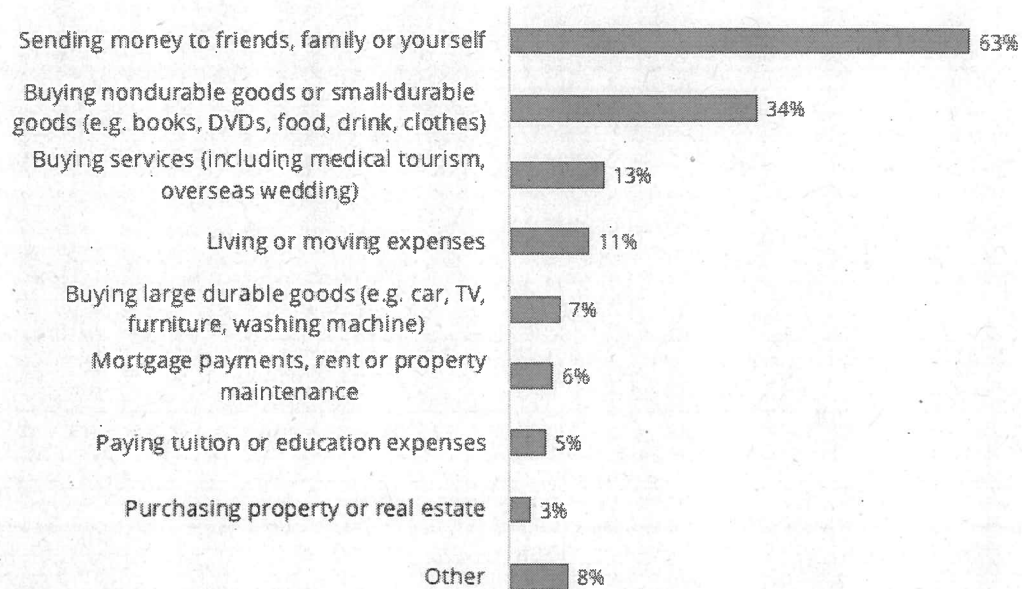
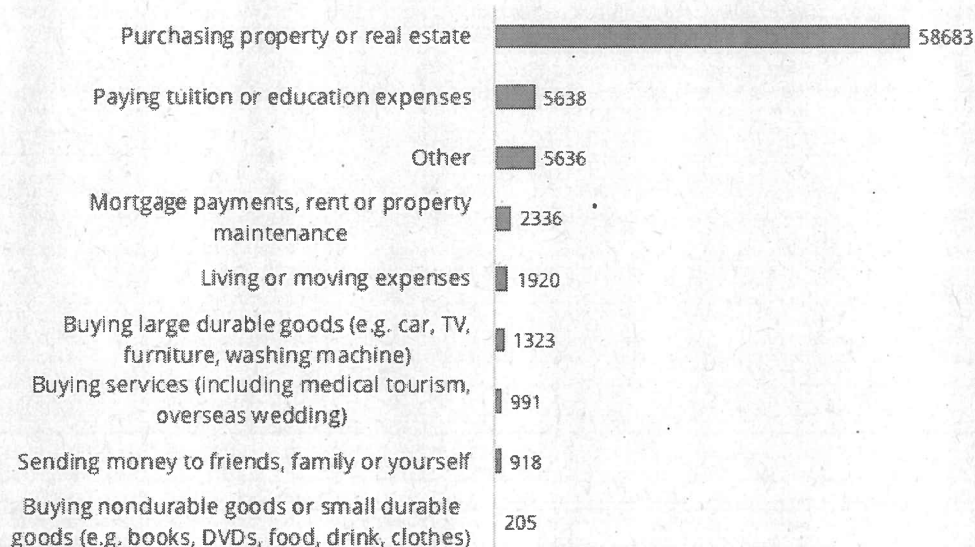


Figure 9. Reasons for spend. Base: All FX Consumers n = 1030.



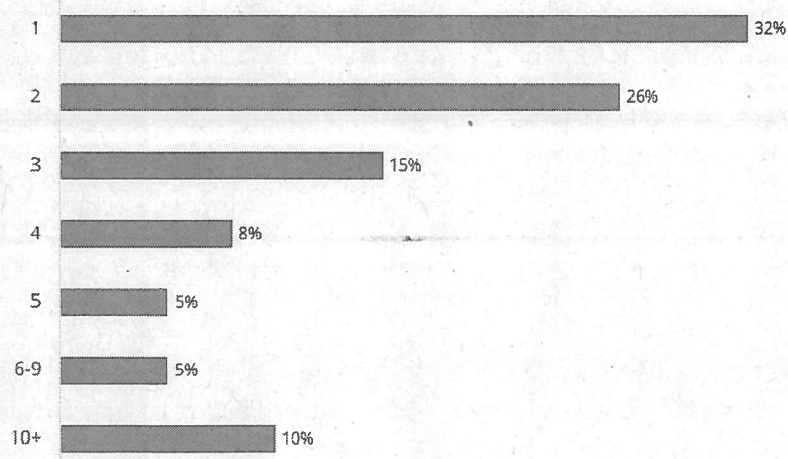
The market is split into high-incidence / low-spend and low-incidence / high-spend transfer categories (Figure 10). The most frequently chosen reasons for respondents to send money were those with the lowest average annual sends (i.e. an average of GBP205 for buying small goods, and an average of GBP918 for sending money to “friends, family or yourself”). Purchasing property overseas accounted for the largest transactions, with an average annual spend of GBP58,683.

Figure 10. Average (mean) annual spend by category (GBP). Base: All FX Consumers n = 1030.



The distribution of the number of transfers per year per respondent averages at around 3-4 transfers, with a peak at 1 transfer per year (Figure 11).

Figure 11. Number of transfers in past 12 months. Base: All FX Consumers n = 1030.

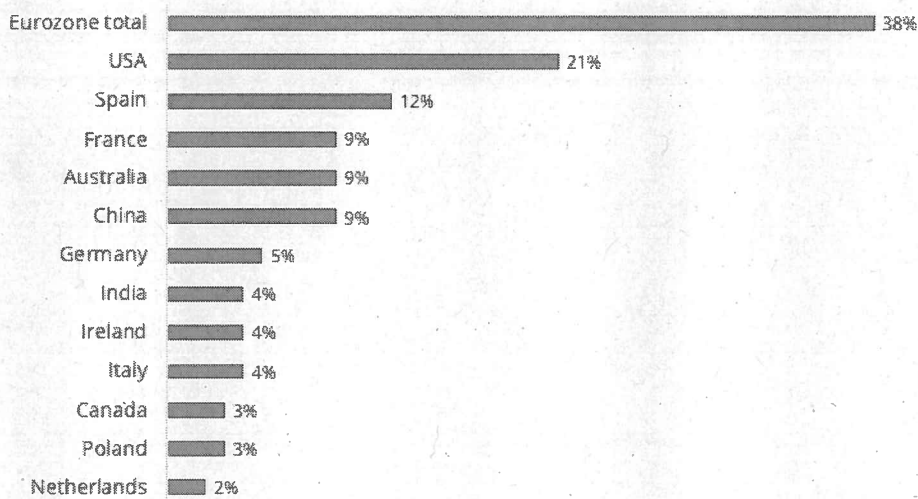


While we did not collect specific figures for number of transfers via different provider types, we were able to see how many transactions users of different provider types make. The average

number of transactions is higher with Bank Challenger users (mean 4.7), Online 'Type A' Provider users (4.5) and Online 'Type B' (4.3) than with Traditional Bank users (mean 3.2) and Traditional Currency Provider users (3.6).

