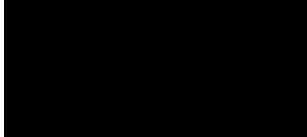


2nd October 2018



My submission to the foreign currency conversion services inquiry covers the topics of credit card foreign currency conversion fees, as well as remittances made to other countries (largely non-commercial) for example to family, friends, small purchases and remittances to known persons for charitable purposes (i.e. directly to known persons, bypassing of large, established NGO's).

Credit card foreign currency conversion fees

Firstly, it is my observation that certain fees that banks charge which are a percentage of a transaction have grown in size over the years. This to me is unacceptable. For example, one of the banks I transact with used to charge 0% in foreign currency conversion fees, before they decided to charge 1%. Now I believe they charge 3%. In other words, in spite of inflation, growing wages, growing expenditures, which in itself will lead to an increase in their profits, their percentage profit from the currency conversion has grown. This, while staff numbers have reduced, automation has increased. The fact that banks exist which offer products with 0% currency conversion fees indicates to me that the actual cost of the conversion is miniscule and I suspect this is largely pure profit for the banks.

Secondly, access to money whilst overseas seems to me to be overly expensive. Most banks charge fees for the use of ATMs overseas, and it seems that the average figure is in the order of \$5. Once again, the fact that some banks have products which charge \$0 foreign ATM fees, and one that I know of that even rebates ATM owner fees incurred overseas indicates to me that the real cost of these transactions is miniscule and that the fees charged do not reflect costs but are largely pure profit.

Thirdly, some banks charge "foreign currency exchange fees" where there is no foreign currency exchange, where the transaction is conducted in Australian dollars, but the merchant is located overseas. This to me is totally unacceptable because there is no conversion of currencies, it is impossible for the customer to know the location of the merchant's bank (therefore impossible to avoid the fee unless one has one of the zero international fee cards), and, once again, because there exist banks with products which do not charge such fees, the extra cost is likely miniscule. In business one does not offer something for nothing, hence I suspect that these banks offering zero foreign currency conversion or ATM fees in fact do not incur any significant cost in these transactions that that they are not able to cover in some way from the fees involved (merchant, annual credit card fees) etc.

Remittances to foreign countries

There is an issues with the lack of services to transfer money overseas for a reasonable rate. However, in your inquiry, please do not forget to look at the TOTAL cost of the transaction –

ie how much money the recipient will receive, not just the fee that the Australian bank charges.

My concern is related to non-commercial transactions, for example remittances of money to family overseas, or to persons known to the sender.

The first area of concern is that banks charge a large fee to send money overseas. I have stopped using banks for these services so my knowledge of the fees may not be up to date, but from my past experience it may cost \$15 if the transaction is done online, and \$25 or more if it is done over the counter. This makes it financially not worth it for sending small amounts of money, as for example when a family member or friend needs a small amount of cash. Then, the exchange rate offered by the bank for this service is considerably worse than the exchange rate offered for credit card transactions (all one has to do is to go, for example, to XXXXXXXXXX website and check their foreign exchange fees for telegraphic transfers and compare that to the interbank rate or the credit card rate). And thirdly, not to be forgotten, the correspondent and recipient banks then also eat up some of the money, such that, in my experience, the recipient receives about \$25 less than what was sent (outside of the sending fee and exchange rate mark-up). I do not know the technicalities of these processes, however my suspicion once again is that the real cost of these transactions is rather small given that there are alternatives. Whether these amounts really go to correspondent banks or recipient banks is up for investigation or debate, however to me it is unacceptable to lose up to \$25 on the sending side and \$25 on the receiving side, on top of the poor exchange rate, when sending money overseas, when one can use a credit card to purchase something overseas and pay zero for the privilege. There is still a transfer of money involved.

Filipinos overseas are a community that regularly sends money home to family. Because of this there are money transfer services run by Filipinos for transfer to the Philippines. Their fees are often considerably lower than the banks (eg \$7-9 depending on the method of delivery), the exchange rate is much higher, not much below the interbank rate, and the recipient receives all the money transferred. The recipient bank, or money transfer agent does not take a fee, or if they do, it is built in to the transfer fee. In other words, if I send \$100, plus a \$7 fee, the recipient receives \$100 exactly. The fact that this is possible, and the fact that the businesses offering such services are much smaller than banks, tells me that the real cost of these services is once again miniscule, and banks, rather than using their economies of scale to provide cheaper services, use their almost monopoly power to offer more costly services because many people are not aware of the alternatives and the banks have an almost captive audience. Of course, when one thinks of dealing with money, the first entity that comes to mind is a bank.

Another feature of these alternative remittance services is that the transaction takes less time to complete than with the bank. With a bank, it may take 1 week for the recipient to receive the money. With these remittance services it may take only a day or two. This makes one wonder what the banks are doing with the money? Are they earning interest on it in the meantime?

The complication with these alternative remittance services is that some banks have made it difficult for these services to operate bank accounts that senders can deposit. Some of these difficulties come in the name of prevention of money laundering etc, however one wonders whether it is really to lessen competition in the money transfer market. Further difficulties involve these measures to minimise money laundering, fraud and financial crime, and this involves questions as to the source of funds, purpose of the transaction, relationship of the recipient to the sender, and more, seem reasonable, however, do all transactions receive the same amount of scrutiny, or do large businesses sending money during their day-to-day operations escape this scrutiny, do wealthy individuals with private banking services escape this scrutiny, when the majority of these transactions involve simple money transfers to family or friends for financial assistance? Sometimes it is difficult to explain source of funds even for legitimate transactions, for example, when pooling money from others to send together in one transaction or assisting non-technologically-minded people by sending money on their behalf. Onerous requirements should be proportional to the level of risk involved, and perhaps should be ranked on the basis of risk eg by destination country and other factors. Most transfers to the Philippines, for example, I would envisage would be low-risk transfers to family, and should not have onerous requirements, other than when some criminal or illegal activity is suspected.

Another issues in these transfer services, as well as in payments made to merchants (for this same issue exists there) is security of personal information. This may be outside the scope of this inquiry, but it deserves a mention.

One of the methods to send money to the transfer agent is [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED]. When using [REDACTED] you are effectively giving your bank login details to a third party, and this is an unacceptable level of invasion of privacy. There needs to be an alternative, secure, method of money transfer where the transaction can be verified by the recipient.

I hope these issues receive the proper attention they deserve. Just as competition finally reduced the cost of telecommunications (one can remember the cost of phone calls in the 1980's, yet today for \$10 a month one can make unlimited calls and texts, and for not much more, can make unlimited calls to certain countries), it is my hope that one day the banking and financial services industries charge fees reflecting the true cost of providing such services rather than purely for profit, charging as much as the market will bear.

[REDACTED]