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22 October 2018

## **Australian Competition & Consumer Commission**

**By email:** [forex@acc.gov.au](mailto:forex@acc.gov.au)

### **Australian Competition & Consumer Commission – Inquiry into foreign currency conversion services**

On 2<sup>nd</sup> October 2018 the Australian Competition & Consumer Commission (“ACCC”) released an issues paper (“**Issues Paper**”) and sought feedback from entities that engage in currency conversion on several issues identified by the ACCC. Western Union welcomes the opportunity provided by the ACCC to submit information as requested, and to further the dialogue about financial inclusion for consumers and businesses who utilise cross-border services.

We note that the period allowed for responses is very short, with feedback required to be provided by 22<sup>nd</sup> October 2018. To comply with this time frame, Western Union has prepared this high-level response as a supplier.

The Issues Paper provides for the ACCC making all responses public via its website. As such, Western Union has not been able to address any issues requiring the disclosure of commercially sensitive information on the basis that such disclosure would likely damage our competitive position.

If the ACCC wishes to seek further information from Western Union in respect of the matters raised in the Issues Paper or this response, Western Union will be able to furnish such information on a confidential basis (in accordance with the ACCC's usual conditions of confidentiality).

#### **1 About Western Union**

As a global leader in cross-border, cross-currency money transfers for consumers and businesses, Western Union strives to provide accessible financial services that transform lives, connects businesses with markets, creates jobs and drives economic growth around the world. Western Union enables financial inclusion by providing access to financial services in all types of economies and geographies, from countries with highly banked and technology-equipped consumers and businesses to communities whose residents have little access to formal banking services or technology.

We offer a global platform that connects people in approximately 20,000 country-to-country corridors, in more than 200 countries and territories and over 130 currencies around the world, through agent locations, ATMs, bank accounts, cards, mobile phones,

tablets, computers. We also offer, through Western Union Business Solutions, business-to-business payments for a wide range of business sectors engaged in trade and paying for goods and services across borders.

Western Union operates in a very competitive environment in Australia and globally, with more than 600 licensed payments providers in the EU, many more across the Asia-Pacific region and thousands of registered payments providers in Australia and the United States (not including banking institutions in each region).

References to “Western Union” in this response are references to the relevant entities in the Western Union Group that offer services in Australia that are within the scope of the Issues Paper. Certain Western Union Group entities also offer services in Australia that are beyond the scope of the Issues Paper (such as foreign exchange derivatives products and the processing of same currency payments) and no commentary is made in respect of, or references, such services.

## **2 Responses to Issues Identified**

### **2A Issue 1: The pricing of foreign currency conversion services**

#### ***(i) Western Union’s Pricing Approach***

As subsidiaries of a publicly-listed parent company, Western Union entities in Australia operate as businesses that are ultimately answerable to shareholders. The Western Union Group has long engaged in diverse efforts as a socially responsible corporate citizen. We are proud of company programs such as Education for Better, financial literacy training and volunteer, sponsorship and charitable initiatives run by Western Union Foundation. Western Union has consistently partnered with public sector organisations, industry associations and public interest groups as an advocate, across many jurisdictions including Australia, in development and inclusion initiatives such as the United Nations Global Compact on Migration and the Global Partnership for Financial Inclusion Forum. However, the reality, as a private sector company, is that Western Union needs to be able to generate income through the operation of its business. For foreign currency conversion services (“**FX Services**”), this is achieved through exchange rate mark-ups (“**Margin**”) and/or fees (“**Fees**”), which vary according to the product/service and delivery channel.

As Western Union also works with various agents/affiliates and financial institutions (each a “**Payments Partner**”) either offering Western Union services through agents/affiliates or offering services to licensed financial institutions to enable them to provide equivalent FX Services to their customers, arrangements are also required to ensure that Payment Partners are remunerated for their respective roles.

Western Union takes a wholistic approach to setting Margins and Fees, which can be customised in agreement with some Payments Partners and for certain business client segments. This approach involves considering the overall Payments Partner or client relationship to determine Margin and Fee structures that achieve appropriate results for end consumers and the offering of accessibly-priced FX Services. This is a complicated process with many variables and is reliant on identifying a set of base assumptions to determine estimated costs (from which Margins and Fees can be set). True costs (i.e. Western Union’s actual cost of providing the applicable service) will vary according to currency pairings, delivery channels, the basis on which payments are processed through correspondent and intermediary banks, countries involved, size and frequency of

transactions, availability of currencies etc and are also subject to the risk of market and regulatory changes at any time.

