

## ACCC Inquiry into foreign currency conversion services

### Response to Issues Paper

Westpac Banking Corporation Limited (**Westpac**)<sup>1</sup> welcomes the opportunity to provide its response to the Issues Paper published by the Australian Competition and Consumer Commission (**ACCC**) on 2 October 2018 as part of its Inquiry into foreign currency conversion services (**Inquiry**).

The submission below describes in high level terms Westpac's foreign currency services business and provides our initial observations on the operation of foreign currency services in Australia.

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## 1 Westpac's foreign currency conversion services

Westpac understands that the Inquiry will cover the supply of certain foreign currency conversion services - being foreign currency transfers and foreign cash - to consumers and small businesses in Australia.

The ACCC also proposes to examine the use by Australian consumers and small businesses of debit and credit cards to make overseas purchases or access foreign currency through an overseas ATM, and their use of stored value or prepaid travel cards for foreign currency transactions.

Accordingly, this submission focuses on the brands within Westpac that supply these types of services to consumers and small businesses in Australia.

### 1.1 Westpac brands that supply foreign currency conversion services

Westpac supplies foreign currency conversion services principally through its Westpac, St George, Bank of Melbourne and BankSA brands.

This submission does not deal with other Westpac brands (such as BT Financial Group<sup>2</sup>, RAMS and Capital Finance (CFAL)) as they are not relevant to the primary focus of the ACCC's Inquiry – being the supply of foreign currency conversion services to consumers and small businesses.

Westpac has also not provided information in this submission in relation to its wholesale foreign exchange business activities.

### 1.2 Westpac foreign currency services

Westpac offers a range of foreign currency conversion services to Australian consumers and small businesses. These services include:

- (a) International payments (foreign currency payments and transfers);

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<sup>1</sup> For the avoidance of doubt, Westpac makes this submission as the entity currently providing consumer credit services across the Westpac, St. George, Bank of Melbourne and BankSA brands. Unless otherwise indicated, in the statement a reference to "Westpac" is a reference to each of those brands.

<sup>2</sup> BT Financial Group wealth customers may from time to time acquire foreign currency conversion services. These services are supplied by the other Westpac brands referred to in section 1 of this submission.

- (b) Foreign cash (FX notes);<sup>3</sup>
- (c) International cheques;
- (d) Debit and credit cards; and
- (e) Travel cards under Westpac's "Global Currency Card" brand (i.e. pre-paid foreign currency cards).

Of these products, those listed in paragraphs (a)-(b) above fall within the scope of what Westpac understands to be the primary focus of the Inquiry. The products listed in paragraphs (d) and (e) also fall within the scope of services that the ACCC has indicated it will examine as part of the Inquiry.

To assist the ACCC in better understanding the range of foreign currency conversion services provided by Westpac to Australian consumers and small businesses, Westpac has set out further details in relation to its current products and services in Attachment 1.

### 1.3 Areas within Westpac involved in foreign currency conversion services

In general, the following divisions of Westpac are involved in the delivery of foreign currency transfers and foreign cash to consumers and small businesses in Australia:

- (a) Westpac's Consumer Bank Division, which supplies international payments (foreign currency payments and transfers), foreign cash (FX notes), debit and credit cards and travel cards to customers;
- (b) Westpac's Business Bank Division, which supplies international payments and debit and credit cards to small business customers; and
- (c) Westpac Institutional Bank, which engages in wholesale foreign currency transactions, including arrangements with foreign correspondent banks, to support the delivery of services to consumers and small businesses.

Westpac and its partners also provide a range of operational and support services to consumers and small businesses that acquire foreign currency conversion services (e.g. a call centre service and support teams).

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## 2 Foreign currency conversion services in Australia

### 2.1 Choices for Australian customers

The primary focus of the Inquiry, and therefore this submission, is on foreign currency transfers and foreign cash.

Westpac considers that there are a wide range of foreign currency conversion services that are available to consumers and small businesses in Australia. The market is characterised by a substantial level of choice, which is reflected in the range of foreign currency services referred to in the Issues Paper.

