



NATIONAL AUSTRALIA BANK SUBMISSION

Response to *ACCC's Foreign
Currency Conversion Services Inquiry*

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1. Introduction

NAB welcomes the opportunity to provide information to the Australian Competition and Consumer Commission's (ACCC) inquiry into Foreign Currency Conversion Services (**the Inquiry**). NAB provides a range of foreign exchange services to its retail and small business customers, including providing foreign cash, foreign currency accounts, debit and credit cards, travel cards, and international money transfers (**IMTs**).

NAB notes the overarching aim of the Inquiry is to examine pricing of foreign currency conversion services and evaluate whether there are impediments to effective price competition. NAB considers that the market for provision of foreign currency conversion services is highly competitive, with a large number of providers available. However, NAB recognises that due to the range of services offered and the differences in how the various participants in the market charge for the services, it can be difficult for customers to compare offerings.

Since November 2017, NAB has introduced greater transparency for customers by removing uncertainty related to fees. To this end NAB has changed the fee structure for outward IMTs, and was the first bank in the world to commence implementation of the SWIFT network's Global Payments Innovation (**SWIFTgpi**), which aims to improve the transparency of fees of international payments and provide real-time tracking for customers. In addition, NAB continues to enhance its products and services to meet the international needs of customers.

Most of NAB's retail customers use NAB internet banking for their banking services, including foreign currency transactions. NAB also provides business banking customers with access to NAB Connect, NAB's online platform for business transactions, including for larger foreign currency transactions. Given the scope of the Inquiry, NAB Connect is excluded from NAB's response. Further details about NAB Connect transactions can be provided, if required.

2. Competitive dynamics

NAB considers that the foreign exchange market in Australia is competitive and that customers can choose from a large number and type of providers. These providers include the major and smaller banks as well as non-bank providers, such as money service bureaus (**MSB**) (eg. Western Union) and online-only providers of currency transfer and currency conversion (such as Transferwise, OFX and PayPal). New digital disruptors are emerging, with online-only companies offering currency transfer outside traditional correspondent bank networks.

A large number of providers supply pre-paid traveller cards including the banks, Qantas, Velocity Frequent Flyer, Travelex, Australia Post and smaller online-only competitors such as Xinja Card. NAB considers customers are price conscious and will switch between providers, seeking the best deal.

Different providers have different cost bases. Some factors impacting costs for participants in the market include:

- **Costs associated with service offering** – FX cash requires a physical presence and logistics for transfer of cash which involves a higher cost compared to an online only currency transfer service;
- **Additional features** – transfer of currency via a bank originated IMT involves additional safeguards (through the use of a trusted correspondent bank

network). The imminent introduction of SWIFTgpi will allow NAB customers real time tracking of their payment via their preferred internet banking portal. This will increase transparency as customers will have better visibility of their currency transfer, including bank fees charged and FX rates applied, and when funds are made available to the beneficiary.¹

- **Speed of transfer** - there may also be differences in how quickly a transfer will be processed depending on whether it is sent via IMT or a MSB, the time zone into which the payment is being made, the currency being remitted, and the method or clearing system through which the payment is actually settled into a beneficiary's account. To reduce costs, some MSBs may use an overnight (such as ACH bank debit) payment method of distributing payments to beneficiaries rather than a real time method.

NAB is continuing to drive innovation in payment services and investing in technology to improve its offering to customers and to lower and simplify costs to deliver payment services. NAB regularly evaluates new technologies and commercial arrangements that have the potential to enhance payment services across all countries.

NAB also provides a wide range of wholesale banking services to other participants in the foreign exchange market, who include international FX/payment providers, fintechs and MSB. In doing so, NAB considers that it contributes to competition in the market. NAB services include provision of bank accounts, online channels and Secure File Transfer Protocol capability, corporate cards, SWIFT products, allocated Electronic Funds Transfer (virtual accounts), BPAY, bank guarantees, wholesale FX dealing, and merchant acquiring. Through these platforms and solutions, these NAB customers have the ability to receipt and enact payments on behalf of their consumers often in direct competition with NAB's own FX products and services.

3. Price transparency

NAB agrees that fees for foreign exchange services can be complex. Participants in the market price based on different models; such as charging a margin on top of a base rate or upfront fees, or a combination of the two. Upfront fees may be fixed or vary based on transaction volume (ie. monetary value). Similarly, the margin may be variable based on transaction volume or the relationship between the customer and the provider (negotiated reduced margin rates are common in the market). In addition, the currency conversion rate shown to a customer may include a margin or a margin may be subsequently added.