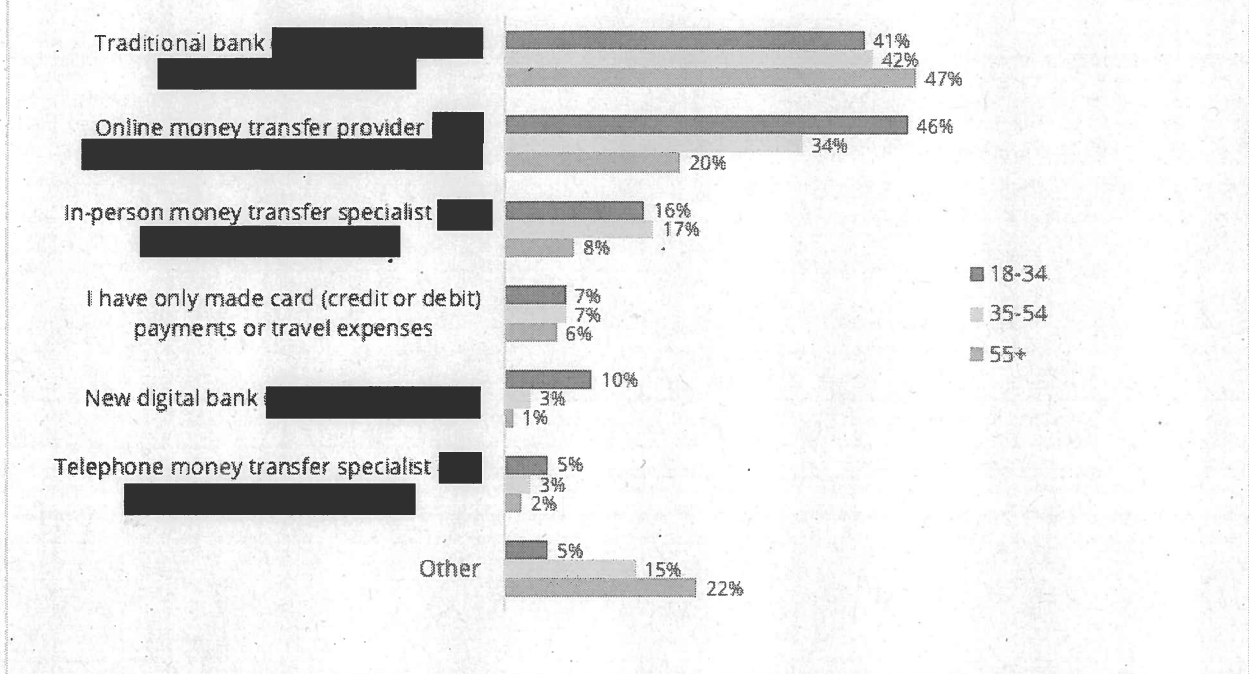
The key corridors for transactions among survey respondents were broadly in line with known figures for international remittances (Figure 12). However, the inclusion of international payments for small goods appears to boost China's position.

Figure 12. Breakdown of Consumer FX corridors. Base: All FX Consumers n = 1030.



Younger FX consumers respondents were more likely to have used online transfer providers (Figure 13). 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.

Figure 13. Transfer methods by age group. Base: FX Consumers age 18-34 n = 396; FX Consumers age 35-54 n = 360; FX Consumers age 55+ n = 274.



Respondents' typical reasons for choosing a provider varied considerably by the provider type (Table 9). Amongst respondents that chose traditional banks and building societies, convenience and trust appear to have been most important to them: 83% said they chose to use their bank or building society for their most recent international transfer because it provided the rest of their daily banking services.

Among traditional international payment providers [redacted], their well-established status and word-of-mouth reputation was important.

Among the newer online payment providers, FX consumers were more motivated by potentially lower rates and fees, as well as the ease with which an account could be set up.

These findings reflect the differing strengths of each provider type. Banks offer a range of services and considerable consumer protections; traditional international payment providers tend to specialise in more challenging international transfers that are not offered by banks; while the newer online providers compete with the banks on price.

Table 9. FX Consumers reasons for choosing provider by provider type.

Provider type	Reason	%
Bank*	My current bank	83%
	Based in the UK	21%
	Well-established / trusted name	16%
	User-friendly website or app	11%
	Easy to set up an account	11%
Traditional provider**	Well-established / trusted name	43%
	Word of mouth	27%
	Easy to set up an account	22%
	Clear information on pricing	22%
	Lowest fees	20%
Online provider***	Lowest fees	49%
	Offered the best exchange rate	38%
	Clear information on pricing	26%
	Easy to set up an account	26%
	User-friendly website or app	22%

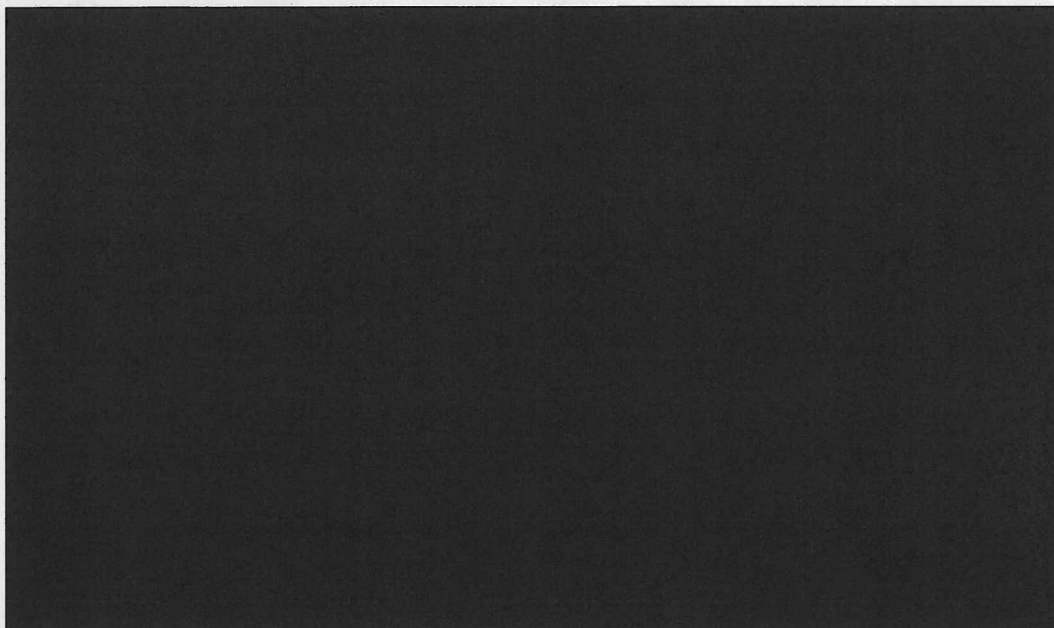
*Base: All respondents choosing Bank as most recent provider n=122

**Base: All respondents choosing Traditional provider as most recent provider n=218

***Base: All respondents choosing Online provider as most recent provider n=99

Most of the FX consumers surveyed had misplaced confidence in their understanding of FX concepts and pricing terminology. Most of FX consumer survey respondents said they understood most of the terms relating to FX concepts and pricing terminology presented to them. Figure 14 shows the extent of claimed understanding of the terms (shaded green; see Exhibit 19 in [Appendix](#) for list of terms and answers presented to respondents).

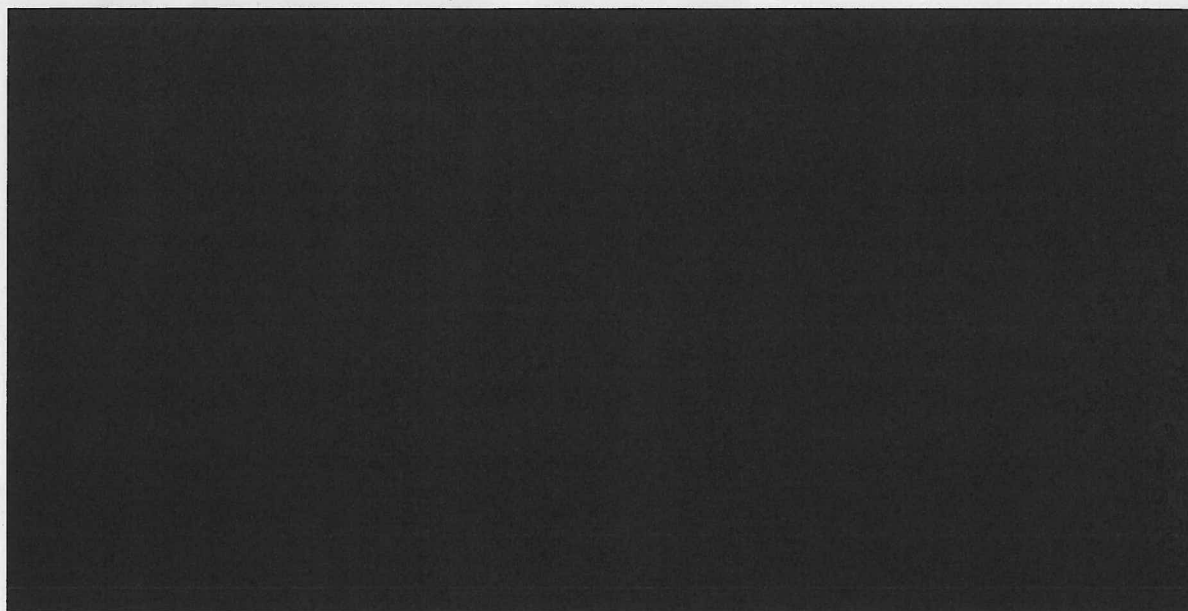
Figure 14. Claimed understanding of terminology. Base: All FX Consumers n = 1030.



However, when tested on their understanding in the subsequent question, many respondents (that suggested they understood) selected incorrect responses (Figure 15). The terms [REDACTED] [REDACTED] were incorrectly understood by the overwhelming majority of FX consumers.

Figure 15. Tested understanding of terminology. [REDACTED]

[REDACTED]



It is clear that claimed understanding fell well short of correct understanding of the terms used, indicating that consumers are at risk of being misled by confusing terminology.

Similarly, we found that a mocked up pricing tool (based on real examples; Figure 16) was potentially misleading to FX consumer respondents.

Figure 16. Mock pricing tool question:

Survey respondents were asked: "Imagine you are using this tool to send some money to a friend in the United States. If you pay £100, what will your friend receive?"

