PART ONE

1 Introduction

Here is my submission to the enquiry into foreign currency conversion services. It is divided into several part.

- Part 1 is this introduction and some comments about the scope of the inquiry.
- Part two is my feedback on some of the issues which the enquiry is seeking information about.
- Part 3 features my suggestions for improvements to foreign currency conversion services.

2 Comments on the Scope of the Inquiry

2.1 Extending the scope

I would propose that the scope of your inquiry into foreign currency conversion services and any resulting recommendations or actions be extended to include the following:

- The use of credit, debit and prepaid cards to access foreign currency at places other than overseas ATMs. For example, at overseas bank branches. Australian card issuers impose specific fees on these services. They should be included in your inquiry.
- Local or seemingly local purchases that involve some processing overseas. Card issuers often impose foreign currency conversion fees on these transactions even though there's no foreign currency conversion. As such, these fees should not be excluded from the scope of your inquiry.
- Australian currency accessed through an Australian ATM, bank branch or other places by overseas cardholders. Australia's major banks have removed ATM charges for Australian cardholders but not for overseas cardholders. This should be part of your inquiry.
- All prepaid cards, not just those used for travel money. Australia doesn't have many non-travel related prepaid cards any more, but there are a few (e.g. A[redacted]), and there are some new entrants (e.g. [redacted]).
- Card schemes involving any method, not just cards, should be within the scope of your inquiry. For example, payment by smartphone ([redacted].), by a virtual card, or possible future use of QR codes.
- Any payment method should be within the scope, not just current card schemes. You mention [redacted] as an example of a foreign currency service. [redacted] can also be used to make foreign currency purchases. Another example is QR codes, e.g. [redacted]. Although these aren't available for Australian customers, they, or similar services may be available in the future. Your inquiry could be greatly future proofed by including these in the scope of your inquiry and any resulting actions or recommendations.

2.2 Clarifying the scope

You should make sure that overseas purchases include purchases from overseas while the customer is in Australia, even if they pay in Australian dollars.

In Section 7, you mention "stored value or prepaid travel cards" as part of our scope, but these include several different concepts and exclude other concepts. For example, they include:

- Prepaid travel cards – these usually (but not always) involve storing multiple currency balances in an account that can be accessed by a prepaid card and managed by an app and/or website.

- Stored value cards – these are cards where the value is stored on the card itself rather than centrally by a bank or other company. For example, [redacted]

And the fail to include:

- Prepaid cards that are non-travel related (e.g. [redacted]). These have a single currency and are a lot like debit cards except that the money loaded onto them is not considered a bank account.

In my opinion, prepaid cards are similar to debit cards, and should be within the scope of this inquiry. However, multi-currency prepaid travel money cards deserve special attention as currency conversion forms a major part of their features and they are the main form of prepaid card in this country at the moment.

On the other hand, I don't believe that stored value cards pay any meaningful role in foreign currency transactions and should not be within the scope of this inquiry.

PART TWO – THE ISSUES

3 Issue 1 – The pricing of foreign currency exchange services

3.1 Any pricing practices of concern

3.1.1 Credit/debit/prepaid cards

The credit, debit and prepaid card exchange rate mark-up is Increasing
Credit/debit/prepaid card exchange rates had previously been better than rates for exchanging cash, but they have been getting worse. For example, in October 2013 I estimate that the mark-up was 2% above the mid-market exchange rate for a US dollar charge on my credit card, but in October 2017 that rate went up to around 2.65% for the same card and currency. This is before the foreign currency conversion fee of 3% is applied (was present in 2013 but not in 2017 and will be present again from November 2018).

Foreign currency conversion fees are an additional mark-up
Many banks and other card issuers charge this fee on charges in foreign currency in addition to the standard mark-up on the exchange rate. They didn't used to have this extra fee. It's another charge that makes foreign currency purchases more expensive.

The Foreign Currency conversion fee is often 3%, but may be lower (e.g. 2.5% or 2.2%, or as high as 5%). A few card issuers don't charge this fee, but some place conditions (e.g. must deposit $1000 per month).

After looking at various websites from overseas, the foreign currency conversion fees here seem to be in line with similar fees charged by card issuers in the UK, US and other countries. I don't know if they also charge a foreign exchange mark-up or not.

I really don't like this extra fee because it is an additional mark-up to the 2-3% mark-up on the exchange rate that they already charge.

Foreign currency conversion fees on refunds
My card tended not to impose a foreign currency conversion fee on a refund, but I've read somewhere that some issuers are doing this, i.e. they refund the purchase price, less the conversion fee. I don't think they should do this.

