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31 March 2023

Dr Daniel Mulino MP  
Chair, House Economics Committee  
Parliament House  
Canberra, ACT, 2600

Dear Dr Mulino,

We thank you and the House of Representatives Economics Committee for the opportunity to make a submission into this inquiry into Promoting Economic Dynamism, Competition and Business Formation in Australia. Wise makes for a fairer, more dynamic and more productive economy in Australia through our provision of low cost, transparent, cross-border payments.

Reform to increase competition in the space for international payments will likely yield considerable productivity gains for the Australian economy while also lowering the costs of both doing business and the cost of living for ordinary Australians.

Our submission will focus primarily on the matters raised in paragraphs B and D of the terms of reference noting how lax regulatory structures still frustrate competition in the market for international payments leading to higher mark-ups.

Wise's submission will also respond to comments made in this inquiry's initial hearings relating to the market for foreign exchange. Wise believes that there has not been a reduction in mark-ups or prices in the market for International Money Transfers (IMT) despite the best practice guidance issued by the ACCC.

### **About Wise**

Wise is a global technology company, building the best way to move and manage money around the world. With the Wise account, people and businesses can hold over 50 currencies, move money between countries and spend money abroad.

Large companies and banks use Wise technology too; an entirely new cross-border payments network that will one day power money without borders for everyone, everywhere. However you use the platform, Wise is on a mission to make your life easier and save you money.

Co-founded by Kristo Käärmann and Taavet Hinrikus, Wise launched in 2011 under the name TransferWise. It is one of the world's fastest growing, profitable technology companies and is listed on the London Stock Exchange under the ticker, WISE.

16 million people and businesses use Wise, which processes around £9 billion in cross-border transactions every month, and in 2022 alone, we saved customers £1.5 billion in fees. We now welcome 100,000 new personal and business customers to the platform each week.

### **Theoretical basis for transparency in markets**

Competition in any market relies on the ability of consumers to make purchasing decisions based on understanding of what products exist and the prices of those products. A consumer, realising the benefit of a product or service and being aware of its price, then makes a decision about which firm they will engage to meet their need.

Consumers' choosing between firms drives competition as firms then compete on the basis of providing the best product or service or the lowest price or a combination of both in order to attract customers.

This assumption about the operation of markets relies on a customer that will *always* be on the lookout for the best product at the best price in any market.

Unfortunately, we know that many customers do not shop around - particularly in the market for financial services. Wise has conducted research which suggests that only 15% of Australians shop around for the best deal in international payments.<sup>1</sup>

Wise believes that this is because of the low level of price information provided to customers in the Australian market for international payments. This low level of price information does not prompt customers to shop around, instead customers seem to perceive the lack of information as confirmation that they are not getting a bad deal.

Wise's research indicates that close to two-thirds of consumers are still unaware that the pricing of an IMT can be through a fee *and* a mark-up in the retail exchange rate.<sup>2</sup> This may lead consumers to underestimate the costs to them when making an international transaction.

The lack of up front price information therefore results in 'sticky' consumer behaviour where customers simply stay with their existing bank or financial service provider when making international transactions.

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<sup>1</sup> YouGov, "Understanding Foreign Exchange Consumer Study", 24 August 2021, Reproduced in Annexure A

<sup>2</sup> *Ibid.*

According to the Productivity Commission, “consumers struggle to understand and compare the different types of prices charged”,<sup>3</sup> due to this absence of meaningful information, “if consumers do not respond to price signals, it affects competition in foreign transactions”.<sup>4</sup>

Therefore this lack of competition can be seen as a form of market failure where imperfect information has resulted in the price of this service remaining high despite new entrants into the market offering lower prices and better products.

Were consumers provided with more information at the commencement of their international payments transaction, it is likely that they would commence a search for a better deal, leading to competitive tension and prices would revert towards a supply and demand equilibrium - that is to say - that prices for IMT would be reduced.

### **Current regulation of International Money Transfers in Australia**

Prior to the advent of financial technology firms with their primarily online offerings, customers for foreign exchange would either call their bank or physically approach a money change counter in order to transact in foreign currencies.

The advent of firms like Wise has opened up this market but only insofar as firms like ours offer low prices, more convenience and high speeds for customers who recognise the hidden costs in international transactions and who are willing to shop around.