NAB has been working to improve price transparency and make fees easier, simpler and clearer upfront for its customers. This work has included the changes to outward IMT fees (discussed in **Section 5** below) and NAB's leading role in the development of SWIFTgpi which improves the transparency of international payments.

In December 2017, NAB committed to adopting and complying with the Foreign Exchange Global Code of Conduct (**FX Code**).² Developed by central banks and market participants from 16 jurisdictions around the world, the FX Code is a set of principles that guide good practice and effective functioning of the *wholesale* foreign exchange market.³

¹ <https://www.swift.com/our-solutions/global-financial-messaging/payments-cash-management/swift-gpi>

² <https://news.nab.com.au/nab-commits-to-fx-global-code-of-conduct/>

³ www.globalfx.org/docs/fx_global.pdf

The FX Code includes specific principles related to transparency and documenting and publishing a set of disclosures regarding wholesale FX services offered, including disclosures to make it clear that the financial transaction price may be inclusive of a margin; that different customers may receive different prices for similar transactions; and to help customers understand the underlying operating costs that contribute to the margin applied. In accordance with the FX Code, NAB also maintains a timely, consistent and accurate record of all wholesale FX market activity to facilitate appropriate levels of transparency and auditability.

4. Margins and costs to supply

NAB incurs a variety of costs in providing foreign exchange services. These include internal costs such as technology, digital services (mobile app and internet banking), staff costs, customer support (fraud mitigation, chargeback disputes, lost/stolen cards, IMT errors), operational costs, risk and regulatory compliance costs. External costs include those levied via foreign bank networks and fees from domestic and international credit and debit card schemes.

NAB publishes currency conversion rates on its website. In some cases, NAB offers discounted rates to customers within its internet banking platforms, primarily as a reward for loyalty based on volume or frequency of transactions. NAB's currency conversion rates incorporate a margin to cover NAB's costs. Further information regarding rates and margins is set out below.

Retail rates

The advertised rates on NAB.com.au are the NAB FX Retail Rates. These rates are priced for the purposes of one off or infrequent FX transactions and for small amounts. The NAB FX Retail Rate comprises NAB's derived bid and offer rate (inter-bank market rate plus execution cost) as well as NAB's margin. NAB's margin takes into account the operational, risk and regulatory costs involved in providing foreign exchange services. NAB's FX Retail Rates are accessible on NAB's website via the exchange rate calculator (<https://www.nab.com.au/personal/international/foreign-exchange-rates#/calculator>).

Online Pricing Tiers

For self-service clients with simple FX transaction needs, who do not require regular contact with an FX dealer, NAB provides a discounted margin. These rates vary based on customer characteristics as well as the currency, and reflect the lower costs associated with providing this service.

NAB has commenced introduction of an automated volume based pricing discount, which will ensure that larger retail price transactions automatically receive discounted margins.

5. Foreign currency conversion services

NAB provides a range of services for its customers, including providing foreign cash, foreign currency accounts, debit and credit cards, travel cards, and IMTs.

Different types of products have different exchange rates, so a customer transferring cash will be charged differently to one making an FX transaction for a travel card. For some products, the exchange rate (including the margin) is set by NAB. For others, such as Visa debit or credit cards, or foreign cash, the exchange rate (including the margin) is set by the card scheme or third party supplier.

Likewise, as noted in **Section 4** above, different types of customers may be charged different rates (ie. if a customer transacts a certain volume per year, or for larger transactions, they may receive discounted rates as a loyalty cost reduction, whereas a one-time transfer will likely receive the retail rate).

Set out below is an overview of the types of currency conversion services NAB provides and the applicable fees and exchange rates applied. NAB is happy to provide additional information regarding its fees and exchange rates upon request.

Foreign cash

NAB provides foreign cash by acting as an agent for Travelex, with over 50 different currencies available to buy and sell. Customers can choose to order foreign cash online, for pick up at a local branch or they can complete the transaction over the counter at the branch.

If customers order the cash online, NAB does not currently charge a fee for the transaction. If customers order the cash via an over the counter transaction, it is subject to a \$10 transaction fee. Customers ordering foreign cash will ordinarily pay the third party supplier rate for the conversion (including a margin). Some customers may receive value or volume discounted rates for foreign cash.