For example:

- The true Fee cost of processing a core currency<sup>1</sup> telegraphic transfer or designated remittance arrangement may be \$10 whilst the true Fee cost of or processing an exotic currency<sup>2</sup> telegraphic transfer may be \$25.
- The true Fee cost of executing a foreign currency cheque conversion on a collection basis is usually far too high to be palatable to consumers (commonly between \$100 and \$150). To ensure that this service can still be offered to consumers at an accessible price point (typically between \$50 and \$55), suppliers may need to apportion the true Fee cost across other FX Services within its suite and/or make provision for the loss in respect of Fees when determining a sustainable Margin. Unlike some providers who “cherry pick” only the simplest corridors and customers, Western Union strives to implement core principles that financial services should be accessible to all.

Margins for exotic currency transactions will typically be wider than for core currency transactions to reflect the additional overhead costs and staff expertise (ranging from appropriately experienced foreign exchange dealers to specially trained operations and compliance staff) required to execute such transactions.

(ii) As is the case for many other industries, the cost of traditional bricks and mortar business models is typically greater than equivalent online business models. For FX Services, this commonly translates into higher costs for in-branch services versus online. Whilst this distinction has, naturally, paved the way for innovation from established suppliers as well as new market entrants, Western Union believes that the key requirement in protecting consumers in respect of pricing of FX Services remains unchanged in **adequate and accurate disclosure**.

(iii) ***Western Union’s Commitment to Transparency***

(a) *Money Transfer Services*

- Prices are fully transparent to consumers who wish to send money.
- Consumers can receive a quote over the counter or online that clearly displays how much they will need to pay for the currency of choice and any fee that is also payable.<sup>3</sup>
- Fees vary across channel that is used and consumers are free to obtain separate quotes for each channel.
- Consumers are able to compare total transaction prices between channels and against quotes from competitors.

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<sup>1</sup> “Core” currencies (also referred to as “Majors”) are commonly traded and widely available currencies, such as USD, GBP, EUR and AUD.

<sup>2</sup> “Exotic” currencies are thinly traded, illiquid currencies that are not widely available.

<sup>3</sup> For example, if a consumer wants to send funds to ensure that the recipient receives USD100, Western Union will quote the amount required to be paid in AUD (which includes the Margin) plus any Fee.

In our experience, consumers don't always make their purchase decision for FX services based exclusively on price, they may place importance on variables such as trust in the brand, convenience, availability of collection locations, customer service support, speed and reliability.

Western Union does not charge fees to a person receiving money in Australia or in any country that receives funds sent from Australia.

(b) *Western Union Business Solutions*

- Consumers of these account-to-account services are predominantly small-to-medium enterprises (“SMEs”) or very small enterprises (“VSEs”) sending international payments to offshore suppliers or, in the case of exporters, receiving international payments from offshore customers.
- Prices are fully transparent and, depending on the size and nature of the relationship, Margins and Fees may be set on a negotiated basis.
- Generally, SMEs and VSEs are free to, and do, deal with several suppliers of FX Services at the same time and are adept at obtaining and comparing quotes.
- Real-time quotes can be freely obtained by phone or online.

(iv) *Western Union's Treasury Costs*

Our pricing also takes into account our Treasury/wholesale costs (see next section). However, to ensure consumers are able to easily compare prices across different products/services, delivery channels and suppliers, the focus should be on **total transaction costs — simply put: what the customer pays into the transaction versus what the receiver receives from the transaction.** As such Western Union's Treasury costs are not of relevance to the consumer. In fact, well-regarded research for regulations (such as Dodd Frank in the US) noted that treasury costs and margins created confusion for consumers.

It should be noted that wholesale currency prices fluctuate minute by minute and the pricing that is available to Western Union depends on numerous market driven factors including but not limited to, currency pairs involved, fluidity of the currency, amounts involved, credit terms, settlement arrangements etc. Western Union also engages in hedging certain foreign exchange exposures, which can be a factor in the determination of ultimate currency costs. Importantly, Western Union carries the risk associated with market movements between the time that a consumer transacts its buy/sell order (or, in the case of rate-guarantee arrangements,<sup>4</sup> the time that Western Union provides a quote for such order) and the time that the buy/sell order is executed in the wholesale market.