By withholding particular information - specifically the fee contained in the retail markup - from consumers when they make an IMT, the openness of this market is stymied from further efficiency and competition as the vast majority of customers will not receive sufficient information to encourage them to test the marketplace.

The ACCC Best Practice Guidance require that International Money Transfer firms:

- “Disclose the total price of an IMT up-front to customers, including any correspondent banking fees; and,
- Provide digital tools showing the total price of IMTs, including the currency conversion and all fees that will affect the total price. These digital price tools should be easy to use, show the total amount that will be delivered to the recipient, and be customisable to your customer’s intended IMT value and destination”.<sup>5</sup>

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<sup>3</sup> *Productivity Commission*, “Competition in the Australian Financial System”, Productivity Commission Inquiry Report No. 89, 29 June 2018 accessed from:

<https://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system.pdf>, p496

<sup>4</sup> *Ibid.*

<sup>5</sup> ACCC, “Transparent pricing of foreign currency conversion services”, December 2019, accessible at: [https://www.accc.gov.au/system/files/1651FAC\\_FX%20busines%20guide%20Transparent%20pricing%20D02.pdf](https://www.accc.gov.au/system/files/1651FAC_FX%20busines%20guide%20Transparent%20pricing%20D02.pdf)

This guidance, however, does not require any disclosure of the hidden fee found in the retail exchange rate markup which is present amongst many providers of IMT.

The most obvious way in which these fees are hidden is in the advertising IMT services as “\$0 commission” or “\$0 fee” while the provider simultaneously takes in a fee through an inflated retail FX markup.

The existence of a retail margin is occasionally referenced by some banks and providers but usually only in small print or contained in a product disclosure statement on a separate webpage. Notably both the Commonwealth Bank and the National Australia Bank acknowledge the existence of a margin along with their FX calculators, but neither note the size of the margin or provide any more detail other than that a margin exists.

This opaque form of pricing does not inform the consumer of the cost to them until well after the transaction is completed.

The presence of digital tools which illustrate the total amount to be received by the customer is, undoubtedly, a step forward. However, without a price tag on the product which is presented to the consumer up front in dollar terms, there is nothing which will initially motivate a consumer to test the market.

It goes without saying that a customer who is only informed about the true cost of a product *after* they have purchased it will be unlikely to seek a better deal. However, a customer who sees the dollar cost *prior* to purchase may be prompted into making an informed assessment as to whether they should compare between providers and find a better deal.

In reviewing this issue in 2018, the Australian Productivity Commission - drawing on the research performed by the United Kingdom’s Behavioural Insights Team - noted that the most effective way for consumers to make comparisons in this market is by giving them access to a, ‘benchmark exchange rate to compare the rate offered by their financial institution’, and that this benchmark rate, ‘be required to clearly disclose the dollar cost of their exchange rate markup compared to this benchmark rate.’<sup>6</sup>

Wise agrees with the assessment of the Productivity Commission and the UK Behavioural Insights Team.

### **Wise’s analysis of the market for International Money Transfers in Australia**

Wise acknowledges that there has been some movement towards lower prices in the market for International Money Transfers, but that this movement has been slow and inconsistent since the issuance of the ACCC’s best practice guidance.

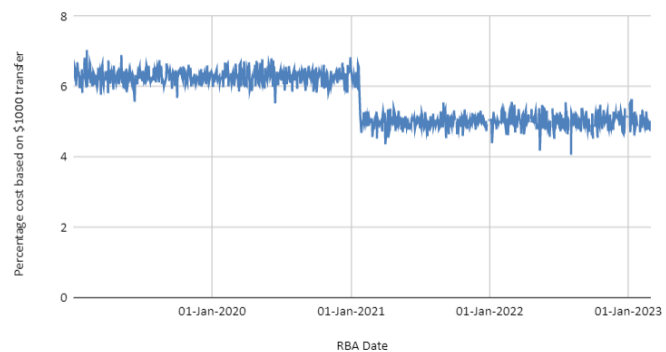
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<sup>6</sup> *Ibid.*

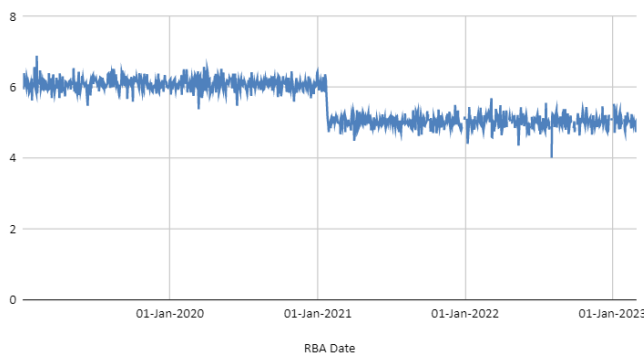
The costs of sending or spending money abroad remain stubbornly high in Australia and this is borne out in the data we have been able to glean from providers of traditional money transfer providers.

