFT gpi	SWIFT global payments innovation
TransferWise	TransferWise Australia Pty Ltd
Travel card	A travel card is a stored value or pre-paid card that can be used overseas to withdraw cash from ATMs or make purchases, among other uses. Value can be loaded onto a travel card in one or more of the foreign currencies offered by the supplier (known as supported currencies) or, in some cases, Australian dollars
Travel card service	The foreign currency conversion that takes place: <ul style="list-style-type: none"> ■ at the time a foreign currency is purchased for loading onto the travel card, or ■ when the travel card is used for a transaction in a currency that is not loaded on the card
Travelex	Travelex Limited
UK	United Kingdom
Unsupported currency fee	A fee that is charged when a travel card is used for a transaction in a currency that is not a supported currency
US	United States
Velocity	Virgin Australia's frequent flyer program
Visa	Visa Inc
Western Union	Western Union Financial Solutions (Australia) Pty Ltd and/or Western Union Business Solutions (Australia) Pty Ltd. The references to Western Union in this report primarily relate to Western Union Financial Solutions (Australia) Pty Ltd as the Western Union entity that provides services to individual consumers. Relevantly for the purposes of our inquiry, Western Union Business Solutions (Australia) Pty Limited provides services to small businesses
Westpac or WBC	Westpac Banking Corporation
White label arrangement	A service provided by a firm to another firm who then provides the service to customers under its own brand
Wholesale exchange rate	The exchange rate at which suppliers of FX services acquire foreign currency

Foreword

On 2 October 2018, the Treasurer approved the Australian Competition and Consumer Commission (ACCC) holding an inquiry into the supply of foreign currency conversion services (FX services) in Australia (the inquiry). A copy of the notice approving the inquiry is at appendix A.

The focus of the inquiry

The inquiry focused on the following FX services:

- international money transfer (IMT) services
- foreign cash services
- payment card (credit or debit card) FX services
- pre-paid travel money card (travel card) services, collectively the inquiry services.

The ACCC has focused on FX services involving the conversion of Australian dollars to foreign currency. All figures and tables which contain data, including price data, are on this basis. In the case of IMTs, we have not included receiving bank fees in our analysis of prices as suppliers will not typically be able to influence the fees that the receiving bank may deduct from the amount transferred.

The matters the ACCC considered in the course of the inquiry included, but were not limited to:

- the pricing of and costs associated with supplying the inquiry services
- the nature and extent of competition between suppliers of the inquiry services
- the existence and extent of any barriers to entry or expansion
- whether there were factors limiting the ability of consumers to effectively compare inquiry services and prices.

While there are many users of the inquiry services, the ACCC has focused this inquiry on individual consumers and small to medium-sized enterprises (SMEs). Individual consumers are the focus of the figures and tables reporting data provided by inquiry suppliers.

Conduct of the inquiry

The ACCC released an issues paper on 2 October 2018 calling for submissions. In response we received 63 submissions from consumers, suppliers of FX services, small businesses and a mix of other stakeholders. Sixty submissions are published on the ACCC's website: www.accc.gov.au/about-us/focus-areas/foreign-currency-conversion-services-inquiry/submissions-received. Three submissions are unpublished as they were accepted on a confidential basis.

The ACCC used its compulsory information gathering power to obtain documents and data from suppliers. Notices were issued to the big four banks¹, OzForex Limited trading as OFX, TransferWise Australia Pty Ltd (TransferWise), Travelex Limited (Travelex) and Western Union²; collectively the inquiry suppliers. A notice was also issued to PayPal Australia Pty Limited (PayPal).³ The notices required the production of documents and data for the period 1 July 2016 to 26 November 2018.

1 The big four banks are Australia and New Zealand Banking Group Limited (ANZ), Commonwealth Bank of Australia (CBA), National Australia Bank Limited (NAB) and Westpac Banking Corporation (Westpac).

2 The ACCC issued notices to Western Union Financial Solutions (Australia) Pty Ltd and Western Union Business Solutions (Australia) Pty Limited. The references to Western Union in this report primarily relate to Western Union Financial Solutions (Australia) Pty Ltd as the Western Union entity that provides services to individual consumers. Relevantly for the purposes of our inquiry, Western Union Business Solutions (Australia) Pty Limited provides services to small businesses.

3 Unless otherwise indicated, PayPal is not included in the ACCC's analysis of data and information provided by the inquiry suppliers. This is because we consider that, compared with the other inquiry suppliers, PayPal's services are fundamentally different in nature and therefore any comparison would not be like-for-like.

In response to these notices we received around 7300 documents, with the majority being produced by the big four banks.

The ACCC also engaged a consultant to collect price data on inquiry services. Further detail on the collection of price data can be found in appendix B.

We consulted on the recommendations made in this report with:

- government agencies, including the Australian Transaction Reports and Analysis Centre (AUSTRAC), the Department of Foreign Affairs and Trade (DFAT), the Department of the Treasury, the Department of Home Affairs, the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission (ASIC), the Reserve Bank of Australia (RBA) and the Office of the New South Wales Small Business Commissioner
- FX services suppliers: the big four banks, OFX, TransferWise, Travelex and Western Union
- international card schemes: Mastercard Incorporated (Mastercard) and Visa Inc. (Visa)
- the Australian Remittance and Currency Providers Association (ARCPA).

Executive Summary

This is the report of the ACCC's inquiry into the supply of foreign currency conversion services (FX services) in Australia. It highlights important competition and consumer issues and makes recommendations to address them.

We have found signs that recent competition from new entrants is delivering better consumer outcomes through lower prices and improved services. However, we see scope for more robust competition, particularly in the supply of international money transfers (IMTs).

Our recommendations aim to protect the recent gains competition has delivered for consumers so far and promote further competition in the supply of FX services to enhance consumer outcomes and market efficiency. The recommendations include measures aimed at:

- reducing a key barrier to entry and expansion for non-bank suppliers of IMTs, and
- making the prices of FX services more transparent for consumers.

We consider improving price transparency will support price competition by making it easier for consumers to seek out the cheapest suppliers.

The action we have recommended is important. FX services are significant to the Australian economy and to the lives of individual Australians. Australian consumers purchase the equivalent of over AUD40 billion in foreign currency each year and further competition in the supply of FX services has the potential to deliver significant savings for consumers in relation to those purchases, both in aggregate and for individual consumers. For example:

- we estimate that individual consumers who used the big four banks to send IMTs in USD and GBP during 2017–2018 could have collectively saved about AUD150 million if they had instead used the lowest priced IMT supplier
- customers of the big four banks sending an IMT for GBP150 to the United Kingdom (UK) in February 2019 could have paid a price that was over 20 per cent higher than the cheapest IMT supplier's price.

The savings will be particularly significant for those who use FX services frequently or for larger transactions.

The focus on international money transfers

The report focuses its competition analysis on IMTs. IMTs are significant for a number of reasons. First, prices in Australia are high by global standards⁴ and IMTs are a significant outlay for Australians; an estimated AUD21 billion in personal IMTs are sent from Australia each year.⁵ Second, the average transaction size for IMTs is much larger than the other inquiry services (foreign cash, travel cards and payment cards). Third, IMTs are generally not substitutable for other services; for example, there is no substitute inquiry service for a consumer wishing to send money to another person overseas. Finally, IMTs are regularly used by vulnerable groups such as migrants and temporary workers.

IMTs have also been a policy focus of the Australian Government with steps being taken to reduce the price of IMTs, particularly the price of sending remittances to developing economies in our region. Australia is a member of the G20 Global Partnership for Financial Inclusion, which is committed to

4 The average price of sending money from Australia is higher than both the average G20 price and global average price. See: The World Bank, *Remittance Prices Worldwide*, Issue 29, March 2019, https://remittanceprices.worldbank.org/sites/default/files/rpw_report_march_2019.pdf, viewed 30 April 2019.

5 World Bank, *Bilateral Remittance Matrix 2017*, April 2018, <http://pubdocs.worldbank.org/en/705611533661084197/bilateralremmittancematrix2017-Apr2018.xlsx>.

For the conversion of USD into AUD, we have used an exchange rate of 0.7800 as reported by the RBA as at 29 December 2017. Reserve Bank of Australia, *Exchange Rates—Daily—2014 to 2017*, <https://www.rba.gov.au/statistics/tables/xls-hist/2014-2017.xls>.

reducing the price of remittances globally.⁶ The Australian Government also funds two comparison websites, SendMoneyPacific⁷ and SaverAsia⁸, which compare IMT prices in key remittance corridors.

Competition in international money transfers

Newer non-bank suppliers have changed the competitive dynamic for IMTs by offering lower prices and some better service features than the big four banks. In response, the big four banks have reduced their prices and improved non-price aspects of their offering, including improving ease of use and providing faster transfer speeds. These changes often focused on digital channels, including online banking and mobile applications, where newer entrants mostly operate. While the big four banks have reduced their prices, those prices remain significantly higher than many other suppliers.

The potential gains from increased competition may be lost if non-bank IMT suppliers are unable to access banking services. Non-bank IMT suppliers often rely on obtaining banking services from their vertically integrated competitors (banks) to compete for the supply of IMTs.

Some non-bank suppliers have been denied access or find access to bank services under threat. The need to comply with Australia's anti-money laundering and counter terrorism financing (AML/CTF) laws has been a factor in the banks' decisions to withdraw access to banking services for non-bank rivals (known as de-banking). To address this issue, we recommend a scheme through which IMT suppliers can address the due diligence requirements of the banks, including in relation to AML/CTF requirements.

Price information presented to consumers

It can be challenging for consumers to make informed decisions about FX services:

- prices are complex. The total price of the FX services is driven by two components: the retail exchange rate, which typically includes a retail margin or mark-up, and fees. Services that appear to be cheap when considering only fees or the retail exchange rate can turn out to be the most expensive option based on the total price. Some suppliers, possibly in recognition of consumers' aversion to fees, do not charge an up-front transaction fee and instead earn revenue through the mark-up on the retail exchange rate. Services advertised as 'no fee' can give the illusion that the price is lower than it really is
- prices are presented in different ways. For example, some suppliers display the exchange rate and note that fees may apply. Others quantify the fees but leave the calculation of the currency conversion and total price to consumers
- prices lack transparency. Inquiry stakeholders noted that there was inadequate disclosure of prices by some suppliers and consumers have expressed concern that they do not always know what the total price for an FX service will be up-front. Our inability to easily collate complete price information from publicly available sources demonstrates how difficult it is for consumers to compare total prices.

6 Global Partnership for Financial Inclusion 2017, *2017 Financial Inclusion Action Plan*, <http://www.gpfi.org/sites/gpfi/files/documents/2017%20G20%20Financial%20Inclusion%20Action%20Plan%20final.pdf>, p. 13.

7 SendMoneyPacific, <https://www.sendmoneypacific.org/>, viewed 22 May 2019.

8 SaverAsia, <https://www.saverasia.com/>, viewed 22 May 2019.

In some cases, the way prices are presented may mislead consumers:

- Consumers who use payment cards, particularly for online transactions, are sometimes charged unexpected international transaction fees. This can happen where the website is an Australian '.com.au' URL and advertises prices in AUD but the payment is processed overseas. Consumers often have no basis to suspect that they are completing an international transaction until they receive an international transaction fee charged to their account.
- Sometimes consumers do not know the total price for an IMT service until the recipient receives the IMT and the correspondent banking fees deducted while the IMT was in transit become apparent. In an extreme case, an Australian consumer has told the ACCC they sent the equivalent of AUD100 to a recipient in Romania and only AUD8 arrived in the destination after all fees were deducted.
 - We note there are developments occurring in the industry to make correspondent banking fees more certain for both IMT suppliers and consumers. There are also moves by some suppliers to absorb the correspondent banking fees after the consumer pays an up-front fee.

The ACCC will be examining these issues further and will consider enforcement action where appropriate.

Suppliers respond to consumers shopping around

In our view, consumers can act to constrain more expensive suppliers. To that end, we provide guidance to:

- consumers to help them shop around
- suppliers on how to present prices so that they are easier to compare.

We are beginning to see some suppliers respond to customers switching away. The big four banks in particular have lowered their prices, improved their services and are improving the transparency of their prices. We consider this is both a response to new entry and to informed consumers who are willing to switch away from their traditional supplier.

Our more detailed findings and recommendations are set out below.

Findings

1. Prices are difficult to compare

Consumers need to be able to compare the total price offered by suppliers of FX services to ensure they get the best deal, but this can be difficult for a number of reasons:

- prices are complex
- prices are presented in different ways by different suppliers
- prices lack transparency.

It can be tempting for consumers to focus on fees. Based on the price data we collected, suppliers with the lowest up-front fees were more expensive than other suppliers.

2. Customer inertia is limiting the growth of smaller providers and new entrants

A number of factors contribute to some consumers not switching to cheaper suppliers of FX services, such as difficulty comparing prices and switching costs, including the perception of those costs. That some consumers use FX services for low-value transactions or infrequently appears to further deter some from switching even if they know there are cheaper alternatives.

3. Loyalty to the big four banks costs consumers

The big four banks were consistently more expensive than some other suppliers for IMTs and foreign cash. For common currencies, such as USD and GBP, they were never the cheapest option based on price data we collected.

Consumers should be aware that alternative suppliers offer cheaper prices for these services. To put the potential savings into perspective, a consumer sending an IMT for USD7000 could save over AUD500 by selecting the cheapest IMT supplier rather than the most expensive big four bank.

4. Payment cards are generally cheaper than foreign cash, travel cards and IMTs

Foreign cash, travel cards, payment cards and IMTs can be used for different purposes. For example, a consumer travelling overseas may use one or multiple FX services including foreign cash, travel cards or payment cards. A business buying goods from overseas can use a payment card or IMT. However, there is often no substitute service for a consumer sending money to another person overseas; that consumer will typically need to use an IMT.

Payment cards (credit and debit cards) were generally cheaper than IMTs, foreign cash and travel cards for overseas purchases.

Prices for foreign cash were substantially higher at the airport.

Further, some financial institutions offer payment cards with no international transaction fees, which make such payment cards an even cheaper option for overseas purchases. They also avoid the problem of unexpected international transaction fees. Consumers who travel frequently or buy goods online from overseas regularly could save significant amounts by using an international fee-free payment card.

5. De-banking is a significant threat to competition in the supply of IMTs

De-banking and the prospect of de-banking raise costs for:

- new entrants seeking to secure those services. These costs, or the inability to secure banking services, can act as a barrier to entry and therefore threaten competition
- non-bank IMT suppliers, which banks do not face. These include potentially high compliance costs to maintain access to bank services. These additional costs can hamper non-bank IMT suppliers' ability to price services competitively and win customers.

Recommendations

Due diligence scheme for access to banking services

The Australian Government should form a working group tasked with consulting on the development of a scheme through which IMT suppliers can address the due diligence requirements of the banks or providers of payment system infrastructure, including in relation to AML/CTF requirements.

The Working Group should begin a public consultation process on the merits and design of such a scheme by 31 December 2019 and conclude that process by 30 June 2020. The Working Group should consider any alternative solutions to address the issue of de-banking that are raised by stakeholders during the public consultation process.

By 31 December 2020, the scheme should be operational or the Working Group should have set out any alternative approach it will initiate to ensure that non-bank IMT suppliers are able to obtain efficient access to the banking and payment services they need to compete in the supply of IMT services to Australian consumers.

Measures to improve how prices are presented to consumers

Up-front correspondent banking fees

IMT suppliers should take the necessary steps to inform their customers up-front of the total price of an IMT, including correspondent banking fees.

Online calculator

Suppliers of IMTs and foreign cash should offer digital tools on their websites to calculate the total price for those services for consumers.

Foreign cash prices on rate boards

Foreign cash suppliers should ensure that they provide price information that will enable an in-store consumer to understand the total price of foreign cash transactions.

Disclosure of international transaction fees

Merchants offering goods and services online to Australian consumers should inform consumers if they are likely to be charged an international transaction fee. Merchants should provide this information prominently and clearly, before a customer enters into a transaction. If consumers are charged an unexpected international transaction fee, they should contact their bank or card scheme to request a refund of the fee.

Consumer guidance

The **Guide for Consumers** following the Executive Summary contains information and advice for consumers about using the inquiry services generally and on each of the three main uses of the inquiry services, which are:

- sending money overseas
- travelling overseas
- shopping online.

The Guide for Consumers will also be published on the ACCC and ASIC's MoneySmart websites.

ACCC action arising from this report

The ACCC will:

1. monitor take-up of our recommendations and assess whether further response is needed, either by the ACCC or government
2. if the government decides to proceed with a due diligence scheme on the basis recommended in this report, the ACCC will be part of the Working Group tasked with consulting on the development of the scheme
3. monitor non-bank IMT suppliers' access to banking services and payment infrastructure and investigate where the denial or withdrawal of those services raises concerns under the CCA
4. publish guidance on the ACCC website on how consumers can save money when using FX services
5. where appropriate, take enforcement action against businesses who mislead consumers about the level of fees for FX services.

Guide for consumers

Guidance for all foreign currency services

Compare the total price

When comparing prices of services and suppliers, it is important that you consider all components of the price, including the exchange rate and any fees. Just because a service is advertised as 'fee free' does not mean it will be the cheapest option.

Exchange rates vary across suppliers and are rarely the same as the exchange rates reported on the news. The exchange rates offered by suppliers are typically less favourable than those reported on the news. That is because they include a margin or mark-up.

For an accurate comparison, you should compare the prices of services at the same time on the same day. Prices are generally advertised on suppliers' websites. Some suppliers may offer discounts off those advertised prices, especially for large or repeated transactions.

If you use a commercial comparison website, be aware that some sites may not be independent and suppliers may pay for their services to be promoted by these sites. You should also be aware that comparison websites may not include all available services.

There are two government-funded comparison websites for international money transfers (IMTs): www.sendmoneypacific.org and www.saverasia.com, which compare prices of IMT services available to a number of South-East Asian and Pacific Island countries.

Shop around

Using the same supplier out of loyalty could cost you. Our inquiry found the big four banks are consistently more expensive than many other suppliers for both foreign cash and IMTs. For common currencies, such as United States dollars (USD) or Great British pounds (GBP), the big four banks are rarely the cheapest option.

It may feel like a lot of time and effort is involved in shopping around and switching suppliers, but switching may save you money, particularly if you are making large or regular transactions.

If you are making large or regular transactions, it is worth asking whether any discounts are available.

Where you make your purchase matters

Look at whether you can make your purchase of IMTs, foreign cash and travel cards online as many suppliers offer better retail exchange rates and lower fees for currency purchases made online. Foreign cash is more expensive at airport locations than at other locations.

Sending money overseas

It is particularly important to **shop around** for IMT or remittance services. We found significant price differences across IMT suppliers.

Switching suppliers could save you money; these savings could be significant if you regularly transmit large-value transactions through an IMT service. For example, we found that consumers and small businesses who used the most expensive bank in February 2019 to transfer USD7000 would have paid over AUD500 more than if they had used the cheapest supplier in our sample.

Banks are not the only secure option

Do not assume that banks are a more secure option than non-bank suppliers of IMT services.

When shopping around you should ask suppliers about their security measures and whether they offer guarantees for IMTs.

Banks are not always the fastest to deliver an IMT

Our inquiry found that the banks did not always provide the fastest delivery times for IMTs.

When shopping around you should ask suppliers about their speed of delivery for IMTs.

Check whether you will incur additional fees

When shopping for IMT services, ask suppliers if any fees will be deducted from the funds you transfer. These fees are often called correspondent banking fees. If fees will be deducted, ask for an estimate of the funds that will be delivered to the recipient (some suppliers have an online tool that allows you to do this). Also ask whether you can pay all fees up-front.

When comparing prices across suppliers, consider whether a supplier that charges all correspondent banking fees up-front may be a better value option.

Find out if the recipient's bank charges a fee as well. Even if you have paid all correspondent banking fees, the recipient's bank may charge an additional fee.

Travelling overseas

Before travelling overseas, consider the different foreign currency services available for conducting transactions while overseas. These include:

- debit or credit cards
- travel cards
- foreign cash.

You should make yourself aware of the differences between these services and any applicable fees.

Key characteristics of services for travelling overseas

	Foreign cash	Payment cards	Travel cards
Acceptance	<ul style="list-style-type: none"> ■ Accepted by the majority of merchants. ■ Useful in places where card payments are not accepted or there is a minimum spend required to use a payment card. 	<ul style="list-style-type: none"> ■ Accepted by the majority of merchants and ATMs in most countries. 	
Certainty of price	<ul style="list-style-type: none"> ■ Able to see the price at the time of purchase. 	<ul style="list-style-type: none"> ■ Unless the consumer uses Dynamic Currency Conversion (see chapter 3, box 3.7), generally unable to determine the retail exchange rate applied at the time of the transaction. 	<ul style="list-style-type: none"> ■ Able to see the price at the time the foreign currency is loaded onto the travel card. ■ Unable to determine the retail exchange rate applied for purchases in a currency not loaded onto the card at the time of the transaction. Fees will also likely apply to these transactions, including for cash withdrawals at ATMs.
Convenience	<ul style="list-style-type: none"> ■ Suppliers do not generally have eligibility requirements, although there may be limits on the amount of foreign cash that can be purchased. ■ Carrying cash has a physical burden, and is limited to how much a person can carry and take into a foreign country. ■ Cash is easy to use. 	<ul style="list-style-type: none"> ■ For debit cards, the consumer will need a transaction account with the relevant supplier. For credit cards, the consumer will need to satisfy eligibility requirements, including demonstrating they can repay the line of credit. Once a consumer has obtained the payment card it is easy to use. ■ Can be used for transactions in most foreign currencies. 	<ul style="list-style-type: none"> ■ Generally do not need to be an existing customer of the supplier. For some travel cards, will need to sign up to a frequent flyer rewards program. Once a consumer has obtained the travel card it is easy to use. ■ The ability to store multiple currencies.
Security	<ul style="list-style-type: none"> ■ No protection from theft. 	<ul style="list-style-type: none"> ■ Security protections from fraudulent or unauthorised transactions. 	

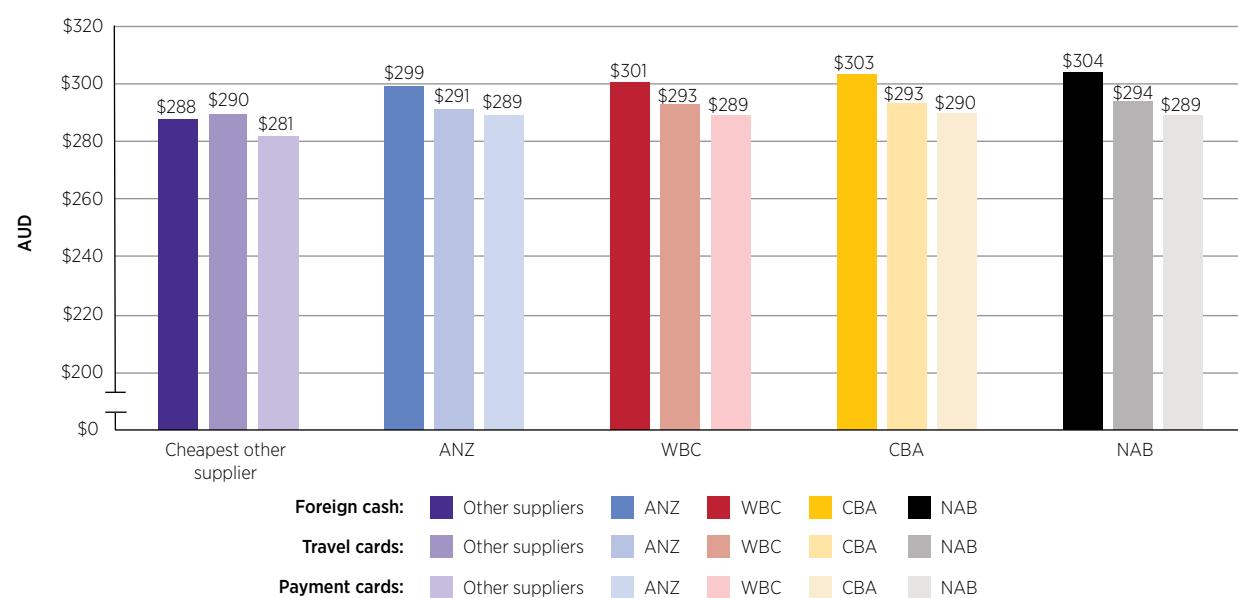
Debit and credit card fees

A debit or credit card is usually the cheapest option for making purchases while overseas, even more so for credit or debit cards that don't charge international transaction fees. For example:

- if customers of the big four banks used a debit or credit card without international transaction fees instead of a travel card, they could save up to AUD13 on a USD200 purchase
- the savings are more modest for the debit or credit cards to which international transaction fees apply; customers of the big four banks could save up to AUD5 on a USD200 purchase if they used a 'regular' debit or credit card instead of a travel card.

Price of a USD200 purchase using selected foreign currency conversion services*

Average over 5 business days: 6-12 February 2019



* Reported prices are a simple average calculated by the ACCC over the price data collection period. Prices for foreign cash are based on in-store purchases at non-airport locations. The payment cards issued by the big four banks included in our price data collection exercise all charge international transaction fees; we note that the big four banks all offer payment cards without international transaction fees, but those cards are not captured in the figure.

Source: Data collected for the ACCC. The data collected was sourced from publicly available information. Appendix B (section B.1) sets out how this data was collected.

A number of other fees are associated with debit and credit cards, such as annual fees and interest charges on credit cards. You should consider all fees when choosing a card. A debit or credit card that suits your everyday use may not always be the best card for travelling overseas.

Travel card fees

Depending on the supplier, a number of fees associated with travel cards can make them more expensive than other services, including:

- fees for purchasing a card in-store
- ATM fees
- inactivity and closure fees.

A travel card can be a particularly expensive option when used for transactions in a currency that is not loaded on the card. For example, if a travel cardholder with one of the big four banks withdrew the equivalent of AUD100 in GBP from an overseas ATM in May 2019, and GBP was not pre-loaded onto the travel card, they would have been charged an ATM fee of around GBP2 (about AUD3.70) plus a 5.25 per cent currency conversion fee. The total fees for this transaction would be about AUD8.90 or almost 9 per cent of the transaction amount.

Foreign cash fees

While foreign cash tends to be relatively more expensive to buy than buying goods or services using travel cards and debit or credit cards, it may be essential for some overseas destinations. In some locations debit, credit and travel cards are not widely accepted and cash is required to make purchases.

Check all applicable fees before using your travel, debit or credit card to withdraw foreign cash overseas. Using these cards may cost more than buying foreign cash in Australia due to various fees charged by card issuers and overseas ATM operators. There may also be fees and interest charges for cash advances using a credit card.

Know your retail exchange rate

Debit or credit cards do not generally provide the same certainty about retail exchange rates as travel cards and foreign cash. You may not know the retail exchange rate at the time you make a purchase with your debit or credit card, unlike when you load foreign currency onto a travel card or purchase foreign cash.

Avoid the airport

Foreign cash is more expensive at airport locations than at other locations. Shop around and purchase foreign cash before you get to the airport to save money. For example, when buying USD200 in February 2019, consumers could save AUD40 by purchasing from the cheapest supplier at a non-airport location, compared with the most expensive supplier at the airport. Be wary of services that advertise 'no fees, no commissions' as this may be to distract from an unfavourable exchange rate.

Paying in Australian dollars may be more expensive

When using a debit or credit card, some merchants may give you the option of paying in Australian dollars or another currency. This is known as Dynamic Currency Conversion. Paying in Australian dollars may be the more expensive option.

If an overseas bank processes the transaction and performs a foreign currency conversion, it will usually add a margin or mark-up to the exchange rate to make a profit on the transaction. Also, despite paying in Australian dollars, your card issuer may still charge you an international transaction fee as the transaction occurred overseas. For example, if you are shopping in an airport overseas and the merchant asks you whether you would like to pay in the local currency or Australian dollars, if you choose Australian dollars you may be:

- offered a less favourable rate than the rate offered by the card scheme
- charged an international transaction fee, even though you are paying in Australian dollars.

Shopping online

If you regularly make overseas purchases from Australia or travel overseas, you should consider an international fee-free credit or debit card. However, when comparing cards, you also need to consider all applicable fees and interest charges.

If you do not have an international fee-free card, your card issuer may charge you a fee for purchases made in Australian dollars if the transaction is processed overseas. These fees are often around 3 per cent of the purchase price. Your card issuer may offer the ability to block international transactions for particular payment cards.

If you are making a large purchase online, contact the business to check whether your payment will be processed overseas. It may not be clear from the website that an international transaction fee may apply. For example, if a website has a '.com.au' domain name or prices given in Australian dollars, it does not mean that the business will process the payment in Australia.

If you are charged an unexpected international transaction fee for a purchase in Australian dollars from a merchant that appeared to be located in Australia, it could be considered misleading under the Australian Consumer Law. You should contact your card issuer (for example, your bank) or the international card scheme (for example, Mastercard or Visa) to request a refund. If you cannot resolve the problem with your provider, you can report it to the ACCC at: www.accc.gov.au/consumers/complaints-problems/make-a-consumer-complaint.

1. Overview of foreign currency conversion services

Key points

- The total price of the inquiry services is driven by two components: the retail exchange rate and fees. A service may appear to be relatively cheap when considering only fees or the retail exchange rate, but the total price for that service may be more expensive.
- As a result, consumers need to be able to compare the total price of inquiry services to ensure they get the best deal. The ACCC's inability to easily collate complete price information from publicly available sources, particularly for IMT services, demonstrates how difficult it is for consumers to compare total prices.
- The exchange rates reported by the news media are not a good guide for what consumers will pay at most suppliers. The exchange rates actually paid by consumers are set by suppliers based on a range of factors including: the costs associated with providing the service, the supplier's performance against its business plans and revenue targets, and perceived changes in the competitive dynamics for the service.

This chapter provides an overview of:

- the inquiry services (section 1.1)
- the suppliers we focused on in the course of this inquiry (section 1.2)
- the pricing of inquiry services (section 1.3)
- the substitutability of the inquiry services (section 1.4).

1.1 About the inquiry services

Australian consumers purchase the equivalent of over AUD40 billion in foreign currency through the inquiry services each year, including:

- the equivalent of about AUD21 billion in personal remittances sent overseas from Australia via international money transfers (IMTs)⁹
- at least AUD17 billion in transactions on payment cards that involve conversion of Australian dollars to foreign currency either through foreign cash withdrawals or purchases of goods or services in a foreign currency
- at least AUD3.5 billion in transactions on travel cards that involve the conversion of Australian dollars to a foreign currency
- over AUD1 billion in foreign cash purchases made in Australia.¹⁰

We observe that the other inquiry services are generally not substitutes for IMTs. IMTs are the only available inquiry service for consumers who wish to send money overseas.

IMTs are also significant in terms of the average transaction size; the average size of IMTs is much larger than any other inquiry service. For the big four banks, who offer each of the four inquiry services, the average size IMT transaction in 2017–18 was almost AUD3000 more than the average foreign cash

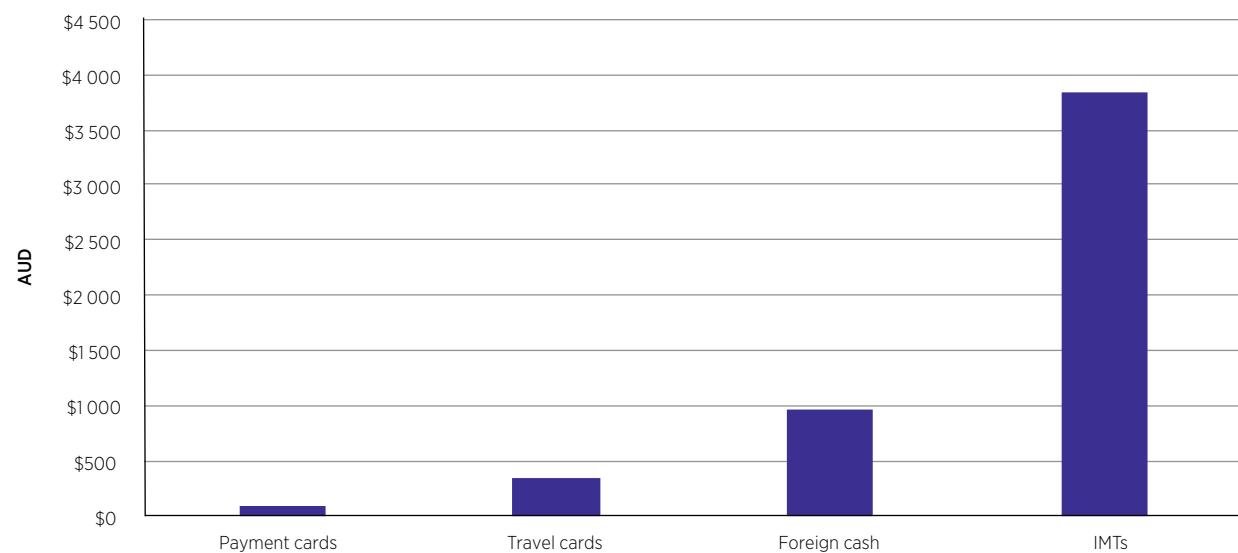
9 The World Bank 2015, *Bilateral Remittance Matrix*, <http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data>, viewed 18 July 2019 as cited in Global Partnership for Financial Inclusion 2017, *G20 National Remittance Plan 2017 Australia*, Germany, <https://www.gpfi.org/sites/gpfi/files/Australia%20-%20G20%20National%20Remittance%20Plan%202017.pdf>, p. 2.

10 Figures for foreign cash purchases, payment card transactions and travel card transactions are based on ACCC analysis of data provided by the inquiry suppliers for the year to 30 June 2018.

purchase and over AUD3500 more than the average transaction on a payment card involving the conversion of AUD to a foreign currency (figure 1.1).

Figure 1.1 Average transaction size for each inquiry service at the big four banks

1 July 2017–30 June 2018



Source: ACCC analysis of data provided by the big four banks.

International money transfers

For the purposes of this inquiry, an IMT service is the transfer of money from a sender in Australia to an overseas recipient. As part of the service, the money transferred is converted from Australian dollars to the currency of the destination country, or another foreign currency. An IMT is also sometimes referred to as a foreign currency transfer or remittance, or a telegraphic transfer.

As at 26 June 2019, there were over 900 individual entities providing IMT services in Australia, as well as over 4000 entities that provide IMT services on behalf of some of these entities.¹¹ These suppliers offer IMT services through a number of distribution channels, including:

- online through websites, internet banking platforms and mobile applications
- in person through branches, kiosks and stores
- over the phone.

Depending on the inquiry supplier, consumer access to IMT services is subject to certain restrictions. For example, the big four banks generally only provide IMT services to their account holders¹², while TransferWise and OFX require consumers to register with them before they can purchase their IMT

11 Based on AUSTRAC correspondence to the ACCC dated 2 and 4 July 2019.

12 CBA offers IMT services to consumers and businesses who are not existing customers of CBA. However over 98 per cent of the IMTs sent for individual consumers by CBA in the year to 30 June 2018 were for individuals who held a transaction account with CBA.

Westpac offers XYLO, through which its customers can undertake IMTs without a Westpac bank account. XYLO appears to be a specialist product, targeted at business customers.

Source:

Information provided by the inquiry suppliers.

Australia and New Zealand Banking Group Limited, *International Money Transfer*, <https://www.anz.com.au/personal/travel-international/international-payments/>, viewed 17 May 2019 (“You’ll need to be an ANZ customer to make an ANZ International Money Transfer”).

National Australia Bank Limited, *Transfer Money Overseas*, <https://www.nab.com.au/personal/international/transfer-money-overseas>, viewed 17 May 2019 (“Before you can transfer money overseas with NAB you must be a NAB customer with an open transaction account”).

