



**STOP HIDDEN FEES**  
TIME FOR TRANSPARENCY  
IN FOREIGN EXCHANGE



# INTRODUCTION

For years, consumers wanting to use their money abroad – whether on holiday or to transfer money to friends or family overseas – have been charged over the odds as a result of unfavourable exchange rates.

Banks and brokers have been concealing the true cost of transactions, over-charging consumers and small and medium-sized businesses (SMEs) by applying hidden fees amounting to hundreds of millions of pounds a year.<sup>1</sup>

Unaware of the real costs they are being charged and unable to compare the true offers of different providers, millions of UK consumers and SMEs are losing out.

## **This needs to change**

International money transfer fees and foreign exchange can and should be transparent. The use of terms such as “free” and “0% commission” in communications to customers when foreign exchange gains apply should be forbidden. Firms should be required to illustrate the full cost of their service before the customer makes a transfer.

# WHAT'S THE PROBLEM?

Banks and brokers make considerable profits on charges applied within exchange rates: the difference between the mid-market exchange rate at the time of transaction and the rate offered to the customer.

## What they say, what you pay

<b>HOLIDAY MONEY</b>		<b>INTERNATIONAL MONEY TRANSFERS</b>	
Average fees for changing £500 to euros <sup>2</sup>		Average fees for sending £1,000 to euros <sup>3</sup>	
<b>0.00%</b>	<b>5.53%</b>	<b>2.56%</b>	<b>3.77%</b>
Stated fee	Actual fee including exchange rate mark-up	Stated fee	Actual fee including exchange rate mark-up

UK law requires companies to provide customers with all relevant information about the pricing of products,<sup>4</sup> but banks and brokers are able to hide behind exchange rates to conceal the real cost of a transaction. In foreign currency and international money transfer services, banks and brokers routinely use misleading phrases such as “exchange rate certainty”, “up-to-date exchange rates” and “commission free”. At present, the Advertising Standards Authority (ASA) accepts this as an industry norm.

Even when it is clear to consumers that the exchange rate is unfavourable, it is not always explained how this mark-up is calculated. Often, banks and brokers mislead consumers into believing that the total cost resides entirely in the transaction fee.

Two areas of particular concern are in currency exchange and international money transfers.



**£1.3 billion**

The amount UK consumers paid in exchange rate fees on holiday money during 2013 <sup>5</sup>

**£79 million**

The amount UK consumers lost in exchange rate fees during 2012 for sending money to Europe alone <sup>6</sup>

**80%**

Proportion of small business leaders that underestimated or didn't know the costs of sending money abroad <sup>7</sup>

“ The single most important factor leading to high remittance prices is a lack of transparency in the market. It is difficult for consumers to compare prices because there are several variables that make up remittance prices.

In addition, a lack of transparency in the market has had the impact of reducing competition, as consumers tend to continue to patronize traditional market players because they are not aware of and cannot compare services, fees, and speed of their existing remittance service against other products. ”

The World Bank <sup>8</sup>

# HOLIDAY MONEY

## 37 million holidays - the hidden costs

In 2013, UK residents took a total of 37m holidays abroad, spending £23.6bn.<sup>9</sup> However, having saved for weeks, months and sometimes years, they are losing out when converting their cash into foreign currency.

Concern about the issue and dissatisfaction among consumers has already been expressed through Consumer Focus' September 2011 super-complaint *The Hidden Cost of Holidays*.<sup>10</sup> The super-complaint drew attention to the fact that "consumers are being unfairly charged for purchasing holiday money in the UK by banks and credit card providers." It reported that: "The use of phrases like '0% commission' and 'competitive exchange rates' by suppliers of holiday money in the UK is misleading and prevents effective shopping around by consumers."

INDEPENDENT PRICE RESEARCH BY CHARTERHOUSE RESEARCH

### The real costs of changing £500 into euros <sup>11</sup>

	Mid-market exchange rate	Quoted exchange rate	Exchange rate mark-up	Stated fee	Hidden fee	Total cost	Euros received
Post Office	1.25657	1.1800	6.09%	FREE	£30.47	6.09%	€590.00
M&S	1.25664	1.2067	3.97%	FREE	£19.87	3.97%	€603.35
Thomas Cook	1.25672	1.2000	4.51%	FREE	£22.57	4.51%	€600.00
Tesco	1.25660	1.2081	3.86%	FREE	£19.30	3.86%	€604.05
Travelex Online	1.25762	1.2283	2.33%	FREE	£11.66	2.33%	€614.15
Travelex Heathrow airport	1.25762	1.1269	10.39%	FREE	£51.97	10.39%	€563.45
MoneyCorp Online	1.25744	1.2200	2.98%	FREE	£14.89	2.98%	€610.00
MoneyCorp Gatwick airport	1.25744	1.1300	10.13%	FREE	£50.67	10.13%	€565.00