Foreign Currency Accounts

NAB offers customers the ability to hold foreign currency in a NAB Foreign Currency Account. The NAB Foreign Currency Account is available in 19 currencies and allows customers to make or receive IMTs, as described below (**IMTs, Outward IMTs, Inward IMTs**) without incurring additional currency conversion fees. NAB customers can transfer to and from their NAB Foreign Currency Account and other NAB Australian dollar accounts at the NAB FX Retail Rates and Online Pricing Tiers (described above in **Section 4**).

NAB Foreign Currency Accounts are available to all individual and business customers. NAB customers can make payments from their NAB Foreign Currency Account via their banker or in a NAB branch.

NAB Foreign Currency Accounts do not have any account keeping fees or minimum balances. There are currently five currencies that incur a Currency Holding Fee (DKK, CHF, EUR, JPY, SEK) of 1% of balances when the NAB Foreign Currency Account balance is above the equivalent of AUD \$5 million. This fee reflects the cost to NAB to hold these currencies in markets where interest rates are low or negative. This fee is disclosed on nab.com.au and the currency equivalent balances are reviewed quarterly.

NAB debit cards

The NAB Visa debit and NAB Platinum Visa debit cards can be used to make purchases and ATM cash withdrawals overseas. The NAB Debit (eftpos) card can be used for ATM cash withdrawals only when used overseas. These cards are linked to an Australian dollar transaction account.

Purchases, ATM cash withdrawals, refunds and any other charges, incurred in currencies other than Australian dollars are converted to Australian dollars at the time they are processed by the Visa scheme. The foreign exchange rate applied is set by Visa.

A NAB International Transaction Fee is charged for purchases and ATM cash withdrawals on all debit cards, except for purchases made on a NAB Platinum Visa debit card. The fee is 3% of the Australian dollar transaction amount for purchases and ATM cash withdrawals made in currencies other than Australian dollars.

Where an International Transaction fee is payable, this fee includes a Visa scheme fee charged to NAB and on-charged to the customer.

Fees are payable for overseas ATM access. For overseas ATM cash withdrawals, a fee of \$5 per withdrawal and \$1 per balance enquiry applies. These fees include a Visa scheme fee charged to NAB and on-charged to the customer.

NAB Visa credit cards

Credit cards allow customers to make international transactions either while travelling or when purchasing from merchants located outside Australia.

The way international transactions are processed and appear on customer statements depends on the type of transaction. International transactions can be 'single currency' (where the transaction is made in Australian dollars) or 'multi-currency' (where the transaction is made in currency other than Australian dollars). For all NAB credit cards the foreign exchange rate is set by the credit card scheme. The converted Australian dollar amount appears on the customer's statement of account as the transaction amount.

A NAB International Transaction Fee is charged for purchases and cash advances to all credit card accounts, except NAB Visa One Fee-Free cards which are not charged these fees. The NAB International Transaction Fee is included as a separate line item on the customer's statement. For Visa single currency and multi-currency transactions the fee is 3%, this fee includes a fee charged by Visa to NAB (and on charged by NAB to the customer), calculated on the converted Australian dollar amount. Corporate credit cards have a 1% fee and the fee is incorporated into the converted AUD amount. Linked NAB credit card accounts are charged a fee for overseas ATM withdrawals and balance enquiries.

A cash advance fee of 2% (minimum \$2.50) is charged on all domestic and international cash advances. In the case of cash advances made in currencies other than Australian dollars, the cash advance amount used to calculate the cash advance fee is the Australian dollar amount posted to the NAB credit card account.

NAB Traveller cards

NAB provides prepaid Traveller cards that allow customers to load up to 10 currencies on a single card and can be used overseas.

If funds are loaded/reloaded, moved from one currency to another, or cashed out, in a currency other than AUD, the NAB Currency to Currency foreign exchange rate is used. This is a foreign currency rate set by NAB used when any currency is converted into another currency and includes a margin determined by NAB. This comprises a fee payable by NAB to Mastercard and on charged by NAB to the customer. Where the transaction is originated in branch or Internet Banking, the NAB customer sees the exchange rate (inclusive of any margin) that will be applied to the transaction. This rate is dynamic and indicative only until the transaction is confirmed by the customer.

If a customer uses the card to make a Transaction (ATM, POS, internet or phone) and the card does not hold the currency, the card will automatically select the next available currency according to a predetermined default order of priority. In this instance, a currency conversion will occur and a conversion rate applies (using the foreign exchange rate set by Mastercard, which varies from time to time). A NAB Foreign Currency Conversion Fee of 4% of total transaction value is also payable which comprises a fee payable by NAB to Mastercard and on charged by NAB to the customer.

