FXCintel

UK Currency Exchange Transfer Market Report for the Financial Conduct Authority

Final Report

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The FCA commissioned FXCIntel to conduct this research on the currency exchange transfer market. FXCintel carried out the research, analysis, and report writing. The views expressed in this report are those of FXCIntel.

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Executive Summary

Introduction

This report, commissioned by the Financial Conduct Authority (FCA), provides an overview of the currency exchange transfer market.[1] The report includes analysis of both firms and consumers. It sets out our review of current market dynamics, the position of leading firms, and examines the pricing and website marketing practices of over 50 players in the UK currency exchange transfer market. On the consumer side, it sets out the work we have done to understand the behaviours, attitudes, and levels of understanding among active consumers in the market using a consumer survey. Finally, we set out our analysis of how consumers' decisions are shaped not only by the cost of transaction but also by a firm's brand and marketing practices.

Our methodology is described in more detail in the Deliverables and Methodology section below.

Background

The report makes use of primary and secondary research and is designed to provide the FCA with a strong understanding of the currency exchange market. In addition to providing a broad overview, the work specifically addresses the disclosure of FX rates and FX fees in the currency exchange transfer market.[2] The main focus in this regard is the use of currency calculators on firms' websites - examining specifically whether some firms present an unattainable interbank exchange rate to consumers.[3]

About us

The FXC Group dates back to 2006 when we worked with both the World Bank and the Department of International Development to research and better understand the remittance and currency exchange industry. FXCintel was set up in 2014 to provide detailed research and data on the sector. We have assembled a team of specialists who are both technically skilled and subject matter

[1] This is the market for payment services which involve the conversion of a currency.

[2] www.fca.org.uk/news/statements/use-interbank-rate-online-currency-converter-tools

[3] Tools which convert currency at the interbank rate may be used in such a way as to give consumers the impression that the rates shown are available to them, rather than the rate that they are likely to achieve.

experts on cross-border payments and currency. We deliver our research via bespoke, detailed research reports or via licensed access to our data, typically through our online interactive portal.

Deliverables and Methodology

The report is split into two main sections.

Part One, "The Currency Exchange Transfer Market," provides an overview of the current state of the UK foreign exchange transfer market. This section defines the types of companies operating in the market, and includes representative company profiles for main company groupings we have identified (see Firms Types in Results & Findings section below for an overview of company groupings). Part Two, "Firm and Customer Behaviour," focuses on the pricing structures these firms use when marketing their services, the various advertising strategies and language found on their websites, and presents the detailed findings of our UK consumer survey.

A variety of methods have been used to obtain these outputs including quantitative and qualitative analysis. A brief summary of the methodologies used for obtaining key data has been provided below.

Firm level data: Data on firm level revenues and financials has been taken from FXCintel's proprietary currency exchange transfer provider database, alongside public company accounts from UK Companies House, and the Securities and Exchange Commission, among others.

Pricing data: Where FXCintel has commented on the relative FX prices of banks and brokers throughout the executive summary and report, this information has been taken from FXCintel's in-house International Money Transfer Index (IMTI), a monthly survey of bank FX pricing that is licensed to companies involved in the foreign currency exchange transfer market. We have also conducted additional spot surveys of certain providers in order to validate, expand, or compare FX rates between companies.

Business models: To provide in-depth coverage of the different business models employed in the sector FXCintel has made use of data sourced from detailed company research, such as reviewing annual reports and financial statements, and supported by in-depth industry knowledge.

Primary survey research: FXCintel conducted an online survey of 1,000 UK consumers through Populus Data Solutions. The survey focuses on how different types of consumers (segmented by key demographic and behavioural markers) behave in this market (e.g. how much they send, why they choose providers, their understanding of common money transfer terminology, etc). An Omnibus survey was run to obtain incidence figures for individuals active in the currency exchange transfer market by age, region, and social grade, and then set sampling quotas. Using these quotas, the survey sample was weighted to be representative of the UK population.

Results and findings

Part One - The Currency Exchange Transfer Market

Market Breakdown

The outbound UK consumer transfer market is worth an estimated GBP60bn.[4] FXCintel estimates there are 300-500 firms operating in the sector, although it is difficult to pinpoint the exact number of companies actively offering transfer services due to the lack of granular data on the regulatory permissions these companies have and the small size of many new and niche companies.

Historically, high street banks and traditional providers [redacted] have been the primary way consumers transferred money internationally. Recently, online exchange providers -[redacted]- have gained significant traction among consumers (measured in terms of the volume of currency transferred and online search presence), by leveraging lower infrastructure costs and new technologies.

Firm Types

In order to help differentiate the different types of companies operating in the UK currency exchange transfer market, we have segmented providers into four broad groupings. We have listed

[4] Market size estimate derived from a series of FXCintel consumer money transfers surveys conducted in 2017, along with proprietary, [redacted].

these below, along with a short explanation of each type. These definitions are expanded upon in the full report.

Banks: These are authorised firms that can accept deposits and can offer a wide variety of financial products aside from currency exchange services, including mortgages, loans, and credit. Due to the ubiquitous nature of current accounts in everyday life, banks have a large customer base and are significant players in the currency exchange market, although they have come under increasing pressure in recent years from online currency exchange providers. This category includes UK high street banks [redacted]

Traditional Currency Exchange Providers: These providers are established companies with decades of experience in the currency exchange market. One of their defining features is their reliance on physical agent networks, and ability to accept and disburse funds in the form of cash at both ends of a transaction. They have a strong presence in developing nations with large "unbanked" populations. This category includes companies such as [redacted]

Online Providers: A diverse group of companies established from the mid-to-late 1990s to present day. These companies now operate almost exclusively online, and employ a wide range of business models. Our research indicates there are two broad types of firm within this larger group, which we have labeled 'Type A' and 'Type B'.