Westpac Banking Corporation, *Send money overseas*, <https://www.westpac.com.au/international-travel/international-transfers/send-money/>, viewed 17 May 2019 (“Here’s what you’ll need: A Westpac bank account that is registered for Online Banking and Westpac Protect SMS Code”).

Westpac Banking Corporation, *XYLO Foreign Exchange*, <https://www.westpac.com.au/business-banking/international-trade/read-up-on/xylo/>, viewed 17 May 2019.

services.¹³ As another example, Western Union requires consumers to register for its online services but does not require consumers to register or set up an account for in-store purchases. IMT suppliers, like all suppliers of inquiry services, require information from their customers to comply with Australia's anti-money laundering and counter-terrorism financing (AML/CTF) regulations. AML/CTF requirements are discussed further in appendix C.

The IMT services of some suppliers include features in addition to the ability to remit foreign currency to another country. The extent to which suppliers compete on features other than price, including the security and speed of delivery, is explored in chapter 2 (section 2.2).

How IMTs work

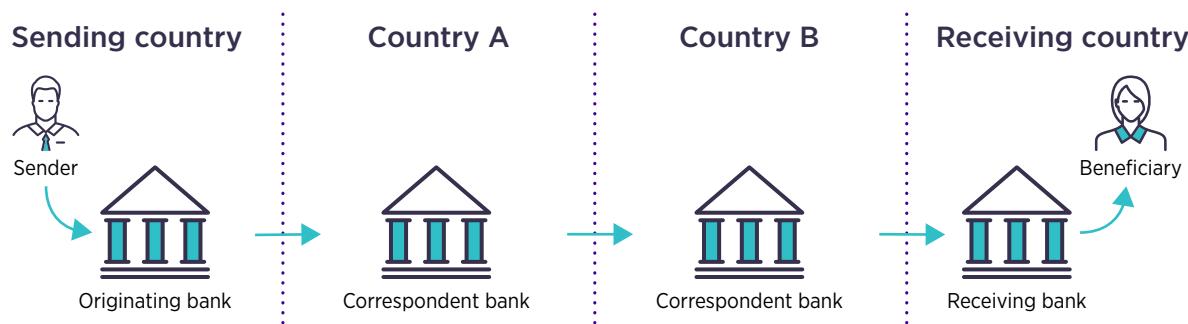
Suppliers can transmit an IMT in at least three ways:

- through a correspondent banking network or similar arrangements
- using a peer-to-peer arrangement
- over online payment infrastructure.

Correspondent banking networks

A correspondent banking network is an arrangement under which banks operate as agents for each other to facilitate the transfer of funds from one country to another (figure 1.2). Network arrangements exist because it is impractical for any one bank to have bilateral arrangements with every bank in every country. Instead, they can access almost any bank in the world via a correspondent banking network.¹⁴

Figure 1.2 An IMT facilitated through multiple correspondent banks



When a consumer in Australia requests a bank (the originating bank) to send money to a recipient overseas, the originating bank determines which banks within its network (correspondent banks) can connect it to the receiving bank. Figure 1.2 is a stylised example of an IMT where the originating bank relies on a correspondent bank, and the correspondent network of that correspondent bank, to send an IMT.

Non-bank suppliers can also use a correspondent banking network, or a similar network, to send money overseas. For example, some of these suppliers combine the money collected from their customers and use a network involving other suppliers or banks to send the balance to a bank account in the destination country from which the funds are then distributed to recipients in that country.¹⁵

IMTs transmitted through a correspondent banking network commonly attract fees levied by the correspondent bank(s); these are known as correspondent banking fees. Receiving banks can also charge a fee. These fees are often passed on to the consumer or IMT recipient, usually by being deducted from the sum being transferred.

13 TransferWise, *Welcome to money without borders*, <https://transferwise.com/register#/>, viewed 16 May 2019. OFX, Register, <https://au.ofx.com/registration>, viewed 16 May 2019.

14 Bank for International Settlements July 2016, *Committee on Payments and Market Infrastructures—Correspondent banking*, Switzerland, www.bis.org/cpmi/publ/d147.pdf, p. 6.

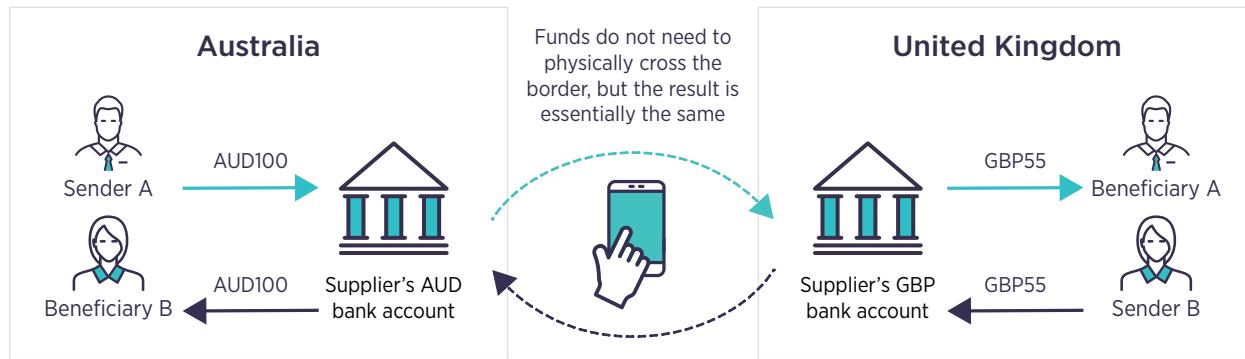
15 Reserve Bank of Australia June 2018, *Developments in Correspondent Banking in the South Pacific*, Sydney, <https://www.rba.gov.au/publications/bulletin/2018/jun/pdf/developments-in-correspondent-banking-in-the-south-pacific.pdf>, p. 2.

A correspondent or receiving bank can sometimes deduct fees from the amount transferred, even if the supplier specifically instructs them not to do so. In particular, where the receiving bank is not part of the supplier's correspondent banking network, the supplier will not typically be able to influence any fees that the receiving bank may deduct from the amount transferred. Also, it may not be possible for suppliers to identify all correspondent banking fees that an IMT will incur at the time a consumer initiates the IMT, especially where an IMT is processed through multiple banks.¹⁶ A supplier may however have visibility of the fees charged by each of the correspondent banks it has a direct agreement with. The issues arising for consumers from a lack of transparency of correspondent banking fees are considered further in chapter 3 (section 3.3).

Peer-to-peer arrangement

Some suppliers facilitate IMTs through peer-to-peer arrangements. In its simplest form, a peer-to-peer arrangement involves a supplier matching IMTs that flow in opposite directions for two currencies. For example, an ideal peer-to-peer transaction would involve a consumer in Australia wanting to send AUD100 to the UK and a UK consumer wanting to send GBP55 to Australia; and assuming an AUD-GBP exchange rate of 0.55. Instead of sending funds in both directions, a peer-to-peer supplier uses the GBP55 received from the UK sender to pay the UK recipient and uses the AUD100 to pay the recipient in Australia (figure 1.3).

Figure 1.3 An IMT facilitated through a peer-to-peer arrangement



IMTs will seldom match for a peer-to-peer provider as precisely as the example set out in figure 1.3. When there is a mismatch, the supplier will buy the relevant currency to make up the shortfall and complete the IMT for its customer.¹⁷

The peer-to-peer model is generally supported by a supplier having a bank account in each country in which it supplies IMT services.¹⁸ This allows the supplier to use the money received for an outgoing IMT to pay the recipient of an incoming IMT (as in figure 1.3). This approach allows peer-to-peer suppliers to provide IMT services without having funds actually cross national borders. The availability of banking services in Australia to IMT suppliers, including peer-to-peer providers, is considered further in chapter 2 (section 2.4).

Online payments infrastructure

PayPal is an example of a supplier where IMTs are made over online payments infrastructure. PayPal's digital payments platform acts as an IMT service through which its account holders can send money to and from each other.¹⁹

¹⁶ National Australia Bank Limited October 2018, *Response to ACCC's Foreign Currency Conversion Services Inquiry*, <https://www.accc.gov.au/system/files/NAB.pdf>, p. 8.

¹⁷ TransferWise, *Submission in response to the Issues Paper*, <https://www.accc.gov.au/system/files/TransferWise.pdf>, p. 3.

¹⁸ TransferWise, *Submission in response to the Issues Paper*, <https://www.accc.gov.au/system/files/TransferWise.pdf>, p. 3.

¹⁹ PayPal Australia Pty Limited, *Sending money to friends and family*, <https://www.paypal.com/au/webapps/mpp/send-money-online>, viewed 7 March 2019.

The sender can fund the IMT using their PayPal balance, bank account, credit card or debit card.²⁰ Where a consumer uses a credit card, debit card or bank account:

- the sender makes a payment to PayPal using their credit card, debit card or bank account, and
- PayPal makes a payment into the beneficiary's PayPal account.

When the sender holds sufficient value in their PayPal account to fund the IMT, PayPal uses its platform to debit the sender's PayPal account balance to credit the beneficiary's PayPal account.

Foreign cash

A foreign cash service refers to the supply of foreign cash to a consumer. Consumers typically purchase foreign cash before travelling overseas. Depending upon their location, consumers potentially have many suppliers from whom to purchase foreign cash. Around 500 entities were enrolled with the Australian Transaction Reports and Analysis Centre (AUSTRAC) as foreign cash suppliers in June 2019.²¹ Foreign cash services are available through various distribution channels, including:

- in person at bank branches and kiosks, including at airport locations
- online or over the phone, with cash collected at a nominated outlet. Some suppliers offer delivery of foreign cash ordered online
- at automated teller machines (ATMs) that dispense foreign cash.

Suppliers do not generally have eligibility requirements for consumers to purchase foreign cash services, although some of the big four banks may limit the amount of foreign cash or the distribution channels available to non-customers.

Payment cards

A payment card FX service refers to the foreign currency conversion that occurs when a consumer uses their debit card²² or credit card²³ for an international transaction, including to purchase goods and services in a foreign currency or withdraw foreign cash while overseas.

Debit cards and credit cards are different products with different features:

- A debit card is linked to a consumer's deposit account and allows the consumer to use their own money when making purchases or withdrawing cash.²⁴
- A credit card allows the consumer to draw on a line of credit, up to a certain amount, from the card issuer to make purchases or withdraw cash. Credit card issuers charge interest on transaction amounts if a consumer does not repay the amount they borrowed within the interest free period²⁵ or if a consumer withdraws cash under the line of credit (known as a cash advance).²⁶

In contrast to debit cards, credit cards are generally available to consumers without the need to hold a deposit account with the relevant supplier. Consumers will, however, need to satisfy eligibility requirements before a credit card is issued. For example, consumers need to verify their identity and demonstrate they can repay the line of credit.

20 PayPal Australia Pty Limited, *Sending money to friends and family*, <https://www.paypal.com/au/webapps/mpp/send-money-online>, viewed 7 March 2019.

21 Based on AUSTRAC correspondence to the ACCC dated 2 July 2019.

22 Only debit cards that can access a payment network provided by an international card scheme can be used for foreign currency transactions.

23 For the purposes of this report, all references to credit cards are inclusive of charge cards. Charge cards are similar to credit cards however, unlike credit cards which are associated with a revolving line of credit, charge cards require the cardholder to pay their outstanding balance in full at set periods (typically monthly).

24 ASIC's MoneySmart, *Debit Cards*, <https://www.moneysmart.gov.au/borrowing-and-credit/debit-cards>, viewed 18 March 2019.

25 Not all credit cards have an interest-free period. For credit cards without an interest-free period, interest is payable either from the day a purchase is made or from the day the monthly credit card account statement is issued.

26 ASIC's MoneySmart, *Credit Cards*, <https://www.moneysmart.gov.au/borrowing-and-credit/credit-cards>, viewed 18 March 2019.

Depending on the supplier, debit and credit cards are available through a number of distribution channels, including branches, online and over the phone.

Card issuers and international card schemes

Of relevance to our inquiry, there are two types of firms involved in the supply of payment card FX services: the card issuer and the international card scheme.

Card issuers

The card issuer makes the payment for the cardholder's purchases, and cash withdrawals made by a cardholder, provided there are sufficient funds available in the card account to complete the transaction—including funds available under the line of credit in the case of credit cards. It is the card issuer that a credit cardholder owes money to when drawing on the line of credit feature of a credit card. The card issuer is also generally responsible for matters such as sending account statements to cardholders to provide details of transactions and seeking repayment in the case of credit cards.

Debit cards and credit cards are issued by banks and other authorised deposit-taking institutions (ADIs). There are also some international card schemes (discussed below) that issue credit cards directly to consumers. For example, American Express Company (American Express) issues its own credit cards.

The big four banks are the major issuers of payment cards in Australia. They held about 78 per cent of all household deposits with Australian banks as at May 2019²⁷ and issue the majority of debit cards.²⁸ In terms of credit cards, the big four banks accounted for about 82 per cent of the outstanding credit card balances with Australian banks as at May 2019.²⁹ During the year ending 30 June 2018, the big four banks combined processed over 170 million transactions involving the conversion of Australian dollars to a foreign currency via a payment card. The combined Australian dollar value of those transactions was over AUD17 billion.

International card schemes

Nearly all payment cards used by Australians are issued with the branding of the card schemes operated by: American Express, Diners Club International³⁰, Mastercard Incorporated (Mastercard) or Visa Inc. (Visa)³¹; collectively referred to in this report as the international card schemes.

The international card schemes facilitate transactions made with payment cards that include the supply of payment card FX services. These transactions often involve the movement of money across borders or between currencies. For example, where a cardholder travels overseas and uses their card for a purchase, or where a cardholder makes a transaction online in a currency different from the currency in which their card account is denominated. Importantly, in facilitating such transactions, it is the international card scheme that determines the retail exchange rate that will apply to the transaction. The international card schemes levy fees on the card issuers for facilitating these transactions.³²

27 'Households' as defined in APRA's Monthly Banking Statistics: '*...individuals, or groups of individuals, resident in Australia whose dealings with other sectors are for personal or household purposes. It excludes sole proprietors, partnerships, family trusts and any other unincorporated enterprises owned by households*'.

Australian Prudential Regulation Authority, *Monthly Banking Statistics Glossary*, <https://www.apra.gov.au/sites/default/files/MBS%2520Glossary.pdf>.

Australian Prudential Regulation Authority, *Monthly Banking Statistics May 2019*, <https://www.apra.gov.au/publications/monthly-banking-statistics>, viewed 10 July 2019.

28 Reserve Bank of Australia September 2017, *Competition in the Financial System, Submission to the Productivity Commission Inquiry*, <https://www.rba.gov.au/publications/submissions/financial-sector/competition-in-the-financial-system/submission-to-productivity-commission-september-2017.pdf>, p. 34.

29 Australian Prudential Regulation Authority, *Monthly Banking Statistics May 2019*, <https://www.apra.gov.au/publications/monthly-banking-statistics>, viewed 11 July 2019.

30 Diners Club International is a subsidiary of Discover Financial Services.

31 Reserve Bank of Australia, *Credit and Charge Cards—Market Shares of Card Schemes*, <https://www.rba.gov.au/statistics/tables/xls/c01-3-hist.xlsx>, viewed 30 April 2019.

32 National Australia Bank Limited October 2018, *Submission in response to Issues Paper*, <https://www.accc.gov.au/system/files/NAB.pdf>, p. 7.

Travel cards

Travel cards are stored value or pre-paid cards that can be used overseas to withdraw cash from ATMs or make purchases, among other uses.³³ Value can be loaded onto a travel card in one or more of the foreign currencies offered by the supplier (known as supported currencies) or, in some cases, Australian dollars.

Cash withdrawals and purchases can be made in the currencies loaded onto a travel card. They can also be made in other currencies, although such transactions may attract additional fees. Cash withdrawals and purchases can only be made where there is sufficient value stored on the travel card.

A travel card service refers to the foreign currency conversion that takes place:

- at the time a foreign currency is purchased for loading onto the travel card, or
- when the travel card is used for a transaction in a currency that is not loaded on the card.

There are significantly fewer suppliers of travel cards compared with suppliers of IMT and foreign cash services. Market research undertaken by a consultant, and obtained by at least one of the big four banks, indicates that the most commonly used travel cards were the Qantas, CBA and Velocity travel cards—collectively accounting for the most recent transaction of over 50 per cent of travel card users.³⁴ The ANZ, NAB and Westpac travel cards collectively accounted for the most recent transaction of about 20 per cent of travel card users.

Travel cards can be purchased online or in person, for example in bank branches and from kiosks. Consumers do not generally need to be an existing customer of a supplier to purchase a travel card. Qantas and Velocity require consumers to sign up to their frequent flyer programs.³⁵

The currencies available for use with travel cards

One inquiry supplier observed in an internal strategic review document from May 2017 that there is little product differentiation between travel cards, but one key difference between cards is the number of supported currencies offered to consumers. Considerable variety exists in the supported currencies across travel cards, with some cards supporting as few as five currencies and others supporting up to 13 currencies.³⁶

Ten of the more commonly supported currencies are: Australian dollars, Canadian dollars, Euros, Great British pounds, Hong Kong dollars, Japanese yen, New Zealand dollars, Singapore dollars, Thai baht and United States (US) dollars. The suppliers in table 1.1 offer travel cards that include those 10 currencies as supported currencies, along with the additional currencies noted in the table.

33 Travel cards can also be used within Australia to make purchases or withdraw cash.

34 The research was based on a consumer survey conducted by a consulting firm in April 2018. The survey involved 613 individuals who had travelled overseas in the previous 12 months and used a travel card.

35 Qantas Airways Limited, *Get the Qantas Travel Money Card*, <https://www.qantascash.com/how-it-works>, viewed 27 March 2019.

Velocity Frequent Flyer Pty Ltd, *Welcome to Global Wallet*, <https://www.velocityglobalwallet.com/>, viewed 27 March 2019.

36 Canstar 1 July 2016, *5 benefits of a travel money card*, <https://www.canstar.com.au/travel-money-cards/five-benefits-of-a-travel-money-card/>, viewed 15 February 2019.

Table 1.1 Other currencies offered by selected suppliers*

	Chinese Yuan	South African Rand	United Arab Emirates Dirham	Vietnamese Dong
ANZ				
CBA	✓		✓	✓
NAB				
Qantas			✓	
Travelex				
Velocity		✓		
Westpac		✓		

* All suppliers listed in this table offer travel cards that support: Australian dollars, Canadian dollars, Euros, Great British pounds, Hong Kong dollars, Japanese yen, New Zealand dollars, Singapore dollars, Thai baht and US dollars.

Source: Information obtained from supplier websites for the ANZ Travel Card, CBA Travel Money Card, NAB Traveller Card, Qantas Travel Money Card, Travelex Money Card, Velocity Global Wallet, and Westpac Global Currency Card.

1.2 About the inquiry suppliers

This inquiry is primarily focused on the inquiry suppliers: ANZ, CBA, NAB, OFX, TransferWise, Travelex, Western Union and Westpac. Each inquiry supplier provides one or more of the inquiry services (table 1.2). The inquiry suppliers were chosen as a broadly representative sample of suppliers from the diverse range of firms providing the inquiry services.

Table 1.2 Inquiry services provided by the inquiry suppliers

	Inquiry service			
	IMTs	Foreign cash	Payment cards	Travel cards
ANZ	•	•	•	•
CBA	•	•	•	•
NAB	•	•	•	•
OFX	•			
TransferWise	•			
Travelex	a	•		•
Western Union	•			
Westpac	•	•	•	•

a Travelex provides IMT services at selected stores as an agent for Western Union and IMT services offered on Travelex's website are provided by OFX.

The big four banks

The big four banks are Australia's four largest ADIs and are significant suppliers of financial services, including inquiry services, in Australia. The big four banks use a variety of distribution channels to provide inquiry services, including: in-branch, online, over the phone and through ATMs. However, they do not all use the same channels to distribute each service. For example:

- ANZ does not offer IMT services in-branch to individual consumers or the majority of small business customers like the other big four banks, instead referring customers to its phone banking channel
- ANZ is the only one of the big four banks to have physical outlets at Sydney International Airport that supply foreign cash services and travel cards³⁷
- Westpac is the only big four bank with ATMs that dispense foreign cash.³⁸

Unlike suppliers whose only business is supplying one or more of the inquiry services, the revenue from providing inquiry services to individual consumers does not make up a significant part of the big four banks' overall revenues. For example, we observe that for the big four banks' respective 2017–18 financial years³⁹, revenues for IMTs, foreign cash and travel cards combined were less than 1 per cent of the total operating income of the consolidated banking groups at each bank.⁴⁰

OFX and TransferWise

OFX and TransferWise supply IMT services through their websites and mobile apps.⁴¹ These suppliers do not have any physical outlets such as kiosks or stores, and they do not accept cash or cheque as funding for IMTs.⁴²

Western Union

Western Union supplies IMT services online (through its website or mobile app) and in person through its agent network⁴³, which includes Australia Post and Travelex kiosks.⁴⁴ Western Union's agent network

37 Australia and New Zealand Banking Group Limited, *Foreign currency exchange centre locations*, <https://www.anz.com.au/personal/travel-international/foreign-exchange-rates/foreign-centre-locations/>, viewed 16 May 2019.

38 The ATMs dispense Euros, Great British pounds, New Zealand dollars and US dollars. Westpac Banking Corporation October 2018, *Submission in response to the Issues Paper*, <https://www.accc.gov.au/system/files/Westpac.pdf>, pp. 8–9.

39 The 2017–18 financial year ended on 30 June 2018 for CBA and on 30 September 2018 for ANZ, NAB and Westpac.

40 The comparison relates to revenues generated from each transaction involving the acquisition of a foreign currency using Australian dollars by individual consumers. Comparisons of the revenue derived from the inquiry services to the total operating income of the big four banks are based on:
ACCC analysis of data provided by the big four banks.

Australia and New Zealand Banking Group Limited 2018, *2018 Annual Report*, https://shareholder.anz.com/sites/default/files/anz_2018_annual_report_final.pdf, p. 72.

Commonwealth Bank of Australia 2018, *Annual Report 2018*, <https://www.commbank.com.au/content/dam/commbank/about-us/shareholders/pdfs/results/fy18/cba-annual-report-2018.pdf>, p. 125.

National Australia Bank Limited 2018, *Annual Financial Report 2018*, <https://www.nab.com.au/content/dam/nabrw/documents/reports/corporate/2018-annual-financial-report.pdf>, p. 80.

Westpac Banking Corporation 2018, *2018 Westpac Group Annual Report*, https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/ic/2018_Westpac_Annual_Report.pdf, p. 85.

The total operating income for Westpac was derived from its reported net operating income before expenses.

41 TransferWise, *International money transfers*, <https://transferwise.com/au/send-money/>, viewed 21 February 2019.
OFX, *Transferring money with OFX is simple*, <https://www.ofx.com/en-au/money-transfer/step-by-step/>, viewed 21 February 2019.

42 OFX, *Can I transfer money to OFX via cash or cheque?*, <https://www.ofx.com/en-au/faqs/can-i-transfer-money-to-ofx-via-cash-or-cheque/>, viewed 17 May 2019.
TransferWise, *Can I pay with cash, or by cheque?*, <https://transferwise.com/help/article/1570220/good-to-know/can-transferwise-convert-fromto-cash-or-cheque>, viewed 17 May 2019.

43 Western Union, *Send money from Australia*, <https://www.westernunion.com/au/en/send-money.html>, viewed 16 May 2019.

44 Australia Post, *International money transfer with Western Union*, <https://auspost.com.au/money-insurance/banking-and-payments/international-money-transfer-with-western-union>, viewed 13 May 2019.
Travelex Limited, *Western Union Money Transfer*, <https://www.travelex.com.au/services/western-union-money-transfer>, viewed 13 May 2019.

is extensive with IMT services being offered from around 3400 agent locations across Australia as at 31 December 2018.⁴⁵

Western Union differs from other inquiry suppliers by providing IMT services to consumers who do not have access to banking services.⁴⁶ For example, the sender can pay for an IMT using cash and the recipient can receive funds in cash at a Western Union agent location.⁴⁷ Additionally, Western Union supplies IMTs in currencies which may not be available from other IMT suppliers, such as the Iraqi Dinar and the Angolan Kwanza.⁴⁸

Travelex

Travelex is a kiosk operator⁴⁹ and supplies a range of inquiry services including foreign cash, travel cards and IMTs. Travelex supplies its services via a number of distribution channels including its kiosks, ATMs and online.⁵⁰ There are over 140 Travelex kiosks and around 40 Travelex foreign cash ATMs around Australia, including at airport locations.⁵¹

Travelex also provides IMT services at selected stores as an agent for Western Union.⁵² IMT services offered on Travelex's website are provided by OFX.⁵³

In addition, Travelex also supplies a white label foreign cash service. This involves Travelex supplying foreign cash to other suppliers who then distribute it under their own brand. Several of the big four banks have advised the ACCC that they distribute foreign cash supplied by Travelex pursuant to a white label or agency agreement. These arrangements are outside the scope of this inquiry, which has been focused on the supply of FX services to consumers and small businesses.

1.3 The pricing of the inquiry services

Typically, the price of an inquiry service is determined by a combination of the retail exchange rate applied to the amount of foreign currency being purchased, and the fees.⁵⁴ This section outlines the nature of these price components and the ACCC's observations on the pricing of the inquiry services. Unless otherwise stated, references to price in this report are to the total price, including the foreign currency amount expressed in Australian dollars based on the retail exchange rate and any fees.

45 Western Union, *Send money from Australia*, <https://www.westernunion.com/au/en/send-money.html>, viewed 18 July 2019 ("In Person").

46 Western Union 2018, *Submission in response to the Issues Paper*, <https://www.accc.gov.au/system/files/Western%20Union.pdf>, pp. 1-2.

47 Western Union, *Send money from Australia*, <https://www.westernunion.com/au/en/send-money.html>, viewed 18 July 2019 ("In Person").

48 Western Union, *Send Money Online*, <https://www.westernunion.com/au/en/send-money/app/start>, viewed 6 March 2019.

49 Kiosk operators supply FX services from physical outlets such as kiosks or stores located in airports or other locations. Some kiosk operators augment their physical outlets with an online service, such as those allowing consumers to order foreign cash online and collect it from a kiosk or store. These suppliers only supply FX services.

50 Travelex Limited November 2018, *Submission in response to the Issues Paper*, <https://www.accc.gov.au/system/files/Travelex.pdf>, p. 1.

51 Travelex Limited, *Travelex Stores in Australia by State/Territory*, <https://www.travelex.com.au/stores-by-state>, viewed 6 March 2019.

Travelex Limited, *Foreign Currency ATMs*, <https://www.travelex.com.au/foreign-currency-atms>, viewed 6 March 2019.

52 Travelex Limited November 2018, *Submission in response to the Issues Paper*, <https://www.accc.gov.au/system/files/Travelex.pdf>, Annexure B, p. 11.

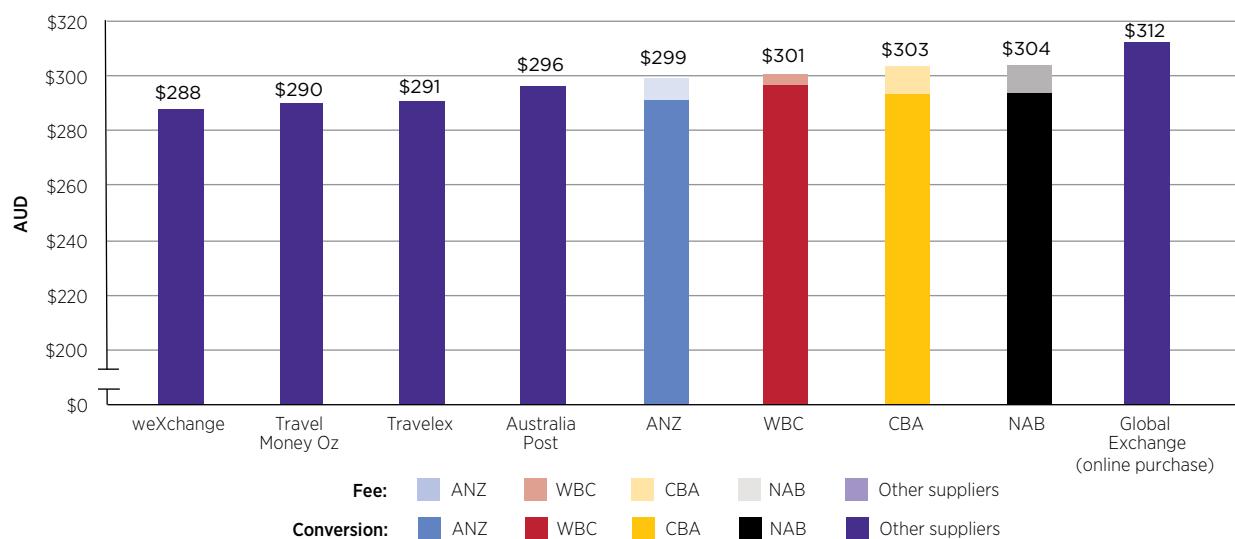
Travelex Limited, *Western Union Money Transfer*, <https://www.travelex.com.au/services/western-union-money-transfer#>, viewed 16 May 2019.

53 Travelex Limited, *About International Payments*, <https://www.travelex.com.au/money-transfer/about-international-payments>, viewed 16 May 2019.

54 Some suppliers may refer to fees as commissions. For the purpose of this inquiry, fees includes fees, commissions or charges payable by a consumer for an inquiry service.

Consumers need to be able to compare the total price offered by suppliers to ensure they are getting the best deal. Services that appear to be relatively cheap when considering only fees or the retail exchange rate can turn out to be the most expensive based on the total price. For example, from our price data collection, the foreign cash services offered by ANZ, Westpac, CBA and NAB at non-airport locations had competitive retail exchange rates for the purchase of USD200, but once their fees were added, they became some of the more expensive suppliers in the sample (figure 1.4).

Figure 1.4 Price for purchasing USD200 in foreign cash*
Average over 5 business days: 6-12 February 2019



* Reported prices are based on in-store purchases at non-airport locations only, except the reported price for Global Exchange which represents online purchases with collection at Sydney International Airport. Prices calculated by the ACCC as a simple average over the price data collection period.

Source: Data collected for the ACCC. The data collected was sourced from publicly available information. Appendix B (section B.1) sets out how this data was collected.

Retail exchange rates

The exchange rates applying to inquiry services purchased by most consumers are generally different to the exchange rates that are reported by the news media. The exchange rates reported by the media are usually benchmark rates, which are indicative of the wholesale exchange rates at which financial institutions and central banks trade very large values and volumes of foreign currency.

Most consumers cannot access benchmark rates. Instead, they purchase inquiry services at a retail exchange rate set by the suppliers of these services.

The retail exchange rates of most suppliers and for most inquiry services are comprised of two components⁵⁵:

- the wholesale exchange rate at which the supplier acquired the relevant currency; the wholesale exchange rate may be similar to the benchmark rates reported in the media for some suppliers
- a retail margin (also known as a mark-up).

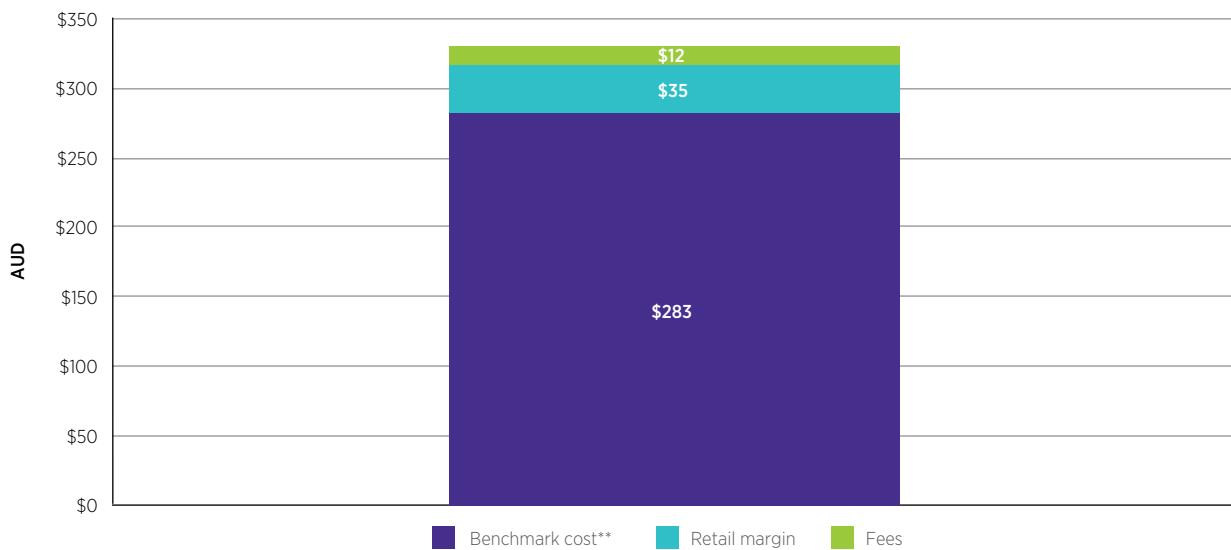
Figure 1.5 is an example of how the retail exchange rate (the combination of the wholesale exchange rate and the retail margin) and fees combine to determine the total price paid by a consumer for an inquiry service. The example is based on real price data and relates to a consumer buying USD200 in foreign cash from an airport location included in our price data collection on 12 February 2019. We have assumed the benchmark (WM/Reuters) AUD-USD rate on that day was the wholesale exchange rate at which the supplier purchased the US dollars sold to the consumer.⁵⁶ That exchange

55 Not all suppliers apply a retail margin in their formulation of the retail exchange rate. One inquiry supplier aligns its retail exchange rate with the Reuters mid-market rate and, instead, derives a profit margin from fees charged to consumers.

56 This is a simplifying assumption for the purpose of this example. Benchmark rates do not necessarily reflect the actual wholesale cost at which suppliers acquire foreign currency.

rate was 0.7072, which means the approximate cost of the US dollars to the supplier was AUD283 (the benchmark cost in figure 1.5). The retail exchange rate offered by the supplier was AUD-USD 0.6300, meaning the consumer paid AUD318 for their USD200; a mark-up of AUD35 (retail margin in figure 1.5). Finally, the fees charged by the supplier were AUD12. The total price for the consumer to purchase USD200 was AUD330.

Figure 1.5 Illustrative example of price components: purchase of USD200 in foreign cash*
12 February 2019



* Reported price is based on ACCC analysis of price data collected for the ACCC and other publicly available data as at 12 February 2019. The benchmark cost was calculated by the ACCC based on the WM/Reuters AUD-USD benchmark rate. The retail margin and fees are based on a real price quoted by a supplier at an airport location using data collected for the ACCC (see figure 1.6). The example is intended to be illustrative, not definitive.

** The benchmark cost provides an indication of the supplier's wholesale cost of the foreign currency sold and does not necessarily reflect the actual wholesale cost at which the supplier acquired foreign currency. The supplier's retail margin is therefore likely to differ from what is shown in this chart.

Source: Data collected for the ACCC. The data collected was sourced from publicly available information. Appendix B (section B.1) sets out how this data was collected.

Reserve Bank of Australia, *Exchange Rates—Daily—2018 to Current*, <https://www.rba.gov.au/statistics/tables/xls-hist/2018-current.xls>, viewed 9 April 2019.