Westpac competes with a large number of companies in supplying these services. These suppliers have a wide range of distribution channels, business

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<sup>3</sup> This service is available only to individuals.

and operating models. For example, currency conversion services can be supplied by banks, other financial institutions, card network providers (such as Visa), emerging fintechs, niche providers, and also by a range of dynamic currency conversion (DCC) service providers.<sup>4</sup>

The considerable number, and the range, of service providers reflects the breadth and depth of the market for currency conversion services in Australia.

Westpac considers that consumer demand for the transfer of value in different currencies between participants in cross-border transactions manifests in a variety of ways. Depending on the particular customer requirements, some products will be more or less attractive. However, multiple products will frequently potentially meet customer requirements for a particular transaction. This creates not only greater consumer choice but also competition between those products and services.

For this reason, Westpac submits that in undertaking the Inquiry, it is important that the ACCC has appropriate regard to the wide, and increasing, range of choices that are available to consumers.

Westpac also considers that there are a range of published exchange rates and prices that are made available to consumers and small businesses by and through different forums. Exchange rates and prices are published widely, and these can involve a range of different pricing structures. Suppliers also offer non-published prices. This means that comparisons of published rates are not always the most useful to understand the full scope of pricing available. An over-reliance on published exchange rates and prices could result in inaccurate comparisons (both within Australia and against other global data), and potentially provide a distorted picture of the range of competitive choices that are available.

## 2.2 Significant differentiation between services

As the ACCC has noted in the Issues Paper, there is significant differentiation between the services offered by the broad range of providers of foreign currency conversion services in Australia. In particular:

- (a) while some suppliers provide a “full service” offering, other suppliers only offer selected services;
- (b) there are a variety of distribution channels through which these suppliers provide services to customers, including bank branches, bricks and mortar stores, online, peer-to-peer and physical remittance; and
- (c) different suppliers are subject to different regulatory requirements depending on their business model (e.g. banks are subject to minimum capital requirements, financial licensing requirements and anti-money laundering compliance).

These differences – both in the services offered and operating models - may mean that suppliers can have widely differing cost bases.

There are also many variable factors that may influence the total price of foreign exchange transactions, including:

- (a) liquidity and market conditions;

<sup>4</sup> ACCC v Visa Inc, NSD164/2013, Amended Statement of Claim, at [68-87].

- (b) transaction size;
- (c) payment destinations or sources;
- (d) costs related to fees paid to third parties;
- (e) risks and expenses incurred by providing these services (e.g. holding physical tender, sales, research and support services);
- (f) availability of branches / physical presence; and
- (g) security and surety of payments (e.g. many non-bank suppliers do not provide any guarantee in relation to amounts deposited by customers pending completion or execution of the relevant transactions).

These differentiating factors mean that there is a range of choices available to customers in Australia, and significant competition between different products and services.

### 2.3 Developments in technology, new entry and expansion

In recent years, a number of suppliers have entered the market and/or expanded their activities in relation to the supply of foreign currency conversion services in Australia. This is particularly the case in relation to peer-to-peer services (e.g. TransferWise, Currency Fair and TorFX) and online competitors (e.g. Revolut).

This new entry and expansion has largely been driven by developments in technology, increasing customer acceptance of non-traditional products and services and relatively low barriers to entry and expansion. Aside from establishment and risk management capital, the main requirement to provide foreign currency conversion services in Australia is an Australian Financial Services Licence.

In addition, the offering of online foreign currency conversion services by a wide (and increasing) range of suppliers, has been associated with the further development and proliferation of comparison and aggregator websites – such as Canstar Blue, xe.com (which also supplies a currency transfer service), Finder, Mozo and the Currency Shop.

These comparison sites have increased the ability of consumers to compare different service providers, product features and real time pricing. This has increased the direct visibility that consumers and small businesses have in relation to market offerings and foreign exchange pricing, resulted in greater consumer knowledge and contributed to increased transparency and consumer choice overall.

