

Are you breaking

*Bank fees are part of life, but when it comes to international transaction payments we could be paying over the odds. **Beverley Head** reports...*

Rising volumes of international trade supported by the internet have driven a surge in the international payments business. Such is the demand for the transfer of international financial information that in April this year Swift, which provides the global communications for inter-bank messages, experienced its first 22 million message day – almost half of which referred to payments, which are growing in volume at 6.5% a year.

For businesses that want to effect international payments there are a range of options. The traditional approach has been to execute international funds transfer via a bank which will charge a fee for each transaction, and tightly control the currency exchange rate. But competing alternatives are emerging, including online foreign exchange services, closed loop international payment systems such as PayPal, remittance businesses, and even global virtual currencies such as Bitcoin.

For most businesses, their bank provides a first taste of international funds transfer. Major banks allow customers to send funds in 20-plus currencies directly to trading partners' bank accounts, which, depending on currency cut-off times, will be available to recipients either on the same or next day. The world's major banks and securities houses own the Swift network which funnels the international payment messages created by banks to other banks based in more than 220 countries around the world.

Australian and New Zealand banks can accept international funds on behalf of their customers either into a normal bank account or a foreign currency account which allows the customer to decide when or if to convert those funds into domestic currency.

If the funds transfer is originated in a bank branch it typically costs A\$30-32; if originated online it costs about ten dollars less.

In June the Australian Bankers' Association

trumpeted the fact that households are paying less in bank fees for the third year in a row. Australian businesses however paid \$7.3 billion in fees in the year to the end of June 2012 – 6.9% more than the previous year – which the ABA put down to an increase in business lending and associated fees. Nor does it disclose the margin taken on wholesale exchange rates versus that charged to customers.

In its report into bank fees, which draws on information supplied by the banks to the Reserve Bank, the ABA does not break out fees associated with international transfers as a separate item, lumping them into 'other' fees category, which still amounts to 16 percent of the total fees business faces.

What it does note however is a somewhat surprising continued investment made by the major banks in their bricks-and-mortar branch network. In the year to the end of June 2012 994 new branches were opened – a 21 percent growth in the bricks-and-mortar network and a costly investment for the banks. At the same time banks have to contribute to the operation and upkeep of the Swift network. Bank fees reflect these investments.

While technology has delivered a simpler way of transacting for banks, it has simultaneously injected new competition, with the arrival of services which don't have costly bricks-and-mortar networks or legacy infrastructure to support. Many of the newcomers don't have to comply with capital requirements needed to be accepted as a deposit-taking institution, which can again shave costs, although they are obliged to adhere to country and anti-money laundering regulation.

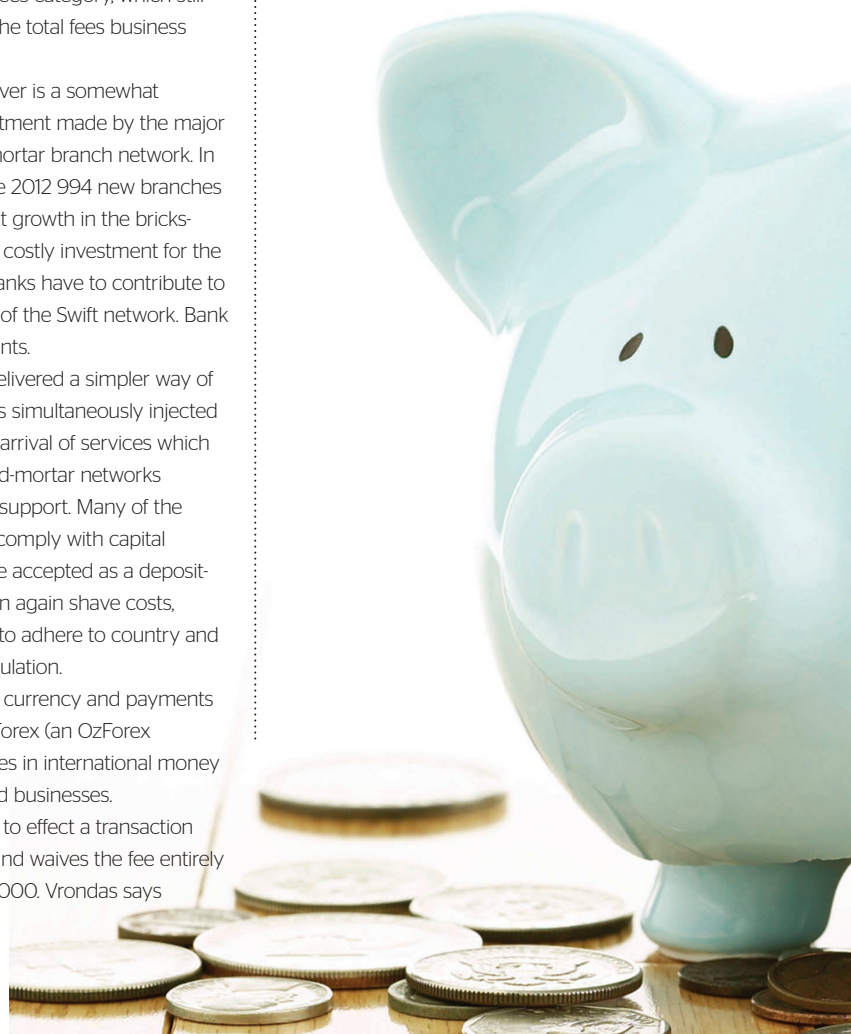
Jim Vrontas is the chief currency and payments strategist for APAC for NZForex (an OzForex subsidiary) which specialises in international money transfers for individuals and businesses.

