

22 October 2018

Ms. Molly Choucair
General Manager, Financial Services Unit
Australian Competition & Consumer Commission

By email: forex@accc.gov.au.



Dear Ms. Choucair

ACCC Inquiry into foreign currency conversion services

Thank you for the opportunity to comment on the Australian Competition & Consumer Commission's (ACCC) Issues Paper dated 2 October 2018 in relation to its Inquiry into foreign currency conversion services.

CBA is pleased to provide this initial response to the Issues Paper and we set out below brief descriptions of the following: the supply of foreign currency conversion services to consumers and small businesses in Australia; the nature of CBA's foreign currency services and our pricing for those services, and some industry trends we are observing.

1. Overview of foreign currency conversion services in Australia

Consumers and small businesses in Australia purchase a range of foreign currency conversion services to meet a variety of needs. Foreign currency conversion services meet customers' need for foreign cash (to make purchases overseas), to transfer money overseas or receive money from overseas, to access money to make purchases overseas (e.g. from ATMs or through the use of debit, credit or travel cards) and to make purchases when based in Australia from overseas suppliers (whether online or via the transfer of funds).

2. CBA's foreign currency conversion services

CBA offers a range of foreign currency conversion services to consumers and small businesses across a variety of channels to meet the different and changing preferences of our diverse customer base. These channels include our traditional physical branch network and via digital platforms such as mobile (e.g. CommBank App) and online (e.g. NetBank, CommBiz).

The services supplied by CBA by way of physical branches and digital platforms, include:

- **Foreign cash** - involving the physical supply of foreign currency (cash notes) to customers from CBA's branches (i.e. over the counter) or ordered online (via the CommBank website) and collected in branch, and the purchase of foreign currency from customers.

- **Travel Money Cards** – being a card onto which customers can load up to 13 foreign currencies so it can be used overseas to withdraw cash at ATMs, and make purchases in-store, online or over the phone, wherever Visa or Mastercard is accepted.
- **International Money Transfers (IMT)** – involving the transfer of money from an Australian account to an account overseas (or vice versa) (through the branch or use of digital channels).
- **International bank drafts and clean bills** – to draw or issue cheques in a foreign currency.
- **Foreign currency account transfers** – to transfer funds between linked CBA foreign currency accounts (which are CBA accounts which allow users to hold foreign currency in Australia).
- **Credit and debit cards** – to allow customers to make purchases and access funds abroad (including by way of a cash withdrawal or advance). Customers can also use these cards to purchase goods and services online from an overseas supplier.
- **Foreign exchange conversions for foreign share trading** – to allow customers to transfer funds into US dollars to trade shares on foreign share markets.

These services are principally designed to be used by consumers and businesses with less complex foreign currency conversion needs in a manner that offers security and convenience.

3. Pricing of CBA's foreign currency services

CBA generally prices its foreign currency conversion services by applying a margin on the price that CBA pays for foreign exchange (the wholesale exchange rate), and by applying fees.

CBA generally makes pricing decisions in respect of the range of currency conversion services offered to consumers and small businesses at the business unit or product level (e.g. Retail Banking Services or Business and Private Banking, as the case may be).

In setting the price for the service, the business unit (or relevant product owner) takes into account a range of factors, including the wholesale exchange rate, the risks and cost associated with providing these services and competitor pricing.

Pricing disclosure

CBA makes the exchange rates applicable to IMTs, foreign cash, travel money cards and foreign drafts available on its website:

<https://www.commbank.com.au/personal/international/foreign-exchange-rates.html>. CBA discloses the standard fees charged for these services on its website.

MasterCard and Visa set the exchange rates for transactions and cash withdrawals on CBA issued debit and credit cards and provide currency conversion tools on their websites. International transaction fees charged by CBA on those transactions are available in CBA's product disclosure documents.

4. Industry observations and trends

Development of new technologies and digitisation of payments

The development of new technologies and the digitisation of financial services globally has led to an increase in the number of foreign currency conversion service suppliers for consumers and small businesses in Australia. Changes in customer preferences have also led to the emergence of new and innovative ways to transfer foreign currencies.

In recent years, CBA has observed a steady decline in the use of paper-based payments (e.g. cheques, clean bills and bank drafts) and higher demand in the use of electronic or online foreign exchange services. For example, as at September 2018, 95.6% of IMTs initiated by CBA occurred online, compared with 55% as at September 2008.

Increased competition

CBA considers that the retail foreign currency conversion industry is highly competitive, with a large number of suppliers. For example, according to IBISWorld research there are 205 money transfer agencies in Australia (January 2018) and 395 suppliers of cash foreign currency conversion services in Australia (July 2018).

Suppliers include major Australian domestic banks, Australian regional banks (such as Bank of Queensland, Bendigo Bank), multinational banks operating in Australia (such as Citibank, HSBC and ING), other financial institutions including credit unions (such as CAU and Community First Credit Union), and other suppliers of specific foreign currency conversion services (such as suppliers of IMTs via the peer-to-peer model, suppliers of branded travel money cards and suppliers of debit and/or credit cards).

These include:

- Suppliers who offer IMT services on a peer-to-peer basis, such as TransferWise, OFX, FlashFX and OrbitRemit;
- Other providers of IMT services such as PayPal, Western Union and MoneyGram;

- Digital banks or fintechs, such as Revolut, offering a broader range of FX services, which may include pre-paid multi-currency debit cards in addition to IMTs as part of a wider service offering;
- Suppliers of travel card products such as Qantas (Qantas Travel Money), Virgin (Velocity Frequent Flyer), Travelex (Travelex Money Card) and Australia Post (Cash Passport Platinum Mastercard).

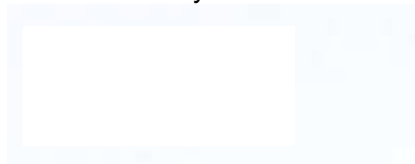
5. CBA's continued innovation and investment in foreign currency services

CBA continues to invest in new systems and processes to deliver an enhanced customer experience across our range of foreign currency conversion services which are offered to consumers and small businesses across both physical (branch) and digital (App and online) platforms.

CBA continues to focus on ways to offer differentiated services (with features that meet the needs of our diverse customer base), but which also address consumers' and small businesses' need for convenient, secure and reliable foreign currency transfer and conversion services.

We look forward to assisting the ACCC with more detailed information during the course of the inquiry.

Yours sincerely



Managing Director, Cash Management and Payment Solutions
Business and Private Bank