- **Type A**: These companies emerged as fully internet-based and mobile app-based operations from the start. 'Type A' companies typically refer to themselves as technology or fintech firms. They have tended to target consumers, although some companies have now expanded their product range to cover SMEs. This group includes companies such as [redacted]
- **Type B**: These companies emerged after the traditional providers, and many operated as phone-based brokers before moving their operations online. 'Type B' companies typically target SMEs and corporate clients, although many do offer consumer services as well. They tend to resemble phone-based FX brokers in terms of company structure and business practices. This group includes companies such as [redacted].

E-money institutions and digital banks: In this report, we have grouped together a number of new organisations which offer low or no-cost transfer products and travel money cards. This includes [redacted] they all market their services similarly, as alternatives to traditional bank accounts. These providers are the newest entrants into the currency exchange market, and have used aggressive loss-making tactics [redacted] to acquire customers. All of these companies primarily operate through mobile phone applications, and began as prepaid card providers [redacted] These players have gained in popularity since 2016 in part by offering low-cost or free international transfers and foreign currency payments. Most of these providers currently subsidize their transfer and exchange products through outside funding and cross-selling of other financial services.

Part Two

Firm Behaviour: pricing and website marketing

Our review of over 50 UK currency exchange firms' websites explores the wide range of pricing and marketing tactics employed in the space. In terms of pricing, some firms, especially traditional providers using agent models and providing cash payouts, employ complex pricing regimes dependent on corridor and channel [redacted] Our review provides a snapshot of how much diversity exists in pricing practices across the industry even within a single, common UK-out transfer corridor: GBP-EUR. Pricing varies across providers: our review of transfers along major corridors (such as GBP to EUR) found that online exchange providers, and in particular 'Type A' providers, were overall less costly in terms of the "total cost" of the transaction than similar transfers made through banks (see Charges and Pricing section). [redacted]

Most of the firms we reviewed used currency calculators on their websites (39 of 54). However, the information shown to customers in terms of the potential transfer pricing and costs varied between providers (see Transparency section). Three of the reviewed providers showed consumers unattainable FX rates on the calculators on their websites (that were the interbank exchange rate). A small number of the providers reviewed (15 of 54) made use of trade offers and inducements on their websites (see Trade offers and marketing inducements section). In addition, a small set of the reviewed firms (8 of 54) made use of language such as "best rate guarantee."

Perhaps the most striking takeaway from this review of providers' websites is that just 3 of the 54 providers provided a full breakdown of the "total cost" to consumers; the three providers that provided a "Full breakdown of costs on the calculator" made it clear and easy for a client to understand what the "total cost" of a transfer would be. Thirty-seven of 54 firms' websites made it challenging for consumers to work out the "total cost". Fourteen of the 54 firms reviewed made it very difficult for a client to determine the "total cost" of the transfer without having an account with the provider.

Consumer Behaviour - Survey Results

The findings from the Consumer Survey support the rest of our research, and existing understanding of the currency exchange transfer market. This is a fragmented, fluid market. About two-thirds (68%) of FX consumers reported using two or more different providers. The FX consumer respondents surveyed predominantly used high-street banks and a couple of large specialist providers [redacted] still dominate the market. Younger FX consumers respondents were more likely to have used online transfer providers. Traditional banks were the most popular way of transferring money overseas amongst respondents. However among young people aged 18-34, online money transfer providers were the most popular.

The main reason respondents reported for transferring money were to send it to "friends, family or yourself", with nearly two-thirds (63%) selecting this reason; the next most common reason was to buy small items internationally (34%). Transfers for larger purchases were reported much less. The average amount to send to "friends, family or yourself" was about GBP900; the average for buying small goods was about GBP200, whereas purchasing property overseas accounted for the largest transactions, with an average annual spend of about GBP58,500.

The survey findings underline that FX consumers understanding of the total cost of an international payment or transfer is influenced by the language used on a provider website and the market practices they employ. Some of the concepts and pricing terminology used to advertise FX products were poorly understood by FX consumer respondents, and was often significantly out-of-step with a respondent's *perceived* understanding of the same terminology. These findings suggest that consumers are at risk of being misled by confusing FX terminology and presentation practices.

Provider selection

By analysing and modeling online customer selections of currency exchange providers we explore how it is not only the cost of a transaction that influences a customer's decision of which provider to use - brand awareness also plays a vital role in provider selection. Among customers who chose a provider with a high total cost of transfer, providers with a well-known brand were chosen more often than unknown providers with a similarly high cost (see Figure 19).

Pricing Definitions and Concepts

Throughout the report, we make reference to pricing structures used by firms in the currency exchange transfer market. In this section we outline these definitions, in particular those related to [redacted]

[redacted]

[redacted]

FX rate

Any rate which converts one currency (e.g. British Pounds) into another (e.g. US Dollars).A currency exchange transfer will usually involve a FX transaction - typically conversion from the currency of the sending country to the currency of the receiving country. To know the total price of the transfer, the sender needs to know the FX rate that will be used since different providers are likely to use different FX rates, which vary from day to day.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Part One: The Currency Exchange Transfer Market

The UK currency exchange transfer market is competitive and advanced. The UK is the first country to grant non-bank payment companies access to the central bank settlement system[6,7]. Moreover, UK consumers have access to sophisticated FX products including multi-currency accounts [redacted] and numerous variations of low or no-cost international payment and travel money cards from e-money providers and challenger banks. While many UK companies operate across Europe through financial passporting arrangements, many established UK currency exchange providers - such as [redacted]

At the market level, UK providers have also begun to settle into a more defined segmentation. Current exchange and international payment providers can be broadly classified into four distinct groups based on their business models and customer focus. These are:

- **banks** [redacted]
- **traditional currency exchange providers** [redacted]
- **online exchange providers** [redacted]
- **e-money institutions/digital banks** [redacted]

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[6] Bank of England (18 April 2018). First non-bank payment service provider (PSP) directly accesses UK payment system. Retrieved from: https://www.bankofengland.co.uk/news/2018/april/non-bank-psp-access-to-the-payments-system-announcement

[redacted]

As part of this report, we have reviewed in detail the pricing structure and marketing practices of 54 currency exchange transfer market firms (see Exhibit 1 in Appendix for firm-by-firm categorisation and the Firm Behaviour Section). FXCintel estimates there 300-500 notable firms operating within the UK's currency exchange transfer market; however, it is difficult to pinpoint the exact number of companies actively offering transfer services within each of these firm-type categories due to the lack of granular data on the regulatory permissions these companies have and activities they regularly engage and the small size of many new and niche companies. Note, that throughout this report we refer to [redacted] in line with the FCA's categorisation. This has been done in order to draw out similarities between companies such as [redacted] All of these companies market themselves in similar ways (as alternatives to traditional banks / current accounts), although only some [redacted] Our **e-money institutions** category does not include a number of providers, [redacted], that are authorised electronic money institutions but have functionally different business models and marketing strategies.