## CASE STUDY

### Hilary Cross, British holidaymaker

Hilary Cross, 59, is a grandmother of two who works in IT in Hampshire. Every year she saves up for a trip to Spain. When she goes on holiday she wants to get away from the cold and enjoy the sun. She exchanges her currency at a *bureau de change*, like she has always done. She finds it difficult to compare prices, so settles for the most convenient option.



**I save up for my holiday in Spain every year. I normally change money at the Post Office or at the airport. The *bureaux de change* all list their rates but it's very hard to compare between them. I'm sure they're ripping me off, but they make it difficult to know what you're really paying. I try to use the ones that say '0% commission' to avoid paying anything extra. If they told me which one would give me more euros, of course, I'd use that one.**



Hilary Cross

The Office of Fair Trading (OFT) responded by laying out a set of “voluntary improvements” to be agreed upon with the travel industry.<sup>12</sup> These included: “Consistent terminology for foreign use charges to be used across the industry”.

The super-complaint did lead to some significant changes for holiday money: banks can no longer charge travellers for buying foreign currency with debit cards, for example. However, despite the OFT's recommendations, banks and brokers continue to use misleading language such as “free”, “0% commission” and “fee-free”. As the pricing research (p.4) shows, that ultimately increases the cost of holidays.

# INTERNATIONAL MONEY TRANSFERS

## Costing consumers hundreds of millions in hidden fees

The same problem applies to the international money transfer market. Despite its size - over half a trillion dollars in remittances alone<sup>13</sup> - the problems in this market have received limited attention.

### CASE STUDY

#### Kayleigh Ziolo, freelance writer

Kayleigh Ziolo, 27, is a British freelance writer living in Ireland with her two-year-old daughter. Her family is in the UK and she regularly sends money to their bank account. She knows bank rates vary for sending euros into pounds, but finds the pricing difficult to understand. She wishes she was able to compare prices easily and quickly. Kayleigh said: "I find the way my bank prices currency really confusing."

The UK's 7m foreign-born residents and 4.7m overseas citizens make a significant number of international transactions each year. The World Bank estimates that the value of remittances leaving and entering the UK in 2012 surpassed £20bn, with consumers losing hundreds of millions of pounds in exchange rate fees. In the euro market alone, British consumers lose an estimated £79m through hidden fees.<sup>14</sup>

This was demonstrated in a mystery shopping exercise by Charterhouse Research Ltd. It found the hidden exchange rate fee routinely exceeding 3% and the total cost surpassing 5%.<sup>15</sup>

The abuse of exchange rates to conceal fees means consumers simply do not understand that they are being charged. The World Bank found only 36%<sup>16</sup> of respondents knew that the total cost included components other than a transaction fee. Our own polling<sup>17</sup> found 86% of those who made an international transfer in the last year underestimated, or were entirely unaware of, the cost of the transaction.

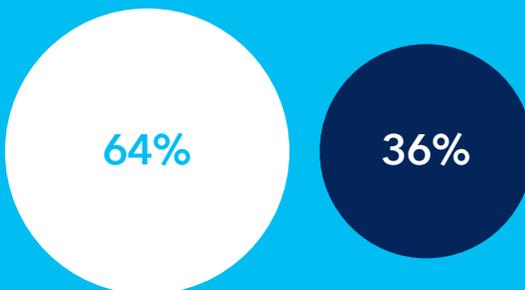
INDEPENDENT PRICE RESEARCH BY CHARTERHOUSE RESEARCH

## The real costs of sending £1,000 to euros <sup>18</sup>

	Mid-market exchange rate	Quoted exchange rate	Exchange rate mark-up	Stated fee	Hidden fee	Total cost	Euros received
Halifax	1.23309	1.20140	2.57%	£9.50	£25.70	3.52%	€1,201.40
HSBC	1.23380	1.19668	3.01%	£4.00	£30.09	3.41%	€1,196.68
Lloyds Intl.	1.23203	1.19940	2.65%	FREE	£26.48	2.65%	€1,199.40
Natwest	1.23095	1.18090	4.07%	£10.00	£40.66	5.07%	€1,180.90
RBS	1.23085	1.18090	4.06%	£10.00	£40.58	5.06%	€1,180.90

THE WORLD BANK'S POLLING

64% of consumers believed the only cost for international money transfers is represented by the stated fee. Only 36% were aware that the total cost includes other components.