Suppliers generally set different retail exchange rates for transactions in which a consumer is buying a foreign currency compared with those in which a consumer is selling the same currency (box 1.1). Many suppliers, particularly those supplying foreign cash services, derived revenue from the difference at which foreign currency was bought and sold by the supplier.⁵⁷

57 Travelex Limited November 2018, *Submission in response to the Issues Paper*, <https://www.accc.gov.au/system/files/Travelex.pdf>, p. 2.

Box 1.1 The effect of buy and sell retail exchange rates*

A consumer arrives at Sydney Airport on 12 February 2019 looking to change AUD100 to GBP. A supplier's retail exchange rate for buying GBP on that day was 0.3990. At this exchange rate, the consumer receives GBP39.90 (100×0.3990) for AUD100. If the consumer changed their mind and decided to immediately sell their GBP back to the same supplier, the exchange rate offered was AUD-GBP 0.7260. The consumer had GBP39.90 so they would have received AUD54.96 ($39.90 / 0.7260$). Despite completing both transactions very close together, the consumer would have lost AUD45.04, before any fees, over the course of these transactions.



* This example has been used to illustrate the difference between buy and sell retail exchange rates. The difference may be less pronounced at different times and outside of airport locations.

Source: Data collected for the ACCC. The data collected was sourced from publicly available information. Appendix B (section B.1) sets out how this data was collected.

How inquiry suppliers set prices

Prices for an inquiry service may change daily or over the course of a day because of fluctuations in wholesale exchange rates, which move in line with changes in the supply and demand for currencies in global markets. These fluctuations are typically outside the control of suppliers. This section focuses on the elements of price that are within an inquiry supplier's control.

Where they apply, the retail margin and fees included in an inquiry supplier's prices are intended to cover its operating costs and deliver a profit to the supplier. More generally, a variety of factors can influence the prices of inquiry suppliers, including:

- the costs associated with providing the inquiry service.⁵⁸ These costs may vary across currency pairs, inquiry services and distribution channels
- performance against business plans or revenue targets
- a perceived change in the competitive dynamics for a particular service or currency pair
- likely customer or competitor response to proposed price changes.

We expect that the emphasis on these factors will vary from supplier to supplier and over time. The emphasis a supplier places on these factors may also vary as a result of the context and circumstances in which that supplier is making a decision about setting its prices. Chapter 2 sets out our findings on price competition.

Some inquiry suppliers have different retail exchange rates for IMTs, foreign cash and travel cards. For example, NAB and Westpac offer different retail exchange rates for each of these services.⁵⁹ We expect that the nature and associated underlying costs of supplying each of the inquiry services are part of the reason why retail exchange rates vary across services.

The inquiry suppliers generally advertise their prices on their websites. However, some inquiry suppliers may offer discounts off their advertised prices. For example, some inquiry suppliers offer discounted prices that can depend on one or more of the following: the value of the customer relationship to the supplier; the value of the transaction; the number of transactions undertaken by the customer; or prices offered by other suppliers. During the course of our price data collection, we identified one supplier that allowed retail exchange rates for foreign cash to be negotiated in person.

58 Details of the costs data provided by the inquiry suppliers is set out in appendix B (section B.2).

59 National Australia Bank Limited, *Foreign exchange rates*, <https://www.nab.com.au/personal/international/foreign-exchange-rates#/rate>, viewed 18 March 2019.

Westpac Banking Corporation, *Foreign Exchange Rates*, <https://www.westpac.com.au/business-banking/services/foreign-exchange-rates/>, viewed 18 March 2019.

Retail margin

Many inquiry suppliers set their retail margins, or their internal pricing formula for determining retail margins, as part of a periodic business review with senior decision makers. While prices may change daily in line with fluctuations in wholesale exchange rates, the ACCC has observed that decisions to change retail margins are far less frequent. Examples of circumstances where some of the big four banks decided to reduce retail margins are discussed in chapter 2 (section 2.3).

Fees

The way a service is delivered can influence the fees that apply to that service. Where fees differ across distribution channels for the same supplier, it may be a reflection of: some distribution channels having a lower operating cost than others; a desire by the supplier to redirect consumers to a particular distribution channel; or a combination of both. For example, one of the big four banks reduced its fees for sending IMTs online as a way of encouraging customers to use this distribution channel. Our review of the fees applying to inquiry services (discussed in the subsections below) shows that online distribution channels generally attract the lowest fees.

International money transfer services

There are three key components to IMT prices:

- the fees paid at the time the consumer purchases an IMT (up-front fees)
- correspondent banking fees, where they apply
- the retail exchange rate.⁶⁰

Up-front fees and correspondent banking fees

The up-front fees for IMT services can vary depending on the IMT amount, the distribution channel used to initiate the IMT, or the currency in which the IMT is being sent (table 1.3). Correspondent banking fees (discussed in further detail in chapter 3, section 3.3) can apply in addition to up-front fees for IMTs sent through some suppliers and in certain circumstances. Instances where correspondent banking fees do not apply or are less likely to arise include:

- the majority of IMTs supplied by InstaReM or OFX
- IMTs supplied by NAB to individual consumers; NAB will absorb correspondent banking fees for these IMTs so that fees are not deducted from the amounts transferred⁶¹
- IMTs supplied by TransferWise
- IMTs supplied by Western Union, whose up-front fees are intended to cover all fees so that no additional fees are deducted from the amounts transferred.

When comparing the IMT prices of suppliers, consumers should consider the total price, including the retail exchange rate, up-front fees and any correspondent banking fees. Consumers should ask suppliers if any fees will be deducted from the funds they transfer and, if fees will be deducted, ask for an estimate of the funds that will be delivered to the recipient.

⁶⁰ We note that there are other fees, such as receiving bank fees and local taxes, which may be deducted from amounts transferred. Unless otherwise indicated, these fees are not considered in our analysis.

⁶¹ In some instances beyond NAB's control, overseas banks may deduct fees from the amount transferred. National Australia Bank Limited, International Transfers Terms and Conditions, <https://www.nab.com.au/personal/help-and-guidance/terms-and-conditions-for-personal-products/international-transfers-terms-conditions>, viewed 16 May 2019.

Table 1.3 Up-front fees applying to IMTs sent through selected suppliers*
28 June 2019[^]

	Purchase in branch	Order online or via mobile application
ANZ	—	For transactions under the equivalent of AUD10 000: <ul style="list-style-type: none"> ■ \$9 for payments to Fiji, Samoa, Vanuatu, Kiribati, Tonga, Solomon Islands and Cook Islands ■ \$12 for payments to other countries \$0 for transactions over the equivalent of AUD10 000
CBA	\$30	\$6 for IMTs under or equal to the equivalent of AUD1000 \$12 for IMTs over the equivalent of AUD1000
InstaReM^a	—	Typically 0.25%–1.00% of the transaction amount depending on the currency
NAB^a	\$30	\$10
OFX^a	—	\$15 for IMTs under the equivalent of AUD10 000 \$0 for IMTs over the equivalent of AUD10 000
TransferWise^a	—	Fees range from \$1 + 0.45% to \$3.25 + 0.80%, depending on the currency. ^b The percentage fee may be discounted depending on the amount sent, the currency and the payment method.
Westpac	\$32 \$10 to a Pacific Westpac account	\$5–\$10 depending on the currency sent and type of IMT service. ^c
Western Union^a	\$0–\$15, ^d depending on the currency, transaction value and how the consumer pays for the IMT.	

* Fees are expressed in AUD or, where expressed as a percentage, they are applied to the AUD equivalent of each foreign currency purchased.

[^] Fees for TransferWise and Western Union as at 20 December 2018.

— The supplier does not provide the service.

a As set out in the discussion above, correspondent banking fees will not, or are unlikely to, apply to IMTs sent by this supplier.

b Fees for Brazilian reals, Euros, Great British pounds, Indonesian rupiahs, Indian rupees, Malaysian ringgit, New Zealand dollars, Philippine pesos, Thai baht and US dollars. IMT services are available in other currencies and the fees applying to IMTs in those currencies may be outside of this range.

c The up-front fee can be waived in certain circumstances. In addition to Westpac's regular IMT service, Westpac offers several other IMT services including LitePay International Payments via Westpac online banking. LitePay payments may be sent to the Philippines (Philippine pesos), India (Indian rupees), 19 European countries (Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, Spain) (Euros) and the United Kingdom (Great British pounds). The maximum daily limit for a LitePay payment is AUD3000.

d Fees of \$0–15 relate to IMTs delivered to a bank account or digital wallet. Fees for IMTs delivered to the recipient as cash may be significantly higher (up to \$436) due to factors specific to this type of transaction, including but not limited to the higher costs of in-person and cash handling services.

Source: Information obtained from supplier websites viewed 28 June 2019 and information provided by suppliers.

Retail exchange rates

Retail exchange rates for the IMT services offered by some inquiry suppliers can vary depending on the distribution channel through which the IMT was initiated. For some inquiry suppliers the retail exchange rate can also vary with the amount of the IMT. For example, at one of the big four banks:

- the retail exchange rates for IMTs initiated via internet banking change throughout the day whereas for IMTs initiated over the phone, the retail exchange rates are set once a day for transactions below AUD100 000⁶²
- for IMTs over AUD250 000, consumers may be able to negotiate the exchange rate that will apply to their IMT regardless of the distribution channel.

62 The retail exchange rates change over the course of the day for IMTs over AUD100 000 initiated over the phone.

Some of the inquiry suppliers may offer preferential retail exchange rates to certain customers, such as those who complete a large number of IMT transactions or high-value IMT transactions.

Price comparisons across selected suppliers

Our price comparisons consider retail exchange rates, up-front fees and, where applicable, correspondent banking fees. Information on retail exchange rates and up-front fees was gathered from the suppliers' websites.⁶³ Correspondent banking fees were, however, not generally displayed on the websites and we requested this information from the relevant suppliers.

Our inability to easily collate complete price information from publicly available sources demonstrates how difficult it is for consumers to compare total prices and supports our call for IMT suppliers to inform consumers of the total price of IMTs (see chapter 3, section 3.3).

Prices for IMT services vary, sometimes significantly, across suppliers. For example, there was a price difference of up to AUD62 between the cheapest and most expensive supplier when sending USD200 to the US in mid-February 2019 (table 1.4) and a difference of up to AUD549 when sending USD7000 (equivalent to approximately AUD10 000) (see chapter 3, table 3.1).

Table 1.4 Price* to send a USD200 IMT through selected suppliers
Average over 5 business days: 6–12 February 2019

	Conversion (AUD)	Up-front fee (AUD)	Correspondent banking fee (AUD)	Price (AUD)
InstaReM	\$281	\$1	\$0	\$282
TransferWise	\$281	\$2	\$0	\$283
OFX	\$287	\$15	\$0	\$302
NAB	\$294	\$10 ^a	\$0 ^a	\$304
Western Union	\$293	\$15	\$0	\$308
CBA	\$298	\$6	Up to \$9 ^b	Up to \$313 ^c
ANZ	\$291	\$12	Up to \$36 ^b	Up to \$339 ^c
Westpac	\$297	\$10	Up to \$37 ^b	Up to \$344 ^c

* Reported prices are based on transactions undertaken via online channels only. Prices calculated by the ACCC as a simple average over the price data collection period.

^a NAB absorbs correspondent banking fees for IMTs initiated by individual consumers, however in some instances beyond NAB's control, overseas banks may deduct fees from the amount sent.

^b Where correspondent banking fees apply, these are typically deducted by the correspondent bank from the sum transferred to the recipient. Correspondent banking fees may differ for other currency corridors and transaction values. The correspondent banking fees used in this price comparison have been converted from USD into AUD by the ACCC using individual suppliers' retail exchange rate information collected during February 2019.

^c The price reported for this supplier incorporates the maximum correspondent banking fee levied on USD200 IMTs sent during February 2019 through this supplier's correspondent banking network.

Source: Information obtained from supplier websites, information provided by suppliers and data collected for the ACCC. Appendix B (section B.1) sets out the details of the data collected for the ACCC.

Significant price differences also exist between the cheapest and most expensive IMT suppliers for other currencies, including less commonly offered and used currencies such as Fijian dollars (FJD). Only five⁶⁴ of the eight suppliers on which we collected price data would remit IMTs for FJD15 000 (equivalent

63 Appendix B (section B.1) sets out how this data was collected.

64 The five were ANZ, CBA, NAB, OFX and Westpac. Western Union is not included in this price comparison as it does not allow customers to send IMTs with a value exceeding AUD5000 via its online channel.

to approximately AUD10 000) online; there was a difference of about AUD370 in the total price between the cheapest supplier (ANZ) and the most expensive (NAB) for such an IMT.⁶⁵

IMT services with a flat fee structure might have lower fees than those with a variable fee structure, especially for larger IMTs, but services with flat fees are not always the cheapest overall. For example, table 1.5 shows how a supplier with a variable fee (Supplier A) was cheaper than a flat fee supplier (Supplier B) over a range of IMT amounts because Supplier A had cheaper retail exchange rates. This illustrates the importance of comparing the total price of an IMT service, not just the fees.

Table 1.5 Price* to send a USD200 and USD7000 IMT through selected suppliers
Average over 5 business days: 6–12 February 2019

	Supplier A: Variable up-front fee	Supplier B: Flat up-front fee	Difference
USD200			
Conversion (AUD)	\$281	\$294	
Up-front fee (AUD)	\$1	\$10	
Total (AUD)	\$282	\$304	\$22
USD7000			
Conversion (AUD)	\$9850	\$10 288	
Up-front fee (AUD)	\$49	\$10	
Total (AUD)	\$9899	\$10 298	\$399

* Reported prices are based on transactions undertaken via online channels only. Prices calculated by the ACCC as a simple average over the price data collection period (see table 1.4 and chapter 3, table 3.1).

Source: Information obtained from supplier websites, information provided by suppliers and data collected for the ACCC. Appendix B (section B.1) sets out the details of the data collected for the ACCC.

Foreign cash services

Fees

The fees payable for foreign cash services depend on the distribution channel, the value of the transaction and, for one of the big four banks, whether or not the consumer is an existing customer (table 1.6).

⁶⁵ Reported prices are based on transactions undertaken via online channels only. Prices calculated by the ACCC as a simple average over the price data collection period and include, where applicable, the maximum correspondent banking fees levied on FJD15 000 IMTs sent during February 2019. Where correspondent banking fees apply, these are typically deducted by the correspondent bank from the sum transferred to the recipient. The correspondent banking fees used in this price comparison have been converted from AUD to FJD by the ACCC using individual suppliers' retail exchange rate information collected during February 2019. NAB absorbs correspondent banking fees for IMTs initiated by individual consumers, however in some instances beyond NAB's control, overseas banks may deduct fees from the amount sent. Based on information obtained from supplier websites, information provided by suppliers and data collected for the ACCC. Appendix B (section B.1) sets out the details of the data collected for the ACCC.

Table 1.6 Fees applying to foreign cash services*
28 June 2019[^]

	In-store	Order online
ANZ	1% (\$8 min. fee) ^a	1% (\$8 min. fee) ^a
Australia Post	\$0	\$0
CBA	1% (\$10 min. fee)	1% (\$10 min. fee)
Global Exchange	Airport: \$5 for transactions less than AUD1000 ^b Airport: Nil for transactions over AUD1000 ^b	\$0
NAB	\$10	\$0
Travelex	Non-airport: \$0 Airport: 2–3% ^c	Collect in-store: \$0 Home delivery: Max. \$10 ^d
Travel Money Oz	\$0	\$0
Westpac	\$4 ^e	\$4
weXchange	\$0	\$0

* Fees are expressed in AUD or, where expressed as a percentage, they are applied to the AUD equivalent of each foreign currency purchased. Fees relate to the purchase of a single currency only. Some suppliers have a different fee structure for consumers purchasing a mix of currencies.

[^] Fees for Global Exchange's, Travelex's and Westpac's in-store locations were observed in our price data collection during February 2019.

^a Waived for existing ANZ customers. Must be an ANZ account holder for online orders. Must be an ANZ account holder for transactions over AUD1000 in ANZ branches, limit does not apply to transactions at ANZ Foreign Exchange centres.

^b Fee estimates are based on those observed at Sydney International Airport.

^c Fees for airports are based on those observed at Sydney Domestic Airport, Melbourne International Airport and Brisbane International Airport. At Sydney Domestic Airport the fee quoted was 3% or a minimum of AUD12.

^d A fee of AUD10 applies to transactions under AUD1000. No fee applies to transactions over AUD1000.

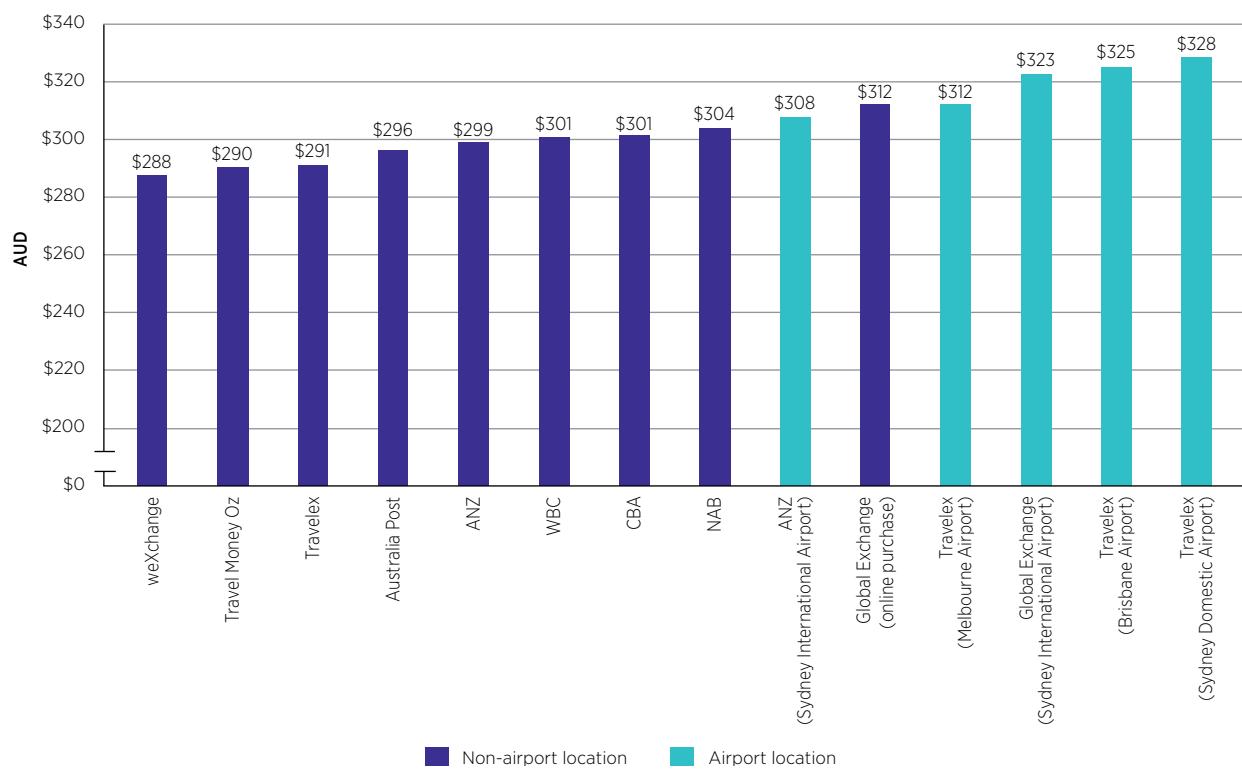
^e Only available to customers who hold a Westpac account.

Source: Information obtained from supplier websites viewed 28 June 2019, data collected for the ACCC and information provided by suppliers.

Price comparison across selected suppliers

The difference between the cheapest and most expensive suppliers of foreign cash services can be significant, even for relatively small transactions. For example, when buying USD200 consumers could save AUD40 by purchasing from the cheapest supplier compared with the most expensive supplier (figure 1.6). Even excluding airport locations, which are generally the most expensive (box 1.2), consumers could still save around AUD24 on this transaction by using the cheapest supplier compared with the most expensive non-airport supplier.

Figure 1.6 Price for purchasing USD200 in foreign cash from selected suppliers*
 Average over 5 business days: 6-12 February 2019



* Reported prices are based on in-store purchases (airport and non-airport locations), except the reported prices for Global Exchange, which represent either online purchases with collection at Sydney International Airport or purchases in-store at Sydney International Airport, as noted in the figure. Prices calculated by the ACCC as a simple average over the price data collection period.

Source: Data collected for the ACCC. The data collected was sourced from publicly available information. Appendix B (section B.1) sets out how this data was collected.

Box 1.2 The airport premium

Foreign cash services from the same supplier are more expensive at airports (figure 1.6).

We consider that higher prices reflect the small number of suppliers providing foreign cash services at airports and consumers' greater willingness to pay when alternatives are limited. One inquiry supplier identified that '*airport customers have left their FX needs to the last minute, have their imminent travel as a priority and are therefore less price sensitive*' and the supplier considered that it could '*price for convenience utilizing [redacted pricing method] at airports without competition*'.

Higher prices at airports may also reflect higher operational costs for suppliers. For example, higher rents than at other locations and the high costs of maintaining, staffing and servicing outlets at airports.

Payment cards

The price for a payment card FX service is based on the retail exchange rate applied to the card transaction and any fees associated with the transaction. The international card scheme sets the retail exchange rate that applies to the transaction, while the card issuer sets any fees that will apply. Box 1.3 provides an example of how these components combine to give the total price for a payment card FX service.

Box 1.3 Price for payment card FX service

A consumer used their debit card to pay for a USD50 meal while in New York. The international card scheme facilitated the payment and converted USD50 to AUD70.83 based on an AUD-USD retail exchange rate of 0.7059. Their bank also charged them an international transaction fee of 3 per cent (AUD2.12) taking the total price of the transaction to AUD72.95. Therefore the total price to purchase USD50 was AUD72.95.

Fees

There are two main types of fees applicable to payment card FX services:

- international transaction fees (sometimes referred to as a foreign transaction fee or foreign currency conversion fee), and
- international ATM fees for cash withdrawals (debit cards) or cash advances (credit cards).

A number of card issuers offer payment cards without international transaction fees and, in some cases, without international ATM fees. A consultant's product benchmarking report from July 2017 held by one of the big four banks noted that:

Foreign [international] transaction fees is an area where card issuers are starting to differentiate themselves ...

The consultant's report went on to note six different card issuers who have at least one payment card that does not charge an international transaction fee on purchase transactions.

Consumers should consider all fees, not just the fees relating to payment card FX services, when choosing a payment card. That is because a number of other fees are associated with payment cards, such as the annual fees that apply to some credit cards and account fees for bank accounts to which some debit cards are attached. These other fees are not considered further in this report as they are outside the scope of the inquiry.

International transaction fees

For the cards to which they apply, an international transaction fee is levied whenever the card issuer and the merchant or the financial institution processing the card transaction for the merchant are in different countries (see chapter 3, section 3.4). This means that an international transaction fee will apply when a payment card is used to make a purchase or withdraw foreign cash overseas, or to make an overseas purchase from Australia. The payment cards included in our price data collection had international transaction fees ranging from 0 to 3 per cent of the transaction amount, with most having a fee of 3 per cent.⁶⁶

66 The following payment cards were included in our price data collection:

American Express Essential Credit Card and American Express Explorer Credit Card: American Express Company, *A closer look at credit card fees*, <https://www.americanexpress.com/au/credit-cards/about-credit-cards/fees/?intlink=au-acq-creditcards-learnaboutccfees>, viewed 5 July 2019.

ANZ Frequent Flyer Black: Australia and New Zealand Banking Group Limited March 2019, *ANZ Personal Banking Account Fees and Charges*, <https://www.anz.com.au/content/dam/anzcomau/documents/pdf/personal-account-fees-charges.pdf>, p. 11.

CBA Awards Credit Card: Commonwealth Bank of Australia, *International fees and charges*, <https://www.commbank.com.au/personal/travel/international-fees-charges.html>, viewed 5 July 2019.

Citibank Plus Transaction Account: Citibank, *Citibank Plus Account*, <https://www1.citibank.com.au/banking/bank-accounts/citibank-plus>, viewed 5 July 2019.

ING Orange Everyday: ING, *Orange Everyday fees*, <https://www.ing.com.au/rates-and-fees/orange-everyday-fees.html>, viewed 5 July 2019.

Latitude 28 Degrees Platinum Card: Latitude 28 Degrees Platinum, *Card details*, <https://www.28degreescard.com.au/card-details/>, viewed 5 July 2019.

NAB Qantas Rewards Signature Card: National Australia Bank Limited June 2019, *A Guide to Fees & Charges—Personal Banking Fees*, <https://www.nab.com.au/content/dam/nabrvd/documents/guides/banking/personal-banking-fees-and-charges-guide.pdf>, p. 14.

Westpac Low Rate Card: Westpac Banking Corporation, *Low Rate Card*, <https://www.westpac.com.au/personal-banking/credit-cards/low-rate-cards/low-rate/>, viewed 5 July 2019.

Fees reported are as at 5 July 2019.

In some cases an international transaction fee will be charged for online purchases in Australian dollars that appear to be local transactions. This occurs when the merchant's bank is located overseas, even if the website appears to be Australian and the prices are advertised in Australian dollars. These unexpected international transaction fees are discussed in chapter 3 (section 3.4).

ATM fees

The card issuer can charge the cardholder fees for withdrawing cash (debit card) or making a cash advance (credit card) at an overseas ATM. These fees may be charged as a flat fee or a percentage of the transaction amount. Consumers may also be charged a fee by the overseas ATM operator. International ATM fees for debit cards included in our price data collection ranged from AUD0 to AUD2.50. The fee for cash advances using a credit card ranged from AUD2.50 or 2 per cent (whichever is greater) to AUD4 or 3 per cent (whichever is greater).⁶⁷

Retail exchange rates

While some of the international card schemes publish online the retail exchange rates they apply to payment card FX services, the applicable retail exchange rate is not visible to consumers at the time of individual transactions.⁶⁸ That is because the actual exchange rate applied to a transaction may be different to that appearing online at the time of that transaction because of the time taken to process the transaction.⁶⁹

Price comparisons across selected payment cards

Our price data demonstrates that prices did not vary significantly for many payment cards in relation to purchases made in foreign currencies in February 2019.⁷⁰ That is because:

- there was little variation between the retail exchange rates applied by the international card schemes and, as a result, the foreign currency conversion included in prices
- a similar international transaction fee, about 3 per cent of the purchase amount, applied across the large majority of cards.

Consumers would have obtained the cheapest price by using a payment card without an international transaction fee. Consumers using a payment card without an international transaction fee would have saved over AUD8 on a USD200 purchase compared with consumers using a card with a 3 per cent international transaction fee. The pricing of international fee-free payment cards means that consumers should consider them for the main inquiry service they use when travelling overseas (see the **Guide for Consumers**).

Travel cards

Fees

The nature and mix of fees applying to travel cards varies across suppliers. This can make it difficult for consumers to compare products. We discuss a few examples of these fees below.

67 Different fees may apply where the consumer is drawing on their own funds, rather than a line of credit. This fee is capped at \$150 for CBA and Westpac cards.

68 See for example:
Mastercard, *Mastercard Currency Converter*, <https://www.mastercard.us/en-us/consumers/get-support/convert-currency.html>, viewed 27 February 2019.
Visa, *Exchange Rates*, <https://www.visa.com.au/travel-with-visa/exchange-rate-calculator.html>, viewed 27 February 2019.

69 Mastercard, *Mastercard Currency Converter*, <https://www.mastercard.us/en-us/consumers/get-support/convert-currency.html>, viewed 27 February 2019.
Visa, *Exchange Rates*, <https://www.visa.com.au/travel-with-visa/exchange-rate-calculator.html>, viewed 27 February 2019.

70 Appendix B (section B.1) sets out how this data was collected.

Based on a review of nine travel cards,⁷¹ we observe that, depending on the card, the following fees can apply in the following situations:

- While many suppliers do not charge a fee for loading value onto a travel card, some suppliers will charge a fee depending on the distribution channel used to load value onto the card or the payment method used. For example, this fee can be up to 1.1 per cent of the amount loaded onto a travel card or AUD15, whichever is greater, for in-store purchases.⁷²
- When withdrawing foreign cash from an overseas ATM; this fee may be charged in the relevant currency and fluctuate with the exchange rate. For example, for overseas withdrawals in the UK and US, the fee can be up to GBP2 (AUD3.64) and USD2.50 (AUD3.54) respectively.⁷³
- When transacting in a currency for which there is no value stored on the travel card—in which case a fee up to 5.95 per cent can apply.⁷⁴ This fee is known as a currency conversion fee.⁷⁵

These fees are not mutually exclusive; more than one of the fees above can apply to the same transaction. This is discussed further in the **Guide for Consumers**.

Retail exchange rates

Different parties set the retail exchange rate applied to travel card services, depending on the transaction:

- The card issuer generally sets the retail exchange rate that is applied when value is loaded onto a travel card.⁷⁶
- The international card scheme sets the exchange rate that is applied when a withdrawal or purchase transaction is undertaken in a currency that is not loaded onto the card.

Although the international card scheme will facilitate transactions undertaken in a currency that is not loaded onto a travel card and set the retail exchange rate for those transactions, some card issuers charge consumers a fee for those transactions. One inquiry supplier's rationale for that fee is that it is a proxy for the retail margin that it would have charged on the exchange rate had the consumer loaded the relevant currency onto their travel card.

Price comparisons across selected travel cards

As consumers can generally avoid the fees associated with loading and reloading value onto a travel card, our comparison of prices focused on retail exchange rates. The prices of suppliers in our sample were largely similar. For example, for loading USD200 onto a travel card in mid-February 2019, we

71 Our review included the following travel cards: ANZ Travel Card, Australia Post CashPassport, CashPassport Platinum Mastercard, CBA Travel Money Card, NAB Traveller Card, Qantas Travel Money, Travel Money Oz Currency Pass, Travelex Money Card and Westpac Global Currency Card.

72 Mastercard 10 May 2017, *Cash Passport Platinum Mastercard*, https://www.cashpassport.com.au/media/227554_mc382039653_cash_passport_platinum_pds_100_x_210mm_169392_no_cropmark_hr_1499153619.pdf, p. 15.

73 Australia and New Zealand Banking Group July 2019, *ANZ Travel Card Product Disclosure Statement*, https://www.anz.com/documents/au/feecharge/anz_travel_card.pdf, pp. 30–31.

Commonwealth Bank of Australia, *Travel Money Card fees and charges*, https://www.commbank.com.au/travel/travel-money-card/fees-charges.html?ei=rates_cash-withdrawal#terms, viewed 28 April 2019.

Mastercard 10 May 2017, *Cash Passport Platinum Mastercard*, https://www.cashpassport.com.au/media/227554_mc382039653_cash_passport_platinum_pds_100_x_210mm_169392_no_cropmark_hr_1499153619.pdf, p. 17.

Travel Money Oz 6 February 2018, *Travel Money Oz Currency Pass Product Disclosure Statement and Terms & Conditions*, <https://www.travelmoneyoz.com/sites/v1.travelmoneyoz.com/files/Currency-Card-PDS-FSG.pdf>, p. 9.

For the conversion of GBP into AUD and USD into AUD, we have used an exchange rate of 0.5498 and 0.7072 respectively as reported by the RBA as at 12 February 2019, the conclusion of the price data collection period. Reserve Bank of Australia, *Exchange Rates—Daily—2018 to Current*, <https://www.rba.gov.au/statistics/tables/xls-hist/2018-current.xls>, viewed 3 July 2019.

74 Travelex Limited 10 April 2017, *Travelex Money Card Product Disclosure Statement and Terms and Conditions*, <https://www.travelex.com.au/media/5281/tmc-tc-and-pds.pdf>, p. 8.

75 Some suppliers charge an unsupported currency conversion fee, rather than a currency conversion fee. The unsupported currency conversion fee will apply when the travel card is used for a transaction in a currency that is not a supported currency.

See, for example: Australia and New Zealand Banking Group Limited July 2019, *ANZ Travel Card Product Disclosure Statement*, https://www.anz.com/documents/au/feecharge/anz_travel_card.pdf, pp. 27–29.

76 For example, the card issuer does not set the retail exchange rate for the Westpac Global Currency Card, the distributor (Westpac) sets the retail exchange rate that is applied when value is loaded onto this travel card.

observed a maximum price difference of AUD7 (assuming no fees were payable) because of differences in suppliers' retail exchange rates.⁷⁷

1.4 Substituting between inquiry services

Consumers use different inquiry services for different purposes. For the most part, consumers use inquiry services: when travelling overseas; when making overseas purchases from Australia; or when transferring money overseas.

Whether the inquiry services are substitutes largely depends on the consumer's requirements and the services' acceptability as a payment method. For consumers travelling overseas, foreign cash, travel cards and payment cards are generally substitutes. Whereas for consumers who wish to send money overseas, IMTs are the only available inquiry service (table 1.7).

Table 1.7 Degree of substitutability of inquiry services by consumer requirement

Consumer requirement	Service used	Degree of substitutability
Travelling overseas	One or more of foreign cash, travel cards and payment cards	Varies depending on acceptable payment methods and consumer preferences
Making overseas purchases from Australia	Travel cards, payment cards or IMTs	All substitutes depending on acceptable payment methods
Transferring money overseas	IMTs	None of the inquiry services; our observations are that using travel cards or payment cards for this purpose would be impractical, and using foreign cash would be high risk

Travelling overseas

Travellers require different inquiry services based on the countries they visit and the activities they undertake. For example, travellers to Cuba are encouraged to take cash as access to funds through payment or travel cards may be limited.⁷⁸ In contrast, in other countries consumers can often use a combination of foreign cash, travel cards and payment cards.

The substitutability of services for travellers is largely dependent on the payment methods accepted by merchants and the inquiry services used by the traveller. Where a traveller has a choice of payment methods, the use of one inquiry service over the other depends on their preferences, including whether they prioritise considerations such as convenience or price. These preferences may vary with the traveller's situation or transaction, which would explain why a consumer survey undertaken by a consulting firm and obtained by one of the big four banks showed that consumers generally use a range of inquiry services when travelling overseas (table 1.8).

⁷⁷ Reported prices are a simple average calculated by the ACCC over the price data collection period. The data collected for the ACCC was sourced from publicly available information. Appendix B (section B.1) sets out how this data was collected.

⁷⁸ Department of Foreign Affairs and Trade 20 June 2019, *Cuba*, <https://smartraveller.gov.au/Countries/americas/caribbean/Pages/cuba.aspx#expand-page-sections-top>, viewed 5 July 2019.

Table 1.8 Inquiry services used by Australians travelling overseas*
March 2018

		Foreign cash	Travel cards	Credit cards	Debit cards
Per cent of consumers who used this service to:	Make purchases	75	24	48	27
	Withdraw cash	Not applicable	33	22	58

* Based on a survey undertaken by a consulting firm in March 2018. The survey involved 659 consumers who had travelled overseas in the 12 months prior. The survey defined consumers as individuals with a transaction account.

Source: Information provided by one of the big four banks.

Consumers making overseas purchases while in Australia

Similar to overseas travellers, the substitutability of services for consumers making overseas purchases largely depends on the payment methods made available by the merchant. Where a consumer has a choice of payment methods, the use of one inquiry service over the other depends on consumer preferences. For example, it seems that a consumer making a relatively small-value purchase from an overseas merchant is most likely to use a payment card, whereas a consumer making a relatively large-value purchase, such as buying real estate in another country, is more likely to use an IMT. The price of the inquiry service may also be a factor in consumer choice in these circumstances.

Transferring money overseas

A number of suppliers offer IMT services in Australia, with different business models targeted at different customer needs. For example, if a small business needed to settle an invoice from overseas, it could use one of the big four banks, OFX, TransferWise or Western Union (among others) to transfer money to an overseas bank account. On the other hand, a seasonal worker who needed to send money overseas to a recipient without a bank account could use Western Union or another supplier who offers transfers delivered to the recipient as cash.