A Smarter Way To Convert Money

You sell 100	GBP	Interbank Equivalent 140.57	USD
------------------------	------------	---------------------------------------	------------

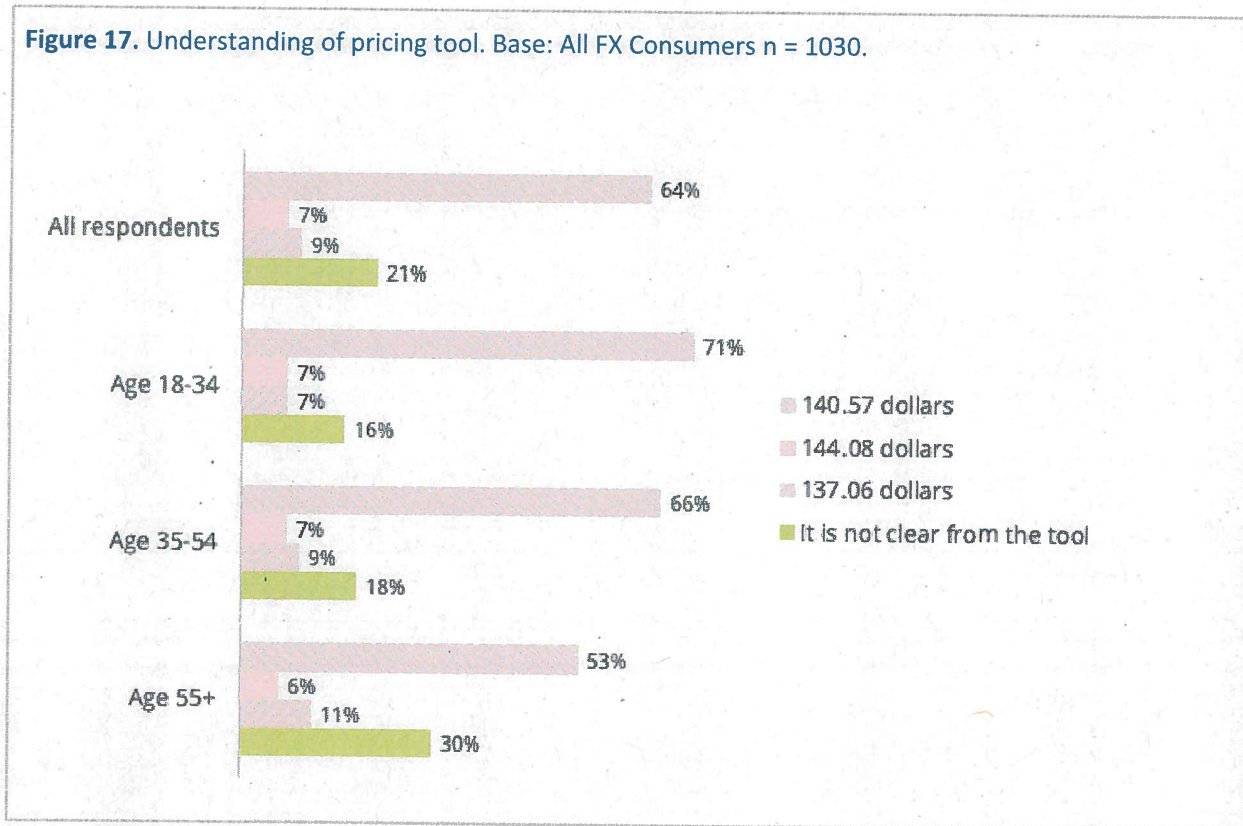
Current interbank rate: 1.4057
 Exchanging your money with FX Exchange could save you 3.51 USD

Response options:

- 144.08 dollars
- 140.57 dollars
- 137.06 dollars
- It is not clear from the tool

The correct answer to the mocked up pricing tool in Figure 16 is that the tool displays no conclusive information about the transaction. A majority of respondents (79%) incorrectly interpreted the tool, believing that the transaction is at the interbank rate, with no additional fees or charges. A fifth (21%) correctly identify that the tool did not present any relevant information (Figure 17). Older FX consumers, aged 55+, performed better than younger respondents, with 30% of over-55s choosing the correct response.

Figure 17. Understanding of pricing tool. Base: All FX Consumers n = 1030.



Consumer Survey - Discussion and Summary

The findings from the Consumer Survey largely support the rest of our research, and existing understanding of the market.

This is a fragmented, fast-changing market, across different areas of the sector. The breakdown of provider types among younger (18-34) and older (55+) audiences is striking, with younger consumers increasingly moving towards Online 'Type A' Providers and Bank Challengers.

Market sizing is challenging because providers active in this sector can offer products which span the range from high-value international transfers to low-value domestic payments. With the advent of global online marketplaces for goods and services, in which ostensibly domestic payments are in fact cross-border transactions, the extent of this ambiguity has increased. For instance, ██████ has a very high incidence for international payments in this survey. This potentially exposes consumers and small businesses to currency exchange risk in subtle ways.

It is clear, however, that the high-street banks and a couple of large specialist providers [REDACTED] still dominate the market. While Bank Challengers and Online 'Type A' Providers offer new approaches, which are popular with many FX Consumers, the more established businesses in the space often have the capacity to adopt these approaches, too.

Many consumers are using multiple different providers, and they value them for different reasons. Traditional banks are seen to be safe, trustworthy and reliable for simple transactions; Traditional Exchange Providers offer a wider range of corridors and products; and Bank Challengers and Online Providers simplify account setup and offer more competitive rates.

We find that most consumers surveyed have a hard time understanding basic industry terms (such as Exchange Rate) and the presentation of costs associated with a transfer. The majority of consumers (Figures 14 and 15) surveyed do not understand how terms such as "best rate guarantee" and "lowest fees" are being used by providers, despite showing a high degree of certainty as to which option they believe is the correct definition. While only 9 of the 54 providers reviewed use these terms, they are likely to attract the attention of customers. Moreover, the majority of survey respondents (79%) were misled by the information presented in a mock currency calculator (Figure 17). As highlighted in research by the Behavioural Insights Team,⁵¹ FX Consumer understanding of the total cost of an international payment or transfer is often clouded by the presentation. Our findings indicate some of the terminology used to advertise FX products is poorly understood, and is often significantly out-of-step with an FX Consumers' *perceived* understanding of the same terminology. This exposes FX Consumers to risk.

Caveats and limitations

- It should be noted that consumers may not always perceive that they are active in the currency exchange transfer market. This is especially relevant in the sphere of online international payments (e.g. purchases from a foreign supplier on an online marketplace).

⁵¹ 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-consumer-s-and-smes/>

- Another limitation of survey findings with regards to financial behaviour is that recalled behaviour over a 12-month period is not always accurate.
- It should also be noted that it is possible that some respondents may have indicated having used extremely well known brands [REDACTED] because they had used them for other non-international payments services.

For these reasons, while the survey results are indicative of consumer behaviour, a survey cannot precisely measure the incidence of different financial behaviours. Where possible, we have triangulated the survey findings with other data points.

Customer Selection of Currency Exchange Providers

Through the analysis of a unique dataset⁵² on customers' selections between different providers we are able to test the extent to which price affects a consumer behaviour. [REDACTED]

As expected, price has a strong downward effect on a consumer's likelihood of choosing a provider in the currency exchange transfer market (Table 10). [REDACTED]

Table 10. Influence of total cost (in percent) on provider selection.¹⁸

Total cost in %	Customers Selection Ratio	Selections	Appearances
Low (< 1.5%)	0.57	8366	11236
Medium (1.5% and < 2.5%)	0.25	4813	14679
High (>= 2.5%)	0.18	2198	9486

[REDACTED] it is clear that price cannot explain customers' behaviour alone. To have a better picture, we need to consider a combination of other factors, such as the amount a customer intends to send abroad and a provider's brand awareness score.

⁵² [REDACTED]

[REDACTED]

Drawing on the same dataset⁵³ we developed models that allow to understand how different pricing options alongside branding and reputation influence customer behaviour.