### 2.4 Overview of competition for key foreign currency conversion services in Australia

Westpac competes with a range of suppliers in relation to foreign cash currency conversion services, foreign currency transfer services and the supply of other key foreign currency conversion services in Australia, including pre-paid foreign currency travel cards and credit and debit cards.

Further details in relation to each of these services are set out below.

#### (a) Foreign cash currency conversion services

Westpac competes with a large number of suppliers of foreign cash currency conversion services, including:

- (i) traditional banks and financial institutions (e.g. CBA, ANZ, NAB, Macquarie, HSBC, Citibank, etc);
- (ii) credit unions (e.g. Credit Union SA, Community First Credit Union, Macquarie Credit Union, etc);
- (iii) building societies (e.g. Newcastle Permanent, Greater Bank, etc);
- (iv) dedicated foreign currency providers (e.g. Travelex, Travel Money Oz, UAE Exchange Australia, etc); and
- (v) ancillary service providers (e.g. Australia Post, convenience stores such as 7/11 and City Convenience).

These providers operate through a range of different distribution channels (e.g. bank and credit union branches, shopping centres, airports, mixed use premises, foreign currency ATMs and online) and have a range of divergent operating models.<sup>5</sup> Consumers can also access foreign cash through overseas ATMs, which is supported by payment alliance arrangements between Australian and foreign banks.

In general, Westpac considers that customers for foreign cash typically value:

- flexibility – the ability to purchase currency at a time that is favourable or suitable to the customer;
- certainty – the ability to lock in the conversion rate once the cash is purchased; and
- convenience – the ability to collect cash from any branch or store.

**(b) Foreign currency transfer services**

Westpac similarly competes with a wide range of suppliers of foreign currency transfer services, including banks, credit unions and building societies, dedicated foreign currency providers, online and digital foreign currency providers (e.g. PayPal, TransferWise, OFX, HiFX, World First, Currency Online, Currency Fair, AMEX and xe.com), and remittance service providers (e.g. Western Union, Money Gram, Australia Post, etc).

These businesses have a range of operating models and value propositions for customers and small businesses. For example, while the larger banks offer a wide range of foreign exchange services to all consumer, business and corporate clients, newer or more recently established non-bank competitors typically cater primarily to consumers and small businesses.

Similarly, while banks and other major financial institutions have the resources and infrastructure to offer security benefits such as fraud protection, non-bank providers may not. There may also be significant differences in the means by which the currency transfers take place – for example, correspondent banking by

<sup>5</sup> Many of these providers physically obtain foreign cash from Travelex, which is currently the largest supplier of foreign cash in Australia.

the major banks which contrasts with the peer-to-peer model adopted by many non-bank competitors.<sup>6</sup> Some providers also provide other benefits to customers and small businesses (e.g. currency transfers with AMEX can contribute towards reward points and programs).

In general, Westpac considers that customers for foreign currency transfer services typically value:

- safety and security associated with a brand (i.e. trust that the customer will receive their money);
- speed and convenience – the ability to quickly transfer funds and the ability to manage online;
- price competitiveness; and
- support services, which can be supplied by banks and other major financial institutions to address and manage any issues.

**(c) Pre-paid travel cards**

The foreign currency conversion services offered by Westpac compete with a range of suppliers of foreign currency pre-paid travel cards. These suppliers include banks, credit unions and building societies, dedicated foreign currency providers (e.g. Travelex) and ancillary service providers (e.g. Qantas, Virgin Velocity, Travel Money Oz, Australia Post).

Travel cards are typically differentiated by a wide range of functions and features. These include:

- (i) the presence or absence (and magnitude) of purchase, reload and ATM withdrawal fees;
- (ii) the exchange rates offered;
- (iii) the maximum amount of loaded foreign currency (e.g. between \$10,000 and \$100,000);
- (iv) the availability of distribution channels and operating models (e.g. in-branch, online, digital, etc);
- (v) the availability of currencies – some currencies are only available on certain pre-paid cards;
- (vi) 24/7 emergency assistance – this is offered by a number of bank providers and their partners in instances where there is an issue with their travel card, including Westpac’s Global Currency Card and NAB’s travel money cards; and
- (vii) offering frequent flyer points or rewards (e.g. Qantas, Virgin Velocity).