Each of our provider classification types has a unique value proposition and different approach to customer acquisition and retention, currency exchange pricing, and advertising. The report will look at the relatively popularity of these provider types, before investigating each individual type in more detail in the following sections.

Market at a glance

Size of UK consumer outbound currency exchange transfer market*:	
Remittances*	~GBP 18 bn
Overall transfers**	~GBP 60 bn
Percent of UK adult citizens who have transfered or payed money to another country in the past 12 months***	26%
Percent of UK consumers who transfered money to another country in last 12 months***	12%
Number of UK consumers who transfered money to another country in last 12 months**	6.4 m
Transfers per year (mean)***	3.4
Total consumer transactions per year**	22 m
Average transaction size**	GBP 2,727

*World Bank Bilateral Remittance Matrix, 2016

**FXCintel estimate

***FXCintel market survey

Relative popularity of different market players

Among non-bank exchange providers, large traditional currency exchange providers [redacted] continue to dominate the consumer market not only in terms of overall revenue and FX turnover but also brand awareness and website traffic (Figure 1).

Figure 1. Website traffic, brand awareness and online searches.[12]

[redacted]

However, over the past four years online currency exchange providers [redacted] have seen their online presence grow significantly. [redacted]

[redacted]

Aside from the continued growth of online currency exchange providers, the entrance of electronic money institutions [redacted] has created new dynamics as well. As can be seen in Figure 2, new digital challenger banks, [redacted], and electronic money institutions [redacted] have seen their brand awareness increase rapidly since 2016 and have used money transfer and travel payment offers as core components of their marketing strategies.

Figure 2. Relative online search activity for currency exchange transfer providers since 2013.[15]

[redacted]

Banks

Overview

Banks are some of the oldest foreign exchange providers and continue to enjoy significant market share among consumers and SMEs for international transfers (for example, see FXCintel UK Consumer Survey 2018 Section). As all UK high street banks offer foreign exchange payments to their account holders, and nearly all consumers in the UK hold and use a current account, banks have traditionally been many peoples first destination for transferring money. Banks have also enjoyed high levels of trust among consumers historically.

[15] We used the Google Trends API to extract Google search data (restricted to the UK only) on the brands being studied. All results are converted to a 0-1 scale.

The only segment of the consumer foreign exchange market in which banks have not traditionally dominated has been for transfers to low-volume corridors such as GBP to emerging market currencies or developing countries with limited formal banking infrastructure. Many banks do not provide service on low-volume and/or difficult to serve corridors. Banks also offer fewer payout methods than **traditional currency exchange providers,** which are typically capable of transferring money to bank accounts, cash pickup locations, or depositing funds in the form of mobile airtime credits.

FX transfer product competition has increased over the last decade as new **online foreign exchange** providers [redacted] have increasingly competed with banks on pricing and launched aggressive marketing campaigns. Still, high street banks continue to enjoy high brand recognition and familiarity with UK consumers, compared with dedicated transfer providers. Banks have also moved to close the technological gap between themselves and their new competitors. While all of the main UK retail banks provide branch, phone, and online transfer services, most now have mobile applications that allow international payments as well.

In terms of pricing, banks are often more expensive overall for currency exchange transfers compared with other types of providers (see Section Charges and Pricing; see Figure 3 and Exhibit 1 in Appendix).[16,17] Although FX transfers are not typically viewed as a core banking product, banks do consider these an important part of their overall product suite and are eager to stem losses to third party financial firms, as losing customers on any one product lessens the hold the bank has over them through their remaining products. As a result, banks' strategy around currency exchange transfer products has tended to focus on customer retention rather than acquisition.

Business Models

Retail banks continue to earn the majority of their revenue from traditional credit products. International transfers account for a relatively small share of revenue for most banks. Anecdotal

[redacted]

[17] World Bank data on currency exchange transfer pricing routinely shows that banks are more expensive than other provider types in the UK and other developed countries. See for example: World Bank. (2017, December) Remittances Prices Worldwide. Issue 24. Retrieved from - https://remittanceprices.worldbank.org/sites/default/files/rpw_report_december2017.pdf.

evidence suggests only 2-5% of current accounts at high street banks are actively used to make international money transfers.[18]

Despite being one of the banks' lesser used products, the income generated by foreign currency exchange has the potential to be significant. Pinpointing the exact value of these services at a bank-by-bank level remains difficult, as UK banks do not provide detailed breakdowns of their FX turnover or profits in their annual accounts. However, some benchmarking data does exist. [redacted]. Unfortunately there is no way to accurately segment these banks' international FX revenues by country or corridor.

Traditional Currency Exchange Providers

Overview

Traditional currency exchange providers have historically been one of the only formal options for consumers looking to send money (or "remittances") to developing countries or to recipients without bank accounts. This is due to the vast agent networks companies [redacted] have established globally. Whereas banks typically transfer money to and from bank accounts, using standards such as IBAN, traditionally currency exchange providers can make money deposited at one of their local agent locations available at any other agent location anywhere in the world, typically in a matter of minutes or hours.

[18] This low percentage underestimates the fraction of consumers that use banks to make international currency transfers - given that many consumers in the UK hold more than one current account.