“ This fact confirms that transparency of pricing is an issue of serious concern for remittance services. ”

The World Bank <sup>19</sup>

# INTERNATIONAL MONEY TRANSFERS

## Hindering the growth of small businesses

Hidden exchange rate fees are not only bad news for consumers. British firms that want to expand their supply chain overseas are also burdened with the opaque costs of sending money abroad – this problem is particularly acute for small and medium-sized businesses (SMEs) who are likely to have smaller margins.

### CASE STUDY

#### **Nik Darlington, wine retailer**

Red Squirrel Wines is a small online retailer founded in July 2012. It offers UK customers wines from Europe, New York, South Africa and Brazil. As a start-up, keeping costs down is absolutely essential. But with suppliers in several other countries, Nik has to send money overseas regularly.

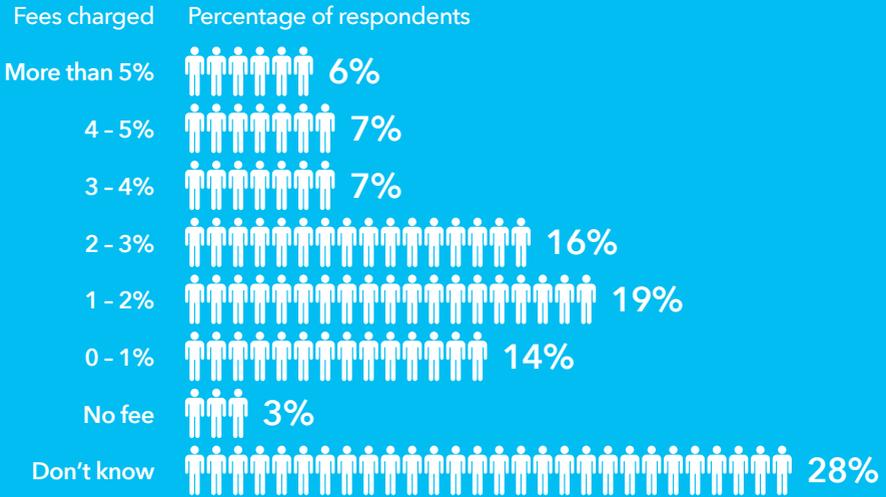
Nik has transferred about £7,500 internationally since starting his business and would have lost roughly £337.50 in exchange rate fees. Nik expects to transfer roughly £30,000 by the end of this year. The amount lost in exchange rate fees – as much as £1350 – would limit his ability to expand his business further.

Furthermore, many businesses are simply not aware of the costs of sending money abroad. An independent YouGov survey of senior decision makers in UK SMEs demonstrated that there is at best confusion and at worst ignorance among those whose income and business models depend upon transferring money internationally. 80% of those surveyed either underestimated or were unaware of the costs of sending money abroad. 73% didn't think institutions were clear on fees.<sup>20</sup>

With banks and brokers profiting from money being transferred overseas, small businesses may find it costlier than expected to engage internationally. They should be helped, not hindered, when trying to expand abroad.

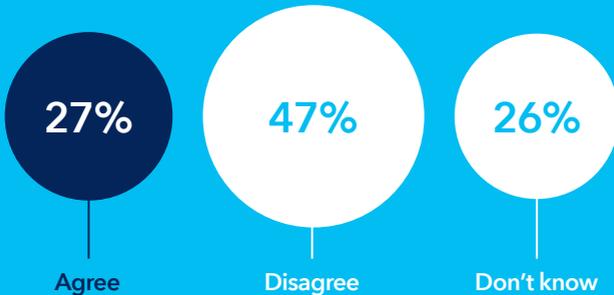
YOUNGOV POLLING

80% of senior decision makers at UK small businesses underestimated or were unaware of the cost of international money transfers: "In general, how much do you think banks charge for processing international payments?"