In fact, what may drive a customer's choice of provider is not only price but also the trust that customers have in the provider. As a consequence, the more a provider is known and/or considered reliable, the higher is the chance that a customer will use it to manage and send his or her money abroad. When developing our model, we took into consideration this effect by associating a brand awareness score with each provider.⁵⁴ [REDACTED]

[REDACTED]

In Figure 18 we considered the differences between the probability of selection of a provider for a low, medium, and high brand awareness score in respect to a provider with lowest possible brand awareness score (benchmark, blue dotted line). [REDACTED]

[REDACTED]

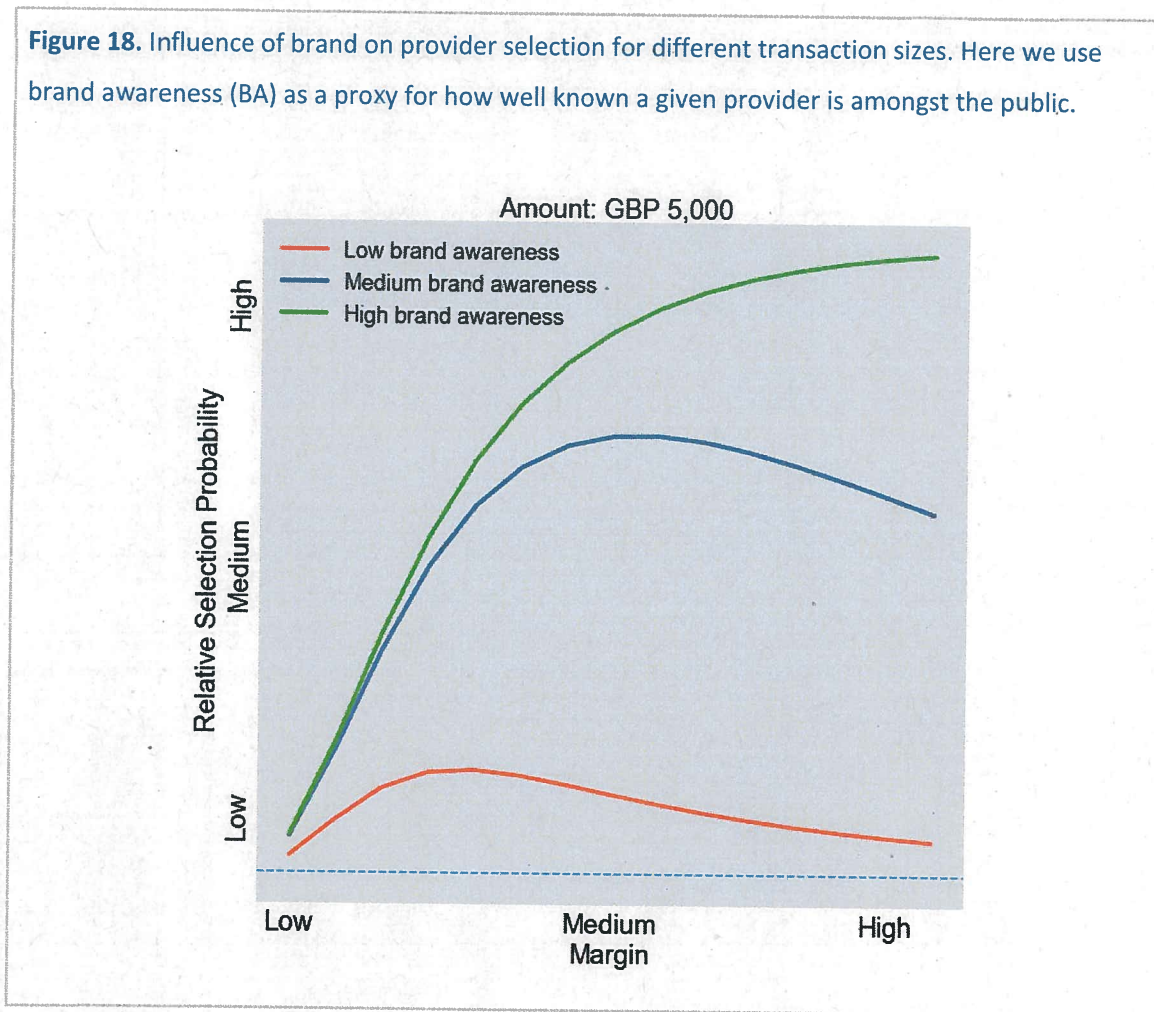
[REDACTED]

[REDACTED]

⁵³ [REDACTED]

⁵⁴ The brand awareness measure is a linear combination of Consumer Survey brand awareness, online search data is taken from average Google Trends metrics over 2017-18, and web traffic estimates from similartech.com.

Figure 18. Influence of brand on provider selection for different transaction sizes. Here we use brand awareness (BA) as a proxy for how well known a given provider is amongst the public.



Provider Selection - Discussion and Summary

[REDACTED]

[REDACTED]

[REDACTED]

Conclusions

This report has provided a high level overview of the currency exchange transfer market and is designed for the FCA to understand the current market dynamics and position of leading players. It has also offered insight into customer and firm behaviour. Our main takeaways are as follows:

- **We find that few currency exchange providers' websites provide the total cost of a transfer.** Only three of the 54 providers reviewed provided a high level of transparency for consumers as defined by disclosing the "total cost" of the transfer.
- **We find that most consumers surveyed have a hard time understanding basic industry terms (such as Exchange Rate) and the presentation of costs associated with a transfer.** The majority of consumers (Figures 14 and 15) surveyed do not understand how terms such as "best rate guarantee" and "lowest fees" are being used by providers, despite showing a high degree of certainty as to which option they believe is the correct definition. While only 9 of the 54 providers reviewed use these terms, they are likely to attract the attention of customers. Moreover, the majority of survey respondents (79%) were misled by the information presented in a mock currency calculator (Figure 17).

A report on transparency in the currency exchange transfer market by the Behavioural Insights Team noted that when consumers were presented with a transaction's total cost (which they called total fees) alongside the interbank and provider FX rate there was a significant increase in decision making quality (i.e. consumers were better able to choose the most competitive offer).⁵⁵ Our own survey also found that FX consumers were overwhelmingly unable to discern whether a provider was showing them enough information to accurately assess the costs of a transfer, as shown by the results of our mock-pricing question (Figure 16 and 17). The combination of these findings suggests consumers may not understand the full cost of transfers, and that currency exchange providers may not be providing enough information to allow consumers to make informed decisions.

⁵⁵ 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-consumer-s-and-smes/>

Appendix

Exhibit 1. Firm by firm categorisation and customer-facing key attributes

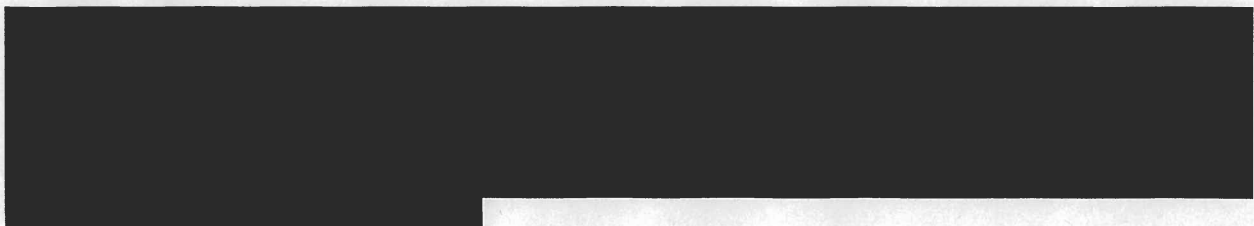
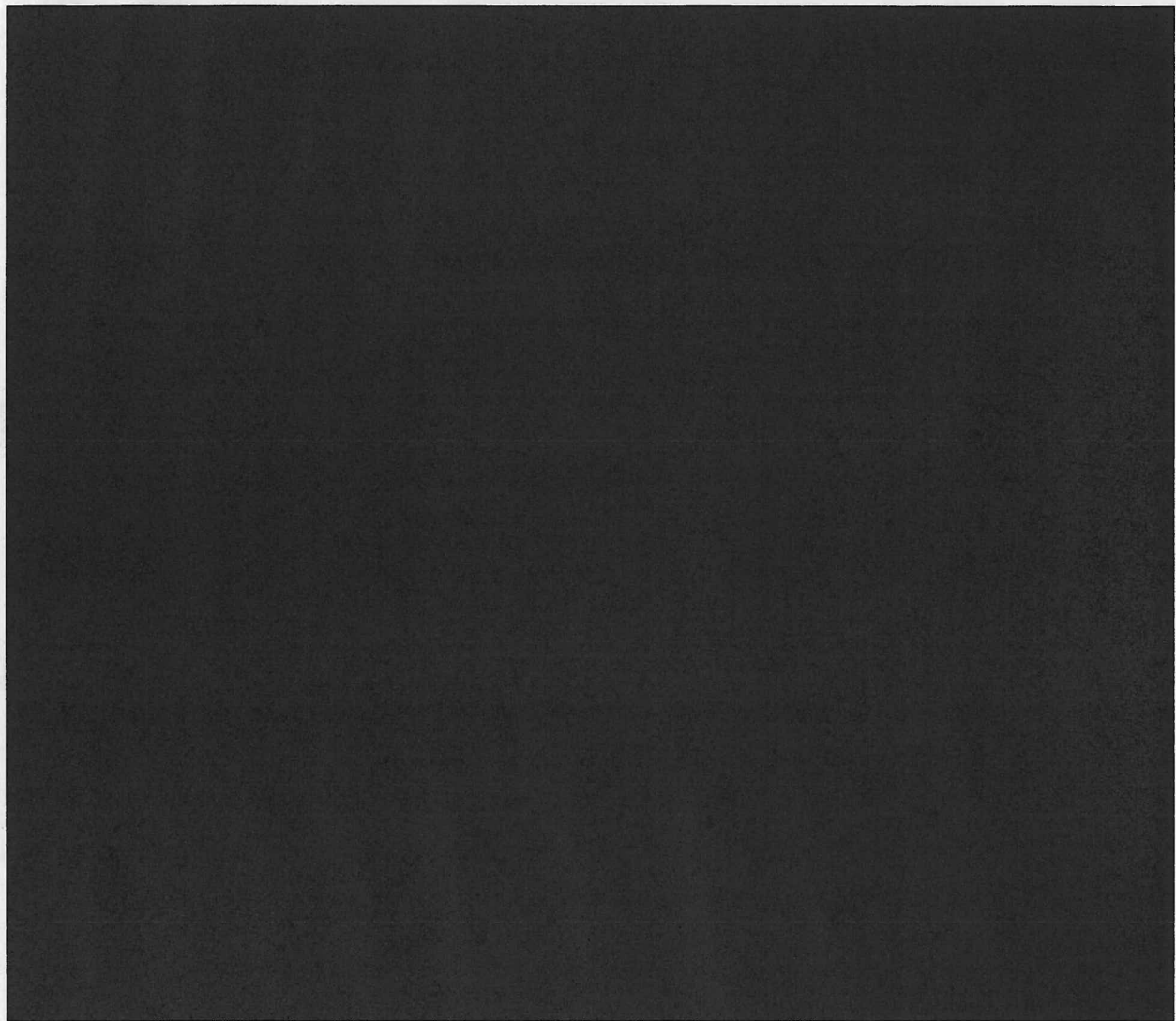