In general, Westpac considers that customers for pre-paid travel cards typically value:

<sup>6</sup> ACCC, *Inquiry into foreign currency conversion services Issues Paper*, 2 October 2018, p 13.

- certainty – the ability to lock in an exchange rate;
- budgeting tools – customers only spend what is loaded;
- convenience – the ability to use a global ATM alliance as well as to undertake point of sale transactions;
- safety and security associated with a brand (i.e. trust that money is secured and that the maximum loss from fraud is limited to the amount on card);
- speed and convenience – the ability to quickly access funds and the ability to manage online; and
- support services, which can be supplied by banks and other major financial institutions to address and manage any issues.

**(d) Debit and credit cards**

The services supplied by Westpac compete with a range of suppliers of debit and credit cards, including banks and financial institutions (e.g. Cuscal), credit unions, building societies and specialised DCC processors (e.g. Travelex, WorldPay, Pure Commerce, Global Blue and Fexco).

DCC service providers typically offer consumers the convenience of immediately viewing the value in Australian dollars of their transaction before it is completed. However, this typically involves different fees, fee structures and exchange rates when compared to those offered by network providers such as Visa, MasterCard and major banks.

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### 3 Next steps

This submission is intended to provide an initial overview of Westpac's activities in relation to the supply of foreign currency conversion services to consumers and small businesses, and the key sources of choice that are available to those customers in Australia.

**22 October 2018**



### Attachment 1 – Westpac’s foreign currency conversion products

	Product	Description	Channels	Customer segment (consumer / business)	Transaction value / deposit limits (if any)
(a)	<b>International payments</b>	Electronic payments of cleared funds that are credited directly to a nominated bank account. This service allows customers to send and receive money to and from most countries in most foreign currencies.	In branch and online	All	<p><u>Online</u> For Westpac brand, maximum payment amount of \$AUD 2,000,000. For other brands, maximum payment amount of \$AUD 50,000 (for consumers)</p> <p><u>Branch</u> No maximum</p>
(b)	<b>Foreign currency account payment / transfers</b>	<p>A transaction account for foreign currency, which can be used to pay or receive foreign currency without having to convert it to Australian dollars.</p> <p>Foreign Currency Accounts are available in 15 international currencies.</p> <p>Customer cannot withdraw or deposit foreign notes or coins into a Foreign Currency Account.</p>	In branch and online	All	N/A
(c)	<b>LitePay (Westpac brand only)</b>	An online, low-cost outward international payments service to foreign accounts in 19 European countries, the UK, India, and the Philippines.	Online	Consumer only	\$AUD 3,000 daily
(d)	<b>Foreign cash (FX Notes)</b>	<p>Foreign cash in 26 currencies can be bought and sold in branch via online order.</p> <p>(Westpac is also currently running a pilot for foreign cash ATMs, with 10 machines nationally from which</p>	Online order, in branch collection	Consumer only	<p>\$AUD 500-\$AUD 10,000 daily</p> <p>\$AUD 20,000 maximum over 21 day period</p>



	Product	Description	Channels	Customer segment (consumer / business)	Transaction value / deposit limits (if any)
		customers can withdraw USD, GBP, EUR, and NZD).			
(e)	<b>International cheques</b>	Westpac branches accept foreign cheques for collection.	In branch	All	N/A
(f)	<b>Debit and Credit cards</b>	Westpac Visa and Mastercard credit and debit cards can be used for international transactions.	In branch and online	All	Various
(g)	<b>Travel cards – “Global Currency Card”</b>	A reloadable prepaid Visa debit card that can hold up to 11 currencies. The exchange rate is locked in at the time that funds are converted.	In branch and online	Consumer only	\$AUD 25,000 maximum daily load amount \$AUD 50,000 (or foreign currency equivalent) maximum card balance \$AUD 100,000 aggregate maximum in the same calendar year