Foreign currency conversion fees on Australian dollar charges
The one charge that really irks me is when they charge you a foreign currency conversion fee when there's no foreign currency conversion, i.e. on an Australian dollar purchase or cash advance that has some overseas component! There are two main situations when they can charge this fee:

- When you choose to be charged in Australian dollars on an overseas purchase, either when you are overseas or within Australia. So you are charged a foreign currency conversion fee for a conversion that they don't do!
- If you make a payment in Australia in Australian dollars for what seems like an Australian purchase, you can still be charged this fee if some part of the payment is processed overseas. The reason I really dislike this charge is that you have no control over whether you are charged this fee, and no idea in advance whether it will be charged, because it's the merchant or their payment service provider who decides where the payment is processed.

Basically, I don't believe card issuers should charge their customers for a foreign currency conversion fee, or a similar fee by any other name, when there is no foreign currency conversion.

3.1.2 Multi-currency prepaid travel-money cards

On the one hand, Australian issued cards, which are generally geared towards trave money, have lower charges than prepaid cards in other countries. For example, they usually don't charge you loading or unloading fees or a monthly fee like many prepaid cards in the US. Also, multi-currency travel money cards seem to be more widespread than in other countries.

On the other hand, there are several issues with them:

Often some exchange rates aren't advertised

For example, they will advertise the exchange rate for converting an Australian dollar balance to a foreign currency balance, but not the other way around.

Some of their exchange rates are worse than others, even straight-out debit cards

For example, if you just keep the balance in Australian dollars and get it converted as you spend it, some cards will charge you a higher mark-up than if you set up a foreign currency balance.

Dormancy fees

Some of these cards charge a dormancy fee if there is no activity for twelve months. There are two issues here:

- The fact that they charge it in the first place.
- Many card providers don't make it clear whether they will impose the full dormancy fee when there is less than that amount in the card balance, or if they will impose the fee if the balance is zero or negative. Applying a dormancy fee in these situations would make the card balance negative, something which is prohibited in the terms and conditions, and which must be immediately remedied.
  Some card providers do make it clear that the above two situations won't happen with their cards.

They claim they're value for money but it's hard to tell

It's hard to tell whether they're better value than a straight-out debit or credit card, even those offered by the same bank. I just assume that they are less value for money, and only use them as a backup card should my bank's card suffer a disruption.

For example, they imply that they offer value for money because you can lock in an exchange rate, but it's really unclear whether that rate is better than a straight-out debit or credit card and it's a bit unclear sometimes what exchange rate mark-up is charged. At other times, the mark-up can be worse than a normal credit/debit/prepaid card.

3.1.3 Foreign currency transfers

Unfavourable exchange rates

This is a real problem area. Banks offer a very unfavourable exchange rate (mark-up), sometimes even worse than for cash exchange.

High fees and systemic issues cause more uncertainty

In addition to the unfavourable exchange rate, banks add a high fee (it has traditionally been around $20 to $30 even for internet transfers). Then the recipient may have to pay a fee just to receive the money, and in some cases, certain intermediary banks may impose their own fees along the way. In the end, you don't know how much the recipient will eventually get or when they will get it.

That said, most if not all of the above has been a problem of the foreign currency transfer system, is present in other countries, and is acknowledged even by the likes of [redacted].

Some companies are addressing these problems. For example, [redacted] Possibly as a result of this, my bank now charges as little as approx. $5 for online transactions, whereas they used to charge around $20.

One of the advantages of the fintech companies is that the money eventually gets into the recipient's account via their country's payment system, not [redacted], so they don't have to charge all these extra intermediary fees and the recipient shouldn't have to pay to receive the money.

Fees not reduced for sending A$ overseas

For transferring money to nearby countries (e.g. Solomon Islands) that use the Australian dollar, the rates haven't come down, even though no foreign exchange is involved.

Difficult to transfer small amounts by bank transfer

One problem that I've faced that these mewer fintech companies haven't solved is that it's hard and sometimes expensive to send a small amount of money to an overseas bank account. For example, if I wanted to pay 7 euro and the only way is by bank transfer. The fintech companies that would offer a good rate and low costs often have minimum amounts, as would some of the banks, and those banks that don't would have high fees that could easily eat up the money transferred.

The inquiry's ambitions are too conservative

Your issues paper says that Australia's average cost of sending money overseas is 7.88% whereas the G20 average is 'just' 7.12%". In reality, a reduction from 7.88% to 7.12% is not that great. You should aim for a much greater reduction.

3.1.4 Foreign cash

Australian rates are relatively high

The mark-ups imposed by banks and bureaux de change here are relatively high, however, Australia is not alone in this regard. That said, in some other countries like Singapore, you can sometimes get better rates at currency converters than at banks which themselves offer relatively low exchange rates.