Exhibit 1 - continued. Firm by firm categorisation and customer-facing key attributes.

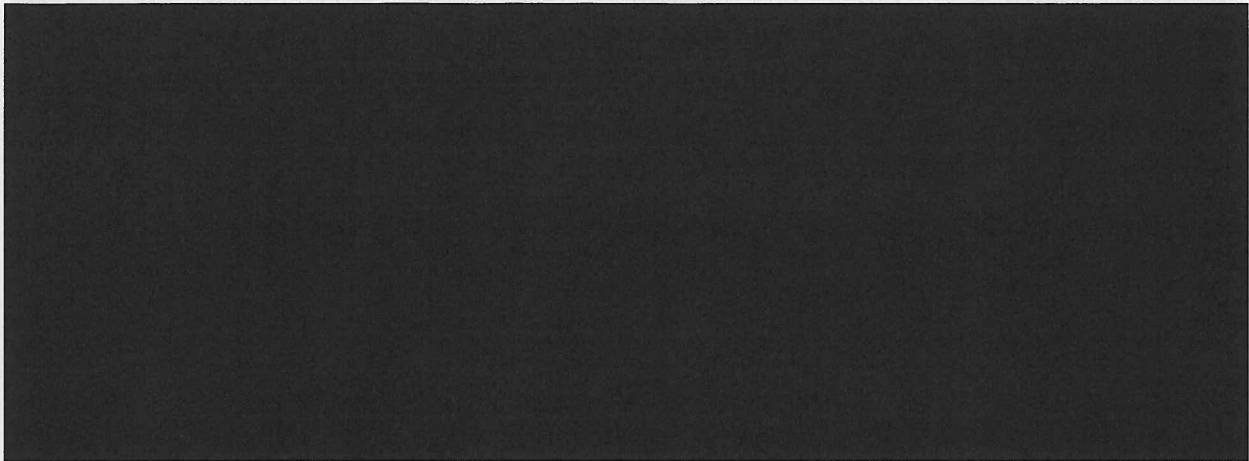


Exhibit 2. [Redacted]

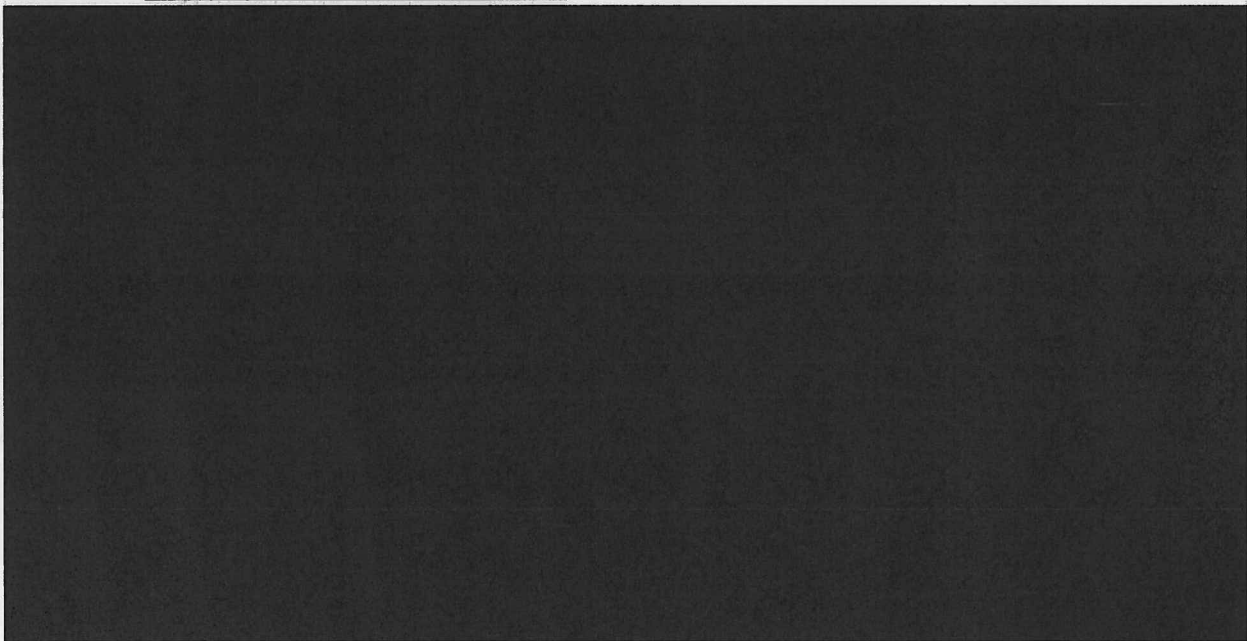


Exhibit 3. [REDACTED]

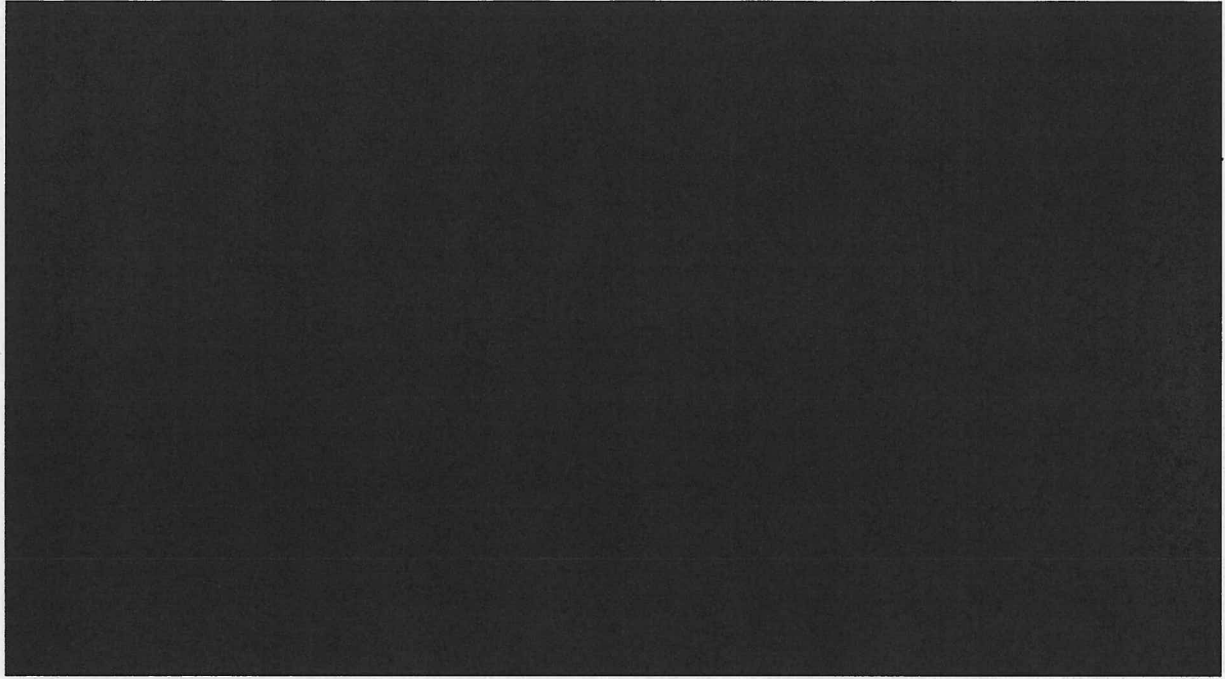
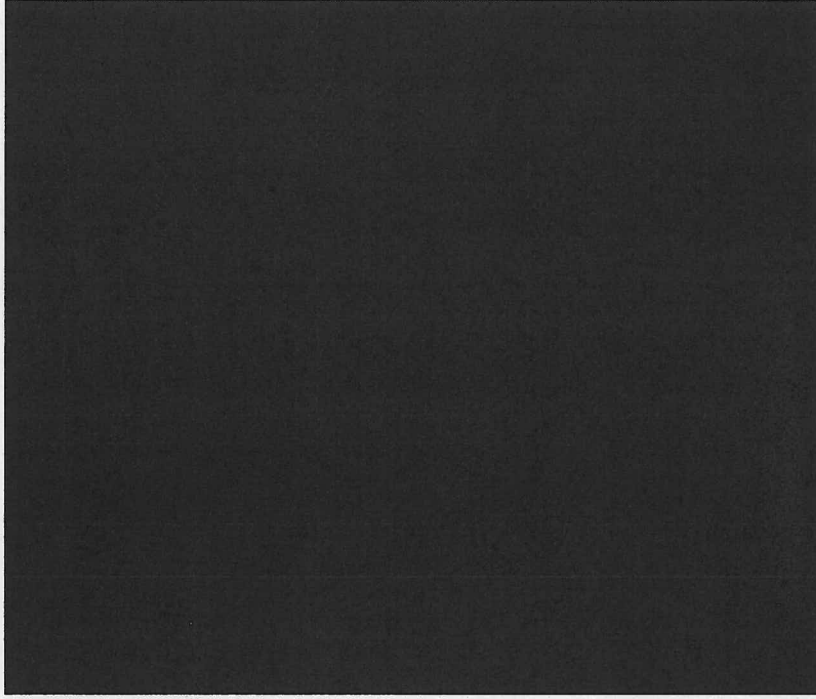