We do not consider that any of the other inquiry services are substitutes for IMT services when transferring money overseas because:

- travel cards and payment cards require the recipient to have facilities to receive a card payment, and
- foreign cash is generally not used as there are no security measures for protection from lost, stolen or damaged cash.

Substitute services for IMT services include foreign cheques and international bank drafts, but these services were not considered as part of our inquiry.

2. Competition in foreign currency conversion services

Key points

- The average price of sending money from Australia via international money transfer (IMT) is high by world standards. There are many possible reasons for this, but the evidence suggests that the big four banks, who are significant IMT suppliers, have generally not been focused on offering the lowest prices.
- While the big four banks' prices for IMTs were significantly higher than some other inquiry suppliers, they have sought to compete on certain non-price aspects of their IMT offerings.
- Newer non-bank IMT suppliers, who offer lower prices and have some better service features—at least in terms of being more attractive to consumers—than existing IMT suppliers, have been driving a change in the competitive dynamic for IMTs. Each of the big four banks has changed or is changing its IMT price and non-price offering in response to that changing competitive dynamic.
- We are concerned that competition will be harmed, and the potential gains from greater competition lost, if non-bank IMT suppliers are unduly denied access to banking services. To address this situation we have recommended a scheme through which IMT suppliers can address due diligence requirements of the banks, including in relation to anti-money laundering and counter-terrorism financing (AML/CTF) requirements.

This chapter contains our observations on competition in the supply of inquiry services to consumers in Australia:

- section 2.1 considers price competition in the supply of IMTs
- section 2.2 addresses competition on non-price factors for IMTs
- section 2.3 outlines how the competitive dynamic is changing for IMTs
- section 2.4 explains the barriers to entry and expansion faced by suppliers and potential suppliers of IMTs; this section contains our key recommendation to protect competition in this sector
- section 2.5 considers price competition in foreign cash, travel cards and payment cards.

The chapter focuses primarily on the supply of IMTs because the potential gains from greater competition are significant. For example, if consumers using the big four banks to send IMTs in USD and GBP in 2017-18 had instead used the lowest priced supplier, we estimate they would have collectively saved over AUD150 million.⁷⁹ Further:

- the World Bank has found that the price of sending money from Australia is high by global standards⁸⁰
- consumers engage in substantially larger IMT transactions, on average, compared with the other inquiry services⁸¹
- Australians send the equivalent of about AUD21 billion in personal remittances overseas from Australia each year via IMTs.⁸²

79 These potential savings are discussed further in section 3.1 of chapter 3.

80 The average price of sending money from Australia is higher than both the average G20 price and global average price. See: The World Bank, *Remittance Prices Worldwide*, Issue 29, March 2019, https://remittanceprices.worldbank.org/sites/default/files/rpw_report_march_2019.pdf.

81 The average transaction size of IMTs for individual consumers was about four times the size of foreign cash transactions and 11 times the size of travel card transactions in 2017-18 (see chapter 1, figure 1.1).

82 The World Bank 2015, *Bilateral Remittance Matrix*, <http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data>, viewed 18 July 2019 as cited in Global Partnership for Financial Inclusion 2017, *G20 National Remittance Plan 2017 Australia*, Germany, <https://www.gpfi.org/sites/gpfi/files/Australia%20-%20G20%20National%20Remittance%20Plan%202017.pdf>, p. 2.

2.1 Price competition in the supply of IMTs

In response to the Issues Paper, some stakeholders (including some of the big four banks) stated that FX services in Australia are highly competitive.⁸³ For example, CBA stated:

CBA considers that the retail foreign currency conversion industry is highly competitive, with a large number of suppliers.⁸⁴

While American Express said:

...the market for foreign currency conversion is extremely competitive.⁸⁵

In contrast to those views, internal documents from one of the big four banks described the big four banks' approach to the supply of IMTs as:

The traditional (Big Four) Australian Banks' strategy (including [redacted bank]) have chosen to focus on maximising their revenue through margin at the expense of flow allowing the mono-lines to penetrate reduced margin business. [sic]

Separately, one big four bank described the position of non-bank suppliers in 2017 as follows:

Today these non-banks are providing superior speed, cheaper pricing and greater features than what has traditionally been offered by banks, thus providing a greater experience to their customers.

The evidence suggests that the big four banks were not competing vigorously on price in the supply of IMTs during the review period, specifically:

- the big four banks did not vie to offer the lowest prices to consumers. The big four banks set prices that were largely in line with each other and at a level higher than many other IMT suppliers
- each of the big four banks appeared to be more concerned about ensuring its existing banking customers used the banks' IMT services rather than winning new IMT-only customers from competitors.

The big four banks' IMT retail margins are some of the highest worldwide

Some of the big four banks found that in 2016 and 2017 retail margins for IMTs in Australia were higher than retail margins in other jurisdictions. In the words of one big four bank when referring to IMT services in 2016, '*the Australian major banks have some of the highest relative Retail FX Rates globally*'. Other examples include:

- two banks estimating, based on advertised exchange rates in one case, that the retail margins of the big four banks were at least double those of major banks in New Zealand
- a different big four bank estimating its retail margins to be at least double those of certain banks in the US.

Retail margins were high enough for one big four bank to recognise that this could be a reputational risk. That bank has told the ACCC that high retail margins, among other factors, led to it '*proactively endeavouring to reduce margin to a sustainable level*'. This bank has since reduced its retail margins for IMTs, although we note that its prices remained higher than some other inquiry suppliers.

83 See, for example, Commonwealth Bank of Australia October 2018, *Submission in response to Issues Paper*, <https://www.accc.gov.au/system/files/Commonwealth%20Bank%20of%20Australia.pdf>, p. 3.
National Australia Bank October 2018, *Submission in response to Issues Paper*, <https://www.accc.gov.au/system/files/NAB.pdf>, p. 3.

Mastercard October 2018, *Submission in response to Issues Paper*, <https://www.accc.gov.au/system/files/Mastercard.pdf>, viewed 26 June 2019.

84 Commonwealth Bank of Australia October 2018, *Submission in response to Issues Paper*, <https://www.accc.gov.au/system/files/Commonwealth%20Bank%20of%20Australia.pdf>, p. 3.

85 American Express October 2018, *Submission in response to Issues Paper*, <https://www.accc.gov.au/system/files/American%20Express.pdf>, p. 7.

The evidence before the ACCC suggests that the disparity between IMT retail margins in Australia and New Zealand is more likely due to differences in the level of price competition than other reasons, such as differences in the cost of providing IMT services in Australia compared with New Zealand. One big four bank notes that New Zealand is '*our most aligned market*' in an internal document while another bank stated that the '*NZ market*' is '*smaller and potentially more competitive*' than Australia.

The big four banks did not vie to offer the best prices to consumers

We observe that one effect of the big four banks' respective strategies has been that their IMT prices have been above, sometimes well above, those of numerous non-bank suppliers. Given their economies of scale, our view is that the big four banks could offer cheaper prices.

There may be a number of reasons why the big four banks may not seek to offer the lowest prices⁸⁶, but we believe the main reason could be that they do not need to compete vigorously on price to retain most of the customers who use their IMT services. We consider this is likely a key reason why one of the big four banks viewed the idea of matching the prices of other inquiry suppliers as '*unnecessarily aggressive*'.

One of the big four banks aimed to offer the lowest prices among the big four banks during the review period. A different big four bank considered reducing its retail margin so that it was lower than the other big four banks, but ultimately decided not to do so. The size of the revenue reduction associated with such a move appears to have been an important consideration (among others) for the bank in deciding to reduce margins by a lesser amount. The other two big four banks generally aimed to position themselves so that they did not have the highest or the lowest prices of the big four banks. One of these banks stated its strategy was:

...as one of the 4 major banks in Australia, the business aims to price all products and currencies (both buy and sell) within the range set by peers.

The other bank said to the ACCC that:

[Bank] has generally tried to position itself as among the top three major banks.

In contrast to the approach of the big four banks:

- at least one non-bank inquiry supplier aimed to be the cheapest IMT supplier, and
- at least two non-bank inquiry suppliers specifically aimed to be much cheaper than the big four banks.

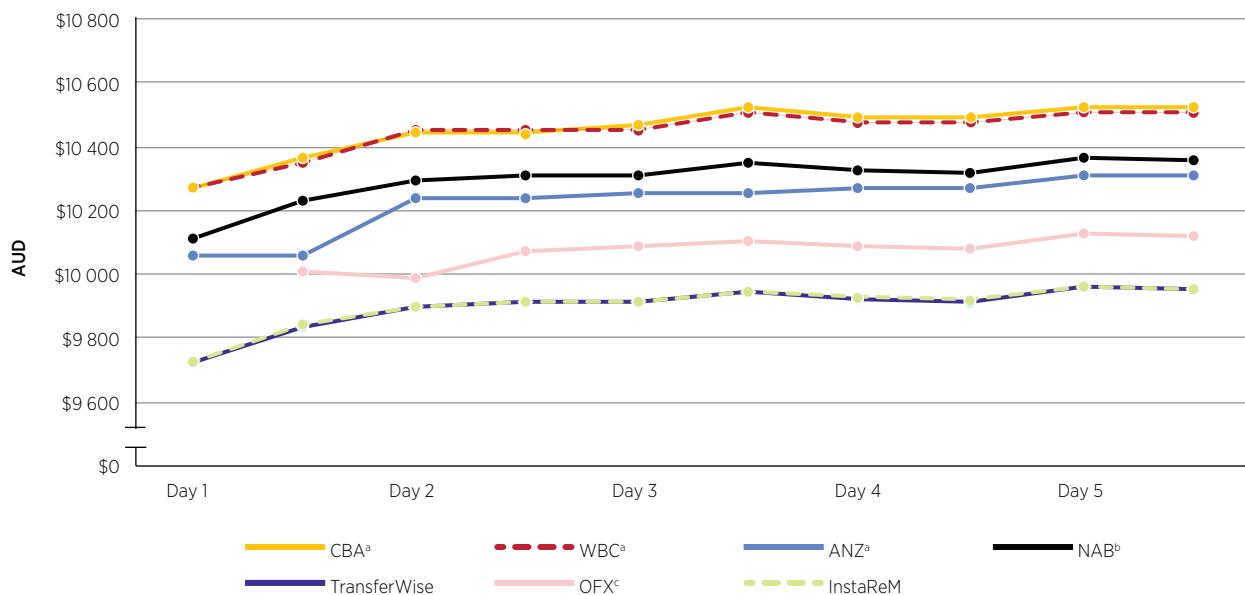
We observe that the big four banks did charge significantly higher prices for IMTs than other inquiry suppliers during our price data collection period (for example, figures 2.1–2.3). In the case of individual consumers who used the most expensive big four bank to send an IMT of USD7000 to the United States, they would have paid over AUD500 more than if they had used the cheapest non-bank supplier (figure 2.1).

This does not appear to have been an isolated event with each big four bank observing in internal documents that it was more expensive than some of the other inquiry suppliers. For example, one big four bank described some of the cheaper suppliers as having retail exchange rates and fees that were '*disruptively priced below the major banks*'. Another bank's customers and staff gave it feedback in September 2018 that its '*retail FX rates compare unfavourably with those offered by specialist service providers who apply minimal margins*'.

86 For example, it may be that:

- the big four banks offer differentiated IMT services which are better than the offerings of non-bank suppliers in ways other than price
- the big four banks do not prioritise competing vigorously to offer the lowest prices on IMTs because IMTs are part of a broader package of financial services offered to customers
- IMTs are not a comparatively significant service for the banks; we note that the revenue derived from IMTs for individual consumers account for less than 1 per cent of the consolidated operating income at each bank for their respective 2017–18 financial years.

Figure 2.1 Price* to send a USD7000 IMT through selected suppliers[^]
 Twice daily data points over 5 business days: 6-12 February 2019



* Reported prices are based on transactions made via online channels only. Prices calculated by the ACCC.

[^] Western Union was part of our sample for the price monitoring data but does not feature in this chart as it does not allow customers to send IMTs with a value exceeding AUD5000 via its online channel.

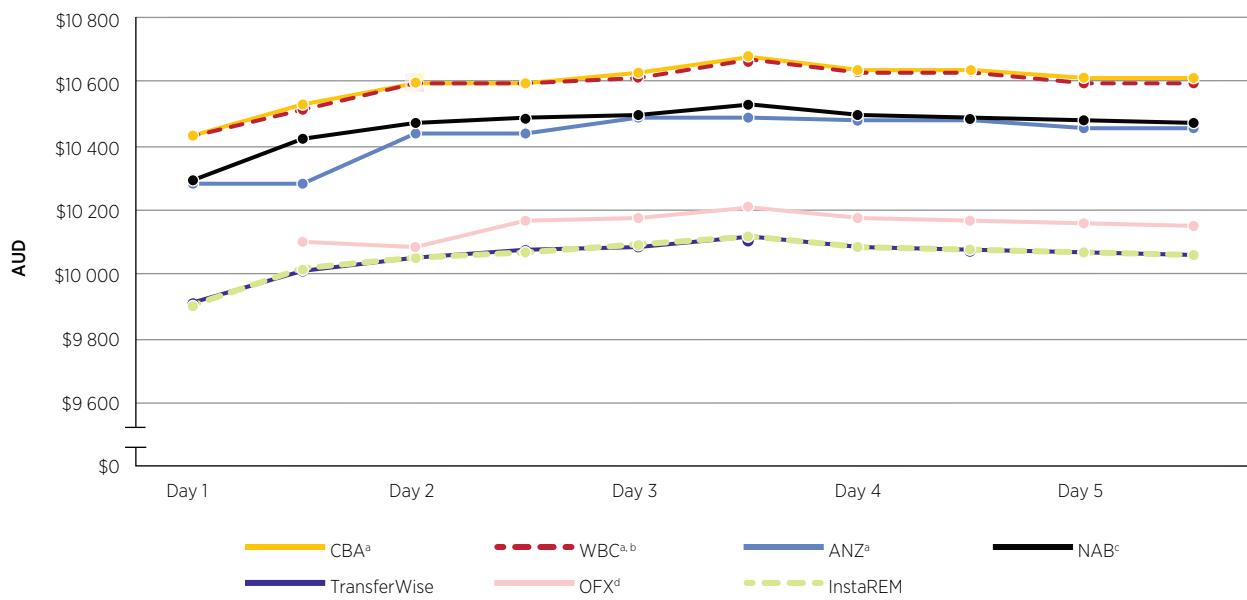
a Price incorporates the maximum correspondent banking fee levied on USD7000 IMTs sent by this supplier during February 2019. The correspondent banking fees used in this price comparison have been converted from USD into AUD by the ACCC using individual suppliers' price information collected during February 2019. Where they apply, correspondent banking fees are typically deducted by the correspondent bank from the amount being transferred to the recipient.

b NAB absorbs correspondent banking fees for IMTs initiated by individual consumers, however in some instances beyond NAB's control, overseas banks may deduct fees from the amount sent.

c The consultant collecting price data for the ACCC was unable to collect data for this supplier during one period of the data collection. This is represented in the chart by a missing data point.

Source: Information obtained from supplier websites, information provided by suppliers and data collected for the ACCC. Appendix B (section B.1) sets out the details of the data collected for the ACCC.

Figure 2.2 Price* to send a GBP5500 IMT through selected suppliers[^]
 Twice daily data points over 5 business days: 6–12 February 2019



* Reported prices are based on transactions made via online channels only. Prices calculated by the ACCC.

[^] Western Union was part of our sample for the price monitoring data but does not feature in this chart as it does not allow customers to send IMTs with a value exceeding AUD5000 via its online channel.

a Price incorporates the maximum correspondent banking fee levied on GBP5500 IMTs sent by this supplier during February 2019. The correspondent banking fees used in this price comparison have been converted from GBP into AUD by the ACCC using individual suppliers' price information collected during February 2019. Where they apply, correspondent banking fees are typically deducted by the correspondent bank from the amount being transferred to the recipient.

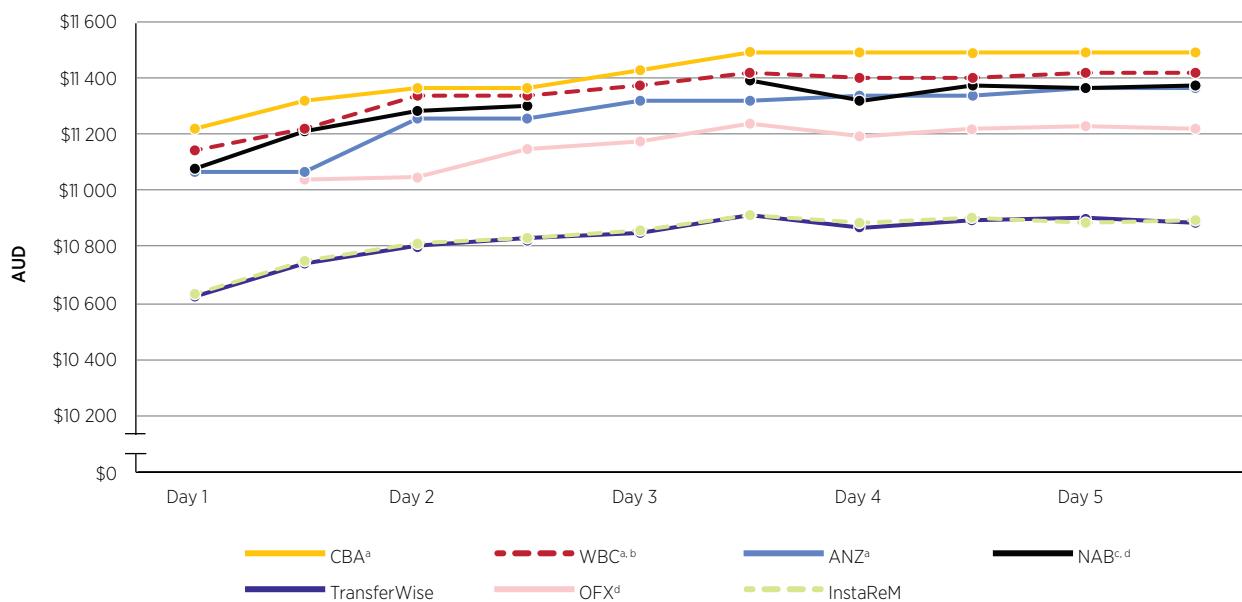
b Westpac's price relates to its standard IMT service, not its LitePay service. As at February 2019, Westpac's LitePay service had a daily transfer limit of AUD3000.

c NAB absorbs correspondent banking fees for IMTs initiated by individual consumers, however in some instances beyond NAB's control, overseas banks may deduct fees from the amount sent.

d The consultant collecting price data for the ACCC was unable to collect data for this supplier during one period of the data collection. This is represented in the chart by a missing data point.

Source: Information obtained from supplier websites, information provided by suppliers and data collected for the ACCC. Appendix B (section B.1) sets out the details of the data collected for the ACCC.

Figure 2.3 Price* to send a PHP400 000 IMT through selected suppliers[^]
 Twice daily data points over 5 business days: 6-12 February 2019



* Reported prices are based on transactions made via online channels only. Prices calculated by the ACCC.

[^] Western Union was part of our sample for the price monitoring data but does not feature in this chart as it does not allow customers to send IMTs with a value exceeding AUD5000 via its online channel.

a Price incorporates the maximum correspondent banking fee levied on PHP400 000 IMTs sent by this supplier during February 2019. The correspondent banking fees used in this price comparison have been converted from PHP into AUD by the ACCC using individual suppliers' price information collected during February 2019. Where they apply, correspondent banking fees are typically deducted by the correspondent bank from the amount being transferred to the recipient.

b Westpac's price relates to its standard IMT service, not its LitePay service. As at February 2019, Westpac's LitePay service had a daily transfer limit of AUD3000.

c NAB absorbs correspondent banking fees for IMTs initiated by individual consumers, however in some instances beyond NAB's control, overseas banks may deduct fees from the amount sent. There is a missing data point for the first period on Day 3 where the consultant was unable to collect data for NAB.

d The consultant collecting price data for the ACCC was unable to collect data for this supplier during one period of the data collection. This is represented in the chart by a missing data point.

Source: Information obtained from supplier websites, information provided by suppliers and data collected for the ACCC. Appendix B (section B.1) sets out the details of the data collected for the ACCC.

The big four banks focused on retaining existing banking customers

Although we observed some examples of the big four banks aiming to attract new customers to their respective IMT services during the review period, they appeared to the ACCC to be more focused on making sure their existing banking customers used their IMT services rather than those of another supplier. Various internal documents of each of the big four banks contained analysis on the number of their banking customers that were using another supplier for IMTs.

Each bank considered how to win back those customers. For example, at least two banks identified that they could reduce prices and did so. Each bank considered non-price measures, such as improving the customer experience, to win back customers. We discuss competition on non-price factors in section 2.2 below.

As noted in chapter 1 (section 1.1), three of the big four banks⁸⁷ require consumers to be an existing bank customer (by holding or opening a bank account) before they can access the bank's IMT

87 Australia and New Zealand Banking Group Limited, *International Money Transfer*, <https://www.anz.com.au/personal/travel-international/international-payments/>, viewed 28 March 2019 ("You'll need to be an ANZ customer to make an ANZ International Money Transfer"). National Australia Bank Limited, *Transfer Money Overseas*, <https://www.nab.com.au/personal/international/transfer-money-overseas>, viewed 28 March 2019 ("Before you can transfer money overseas with NAB you must be a NAB customer with an open transaction account"). Westpac Banking Corporation, *Send money overseas*, <https://www.westpac.com.au/international-travel/international-transfers/send-money/>, viewed 28 March 2019 ("You'll need: A Westpac bank account that is registered for Online Banking and Westpac Protect SMS Code").

services.⁸⁸ We consider these restrictions may not be necessary (box 2.1) and are likely to impede competition between the banks by:

- precluding all non-bank customers from accessing their IMT services, and
- increasing the costs of IMT customers seeking to switch, thereby protecting the banks' relative market share to some degree (noting that it would not prevent customers switching to other suppliers who do not have similar requirements).

We observe that barriers to consumers switching IMT suppliers is one reason the big four banks may not compete for the business of new customers. Our observations on barriers to entry and expansion are at section 2.4.

Box 2.1 Approaches to customer verification by IMT suppliers

ANZ, NAB and Westpac require consumers to hold or open a bank account before those consumers can use their IMT services. It may be that these banks have chosen to impose this requirement in order to meet their obligations to collect and verify certain information about their customers in accordance with Australia's AML/CTF regulations.

Under these regulations, entities are required to have an AML/CTF program for their business to meet their obligations under the Anti-Money Laundering and *Counter-Terrorism Financing Act 2006* (Cth). All AML/CTF programs must include customer due diligence procedures to ensure the reporting entity knows its customers and understands their customers' financial activities.

CBA and non-bank suppliers, who are subject to the same AML/CTF regulations, have verification processes that do not require the customer to open a bank account. For example:

- TransferWise's customers can verify their identity through an online process
- OFX's verification can take place automatically based on information provided by the customer or through documents uploaded online
- Western Union's online customers are required to register an account and upload relevant identity documents online. In-store customers are not required to register or set up an account, but must provide valid identity documents.

Source: Information provided by the inquiry suppliers.

AUSTRAC, *AUSTRAC compliance guide*, <http://www.austrac.gov.au/businesses/obligations-and-compliance/austrac-compliance-guide>, viewed 28 March 2019.

TransferWise, *Verify your identity*, <https://transferwise.com/help/article/1662904/verification/verify-your-identity>, viewed 28 March 2019.

OzForex Limited, *Do I need to register to make a transfer?*, <https://www.ofx.com/en-au/faqs/do-i-need-to-register-to-make-a-transfer/>, viewed 28 March 2019.

OzForex Limited, *How long does it take to verify my identity?*, <https://www.ofx.com/en-au/faqs/how-long-does-it-take-to-verify-my-identity/>, viewed 28 March 2019.

OzForex Limited, *I've registered—when can I make a transfer?*, <https://www.ofx.com/en-au/faqs/ive-registered-when-can-i-make-a-transfer/>, viewed 28 March 2019.

Western Union, *Send Money Online*, <https://www.westernunion.com/au/en/send-money/app/start>, viewed 10 May 2019.

2.2 Competition on non-price factors for IMTs

IMT suppliers can seek to compete with rivals on price, non-price factors or both. While the big four banks did not compete vigorously to offer the lowest prices for IMTs, we found some evidence of the big four banks seeking to compete on certain non-price IMT features. For example:

- positioning their IMT service as safe, reliable or trustworthy has been a consideration for a number of inquiry suppliers, including some of the big four banks
- some big four banks improved or are improving the ease of use and convenience of their IMT services to compete with the service offered by non-bank suppliers.

⁸⁸ Westpac offers XYLO, through which its customers can undertake IMTs without a Westpac bank account. XYLO appears to be a specialist product, targeted at business customers.

While the speed of IMT delivery is an important consideration for many consumers, we found that IMT delivery times were similar across most inquiry suppliers.

Safety, reliability and trust as a point of differentiation

Most inquiry suppliers know that consumers want a safe, reliable and trustworthy IMT service. That is, consumers want IMTs that will reach their intended recipient. The value some consumers place on these factors may be part of the reason they send a small IMT, seemingly as a test to make sure the money is received by the recipient, before sending an IMT for the full amount they intend to remit.

Some consumers regard the banks as being safer than non-bank IMT suppliers and the inquiry suppliers are aware of this. This knowledge is likely at least part of the reason that:

- some non-bank inquiry suppliers note the reliability and safety of their services in their advertising. For example, OFX and TransferWise both draw attention on their respective websites to the fact they are ASIC regulated⁸⁹
- at least two big four banks have considered projecting a sense of safety to consumers. Email correspondence between two staff at one of these banks notes that '*[r]isk is a serious issue for customers*' and that in the future the bank will be wanting to '*tell customers that [redacted bank] is much safer than a monoline*'. The other big four bank considered '*dial[ing] up our strengths, particularly around security...*'.

Our view is that, if bank-initiated IMTs are indeed safer than those initiated by non-bank suppliers, it is because of regulation; codes of conduct; and product features that are not aimed primarily at protecting IMT customers or ensuring the safe delivery of IMTs. Rather, these measures have other objectives such as protecting depositors and ensuring the safety of online banking transactions.

For example:

- as authorised deposit-taking institutions (ADIs), the big four banks are subject to prudential supervision by APRA. Non-bank IMT suppliers are not subject to prudential supervision but are regulated in other ways (see appendix C). Prudential supervision is designed to protect depositors and preserve systemic stability by, among other things, reducing the likelihood of financial institutions failing.⁹⁰ It is not intended to protect IMTs or IMT customers regardless of whether the supplier is an ADI
- each of the big four banks offers money back guarantees where unauthorised IMT transactions occur.⁹¹ Each bank must offer these guarantees because they have voluntarily subscribed to the ePayments Code (see appendix C). The ePayments Code applies to all consumer electronic payment transactions including ATM, EFTPOS⁹² and credit card transactions, online payments,

89 TransferWise, *Send Money Overseas*, <https://transferwise.com/au/send-money/>, viewed 30 April 2019; OzForex Limited, *Foreign Exchange Services Regulation*, <https://www.ofx.com/en-au/legal/regulation/>, viewed 30 April 2019.

90 See APRA, *About APRA*, <https://www.apra.gov.au/about-apra>, viewed 23 April 2019.

91 Depending on the bank, there can be caveats on these money back guarantees such as the guarantee only being valid if the IMT sender did not contribute to loss.

Source:

Australia and New Zealand Banking Group Limited, *International money transfers*, <https://www.anz.com.au/personal/travel-international/international-payments/>, viewed 30 April 2019.

Australia and New Zealand Banking Group Limited, *Bank account protection*, <https://www.anz.com.au/security/account-protection/>, viewed 30 April 2019.

Commonwealth Bank of Australia, *International Money Transfer*, <https://www.commbank.com.au/personal/international/international-money-transfer.html>, viewed 30 April 2019.

Commonwealth Bank of Australia, *100% Security Guarantee*, <https://www.commbank.com.au/security-privacy/netbank-security.html>, viewed 30 April 2019.

National Australia Bank Limited, *International Transfers terms and conditions*, <https://www.nab.com.au/personal/help-and-guidance/terms-and-conditions-for-personal-products/international-transfers-terms-conditions>, viewed 3 June 2019.

National Australia Bank Limited, *Transaction and savings products terms and conditions*, <https://www.nab.com.au/personal/help-and-guidance/terms-and-conditions-for-personal-products/personal-transaction-and-savings-products>, viewed 3 June 2019.

Westpac Banking Corporation, *Send money overseas*, <https://www.westpac.com.au/international-travel/international-transfers/send-money/>, viewed 30 April 2019.

92 The ePayments Code defines EFTPOS as '*electronic funds transfer at the point of sale—a network for facilitating transactions at the point of sale*'.

ASIC, *ePayments Code*, 29 March 2016, <https://download.asic.gov.au/media/3798542/epayments-code-published-29-march-2016.pdf>.

internet and mobile banking, and BPAY. At least one non-bank supplier who is not a signatory to the ePayments Code also offers a guarantee.⁹³ Our view is that this non-bank supplier does so because its guarantee is valued by customers. We note the Productivity Commission has recommended that ASIC should have the power to make the ePayments Code mandatory for all organisations that send or receive electronic payments⁹⁴

- most inquiry suppliers advertise features aimed at preventing unauthorised IMT transactions. However, in most cases, these features are focused on account security. In the case of the big four banks, these features are offered to protect all online banking transactions.⁹⁵ Other inquiry suppliers also offer features to protect IMT transactions.⁹⁶

Some banks improved the ease of use and convenience of IMT services to compete with non-bank inquiry suppliers

Some of the big four banks have recognised that certain aspects of the services offered by non-bank IMT suppliers have been more attractive to consumers than their respective offerings. One bank identified in a strategy document in late 2017 that '*new competitors are providing lower cost, higher quality customer experience for international payments*'.

At least two banks have implemented, or are considering, changes to improve the ease of use and convenience of their online and digital IMT services. Some of these changes have been aimed at delivering a similar-quality IMT service as that offered by non-bank suppliers or providing a point of service differentiation for the bank.⁹⁷ For example, one bank:

- considered that it was important to have the capability to send IMT payments through its mobile banking application because this would improve customer experience and '*ease of use*'. We understand this bank is in the process of implementing this change
- identified that it was important for it to make improvements to its customer onboarding process because its '*complex infrastructure makes it difficult [for the bank] to match the mono-lines in terms of service particularly real-time on boarding of new customers and the simplicity & transparency of their online offering*'.

IMT delivery speeds were similar for most inquiry suppliers

The speed of IMT delivery is identified in the documents of some suppliers as being a feature that consumers value. This is likely the reason why at least two non-bank suppliers state on their websites that their IMT services are quick.⁹⁸ One of these suppliers aimed to provide the '*fastest possible product*

93 OzForex Limited, *Individual Client Agreement*, <https://www.ofx.com/en-au/legal/individual-client-agreement/>, viewed 17 July 2019.

94 Productivity Commission 3 August 2018, *Competition in the Australian Financial System*, <https://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system.pdf>, p. 49.

95 Australia and New Zealand Banking Group Limited, *ANZ Shield*, <https://www.anz.com.au/security/account-protection/anz-shield/>, viewed 30 April 2019.
Commonwealth Bank of Australia, *100% Security Guarantee*, <https://www.commbank.com.au/security-privacy/netbank-security.html>, viewed 30 April 2019.

National Australia Bank Limited, *NAB's SMS Security*, <https://www.nab.com.au/personal/banking/nab-internet-banking/sms-security>, viewed 30 April 2019.
Westpac Banking Corporation, *Send money overseas*, <https://www.westpac.com.au/international-travel/international-transfers/send-money/>, viewed 30 April 2019.

96 OzForex Limited, *Secure Funds Transfer & Money Safety*, <https://www.ofx.com/en-au/security/>, viewed 30 April 2019.
TransferWise, *Security*, <https://transferwise.com/security/>, viewed 30 April 2019.
Western Union, *Online Security Center*, <https://www.westernunion.com/au/en/security-center.html>, viewed 30 April 2019.

97 We understand that CBA has introduced new functionality on its smartphone app designed to alert customers of additional charges while using CBA credit and debit cards overseas. We note the implementation of this function was outside the Review Period. See J Frost April 2019, *CBA targets international travellers with new tech*, Australian Financial Review, <https://www.afr.com/business/banking-and-finance/cba-targets-international-travellers-with-new-tech-20190403-p51abo>, viewed 11 July 2019.

98 OzForex Limited 2019, *How long does it take to transfer money with OFX?*, <https://www.ofx.com/en-au/blog/how-long-does-a-money-transfer-take/>, viewed 28 March 2019.
TransferWise, *How long does it take?*, <https://transferwise.com/help/article/1654253/basic-information/how-long-does-it-take>, viewed 28 March 2019.

in Australia' and provides an online calculator estimating the date on which the IMT will arrive at its destination.

We found that average delivery times for five of the seven inquiry suppliers of IMTs were broadly similar and, for IMTs to the US, less than 10 hours.⁹⁹ Of the other two inquiry suppliers, both big four banks:

- one had an average delivery time to the US of 13 hours
- the other was unable to provide us with an estimate of the average delivery times for IMTs it sent; we consider this as an indication that IMT delivery times were not a particular focus for this big four bank.

2.3 New entry is changing the competitive dynamic for IMTs

There is evidence that the competitive dynamic for the supply of IMTs is changing. The change has been driven by newer entrants who are generally cheaper and who have some better service features, at least in terms of being more attractive to consumers, than those of the big four banks.

Overall, we observe that the big four banks have responded to these newer suppliers by reducing IMT prices (section 2.1), and some big four banks improved aspects of their non-price offering (section 2.2). These improvements were often focused on IMTs initiated through online channels. These channels are the means through which the newer entrants generally distribute their IMT services.

Newer IMT entrants are growing, including by winning customers from the big four banks

There have been a number of newer entrants supplying IMT services in Australia including OFX, CurrencyFair, InstaReM and TransferWise. All four of these newer IMT suppliers advertise their service as offering better retail exchange rates and lower fees than the big four banks.¹⁰⁰

Each of these four newer suppliers largely delivers its services through online channels. While not a newer entrant, Western Union, which began supplying IMT services in Australia in 1999, expanded its operations into the supply of online IMT services in 2005.