3.1.5 ATM withdrawals – overseas cardholders in Australia

ATM fees still imposed on overseas cardholders

Last year the major banks removed ATM fees on customers of other banks, but only for Australian customers. I understand they still charge ATM withdrawal fees for foreign customers.

Personally, I believe that if banks don't charge Australian bank customers then they shouldn't charge foreign bank customers either, especially since they may have to pay other fees, such as ATM withdrawal fees or foreign currency conversion fees charged by their overseas bank.

3.1.6 ATM withdrawals – Australian cardholders overseas

A fixed fee of $5 is common

Australian banks typically charge their customers around $5 or less for withdrawals from overseas ATMs. This is in addition to all the other fees and mark-ups they charge. The $5 fee is comparable to the rate charged to bank customers in other countries such as the US. That said, some banks don't charge this at all or rebate it under certain conditions.

4 Issue 2 – Costs to supply foreign currency conversion services

4.1 Comments on operating models

As a consumer, banks having an inferior operating model does not give them a blanket right to charge more for foreign currency transfers or to justify any of the other undesirable features of that model. If someone else can provide foreign exchange using a more effective model, then the banks should either change or streamline their model.

5 Issue 3 – The nature and extent of competition between suppliers

5.1 How the needs of consumers and small businesses differ

Consumers may want to transfer small amounts by bank transfer

It's difficult to send small amounts by bank transfer. Foreign currency conversion services that would offer a good rate and low prices tend to have a minimum that's too high. On the other hand, the banks may have a minimum too, plus high fees charged to the recipient which could eat up any money transferred.

For example, I once had to pay 7 euros. They didn't accept cards, only bank transfer. Such bank transfers are easy across Europe, but not from here!

5.2 The importance (or otherwise) of price in making decisions about which type of service to use

A fee of a few percent can be very important when the amount involved is high, e.g. $3000.

A fixed fee can be very important when the amount involved is low relative to the fee.

5.3 Best price for different kinds of service

Here are a few honourable mentions of products that offer good value for money in the area of foreign exchange:

[redacted]

This account has zero international money transfer fees, zero foreign currency conversion fees on its debit card, and zero international ATM withdrawal fees.

[redacted]

This prepaid travel money card is available in Singapore only, and has practically no fees, not even foreign currency conversion fees. They claim that their currency exchange rates are within 0.1-0.4% of the published rate. However, they do charge a dormancy fee.

Singapore banks' exchange rates

As a comparison, [redacted] exchange rates in Singapore are about 1% over/under the mid-market rate for Australian dollars.

In Comparison, [redacted]s exchange rate is about 1.8% above/below for US dollars, while [redacted] charges about 4-4.4%. This is for the exchange rate only.

Singapore money changer exchange rates
It is reported on the internet that their rates can be better than the Singapore banks' exchange rates above. It's my experience that the rates displayed in bureaux de change in Australia are less favourable.

5.4 Barriers to switching suppliers

5.4.1 Foreign currency transfers – online

It's difficult to switch banks when sending money online. You would need to have a bank account with the other supplier, then you would need to apply for internet access or install the mobile app. Only then could you initiate a foreign currency transfer with another bank.

5.4.2 Foreign currency transfers – offline

This is easier to do, since you could walk into a bank and do the transfer. However, the fees are higher.

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

6.1 Whether the way prices are communicated make it difficult for customers to compare prices across suppliers and, if so, how

Yes!!!

Card payments and foreign currency transfers usually involve at least two different fees. For example:

Card transactions involve an exchange rate which may have a built-in mark-up. In addition, there may be a foreign currency conversion fee which may add an additional margin. A foreign currency transfer involves an exchange rate which probably includes a mark-up and a usually fixed service fee on top of that. Foreign currency withdrawals may involve an exchange rate and foreign currency conversion fee with the same features as card payments, plus a fixed ATM withdrawal fee.

The reasons why the way prices are communicated make it difficult to compare prices are:

Each price is communicated differently
For example, exchange rates are expressed as a rate (e.g. 1 AUD = $USD0.70), while foreign currency conversion fees are expressed as a percentage, while fixed fees are expressed as a dollar value. In order to compare prices, you have to combine all of these different figures into one common figure, and then the exchange rate may have changed.

Exchange rates change all the time
They may change from minute to minute, so it's difficult to compare prices that combine an exchange rate and mark-up when the exchange rate changes.

Some prices aren't communicated at all
For example, when converting from foreign currency back to Australian dollars or another currency on many prepaid travel money cards.