In a notable display of retrospective transparency, Westpac publishes their historical retail FX rates on their website.<sup>7</sup> These historical rates, which when they are compared to the mid-market rate found on the RBA website,<sup>8</sup> indicate that prior to

Westpac retail markup AUD to USD: January 2019 - March 2023



Westpac retail mark up AUD to EUR: January 2019 to March 2023



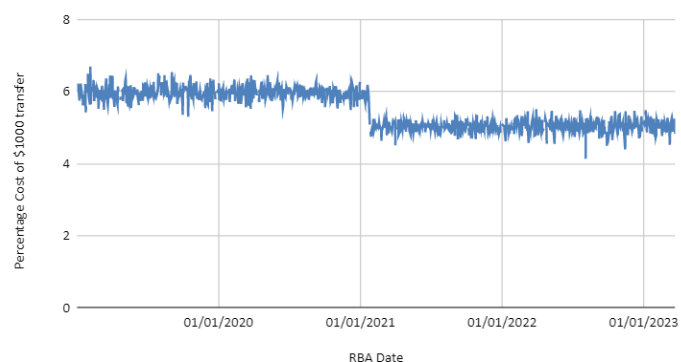
January 2021 Westpac charged 6% as a retail mark-up for most currencies.<sup>9</sup>

Wise's analysis shows that Westpac reduced their mark-up to 5% in early 2021, where it has remained. If this reduction in retail FX mark-up was due to the the ACCC's best practice guidance it would follow that there would be further reductions in mark-up as the additional

transparency pushes prices downwards, however it has remained at 5% for over two years suggesting that either the best practice guidance has had the sum of its effect or that the guidance does not provide sufficient information for more competitive tension.

Wise, through our online comparison tool, also tracks the ANZ bank's markup on foreign exchange routes as an aggregate percentage across many currency routes. While this data is aggregated, it still gives considerable insight into the overall mark-up that is charged by ANZ for foreign currency transactions.