Exhibit 4. Example website that has a full breakdown of costs on calculator.⁵⁷



⁵⁷ [Redacted]

Exhibit 5. Example of website that has breakdown of costs

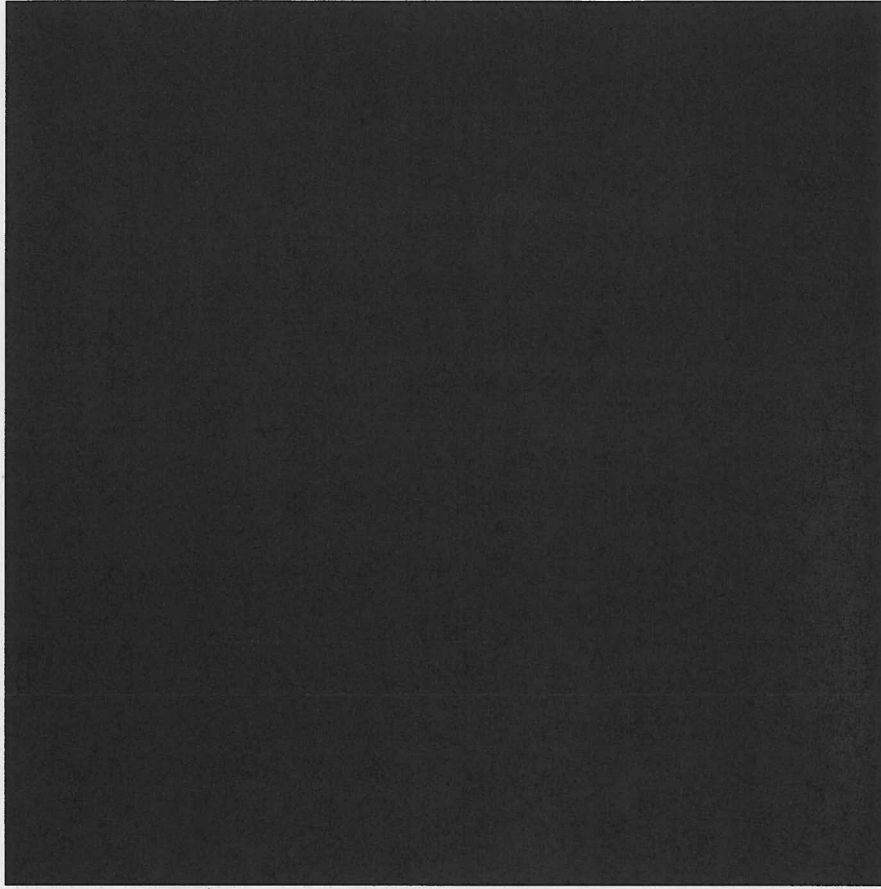


Exhibit 6. Example of website that has FX rate and fee but is not compared

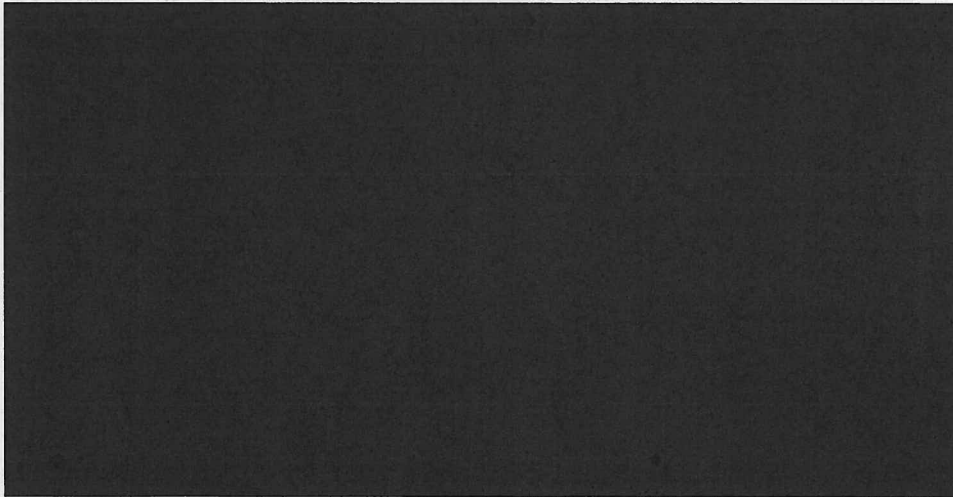


Exhibit 7. Example of website that has calculator but no clear FX rate.⁶⁰

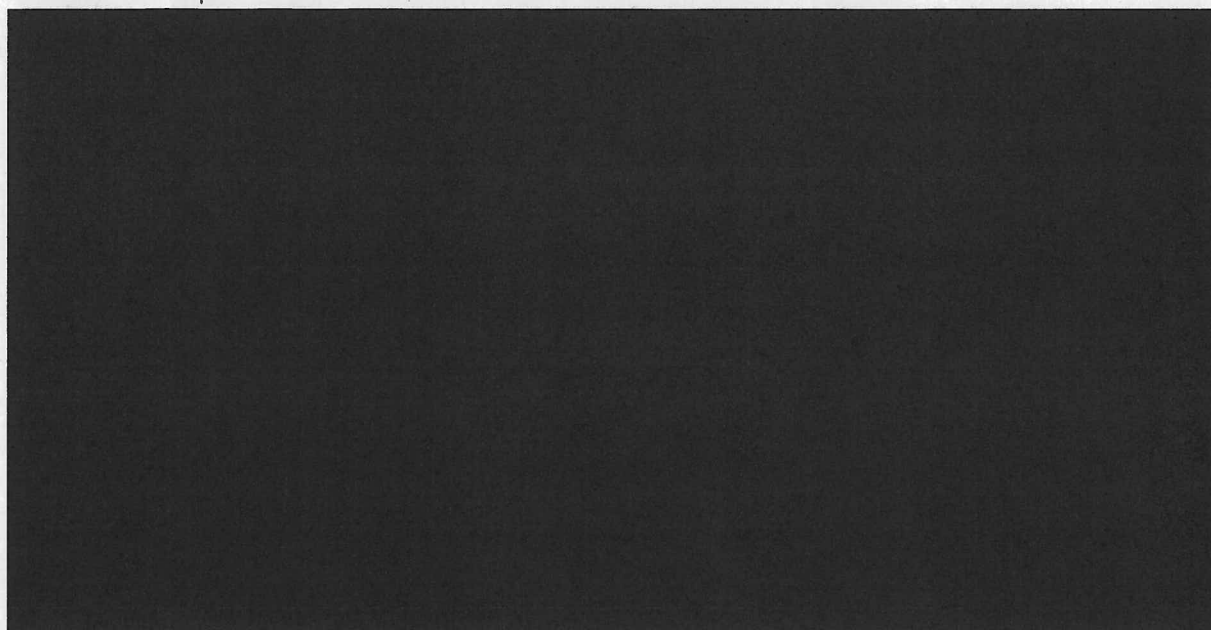


Exhibit 8. Example of website with unavailable FX rate.⁶¹