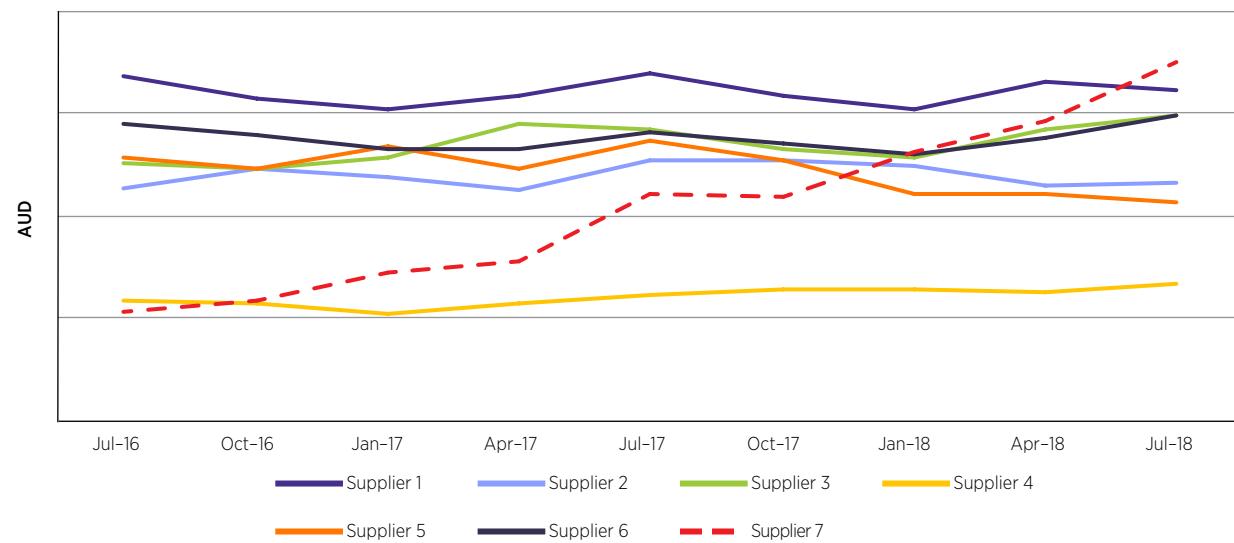
Some newer IMT suppliers have grown quickly. This has been in contrast to the trend observed for many existing suppliers, including the big four banks. For example, one newer entrant grew significantly over the review period (see figure 2.4). To put that growth in perspective:

- the total value of IMTs sent on behalf of individual consumers by all suppliers in figure 2.4 increased by around 17 per cent
- over the same period, the total value of funds transferred by Supplier 7 for individual consumers tripled.

99 The times provided by the inquiry suppliers represent the average time taken for an IMT to reach the beneficiary's financial institution during October 2018.

100 OFX, Homepage, <https://www.ofx.com/en-au/>, viewed 8 March 2019.
TransferWise, Homepage, <https://transferwise.com/au/>, viewed 8 March 2019.
CurrencyFair, Homepage, <https://www.currencyfair.com/>, viewed 8 March 2019.
InstaReM, Homepage, <https://www.instarem.com/en-au/>, viewed 5 April 2019.

Figure 2.4 Total value of IMTs remitted by inquiry suppliers
 Quarters starting 1 July 2016–1 July 2018



Source: ACCC analysis of data provided by the inquiry suppliers.

Supplier 7's growth during the review period saw it go from remitting the lowest quarterly volume of IMTs among the inquiry suppliers to the highest (figure 2.4). It appears to have done this by successfully winning customers from banks and non-bank suppliers by offering lower prices as well as better non-price features.

At least three of the big four banks acknowledged that at least one non-bank IMT supplier offered cheaper prices. One non-bank IMT supplier's price offering was described by different big four banks as '*more competitive than Banks in IMT*' and '*disruptively priced below the major banks*'.

At least two of the big four banks also regarded some aspects of the services offered by newer entrants as also being better than what had been offered by banks. One bank identified that '*[N]ew competitors are providing lower cost, higher quality customer service for international payments*'.

Consumer responses to the ACCC's FX Inquiry questionnaire revealed that they may be attracted to the cheaper prices of newer entrants.¹⁰¹ One questionnaire respondent noted that one new entrant offered '*the fairest conversion rate by FAR*' [original emphasis].¹⁰² Another questionnaire respondent noted that a newer entrant '*had the best rates*'.¹⁰³

One non-bank IMT supplier's analysis indicated that it was winning customers from other suppliers, including the big four banks, and that customers moved to it for both its price and non-price offering. Its analysis showed that most of its customers sent money with their bank (usually a big four bank) before using its services and nearly 60 per cent of its customers wanted to try it because it was cheaper. Its analysis also showed that its customers who had previously used a non-bank competitor '*value things like speed or convenience a little more*'.

¹⁰¹ Consumer response 148431474 to Consumer and small business questionnaire, <https://www.accc.gov.au/system/files/Consumer%20and%20small%20business%20questionnaire%20results.XLSX>.
 Consumer response 885094054 to Consumer and small business questionnaire, <https://www.accc.gov.au/system/files/Consumer%20and%20small%20business%20questionnaire%20results.XLSX>.

¹⁰² Consumer response 148431474 to Consumer and small business questionnaire, <https://www.accc.gov.au/system/files/Consumer%20and%20small%20business%20questionnaire%20results.XLSX>.

¹⁰³ Consumer response 885094054 to Consumer and small business questionnaire, <https://www.accc.gov.au/system/files/Consumer%20and%20small%20business%20questionnaire%20results.XLSX>.

We observed that this supplier was among the three cheapest suppliers in our sample across six IMT transactions of different values and currencies over the period 6–12 February 2019.¹⁰⁴ The other two cheapest suppliers were also newer entrants. The big four banks were never the cheapest suppliers of common currencies (USD and GBP) over that same period and were sometimes the most expensive suppliers.

The big four banks changed their price and non-price IMT offering

Each of the big four banks has changed or is changing its IMT price and non-price offering at least partly in response to the changing competitive dynamic being driven by newer suppliers. These changes were often focused on digital channels, including online banking and mobile applications, where newer entrants mostly operate.

The effect of newer entrants on the big four banks was apparent in at least three of these banks acknowledging internally that they were losing IMT customers or market share to newer entrants. For example one bank commented that there was '*e*vidence of 'disruptors' gaining traction in the market' with customer transfers to the banks' key IMT competitors being AUD43 million higher in the month of December 2017 compared with December 2016. Another bank commented that 78 000 of its customers dealt with a non-bank provider for the purposes of conducting an IMT transaction in the 2017 financial year.

Big four bank price changes partly in response to newer entrants

We observe that each of the big four banks reduced prices¹⁰⁵ in the review period in response to new entry. One bank reduced its fees and retail margins for IMTs sent in a specific currency and below a certain amount. The bank later expanded this offer to four currencies. The bank explained this decision internally by saying:

... customers need a fast, secure, low-cost solution for sending small, regular amounts internationally. [Bank's] traditional [IMT service] generally does not satisfy this need, costing \$[redacted] per payment, and taking 3–5 days on average to be received. The result is significant leakage from [the Bank] to other payment providers.

Data provided to the ACCC by the inquiry suppliers shows that, while the big four banks' revenue as a proportion of total remittance amounts generally declined over the review period, it remained appreciably higher than that of the newer non-bank inquiry suppliers in our sample set. Depending on the newer non-bank inquiry supplier and the big four bank being compared, it was between two to seven times higher for the last quarter of the review period.¹⁰⁶

¹⁰⁴ Reported prices are based on transactions undertaken via online channels only. Prices calculated by the ACCC as a simple average over the price data collection period for the following reference transactions: USD200, USD7000, GBP150, GBP5500, PHP10 000, and PHP400 000. While data was also collected on IMTs sent to Fiji in FJD, this supplier did not offer IMTs in FJD at the time of data collection. Where they apply, maximum correspondent fees have been considered in drawing comparisons by suppliers. Information obtained from supplier websites, information provided by suppliers and data collected for the ACCC. Appendix B (section B.1) sets out the details of the data collected for the ACCC.

¹⁰⁵ The price consumers pay for IMTs is made up of fees and the retail exchange rate which incorporates a retail margin (chapter 1, section 1.3).

¹⁰⁶ ACCC analysis of data provided by inquiry suppliers. The ACCC calculations were based on the total revenue earned on IMTs as a proportion of the total amount remitted in the quarters starting 1 October 2016 to 1 July 2018 for individual consumers. Different service features and operating costs are some of the reasons, aside from differences in the suppliers' approach to price competition, why the revenue as a proportion of total remittance amounts might vary across suppliers.

Price changes by the big four banks in late-2017

Between October and December 2017, each of the big four banks amended the fees applying to their IMT services.¹⁰⁷ As well as its fee change, one bank reduced retail margins.¹⁰⁸ Box 2.2 sets out the background to those decisions.

There is evidence from three of the big four banks that each was at least partly motivated to reduce prices in response to competition from online non-bank suppliers. For example:

- one big four bank assessed that its retail exchange rates and fees, including correspondent banking fees, made the bank's '*IMT offering uncompetitive compared to disruptive new entrants*'. Bank staff noted in an internal document that maintaining the current fee structure was '*not an option*' for the bank because of the loss of business to '*new digital players*'. This bank had separately reduced the retail margin incorporated into its retail exchange rates over a number of years for various reasons including to '*reduce the pricing advantage held by the monolines (OzForex, Western Union, TransferWise)*'.
- another big four bank identified that it needed to '*move to a more competitive and responsive pricing model and invest in an enhanced customer value proposition*' because it was losing market share due to '*non-competitive pricing*' and '*capability gaps around [its] retail customer value proposition*'. It believed it could not '*do nothing*' because its revenue and market share would continue to decline and likely at an increasing rate as customers discovered more competitive alternatives.

Box 2.2 The big four banks' IMT fee changes in late-2017

Three of the big four banks had been considering changing their IMT fees, among other matters, for at least five months before they were publicly announced. Documents produced to the ACCC revealed:

- one bank conducted a review of its IMT pricing in late 2016 and found that its market share and revenue were declining. The bank considered alternative pricing options to improve the competitiveness of its IMT offering throughout 2017.
- in May 2017, a different bank proposed reducing fees—one reason of several being to compete with emerging non-bank competition
- the third bank conducted a strategy review in July 2016 and found that its high fees were a major reason its customers chose a rival IMT supplier. In response and beginning in February 2017, the bank considered proposals to reduce its fees. This culminated in fee reductions in late 2017.

The remaining big four bank decreased its IMT fees in direct response to some of the other big four banks' changes. In October 2017, bank staff recommended that the bank change its fee pricing for overseas payments sent online in a foreign currency after some of the other big four banks introduced their fee reductions. It considered that because of the other banks' price reductions, its '*pricing is now uncompetitive and there is high focus on FX pricing across the industry*'.

¹⁰⁷ Australia and New Zealand Banking Group Limited December 2017, *ANZ reduces international money transfer fees for foreign currencies*, <https://media.anz.com/posts/2017/12/anz-reduces-international-money-transfer-fees-for-foreign-curren>, viewed 28 March 2019.

Commonwealth Bank of Australia October 2017, *Commonwealth Bank cuts fees on international transfers*, <https://www.commbank.com.au/guidance/newsroom/imt-fee-reduction-201710.html>, viewed 28 March 2019.

Westpac Banking Corporation December 2017, *Westpac reduces fees on foreign exchange payments online*, <https://www.westpac.com.au/about-westpac/media/media-releases/2017/19-december/>, viewed 28 March 2019.

¹⁰⁸ Australia and New Zealand Banking Group Limited December 2017, *ANZ reduces international money transfer fees for foreign currencies*, <https://media.anz.com/posts/2017/12/anz-reduces-international-money-transfer-fees-for-foreign-curren>, viewed 28 March 2019.

Depending on the bank, there were also other reasons behind the decisions to reduce prices in late 2017:

- Public pressure around high IMT prices in Australia was an important factor for at least two big four banks in reducing prices with one of the banks identifying that:

There is increased reputational risk to [bank] if we do nothing and are ultimately forced to change through competitor or regulator action. These forced outcomes may lead to remediation costs and reputational and business loss in the short term.

Another bank felt that reducing prices would (among other things) respond to the '*threat of regulatory scrutiny*'.

- At the time the big four banks considered reducing fees, all four expected that reducing fees would increase the total value of IMTs they were remitting. For at least three of the banks, a reduction in revenue from lower fees was expected to be at least partially offset by higher revenue derived from an increase in the total value of IMTs being sent by the respective banks. For at least one of these banks the opportunity to make increased retail margin revenue appeared to be a consideration in deciding which fees it reduced; the bank noted that:

Payments without currency conversion.. to remain at \$[redacted] to reflect absence of FX revenue opportunity. These transactions include AUD payments from AUD accounts and payments from [redacted] in that same currency.

In making their price changes, at least two of the big four banks explicitly decided not to match or better the prices of the newer, cheaper suppliers. One of the banks that reduced prices in late 2017 noted that reducing prices in such a manner would be '*unnecessarily aggressive*'. A different big four bank that made price changes for specific currencies observed, after comparing the prices of different suppliers for sending USD1000, EU1000 and GBP1000 during 2018, that:

Non-bank competitors such as TransWise [sic], HiFX and OFX are disruptively priced below the major banks. ...By switching to these alternative providers, consumers can be afforded [sic] cost savings of \$80-\$100 per payment. In response to this, our [bank service] is strategically priced to reduce the cost differential to around \$45 per payment.

Following the big four banks' reduction of fees and margins in late 2017, we observed a declining trend for fee and retail margin revenue combined (figure 2.5).

Figure 2.5 Average revenue per IMT from fees and retail margin for the big four banks combined*
 Quarters starting 1 October 2016–1 July 2018



* Average revenue per IMT represents the average calculated across the big four banks' total IMT remitted during each quarter within the review period.

a Each bank changed either fees or retail margins. Only one bank changed both.

Source: ACCC analysis of data provided by the big four banks.

The big four banks have also improved non-price aspects of their offering

Each of the big four banks have acknowledged that certain non-price factors are important considerations for their customers when selecting an IMT supplier (section 2.2). In relation to non-price features, one big four bank noted in an internal presentation that non-bank suppliers are:

... providing superior speed, cheaper pricing, and greater features than what has traditionally been offered by banks, thus providing a greater experience to their customers.

Each of the big four banks are taking, or have taken, action to improve their non-price offering. The effect of new entrants on competition appears to have been an important factor in those decisions.

- One bank improved the ease of use and convenience of its IMT offering by implementing the ability to send money overseas using a recipient's mobile number. The bank identified that it needed to do this because '*[t]he current [Bank] IMT product offering is being surpassed by faster and cheaper alternatives in a rapidly evolving market where new entrants are undercutting Bank pricing and providing superior service offerings*'.
- Another bank introduced faster transfer speeds for payments under a certain amount and in select currencies. The bank identified that its slower transfer speed was one reason consumers were using non-bank suppliers. Payments in the selected currencies can now be received within minutes or at least one day faster than the bank's traditional IMT service.
- The big four banks have advised the ACCC that as at June 2019, they have either implemented or are in the process of implementing SWIFT gpi (chapter 3, box 3.5). For at least two of the big four banks, part of the reason for that decision was to improve their non-price offering to compete with non-bank suppliers. For one of these banks, part of the motive behind their decision to implement SWIFT gpi was that it would deliver the bank an '*improved international payment offering, which will close the gap between current capabilities of monoline players (OFX, Transferwise etc.) and other new payment technologies*' noting that it would assist the bank to '*claw back our customers spend on external providers*' [sic].

2.4 New IMT suppliers face barriers to entry and expansion

New entrants have increased competition in the supply of IMTs by offering cheaper prices and, in some cases, better IMT features than the big four banks (sections 2.1 and 2.2). The big four banks have responded by improving price and non-price aspects of their IMT offerings (section 2.3).

We consider the prospect of 'de-banking' faced by non-bank IMT suppliers to be a significant threat to competition in the supply of IMTs. De-banking is the process of banks withdrawing or not supplying banking services, including bank accounts.

We have recommended that work start on the development of a scheme through which IMT suppliers can address the due diligence requirements of the banks, including in relation to AML/CTF requirements, to address that threat.

We also consider that consumers face costs in switching IMT suppliers. The ways in which these costs could act as an impediment to the entry of new suppliers, and the growth of new and existing suppliers, are discussed in this section. Chapter 3 sets out recommendations which may lower these costs.

De-banking of non-bank IMT suppliers

Non-bank IMT suppliers often rely on access to banking and payments services from their vertically integrated competitors (banks) to compete for the supply of IMTs to consumers. For example, non-bank suppliers require a bank account to receive payment for IMTs from their customers. They also require access to payment services, either through a bank account or by access to payment system infrastructure, to make outward IMT payments for their customers.

From a commercial perspective, there can be little incentive for a bank to supply banking services to an IMT supplier who is possibly going to win IMT business from that bank. HiFX alludes to this in its submission:

... a residual risk to larger non-bank providers that banks look to secure a larger % [share] of the overall market by making it harder for, or refusing to provide services to, non-bank providers.¹⁰⁹

A number of inquiry stakeholders have stated concerns to the ACCC about the availability of certain banking services, such as bank accounts, to non-bank IMT suppliers.¹¹⁰ The Australian Remittance and Currency Providers Association (ARCPA) has highlighted the severity of this issue for some suppliers, noting that they have gone out of business as a result of de-banking.¹¹¹

AUSTRAC analysis gives some indication of the past prevalence of de-banking with 719 bank accounts of IMT suppliers and affiliates being closed by Australian banks between early 2014 and mid-2015.¹¹² We note that an IMT supplier can have more than one bank account. We consider that having accounts with two or more banks may be one of the ways non-bank IMT suppliers seek to mitigate the risk of being de-banked by one bank.

¹⁰⁹ HiFX, Submission in response to the Issues Paper, <https://www.accc.gov.au/system/files/HiFX.pdf>, p. 6.

¹¹⁰ See for example:
ARCPA November 2018, Submission in response to the Issues Paper, <https://www.accc.gov.au/system/files/ARCPA.pdf>, p. 2.
TransferWise, Submission in response to the Issues Paper, <https://www.accc.gov.au/system/files/TransferWise.pdf>, p. 8.
HiFX, Submission in response to the Issues Paper, <https://www.accc.gov.au/system/files/HiFX.pdf>, p. 6.
Western Union October 2018, *Submission in response to the Issues Paper*, <https://www.accc.gov.au/system/files/Western%20Union.pdf>, pp. 5-6.

¹¹¹ See for example:
ARCPA March 2017, *ARCPA Submission to the Productivity Commission Inquiry into Competition in the Australian Financial System*, https://www.pc.gov.au/__data/assets/pdf_file/0009/227097/subdr128-financial-system.pdf, p. 2.
¹¹² AUSTRAC 2015, *Strategic analysis brief: Bank de-risking of remittance businesses*, https://www.austrac.gov.au/sites/default/files/2019-07/sa-brief-bank-derisking-remittance-businesses_WEB.pdf, p. 7.

The banks' AML/CTF policies and de-banking

Consistent with their respective AML/CTF policies, the big four banks have de-banked numerous IMT suppliers:

- Two of the big four banks' AML/CTF policies stipulate that the banks generally cannot provide certain banking services where those services will be used to undertake IMT activities, although the policy of one of these banks allows it to do so under exceptional circumstances including where, in the words of the bank, '*there is alignment with the Bank's broader strategic objectives*'. Even in these circumstances the bank's customer must be within the bank's risk appetite and not prejudice the bank's compliance with its AML/CTF obligations.
- The other two banks' AML/CTF policies do not prohibit the provision of banking services to IMT suppliers. However, they stipulate that the banks must undertake thorough due diligence checks of all customers who are IMT suppliers.

During consultation with industry stakeholders, the ACCC encountered differing views on the obligations arising under AML/CTF laws for banks supplying banking services to IMT suppliers. One aspect on which views diverged significantly was the extent to which Know Your Customer (KYC) requirements (described in appendix C) become a know your customers' customer (KYCC) requirement for a bank supplying banking services to a non-bank IMT supplier. The opinions of stakeholders generally fell into one of two groups:

- a bank only needs to be satisfied that the non-bank IMT supplier has satisfactory risk assessment framework and risk controls for AML/CTF compliance; that is, the requirement is KYC only, or
- as well as the KYC requirement, a bank also needs to understand each IMT transaction a non-bank IMT provider is engaging in to the same extent it would were the bank sending the IMT itself; that is, the requirement is closer to KYCC.

Banks can face high penalties if they fail to comply with AML/CTF obligations.¹¹³ Banks also face reputational risks associated with non-compliance, including if they are known to have supplied banking services that were involved, even indirectly, in money laundering or terrorism financing activities.

We consider that, as a result, the banks may have taken a conservative approach when designing their AML/CTF policies. For example, at least one big four bank believes that in order to ensure it has complied with its obligations, it must conduct due diligence on its IMT supplier customers and conduct screening and monitoring of the IMTs sent by customers of those IMT suppliers.

The cost of due diligence and monitoring activities may potentially make the supply of banking services to non-bank IMT suppliers unprofitable for a bank. As one of the banks has told the ACCC:

...a customer that poses a higher degree of risk will be more costly for [the bank] to monitor to ensure ongoing compliance with [the bank's] policies, and ultimately with the AML Act. [The bank] therefore weighs the compliance cost against the likely commercial benefit of the customer when deciding whether to provide wholesale banking services...

We are aware that a number of IMT suppliers who have been de-banked were not given reasons for those decisions. If the de-banking was because of perceived deficiencies in the IMT supplier's AML/CTF risk controls and processes, not providing reasons denies an opportunity for the IMT supplier to engage with their bank to address the issue. This in turn makes it harder for IMT suppliers to access bank accounts.

The ACCC understands that under Australia's AML/CTF laws it is an offence for an entity such as a bank to 'tip off' its customers about a suspicious matter.¹¹⁴ This could be one factor contributing to why

¹¹³ For example, in 2018 CBA paid a \$700 million penalty for contraventions of the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth), see: AUSTRAC June 2018, *Austrac and CBA agree \$700m penalty*, <http://www.austrac.gov.au/media-releases/austrac-and-cba-agree-700m-penalty>, viewed 28 March 2019.

¹¹⁴ We understand that unless an exemption is in place, a reporting entity must not disclose to any other (other than AUSTRAC) that it formed a suspicion about a customer or that it submitted a suspicious matter report to AUSTRAC. Doing so is an offence prohibited by section 123 of the *Anti-Money Laundering and Counter Terrorism Financing Act 2006* (Cth). See AUSTRAC, *Suspicious Matter Reports (SMRs)*, <http://www.austrac.gov.au/suspicious-matter-reports-smrs#tipping-off>, viewed 20 May 2019.

banks may not provide reasons on why an IMT supplier has been de-banked. However, to the extent that providing reasons does not contravene the prohibition on tipping off, the ACCC's view is that banks should do so.

The effect of de-banking on IMT suppliers

We consider that the de-banking of non-bank IMT suppliers raises their costs and so hinders their ability to compete and grow. De-banking can be a:

- barrier to entry by preventing a new entrant from providing remittance services because it cannot obtain a bank account or must incur significant costs to look for and obtain alternatives
- barrier to expansion because it increases the costs of existing non-bank remittance providers relative to banks. Non-bank suppliers must either incur potentially high compliance costs to maintain their access to bank accounts or costs to look for and obtain new bank accounts or access alternatives.¹¹⁵ Like any business, an IMT provider needs to recover its costs if it is to remain viable and an increase in its cost base may consequently hamper its ability to price its services competitively and win customers.

The cost of managing the risk of being de-banked

Non-bank IMT suppliers can spend extended periods of time and deploy considerable resources to mitigate the risk of being de-banked. One supplier has told us that during the review period:

- it had been negotiating with a bank for over six months to obtain banking services
- it had spent at least 15 months trying to obtain an Exchange Settlement Account (ESA) and to become an ADI to connect directly to the New Payments Platform (NPP) and the Bulk Electronic Clearing System (BECS)
- it had spent approximately AUD2 million so far in pursuing access to payment system infrastructure, including remuneration for at least six staff devoted to the task.

Other inquiry suppliers have informed us that they incur material incremental expense in maintaining their banking relationships including as a result of having to regularly and comprehensively demonstrate the adequacy of their AML/CTF risk controls to banks.

Access to payment system infrastructure can also present challenges

We note that non-bank IMT suppliers could consider accessing payment system infrastructure, such as the NPP and BECS, as an alternative to using a bank account. Non-bank IMT suppliers could seek either direct access to that infrastructure or indirect access.¹¹⁶

There are two ways a non-bank supplier could get direct access to payment system infrastructure: become a direct participant in the NPP¹¹⁷ or become a Tier 1 participant in BECS. Appendix D sets out the current requirements for direct access to the NPP and BECS as at June 2019. During the RBA's review of NPP functionality and access, industry stakeholders identified some requirements

¹¹⁵ See for example:
Western Union October 2018, Submission in response to the Issues Paper, <https://www.accc.gov.au/system/files/Western%20Union.pdf>, pp. 5–6.

TransferWise, Submission in response to the Issues Paper, <https://www.accc.gov.au/system/files/TransferWise.pdf>, p. 8.

¹¹⁶ Members can participate in BECS in two capacities according to whether they directly clear and settle using an Exchange Settlement Account (Tier 1 members) or appoint a representative to clear and settle on their behalf; that is, indirectly clear and settle (Tier 2 members).

Direct participants connect to the NPP using their own NPP payment gateway. They are able to clear and settle payments on behalf of their customers and may provide indirect connectivity to the NPP for other institutions.

Source: Reserve Bank of Australia October 2018, *New Payments Platform Functionality and Access: Consultation*, <https://www.rba.gov.au/payments-and-infrastructure/new-payments-platform/functionality-and-access-consultation.html>, viewed 21 March 2019.

¹¹⁷ Direct participants connect to the NPP using their own NPP payment gateway. They are able to clear and settle payments on behalf of their customers and may provide indirect connectivity to the NPP for other institutions.

Source: Reserve Bank of Australia October 2018, *New Payments Platform Functionality and Access: Consultation*, <https://www.rba.gov.au/payments-and-infrastructure/new-payments-platform/functionality-and-access-consultation.html>, viewed 21 March 2019.

that could prevent new participants from accessing the NPP.¹¹⁸ Appendix D also outlines the changes recommended by the RBA (in consultation with the ACCC) to the NPP access requirements, as set out in the RBA's report of 13 June 2019. The changes aim to improve equity and ease of access.

Non-bank suppliers could also access the NPP and BECS indirectly through payment services offered by direct participants in those payment systems. However, we consider that the same issues that have given rise to de-banking would also affect these indirect access arrangements. That is because AML/CTF laws extend to these indirect access arrangements. Direct participants in the NPP and BECS (which include the big four banks) can apply similar risk controls to these payment services as they do for bank accounts.

The case for renewed action on de-banking

Both the Australian Government and the remittance industry have taken action at different times in the past to address the issue of de-banking. For example, between 2014 and 2017, the Australian Government formed the Working Group on Remittance Account Closures (box 2.3) and ARCPA developed an AML/CTF certification process for its members (box 2.4 further below). Despite these initiatives, our view is that this issue has not been resolved and that it is having an adverse effect on competition.

We consider renewed government action on de-banking is necessary to protect the gains new entrants have delivered to IMT consumers and to ensure competition is not inhibited through new and existing non-bank suppliers losing access to banking services. We believe the potential gains for consumers, estimated at over AUD150 million for IMTs sent to the US and UK in 2017–18 alone, provide a compelling case for action.

Box 2.3 Working Group on Remittance Account Closures

The Working Group on Remittance Account Closures was formed in December 2014 to establish a communication mechanism between financial institutions and small to medium-sized IMT suppliers. The Working Group was focused on identifying practical measures that those IMT suppliers could undertake to make their businesses more likely to fit within the risk tolerance of banks.

The Working Group met monthly between December 2014 and May 2015 and a final meeting was conducted on 16 September 2015. A key output of the Working Group was strategic analysis by AUSTRAC of the scale of de-banking activity and its impact on financial flows. AUSTRAC found that, at that time, there was no evidence de-banking had caused a significant change in the volume or value of IMTs being sent. AUSTRAC explained that there could be a range of possible reasons for this, including that:

- customers of de-banked IMT suppliers began using other IMT suppliers
- IMT suppliers who had been de-banked were able to secure new banking arrangements and continue their operations
- IMT suppliers who had been de-banked accounted for a small volume and value of all IMTs
- IMT suppliers who had been de-banked were not providing data to AUSTRAC prior to being de-banked.

The Working Group was chaired by the Attorney-General's Department (AGD) and also comprised AUSTRAC, the Department of Foreign Affairs and Trade, the Australian Crime Commission, the Australian Bankers' Association, ARCPA and the Somali Money Remitters Group.

Source: Australian Government Working Group on Remittance Account Closures no date, Working Group on Remittance Account Closures Outcomes Statement, <https://www.homeaffairs.gov.au/criminal-justice/files/fcs-outcomes-report-working-group-on-remittance-account-closures.pdf>.

Before coming to a recommendation on action to address de-banking, the ACCC considered whether existing regulatory or private sector measures could be utilised to help resolve the issue. We do not

¹¹⁸ Reserve Bank of Australia June 2019, *NPP Functionality and Access Consultation: Conclusions Paper*, <https://www.rba.gov.au/payments-and-infrastructure/new-payments-platform/pdf/functionality-and-access-report.pdf>.

believe they provide the most efficient mechanism by which to do so. Three of our key considerations in this regard are set out below:

- Under Australia's AML/CTF laws, IMT suppliers are required to subject their AML/CTF program to regular independent reviews. The ACCC has considered whether, in addition to satisfying AML/CTF requirements, these reviews could be applied as part of the banks' due diligence processes for providing banking services to non-bank IMT suppliers.

The nature and scope of these reviews do not appear to be sufficient to meet internal policy requirements of different banks. There are likely a number of reasons for this, including that banks are not only concerned about a non-bank IMT supplier's compliance with Australia's AML/CTF laws. They are also concerned with a range of issues related to money laundering and terrorism financing such as requirements imposed on them by their correspondent banks¹¹⁹, international sanctions and the potential for reputation damage (discussed above).¹²⁰ As a result, banks (and providers of payment services infrastructure) require a due diligence mechanism that is wider in application than compliance with Australia's AML/CTF laws.

- The ACCC has considered whether individual instances of de-banking and threats of de-banking identified over the course of this inquiry may raise concern under the CCA. It will continue to do so should it become aware of further instances of de-banking or threats of de-banking. The need to proactively address the possible competition impact of de-banking, particularly where a number of IMT suppliers are de-banked or at risk of being de-banked, forms part of the rationale for Recommendation 2.1 (set out further below).
- We see the existing ARCPA certification scheme as unsuited to resolving the issue of de-banking. However, as noted in box 2.4, we see the potential for drawing lessons from the ARCPA model and experience.

119 For example, in November 2014 JPMorgan Chase (who had a correspondent banking relationship with Westpac) directed Westpac to stop processing funds transfers for IMT suppliers. Westpac was compelled to do so because, if it did not, its ability to transact in US dollars could have been compromised. It has been reported that JPMorgan gave the direction because it could be liable under United States laws for transgressions of foreign banks whose funds it clears. The direction came some months after JP Morgan had been fined over USD2 billion for breaches related to AML/CTF compliance in the United States.
Source:

J Evers February 2015, *Banks pull plug on sending money overseas*, Australian Financial Review, <https://www.afr.com/business/banking-and-finance/banks-pull-plug-on-sending-money-overseas-20150204-135rye>.

R L Stanley and R P Buckley June 2016, *Protecting the West, excluding the rest: the impact of the AML/CTF Regime on financial inclusions in the Pacific and potential responses*, Melbourne Journal of International Law, Vol.17 No.1, https://law.unimelb.edu.au/__data/assets/pdf_file/0005/2039567/04_Stanley_171.pdf.

120 AUSTRAC for the Commonwealth of Australia 2015, *Strategic analysis of brief: Bank de-risking of remittance businesses* https://www.austrac.gov.au/sites/default/files/2019-07/sa-brief-bank-derisking-remittance-businesses_WEB.pdf, p. 4.

Box 2.4 ARCPA's certification program

ARCPA currently administers a certification program, the second version of which was launched in July 2017. That program has had limited take-up. As at June 2019 13 suppliers were listed on ARCPA's website as having been certified under the program.

We consider that the due diligence scheme we have recommended has a number of advantages over the ARCPA program that will enable it to address the competition issues posed by de-banking more effectively. Specifically:

- unlike the ARCPA program which is available only to ARCPA members, the proposed scheme would be open to all IMT suppliers
- having expert government AML/CTF policy makers involved in the scheme design and having the scheme administered by an arm of government will give it greater effectiveness and credibility
- a robust public consultation process will provide an opportunity to incorporate the lessons from the ARCPA scheme, both in terms of scheme design and from the perspective of how to best address the due diligence requirements of banks and providers of payment services infrastructure.

Source: ARCPA, *Certified Members*, www.arcpa.org.au/certified-members.html, viewed 25 June 2019.

Lessons from overseas

A number of international regulatory authorities and organisations have considered the problem of de-banking and responded with a range of initiatives to address non-bank IMT providers' access to banking services. Box 2.5 sets out some of the measures taken in the UK. The ACCC has considered those measures and the potential solutions raised in Australia previously¹²¹ in coming to Recommendation 2.1 below.

¹²¹ We note that the issue of de-banking has been recognised and attempts to find a solution have been made by a number of stakeholders, including the Working Group on Remitter Account Closures (box 2.3). The RBA recognised the issue in the context of correspondent banking services in the South Pacific, and proposed a number of recommendations to resolve it: Reserve Bank of Australia, *Developments in Correspondent Banking in the South Pacific*, June 2018, <https://www.rba.gov.au/publications/bulletin/2018/jun/developments-in-correspondent-banking-in-the-south-pacific.html>, viewed 6 March 2019.

Box 2.5 The UK's responses to the problem of de-banking

The Financial Conduct Authority (FCA) commissioned research in July 2015 into the nature, scale and impact of de-banking activities in the UK. The report found that while de-banking has particularly affected money remitters, charities and fintech companies, the number of de-banking decisions are small compared with overall closure rates of bank accounts. In response to the report:

- the FCA engaged with UK Finance, a trade association for the UK banking and financial services sector, to develop principles to improve how banks communicate with their customers when refusing or ceasing to provide banking services. The principles, published in June 2019, emphasised that banks should treat customers fairly, make appropriate and proportionate decisions, and communicate clearly with the customer before and after reaching a conclusion on whether to de-bank the customer.
- the FCA has worked with other regulators and international bodies to deliver a global response to de-banking. For example, the FCA participated in the Anti-Money Laundering Expert Group of the Basel Committee to update guidance on managing the risk in correspondent banking. This guidance includes a list of indicators that banks should consider when assessing the level of money laundering and financing of terrorism risk of a particular correspondent banking relationship.

In addition, the UK Payment Services Regulations (PSRs 2017) were published on 19 July 2017. One regulation requires that if a credit institution refuses to grant or withdraws access to payment accounts services of a payment service provider (which includes IMT suppliers), it must notify the FCA and provide 'duly motivated reasons' for the refusal or the withdrawal of access.

In March 2018, the UK Financial Stability Board's (FSB's) Remittance Taskforce¹²² published the Stocktake of remittance service providers' access to bank services report, which includes 19 recommendations in several key areas to improve the accessibility of banking services to IMT suppliers. For example, the report recommends:

- the introduction of a private sector certification or periodic independent audits to demonstrate AML/CTF compliance
- that national authorities should publish guidance on the risk-based approach and the banking of IMT suppliers, on their regulatory and supervisory expectations for AML/CTF compliance by IMT providers, and
- the development of a code of conduct by the remittance sector covering risk management processes.

Source: Artingstall, D et al February 2016, *Driver & Impacts of Derisking: A study of representative views and data in the UK*, by John Howell & Co Ltd for the Financial Conduct Authority, <https://www.fca.org.uk/publication/research/drivers-impacts-of-derisking.pdf>, pp. 5–6, 10–12, 31.

UK Finance June 2019, *Principles for exiting a customer*, <https://www.ukfinance.org.uk/system/files/Principles-for-Exiting-a-Customer.pdf>.

Basel Committee on Banking Supervision June 2017, *Guidelines: Sound management of risks related to money laundering and financing of terrorism*, <https://www.bis.org/bcbs/publ/d405.pdf>, pp. 23–31.

Payment Services Regulations (UK).

Financial Stability Board March 2016, *Stocktake of remittance service providers' access to banking services*, <https://www.fsb.org/wp-content/uploads/P160318-3.pdf>, pp. 9–10.

¹²² The FSB's Remittance Taskforce comprises 38 members representing 25 jurisdictions and five international organisations and standard-setters.