YOUNGOV POLLING

Only 27% of senior decision makers at UK small businesses think that banks price international money transfers clearly: "In general, UK banks make it clear how much they charge for handling international money transfers"



# WHAT CAN BE DONE?

## Putting an end to excessive and hard-to-compare fees

In recent years, calls have grown for greater competition and transparency in the financial services sector. Consumer organisations have already raised this matter, with Which? recently launching a campaign against 'sneaky fees'. Despite this, the government and regulators have failed to address the issue of the hidden fees consumers pay when they use their money abroad.

We call for regulators to ensure the following: all UK financial institutions offering foreign exchange services should publicise the percentage difference between the mid-market rate and the rate actually being offered for each transaction. This should be available before a transaction is made and communicated in a way that can be understood by the average consumer. Best practice should include the full fee expressed as a sum total in the sender's own currency e.g. £10 to send £1,000.

### What needs to change

On all foreign exchange and international money transfer services, we are calling for the publication of all fees, up front. That means:

**For every transaction, a clear breakdown of the cost of the service.**

**Transparent exchange rates - publication of the difference between the offered rate and the mid-market rate.**

**A crackdown on the use of misleading terms such as "free" and "0% commission."**

## The following institutions need to act:

### **Payment Systems Regulator**

The Payment Systems Regulator (PSR) and Payment Services Directive (PSD2) should include requirements for transparency in exchange rates in their frameworks. They set the framework in which all Payment Service Providers (PSPs) operate.

### **Advertising Standards Authority**

The Advertising Standards Authority (ASA) and the Committee of Advertising should enforce regulations that require quoted prices to include “non-optional taxes, duties, fees and charges” rather than accepting that some hidden fees are the industry norm.<sup>21</sup>

### **Financial Conduct Authority**

The Financial Conduct Authority (FCA), tasked with tackling misleading financial advertising and promotions, should issue guidance that all advertising involving foreign exchange should be “clear about the costs involved” and work with its consumer panel to ensure advertising is accessible and transparent.

### **UK Government and consumer groups**

Parliamentarians and consumer groups should use their public platforms to raise the issue, and apply pressure to relevant regulatory bodies.



# GLOSSARY

**Mid-market exchange rate:** The rate derived from the mid-point between the “buy” and “sell” rates from global currency markets. This rate indicates the value of a currency when it is not weighted towards buying or selling. It is also referred to as the interbank rate and the spot rate.

**Transaction fee:** The fee for making the transaction; this is generally stated and is distinct from the exchange rate mark-up.

**Exchange rate mark-up:** The difference between the real mid-market exchange rate at the time of transaction and the rate offered to the customer. The customer will always receive less than they would at the real mid-market exchange rate. This is a hidden fee and is rarely communicated to the customer.

## NOTES

1. Figures taken from the World Bank Migration and Remittances Unit. In the spreadsheet entitled 'Bilateral Remittance Matrix 2012', we see the total amount sent in remittances from the UK to countries that used the euro is \$4.921bn. Converting that dollar figure into pounds using the 2012 average exchange rate gives us a figure of £3.105bn. The average hidden fee from our mystery shopping exercise was 2.56% (see note 3), which equates to £79m of hidden fees for sending pounds sterling to euro alone. On the overall £20bn of remittances entering and leaving the UK, it equates to hundreds of millions of pounds in hidden fees.
2. Figures based on a mystery shopping exercise on the costs of changing £500 to euros. Telephone research was conducted for TransferWise by Charterhouse Research Ltd and took place on 28th August 2014. The overall fee was calculated as a proportion of a typical £500 conversion; all rates were applicable at the time of the quote; all quotes were taken from providers' customer service departments.
3. Figures based on a mystery shopping exercise on the costs of sending £1,000 to euros, from UK to Germany. Telephone research was conducted for TransferWise by Charterhouse Research Ltd and took place between 6th-12th June 2014. The overall fee was calculated as a proportion of a typical £1,000 transaction; all rates were applicable at the time of the quote; all quotes were taken from providers' customer service departments.
4. UK Government regulations, "Marketing and Advertising: The Law": <https://www.gov.uk/marketing-advertising-law/describing-your-product>
5. Figure taken from the Office for National Statistics (ONS) Travel Trends - Section 5 UK Residents Visits Abroad, 2013. If we look at the total amount spent on holidays in 2013, we see that UK consumers spent £23.634bn on holidays. The average exchange rate fee on our mystery shopping was 5.53%, which equates to £1.307bn of fees.
6. See note 1.
7. YouGov survey of 565 senior decision makers in businesses with 1-49 full-time employees. The survey was carried out online between 8th-11th October 2013.
8. Remittance Prices Worldwide: <http://remittanceprices.worldbank.org/en/about-remittance-prices-worldwide>
9. Figures taken from Office for National Statistics (ONS) Travel Trends - Section 5 UK Residents Visits Abroad, 2013. The figures relate to the number of completed holidays, not the number of visitors. They exclude: business trips, visits to family and friends, and miscellaneous purposes, including studying, attending sporting events, shopping, health, religious, or for other purposes, together with visits for more than one purpose when none predominates (for example visits both on business and on holiday). Anyone entering or leaving more than once in the same period is counted on each visit. The count of visits relates to UK residents returning to this country. Day-visits (that is trips that do not involve an overnight stay) abroad by UK residents are included in the figures for visits and expenditure.