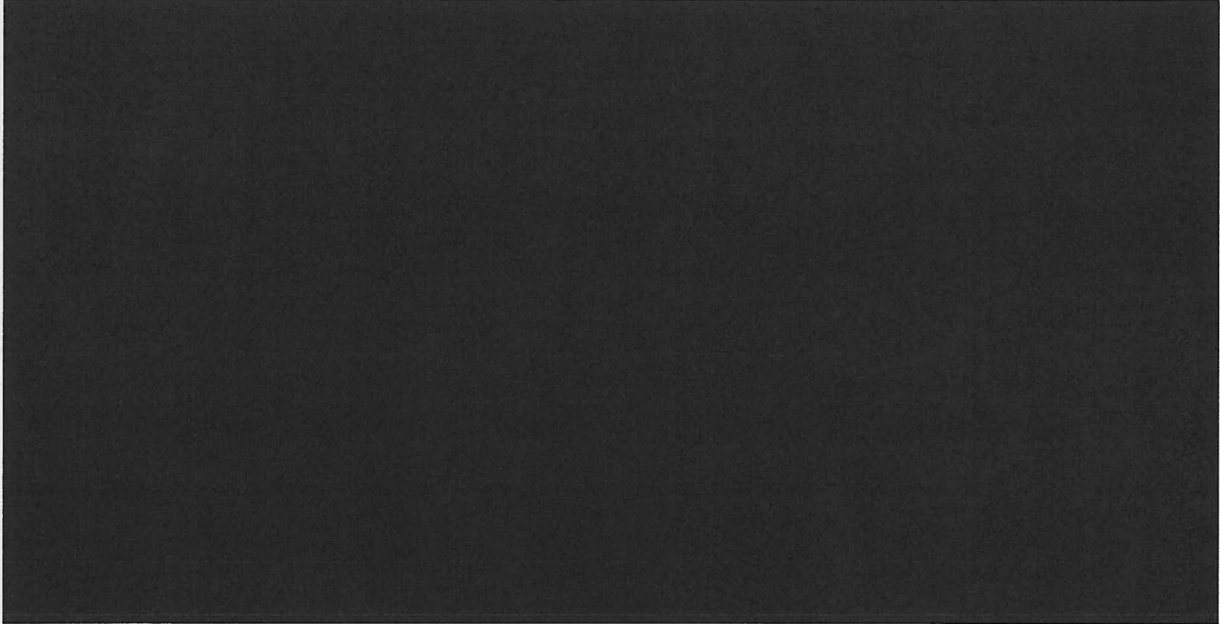


Exhibit 9. Examples of website with an unattainable FX rate. Interbank FX rate is shown to customer but this rate is not attainable.⁶²



Exhibit 10. Example of website with unattainable FX rates.⁶³



Exhibit 11. Example of website with unattainable FX rates on its USA url.^{64,65} The UK version of the site did not have the calculator present.

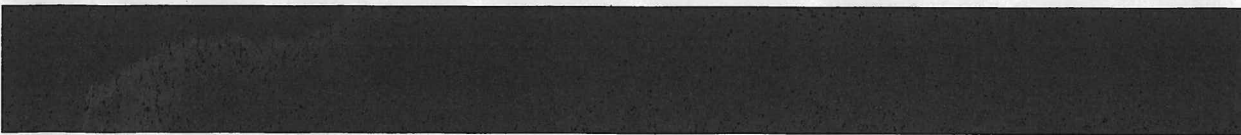
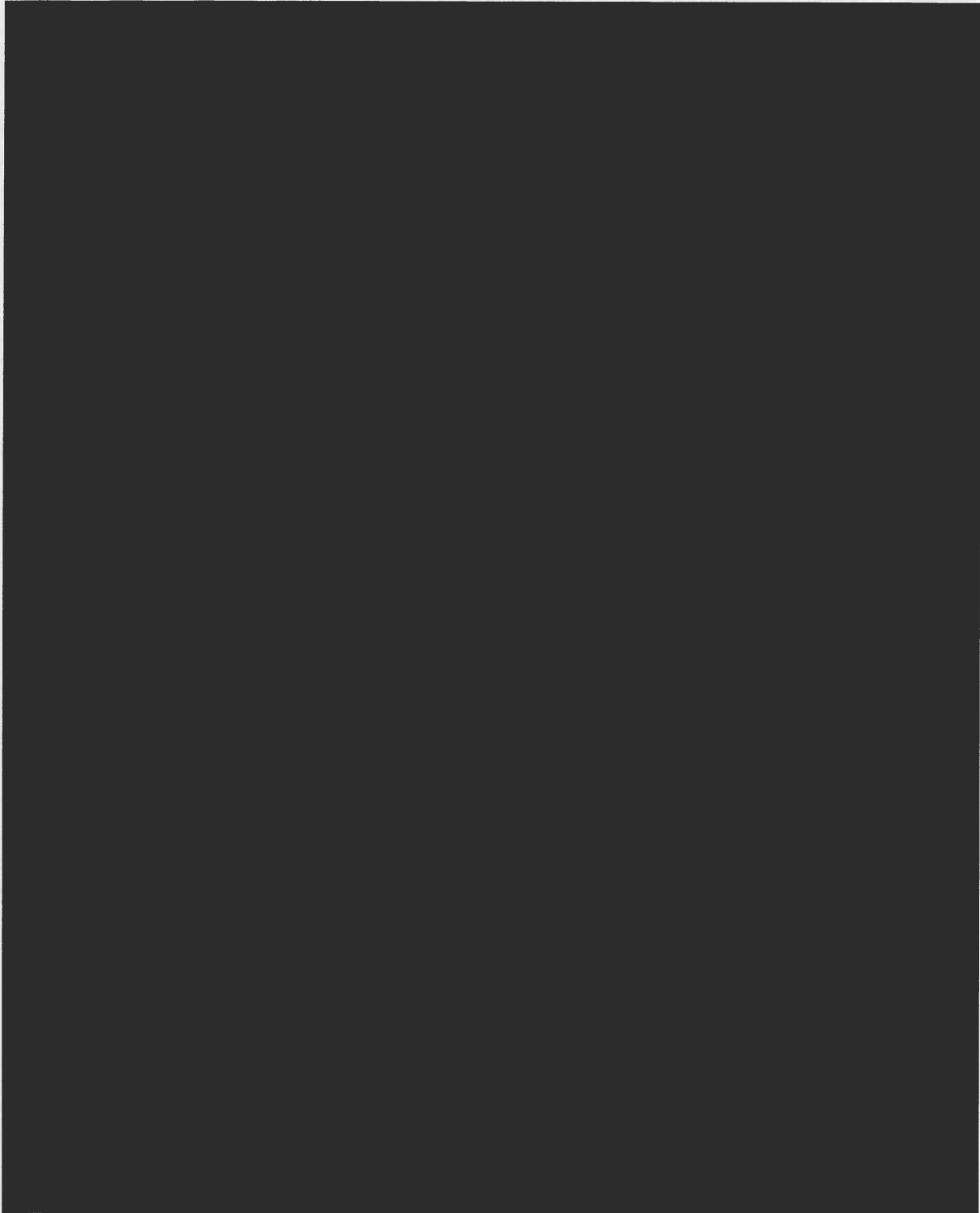


