Issue 1 – The pricing of foreign currency conversion services

(a) what types of foreign currency conversion services your business offers to consumers and small businesses

- XE/HiFX/Currency Online provide money transfer services (bank-to-bank, EFT) to consumer and small business clients. We do not and have not ever been involved in foreign cash services

- Spot and Forward Exchange Contracts (FECs)

(b) how many transactions under each type of service your business performed in the last year, and an explanation of how this has changed over time

[redacted]

(c) the factors you take into account when setting the retail exchange rate for each of your foreign currency conversion services, including an explanation of the relationship between the retail exchange rate and the wholesale price you pay

[redacted]

(d) whether the way that you set retail exchange rates has changed over time and, if so, how

- The way we set pricing has been similar to the way other industries set pricing – reacting to the price compression that occurs with increased competition as well as reflecting the lower cost-to-serve as technology enables.

(e) the structure and level of fees that you charge for each type of service and why you charge each fee

- Under our HiFX and Currency Online (CYOL) brands, we charge transfer fees as applicable:

https://www.hifx.com.au/~/media/files/our_fees.ashx

http://www.currencyonline.com/services.aspx

Under XE, we do not charge transfer fees.

(f) the factors you take into account when setting fees, including underlying costs

- Cost of making the transaction via our banking partners

(g) whether the number of fees for each service and/or the amount of each fee has changed over time and, if so, the reasons for this.

- As our cost to serve has dropped, so have our transfer fees over time.

- Competitive pressures from non-bank providers has also seen a trend towards 'transaction fee free' services. This is being generally enabled through non-banks getting better access to traditional banking payment corridors.

<u>Issue 2 – Costs to supply foreign currency conversion services</u>

(a) the nature and level of fixed costs you incur to supply foreign currency conversion services, including fixed costs that are specific to each type of service and those that are common to all or many services

- HiFX/XE/CYOL only provide FX transfer service (no cash transactions or exchanges)
- Fixed costs to supply conversion services:
    - Regulatory and compliance costs
    - Banking servicing fees
    - Standard business operation fixed cost (wages, rent etc.)

(b) how the structure and level of these fixed costs has changed over time

- Regulatory costs have increased substantially over the last decade
- Increase in wage costs as general cost of living has increased

(c) the nature of the variable costs you incur to supply each type of currency conversion service you offer

- Variable costs:

    - Payment and Onboarding client costs depend on volume processed

    - Compliance related costs to onboard each individual/business

(d) for each type of service you offer, the typical or average margin you earn on transactions (and how you measure the margin)

[redacted]

(e) an explanation of how this margin has changed over time, and reasons why it has changed

- Margins have compressed slightly over time as competition has increased and cost to serve has decreased

(f) how the margins earned by suppliers in Australia compare to overseas suppliers, as well as reasons for any differences

- In our experience FX spreads charged by non-bank providers have been tighter in Australia than other major western markets i.e. US and UK and tighter than those of mainstream banks

(g) the contribution that foreign currency conversion services make to your businesses' overall profits and how this has changed over time.

- 100% - solely FX focussed company

(a) the different types of operating models through which your services are currently being provided in Australia

- We operate a model similar to the banks – purchase FX at wholesale rates (achieved by the volume of currency we buy annually) and provide retail rates to our clients

(b) the differences between these operating models and the cost implications of each

- NA

(c) the least cost operating models currently used in Australia and why we do not observe more, or even all, suppliers using them.

- Difficult to comment here as the inquiry questions tend to be trying to ascertain if a 'peer-to-peer' model may be the most cost efficient and/or transparent. We think that this definition needs thought as the wholesale market in which the banks operate if effectively 'peer to peer' in that it is one participant deals with another. Although some companies have suggested they operate a P2P model (as suggested in the inquiry), the ability to execute this to a large market has seen many revert to the traditional model where a bank is the other side of the transaction not an individual.

<u>Issue 3 – The nature and extent of competition between suppliers</u>

(a) trends in the demand for each type of foreign currency conversion service in Australia and key drivers

- Demand for smaller FX transactions has increased as people look to live a more global lifestyle and access the global market for their needs. Consumers have also become more aware of the ability to use non-bank companys vs banks to achieve cheaper transfers and access better online and offline services.

(b) market shares (including how this was calculated or sourced), with a breakdown by type of service where possible

- Not Available

(c) the identity of suppliers that you regard as your closest competitors and the reasons why, including whether this differs by the type of service or by the way that the service is provided (such as online services in comparison to face-to-face or in-branch services)

- Major banks, Transferwise, Western Union, OFX, AFEX, AMEX, World First

- In the online services for consumer space major banks, Transferwise and OFX are our main competition

(d) the extent to which the pricing of foreign currency conversion by credit or debit card influences the pricing of i.e. foreign currency transfer services in Australia, and ii. foreign cash in Australia

- NA to us currently as we do not provide clients with credit card or debit card payment options due to the large cost passed on by acquirers in this market (normally a % transaction amount). In other markets we provide services cards make up a substantial % of the total payments received as those markets acquirers provide a fixed transactional cost of AUD 40-50c vs the 0.4%-1% charged in Australia. This impacts the ability of Australian customers to access a simpler payments solution.

