

Questions on Notice – Canberra hearing 28 February 2020

RBA

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CHAIR: And I think you've done that really well in relation to innovation. There is a huge transformation in 10 years. As I said, the driver of these questions is especially pertinent given the macro theme of this inquiry has been that so many drivers of anti-competitive behaviour have been put to us by the private economy. That is why I am particularly interested in the process that you will go through in determining your retail payments review. Finally, are you aware of the Airwallex submission?

Dr Richards: I looked at it a while ago. I don't remember the specifics of it.

CHAIR: I don't want to foist questions upon you that aren't fair. They put forward a recommendation around transparency on FX. I thought you might want to give us a response on notice, perhaps.

Dr Richards: Is this transparency of fees?

CHAIR: Yes.

Reserve Bank Response:

The Reserve Bank is strongly supportive of the ACCC's July 2019 recommendations regarding measures to improve how prices are presented to consumers.

The Governor spoke about the cost of cross-border payments in his 10 December 2019 speech to the Australian Payments Network Summit (see <https://www.rba.gov.au/speeches/2019/sp-gov-2019-12-10.html>). He showed a graph that showed the total effect of fees and exchange rate mark-ups on the all-in cost of making cross-border payments. The variability in the cost (or price) estimates shown in this graph underscores the case for the ACCC's recommendations regarding pricing transparency.

An extract from the speech is provided below:

A third area where we would like to see more progress is on reducing the cost of cross-border payments.

For many people, the costs here are still too high and the payments are still too hard to make. It is important that we address this. It is an issue not just for Australians, but for our neighbours as well. I recently chaired a meeting of the Governors from the South Pacific central banks, where I heard first-hand about the problems caused by the high cost of cross-border payments.

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As part of the RBA's monitoring of the marketplace, our staff recently conducted a form of online shadow shopping exercise, exploring the pricing of international money transfer services by both banks and some of the new non-bank digital money transfer operators (MTOs).

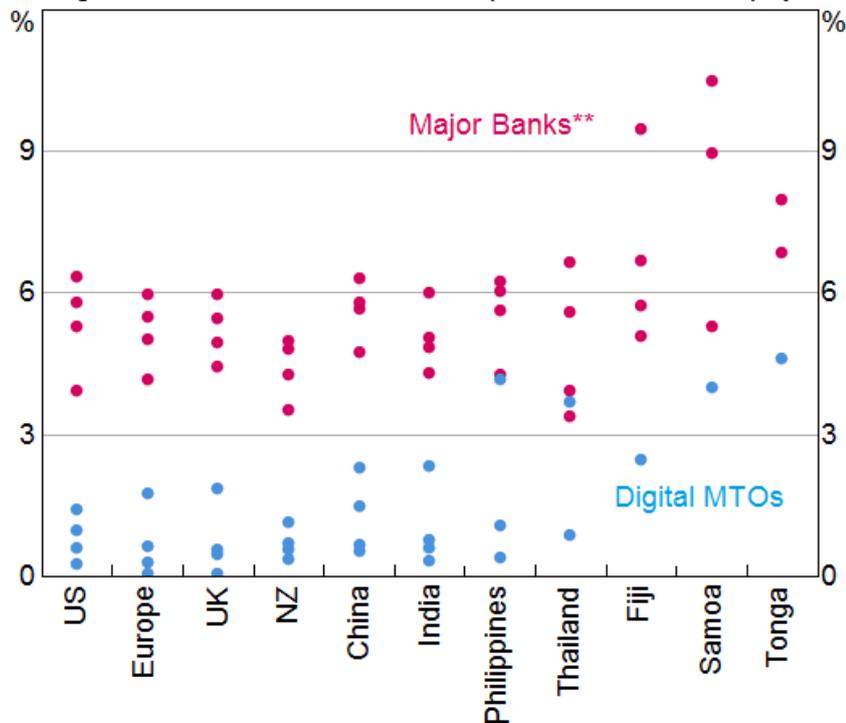
This exercise showed that there is a very wide range of prices across providers and highlighted the importance of shopping around.

The main results are summarised in this graph (Graph 6). In nearly every case, the major banks are more expensive than the digital MTOs. For the major banks, the average mark-up over the wholesale exchange rate is around 5½ per cent, versus about 1 per cent for the digital MTOs.

Graph 6

Price of Australian International Money Transfers

Sending \$A1000 to selected countries, per cent of value of payment*



* Average advertised price of transfer as at 2-3 October 2019. Based on information available on 4 major banks' and 4 digital MTOs' websites

** Excludes intermediary bank fees or fees charged to the recipient

Sources: RBA calculations based on providers' websites; XE

The graph illustrates why the cost of cross-border payments is such an issue for the South Pacific countries. These costs are noticeably higher than for payments to most other countries. This is a particular problem as many people in the South Pacific rely on receiving remittances from family and friends in Australia and New Zealand. In many cases, low-income people are paying very high fees and it is important that we address this where we can. As is evident from the graph, most digital MTOs do not service the smaller South Pacific economies, which limits customers' choice of providers.