NAB does not charge customers a fee for ATM withdrawals overseas using the NAB Traveller Card.

IMTs

NAB customers can make and receive IMTs. 'Outward' IMTs (sometimes referred to as LHS) refer to a NAB customer (the remitter) sending money to a beneficiary. 'Inward' IMTs (sometimes referred to as RHS) involve a NAB customer (the beneficiary) receiving money from a remitter based overseas.

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.

A challenge with IMTs is that each transfer submitted by a customer is settled through NAB's network of correspondent banks, with each bank levying its own fee(s). Fees vary according to size of transaction, NAB's relationship with the receiving bank, exchange rates and other factors. In addition, depending on the location of the remitter and beneficiary, and the currency being sent, the IMT may pass through a number of correspondent banks within the network, which introduces the potential for multiple fees to be levied. The originating bank (NAB) will not always have visibility over the charges to be levied by subsequent recipient banks. These fees may be collected by being deducted from the amount paid to the beneficiary, or claimed back from the transfer initiating bank (who would then be expected to pass this back to the remitter).

Outward IMTs

NAB recognised that the uncertainty regarding foreign bank fees was a customer pain point. Accordingly, on 1 November 2017 NAB introduced a simplified fee structure for cross border payments. With that simplified fee structure, NAB became the first Australian bank to absorb the overseas bank charges for its retail customers. NAB now charges a flat \$10 fee for outward payments sent in foreign currency via internet banking. On each payment, NAB instructs its correspondent bank to pay the amount in full without any deduction and claim their fees back to NAB, which NAB then absorbs. Customers may choose to send their payments in AUD for a higher fee of \$30 via internet banking, with the same instructions sent by NAB that no correspondent bank fees should be deducted from a customer's payment. NAB's IMT fees are higher where the payment is originated over the counter (\$30) or pursuant to Facsimile Letter of Authority (\$35), reflecting the additional costs to NAB in providing these services.

For outward IMTs, where a customer chooses to send the payment in the foreign currency, the exchange rate applied is the NAB FX Retail Rate, subject to any margin discounts offered (see **Section 4** for further details). Where the transaction is originated in Internet Banking, the NAB customer sees the exchange rate (inclusive of any margin) that will be applied to the transaction. This rate is dynamic and indicative only until the transaction is confirmed by the customer.

NAB offers a volume based pricing discount, which ensure that larger retail price transactions receive discounted margins.

Inward IMTs

For inward IMTs, NAB charges a fee, which may include repayment of a commission fee levied by the originating bank. The fee is ordinarily deducted from the amount paid to the beneficiary, however in some cases the remitter may instruct NAB to charge NAB's fee to them. The foreign exchange conversion for inward IMTs is either the standard retail rate (with discounts to margin for Online Pricing Tier customers as per **Section 4**)

or a discounted FX rate where the margin has been previously agreed between NAB and the originating bank.

For large value payments, the payment is stopped and requires manual intervention to apply a margin and book an exchange rate by an FX Dealer. Alternatively, a customer may wish to open a foreign currency account or place their foreign currency on term deposit. This allows the customer to choose when they wish to convert funds and consider other FX service providers to obtain an FX rate. NAB is currently working on improvements to IMTs for customers including the ability for inward receipts to be directed to currency accounts with no immediate conversion via internet banking.

6. Future proposition

NAB Foreign Currency Account digital functionality

NAB considers that increased offering and uptake of digital functionality for foreign currency transactions will increase pricing transparency and simplify fees and charges for customers. NAB is currently delivering a project to make NAB Foreign Currency Accounts visible on Internet and Mobile Banking and accessible to all customers. This will enable customers to store foreign currency and transfer funds between their Australian Dollar accounts and linked NAB Foreign Currency Accounts and vice versa when they see fit, for example when they consider the exchange rate is more favourable. Customers will also be able to make payments directly from their NAB Foreign Currency Account. Transfers between a customer's accounts (within their NAB profile) will not incur additional fees above the currency conversion. Payments from a customer's NAB Foreign Currency Account, in currency, to an external beneficiary is expected to be subject to a \$30 fee.

Any currency conversions will be subject to the NAB FX Retail Rates and Online Pricing Tiers as **described above in section 4**. The same currency conversion rates will apply when transferring funds from a NAB Foreign Currency Account to a customer's Australian dollar account. Where the transaction is originated in Internet Banking, the NAB customer will see the exchange rate (inclusive of any margin) that will be applied to the transaction. This rate will be dynamic and will be stated as being indicative until the transaction is confirmed by the customer.