A due diligence scheme is required

We consider that a due diligence scheme would help address the competition issues arising from de-banking by facilitating more efficient and continued access to banking services and payment system infrastructure for non-bank IMT suppliers by providing:

- a mechanism through which IMT suppliers can demonstrate to banks and providers of payment services infrastructure the adequacy of their AML/CTF systems and controls, among other matters
- a mechanism through which any specific deficiencies in an IMT supplier's systems and controls can be drawn to its attention for remediation
- a robust best practice standard and independent assessment process that should reduce the initial due diligence cost for banks in providing services to an IMT supplier and reduce the cost of any periodic risk reviews of that IMT supplier.¹²³

As a first step, the scheme's design should be informed by a public consultation process. Part of that process should be to inform an assessment of the potential for unintended adverse consequences from the scheme, including for small IMT suppliers.

There should also be consultation within government to ensure there are no adverse effects for law enforcement and intelligence agency functions which relate to AML/CTF matters.

Recommendation 2.1 Access to banking services for non-bank IMT suppliers

The Australian Government should form a Working Group tasked with consulting on the development of a scheme through which IMT suppliers can address the due diligence requirements of the banks or providers of payment system infrastructure, including in relation to anti-money laundering and counter-terrorism financing (AML/CTF) requirements.

The Working Group should start a public consultation process on the merits and design of such a scheme by 31 December 2019 and conclude that process by 30 June 2020. The Working Group should consider any alternative solutions to address the issue of de-banking that are raised by stakeholders during the public consultation process.

By 31 December 2020, the scheme should be operational or the Working Group should have set out any alternative approach it will initiate to ensure that non-bank IMT suppliers are able to obtain efficient access to the banking and payment services they need in order to compete in the supply of IMT services to Australian consumers.

How a due diligence scheme might proceed

If the government decides to proceed with the due diligence scheme, we consider that it should be based on an independent assurance model. This is consistent with the risk-based approach taken under Australia's AML/CTF laws and the ARCPA scheme.

A central focus in the scheme's development should be on agreeing the best practice standards against which due diligence assessments would be completed. Importantly, these standards will need to address in sufficient detail the key risk areas and regulatory compliance obligations (including AML/CTF) for the banks and providers of payment services infrastructure. The standards should also:

- discipline the banks to exclude from their policies and procedures any requirements that are not genuinely based on managing the risks posed by IMT supplier customers
- bring greater clarity to how Australia's AML/CTF laws apply to the provision of banking services and payment services infrastructure to IMT suppliers.

We envisage that the scheme would be voluntary. Each IMT supplier and their bank (or prospective bank) would decide whether to use it and in what circumstances.

¹²³ Like all businesses, non-bank IMT suppliers need to recover their costs to remain viable and any increase in their cost base potentially flows through to their prices. This hampers their ability to compete on price and, as noted in section 2.3, having lower prices than existing suppliers is one of the ways some newer entrants have been able to win IMT customers to date.

Importantly, we do not see the due diligence scheme replacing any of the duties and obligations an IMT supplier has under AML/CTF laws to identify, prioritise, treat, control and monitor its risk. Rather, among other things, it would provide a rigorous and consistent framework that would enable an IMT supplier to demonstrate to a bank that it has robust systems and controls in place to enable it to meet these obligations.

We consider that the effectiveness and credibility of a due diligence scheme is likely to be dependent on government participation in the design and administration of the scheme. While ultimately a matter for the Australian Government, we consider that a reformed Working Group on Remittance Account Closures (box 2.3) with the addition of the Department of Home Affairs and the ACCC, or a similarly constituted working group, could be tasked with leading the work on the scheme's design and implementation:

- The Department of Home Affairs' participation in the Working Group, along with that of AUSTRAC, will ensure the Working Group has access to experts on AML/CTF matters.
- The ACCC's participation in the Working Group will ensure that any solutions formulated by the Working Group remain focused on addressing the competition issues related to de-banking identified during the course of this inquiry.

In terms of the scheme's operation, it is the ACCC's view that:

- the scheme should be administered by an independent agency with relevant expertise noting that, in recognition of the primacy of AUSTRAC's role as the AML/CTF regulator, AUSTRAC should not be the scheme administrator
- while the scheme could be run on a cost-recovery basis, the Working Group should consider whether there is a case for at least part of the scheme's initial and ongoing costs to be publicly funded given the potential benefits likely to flow from increased competition in the supply of IMTs
- the due diligence sign-off on an IMT supplier's systems and controls should only be provided by a suitably qualified independent expert; a 'fit and proper' standard could be set for these experts as part of the scheme
- recognising that due diligence is a continuing requirement, the ACCC envisages that IMT suppliers could obtain an initial assessment under the scheme and also be periodically re-assessed, as agreed between a bank and its IMT supplier customer.

Further action from the ACCC

If a due diligence scheme is implemented, non-bank IMT suppliers who have a satisfactory due diligence assessment should inform the ACCC if they:

- are denied access to banking services
- are denied access to a NPP direct participant's payment gateway, or
- have existing banking services withdrawn.

The ACCC will then consider whether that denial or withdrawal of banking or payment services may raise concerns under the CCA.

Barriers to consumer switching

Despite some IMT suppliers offering lower prices than the big four banks, customers continue to use the big four banks (see chapter 3, section 3.1). We recognise some consumers are not switching because they have actively evaluated alternative offerings and have decided not to switch because the service offered by their bank meets their needs. We consider such consumers are in the minority. Consumers do not switch for a number of other reasons, including one or more of the following:

- a lack of engagement with financial products and almost no research into alternatives
- the perceived risk in using a new supplier, especially when transferring large sums of money
- high information costs they can face, which make it difficult to search for a better deal
- perceptions that a considerable amount of time and effort is required to switch to a new supplier.

Each of these points is discussed further in chapter 3.

Behind many of the reasons outlined above for consumers not switching suppliers are the costs they incur in the process. Those costs can be in terms of money, time, effort or a combination of the three. These switching costs affect consumers' willingness to switch between IMT suppliers. Switching costs could act as an impediment to:

- the entry of new suppliers by reducing the size of the potential customer pool they can contest (at least initially). The prospect of sustained losses due to the extended period of time before a new entrant can reach commercial scale or the prospect of not reaching scale at all may discourage entry, and
- the expansion of new and existing suppliers by increasing the marketing expenditure required to gain market share. If a new entrant wishes to entice customers away from an existing supplier, it may need to increase its marketing expenditure beyond what would be needed if customers were better able to compare prices and engage in switching behaviour. In the words of one non-bank supplier, it is 'expensive' for disruptors¹²⁴ '*to actively acquire customers from banks or traditional providers*'.

Our view is that some new entrants have been able to grow despite these switching costs because they have been successful in attracting price-sensitive customers. This is demonstrated by a newer entrant who has grown by winning customers with its lower prices and non-price features (section 2.3).

2.5 Price competition in foreign cash, travel cards and payment cards

In addition to our observation that new entry is changing the competitive dynamic for IMTs (section 2.3) we observe that new entry is also having an impact on competition for the other inquiry services:

- A foreign cash inquiry supplier has lowered prices and improved non-price aspects of its service to compete with a newer entrant.
- Qantas and Velocity (Virgin Australia's frequent flyer program) have rapidly grown their customer base for travel cards since those cards were introduced in 2013. Some of the big four banks have regarded Qantas and Velocity as key and particularly effective competitors for travel cards.
- Although the big four banks supply the vast majority of payment cards in Australia, we observe that some of the big four banks have introduced payment cards with no foreign transaction fees after, and seemingly in response to, the release of no-fee cards by other card issuers.

¹²⁴ The supplier listed 21 firms as disruptors in the document. Some of them are suppliers such as Currency Fair, World Remit and Orbit Remit.

Foreign cash

Newer entrants supplying foreign cash services have caused existing suppliers to lower their prices and improve the non-price aspects of their services. For example, in 2016 an existing supplier of foreign cash services noted Travel Money Oz's rate of growth¹²⁵ and the competitive threat posed by Travel Money Oz. That supplier commented in an October 2016 internal presentation on its competitors:

It [Travel Money Oz] is a dangerous competitor in FX retail as proven by their recent successes. [Locations] close to new TMOz [Travel Money Oz] stores feel detrimental impact (down [Redacted]% in revenue...)

In response to the competitive threat from Travel Money Oz, the supplier quoted above trialled changes to its price and non-price offering in relation to foreign cash services over the period 2016–18. The trial included:

- a reduction in the retail margin on selected currencies of approximately 200 basis points
- cosmetic changes in the way its rate boards displayed prices to make the presentation more consumer friendly.

The supplier found that reducing retail margins by 200 basis points resulted in an increase in transaction volume of between 20–30 per cent at three of its stores. However, the supplier also noted that an increase in sales volumes of 40–50 per cent was required to 'fully break-even on revenue' at those stores given the reduced margin at which it was selling the foreign cash. In relation to the changes in rate boards, a survey of customers at the same three stores found that 79 per cent of consumers found the new presentation to be '*clear and helpful*'.

The supplier has told the ACCC that as a result of the trials, which concluded in late 2018, it has taken actions including:

- reducing its retail margin for multiple currencies by approximately 200 basis points at a number of its stores
- improving the presentation of its rate boards.

Travel cards

The largest suppliers of travel cards in Australia were different from the largest suppliers of the other inquiry services. Based on consumer research from April 2018 held by at least one big four bank, two of the three largest suppliers of travel cards in Australia were Qantas and Velocity (chapter 1, section 1.1).

Qantas and Velocity have built up their customer base in a relatively short period of time. One of the big four banks has noted that:

... the [travel card] market has dislocated with the entrance of airlines..Qantas and Velocity entered the market in 2013, and have seen rapid growth.

By way of comparison, one of the big four banks also introduced its travel card in 2013 but is yet to achieve the same rate of usage as Qantas or Velocity. Market research from April 2018 indicates the bank had about a quarter of the number of customers using its travel card compared with Qantas and about half the number of customers as Velocity.¹²⁶ This may be because the bank offers travel cards only to its existing customers.

We observe that some of the big four banks have regarded Qantas and Velocity as key and particularly effective competitors for travel cards because of the frequent flyer points offered in conjunction with

¹²⁵ Travel Money Oz primarily supplies foreign cash, but also offer prepaid travel money cards and IMT services. It is a subsidiary of Flight Centre Limited and came into existence in 2006 when it purchased Nationwide Currency Services (NCS). Between 2011 and 2019, Travel Money Oz doubled in size. It now has over 130 stores in Australia, New Zealand and America.

Source: Flight Centre Travel Group 2019, Our brands: Travel Money Oz, [*http://www.fctgl.com/our-brands/other/travel-money-oz/*](http://www.fctgl.com/our-brands/other/travel-money-oz/)*, viewed 15 March 2019.*

¹²⁶ The market research was obtained by at least one big four bank. It was based on a consumer survey conducted by a consulting firm in April 2018.

travel cards. For example, one of the big four banks has noted the ‘aggressive point earn acquisition offers’ to new customers by Qantas and Velocity.

Qantas and Velocity appear to have differentiated themselves from other travel card suppliers based on non-price aspects of their offering. While Qantas was one of the cheaper suppliers for consumers seeking to load USD200 onto a travel card in February 2019, the prices of Qantas, ANZ, CBA and Westpac were all within AUD2 of each other.¹²⁷

Payment cards

According to the Productivity Commission’s Competition in the Australian Financial System inquiry¹²⁸, there are over 250 different payment cards available in Australia. As noted in chapter 1 (section 1.1), the big four banks supply the large majority of payment cards.

While the big four banks supply the large majority of payment cards, there is evidence of some of them responding to the prices of other suppliers. For example, during the review period:

- one of the big four banks introduced a credit card with no foreign transaction fees ‘*in response to the competitive environment and other suppliers’ credit card offerings involving no foreign transaction fees*’
- another bank launched a debit card with no foreign currency fees, cash back¹²⁹ and included travel insurance for reasons which included ‘*trends in the competitive landscape more generally*’. The same bank removed its international conversion fees and overseas ATM withdrawal fee in relation to one of its existing debit cards following its observation that ‘*increased competition and public focus will also place downward pressure on fees*’.

The pricing of payment cards constrains the pricing of travel cards

As discussed in chapter 1 (section 1.4), consumers use different FX services for different purposes and, in some cases, different services are used for the same purpose. We consider that while there may be some transactions where only one payment type is possible, carrying more than one payment type enables consumers to more readily substitute between them.

This is borne out in the research held by one big four bank, which found that:

- 70 per cent of customers use more than one payment type when travelling overseas
- travel cards are ‘*part of a mixed wallet when travelling*’ along with cash, debit and credit cards.

Further, two of the big four banks view travel cards, payment cards and foreign cash as substitutes or partial substitutes for each other for many consumers travelling overseas. One bank specifically identified payment cards as a competitor product for its travel card offering.

The ability of consumers to substitute services for each other appears to have been a factor in the pricing of travel cards.¹³⁰ We have observed three instances where the pricing of payment cards has been a constraint or influence on the pricing of travel cards:

- One of the big four banks was considering removing its AUD15 fee for issuing a new travel card through its digital channel following declining sales. It considered the decline in travel card sales was because of ‘*out of market pricing of the issuance fee and increased competition across pre-paid, debit and credit card products offering favourable international transaction fees*’. The bank ultimately decided to remove the fee.

¹²⁷ Reported prices are a simple average calculated by the ACCC over the price data collection period. The data collected for the ACCC was sourced from publicly available information. Appendix B (section B.1) sets out how this data was collected.

¹²⁸ Productivity Commission August 2018, *Competition in the Australian Financial System*, <https://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system.pdf>, p. 12.

¹²⁹ Cash back refers to an incentive offered by credit and debit card issuers whereby cardholders earn a percentage in cash rewards for each eligible purchase or purchases above a certain dollar threshold.
Source: The Money Advice Service 2019, *Cashback credit cards*, <https://www.moneyadviceservice.org.uk/en/articles/cashback-credit-cards>, viewed 6 May 2019.

¹³⁰ We have not observed any instances of payment card pricing or travel card pricing constraining the price of foreign cash services.

- The same big four bank considered removing its international ATM fees on travel cards temporarily for a marketing campaign. The bank recognised that its travel card sales volumes were down year-on-year and were behind its target sales volume. It stated that '*the slowdown can be partly attributed to increased competition from credit and debit card offering in the Australian market*'.
- A different big four bank considered removing the reload fee on its travel card. It noted that charging a reload fee placed it at a competitive disadvantage compared with other travel cards. It also noted that '*[t]he reload fee makes the total cost of using a [travel card] more expensive than a [redacted bank] Credit or Debit product for overseas purchases*'. It has since removed this fee.

However, we observe that payment card pricing may not closely constrain travel card pricing because:

- some consumers choose to use travel cards even when there are lower cost payment card options available. Market research obtained by the big four banks from a research firm in 2018 notes that some consumers may not be aware of all the different fees associated with using travel cards and, as a result, may not regard payment cards as low-fee options. The travel card fees of which consumers may be unaware included international cash withdrawal fees and currency conversion fees
- consumers may value non-price features of travel cards and may consider that travel cards are more convenient than payment cards. For example, some consumers value the ability to lock in exchange rates in advance of travelling overseas—a feature available on travel cards but generally not on payment cards. Market research obtained from a research firm by one big four bank found this feature was an important consideration for about 12 per cent of its travel card customers.

3. Challenges facing consumers

Key points

- Consumers stand to make the most savings by purchasing from the supplier that offers the most competitive total price compared with making purchase decisions based on fees alone.
- Suppliers should take steps to ensure that consumers can easily understand and compare prices for inquiry services. In particular, the ACCC sees merit in measures that:
 - present to consumers the total price of an IMT or foreign cash transaction
 - allow consumers to easily make price comparisons.
- IMTs transacted through correspondent banking networks can result in fees that, unknown to the consumer at the time of sending, will be deducted from the sum being transferred. The ACCC considers that IMT suppliers should take the necessary steps to inform their customers up-front of the total price of an IMT, including correspondent banking fees.
- Some consumers are being charged an international transaction fee in situations where they expect that a payment card transaction will take place within Australia; for example, where a merchant's website has a '.com.au' domain name, takes payment in AUD, and/or has a business presence in Australia. The fee occurs because the merchant has the transaction processed overseas. In these situations, the ACCC expects merchants to disclose to consumers that the transaction will be processed overseas and therefore may be subject to an international transaction fee.
- Some consumers perceive that sending money overseas involves a risk that funds may not reach the intended recipient. The ACCC did not observe evidence of a material risk in this regard.
- The Australian Government contributes funding to two remittance price comparison websites: www.saverasia.com and www.sendmoneypacific.org. The ACCC considers that the effectiveness of these websites for consumers would be improved by ensuring they provide live rate comparisons for the major suppliers, including the big four banks and Western Union.

The chapter builds on chapters 1 and 2, and examines the inquiry services from a consumer perspective:

- section 3.1 examines why some consumers do not switch suppliers, even when they would save money
- section 3.2 outlines the ways in which prices are difficult to compare and the resulting implications for consumers
- section 3.3 outlines the difficulties arising for consumers from uncertain correspondent banking fees
- section 3.4 addresses unexpected payment card fees when shopping online
- section 3.5 discusses consumer uncertainty about IMT payment security.

The **Guide for Consumers** above draws on the findings from this chapter to provide useful advice and information to consumers using FX services. A version of the Guide is also available on the ACCC's website.

3.1 Despite the savings available, some consumers do not switch

Consumers continue to use the big four banks for inquiry services despite the availability of cheaper alternatives. This section explores the extent of that behaviour and why it occurs.

How much could consumers save?

Many IMT customers of the big four banks could save money if they switched to a cheaper IMT supplier. For common currency corridors such as AUD-USD and AUD-GBP, we observe that the big four banks were more expensive than many other IMT suppliers. For example, our price data collection shows that:

- IMT customers of the big four banks sending IMTs in GBP to the UK in February 2019 could have paid a price that was up to 21 per cent higher than that charged by the cheapest IMT supplier in our sample¹³¹
- if IMT customers of the big four banks switched to the cheapest supplier(s) in our sample, they could have collectively saved around AUD115 million for IMTs made in USD in 2017–18 and in the order of AUD40 million for IMTs made in GBP in 2017–18.¹³²

Consumers also paid relatively more for foreign cash services when making a purchase through a big four bank compared with many other suppliers (for example, see chapter 1, figure 1.4). We observe that the lowest priced suppliers of foreign cash services at non-airport locations were around 2–6 per cent cheaper than the big four banks for USD and GBP, depending upon the amount.¹³³

The big four banks appear to be aware that their inquiry services have generally been more expensive than many other suppliers. For example:

- chapter 2 details the big four banks' awareness of their IMT service pricing being higher than many of their rivals and how they have responded (see chapter 2, sections 2.1 and 2.3)
- internal analysis conducted in January 2018 by one big four bank on retail exchange rates showed that its rates were more expensive than some of the other big four banks, as well as OFX, TransferWise and Western Union, and that if a customer transferred AUD10 000 in USD to the US, the beneficiary would receive USD337 (AUD423)¹³⁴ (net of fees) less when using it rather than TransferWise.

What drives consumer behaviour and choices?

There are a number of reasons why consumers may not switch to a cheaper supplier. The Productivity Commission found that, with respect to financial services products in general, many consumers do not readily switch between products or negotiate with suppliers, even when doing so would have benefits for them.¹³⁵ The Productivity Commission found this was because of: the perceived high switching costs; consumers ceasing to shop around once they have chosen a product; and consumers having a preference for the status quo.

Many factors drive consumer behaviour. It is possible that consumers may be actively choosing to remain with their big four bank because, for example, the bank's services adequately meet their preferences. However, it is also possible that some consumers are not engaged in seeking better offers and are passively remaining with their current supplier because, for example, they may not be sufficiently aware of alternative suppliers.

131 Reported prices are based on transactions undertaken via online channels only. Prices calculated by the ACCC as a simple average over the price data collection period and include, where applicable, the maximum correspondent banking fees levied on GBP150 IMTs sent during February 2019. Where correspondent banking fees apply, these are typically deducted by the correspondent bank from the sum transferred to the recipient. The correspondent banking fees used in this price comparison have been converted from AUD to GBP by the ACCC using individual suppliers' retail exchange rate information collected during February 2019. Based on information obtained from supplier websites, information provided by suppliers and data collected for the ACCC. Appendix B (section B.1) sets out the details of the data collected for the ACCC.

132 ACCC analysis of data provided by the big four banks and data collected for the ACCC. Appendix B (section B.1) sets out the details of the data collected for the ACCC.

133 Reported prices are based on purchases of USD200, USD700, GBP150 and GBP550. Reported prices represent in-store purchases at non-airport locations, with the exception of two suppliers (see chapter 1, figure 1.4). Prices calculated by the ACCC as a simple average over the price data collection period using data collected for the ACCC. The data collected was sourced from publicly available information. Appendix B (section B.1) sets out how this data was collected.

134 For the conversion of USD into AUD, we have used an exchange rate of 0.7964 as reported by the RBA as at 18 January 2018. Reserve Bank of Australia, *Exchange Rates—Daily—2018 to Current*, <https://www.rba.gov.au/statistics/tables/xls-hist/2018-current.xls>, viewed 3 July 2019.

135 Productivity Commission August 2018, *Competition in the Australian Financial System Final Report*, Canberra, <https://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system.pdf>, pp. 145 and 163.

Our review of the internal documents of inquiry suppliers has identified that both active and passive factors could help to explain why some big four bank customers do not switch to cheaper suppliers of inquiry services.

A willingness to pay for convenience, ease of use and security

Convenience, ease of use and security are service features that appear to be valued by consumers of FX services. For example, research conducted by one big four bank found that 71 per cent of its customers stated that convenience and ease of access (such as via a mobile application) were key factors in choosing a supplier of FX services. In a March 2018 internal memo, another big four bank states that:

... while bank pricing is typically higher than non-bank pricing, it can be argued that banks offer a more appealing value proposition to many consumers. Our research suggests that when sending large sums of money overseas, customers value the choice, convenience and security (trust) offered by banks.

Trust is an important aspect of many financial transactions and relationships; FX services are no exception. As discussed in section 3.5 below, there is a perception among some consumers that banks are more trustworthy than other non-bank suppliers. An internal presentation of one big four bank refers to research showing that consumers consider that banks remain the most trusted companies to deal with their money.

To the extent there are service features valued by consumers that are not widely available from suppliers, there will be some consumers who are willing to pay a price premium for services with those features.

Low levels of engagement with financial products

Research conducted by one inquiry supplier found low levels of consumer engagement with financial products and almost no active research into alternatives. The research also found that despite the changing technology and service landscapes, relationships to financial services remain relatively unchanged. The supplier found that people prefer to only have a few bank accounts, mostly with the same organisation, as adding additional accounts over-complicates their financial lives.

Market research from April 2018 obtained by at least one big four bank indicates a lack of consumer engagement with travel card purchasing decisions. The research suggests that consumers may stick with their current supplier for travel cards because they are not aware of fee structures with their existing service and therefore are not aware that cheaper alternatives exist.¹³⁶

The willingness of consumers to stick with a big four bank for FX services may be in part driven by a view that FX services are a feature of general banking services, not a standalone product. Hence consumer preferences to stay with the one organisation for their bank accounts extends to their purchases of FX services.

¹³⁶ The research was based on a consumer survey conducted by a consulting firm in April 2018. The survey involved 613 individuals who had travelled overseas in the previous 12 months and used a travel card.

Perceptions of the time, effort and expense required to switch suppliers

The final factor that may be influencing consumer preferences to remain with their existing big four bank supplier is the perceived effort involved in searching out a better offer and the time, effort and expense involved in switching to a new supplier. Prices that are difficult to compare across suppliers contribute to the effort consumers must make to seek out a better offer and are the focus of section 3.2.

New customer sign-up processes take time and effort and can deter consumers from switching suppliers. For example, all inquiry IMT suppliers have a sign-up process consumers need to complete before they can use that supplier's online IMT services (see chapter 1, section 1.1). We observe that these processes are simpler and seemingly less time consuming at some suppliers compared with others (see chapter 2, box 2.1).

While some consumers participating in research undertaken by one inquiry supplier suspected they could obtain better offers by switching suppliers, they did not think the savings would be big enough to warrant the effort. The supplier's research found that even consumers that consider themselves to be price sensitive will only act on switching suppliers when the potential gains are large; for example, when they undertake relatively large and frequent IMT transactions. Only those research participants who used IMT services at least monthly had actively considered alternative suppliers to banks, as they assumed cumulative savings would make the cost of switching (such as research or effort) worthwhile.

It appears that for some consumers the choice of whether to switch suppliers is one of assessing how they might otherwise spend their time. Research conducted by one inquiry supplier found that many consumers assume establishing and becoming familiar with a new system, service or interface is going to be too difficult to justify the time.

Reducing the time and effort involved in finding cheaper suppliers

Consumers need to be able to readily and easily compare prices and service features if they are to make informed choices on FX services. Best Practice Guidance 3.1 (see below) identifies steps that suppliers should take to enable consumers to better understand the prices of inquiry services. These measures are also likely to reduce the search costs for consumers in sourcing and comparing different offers.

3.2 Prices are difficult to compare

The ease with which consumers can compare the prices of different suppliers is an important contributor to effective price competition. When consumers are able to easily compare prices and are willing to act on that knowledge, suppliers are incentivised to offer lower prices to attract new customers and retain existing ones. Additionally, increased transparency over price information can assist new entrants or fringe competitors to enter the market and compete.

The inquiry's Issues Paper sought views from stakeholders on whether consumers are able to effectively compare prices for the inquiry services. Submissions received from consumers and small businesses, as well as responses to the ACCC consumer and small business questionnaire, highlighted the challenges that consumers can face when comparing prices between suppliers.

The issues that consumers identified relate to:

- how prices are displayed and presented by different suppliers: consumers appear to find it difficult to compare prices (including the retail exchange rates and fees) across different suppliers as information is not presented in a consistent or equally prominent way. For example, information about some fees is disclosed only in terms and conditions
- complexity of offerings: some consumers do not appear to understand the difference between a retail exchange rate and a wholesale exchange rate, and the dynamic nature of exchange rates
- inadequate disclosure: consumers indicated that some suppliers did not transparently disclose fees on FX transactions. Consumers also expressed concern that they did not know what the total price for a transaction would be up-front.

In relation to how prices are presented to consumers, one consumer submitted that:

*Currency conversion always feels like a gamble - you never know how much the end total will be! There are always extra fees and charges or "discounts" for exchanging larger values. It's really hard to compare different services and options as they only show the nominal exchange rate and not the total with other fees & charges that can have a marked difference in how much you end up getting for your cash!*¹³⁷

The comments of one small business show how confusing the difference between a retail exchange rate and a wholesale exchange rate can be for small business and consumers:

*During my research on currency conversions for a contract bid, the [...] bank stated 'the daily rate' applied plus a fixed fee of \$15. This is misleading advertising. What was not clearly stated was that the 'rate' to be applied by the bank was the banks own internal 'retail rate'. 'Daily rate' implies the Forex rate... This meant that for a single transaction of approximately \$11,000 (\$11,295.60) the 'fees' amounted to very nearly five hundred dollars. (\$498.49) This represents this bank taking five percent out of my micro businesses income in addition to the fixed fee.*¹³⁸

Another consumer summed up their experience with using inquiry services as:

*Opaque, lack of disclosure, no comparison available, too complicated and not easy/efficient to use competitors offering cheaper rates.*¹³⁹

Some suppliers also stated that consumers find it difficult to compare prices in the market. TransferWise argued in its submission that consumers find it hard to compare alternatives as some suppliers 'hide' costs in the retail margin, with the advertised fee a small portion of the total price to the consumer.¹⁴⁰

A submission from Finder.com.au, a commercial comparison website, highlighted the results from its January 2018 survey of over 2000 Australians. In relation to IMT services, its survey found significant confusion among consumers about where the best retail exchange rates could be found, with 43 per cent of respondents saying that they 'did not know' where to find the best exchange rates.¹⁴¹

Some of the big four banks are aware of consumer confusion about prices for FX services

The ACCC found evidence that at least three of the big four banks were aware of consumer confusion or difficulty understanding the prices of the different inquiry services:

- A credit card satisfaction study undertaken by a big four bank indicated that 51 per cent of its customers did not understand international transaction fees (also known as foreign currency transaction fees).
- Another big four bank recognised that in relation to IMTs and travel cards:

Customers currently do not receive a complete picture (in one location) of all potential fees and costs they may face (regardless of whether or not [the bank] imposes or has control over those charges).

¹³⁷ Consumer response 467999741 to Consumer and small business questionnaire, <https://www.accc.gov.au/system/files/Consumer%20and%20small%20business%20questionnaire%20results.XLSX>.

¹³⁸ Small Business 1, *Submission to the Issues Paper*, <https://www.accc.gov.au/system/files/Small%20business%201.pdf>, p. 1.

¹³⁹ Consumer response 690942420 to Consumer and small business questionnaire, <https://www.accc.gov.au/system/files/Consumer%20and%20small%20business%20questionnaire%20results.XLSX>.

¹⁴⁰ TransferWise, *Submission in response to the Issues Paper*, <https://www.accc.gov.au/system/files/TransferWise.pdf>, pp. 1 and 8.

¹⁴¹ Finder.com.au, *Submission in response to the Issues Paper*, <https://www.accc.gov.au/system/files/Finder.pdf>, p. 2.

- A third big four bank found when making pricing comparisons between itself and its competitors in relation to IMTs that:

Comparing the exchange rates and fees charged by competitors is challenging because there are many variables to consider such as the exchange rate, upfront fee, beneficiary bank fee, destination, origination channel and type of service offered.

That third bank separately concluded as part of its 2017 review into its FX fees and pricing that it provided clear and accurate disclosure to its customers.

In our view, disclosure alone does not overcome the challenge that consumers face in seeking to compare prices. We consider that confusion about prices causes some consumers to make decisions based on simple indicators, such as fees, or to disengage from finding a cheaper supplier. We see value in suppliers presenting prices in a way that makes it easy for consumers to compare; Best Practice Guidance 3.1 (section 3.3 further below) sets out our views on how suppliers might best do this.

The problem with focusing on fees

Some submissions raised concerns that consumers are likely to be attracted by ‘no commission’ or ‘fee free’ advertising, without understanding the importance of the retail exchange rate that is used.¹⁴² The NSW Small Business Commissioner (NSWSBC) highlighted the adverse impact of undisclosed and ‘hidden fees’, noting:

Unsophisticated operators are unlikely to appreciate that a ‘no fee’ service has simply built all fees into the exchange rate charged above the wholesale rate, and will not necessarily offer better value than a provider with a more transparent fee structure.¹⁴³

Similarly a consumer submitted that:

Customers are likely to be attracted by offers that are “commission free” but don’t realise how important the exchange rate used is: or that that is likely to be much more disadvantageous to them than the “removed” commission or fee. It’s hard to know whether this is entirely because of a lack of numeracy, or to what extent behavioural economics play a part. It is probably both. This lack of consumer understanding is aggravated by sophisticated and often misleading selling techniques, even by well-known institutions, both here and abroad.¹⁴⁴

We consider that a focus on fees, at the expense of assessing the competitiveness of the retail exchange rate offered, can adversely affect consumers. Services advertised as ‘no fee’ or ‘fee free’ can give the illusion that the price is lower than it really is. As a result, a consumer may give up on searching for better options or choose a less than optimal supplier when making purchase decisions based on fees alone.

As part of our price data collection, the ACCC found that consumers stood to make the most savings from searching out the most competitive total price compared with making decisions based on fees alone. For example, for a USD7000 IMT:

- the difference between the highest and lowest total price was up to AUD549
- the two suppliers in our sample (TransferWise and InstaReM) with the highest up-front fees had the cheapest total price, while the IMT supplier with no up-front fee (ANZ) was up to AUD328 more expensive than the cheapest supplier (see table 3.1).

¹⁴² See, for example, Consumer 5, *Submission in response to the Issues Paper*, <https://www.accc.gov.au/system/files/Consumer%205.pdf>, p. 1.

Consumer 37, *Submission in response to the Issues Paper*, <https://www.accc.gov.au/system/files/Consumer%2037.pdf>, p. 1.

¹⁴³ NSW Small Business Commissioner, *Submission in response to the Issues Paper*, https://www.accc.gov.au/system/files/NSW%20Small%20Business%20Commissioner_2.pdf, pp. 2–3.

¹⁴⁴ Consumer 37, *Submission in response to the Issues Paper*, <https://www.accc.gov.au/system/files/Consumer%2037.pdf>, p. 1.

Table 3.1 Price* to send a USD7000 IMT through selected suppliers[^]
 Average over 5 business days: 6-12 February 2019

	Conversion (AUD)	Up-front fee (AUD)	Correspondent banking fee (AUD)	Price (AUD)
TransferWise	\$9 847	\$50	\$0	\$9 897
InstaReM	\$9 850	\$49	\$0	\$9 899
OFX	\$9 999	\$5	\$0	\$10 004
ANZ	\$10 189	\$0	Up to \$36 ^b	Up to \$10 225 ^c
NAB	\$10 288	\$10 ^a	\$0	\$10 298
CBA	\$10 417	\$12	Up to \$9 ^b	Up to \$10 438 ^c
Westpac	\$10 399	\$10	Up to \$37 ^b	Up to \$10 446 ^c

* Reported prices are based on transactions made via online channels only. Prices calculated by the ACCC as a simple average over the price data collection period.

[^] Western Union was part of our sample for the price monitoring data but does not feature in this chart as it does not allow customers to send IMTs with a value exceeding AUD5000 via its online channel.

^a NAB absorbs correspondent banking fees for IMTs initiated by individual consumers, however in some instances beyond NAB's control, overseas banks may deduct fees from the amount sent.

^b Where correspondent banking fees apply, these are typically deducted by the correspondent bank from the sum transferred to the recipient. Correspondent banking fees may differ for other currency corridors and transaction values. The correspondent banking fees used in this price comparison have been converted from USD into AUD by the ACCC using individual suppliers' price information collected during February 2019.

^c The price charged by this supplier incorporates the maximum correspondent banking fee levied on USD7000 IMTs sent during February 2019 through this supplier's correspondent banking network.

Source: Information obtained from supplier websites, information provided by suppliers and data collected for the ACCC. Appendix B (section B.1) sets out the details of the data collected for the ACCC.

Stakeholder suggestions on improving price presentation

Submissions to the inquiry suggested ways in which prices could be displayed to improve ease of comparison. This section explores two of these proposals:

- displaying the retail exchange rate relative to a reference rate
- providing a total up-front price.

Displaying a retail exchange rate relative to a reference rate

Some stakeholders drew the ACCC's attention to low levels of consumer awareness about how retail exchange rates are set. Some raised concerns that, because of the way retail exchange rates are sometimes displayed, some consumers are deterred from shopping around as they cannot tell whether they will be paying more for a service than they need to.

Other submissions suggested that enhanced disclosures about the retail margin should be included in price quotes and that this would assist consumers to make more informed decisions about the best-value service.¹⁴⁵ For example, TransferWise proposed that suppliers should fully disclose the retail margins relative to a reference rate, arguing that:

[t]he best way to improve consumer understanding, and therefore promote switching and subsequently effective competition, is for all participants to use the same, transparent method. This would be achieved by forcing all players to include the cost of exchange rate mark-ups (compared to a reference rate such as Reuters) when summarising their total fee.¹⁴⁶

One consumer suggested in their submission that price disclosures should instead provide consumers with the percentage rate above or below a reference rate. The percentage rate would include all mark-ups and fees. This consumer considered that this proposal would be easier for consumers to compare, be exchange rate neutral, and fluctuate less compared with exchange rates.¹⁴⁷

¹⁴⁵ NSW Small Business Commissioner, *Submission in response to the Issues Paper*, https://www.accc.gov.au/system/files/NSW%20Small%20Business%20Commissioner_2.pdf, p. 2.