## 2B. Issue 2: Costs to supply foreign currency conversion services

We have set out below an overview of the main categories of costs Western Union incurs in providing its FX Services.

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<sup>4</sup> In some instances, rate quotes are held for up to 72 hours.

**(i) Overhead Costs**

Western Union incurs fixed and variable costs in the provision of its services. Direct costs include labour costs and taxes associated with the provision of services in Australia, including the costs of maintaining offices in Sydney, Melbourne, Brisbane and Perth. As the ACCC would appreciate, labour-loaded costs in Australia remain high compared to some other G20 countries, contributing to the comparatively higher cost base. These costs have increased over time.

**(ii) Compliance Costs**

A cost that we believe distinguishes Western Union from other suppliers is our investment and expenditure in the field of compliance, including:

- The cost of assessing laws and regulations in each jurisdiction in which we operate or transact. In Australia alone, we comply with the *Corporations Act 2001*, *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* and *Privacy Act 1988* (amongst other laws and regulations). To add some perspective to the breadth of our compliance commitment, Western Union offers international payments to over 200 countries and territories in over 130 currencies.
- The cost of developing frameworks to support the operation of our business and ensure compliance with laws and regulations
- The cost of employing, training and maintaining specialised Compliance staff across the globe
- The cost of screening transactions to ensure compliance with applicable sanctions and requirements of the Office of Foreign Assets Control
- The cost of operating a global interdiction framework to support compliance objectives
- The cost of technology and innovative tools including hardware, software, artificial intelligence etc. to support and protect the transaction and compliance framework.

Western Union welcomes the ACCC's Inquiry and notes that some suppliers in Australia appear to take a different approach to compliance than Western Union or may not make the same level of investment. Alternative business structures and/or practices may be adopted to seemingly avoid some of the costs associated with the development, maintenance and execution of a comprehensive and rigorous compliance program. This scenario is exacerbated in other countries on the receiving end of transactions from Australia, but which may have different regulatory structures.

**(iii) Banking Costs**

Western Union incurs significant costs in the maintenance of our global banking network in addition to payment processor and transactional costs. Western Union also faces additional costs with any efforts to grow or expand the network. It can be particularly expensive to establish and maintain payment channels in remote locations (like villages in the Pacific Islands) where bank accounts and traditional financial services are extremely limited or non-existent.

We take this opportunity to remind the ACCC and the Minister of the ongoing challenges remitters face in Australia and globally with respect to bank de-risking. This trend has not abated over the past five years and continues today. It creates additional costs, both direct and indirect, as Western Union strives to provide its bankers and its correspondent banks with the confidence and reassurance necessary to continue providing services to

Western Union, its Payment Partners and clients. With more limited bank choices on both sides of transactions and settlement, the costs associated with limited remaining institutions are generally increased.

**(iv) Treasury Costs**

Western Union maintains Treasury relationships with a number of banks to diversify supplier risks, manage currency requirements and costs and ensure the availability of alternative delivery processes and channels. The derivation of Treasury costs at any point in time is subject to a complex interaction of variables. As such, Western Union considers that there is significant proprietary value in our global banking network and the operation thereof.

**(v) Consumer Protection Costs**

Western Union also invests in consumer protection including customer service mechanisms, fraud awareness and educational initiatives, locally and globally. Our objective is to better protect consumers from becoming victims of fraud (with wrongful or deceptive conduct and malicious schemes becoming more prevalent/sophisticated with the advent new technologies and modes of communication/interaction, originating both locally and from offshore). Western Union has two dedicated fraud specialists based in Australia and focused on the local market.

**(vi) Additional Costs Associated with Money Transfer Services**

Western Union incurs significant costs to maintain oversight of its Australian Affiliate Network in accordance with the requirements of the Australian Transaction Reports and Analysis Centre (“**AUSTRAC**”) as well as the requirements of regulatory authorities and governing bodies who preside over our parent entity in the United States.

Members of Western Union’s Australian Affiliate Network are remunerated for the services they provide to consumers, a cost which is borne by Western Union.

Western Union is also committed to providing certain customer support services outside of normal business hours, which presents additional costs, whether through local services or services delivered through a follow-the-sun model.