Exhibit 12. Example of website with best rate guarantee.⁶⁶

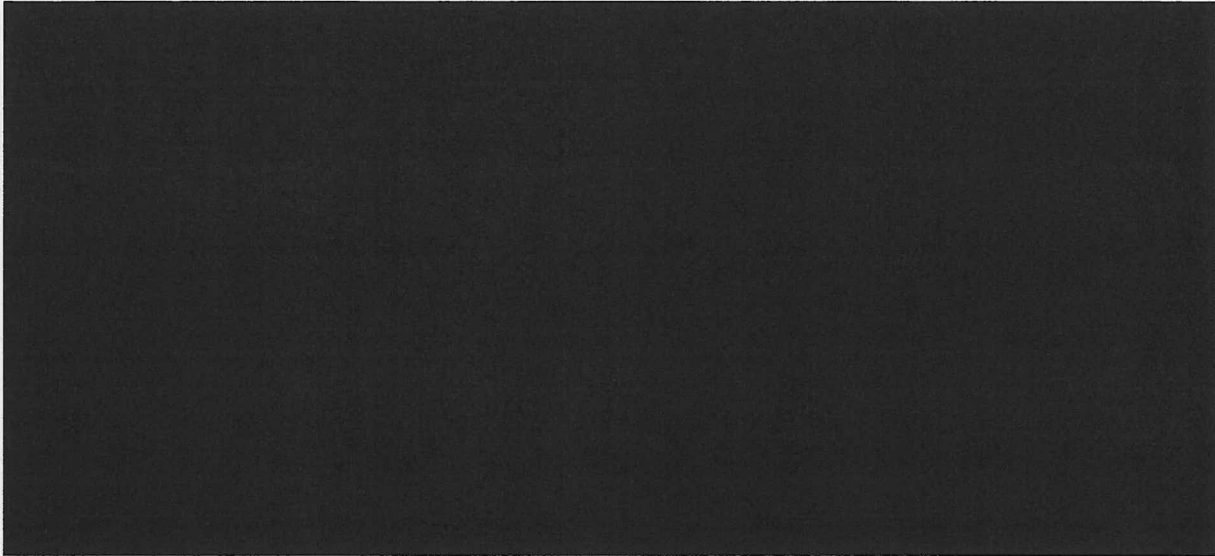


Exhibit 13. Example of website with best rate guarantee.⁶⁷

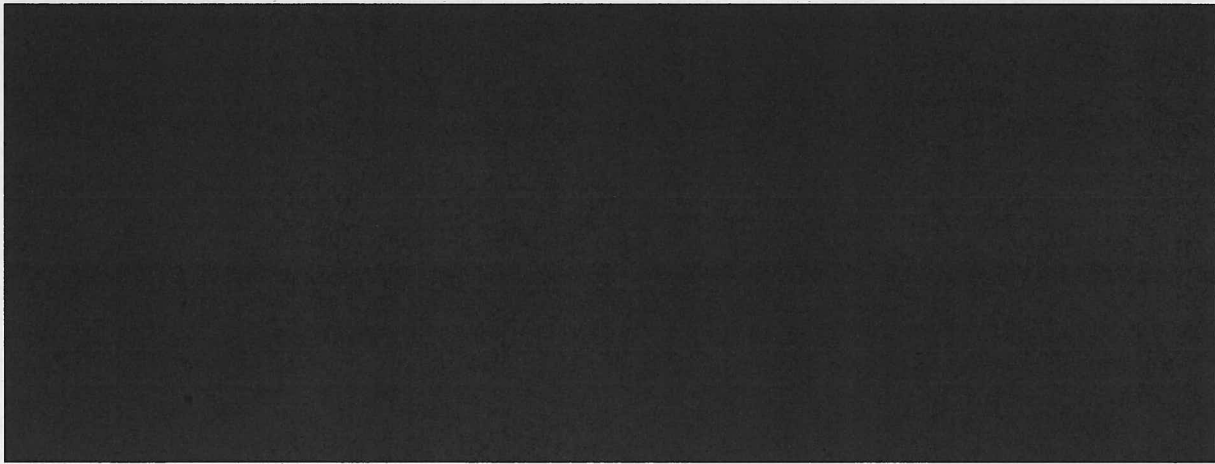


Exhibit 14. Example of website with best rate guarantee.⁶⁸



Exhibit 15. Methodology notes on sampling.

An Omnibus survey, which is a representative sample of adults in the UK, 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. This method allows observation of the profile of the sub-sample to generate quotas for the population. Using these quotas, the survey sample was weighted to be representative. This approach is a reliable and recognised approach and gives the best chance of obtaining a large and representative sample of the population.

Karsten Shaw, Director of Analytics, Populus

Exhibit 16. Methodology notes on weighting.

Weighting is the process of making adjustments to the relative importance of individual responses so that, when aggregated, the profile of those respondents match the profile some predefined population, typically using demographic variables. This is done to ensure that results are more likely to be valid representations of that population. The downside of weighting, however, is that it makes the results slightly less reliable, in the sense that the margin of error (confidence intervals) around them become slightly higher, the more weighting is applied. We describe how much of an effect the weighting has had by the term weighting efficiency. 100% weighting efficiency effectively means that no weighting has been applied.

Usually, unless there has been any deliberate over-sampling of any particular group, anything above around 80% would be considered high weighting efficiency. Between about 70-80% is considered acceptable and anything below that is generally considered poor. There are other measures as well such as examining the maximum and minimum weights, the ratio from the highest to the lowest as well as examining the effect the weighting has on key survey estimates. However, weighting efficiency is an easy measure that instantly provides an indication of the 'severity' of the weighting scheme.

Karsten Shaw, Director of Analytics, Populus

Exhibit 17. Financial product usage of FX Consumers vs. Non-Consumers. Base: FX Consumers n = 1030; Non-Consumers n = 2856.

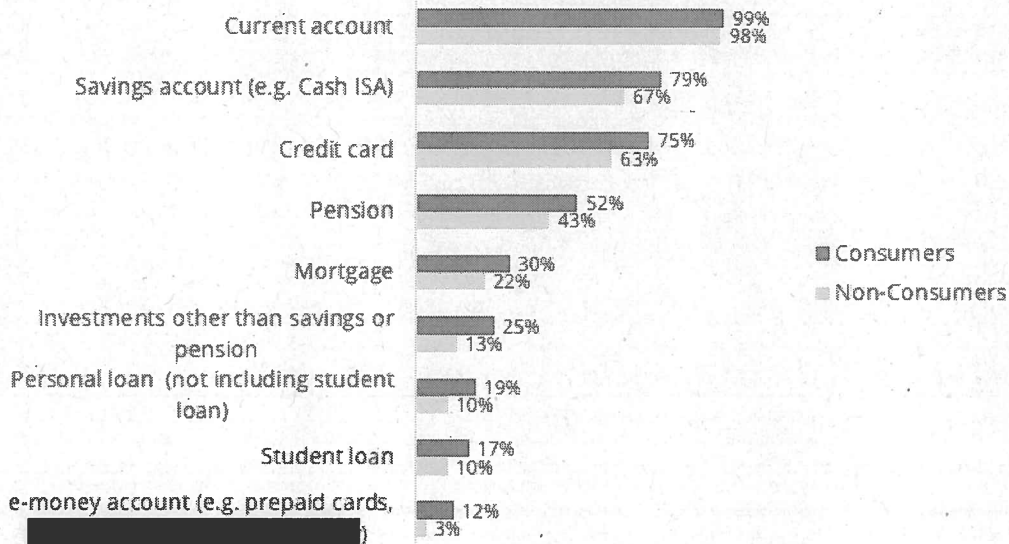


Exhibit 18. International connections of FX Consumers vs. Non-Consumers. Base: FX Consumers n = 1030; Non-Consumers n = 2856.

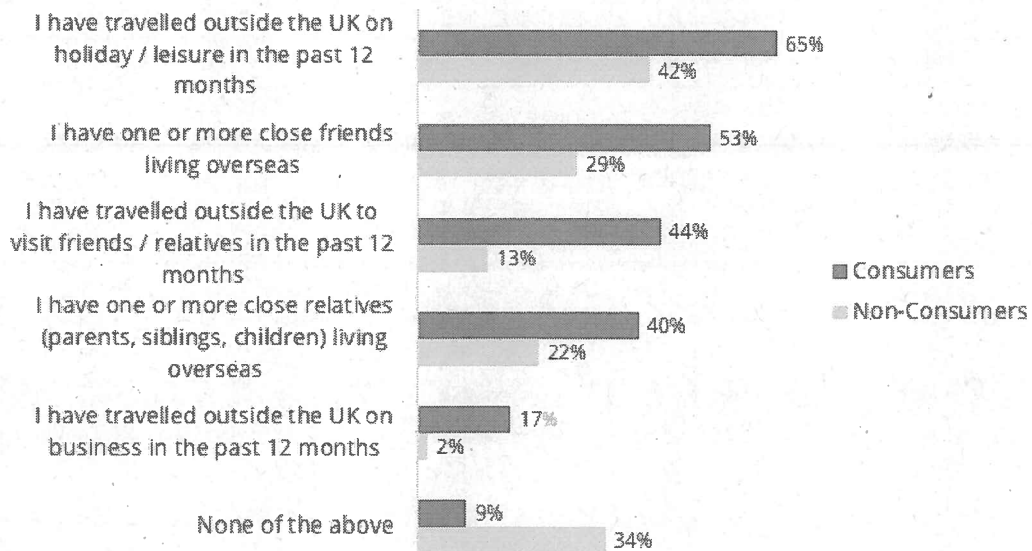


Exhibit 19. List of terms and answers presented to respondents.

Term	Definitions [correct answer shaded green; presented to respondents in random order each time]
Exchange rate	Any rate which converts one currency (e.g. British Pounds) into another (e.g. US Dollars) The official rate at which banks convert one currency (e.g. British Pounds) into another (e.g. US Dollars) Profit made by a bank or payments company on a transaction
Best exchange rate	A subjective claim made by a provider An official term for the best exchange rate, protected by advertising regulations A claim made by a provider which guarantees the best exchange rate, but may not guarantee the best cost once fees and other charges are included
Interbank exchange rate	The exchange rate at which banks swap currencies between one another. The official rate at which banks convert one currency (e.g. British Pounds) into another (e.g. US Dollars) Any rate which converts one currency (e.g. British Pounds) into another (e.g. US Dollars)
Transaction fee	Fee charged to make transfer Fee charged to open account Fee recipient has to pay to accept transfer
Lowest fees	A subjective claim made by a payment provider An official term for the lowest fees in the industry, protected by advertising regulations A claim made by a payment provider, which guarantees the lowest fees, but may not guarantee the best overall offer, once exchange rate is taken into account
Guaranteed best rate	A subjective claim made by a payment provider An official term for the best exchange rate, protected by advertising regulations A claim made by a payment provider which guarantees the best exchange rate, but may not guarantee the best cost once fees and other charges are included
Guaranteed rate	A subjective claim made by a provider An official term for the best exchange rate, protected by advertising regulations A claim made by a provider which guarantees the best exchange rate, but may not guarantee the best cost once fees and other charges are included
Margin	The profit made by a bank or money transfer provider on a transaction The difference in the number of pounds and number of dollars being sent Same as an exchange rate

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