¹⁴⁶ TransferWise, *Submission in response to the Issues Paper*, <https://www.accc.gov.au/system/files/TransferWise.pdf>, p. 8.

¹⁴⁷ Consumer 26, *Submission in response to the Issues Paper*, <https://www.accc.gov.au/system/files/Consumer%2026.pdf>, p. 9.

The ACCC's view

The ACCC considers that requiring suppliers to display a price relative to a reference rate (as a margin, percentage or otherwise) could cause further confusion for consumers. Consumers would still need to make their own calculations to determine what this difference means to them in terms of the total price of a transaction. For less sophisticated or financially literate consumers, there is also a risk of introducing additional complexity by providing information that they may not find useful when choosing between suppliers.

The ways in which suppliers currently explain the retail exchange rate to consumers varies. For example:

- all of the big four banks provide disclaimers on their websites that retail exchange rates are indicative and subject to change¹⁴⁸
- TransferWise advertises that it charges customers a 'mid-market' retail exchange rate¹⁴⁹ while generating revenue from the fees charged
- Western Union explains on its website that its retail exchange rate includes a retail margin by disclosing:

Western Union also makes money from currency exchange.¹⁵⁰

These explanations are not problematic in themselves as businesses are not usually expected to disclose the margins they make on their products or services.

Providing the total price a consumer will pay

Some stakeholders have argued that consumers using inquiry services are more likely to be interested in the amount of foreign currency they will receive or, in the case of IMT services, the amount that will reach the IMT recipient. These stakeholders do not consider that it is necessary for consumers to understand the components of the price as long as they can know the exact amount of foreign currency they are purchasing. For example, Finder.com.au commented:

[t]he ability to show customers the "amount received" by the recipient reduces the need for them to fully understand fees, margins and exchange rates.¹⁵¹

We note that, in the case of IMT services, it may not always be possible for suppliers to show the amount that will be received by the recipient. One reason for this is that the fees charged by the receiving bank may be outside the control of the supplier (see chapter 1, section 1.1).

Other stakeholders have argued that all of the components of the price should be disclosed. For example, Western Union submitted that, given the dynamic nature of prices and the complexity of some of these products and services, the focus should be on ensuring that all of the components of the price are disclosed to consumers in a way that allows the consumer to compare equivalent services.¹⁵²

148 Australian and New Zealand Banking Group Limited, *Currency exchange rates*, <https://www.anz.com.au/personal/travel-international/foreign-exchange-rates/>, viewed 3 July 2019 ("Current exchange rates are based on AUD \$1.00 and indicative only").

Commonwealth Bank of Australia, *Foreign Exchange Rates*, <https://www.commbank.com.au/personal/international/foreign-exchange-rates.html>, viewed 3 July 2019 ("The rates quoted above are indicative only and may not reflect the specific rate that will apply to you or your transaction. Rates are subject to change at the Bank's discretion. You should confirm the latest situation with the Bank prior to making a decision").

National Australia Bank Limited, *Foreign exchange rates*, <https://www.nab.com.au/personal/travel-and-overseas-banking/foreign-exchange-rates#/rate>, viewed 3 July 2019 ("Indicative rates as at [time and date]").

Westpac Banking Corporation, *Foreign exchange rates*, <https://www.westpac.com.au/business-banking/services/foreign-exchange-rates/>, viewed 3 July 2019 ("The exchange rates are indicative only as at the time and date shown, are subject to market movements and therefore change continuously. They may also vary depending on the type of the transaction involved, and may be different for transactions over a certain amount. They should not be relied upon as an accurate representation of any final pricing. You should contact Westpac for up-to-date pricing prior to dealing").

149 TransferWise 2019, *Homepage*, <https://transferwise.com/au>, viewed 21 March 2019.

150 Western Union 2019, *Send money from Australia*, www.westernunion.com/au/en/send-money.html, viewed 21 March 2019.

151 Finder.com.au, *Submission in response to the Issues Paper*, <https://www.accc.gov.au/system/files/Finder.pdf>, p. 2.

152 Western Union, *Submission in response to the Issues Paper*, <https://www.accc.gov.au/system/files/Western%20Union.pdf>, p. 7.

The ACCC's view

The ACCC considers that providing consumers with the total price¹⁵³ of FX services would be the best way to ensure that prices can be readily and easily compared. That is because when consumers understand exactly what they are paying for a service and exactly what they are getting for that price, they are well positioned to draw comparisons.

We also consider that disclosing prices in this way will assist in reducing the time and effort consumers expend in seeking to compare prices. That is because consumers would no longer need to understand the price structure of each supplier or how price components fit together to make a total price or make any calculations. As noted in section 3.1, reducing the time and effort involved with comparing suppliers' services will support consumer engagement with FX services pricing.

Best Practice Guidance 3.1 sets out the ACCC's views on the preferred approaches to price disclosure for the inquiry services. In forming these views, the ACCC has been informed by the international approaches to, and research into, addressing the issues caused by the opaque pricing of FX services; the international approaches and research are discussed immediately below.

International approaches to improving price transparency and comparability

Price transparency and the ability to easily compare the price of FX services are issues that are being considered by other jurisdictions, including the US, UK and the European Union (EU). These jurisdictions have considered various proposals to improve the disclosure of prices for various inquiry services.

In 2012, the US implemented a price disclosure model for IMT services which requires that there be a '*clear and conspicuous disclosure*' by the supplier of transfer fees and taxes, the exchange rates and the total to be received by the recipient.¹⁵⁴ However, US financial institutions were concerned that this model would be difficult to apply in the context of IMTs where fees are levied by third parties such as correspondent banks.¹⁵⁵ As a result, a temporary exception was enacted allowing certain suppliers to provide an estimate of third-party fees where it '*cannot determine the exact amounts for reasons beyond its control*'.¹⁵⁶ This exception will expire in 2020.¹⁵⁷

The UK has imposed specific regulations governing price indications given by in-person foreign cash suppliers. These regulations require that exchange rates be visible to customers entering stores and that the applicable fee and/or commission be displayed as prominently as the retail exchange rate.¹⁵⁸ In the EU, suppliers must disclose in advance all fees payable by the consumer to the supplier in addition to the retail exchange rate.¹⁵⁹

¹⁵³ The prices consumers pay for inquiry services are made up of fees (including correspondent banking fees in the case of IMTs) and the retail exchange rate which incorporates a retail margin (see chapter 1, section 1.3).

¹⁵⁴ 12 CFR Part 1005 (Regulation E) § 1005.31(b)(1).

¹⁵⁵ Bureau of Consumer Financial Protection, '12 CFR Part 1005', *Federal Register*, vol. 78, no. 99, 2013, pp. 30662-30665.

¹⁵⁶ 12 CFR Part 1005 (Regulation E) § 1005.32(a)(1). This estimate may be based on 'representations of the designated recipient's institution and the institutions that act as intermediaries in any one of the potential transmittal routes that it reasonably believes a requested remittance transfer may travel': 12 CFR Part 1005 (Regulation E) § 1005.32(c)(3) (official interpretation).

¹⁵⁷ 12 CFR Part 1005 (Regulation E) § 1005.32(a)(2). A 2018 review by the Consumer Financial Protection Bureau, responsible for administering the regulations under the Dodd-Frank Act, found that 'there are significant challenges in accurately determining what consumers do with these disclosures and that some of the available evidence is conflicting'. Bureau of Consumer Financial Protection April 2019, Remittance Rule Assessment Report, Washington D.C., https://www.consumerfinance.gov/documents/7561/bcfp_remittance-rule-assessment_report_corrected_2019-03.pdf, p. 6.

¹⁵⁸ Price Indications (Bureaux de Change) [No 2] Regulations 1992 (UK).

¹⁵⁹ Directive (EU) 2015/2366 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC [2015] OJ L 337/35, Article 44-45.

Overloading consumers with too much information can lower engagement and decision-making quality

Research commissioned by the UK Government in 2018 warned of the risk of over-complicating consumer choices through providing too much information. The study confirmed the difficulty faced by consumers when they are presented with a breakdown of all of the applicable fees (see box 3.1).

Box 3.1 Findings from the UK's Behavioural Insights Team report

In 2018 the Behavioural Insights Team (BIT) conducted a study for the UK Government which measured the impact of different disclosure formats on consumer behaviour in relation to IMTs. The study involved an online experiment. The experiment involved a simulation in which participants were asked to calculate a currency conversion from GBP to USD. Different price information disclosure formats were tested.

These price information formats ranged across:

- low transparency: showing the retail exchange rate, flat fee and commission
- medium transparency: with information disclosed about the wholesale exchange rate as well as explaining the difference between the wholesale exchange rate and retail exchange rate in terms of pounds for every GBP1000 exchanged
- high transparency: with full disclosure of total 'fee' information which breaks down each fee into an amount in pounds and sums the different fees up into a total figure.

The study found that only 42 per cent of participants were able to identify the best option when the low transparency format was used. In contrast, 69 per cent of participants identified the best option when the medium transparency format was used and the difference between the wholesale exchange rate and the rate offered (expressed in terms of pounds lost per GBP1000 exchanged) was disclosed. Study participants performed (slightly) poorer with the high transparency format.

The BIT hypothesised that results observed could be because providing consumers too much information could lead to '*choice overload*', where *an excess of information in (complex) choice situations can lower engagement and decision-making quality*'. This suggests that any proposed price disclosure regime would need to strike an appropriate balance between providing transparency and avoiding overloading consumers with unnecessary information.

Source: The Behavioural Insights Team March 2018, *The impact of improved transparency of foreign money transfers for consumers and SMEs: Final report*, https://www.bi.team/wp-content/uploads/2018/03/The-impact-of-improved-transparency-on-foreign-money-transfers-for-consumers-and-SMEs_WEB.pdf.

The role of comparison websites

Comparison websites can help consumers find suppliers and services that suit their preferences by displaying relevant information in a single location. A number of commercial and government-funded websites currently compare inquiry services (see table 3.2).

Most comparison websites provide information on the retail exchange rate, fees and the total amount of foreign currency a customer would receive for a given transaction, although the detail varies depending on the comparison site. The completeness of this information also varies as, for example, comparison websites do not provide information about contingent fees or other charges that are unknown to the supplier (such as correspondent bank and recipient bank fees).

Comparison websites may not compare all available offers, products and suppliers for a particular FX service. In addition, some website operators may have commercial relationships with the businesses featured or promoted on these websites, and may receive a commission when the consumer clicks on the link of the business via the website, or when a transaction is undertaken following a referral from the website. The fact that commissions are payable and commercial arrangements are in place should be disclosed on the comparison websites.

Table 3.2 Foreign currency conversion service comparison websites

Website	Information available
BestExchangeRates.com	<p>Providers are ranked in order of best value to worst. The site shows the retail exchange rate, any additional fees, delivery speed and distribution channel (for example, online, in branch, delivery).</p> <p>For IMTs, a customer rating, the amount of foreign currency received, retail exchange rate, fees, the total price of that provider, methods of transfer and transfer speed are compared.</p> <p>For travel cards, a customer rating, the amount of foreign currency received, retail exchange rate, fees and the total price of that provider are compared.</p> <p>For foreign cash, a customer rating, the amount of foreign currency received, exchange rate, fees, the total price of that provider, methods of transfer and transfer speed are compared.</p>
Currencyshop.com.au	<p>For IMTs, the retail exchange rate, fees, transfer time and the total sum the recipient would receive with the different providers are compared.</p> <p>For foreign cash, the site compares the retail exchange rate, fees, locations for pick-up and the total sum the customer would receive with different providers.</p>
FXcompare.com	<p>Lists IMT providers in order of best value to worst. The site shows the retail exchange rate, amount of foreign currency a customer would receive and the average transfer speed.</p>
Finder.com.au	<p>For IMTs, the site displays the transfer fee and exchange rate, and the net amount received by the recipient.</p> <p>For travel cards, fixed fees (ATM fee, reload fee, initial load fee) are displayed, with more fees including unsupported currency conversion fee if selected.</p> <p>For credit cards, the international transaction fee (as a percentage of transaction value), ATM withdrawal fee, cash advance fee and annual fees are displayed.</p> <p>Foreign cash only displays the commission fee.</p>
Sendmoneypacific.org	<p>Compares IMT services with a range of different transfer methods.</p> <p>Shows the type of operator (bank etc.), method of transfer, fees, total price (in AUD and as a percentage), the amount received, transfer speed and network coverage.</p> <p>Includes both live (online) rates and offline rates, which are updated periodically.</p> <p>This site is jointly funded by the Australian and New Zealand governments.</p>
Saversasia.com	<p>Compares IMT services with a range of different transfer methods, including bank transfer, debit transfer and cash.</p> <p>Shows the method and speed of transfer, amount the recipient will receive, the exchange rate and fees (if applicable).</p> <p>Includes both live (online) rates and offline rates, which are updated periodically.</p> <p>This site is jointly funded by the Australian and Canadian governments through the International Labour Organization's 'Triangle in ASEAN (Association of Southeast Asian Nations)' program.</p>

Source: Information obtained from websites as listed.

Global efforts to improve price transparency through use of comparison websites

Governments from around the world have sponsored the development of World Bank-accredited remittance price comparison websites¹⁶⁰ to increase transparency and drive competition in remittance services as part of global efforts to reduce remittance prices.¹⁶¹ These actions follow an agreement by the G8¹⁶² countries in 2004 to take steps to reduce remittance prices. This led to a joint report in 2007 by the World Bank and the G10 Committee on Payment and Settlement Systems on ways that countries could improve their remittance markets.¹⁶³

A key recommendation of that report was that increased transparency could help drive competition in remittance services. In 2009, the G8 countries endorsed the goal of reducing the cost of sending remittances to 5 per cent in five years (the '5x5 target'). The G20¹⁶⁴ leaders officially committed to the same 5x5 target in 2011. In 2016, the G20 set a target of reducing the cost of remittances to 3 per cent and eliminating remittance corridors with costs higher than 5 per cent by 2030 (Sustainable Development Goal 10 from the 2030 Agenda for Sustainable Development).

As part of this growing international commitment, the World Bank has been collecting data on remittances since 2010. The World Bank has also developed a list of minimum requirements for a national remittance price database to be granted World Bank certification, to introduce a measure of consistency in data gathering. The minimum requirements include providing data on the total amount of identified costs, a minimum of 60 per cent of market coverage per corridor, independence of the researchers, a no advertising or subscription policy, and a transparent and accountable funding process that preserves the impartiality of the database.¹⁶⁵

Action by the Australian Government to reduce remittance prices

The Australian Government has committed to reducing the price of sending remittances, particularly for migrants and seasonal workers in the Pacific region (see box 3.2).

160 Remittance services are a type of IMT which involves sending small amounts of money overseas. They are typically initiated by migrant workers: World Bank, *Remittance Prices Worldwide*, <https://remittanceprices.worldbank.org/en/about-remittance-prices-worldwide>, viewed 30 April 2019.

161 World Bank, *Remittance Prices Worldwide*, <https://remittanceprices.worldbank.org/en>, viewed 5 April 2019.

162 G8 countries or the Group of Eight include France, Germany, Italy, the UK, Japan, the US, Canada and Russia.

163 Committee on Payment and Settlement Systems and the World Bank January 2007, *General principles for international remittance services*, <https://www.bis.org/cpmi/publ/d76.pdf>.

164 The G20, or Group of Twenty, is an international economic forum comprising the governments and central banks of the world's 19 largest economies and the European Union.

165 World Bank, *Remittance Prices Worldwide*, <https://remittanceprices.worldbank.org/en/national-and-regional-databases-certified-by-the-world-bank>, viewed 5 April 2019.

World Bank, *Remittance Price Comparison Databases: minimum requirements and overall policy strategy*, <https://remittanceprices.worldbank.org/sites/default/files/StandardsNationalDatabases.pdf>.

Box 3.2 The impact of remittance prices on migrants and seasonal workers

Reducing remittance prices, particularly to the Pacific, is a Foreign Policy White Paper commitment and an important priority for Australia's interests. Remittances are an important source of income for many Pacific Island countries. They help cover basic needs and cushion the effects of shocks, such as economic downturns and natural disasters. Reducing average prices could have sizeable dividends for gross domestic product in those countries, particularly those that are highly dependent on remittances.

According to the World Bank's migration and remittances data, migrants residing in Australia remitted USD6.9 billion (AUD8.8 billion) overseas in 2017. Adding to this, Australia has expanded labour mobility opportunities to key Pacific Island nations through the Pacific Labour Scheme and the Seasonal Worker Programme. These initiatives, along with existing migrant contributions, will likely see higher remittance flows between Australia and Pacific Island countries. Lowering the price of remittances would maximise development impacts in the region.

The Australian Government is engaged in international forums, such as the G20 Global Partnership for Financial Inclusion, to address high remittance prices and de-banking in our region. While remittance transfer costs to the Pacific have fallen by around 38 per cent since the start of 2017, they remain above the global average of 6.94 per cent (Q1 2019).

Source: Information provided by the Department of Foreign Affairs and Trade and AUSTRAC.

World Bank November 2017, *Migration and Remittances Data*, <http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data>, viewed 5 April 2019.

Reserve Bank of Australia, *Exchange Rates—Daily—2014 to 2017*, <https://www.rba.gov.au/statistics/tables/xls-hist/2014-2017.xls>, viewed 3 July 2019.

Global Partnership for Financial Inclusion 2019, Homepage, <https://www.gpfi.org/>, viewed 5 April 2019.

World Bank, *Remittance Prices Worldwide*, <https://remittanceprices.worldbank.org/en>, viewed 13 June 2019.

The Australian Government contributes funding to two remittance price comparison websites, www.saverasia.com and www.sendmoneypacific.org, operated by Developing Markets Associates.¹⁶⁶ The sites enable consumers to obtain reliable and up-to-date information on IMT services available to a number of South-East Asian countries and Pacific Island countries. These websites provide information on different suppliers including the fees charged, the total price including any fees and currency conversion, the amount expected to be received in the local or payout currencies, speed of transfer and the method of transfer and network coverage (where money can be collected). SaverAsia also helps migrant workers find financial services and connect them with local support organisations.

These sites provide two sources of price comparison. The main price information is 'mystery shopped' prices, which members of the community provide on a regular basis (fortnightly or monthly), covering most of the market. The mystery shopping exercise is undertaken in accordance with World Bank guidelines. More recently, the operators of the sites have started publishing 'live prices'. These live prices are provided directly by suppliers via a data feed, with some suppliers providing price data in real time.

In most instances, a supplier's live prices are published on the website only where the supplier agrees to make the information available to the website operator. A number of online suppliers, such as TransferWise, WorldRemit, InstaReM and OFX, make live rates available to the operator of these websites. However, none of the big four banks or Western Union currently provides access to a live data feed of the relevant prices.

The ACCC considers that the effectiveness of these websites for consumers could be improved by ensuring that the live rate comparison table reflects most of the suppliers and certainly the major suppliers of IMT services in Australia. The ACCC has consulted with a variety of stakeholders on the value of the big four banks and Western Union providing live rate data. NAB has indicated that it is willing to provide live data to these websites. ANZ, Westpac, CBA and Western Union have expressed interest in discussing the logistics directly with the websites' operator. The ACCC has provided contact details to assist them to do so.

¹⁶⁶ Funding is currently in place until June 2020 for www.sendmoneypacific.org and www.saverasia.com.

Suppliers can improve their presentation of prices

The ACCC considers that suppliers should take steps to ensure that consumers can easily understand and compare prices for inquiry services. In particular we see merit in measures that:

- calculate for consumers the total price of an IMT or foreign cash transaction
- allow simple comparisons to be made across suppliers.

Such measures form the basis of Best Practice Guidance 3.1 (section 3.3). That guidance applies to the inquiry services generally, although in some cases we have highlighted specific services where consumers are likely to receive greater benefit from the guidance being provided. For example, we do not consider that travel card services or payment card FX services lend themselves to price comparison tools in the same way as IMT services or foreign cash services. This is because travel cards and payment cards have fees that are either contingent on how the card is used or that are unrelated to FX services (for example, an annual fee on credit cards). This means that meaningful comparisons cannot be drawn for these cards on a transaction-by-transaction basis in the same way they can be drawn for foreign cash services and IMT services.

3.3 Uncertain correspondent banking fees for IMTs

Fees for IMTs transacted through correspondent banking networks can be uncertain. This is a concern for many consumers. Some suppliers have taken steps to address their customers' concerns, but others have not.

It is the ACCC's view that suppliers should disclose the total price of the IMT to the extent possible, including all fees payable by the customer up-front. Uncertain fees are harming consumers because they:

- make it impossible for consumers to determine which IMT supplier offers the best value
- make it difficult to ensure that a beneficiary receives the amount of money intended by the sender; this has particular implications for IMTs made in payment for the purchase of goods or services.

The effects of uncertain fees can be particularly pronounced where the amount of money being sent overseas is relatively small. There can also be a large cumulative effect on those consumers who send IMTs frequently.

Why are correspondent banking fees uncertain for consumers?

Suppliers typically disclose the up-front fees they charge for IMT services on their websites. However, the possibility of consumers incurring correspondent banking fees is often disclosed only in the fine print and not quantified. For example:

ANZ: Please be advised that overseas banks may charge fees for processing this transfer which may be deducted from the amount you are sending.¹⁶⁷

CBA: Overseas bank charges (which may vary from country to country) could apply in addition to the charges listed above.¹⁶⁸

Westpac: Overseas banks may impose fees and charges or convert the currency of the payment. Westpac might not have any control over the fees, charges or foreign currency conversions imposed by these institutions. Any overseas financial institution handling charges will by default be borne by the recipient of the International Payment and deducted from the payment amount, unless otherwise organised.¹⁶⁹

¹⁶⁷ Australia and New Zealand Banking Group Limited 2015, *International Money Transfer*, www.anz.com/internet-banking/help/pay-transfer/international-services/transfer-overseas/#tab_tab03, viewed 19 March 2019.

¹⁶⁸ Commonwealth Bank of Australia 2019, *Fees and charges for International Money Transfers (IMTs)*, www.commbank.com.au/personal/international/transfer-money/fees-and-charges.html, viewed 19 March 2019.

¹⁶⁹ Westpac Banking Corporation, *Send money overseas*, www.westpac.com.au/international-travel/international-transfers/send-money/, viewed 19 March 2019.

The correspondent banking fees applying to an IMT will vary depending on the number of correspondent banks needed to complete the transaction and the fees charged by each of these banks (see chapter 1, figure 1.2 for further details about correspondent banking arrangements). Correspondent banking fees can vary because of factors including the size of the transaction, the retail exchange rate and the supplier's relationship with the correspondent bank.¹⁷⁰ The amount of the fee can also vary because of the IMT destination and path of delivery.

In some cases, the correspondent banking fees become known to the supplier only once the transaction is completed. NAB explained the situation as follows:

IMTs involve a transfer being settled via a network of corresponding banks. At the outset, the originating bank will not necessarily have visibility over the identity and number of correspondent banks that will be involved in settlement of the transaction...The originating bank (NAB) will not always have visibility over the charges to be levied by subsequent recipient banks.¹⁷¹

Some of the big four banks have noted that they are able to provide transparency of correspondent bank fees when they have direct relationships with the other banks in the correspondent banking chain. We note that each of the big four banks have, or previously had, rebate arrangements with some of their correspondent banks (see box 3.3). In our view, the fact that banks have been able to negotiate rebates for correspondent banking fees for some currencies and destinations demonstrates that these banks should be able to ascertain what correspondent banking fees might apply to at least some IMTs.

Box 3.3 Correspondent bank rebate arrangements

Where an originating bank has a rebate arrangement in place with a correspondent bank, the originating bank receives a proportion of the fees a correspondent bank charges for processing the IMT. The amount of the correspondent banking fee and the proportion of the fee that is returned to the originating bank under a rebate arrangement varies between correspondent banks.

As noted in chapter 1, a correspondent bank can sometimes deduct fees from the amount transferred, even if the supplier specifically instructs them not to do so.¹⁷² This is one reason why suppliers may not offer transparency of correspondent banking fees for IMTs sent via particular corridors.

Different suppliers have different approaches to how correspondent banking fees are incorporated into the prices paid by consumers. For example:

- some suppliers disclose the total price of an IMT up-front and absorb any correspondent banking fees. One way suppliers can give effect to such an arrangement is by instructing their correspondent bank(s) not to deduct any fees from the amount transferred and instead to claim these fees back from the supplier; the supplier then absorbs these fees¹⁷³
- other suppliers charge an up-front fee and leave any correspondent bank fees for the relevant correspondent banks to deduct from the sum being transferred. In these cases, the consumer may be unaware of the total price of the IMT, including correspondent banking fees.

The impact of uncertain fees on consumers

When a correspondent bank deducts fees from the sum transferred, the recipient of the IMT may receive less money than the sender intended, especially where these fees were unknown or uncertain to the sender at the time the IMT was sent. Correspondent banking fees can vary from currency to currency, which is why consumers can be uncertain about the total price for IMTs. To give an idea of

¹⁷⁰ National Australia Bank Limited October 2018, *Submission in response to the Issues Paper*, <https://www.accc.gov.au/system/files/NAB.pdf>, p. 8.

¹⁷¹ National Australia Bank Limited October 2018, *Submission in response to the Issues Paper* <https://www.accc.gov.au/system/files/NAB.pdf>, p. 8.

¹⁷² National Australia Bank Limited November 2018, *A Guide to Fees & Charges—Personal Banking Fees*, <https://www.nab.com.au/content/dam/nabrnd/documents/guides/banking/personal-banking-fees-and-charges-guide.pdf>, p. 22 (“In most cases, NAB will pay overseas bank charges on your behalf. However, in some instances beyond NAB’s control, overseas banks will directly deduct these overseas bank charges from the money you send instead”).

¹⁷³ See for example, National Australia Bank Limited October 2018, *Submission in response to the Issues Paper*, <https://www.accc.gov.au/system/files/NAB.pdf>, p. 8.

the scale of these fees, the ACCC has been informed by the big four banks that for an IMT sent to the US in USD, correspondent banks may deduct fees of between USD5 to USD25 (AUD7 to AUD35¹⁷⁴) per transaction. The fees can be higher or lower for other currencies.

The impact of these fees can be significant, particularly when small amounts are transferred, as highlighted in the examples in box 3.4.

Box 3.4 Consumer experiences with correspondent banking fees

Consumer Submission

...trying [sic] to send \$100 as a gift to a family member in Romania. Once all fees were taken out the recipient received in total approximately \$8 Australian dollars. Challenge [sic] the bank and they said that's what it cost them to send the money.

Response to ACCC consumer questionnaire

I needed to send a specific amount in NZD for rugby tickets. I told the local bank staff member of this. I was given the exchange rate and the bank fee for the transaction and was given the total charge in A\$ to meet my NZD transfer amount. A day later I was contacted by my NZ counterpart to say that my payment was NZD30.00 short. I went back to the branch to ask what had happened but neither the bank teller I had dealt with nor her supervisor could tell me. I eventually received a telephone call from an fx manager to say the shortfall was due to a fee taken by their "correspondent bank". To add insult I was told that if I made another transfer to make up the difference I would have to again pay the correspondent bank fee—although they did say they would waive the local fee.

Source: Consumer Submission 3 to Issues Paper and consumer response to questionnaire, <https://www.accc.gov.au/system/files/Consumer%203.pdf>.

Consumer response 50662961 to Consumer and small business questionnaire, <https://www.accc.gov.au/system/files/Consumer%20and%20small%20business%20questionnaire%20results.XLSX>.

The big four banks are aware that correspondent banking fee transparency has been a concern for many customers. In addition to concerns that the level of these fees is uncertain, and, as a result, less money may arrive at the receiving bank than the customer intended, one bank stated that it received complaints that correspondent banking fees were too high. Another bank noted in 2016 that:

[t]he customer experience is not great. A customer sending a payment may be charged a number of fees by the various [financial institutions] that these payments pass through... [w]ith the introduction of digital disruptors (e.g. TransferWise) and greater regulatory and compliance focus placed on global payments, there is pressure on banks to reduce costs and increase transparency of fees.

We note that each of the big four banks internally referred to various principles such as 'fairness', 'fair pricing' or 'fair value' as part of their pricing and fee strategies for different inquiry services. We consider that fairness requires suppliers to take all reasonable steps to ensure that correspondent banking fees are transparent and the total price of the IMT is made known to consumers.

Some of the big four banks offer options that do provide total price transparency. For example, since November 2012, CBA has allowed customers to make an up-front payment, in addition to the up-front fee for the IMT, to cover correspondent banking fees for certain destinations in specific currencies where the IMT is ordered in branch.¹⁷⁵ The fee varies by destination country and currently ranges from AUD17 (for an IMT to the UK with a conversion to GBP) to AUD41 (for an IMT to the UK with

¹⁷⁴ For the conversion of USD into AUD, we have used an exchange rate of 0.7072 as reported by the RBA as at 12 February 2019, the conclusion of the price data collection period. Reserve Bank of Australia, *Exchange Rates—Daily—2018 to Current*, <https://www.rba.gov.au/statistics/tables/xls-hist/2018-current.xls>, viewed 3 July 2019.

¹⁷⁵ Commonwealth Bank of Australia, *Fees and charges for International Money Transfers (IMTs)*, <https://www.commbank.com.au/personal/international/transfer-money/fees-and-charges.html>, viewed 24 May 2019. In addition to IMTs initiated in branch, this arrangement is also available for institutional, corporate and business customers through CommBiz.

a conversion to Euros).¹⁷⁶ More recently, in November 2017, NAB began absorbing correspondent banking fees for IMTs sent by individual consumers, so these fees are not deducted from the amount transferred. NAB charges an AUD10 up-front fee for payments sent via online channels. Up-front fees are higher for IMTs ordered in branch.¹⁷⁷

Some of the big four banks are considering further improvements to price transparency for IMT services. The ACCC welcomes these moves, which we consider will assist consumers to compare prices and should promote competition among IMT suppliers. However, overall we expect that such moves would not result in higher prices.

Improvements to tracking of IMTs

The big four banks have advised the ACCC that as at June 2019, they have either implemented or are in the process of implementing SWIFT gpi (see box 3.5). The new SWIFT gpi messaging system will improve the flow of information through financial institutions in the correspondent banking network. However, it will not give suppliers certainty on correspondent banking fees in advance of an IMT taking place.

Box 3.5 Developments in the SWIFT network

The Society for Worldwide Interbank Financial Telecommunication (SWIFT) messaging service is the primary communications channel for financial institutions engaged in correspondent banking around the world. SWIFT's messaging framework uses a standardised system of codes to allow correspondent banks to exchange payment information and instructions. It connects more than 11 000 banking and securities organisations, market infrastructures and corporate customers in more than 200 countries and territories.

Until recently, IMT payment messages sent through SWIFT's system were difficult for suppliers to track. One big four bank noted that to investigate a payment's progress, it would send a message to the correspondent bank through SWIFT, which then investigates and responds to the message.

In January 2017, SWIFT launched SWIFT global payments innovation (SWIFT gpi), which aims to improve customer experience in cross-border payments by increasing their speed, transparency and traceability. SWIFT gpi has been adopted by more than 3500 banks around the world and more than USD300 billion in SWIFT gpi messages are being sent every day, enabling payments to be credited to end beneficiaries within minutes or seconds. SWIFT gpi banks, today, are able to track all their payments on SWIFT end-to-end with credit confirmation provided if the beneficiary banks are also using SWIFT gpi. By 2020, all SWIFT banks will be required to provide confirmation in their payments with the amount credited.

SWIFT has advised the ACCC that transparency on the fees (such as the fee levied by correspondent banks) is available in the SWIFT gpi 'Tracker' only after the payment has been processed. SWIFT is currently piloting a project that would enable charges to be predicted; however this is still in the development stage.

Source: SWIFT, *Discover SWIFT*, <https://www.swift.com/about-us/discover-swift/messaging-standards>, viewed 3 July 2019. SWIFT, *The digital transformation of cross-border payments*, <https://www.swift.com/our-solutions/global-financial-messaging/payments-cash-management/swift-gpi/about-swift-gpi>, viewed 3 July 2019.

SWIFT correspondence to the ACCC dated 11 March 2019.

Suppliers should provide the total price of IMTs

In the ACCC's view, the inadequate disclosure of prices, including correspondent banking fees, could contravene the Australian Consumer Law. The ACCC expects suppliers to clearly and prominently disclose to consumers if correspondent banking fees may be deducted from the sums transferred. Should an IMT supplier be unable to inform consumers of the total price up-front, reasonable estimates

¹⁷⁶ Commonwealth Bank of Australia, *Standard fees and charges for international payments and travel funds*, <https://www.commbank.com.au/content/dam/commbank/personal/apply-online/download-printed-forms/ADB1784.pdf>.

¹⁷⁷ National Australia Bank Limited October 2018, *Submission in response to the Issues Paper*, <https://www.accc.gov.au/system/files/NAB.pdf>, p. 8.

of all additional fees should be prominently disclosed along with a warning that there may be additional fees.

Consumers should contact the ACCC if an unexpectedly high fee is deducted from an IMT.

We consider that the take-up of our Best Practice Guidance 3.1 (below) will support competition in the supply of IMT services by facilitating consumer comparisons of suppliers' prices on a like-for-like basis. In doing so it will make it easier for consumers to shop around and, in turn, will lead to greater pressure on suppliers to ensure their prices are transparent and competitive.

The ACCC accepts that informing consumers of the total price up-front may require changes to how some suppliers treat correspondent banking fees and that these fees may not be fully known prior to an IMT taking place. However, the ACCC notes that:

- there is information available to suppliers, such as past transaction data, that should allow them to predict or reasonably estimate correspondent banking fees in advance for their customers. Other sources of such information include that gathered for the negotiation of rebate arrangements with correspondent banks. The availability of this information to suppliers is one of the reasons the ACCC considers that they are better placed than consumers to manage the risk and uncertainty associated with correspondent banking fees
- as discussed above and in chapter 1 (section 1.3), numerous suppliers offer IMT services where correspondent banking fees will not be deducted from the sums transferred. In addition, some suppliers are planning to move to informing customers of the total price of an IMT up-front, indicating that this approach is commercially viable
- the ACCC accepts that it is more difficult for suppliers to estimate correspondent banking fees for less commonly used combinations of currencies and IMT destinations. On the other hand, these destinations and currency combinations would account for a smaller proportion of the suppliers' revenue, reducing the impact of a supplier miscalculation.

Best Practice Guidance 3.1 Price presentation

Up-front disclosure of IMT prices, including correspondent banking fees

The ACCC calls on suppliers to take the necessary steps to inform their customers up-front of the total price of an IMT, including correspondent banking fees. A supplier may contravene the Australian Consumer Law where there is an inadequate disclosure of fees.

Digital tools to compare the total price

IMTs

Most consumers make IMTs using online channels. Suppliers should ensure that digital tools are available to calculate the total price of those IMTs. To the extent that consumers make IMTs through other channels, suppliers should use their digital tools to inform consumers of the total price. Presenting information in this way will allow consumers to more easily compare offers from different suppliers.

Suppliers should ensure that their IMT price tools are:

- easy to use
- designed to calculate the total amount that will be delivered to the recipient
- inclusive of the currency conversion and all fees that will affect the total price
- customisable to the consumers' intended IMT value and destination.

In situations where the supplier's service may involve fees or charges that are unknown to the supplier prior to the transaction taking place, suppliers should use information they hold, such as transaction data, to estimate unknown fees and provide that estimate to consumers.

Many suppliers already make such tools available to consumers. Suppliers should:

- continue to refine these tools to ensure they are user-friendly and reflect the total price of the transaction
- make these tools available to prospective or new customers to allow comparisons between suppliers; this would require some suppliers to allow consumers who are not existing account holders to access their tools.

