

28<sup>th</sup> February 2011

The Senate  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

Dear Sirs

**SENATE INQUIRY**  
**Competition in Banking**  
**Overseas currency for trading**  
**Small to Medium Business**

Currency for trading is a problem for small to medium size business, through the Australian banking industry whether for Import or Export.

To buy a currency contract forward for say 30-60 or 90 days, for an overseas transaction, to ensure a stable rate at the time of payment, the banks will require a substantial deposit well in excess of any currency loss, should the contract not be executed.

The alternative is therefore forced on the trader to buy and hold spot currency, which must be held in a special foreign currency account. The banks charge A\$700 to open such an account, which also attracts fees. Most small to medium businesses do not consider themselves to be currency traders with a knowledge of the daily risks, and rely on the banking sector for this service, but the banking policy pushes them in the above sequence of events.

**Currency Conversion Rate**

The currency conversion rate charged by the banks carries a margin relative to the period of cover, which could be expected, but what is not known to the buyer is any other charges which are written into that margin. Suggestions are for example, that an interest rate factor applies to cover a time factor, and this rate has not changed for over 50 years, even though traffic systems are virtually instantaneous. There needs to be greater transparency in the process.

### **Documentation for overseas collections**

A matter which could benefit from the attention of the Inquiry is the services offered by the Banking Industry to Exporters regarding the handling of documents for collection of funds from overseas exports. Fees for these services had been increased to a point where they are a substantial cost to exporters.

Representation in overseas countries by Australian banks is limited to agency arrangements with local overseas banks, as no Australian bank conducts branch activities outside of Australia, and under current world financial conditions, the Australian banks are very limited in choice of agencies.

### **Code of Conduct**

Competition is needed in all of these areas, but it is difficult to see this happening when banks are able to agree on a so-called "Code of Conduct" under the Bankers Association umbrella, limiting competition to perhaps minor differences in the actual price charged for a service.

Yours faithfully

Graham Keen