Whilst some customer support costs are mitigated through Western Union’s digital offering and consumer access to self-help and FAQ resources, Western Union incurs additional merchant fees for online money transfer orders executed via credit card payments (such merchant fees are absorbed by Western Union and not passed on to consumers). Site development and maintenance costs also apply, together with the costs incurred in meeting Western Union’s commitment to continuous product/service improvement (especially in the digital space).

**2C Issue 3. The nature and extent of competition between suppliers**

The Australian FX Services market is a vibrant and competitive place in which thousands of remitters (registered with AUSTRAC) offer services. Some remitters advertise global reach whilst others may operate specialised payment corridors to specific countries. We understand a smaller number of suppliers offer services from offshore and may not be registered with AUSTRAC or licensed with the Australian Securities and Investment Commission (“**ASIC**”). Such suppliers may benefit from lower costs than their onshore

competitors however consumers may need to compromise on factors, such as local customer service support, when opting to accept the services of offshore suppliers.

In our view, barriers to entry are relatively few and low. The main requirements are the establishment of bank accounts, access to applicable payment channels/corridors and the cost of full compliance with Australian law (notwithstanding some suppliers invest less than others).

We note that technological developments and the growth in online business models also contribute to lowering barriers to entry and increasing competition. To ensure continued accessibility to FX Services for consumers requiring or preferring in-person/in-branch transfers, providers of such services will likely need to operate different pricing models between their in-person/in-branch services and their online services to ensure that they can remain competitive with the latter (especially as the online FX Services market becomes more saturated).

Whilst Western Union does not have access to information about the pricing practices of competitors, we believe that the breadth and depth of the FX Services market in Australia is sufficient to ensure that consumers can freely access competing products/services to exercise informed purchase decisions and support the operation of free market forces (the natural regulation of prices through competition, supply and demand in an open market).

**2D Issue 4. How prices are communicated and factors limiting the ability of consumers to effectively compare prices**

Please refer to our response to Issue 1.

The dynamic nature of the FX Services market and the complex matrix of variables that combine to determine pricing strategies for different products, services, access, speed-of-transaction and delivery channels are not conducive to compartmentalised price comparisons (such as fee versus fee in isolation from margin costs). Instead, focus should be on ensuring that **total costs are correctly disclosed in terms that are relevant to consumers** and quoted to allow consumers to compare equivalent services/products across suppliers as well as across different delivery or settlement options.

The practical challenge faced by consumers is timeliness. Accurate comparisons across quotes can only be made at a fixed point in time. Quotes from one supplier for a specific product or service can vary if obtained during different times of the same day, reflecting the fundamental nature of the FX Services market.

There are general price comparison Websites such as “Send Money Pacific” which are a tool for consumer education. The ACCC may also consider introducing consumer education programs<sup>5</sup> around the nature and operation of the FX Services market to assist consumers to:

- Gain better understanding of the inherent risks and timing challenges in the FX Services market (particularly in respect of changes to orders once placed, cancellations and attempted recalls);
- Increase awareness about the volatile nature of the FX Services market;

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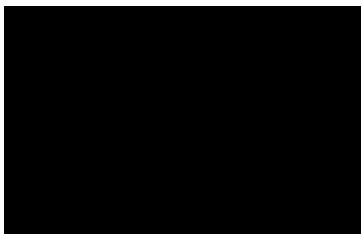
<sup>5</sup> For example, the ACCC could use its website to support this initiative, similar to how it educates consumers on scams.

- Understand the limitations of compartmentalised cost/price comparisons and the effectiveness of total cost comparisons;
- Inquire about factors/features other than price which may assist in making their purchase decision;
- Learn how to access competing FX Services and take advantage of competition between suppliers.

Western Union's purpose is 'Moving Money for Better'. We know that there are many choices in a very competitive marketplace, and that consumer decisions between competitors are not made on price alone. Instead, we focus on our values: We are Purpose-Driven, Globally Minded, Trustworthy & Respectful. We believe our customer-centric vision delivers value-added services that meet the needs of consumers that freely choose to purchase FX Services through, or facilitated by, Western Union.

### **3. Confirmation of Western Union's response**

Western Union welcomes the ACCC's Inquiry into foreign currency conversion services and is pleased to have had the opportunity to respond to the Issues Paper. This response is confirmed and issued on behalf of Western Union by [REDACTED], Regional Vice President, WU Global Payments Compliance, APAC & Head of Global Markets Compliance.



Regional vice President  
Western Union Global Payments Compliance, APAC and  
Head of Global Markets Compliance