10. Consumer Focus super-complaint: The hidden cost of holidays, September 2011: <http://www.consumerfocus.org.uk/files/2011/09/The-hidden-costs-of-holidays-Consumer-Focus-super-complaint.pdf>
11. Figures taken from telephone research by Charterhouse Research Ltd. See note 2.
12. Travel Money and Card Use Abroad: Response to the Consumer Focus super-complaint, December 2011 [http://webarchive.nationalarchives.gov.uk/20140402142426/http://www.ofc.gov.uk/shared\\_ofc/super-complaints/824817/ofc1400](http://webarchive.nationalarchives.gov.uk/20140402142426/http://www.ofc.gov.uk/shared_ofc/super-complaints/824817/ofc1400)
13. Figures taken the World Bank Migration and Remittances Unit. In the spreadsheet entitled 'Bilateral Remittance Matrix 2012.'
14. See note 1.
15. Figures taken from telephone research by Charterhouse Research Ltd. See note 3.
16. Project Greenback 2.0 - Remittance Champion Cities' Launched in Turin, Italy: <http://blogs.worldbank.org/psd/project-greenback-20-remittance-champion-cities-launched-turin-italy>
17. The online survey was conducted by Vision Critical between 23rd-29th November 2012 from a nationally representative survey of 4,015 people.
18. Figures taken from telephone research by Charterhouse Research Ltd (see note 3). Figures in table relate to online costs.
19. Project Greenback 2.0 - Remittance Champion Cities' Launched in Turin, Italy: <http://blogs.worldbank.org/psd/project-greenback-20-remittance-champion-cities-launched-turin-italy>
20. YouGov survey of 565 senior decision makers in businesses with 1-49 full-time employees. The survey was carried out online between 8th-11th October 2013.
21. CAP code 3.18: [http://www.cap.org.uk/Advertising-Codes/Non-Broadcast/CAP-Code/CAP-Code-Item.aspx?q=cap%20code%20new\\_General%20Sections\\_03%20Misleading%20advertising\\_Rules\\_Prices#.VBNhMEuPry8](http://www.cap.org.uk/Advertising-Codes/Non-Broadcast/CAP-Code/CAP-Code-Item.aspx?q=cap%20code%20new_General%20Sections_03%20Misleading%20advertising_Rules_Prices#.VBNhMEuPry8)



# ABOUT TRANSFERWISE

TransferWise allows people to transfer money abroad at a lower cost than ever before. It uses technology developed by the people who built Skype and PayPal to remove all the fees the foreign exchange industry has kept hidden for decades.

TransferWise's founders built the business out of their own frustration with the industry. They got fed up of hidden fees, so decided to price their transfers transparently, presenting all the costs upfront before you make a transfer. Customers have already moved more than £1bn using the platform - an approach that has put over £45m back in their pockets.

TransferWise supports currency transfers between euro, British pound, Swiss franc, Polish zloty, Turkish lira, Romanian leu, Bulgarian lev, Georgian lari, Hungarian forint, Danish, Swedish, Czech, Norwegian krone and US dollar. It also supports transfers from these currencies to Indian rupee, Australian, Singaporean, Hong Kong, and New Zealand dollar.

TransferWise is fully regulated by the UK's Financial Conduct Authority (FCA; formerly the Financial Services Authority). REF 571669.

## **TransferWise Ltd.**

2nd Floor, 186-188 City Road, London, EC1V 2NT, United Kingdom

 [press@transferwise.com](mailto:press@transferwise.com)  [@transferwise](https://twitter.com/transferwise)



[www.transferwise.com](http://www.transferwise.com)