NZForex charges NZ\$12 to effect a transaction worth \$2000 to \$10,000 and waives the fee entirely for any transfer above \$10,000. Vrontas says

that while its fees are lower than the banks', the real savings come in the rates which are typically available. "There is a mark up (by the banks) on the rate, which is where the big savings can be," he says. NZForex's margins vary depending on the size of the transfers and it says it can save individuals an average of more than one percent on a transaction.

It's worth noting that the service is however directly targeted at larger transfers and isn't available for transactions worth less than \$2000.

Vrontas says it has now built up a clientele of 180,000 worldwide, and also offers a white-



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label service based on its international payments platform which is used by a range of organisations including Macquarie Bank, ING Direct, Travelex and Moneygram. He claims demand is rising fast, with the organisation accepting 10,000 new registrations each month after identity requirements are satisfied. It turned over nine billion dollars last year.

Once an account is established a user can get a live quote on an exchange rate, and if satisfied accept the quote and provide the account details of the recipient, their BSB or International Bank Code.

NZForex relies on the banks to complete the loop. As Vrondas says, "Generally we are a good customer of the banks."

Banks approached by *iStart* to explain the fees and rates that they offered compared to those on offer online declined to participate. As one manager noted; "It doesn't put us in a good light." According to Jonathon Mott, a banking analyst for UBS, international transfers remain a very small part of banks' overall business, which suggests that the arrival of alternative platforms for international money transfers isn't worrying them – yet.

The banks had a similar attitude to PayPal when it first arrived on the scene, only to see the closed loop system eventually eat more of their payments lunch. Other similar payment services able to effect international transfers have also arrived in Australia such as Braintree which charges 30 cents per transaction plus 2.4% of the value to effect a credit card payment. Targeted at start-up companies Braintree claims about a quarter of all payments by volume are international.

Besides these organisations there are still further alternatives such as remittance service providers including Western Union, which also handle international transfers, and have flat fees starting at \$5. According to money laundering monitor Austrac, international funds transfers handled by such organisations run to well over \$10 billion a year.

Finally businesses are being wooed by emerging global currencies such as Bitcoin, which promise even less friction and fees for international transfers although these virtual currencies are at the edge of the financial frontier and probably not for the faint-hearted.

With international funds transfer it appears that more than ever, alternatives are worth the price of investigation. **fi**

In mid 2011 Joanne Hand the managing director of Realtech, an SAP consulting house based in Auckland, needed to make a seven figure payment to the firm's German parents, converting New Zealand dollars to Euros in the process.

Previously Hand had relied on Realtech's bank to handle foreign transfers. This time after hearing from peers about NZForex she decided to explore the alternative, was suitably impressed and saved thousands of dollars on a single transaction. Since then she has used the service for her personal needs, and also recommended it to UK-based clients who need to transfer funds internationally.

While Hand said that using NZForex was relatively simple, she first initiated a face-to-face meeting to gauge whether the company was the sort she wanted to do business with, and says she values the personal relationship that has been built out of that initial contact. Regular email alerts regarding exchange rate movements also allow Hand to identify the most cost effective times for her to transfer money internationally.

Each time she has to make an international payment she still checks what the bank can offer. But to date she says NZForex "has always been sharper."