Westpac retail markup AUD to GBP: January 2019 to March 2023

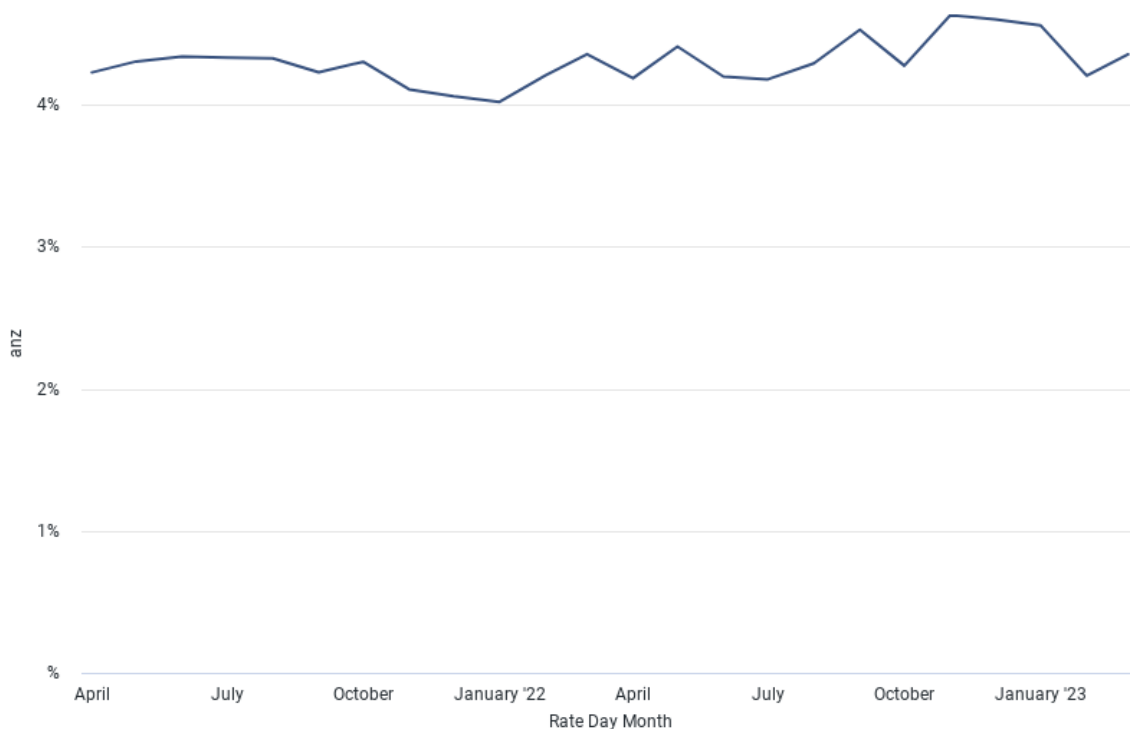


<sup>7</sup> <https://www.westpac.com.au/personal-banking/services/historical-rates/>

<sup>8</sup> <https://www.rba.gov.au/statistics/historical-data.html>

<sup>9</sup> Wise analysis of Westpac Foreign Exchange Data, reproduced in annexure B to this submission

Wise believes the aggregate foreign exchange cost for ANZ hovers slightly above 4%, and has remained flat over the past 24 months. We believe this is another indicator that the ACCC's guidance has had a limited impact on the market for international payments as if the guidance were providing more fulsome information and hence promoting more competition it would be likely that the trend line would be pointing downwards.



(ANZ Aggregate Foreign Exchange Total Cost inc. Retail Markup, sourced from Wise Comparison Data from April 2021, to March 2023.)

Based on this analysis, Wise respectfully disagrees with the ACCC Chief Commissioner's assessment that there has been a 'very significant reduction in price' for customers making international payments.

While there has been a slight decrease in retail mark-ups for consumers this issue is far from being resolved with most traditional financial institutions still marking up their rates considerably from the mid-market rate. Wise perceives the lack of transparency and consequent lack of competitive pressure as being reasons for this lack of progress and flat trend line.

Without sufficient information for consumers to operate in a competitive market there is nothing to suggest that prices for international payments will not be subject to the whims of banks into the future. Only with more fulsome transparency in this market can there be a true competition which will push prices down and keep them down.

### **Wise's suggested policy updates for a more dynamic economy**

Wise's position is that the market for IMT is:

1. Regulated to mandate the presentation of information for consumers in a standardised manner,
2. Required to provide sufficient information to allow for consumers to compare between different providers and hence stimulate competition.

Specifically, International Money Transfer suppliers must:

1. Present information on the costs of the transaction to customers in an up front and intelligible manner; and,
2. In Australian Dollar terms, show the total cost of a transaction comprising both the fixed fee amount and the fee in the retail mark-up when compared to the cross rates or other comparable benchmark rate.

There are also considerable opportunities provided by updates to the Product Reference Datasets for the Consumer Data Right and they present genuine opportunities for comparison of this market by third parties.

Accordingly, the Consumer Data Right Product Reference Data should be expanded to allow for comparison of foreign exchange products accessible through an open API. This would enable authorised data holders to show meaningful comparisons between providers with their data updated regularly from the source and not found from manual entry or screen scraping.

This principle of transparency could be applied across other products and services within the market for financial services. Consumer confusion remains a considerable obstacle to competition and this is not necessarily solved through the emergence in the market of new financial technology firms.

If the underlying regulatory framework for the illustration of prices to consumers is not remedied, the frustration and concern that consumers have in assessing how they can get the best deal remains.

### **Conclusion**

The promise of financial technology firms in Australia is that their presence in Australia can disrupt the market for financial services, providing better products and services for Australian consumers at lower prices.

This promise, however, is undermined when the regulatory structures around consumer protection are not updated in line with what can be presented to customers online.

The prospect of competition between providers of financial services is now a reality but if prices for customers are allowed to be kept opaque and made difficult to understand through lax regulatory structures then it is unlikely that there will be much benefit from new firms providing financial services in a novel and more efficient way.

We look forward to contributing further to this inquiry if requested and can be contacted through \_\_\_\_\_ and thank the committee for this opportunity to make a submission.

Yours faithfully,

Jack Pinczewski  
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Wise