[redacted]

Although the business models and product offerings are similar, there is considerable diversity among traditional exchange providers. The largest such providers, [redacted], have coverage in nearly every country. More niche players [redacted] focus on select, difficult to service corridors and specific migrant communities. In this group of Traditional Providers, FXCintel has included providers who make extensive use of agent networks, including providers which have historically focused on the bureau de change / travel money space ([redacted])[22].

Business Models

Agent networks are a prominent feature of traditional provider business models. These agents allow traditional providers to offer nearly instant fund availability in almost any country. [redacted][23] This combined with the fact that traditional currency exchange providers are sometimes the only way to move money across certain less common corridors has often made them the only viable choice for sending or receiving remittances. This advantage has long allowed traditional providers to charge high FX rates and large fees - although the emergence of remittance-focused online providers ([redacted] has begun to change this dynamic especially in high volume currency corridors such as GBP-EUR or GBP-USD.

Still, traditional currency exchange providers typically have complex pricing structures, in part reflecting the variety of services they can provide, such as cash pickup, bank to bank transfers, and more (see Table 1 for pricing examples). These companies' pricing on bank-to-bank transfers from GBP to other major currencies has become quite competitive (see Section Charges and Pricing). However, the cost can rise rapidly if the sender pays for the transfer with a debit or credit card, or the recipient needs to receive the money in cash rather than as a bank deposit. As shown in Table 1, the total cost as a percentage of the transfer can be as high as 10% for smaller transfers along corridors to developing countries. [redacted].

[22] See Appendix, Exhibit 1 for complete list of providers in each category
[23] [redacted]

[redacted]

Traditional transfer providers often rely on fees for a large part of their revenue [redacted] The most lucrative transfers for traditional currency exchange providers are non-bank transfers where a consumer pays money in cash at an agent location, or needs the money to be available for cash pickup.

Despite their agent-focused business models, traditional providers have started to adapt to recent shifts in the market. Many traditional providers, [redacted], have attempted to push into the online transfer market, although their digital services tend to be more limited than their physical networks. [redacted] for instance, operates their online transfer

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[redacted]

service in only 37 countries [redacted], compared to their physical presence in over 200 countries and territories. They offer a mobile application in just 18 countries.

Other traditional providers have attempted to expand their services through sub-brands or partnerships. [redacted]

Although outside the primary scope of this report, many traditional currency exchange providers also offer travel money services. These transactions typically involve customers exchanging cash notes at an agent or bureau de change, either in their home country or in the destination country. For most traditional providers this is a sub-component of their primary services, although it plays a more important role for some, [redacted] E-money institutions and digital banks [redacted] have recently emerged as competitors in this sector, offering zero-fee foreign exchange transactions via their payment cards and reducing the need/incentive for consumers to use traditional travel money services.

Online Providers

Overview

Enabled by the widespread adoption of internet and cellular access, a host of new foreign exchange providers has emerged since the late 1990s. These providers are highly dependent on online technologies, and typically operate with little to no physical consumer facing presence (i.e., without agent networks, branches, or storefronts). Much in the way that online retailers were able to offer lower costs to consumers by abandoning the traditional store, online foreign currency providers have been able to offer lower prices for international transfers by limiting their services to primarily online, bank-to-bank transfers executed through a website or mobile application.

While many of these providers position themselves as technology-focused startups, there are a wide range of product offerings and business models within the space. In general however, providers in this grouping can be segmented into two types; without any agreed nomenclature, we refer to them simply as 'Type A' and 'Type B' online providers (see Exhibit 1 in Appendix for firm-by-firm categorisation).

'Type A' providers are companies that have largely focused on the consumer, remittance, and lower average transaction size segment of the market (although some 'Type A' providers have introduced SME-specific products in the last several years). Many of these companies launched from 2010 onwards and are often considered fintech companies. They typically offer only single payment transfer services (i.e, spot transfers) and do not offer advanced FX products such as forward or option contracts, or mass payment services for companies. [redacted]

'Type B' providers on the other hand are foreign exchange providers which operate primarily online, but focus on corporate and business clients, high-net worth individuals, and other niche areas of the payment market (e.g. mass payouts, factoring). They typically offer advanced FX products such as forward and option contracts, and can help businesses develop hedging strategies to guard against currency fluctuations. [redacted]

Despite their different focuses, 'Type A' and 'Type B' also have much in common. They usually have competitive pricing when compared to banks and traditional providers across major corridors and service a client base of financially-literate and digitally connected individuals and businesses. Many of these providers are also funded by venture capital or external investment rounds. [redacted]

Online Providers 'Type A' - Business Models

This section includes companies [redacted] that have eschewed traditional agent locations and concentrated instead on mobile and online bank-to-bank transfers. Since appearing on the scene in late 2000s, these providers have used aggressive marketing tactics and PR stunts to gain considerable brand awareness amongst consumers in a relatively short time span.

One of the primary factors behind these providers' explosive growth was their low transfer prices. By taking advantage of lower-operating costs and new technologies, they have been able to offer currency exchange services at a significantly lower price point than banks or traditional currency exchange providers. Across major routes, such as GBP to EUR or GBP to USD, 'Type A' providers are routinely less expensive than high street UK banks (see Section Charges and Pricing). When they first arrived, they also provided customers with easier, better designed, and often faster service than banks or traditional providers could offer.

True to their startup, tech-company ethos, many 'Type A' providers targeted customer acquisition and market share growth over revenue in their early years, with the goal of achieving profitability at scale. While many are still dependent on VC or PE funding, others appear to be successfully making this transition. [redacted] Perhaps most

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[redacted]

notably, 'Type A' providers appear to be achieving profitably without significantly changing their fee structure or raising consumer rates - something many in the industry predicted would not be possible. Many of these providers have also now started to target SMEs with the introduction of certain advanced FX products such as multi-currency accounts and mass payout products. We expect 'Type A' providers will increasingly focus on the SME market alongside their consumer base in order to continue their rapid expansion.

