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Ms Azrienne Rahman  
Assistant Director, Financial Services Unit  
Australian Competition & Consumer Commission  
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Dear Ms Rahman

## **INQUIRY INTO FOREIGN CURRENCY CONVERSION SERVICES - ISSUES PAPER**

The Office of the NSW Small Business Commissioner (OSBC) is focused on supporting and improving the operating environment for small businesses in NSW. The OSBC advocates on behalf of small businesses, provides mediation and dispute resolution services, and speaks up for small business.

The OSBC recognises that all Australian businesses operate in a highly globalised market. The majority of the 736,000 small businesses in NSW, across industries, are likely to supply and or purchase internationally to some extent. Plainly, then, small business requires access to cross-border payment and currency exchange services as a matter of course.

However, most resource-strained small businesses are also likely to lack a sophisticated understanding of complex currency markets and exchange practices, and are unable to access wholesale exchange rates. For these reasons, their engagement with the industry is similar to that of a consumer, despite their frequent reliance on its services. Small businesses are therefore particularly vulnerable to egregious conduct on the part of foreign currency services which we highlight in this submission.

We therefore welcome the opportunity to provide comment on matters raised in the ACCC's *'Inquiry into foreign currency services'* issues paper, and to make recommendations for the consideration of the inquiry. Thank you for providing our Office with an extension to provide this submission.

### **Recommendation: ACCC should mandate full disclosure of fees for all currency exchange services**

The OSBC is particularly concerned by the high price of many foreign currency services - attributable largely to undisclosed and hidden fees.

Of most obvious concern is the practice of offering currency exchange on a 'no fee' basis. Unsophisticated operators are unlikely to appreciate that a 'no fee' service has simply built all fees into the exchange rate charged above the wholesale rate, and will

not necessarily offer better value than a provider with a more transparent fee structure. Hidden 'drip' pricing is also likely to induce such operators into a transaction under a misleading pretence. Indeed, research has shown that when faced with multiple foreign exchange services, consumers find it difficult to make optimum decisions. In one simulation of a money transmission service involving foreign exchange, in which individuals were presented with information about four services' fees, commissions, and exchange rates, less than half managed to select the best option. Moreover, small businesses face particular barriers to understanding and comparing the fees and fee structures of foreign currency services. Financial literacy rates and in particular foreign exchange skills can be low among small business owners. One third of NSW small business owners are also from a non-English speaking background, which provides additional challenges.

These issues are a multi-billion dollar concern, as well as a foundation-stone of the foreign currency industry. Australian consumers and businesses spent \$3.9 billion on foreign currency fees in 2016 of which \$3.1 billion was attributable to hidden exchange rate mark-ups, and card spending charges applied by banks and currency brokers to international transactions.<sup>1</sup> As the ACCC notes, the World Bank has found Australia to be the third most expensive G20 economy for customers and small business to transfer money. The biggest cost to small businesses as consumers is the opaque and poor-value-for-money exchange rates services such as banks typically offer.<sup>2</sup>

To address these opaque pricing practices and informational asymmetries, it is appropriate that foreign currency services be required to provide full disclosure regarding fees. That is, in all foreign currency transactions, the full value of all charges above the wholesale exchange rate should be explicitly declared to small businesses and consumers up front. This would provide necessary transparency, and empower users to choose the best value service. In turn, an adequately informed customer base will also encourage increased price competition between providers.

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**Recommendation: The ACCC should examine potential regulatory and other barriers to entry for new suppliers entering the market**

The OSBC believes it is important that government ensures there is adequate opportunity for new businesses to enter the foreign currency industry. Indeed, the OSBC ardently supports the reduction of unnecessary and disproportionate regulatory obligations, and reforms to make regulation easier to navigate, across all industries and levels of government.

Limiting the barriers to new foreign currency services entering the market will ensure a level playing field for small to medium enterprises, helping to foster a more competitive industry. As the ACCC notes, a small number of new suppliers have already begun offering foreign currency services in recent years. Consumer advocate *Choice* highlights that these providers have demonstrated the ability to offer consumers and small businesses cost-competitive fees.<sup>3</sup>

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<sup>1</sup> Ibid

<sup>2</sup> The World Bank, Annual Remittance Prices Worldwide, Issue 26, June 2018,

<https://remittanceprices.worldbank.org/en/resources>

<sup>3</sup> <https://www.choice.com.au/money/banking/foreign-transactions/articles/overseas-money-transfers>

However, these providers have not captured significant market share, or significantly impacted the pricing practices of major operators such as the 'big four' banks.<sup>4</sup> While this is likely attributable, in some part, to the opaque pricing structure and information asymmetries outlined above, it is nonetheless important for small business that the regulator facilitate increased competition to the full extent practicable.

For this reason, the OSBC encourages the ACCC to give detailed consideration to identifying any regulatory and additional barriers that new foreign currency providers face to entering the market, and the means by which these barriers might be eliminated. We would welcome the opportunity to give detailed consideration of, and provide feedback to, any documentation or recommendations arising from such efforts.

### **Next steps**

As the voice for small business in NSW, the OSBC would welcome the opportunity to work with the ACCC to identify and explore practical measures to ease the pressures on small business from foreign currency services.

To discuss this submission, please contact [REDACTED]  
[REDACTED] on [REDACTED], or

Kind regards

[REDACTED]  
**NSW Small Business Commissioner**

12 November 2018

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<sup>4</sup> Australian Competition and Consumer Commission, *Inquiry into Foreign Currency Conversion Services* (Page 13)