(e) the extent to which the pricing of pre-paid travel cards influences the pricing of

i. foreign currency transfer services in Australia, and

ii. foreign cash in Australia

- pre-paid travel cards typically charge much higher FX spreads however they do provide the customer with ease when it comes to accessing their funds.

(a) your observations about the pricing practices of competing suppliers compared to your own

- Pricing practices are generally the same across the money transfer sector – retail spread + fee if applicable. We are seeing a move to a no fee environment however it is too early to see if that results in an increase in spreads to offset this model change.

(b) your response to changes in competitive conditions, such as changes in prices charged by competitors or the entrance of new competitors. Please provide specific examples, if possible.

- Pricing has become tighter across the industry as customer understanding of the FX market and pricing improves. This is coming at the cost of investment as direct and variable costs are increasing which is putting pressure on profitability and investment. There are also several disruptors entering the market where their initial focus is on client acquisition rather than profitability. We believe this will change over time but it is too early to tell what impact that may have on the cost for customers.

Most participants give customers access to wholesale rates on their websites. Also comparison websites (such as https://www.thecurrencyshop.com.au/international-money-transfer) are making the differences between suppliers even easier to assess.

Barriers to entry and/or expansion

(a) recent examples of entry, expansion and failed entry/expansion, including information on the time and sunk costs incurred to enter. For failed entry, it would be useful if you could provide details on why the entry failed

- While we have not entered a new market recently, one of the barriers that is obvious as we look to do this is the significantly increase regulatory cost which at times makes the opportunity unappealing

(b) the nature and value of the (sunk) costs a prospective new entrant faces to enter the market and how these are likely to vary for different types of services and operating models

- For money transfer operators, the main costs/barriers are outlined in the document (complex regulatory environment and funding and access to payment facilities and wholesale rates).

(c) whether there is a minimum scale of operation required to be competitive and whether this differs between operating models and/or types of service

- The ability to achieve wholesale rates will depend on volume dealt with banks – therefore small operators will be less likely to be able to compete on price initially unless there is substantial financial backing.

(d) the nature of regulatory obstacles to entry and/or expansion, including whether there are particular regulatory obstacles to providing services in a novel or innovative way.

- ASIC requirements are relatively exhaustive and also include large funding requirements (as above). The increasing need to invest in both people and compliance systems to meet the monitoring requirements is significant.

If so, please provide details (e) the impact of bank 'de-risking' on the ability of suppliers to offer foreign currency conversion services and/or compete on an equal footing. Bank de-risking refers to a bank refusing to provide a bank account to a business that they deem as high risk, such as some suppliers of foreign currency transfers.

- This is seeing a consolidation of non-bank suppliers. Major banks are unlikely to support small new-comers as they would not have the required capital to invest in best of breed risk and compliance frameworks. There is still a residual risk to larger non-bank providers that banks look to secure a larger % of the overall market by making it harder for, or refusing to provide services to, non-bank providers.

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

(a) what you may know about how customers behave and make decisions about foreign currency conversion services, and how this knowledge is reflected in the way you set or communicate prices for foreign currency conversion services

- In the money transfer sector we see an increasing awareness of the access to competitive pricing. We constantly are compared to other providers and banks when quoting either online or via the phone. As mentioned earlier, websites such as https://www.thecurrencyshop.com.au/international-money-transfer give clients access to several providers, and their pricing, at once. Recent research that we conducted suggested that c. 50% of our clients who received a quote from us, but didn't trade, went on to trade with another provider, suggesting that these clients were actively comparing across the industry.

Access to comparison sites like the one mentioned does not always drive the best outcome for the customer. These sites are normally affiliated to money transfer providers which can result in more promotion of the provider offering the best remuneration to the comparison site rather than the best money transfer provider. Sometimes providers feel like they have no option but to participate otherwise they may miss the opportunity to market their brand to potential clients.

(b) how responsive your customers are to changes in price

- Our experience is that different client segments react to changes in pricing differently. Smaller more transactional clients will react to a price change more than a customer looking to do a larger transaction or one that they have more time complete their transfer. They may also be looking for advice and are happy to accept a higher price for that service.

(c) how you tailor your service offering to attract customers, apart from price.

- In the consumer and small business market, we offer an easy to use online system that helps clients self-serve, and hence receive a better price.