

Repairing remittance rules

by Andrew Leigh

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In Tonga, remittances account for 38 per cent of GDP

Photo Credit: ADB/Flickr

“Sending money home to friends and family in ten Pacific countries will be cheaper for ANZ customers from today”, read the [announcement](#), boasting that the bank had “announced the temporary waiver of its \$7 international money transfer fee for online foreign currency payments made from Australia and New Zealand.” Visitors to the bank’s international money transfer page were greeted with a [statement](#) that transactions would benefit from a “\$0 ANZ transfer fee”. But clients would search the page in vain for an admission that the bank profits by offering customers a worse exchange rate than the mid-market rate, which is the rate reported on Google, Reuters and Yahoo Finance.

Globally, remittance flows dwarf foreign aid. According to [World Bank estimates](#), remittances to low and middle income countries amounted to US\$540 billion in 2020. To the surprise of many, remittance flows in 2020 were down only 1.6 per cent from 2019 – perhaps an indication that senders dug deep when they knew recipients needed it most.

For some Pacific nations, remittance flows are massive. In Tonga, they equate to 38 per cent of GDP. In Samoa, remittances are 19 per cent of GDP. In the Marshall Islands, they’re 13 per cent.

But people still pay too much to transfer money to developing nations. The UN [Sustainable Development Goal 10](#) aims to reduce the cost of sending money. The target is that the average cost of sending \$200 should be no more than 3 per cent. In the fourth quarter of 2020, the global average cost of sending \$200 was more than twice that, at 6.5 per cent. On current remittance flows, meeting the UN target would put US\$19 billion into the pockets of people in low and middle income countries.

As economists have long observed, markets don’t work very well when customers lack information. At its worst, international money transfer is a classic ‘[confusopoly](#)’,

in which providers profit from consumers' ignorance about the true fees. And what makes my blood boil is that those who lose out are among the most disadvantaged in our community: a cleaner doing extra shifts to send money to her family in Nepal, or a service station attendant working overtime to support the education of his brother in Fiji. Transparent pricing is always a good idea. But it's essential when the consumers don't have much money and might also have English as their second language.

As Deputy Chair of the House of Representatives Economics Committee, I have the opportunity every six months to quiz the heads of Australia's largest four banks. There's no shortage of issues to pursue – implementation of the Hayne Royal Commission, consumer confidence, financial advice, cybersecurity, superannuation and house prices, to name just a few. But I've chosen to make a point of also asking the chief executives of Australia's major banks about remittances. It's not an issue that's featured prominently in past hearings, but I want it to be on their radar, because I believe they can do better.

The problem comes down to how the banks present their prices. While it's now possible for customers to see how much foreign currency the recipient will get, none of the major banks are transparent about how much they charge. Instead, they report the flat fee, but not the exchange rate markup. Sometimes they take the approach of ANZ – telling customers that there's no flat fee at all, while staying silent on the exchange rate surcharge.

As I quipped in one of the hearings, I'm no bank, but I'd be happy to transfer A\$100 into US dollars without charging any flat fee, so long as I can do it at a 50 cent exchange rate, and give you a lousy US\$50. Would it be ethical to call this a "fee-free transfer"? I don't think so, but under the current rules, I could probably get away with it. When I pressed him on this, one major bank CEO said that surely his customers weren't so naïve as to think the institution was transferring money without making a profit along the way. I don't share his confidence that customers understand the nuances of foreign exchange.

Some money transfer providers take a different approach to the major banks. Digital money transfer service [Wise](#) (formerly TransferWise) reports to its customers how much it makes from each transaction, encompassing any flat fee, plus its exchange rate markup from the mid-market exchange rate. Its website also compares Wise's rates with its competitors.

Let's suppose I wanted to send my Indonesian friend Niko A\$200 for his birthday. The screenshot below shows that Wise would do the conversion at the mid-market exchange rate, and then subtract a fee of \$1.91, leaving Niko with 2,050,706 rupiah.

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The Commonwealth Bank would charge a bigger flat fee, and provide a worse exchange rate, so Niko would end up with just 1,839,911 rupiah. In a refreshing display of honesty, Wise admits here that Western Union offers a slightly better deal than they do.









See how we compare with other providers

1 AUD = 10,352.4 IDR

Mid-market exchange rate (from Reuters)
2 minutes ago

You send exactly
200

AUD

Provider	Exchange rate (1 AUD → IDR)	Transfer fee	Recipient gets Sending 200 AUD
 WESTERN UNION	10,300.4	0.00 AUD	2,060,075.67 IDR
 wise	10,352.4 Mid-market rate [?]	1.91 AUD Transparent fee [?]	2,050,706.92 IDR ▼ - 9,368.75 IDR
 up Powered by wise	10,352.4 Mid-market rate [?]	1.91 AUD Transparent fee [?]	2,050,706.92 IDR ▼ - 9,368.75 IDR
 MoneyGram	10,104.0	2.99 AUD	1,990,596.82 IDR ▼ - 69,478.85 IDR
 Remitly Promises Delivered	10,130.2	3.99 AUD	1,985,620.51 IDR ▼ - 74,455.16 IDR
 PayPal	9,923.51	5.99 AUD	1,925,259.35 IDR ▼ - 134,816.32 IDR
 nab	10,020.2	10.00 AUD	1,903,831.07 IDR ▼ - 156,244.60 IDR
 Commonwealth Bank	9,484.08	6.00 AUD	1,839,911.38 IDR ▼ - 220,164.29 IDR

We're always honest with our customers. And honestly, we're not the cheapest this time. But we don't have comparison data for transparency or speed at the moment. So while there are cheaper options, they might not be the fairest or the fastest.

Recently I pressed the head of the Australian Competition and Consumer Commission, Rod Sims, on the subject of foreign exchange transparency. In 2019,

the Commission published a [report](#) on the issue that, in my view, fell short of what is needed. Rather than requiring foreign exchange providers to report the full costs of the transaction – relative to the mid-market rate – the competition watchdog has instead allowed the confusopoly to persist. Their [latest update](#) concludes that the market is working well. In my view, the Australian Competition and Consumer Commission is setting its standards too low. Foreign exchange providers – particularly the largest banks – can do better.

COVID-19 may have dealt a blow to globalisation, but it's unlikely to be a fatal one. As the pandemic passes, I am hopeful that migration, trade and foreign investment will return. But we should aspire to do better than the pre-COVID world. A philosophy of 'engaged egalitarianism' recognises that openness brings huge gains to Australia, but that we have an obligation to ensure that the benefits are fairly spread. Whether they come here through the Pacific Labour Scheme or permanent migration, many workers will toil in the Australian labour market so that they can support relatives in developing nations. We owe it to them to ensure that as much of their money as possible gets into the hands of the poorest.

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Link: <https://devpolicy.org/repairing-remittance-rules-20211005/>