To the extent that suppliers wish to offer a preferential price to certain consumers, a statement to that effect that should be included at the same location as the price tool.

Foreign cash

Consumer purchasers of foreign cash services are also likely to benefit from a tool to enable them to calculate and compare the total price of purchasing a specified amount of foreign currency. Suppliers who offer their foreign cash services online should also make an online calculator available. It should calculate the total price, inclusive of the currency conversion and all fees.

Total price comparisons in-store

Many foreign cash transactions take place in-store. While some consumers may compare offers online prior to making their purchase, many will not. Suppliers should ensure that they provide price information that will enable consumers to understand the total price of foreign cash transactions.

One way to achieve this would be to make digital tools to compare the total price available in-store. Another way is to publish, alongside any ‘consumer buy rates’, the total price to purchase the equivalent of AUD500 of the given currency. We consider AUD500 as a useful point of reference as it approximates the average transaction size across the inquiry suppliers.

Some foreign cash suppliers charge fees in addition to the retail exchange rate. Others provide discounts for larger transactions. To the extent that the proportion of fees changes from AUD100 to AUD500, suppliers should publish the total price to purchase both amounts. This will allow consumers to more easily understand the impact of fees.

3.4 Unexpected fees when shopping online

What is the international transaction fee?

Where a payment card transaction is international in nature, the international card schemes (for example, Visa and Mastercard) charge the card issuer a fee to process the transaction.¹⁷⁸ Most card issuers, including the big four banks, then charge their customers an international transaction fee (sometimes referred to as a foreign transaction fee or foreign currency conversion fee). As noted in chapter 1 (section 1.3), there are some payment cards with no international transaction fees.

The big four banks have each advised the ACCC that the international transaction fee was not charged purely or solely to recover the applicable international card scheme fees. The international transaction fees were above the level necessary to recover the costs of the scheme fees.

The big four banks, Visa and Mastercard are aware that customers can incur unexpected international transaction fees when shopping online using payment cards. All of the big four banks reported receiving complaints from consumers who have raised concerns with respect to the unexpected application of international transaction fees.

Some banks' terms and conditions note that consumers may be charged international transaction fees in circumstances where it is unclear to the consumer that the transaction is international in nature. For example, ANZ's terms and conditions state that:

It may not always be clear to you when use of your ANZ account is an International Transaction, for example where the merchant or financial institution processing a charge or credit is located outside of Australia.¹⁷⁹

The ACCC accepts that it will likewise be unclear to the card issuer. Nonetheless, both the card issuer and the merchant's bank will be aware of the circumstances in which a consumer will be entitled to a refund.

A number of consumer submissions to the Issues Paper, and responses to the ACCC consumer and small business questionnaire, raised concerns about unexpectedly incurring an international transaction fee when shopping online using payment cards. The same issue has also been raised in contacts to the ACCC's Infocentre. The examples in box 3.6 describe what appears to be a shared experience for many consumers when shopping online.

¹⁷⁸ National Australia Bank Limited June 2019, *NAB Credit Cards*, <https://www.nab.com.au/content/dam/nabrwd/documents/terms-and-conditions/banking/nab-credit-cards-tcs.pdf>, p. 23.
National Australia Bank Limited October 2018, *Submission in response to Issues Paper*, <https://www.accc.gov.au/system/files/NAB.pdf>, p. 7.

¹⁷⁹ Australia and New Zealand Banking Group Limited December 2018, *ANZ personal banking: Account fees and charges*, <https://www.anz.com.au/content/dam/anzcomau/documents/pdf/personal-account-fees-charges.pdf>, p. 7.

Box 3.6 Examples of unexpected fees when using payment cards online

Example 1

I purchased air tickets with [an airline] for [an amount] on the 30/4/2017—it was invoiced in AUD and paid for in AUD. The [bank] charged me \$38.43 in foreign currency conversion fees which I fail to see how they can justify, given it was billed and paid for in AUD.

Example 2

We recently paid [redacted] (a cruise company). Before paying [the fee] in AUD by credit card we asked whether there were any fees payable; we were advised there were not.

On receiving our bank statements [from bank 1 and bank 2] there was a 3% charge levied.

[The cruise company] offered to repay us. We declined and received a refund from the banks after I/we pointed asked ‘Does that mean every time I deal with a vendor in AUD should I ask where the recipient bank is located?’

Example 3

On 25 July 2018, I purchased a place on a professional education course:

- *The course was to be delivered in Sydney, Australia ...*
- *By an Australian company (ABN: [redacted])*
- *Who issued me an invoice in Australian dollars ...*
- *Including (Australian) GST ...*
- *And stated an Australian phone number which I called to make my credit card payment ...*
- *On my Australian-based credit card.*

I had no expectation that this purchase would attract a foreign currency fee. It seemed to be a transaction conducted entirely within Australian and in Australian Dollars. However, when the transaction appeared on my [bank] credit card statement, a “Foreign Fee AUD 52.63” had been added to the AUD purchase amount.

Source: Consumer Submissions 23, 32 and 38 to Issues Paper available at <https://www.accc.gov.au/about-us/focus-areas/foreign-currency-conversion-services-inquiry/submissions-received>.

What is occurring in these cases?

In all of these cases the consumer is not aware that the online payment involves an international transaction which will incur a fee from their card issuer. This issue arises when the consumer expects the transaction to take place within Australia but the merchant has the transaction processed offshore.¹⁸⁰ A consumer may reasonably expect that the transaction will take place in Australia because, for example, the merchant has:

- published a price on a website in AUD, and/or
- a website with a ‘.com.au’ domain name, and/or
- a physical presence in Australia.

In these circumstances, the consumer may have no basis to suspect that there is an international element to the transaction. However, the customer’s card issuer will consider the transaction to be an international transaction if the merchant’s payment facility is located overseas. Unless the merchant discloses that the transaction will be processed offshore, the customer is unlikely to be aware that

¹⁸⁰ The ACCC is also aware that unexpected international transaction fees can apply in situations where a consumer is using a VPN (virtual private network), which establishes a secure connection to a remote network. In circumstances where the VPN is connected to an overseas network, a merchant’s website may identify the cardholder as being offshore and route the transaction to the nearest merchant’s acquirer, resulting in an international transaction fee being applied.

they will incur an international transaction fee until the payment is processed and they review their card statement.

Dynamic Currency Conversion

Another situation in which consumers may unexpectedly incur a foreign transaction fee is when they use a Dynamic Currency Conversion (DCC) service. Even though these transactions take place in AUD, they occur offshore and can be subject to an international transaction fee, depending on the card issuers' fees (see box 3.7).

Box 3.7 Dynamic Currency Conversion

Dynamic Currency Conversion (DCC) is a service that allows consumers to choose their own currency (for example Australian dollars) when making a card payment for an overseas transaction. This choice is often provided to consumers in tourist areas (such as airports) and sometimes when shopping online from an overseas retailer.

When a consumer chooses to pay in their own currency, the overseas entity processing the transaction performs the foreign currency conversion at the time of the transaction. In contrast, had the consumer chosen to transact in a foreign currency, the relevant international card scheme would have determined the retail exchange rate that applied to the transaction. Both Mastercard and Visa require that cardholders be offered a choice to accept or decline DCC. Under their rules, DCC cannot be imposed on a cardholder.

DCC, unlike international card scheme currency conversions, provides the consumer with the benefit of being able to see the retail exchange rate, or the foreign currency amount converted into Australian dollars, at the time of the transaction. However, consumers may pay more for transactions that involve a DCC as the DCC retail exchange rates can include higher mark-ups than the retail exchange rates applied by international card schemes. While consumers might expect that, because they have elected to have the transaction processed in AUD, there would not be any international transaction fees levied, this is not the case as international transaction fees can still be applied whenever the cardholder's financial institution and the merchant's financial institution are in different countries.

Source: Australia and New Zealand Banking Group Limited, *ANZ Personal Banking: General Fees and Charges*, <https://www.anz.com.au/content/dam/anzcomau/documents/pdf/personal-account-fees-charges.pdf>, viewed 30 July 2019.

Commonwealth Bank of Australia, *What is an international transaction fee?*, <https://www.commbank.com.au/support.credit-cards.what-is-an-international-transaction-fee.html>, viewed 31 May 2019.

National Australia Bank Limited, *Personal Banking Fees and Charges*, <https://www.anz.com.au/content/dam/anzcomau/documents/pdf/personal-account-fees-charges.pdf>, viewed 30 July 2019.

Westpac Banking Corporation, *Combined Conditions of Use and Credit Guide*, https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/pb/Consumer_Conditions_of_use.pdf, p. 10, viewed 31 May 2019.

The responsibilities of merchants in relation to international transaction fees

The ACCC considers that the primary responsibility for warning consumers about unexpected international transaction fees lies with the merchant. That is because the merchant is best placed to know whether a fee will apply given they hold information on their location, as well as the location of their acquiring bank and payment processor.

In the ACCC's view, merchants may be engaging in misleading and deceptive conduct if they do not disclose to consumers that a transaction will be processed offshore prior to entering into that transaction. In particular, we consider that where a merchant's website has a '.com.au' domain name, takes payment in AUD, and/or has a business presence in Australia, the merchant is likely to give consumers the overall impression that it is a domestic transaction and therefore no international transaction fees will be payable.

Having set Best Practice Guidance 3.2 for merchants to follow, the ACCC will continue to monitor this issue and may investigate further and take enforcement action where warranted.

Best Practice Guidance 3.2 Disclosure of card transactions being processed offshore

Merchants should alert consumers prior to entering a transaction if the transaction is likely to attract international transaction fees.

This could be as simple as a prominent statement during an online order process, prior to taking payment, informing consumers of the country in which payments will be processed, and directing consumers to contact their financial institution to check whether international transaction fees will apply to their purchase.

The role of the international card schemes

Both Visa and Mastercard have Scheme Rules in place to address the issue of unexpected fees in international transactions (see appendix E).¹⁸¹ Because of these rules, we believe Visa and Mastercard also have a role to play in addressing the issue of unexpected international transaction fees.

The international card schemes should ensure that merchants' acquirers meet their obligations under their respective scheme rules. We encourage the international card schemes to undertake targeted, focused reviews to ensure that merchants are making adequate disclosures that would allow consumers to identify when international transaction fees might apply.

The schemes should also enforce their rules where required. To maximise transparency, we would encourage the card schemes to report publicly on the outcomes of these reviews.

3.5 Uncertainty about IMT payment security

Consumers perceive that sending money overseas involves a degree of uncertainty and a risk that funds may not be received. Responses to the ACCC consumer questionnaire showed that reliability and speed of service was important to consumers. It was the third highest priority among individual consumers. One customer of a non-bank supplier stated:

I was bit [sic] nervous using [the non-bank supplier] for security reasons as I'd never heard of it... I tried just sending a smaller amount and it worked well.

Research undertaken by some inquiry suppliers shows that at least some consumers perceive the big four banks to be safer, more secure or more trustworthy than alternative IMT suppliers. One reason that consumers may believe banks are safer is that IMT services are an 'experience service'. This means that certain attributes of the service, such as security, are difficult to observe or gauge prior to using the service. Consumers, with limited information on security, for example, might be likely to default to how secure the supplier is in other aspects of financial services. In effect they use that as a proxy for how secure their IMT services are likely to be. That may confer an advantage on the big four banks, as they are better known and, correspondingly, a disadvantage on lesser known suppliers.

Another way to understand the issue is through the lens of behavioural economics. Behavioural economics has shown that, for many people, losses loom larger than gains, leading them to be characterised by loss aversion. In the context of choosing between a familiar and known supplier and a new, untested supplier, many people have a natural tendency to stick with what is known.

These behavioural factors are known as 'loss aversion' and the 'familiarity heuristic'. Together they could explain why some consumers exhibit high levels of anxiety about losing money and why they stick to 'known brands' or the tried and proven. We would expect these concerns to dissipate over time as what are currently 'newer' brands become better known.

As noted in chapter 2 (section 2.2), our view is that if bank-initiated IMTs are indeed safer than those initiated by non-bank suppliers, it is due to regulation; codes of conduct; and product features that are not aimed primarily at protecting IMT service customers or ensuring the safe delivery of IMTs. Rather, these measures have other objectives such as protecting depositors and ensuring the safety of online banking transactions.

¹⁸¹ Although neither Visa nor Mastercard have direct contractual relationships with merchants, they can ensure merchant compliance with their rules through the merchant's acquirer.

What happens to unsuccessful IMTs?

Generally, funds sent via IMT are either successfully delivered to the recipient or are returned to the customer initiating the IMT. There are a number of reasons why an IMT may be unsuccessful, including:

- further details being required from the customer to complete the IMT (this includes situations where the initiating customer provides incomplete or incorrect account details for the recipient)
- an overseas bank rejecting the transaction
- the transaction being blocked because fraud is suspected or due to anti-money laundering or terrorism financing concerns
- the recipient being unable to provide valid identification to collect the funds.

Should consumers be concerned about the security of IMTs?

Appendix C sets out the relevant regulatory obligations that apply to various IMT suppliers.

For example:

- IMT suppliers, including non-bank IMT suppliers, who hold an Australian Financial Services Licence are obliged to provide financial services efficiently, honestly and fairly
- banks are also subject to prudential requirements detailing the levels of liquid assets and regulatory capital they must hold in relation to their banking activities
- most banks are voluntary subscribers to the ePayments Code, which, among other things, provides fraud protections for consumers.

In the course of undertaking the inquiry, we did not observe evidence that would suggest consumers' IMT funds are lost by inquiry suppliers, including both bank and non-bank suppliers. Although instances of IMTs getting 'lost' appear to be low, the ePayments Code (see appendix C) could afford consumers some additional protections should a problem occur with an IMT.

Currently, most non-bank IMT suppliers are not signatories to the ePayments Code. The Productivity Commission recommended that the Australian Government should give ASIC the power, by end 2018, to make the ePayments Code mandatory for any organisation that sends or receives electronic payments.¹⁸²

The ACCC notes that this recommendation, if accepted, would see the ePayments Code extend to IMT suppliers. We see value in the consumer protection measures contained in the code being consistently applied and enforced across all IMT suppliers. However, until such time as a mandatory code is in place, non-bank IMT suppliers should consider becoming signatories to afford their customers additional protections.

¹⁸² Productivity Commission August 2018, *Competition in the Australian Financial System Final Report*, Canberra, <https://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system.pdf>, Recommendation 17.6 (p. 49).

Appendix A: Notice to the ACCC

The Notice issued by the Treasurer on 2 October 2018 is copied below. On 22 March 2019, the Treasurer extended the due date for the final report to 31 July 2019.



COMMONWEALTH OF AUSTRALIA

COMPETITION AND CONSUMER ACT 2010

INQUIRY INTO THE SUPPLY OF FOREIGN CURRENCY CONVERSION SERVICES

I, Josh Frydenberg, Treasurer, pursuant to subsection 95H(2) of the *Competition and Consumer Act 2010*, hereby approve the Australian Competition and Consumer Commission holding an inquiry into the supply of foreign currency conversion services, including, but not limited to, by authorised deposit-taking institutions and remittance service providers.

The matters to be taken into consideration by the Australian Competition and Consumer Commission 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
- whether there are factors limiting the ability of consumers to effectively compare services and prices

This is not to be an inquiry into the supply by any particular person or persons, or by a State or Territory authority.

The inquiry is to commence on 2 October 2018. The ACCC is to submit a final report to me by 31 May 2019.

The Hon Josh Frydenberg MP
TREASURER

02 OCT 2018

Parliament House Canberra ACT 2600 Australia
Telephone: 61 2 6277 7340 | Facsimile: 61 2 6273 3420

Appendix B: Data collection

As part of this inquiry, the ACCC sought data on the prices of different inquiry services over time and the costs inquiry suppliers incur in providing the inquiry services. This appendix sets out the ACCC's approach to collecting price data and inquiry supplier cost data.

B.1 The collection of price data for the inquiry services

The ACCC engaged a consultant to collect price data on:

- international money transfer (IMT) services
- foreign cash services
- payment card services
- travel card services; each as defined in chapter 1 (section 1.1).

The price data was collected anonymously by the consultant for the ACCC, primarily by using supplier websites or telephone enquiries. The data was collected over five consecutive business days from 6 February 2019-12 February 2019.

The consultant collected price data in relation to hypothetical reference transactions designed by the ACCC. The reference transaction amounts for foreign cash, payment cards and travel cards were the equivalent of approximately AUD250 and AUD1000. The reference transaction amounts for IMTs were the equivalent of approximately AUD250 and AUD10 000. The reference transaction amounts were chosen by the ACCC to reflect the needs of a range of consumers who use the inquiry services.

Price data was collected in relation to five currencies: USD, GBP, Euro, FJD and PHP (table B.1).

Table B.1 Currencies and services on which price data was collected

	International money transfers	Foreign cash	Payment cards	Travel cards
USD	✓	✓	✓	✓
GBP	✓	✓	✓	✓
Euro				✓
FJD	✓			
PHP	✓			

Information on correspondent banking fees

The ACCC supplemented the IMT price data collected by the consultant with additional information on correspondent banking fees. The ACCC sought details of correspondent banking fees directly from suppliers as, in most cases, this information was not publicly available. The ACCC sought this information because correspondent banking fees can have a material impact on the price of IMT services (chapter 3 (section 3.3) refers).

Some prices are indicative only

The ACCC instructed the consultant to report advertised prices. This approach means that, compared with the prices detailed in this report, there were potentially better prices available from those suppliers that either allow consumers to negotiate prices or that provide preferential rates for certain customers. The ACCC sought data on advertised prices as this is the information most readily available to consumers looking to compare prices.

The prices reported for payment card transactions are indicative only because of the delays that can occur between when a payment card transaction is completed and when it is processed. The international card schemes apply the exchange rate to payment card transactions at the time of processing and the ACCC has assumed transactions were processed on the same day as they were completed. Any processing delays would result in a change in price.

B.2 The collection of cost data from inquiry suppliers

The ACCC sought data from inquiry suppliers on the costs they incur in providing the inquiry services. This data was sought to inform an assessment of the extent to which costs differ across suppliers and business models and, in turn, the extent to which those cost differences contribute to differences in prices. In the case of IMT services, the ACCC anticipated that the analysis would also consider whether Australian suppliers incur specific costs that contribute to Australian IMT prices being among the highest in the world.¹⁸³

The ACCC was unable to obtain comparable cost data from inquiry suppliers to undertake this analysis. Part of the reason for this is that some inquiry suppliers do not maintain data specifically in relation to the cost of supplying the inquiry services, including on the cost of supplying those services to consumers and small businesses. This meant that to give cost data to the ACCC, most inquiry suppliers had to make a number of assumptions.

The differing basis of the inquiry suppliers' assumptions, while generally reasonable in the context of each supplier, produced data that could not be compared across inquiry suppliers. The risk of making comparisons based on the data received was apparent in the large variations in estimated costs of similar inquiry suppliers that could only be explained by differing cost assumptions.

¹⁸³ The World Bank, *Remittance Prices Worldwide*, Issue 27, September 2018, https://remittanceprices.worldbank.org/sites/default/files/rpw_report_sept_2018.pdf.

Appendix C: Regulation applying to inquiry suppliers

The inquiry suppliers are subject to a range of regulation. The nature and extent of that regulation depends on a supplier's characteristics, including whether the supplier is an authorised deposit-taking institution (ADI).

Prudential standards

ADIs are subject to prudential supervision by the Australian Prudential Regulation Authority (APRA). An ADI is a corporation which has been authorised by APRA to carry on a 'banking business' in Australia.¹⁸⁴ An ADI is required to maintain sufficient levels of regulatory capital and liquid assets to act as a buffer against the risk of loss associated with its activities. This is to ensure that an ADI can meet its financial obligations as they fall due and withstand a period of severe liquidity stress. The amount of regulatory capital and liquid assets an ADI is required to hold depends upon the size, complexity and risk profile of the institution.¹⁸⁵

Australia's Financial Services Licensing regime

Entities that carry on a financial services business in Australia generally need to have an Australian Financial Services Licence (AFSL). This includes non-ADI suppliers of the inquiry services.

The holder of an AFSL is subject to a number of obligations that must be met and reported on to the Australian Securities and Investments Commission (ASIC). These obligations relate to minimum financial and liquidity requirements, staffing education and training levels, risk management systems, conduct requirements and consumer disclosure in relation to the provision of financial services.¹⁸⁶ The consumer disclosure requirements include the need to produce a Product Disclosure Statement (PDS), a Financial Services Guide (FSG) or, in some instances, both a PDS and FSG for each financial product or service and to provide them to consumers using each product or service. A PDS must include 'clear, concise and effective disclosure' of fees and charges for the use of the product. A FSG must include information such as the means by which the service provider is remunerated for the services being offered.¹⁸⁷

AML/CTF laws

Financial institutions in Australia engaging in financial services such as deposit-taking services and currency conversion (including IMTs) are subject to Australia's anti-money laundering and counter-terrorism financing (AML/CTF) laws. These laws aim to detect, deter and disrupt money laundering, the financing of terrorism, and other serious financial crimes (among other things).¹⁸⁸ Financial institutions can face high penalties if they fail to comply with these laws.¹⁸⁹ Similar laws also apply in other countries.

Under Australia's AML/CTF laws, relevant financial institutions must develop risk-based systems and controls depending on the nature, size and complexity of their business and proportionate to the money laundering and terrorism financing risk. Globally, IMT services are considered to be at higher risk of being used for money laundering or terrorism financing purposes. Locally, AUSTRAC has said

¹⁸⁴ *Banking Act 1959* (Cth) s 9(3).

¹⁸⁵ See APRA, *Authorised deposit-taking institutions standards and guidance*, <https://www.apra.gov.au/adi-standards-and-guidance>, viewed 18 April 2019.

¹⁸⁶ ASIC 4 April 2018, *Your AFS licence obligations explained*, <https://asic.gov.au/for-finance-professionals/afs-licensees/your-ongoing-afs-licence-obligations/>, viewed 18 April 2019.

¹⁸⁷ ASIC 28 October 2011, *RG 168 Disclosure: Product Disclosure Statements (and other disclosure obligations)* <https://download.asic.gov.au/media/1240931/rg168-published-28-october-2011.pdf>, p. 9,10 para 20, p. 21 para. 82.

¹⁸⁸ *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth) s 3(1)(aa).

¹⁸⁹ For example, in 2018 CBA paid a \$700 million penalty for contraventions of the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth); see: AUSTRAC 4 June 2018, *Austrac and CBA agree \$700m penalty*, <http://www.austrac.gov.au/media/media-releases/austrac-and-cba-agree-700m-penalty>, viewed 28 March 2019.

that IMT services are ‘vulnerable to abuse and exploitation by criminal and terrorist groups for money laundering and terrorism financing purposes’.¹⁹⁰

Relevant financial institutions must have an AML/CTF program which assesses the AML/CTF risk of the business and implement policies and governance measures to control that risk. The law specifically requires implementation of a Know Your Customer (KYC) framework so the business can identify its customers and the natural persons behind them. Businesses must report on their compliance with these measures to AUSTRAC.¹⁹¹

As well as the above, to the extent that the inquiry suppliers provide IMT services but are not financial institutions, they must also register with AUSTRAC. To register, these organisations must provide detailed information about their business and must obtain and keep national police certificates or national history checks for key personnel. Registration may be refused, suspended or cancelled if the organisation has an ‘unacceptable’ risk of money laundering, terrorism financing, people smuggling, or other serious crime.¹⁹²

ePayments Code

The ePayments Code applies to consumer electronic payment transactions, including ATM, EFTPOS¹⁹³ and credit card transactions, online payments, internet and mobile banking, and BPAY. The ePayments Code also applies to IMTs initiated online.

The big four banks and one other inquiry supplier have voluntarily subscribed to the ePayments Code and so are bound by it.¹⁹⁴ The Code provides some protections to consumers engaged in electronic transactions, including IMTs and overseas card payments. These include ‘clear and unambiguous’ disclosure of the terms and conditions of use of the facility, provision of receipts and transaction statements on request, no consumer liability for losses caused by fraud in some circumstances, and no consumer liability for losses caused by system or equipment malfunction.¹⁹⁵

Where the inquiry supplier is also an ADI, pursuant to the Code, consumers will also receive reasonable assistance from the supplier to recoup mistaken internet payments and the ability to export their data to a new supplier of their choosing.¹⁹⁶

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- 190 AUSTRAC 25 November 2014, <http://www1.austrac.gov.au/news/austrac-statement>, viewed 27 March 2019. Question No. BE15/093, May 2015, Senate Standing Committee on Legal and Constitutional Affairs Attorney General’s Portfolio, https://www.aph.gov.au/-/media/Committees/legcon_ctte/estimates/bud_1516/AGD/AGD_BE15-093.pdf.
- 191 AUSTRAC 17 December 2018, AML/CTF programs overview, <https://www.austrac.gov.au/business/how-comply-guidance-and-resources/amlctf-programs/amlctf-programs-overview>, viewed 18 April 2019.
- 192 AUSTRAC, Enrol or Register with AUSTRAC, <https://www.austrac.gov.au/business/new-austrac-start-here/enrol-or-register-austrac>, viewed 3 July 2019.
- 193 The ePayments Code defines EFTPOS as ‘electronic funds transfer at the point of sale—a network for facilitating transactions at the point of sale’. ASIC, ePayments Code, 29 March 2016, <https://download.asic.gov.au/media/3798542/epayments-code-published-29-march-2016.pdf>.
- 194 ANZ, CBA, NAB, PayPal and Westpac have subscribed to the ePayments Code. See ASIC 29 March 2016, ePayments Code, <https://download.asic.gov.au/media/3798542/epayments-code-published-29-march-2016.pdf>.
- 195 ASIC 16 April 2019, ePayments Code subscribers, <https://asic.gov.au/for-consumers/banking/epayments-code-subscribers/>, viewed 18 April 2019.
- 196 ASIC 29 March 2016, ePayments Code, <https://download.asic.gov.au/media/3798542/epayments-code-published-29-march-2016.pdf>, ch C.

Appendix D: The New Payments Platform and the Bulk Electronic Clearing System

The New Payments Platform (NPP) and the Bulk Electronic Clearing System (BECS) are systems which are used to settle payments. The NPP is designed to settle payments in real time.¹⁹⁷ The NPP also allows users to make payments using payee identification details such as email addresses and phone numbers (which are linked to a PayID), as well as through BSB and account numbers.¹⁹⁸ Future innovations in how payments can be made through the NPP are expected by its owner and operator, NPP Australia Limited (NPPA).¹⁹⁹

Real time settlement and more convenient addressing of payments using PayID are significant innovations not available through BECS. For these reasons, suppliers may prefer the NPP to BECS as a means of directly accessing payment system infrastructure. However, NPP services are still being rolled out by many ADIs so it is not yet a complete alternative.²⁰⁰

Accessing the NPP is contingent on an applicant satisfying certain entry requirements. For example, as at June 2019, direct participants in the NPP must be an ADI or restricted ADI, hold an exchange settlement account (ESA) with the RBA and be a shareholder of NPPA.²⁰¹ The NPPA board must also approve applications for participation in the NPP. The NPPA board includes representatives from a number of banks which compete with non-bank IMT suppliers.

There are also entry requirements to BECS.²⁰² In order for an IMT supplier to become a Tier 1 participant in BECS (and obtain direct access to BECS), the supplier would need to either become an ADI, become an ESA holder or demonstrate that it is subject to adequate prudential supervision and be of sufficient financial standing to be a participant.²⁰³

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- 197 NPP Australia, *The Platform*, <https://www.nppa.com.au/the-platform/>, viewed 30 April 2019.
Reserve Bank of Australia, *New Payments Platform Functionality and Access: Consultation*, <https://www.rba.gov.au/payments-and-infrastructure/new-payments-platform/functionality-and-access-consultation.html>, viewed 30 April 2019.
- 198 NPP Australia, *The Platform*, <https://www.nppa.com.au/the-platform/>, viewed 30 April 2019.
Reserve Bank of Australia, *New Payments Platform Functionality and Access: Consultation*, <https://www.rba.gov.au/payments-and-infrastructure/new-payments-platform/functionality-and-access-consultation.html>, viewed 30 April 2019.
- 199 NPP Australia, *The Platform*, <https://www.nppa.com.au/the-platform/>, viewed 30 April 2019.
- 200 See, for example:
C Yeates March 2019, *Lowe tells banks slow payment roll out could limit competition*, The Sydney Morning Herald, <https://www.smh.com.au/business/banking-and-finance/lowe-tells-banks-slow-payment-rollout-could-limit-competition-20190314-p514ac.html>, viewed 29 April 2019.
C Yeates January 2019, *Westpac fast payments rollout a ‘tipping point’*, The Sydney Morning Herald, <https://www.smh.com.au/business/banking-and-finance/westpac-fast-payments-rollout-a-tipping-point-20190125-p50toc.html>, viewed 29 April 2019.
- 201 Reserve Bank of Australia June 2019, *NPP Functionality and Access Consultation: Conclusions Paper*, <https://www.rba.gov.au/payments-and-infrastructure/new-payments-platform/pdf/functionality-and-access-report.pdf>, pp. 22, 25, viewed 19 June 2019.
- 202 Australian Payments Clearing Association, *Regulations for Bulk Electronic Clearing System Framework*, https://www.uspaynet.com.au/sites/default/files/2018-04/BECS_Regulations%20Version%20022%20-%20Effective%201%20January%202018.pdf, part 4.
- 203 Australian Payments Clearing Association, *Regulations for Bulk Electronic Clearing System Framework*, https://www.uspaynet.com.au/sites/default/files/2018-04/BECS_Regulations%20Version%20022%20-%20Effective%201%20January%202018.pdf, reg 4.3.

Changes to the NPP's requirements for direct access have been recommended by other reviews

The Productivity Commission observed in its inquiry into Competition in the Australian Financial System that accessing the NPP directly requires the approval of the NPP's governing body, which includes representatives of seven banks. The Productivity Commission stated that this 'requires new competitors to be accepted by the initial participants, which could reasonably be expected to involve conflicts of interest'.²⁰⁴ The Productivity Commission recommended that:

- the NPP should be subject to an access regime imposed by the Payments System Board
- the Payments System Board and ACCC should investigate how the functionality of the NPP could be improved to promote competition within the NPP and across the payments system more broadly.²⁰⁵

The RBA, with input from the ACCC, started a review into the access requirements for the NPP and the functionality of the NPP in October 2018. On 13 June 2019, that review made a number of recommendations including:

- NPPA should appoint a third independent director and should review its processes for applications for access to the NPP. Where an application has been rejected, the applicant should be able to ask for a review of the decision by an Evaluation Panel. This panel should be comprised of three independent directors and two independent external experts appointed by those independent directors²⁰⁶
- NPPA should assess and report on options for amending the NPP Regulations, and other arrangements, to allow for an entity that is not an ADI to potentially become an NPP Participant. The participation of non-ADIs would be subject to requirements appropriately tailored and calibrated to the key risk and operational considerations essential for participation in the NPP²⁰⁷
- NPPA should introduce more gradation into the shareholding requirement by creating at least one additional lower band, so that subscription requirements can be more closely tied to an entity's size or expected contribution to NPP transaction volumes.²⁰⁸

The RBA, with the assistance of the ACCC, will conduct another review of NPP functionality and access issues starting no later than July 2021. This review could take place earlier if the RBA becomes aware of significant issues or concerns regarding NPP access or functionality.

204 Productivity Commission August 2018, *Competition in the Australian Financial System*, <https://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system.pdf>, p. 30.

205 Productivity Commission August 2018, *Competition in the Australian Financial System*, <https://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system.pdf>, p. 49.

206 Reserve Bank of Australia June 2019, *NPP Functionality and Access Consultation: Conclusions Paper*, <https://www.rba.gov.au/payments-and-infrastructure/new-payments-platform/pdf/functionality-and-access-report.pdf>, p. 5.

207 Reserve Bank of Australia June 2019, *NPP Functionality and Access Consultation: Conclusions Paper*, <https://www.rba.gov.au/payments-and-infrastructure/new-payments-platform/pdf/functionality-and-access-report.pdf>, p. 5.

208 Reserve Bank of Australia June 2019, *NPP Functionality and Access Consultation: Conclusions Paper*, <https://www.rba.gov.au/payments-and-infrastructure/new-payments-platform/pdf/functionality-and-access-report.pdf>, p. 5.

Appendix E: Visa and Mastercard

Both Visa and Mastercard have Scheme Rules in place to address the issue of unexpected fees in international transactions, among other matters.

Visa

Rule 5.9.4.1 of the Visa Core Rules and Visa Product and Service Rules (Visa Rules) requires that merchant websites clearly and prominently display the country of the merchant's or payment facilitator's location at the 'check out' point of a transaction.²⁰⁹

If Visa identifies non-compliance with a Visa Rule by a merchant, Visa may initiate a compliance action against the merchant's acquirer (the financial institution that processes credit or debit card payments on behalf of a merchant) and request that the merchant's acquirer bring its merchant into compliance with the rule. Visa has a right under the Visa Rules to issue a Non-Compliance Assessment for violations of the Visa Rules. A Non-Compliance Assessment can include warning letters with a specific date for correction and monetary fees. Visa retains a discretion for repeated violations.

In 2016, Visa introduced a Merchant Location Compliance Program to promote accurate assignment of merchant outlet location and merchant website disclosure by the merchant's acquirer. As part of the program, Visa reminded merchants' acquirers that they must ensure that e-commerce merchants are correctly and prominently displaying merchant location information to the cardholder.

Visa offers cardholders a method to notify Visa of merchants who are not complying with a Visa Rule. That would include a business whose website did not clearly and prominently display the country of the merchant or payment facilitator at the 'check out' point of a transaction. Where cardholders are charged an unexpected international fee by their card issuer on purchases made on a website that the cardholder thought was in Australia, they can, as well as querying the fee with their card issuer, notify Visa of the merchant at: usa.visa.com/Forms/visa-rules.html.

Mastercard

Rule 5.4.1 of the Mastercard Rules states that merchants' acquirers must ensure that each of their merchants prominently and clearly disclose to the cardholder at all points of interaction the location of the merchant. This is to enable the cardholder to easily determine, among other things, whether the transaction will be a domestic transaction or a cross-border transaction (and so whether an international transaction fee might apply). The merchant location must be disclosed before the cardholder is prompted to provide card information.²¹⁰

Mastercard states that transactions being sent to it as cross-border transactions, but where the cardholder thought the transaction was domestic, are inconsistent with the expectations it has of its network participants.

A merchant's acquirer whose merchants do not comply with the Mastercard Rules may be subject to a non-compliance assessment with a limited time to cure such non-compliance before monetary assessments are imposed. Mastercard reserves the right to limit, suspend or terminate participation in its scheme if the merchant's acquirer fails to comply with the Mastercard Rules.

209 Visa April 2019, *Visa Core Rules and Visa Product Service Rules*, <https://usa.visa.com/dam/VCOM/download/about-visa/visa-rules-public.pdf>, r. 5.9.4.1.

210 Mastercard June 2019, *Mastercard Rules*, <https://www.mastercard.us/content/dam/mccom/global/documents/mastercard-rules.pdf>, r. 5.4.1.

Mastercard has told the ACCC that its ability to bring about behavioural change at a merchant level is limited. One action Mastercard takes is to follow up complaints with the merchant's acquirer, remind them of the Mastercard Rules and request they take action. Mastercard has stated to the ACCC that it continually reviews compliance with Rule 5.4.1. It acts on referrals from banks and has an ongoing compliance program. In the second half of 2019, Mastercard will test the accuracy of merchant claims about their location in 33 countries and territories.



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