These providers (along with their 'Type B' counterparts, discussed below) are dependent on the payment infrastructure controlled by banks in order to facilitate their transfers. To ensure liquidity for their transfers, for instance, providers must either source liquidity directly from banks or from third-party liquidity providers [redacted] which bundle the currency needs of many small providers into large aggregated accounts in order to secure discounted, wholesale pricing. Providers also require bank accounts for settlement and trade processing. This co-opetition model (banks are simultaneously selling currency to 'Type A' providers and competing against them), has previously led to tension, as banks have in the past made it difficult for fintech businesses to open accounts as part of de-risking initiatives.[31,32] There are recent signs this model is beginning to shift however, due to new regulatory frameworks triggered by the second Payment Service Directive Open Banking and the Bank of England's "Real Gross Time Settlement" system.[33] The "Real Gross Time Settlement" system has the potential to alleviate the need for providers to depend on banks for trade settlement and payment processing. This initiative is currently unique to the UK market.

[31] Wild, Jane and Arnold, Martin. (2014, October 19). Financial technology sector complains of lack of bank services. *The Financial Times.* Retrieved from: https://www.ft.com/content/dbe69366-5625-11e4-bbd6-00144feab7de
[32]FCA (2016, May 24). FCA Research into the issue of de-risking. Retrieved from: https://www.fca.org.uk/news/news-stories/fca-research-issue-de-risking
[33] Megaw, Nicholas. (2018, April 18). TransferWise becomes first non-bank to join BoE payment system. *The Financial Times.* Retrieved from: https://www.ft.com/content/78886740-42e9-11e8-803a-295c97e6fd0b

Online providers 'Type B' - Business Models

While 'Type A' providers have largely emerged in the last eight years, 'Type B' began emerging in the late 1990s and early 2000s [redacted] and have had comparably longer business trajectories.

When 'Type B' began to appear, the foreign exchange transfer market was divided between banks - which primarily handled transfer along major corridors and business currency needs - and traditional providers which serviced exotic corridors and currency needs for the unbanked. 'Type B' targeted the middle of the market - wealthier immigrants and expat communities, SMEs, and other customers who transfer higher volumes than remittance customers but not enough to receive preferential or dedicated service through their bank's FX desk.

Unlike 'Type A' providers, 'Type B' do not typically position themselves as tech-firms and have not pursued the same type of aggressive customer acquisition strategies. In part this is because of the business-facing advanced FX products they offer such as forward and option contracts or mass payment solutions for companies which need to regularly pay numerous contractors or freelancers in a variety of countries. [redacted] (for instance, if a business takes out an FX forward contract to cover their annual FX payment needs, they are very likely to continue using that broker throughout the year). In the last one to two years, a number of these providers have also introduced specialty accounts targeted at online sellers - specifically merchants who sell goods internationally through online marketplaces such as Amazon Marketplace, Alibaba, Rakuten or other similar platforms. [redacted]

E-money Institutions and Digital Banks

Overview

The most recent entrants into the currency exchange transfer and international payments space have been e-money institutions [redacted] and new digital banks [redacted] We have grouped these companies together, as they all present themselves to consumers as alternatives to traditional banks (see Appendix Exhibit 2 and 3 for marketing messages), [redacted]

These firms have only gained significant customer awareness in the past 12 to 16 months, reflecting their recent incorporation. [redacted] In this way, consumers can use [redacted] to make international foreign currency payments - although they cannot directly transfer funds to another person's bank account [redacted].

These services have proven popular among consumers as their registration and user numbers have increased dramatically over the course of the last year. [redacted]

Business Models

All three firms discussed here operate similar business models with a few unique features. One of the primary ways these companies make money is from card processing fees that merchants pay when a customer buys something using a [redacted] payment card. This fee is split

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[redacted]

between them and the card issuer, [redacted]. In addition to these fees, [redacted] employ a tiered feature model which lets most users use their services for free, but puts caps on certain activities. Users can then pay for a "premium" account subscription in order to unlock additional features, such as faster international money transfers or higher ATM withdrawal limits. Similarly, [redacted] have both begun to market additional financial products - such as phone and travel insurance - to their customers through mobile "marketplaces." While the promoted services may not be run directly, this is similar to the standard "cross-selling" business model that has historically been used by banks.

All of these firms appear to be using the above revenue streams (along with investor funding) in order to subsidize their low international transfer and payment costs. [redacted] As [redacted] is paying a third party provider to execute these transfers, each free transfer results in a loss.

[39] [redacted]

Part Two: Firm and Customer Behaviour

Firm Behaviour

Charges and Pricing

Pricing varies significantly across providers. It can also vary significantly depending on corridor and transfer channel at a single provider. For instance, [redacted] charges different fees whether the sender is transferring the money to the recipient's account or for cash pickup at an agent (see [redacted].

We have compared pricing of over 50 currency exchange transfer providers; to ensure consistency in our comparison of these providers we have collected data on the same transaction sizes. We have selected a sample of providers from each of the four categories identified in **Part One** of the report. The set of companies we selected for comparison includes those transfer providers with the highest monthly website traffic, annual revenue, annual FX turnover. For brevity in this section of the report we refer to *E-money Institutions* and *Digital Banks* as *Bank Challengers*. In addition to the categories included in Part One of the report, we have also included an 'Other' payments companies category; these other companies have broad payments coverage spanning both international transfers and small domestic payments and often help to facilitate payments on global online marketplaces for goods and services. [redacted]