6.2 Whether there is otherwise a lack of transparency in the way prices are presented, including how any exchange rate mark-ups are presented

6.2.1 Travel-money cards

Many don’t disclose all exchange rates

The main ones are:

- When converting a foreign currency wallet balance to an Australian dollar balance
- The exchange rate when a foreign currency purchase is paid for from an Australian dollar wallet balance.

6.3 Any other factors which limit the ability of customers to compare prices and service quality across suppliers

6.3.1 Foreign currency transfers

Amounts paid by the recipient due to intermediaries

These are unknown at the time of initiating a foreign currency transfer.

7 Alternative methods of communicating prices that would assist customers to make effective price comparisons across suppliers

Here are some ideas on how to better communicate prices for consumers.

7.1 Pricing of Services - A Single Simple Comparison Fee for all Foreign Exchange Transactions

When banks or other institutions charge for foreign currency conversion (e.g. currency exchange, credit/debit card purchases, foreign ATM withdrawals, international money transfers, etc.), they should state the total fee as one fee, and express it in a simple, standard form for all currency conversions, and maybe call it a comparison fee. Rather than providing a benchmark exchange rate, it should be a percentage rate above or below the mid-market exchange rate that takes into account all mark-ups, fees and charges. This has several advantages over a benchmark exchange rate:

- It's easier to compare how good or bad a percentage-based fee is (e.g. 1% is always better than 2% but is 0.34 for one currency better than 22.45 for a totally different currency).
- It's exchange rate neutral.
- It's one figure, whereas comparing an effective exchange rate against a benchmark exchange rate requires two figures for each currency pair.
- It should stay more consistent over a longer period of time. Exchange rates can change from minute to minute, making it hard to compare two providers on a like-for-like basis.
  NOTE: The percentage-based figures on the [redacted] website do change during the day.
- It's easier to assess a foreign exchange company via a series of percentage-based comparisons compared to a series of exchange rates that you then have to compare to mid-market exchange rates that you then have to look up.
- Banks and others already publish their exchange rates, some even publish the mid-market rate, yet this hasn't worked, as we are still looking for a solution.

On the other hand, a benchmark exchange rate would make it easier to calculate who much you'll get.

Here are examples of how a percentage-based comparison fee would be calculated:

- If you convert $A1000 to US dollars and the mid-market exchange rate is $0.75 but you are offered an exchange rate of $0.72 and pay a $A20 fee, then the comparison fee would be 6.67% (1-($1000x0.72 - $20)/($1000x0.75)).
- If you convert $US 800 to Australian dollars and the mid-market exchange rate is $0.75 but you are offered an exchange rate of 0.78 and there's a $A20 fee, then the comparison fee would be 5.72% (1-($800/0.78 - 20)/($800/0.75)).

Here are examples of how I'd expect a benchmark exchange rate to be calculated:

- If you convert $A1000 to US dollars and the mid-market exchange rate is $0.75 but you are offered an exchange rate of $0.72 and pay a $A20 fee, then the effective exchange rate would be 0.70 (($1000x0.72 - 20)/1000).
- If you convert $US 800 to Australian dollars and the mid-market exchange rate is $0.75 but you are offered an exchange rate of 0.78 and there's a $A20 fee, then the benchmark exchange rate would be 0.7955 ($800 / ($800 / 0.75 - $20))

If a benchmark exchange rate were to be used, then:

- It should take into account all fees, charges and mark-ups,
- It should be published alongside the mid-market exchange rate that it's based on, along with a date and time so that the rate can be looked up to ensure it was accurate.
- The percentage difference should be guaranteed to be the same or nearly the same within a certain amount of time should the benchmark exchange rate change.

Then again, expressing the benchmark as a percentage over/under the mid-market exchange rate would be easier.

8 Other recommendations

8.1 Ban foreign currency conversion fees on Australian dollar transactions etc.

Foreign Currency Conversion Fees on Australian dollar transactions should be banned, along with any other transaction fees where the customer has no control or warning about whether they'll be charged for it.

They should not be replaced by transaction fees under another name.

8.2 Simplify and fully disclose all foreign exchange fees on Multi Currency Prepaid Cards

Multi-currency travel cards should state all the conversion fees applicable to all situations in a simple and standard manner. This would include:

- Converting an Australian dollar balance to a foreign currency balance
- Converting a foreign currency balance back to an Australian dollar balance.
- A purchase or cash withdrawal in one currency using the balance in another currency.
- Any other situation involving foreign exchange.

8.3 Ban ATM fees on overseas cardholders if Australians aren't charged

ATM operators should not be able to charge more for ATM withdrawals made by overseas cardholders than for Australian cardholders from other banks or financial institutions.

8.4 It should be easier to make foreign currency transfers

It should be almost as easy (including fees charged) to pay someone overseas, including for small payments, as paying someone locally.