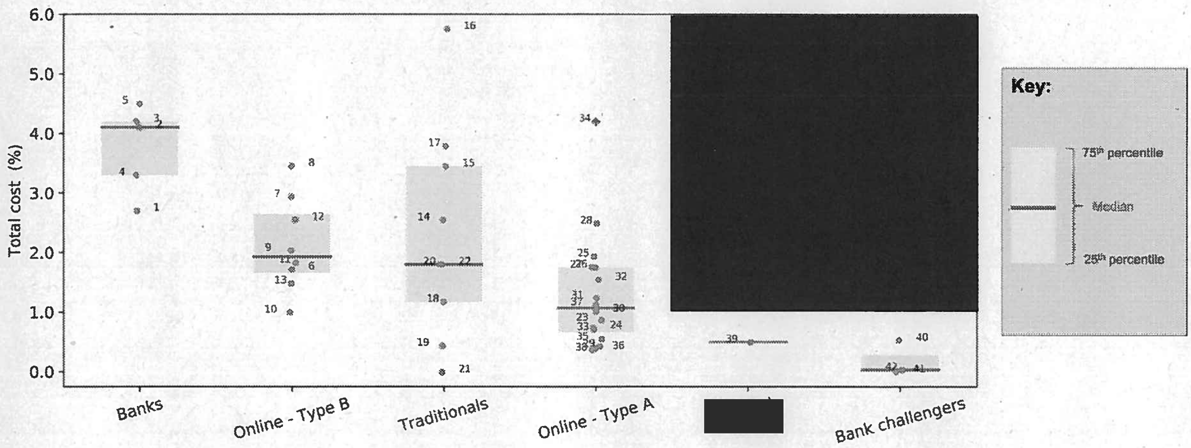
The set of companies selected for comparison includes the major players in the UK currency exchange transfer market alongside a few smaller, niche remittance-focused players. For the pricing comparison, we looked specifically at GBP1,000 to EUR transactions. For those companies that do not provide transfer services to EUR, we collected the data to corridors they do provide services on but left it out of our comparative pricing chart (see Figure 3). In this section, we only compare FX rates and FX fees that are achievable by clients (see Pricing Definitions and Concepts section). Our finding show that a small number of providers show rates on their websites that are not achievable, and other providers do not report rates on their websites (for details see Website Review and Advertising Practices section). For these companies, we have gathered the achievable rates through other public means (e.g. price comparison websites) - where we have not been able to do this we have not included the provider in our comparative pricing analysis.

[redacted]

[redacted]

[redacted]

Figure 3. total cost as a percentage of the transaction by provider type.



[redacted]

[redacted]

[redacted]

Table 2. FX Pricing. Example pricing of a number of providers sampled in March and April 2018 for transferring GBP1000 to EUR to a recipient's bank account.[42]

[redacted]

Website Review and Advertising Practices

FXCintel reviewed websites of over 50 providers of currency exchange transfer services in March and April 2018 to assess their advertising practices and how they present their services on their websites (Table 3; also see Exhibit 1 in Appendix). Specifically, we looked at:

- whether a provider's website makes use of an FX rate calculator;[43]
- how a firm advertises its FX rate in relation to the interbank rate;
- what types of promotions and incentives a firm provides to potential customers;[44]
- whether a firm makes use of terms such as "best rate guarantees".

[redacted]

We have focused on the primary customer landing pages - typically a provider's homepage - or the page on which they display FX rates, fees, and other potential costs.[45] We have included both for review to provide some reflection on the different practices employed in different geographies.

Table 3. Number of companies' websites reviewed by provider type.

Type of provider	Number of websites reviewed
Banks	5
Traditionals	10
Online - Type A	24
Online - Type B	9
Other [redacted]	3
Bank challengers	3

Currency Calculators

Currency calculators are very common tools on the websites of currency exchange transfer providers. Thirty-nine of the 54 websites that FXCintel reviewed had a currency calculator (Table 4).

Table 4. Number of firms that have a currency calculator present on their website.

Type of provider	Firms with currency calculator	Firms reviewed
Banks	1	5
Traditionals	9	10
Online - Type A	22	24
Online - Type B	5	9
Other [redacted]	0	3
Bank challengers	2	3

[45] Note, we have included in our review web pages that are available to UK consumers. In some instances companies provided different calculator options in different geographies (for example between the UK and the USA) although the websites were still available to UK IP addresses.

However, of the firm-types we reviewed, calculators were most highly concentrated amongst non-bank currency transfer market specialists (see Table 4). Almost all of the 'Type A' online currency exchange providers (22 of 24) and traditional providers (9 of 10) reviewed used them. In contrast, only 5 of the 9 online 'Type B' providers reviewed had calculators. This may reflect the fact that this group depends much more on direct contact with potential clients in communicating rates and fees (see below section on account requirements to access rates and fees).

Transparency

Transparency is subjective but very important in terms of the customer decision process in the currency exchange transfer market. Evidence suggests that the degree and the type of information that is presented to a customer can strongly influence decision quality.[46]

What firms present to consumers (Table 5). We have categorised firms in terms of what they present to consumers on their websites with respect to the pricing of a potential currency exchange transfer.[47]

Full breakdown of costs on calculator: The provider's website has a calculator that shows transaction costs in terms of a "total cost" (see see Pricing Definitions and Concepts) to the client, and it is easy for client to understand how much recipient will receive (for example see Exhibit 4 Appendix).

Breakdown of costs elsewhere on site: The provider's website provides information on cost structure with reference to the interbank or wholesale rate and FX cost is presented as a percentage of a transaction alongside any relevant transfer fees; however neither a calculator or current FX rates is shown (for example see Exhibit 5 Appendix).

FX rate and fee: The provider's actual FX rate is shown but not compared directly to interbank rate; additional fee may be present (for example see Exhibit 6 Appendix).

Calculator but no clear FX rate: The provider's actual FX rate is not shown explicitly but can be calculated via website calculator from the amount received (for example see Exhibit 7 Appendix).

[46] The Behavioural Insights Team. (2018, March 21). The impact of improved transparency of foreign money transfers for consumers and SMEs Final report. Retrieved from: http://www.behaviouralinsights.co.uk/publications/the-impact-of-improved-transparency-of-foreign-money-transfers-for-consumers-and-smes/

[47] That is, what a provider presented in a currency calculator (if one was present on the website) or elsewhere on the website when a calculator was not present.

All of the websites that make use of calculator widgets, implicitly provide the user with an indicative FX rate (by showing how much money the recipient would stand to receive). However, several of the reviewed websites did not explicitly show an FX rate.

Unavailable FX rate: The provider's actual FX rate is not available even implicitly because a currency calculator is not present (for example see Exhibit 8 Appendix).

Unattainable FX rate: When a provider's calculator shows the interbank exchange rate to a potential client, but this rate is not attainable by the potential client (for example see Exhibit 9 Appendix); the provider's actual FX rate is not shown.

The information firms show consumers in terms of FX rates and fees varies considerably across the different types of providers (Table 5).

Table 5. Number of firms categorised in terms of what they present to consumers (i.e. reflecting how clear to consumers their cost structures are).

Type of provider	Full breakdown of costs on calculator	Breakdown of costs elsewhere	FX rate and fee available	Calculator but no clear FX rate	Unattainable FX rate	Unavailable FX rate	Firms reviewed
Banks	0	1	1	0	0	3	5
Traditionals	0	0	7	2	0	1	10
Online - Type A	1	0	17	6	0	0	24
Online - Type B	0	0	2	0	3	4	9
Other [redacted]	0	1	0	0	0	2	3
Bank challengers	2	0	0	0	0	1	3

The three providers reviewed that provided a *'Full breakdown of costs on the calculator'* made it very clear to a client what the "total cost" of a transfer would be. On the other hand, thirty-seven of 54 firms' websites made it challenging for consumers to work out the "total cost" (see for example Exhibit 7 in the Appendix). In these cases determining the "total cost" was challenging for one of the following reasons: provider included "total cost" information on their website but not a calculator or live exchange rate (for example see Exhibit 5 Appendix); provider did not provide a comparison of their FX rate to interbank rate (for example see Exhibit 6 Appendix); provider did not explicitly show their actual FX rate on their calculator (for example see Exhibit 7 Appendix). Fourteen of the 54 firms reviewed made it extremely difficult for a potential client to determine the "total cost" of the transfer; this was extremely difficult in these cases because the firms either provided an *'Unattainable FX rate'* (see Table 5) or did not display an FX rate at all (see *'Unavailable exchange rate'* column Table 5; also see example Exhibits 8 to 11 in the Appendix).

The FX rates shown on providers websites that we reviewed were the ones attainable by users except in three cases. Out of the 39 firms with calculators that we reviewed (Table 4) only three of these firms showed consumers an *'Unattainable FX rate'* - the rate presented in these cases was the interbank rate (see Table 5, for screenshots of these see Exhibit 9, 10, 11 in the Appendix): [redacted]

Account requirements

Nineteen of 54 providers reviewed required potential customers to register an account with them to access their FX rates (14 of 54) and/or fees (14 of 54; see Table 6).[49] All of those providers with either an *'Unattainable FX rate'* or with no rate displayed at all (see *'Unavailable exchange rate'*; see Table 5) on their public website required a potential customer to register an account with them to access their FX rates. In addition, several providers' publically available websites did not show any indicative FX fees. For instance, three of the five banks reviewed provided no information about FX rates on their publicly available website; however, all of these provided information about FX fees and as such were viewable by clients or non-clients alike (see Table 6).

Account creation may pose a barrier to a potential customer quickly and straightforwardly comparing a provider's FX rates and/or fees with those of other potential providers. It can be time consuming for a potential customer to create a new account since providers may require documentation from the customer for anti-money laundering and know-your-customer processes.

[redacted]

Table 6. Number of firms requiring potential customers to set up an account before accessing and viewing available FX rates and/or fees.

Type of provider	Account to view FX rates	Account to view fees	Firms reviewed
Banks	3	0	5
Traditionals	1	2	10
Online - Type A	0	3	24
Online - Type B	7	6	9
Other [redacted]	2	2	3
Bank challengers	1	1	3

Trade offers and marketing inducements

A small number of the firms reviewed (15 of 54) made use of trade offers (e.g. first time trade discounts) or other marketing inducements (Table 7).

Table 7. Number of firms offering different types of trade offers and inducements offered to potential and repeat customers.

Type of provider	Incentives	Type of Incentive				Firms reviewed
		First time trade offer	Repeat trade offer	Referral	Other	
Banks	0	0	0	0	0	5
Traditionals	1	0	0	1	0	10
Online - Type A	12	4	2	6	2	24
Online - Type B	2	0	0	2	0	9
Other [redacted]	0	0	0	0	0	3
Bank challengers	0	0	0	0	0	3

According to our website review, first time and repeat trade deals were only used by five ‘Type A’ online currency exchange providers [redacted].

Referrals were used by nine providers out of the 54 reviewed. The usage of 'best rate' or 'best rate guarantee' language was only used by nine firms (Table 8; for screenshots of providers using this language see Exhibit 12, 13, 14 in Appendix).

Table 8. Usage of 'best rate' or 'best rate guarantee' language on website or marketing platform.

Type of provider	Best rate claims	Firms reviewed
Banks	0	5
Traditionals	1	10
Online - Type A	5	24
Online - Type B	3	9
Other [redacted]	0	3
Bank challengers	0	3

Nine of the 54 reviewed firms make use of language such as:

> *"We get the best exchange rate for you"; "Best Rate Guarantee"; '"You get the best deal"; "Best foreign exchange rates"; "Strive towards providing the best exchange rates in the industry".* [50]

Examples of such usage are provided in Exhibits 12 through 14 in the Appendix. Such claims may be subjective; many customers are unlikely to be aware of this (see UK Consumer Survey 2018 results below).

Firm Behaviour - Discussion and Summary

Our review of currency exchange firms' websites explores the diversity of pricing and marketing tactics employed by firms in the space. In terms of pricing, some firms, especially traditional providers using agent models and providing cash payouts, employ complex pricing regimes

[redacted]

dependent on corridor and channel. Our survey provides a snapshot of how much diversity there is in pricing practices across the industry for just one corridor and channel, most common UK-out transfer corridor GBP-EUR.

Most of the firms we reviewed used currency calculators on their websites (39 of 54). However, the information shown to customers in terms of the potential transfer pricing and costs varied significantly between providers (see Transparency section). Three of the reviewed providers showed consumers unattainable FX rates on the calculators on their websites (that were the interbank exchange rate). A small number of the providers reviewed (15 of 54) made use of trade offers and inducements on their websites (see Trade offers and marketing inducements section). In addition, a small set of the reviewed firms (9 of 54) made use of language such as "best rate guarantee."

Perhaps the most striking takeaway from this review of providers' websites is that just of 3 of the 54 providers provided a full breakdown of "total costs" to consumers; the three providers that provided a '*Full breakdown of costs on the calculator*' made it very clear and reasonably easy for a client to understand what the "total cost" of a transfer would be. Thirty-seven of 54 firms' websites made it challenging for consumers to work out the "total cost". Fourteen of the 54 firms reviewed made it extremely difficult for a client to determine the "total cost" of the transfer (without having an account with the provider).

Customer Behaviour

FXCintel UK Consumer Survey 2018

FXCintel designed a consumer survey to understand the behaviours, attitudes, and levels of understanding among UK consumers that are active in the currency exchange transfer market. This was run as an online survey, with sampling and survey hosting provided by Populus Data Solutions, a Market Research Society (MRS) Company Partner, ensuring fieldwork met the standards required by the MRS Code of Conduct. Analysis of the survey data was carried out exclusively by FXCintel.

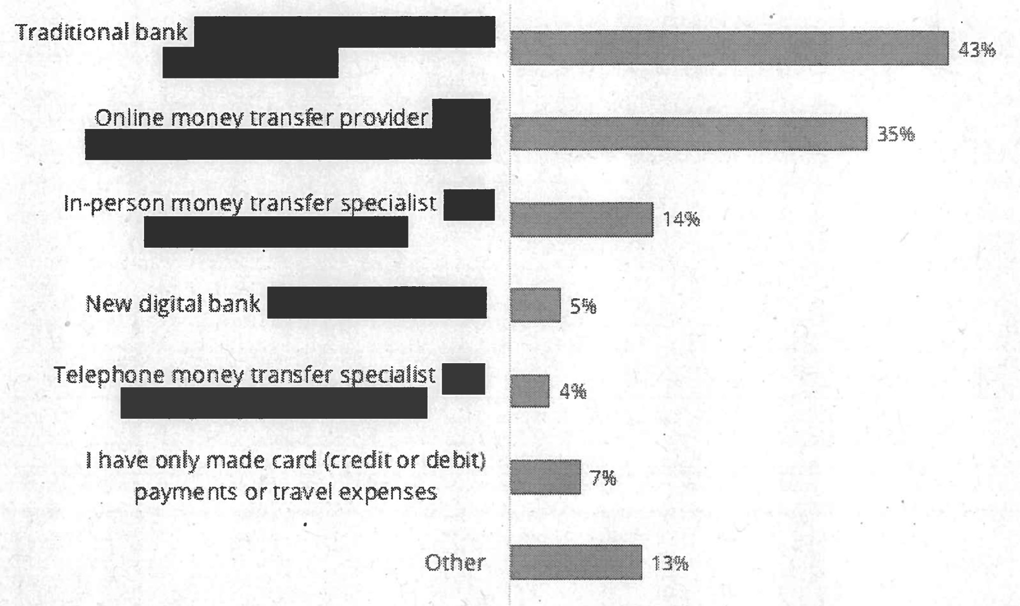
The sample was 1,030 UK adults who said they had "sent, transferred or paid money from the UK to another country" in the last 12 months.

The sample was broadly nationally representative of adults who have performed such a transfer or payment over the past year. A separate Omnibus survey was run to obtain incidence figures by age, region, and social grade, and then set sampling quotas (see Exhibit 15 in Appendix). Using these incidence figures, the survey sample was weighted to be representative with a very high level of weighting efficiency (99.3%; see Exhibit 16 in Appendix).

Respondents that had used currency exchange products (FX consumers) tended to be more affluent and more financially sophisticated. Usage / ownership of financial products was higher among FX consumers than among the wider population of non-consumers, especially with regards to more sophisticated products such as investments (see Exhibit 17 in Appendix). Unsurprisingly, FX consumers were also more "international" in their backgrounds and behaviours, reflecting a mix of non-UK origins and family connections, and / or an international lifestyle (see Exhibit 18 in Appendix).

Most FX consumers transferred money either through a traditional bank or building society (43%) or through an online money transfer provider (35%; Figure 6). The categories used below are intended to reflect the way consumers use and perceive different transfer methods, so differ slightly from the business-focused segmentation we have used elsewhere in this report.

Figure 6. Breakdown of transfer methods. Base: All FX Consumers n = 1030.



Of the FX consumer respondents, few used in-person (14%) and telephone-based (4%) money transfers.

The survey results emphasised that the market is fragmented beyond the banks and two larger brands (Figure 7). We tested usage in two separate ways: unprompted, where respondents were asked to name any providers they had used; and prompted, where respondents saw lists of providers and were asked whether they had used those providers.

[redacted]

Besides these established players, the market is fragmented. No other provider saw >10% usage amongst our sample of FX consumer respondents over the last 12 months. Two thirds (68%) of FX consumers said they use two or more different providers.

Figure 7. Usage of providers (prompted + unprompted). Base: All FX Consumers n = 1030.

[redacted]

Brand awareness is strong for the larger, established players (Figure 8). The large, longstanding FX Providers had good brand awareness, amongst respondents, as well as those that have a broader product offering [redacted] The emergent players [redacted]. About two-thirds (68%) of FX consumers reported using two or more different providers.

Figure 8. Awareness of providers. Base: random subset of providers shown to each respondent, bases range from n = 240 to n = 248.

[redacted]

Most international transfers were to friends, family or into a personal account (Figure 9). The main reason respondents reported for transferring money were to send it to “friends, family or yourself”, with nearly two-thirds (63%) selecting this reason. A third (34%) said they had paid internationally for nondurable goods or small durables.