Effects of Transparency in International Currency Transfers on Consumer Decision-making

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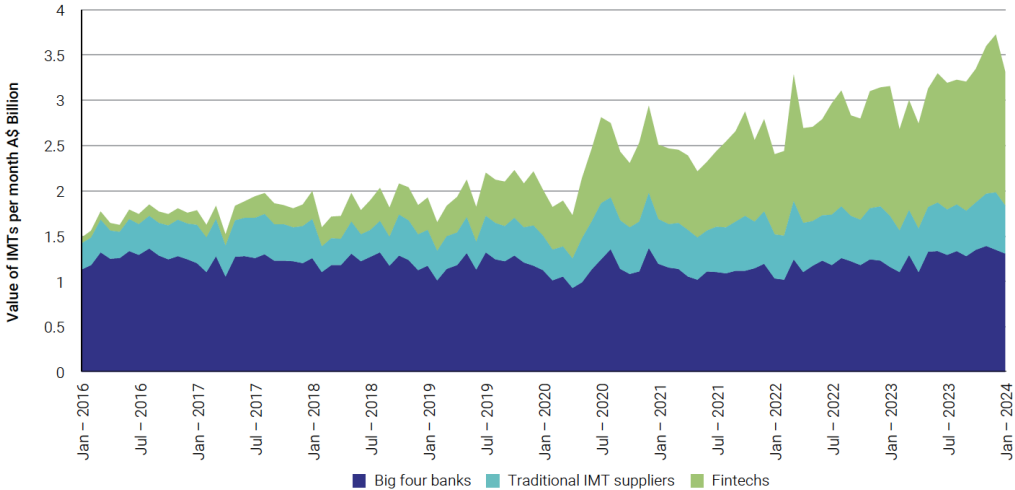
Market of International Money Transfers (IMTs)

Figure 13: Growth in IMTs based on the value of IMTs processed per month – transactions under A$40,000



(Source: ACCC, Updated report (2024))

Current Policy Objectives

- Enhancing financial outcomes requires greater consumer churn and switching, alongside improved products for disengaged consumers.
  (Commonwealth, 2024)
- Accelerating the development of faster, cheaper, more transparent, and inclusive cross-border payment services.
  (G20 Roadmap)
- Strengthening industry practices to assist consumers in comparing the cost of IMTs across different providers.
  (ACCC Best Practice Guidance, July 2024)

Motivation

- The ACCC's Best Practice Guidance aligns with the price transparency requirements set in the G20 Roadmap.
  - Australia's decline in the cost of IMTs since 2019 has been faster than the broader global decline. (G20 National Remittances Plan, Australia 2024)

Motivation

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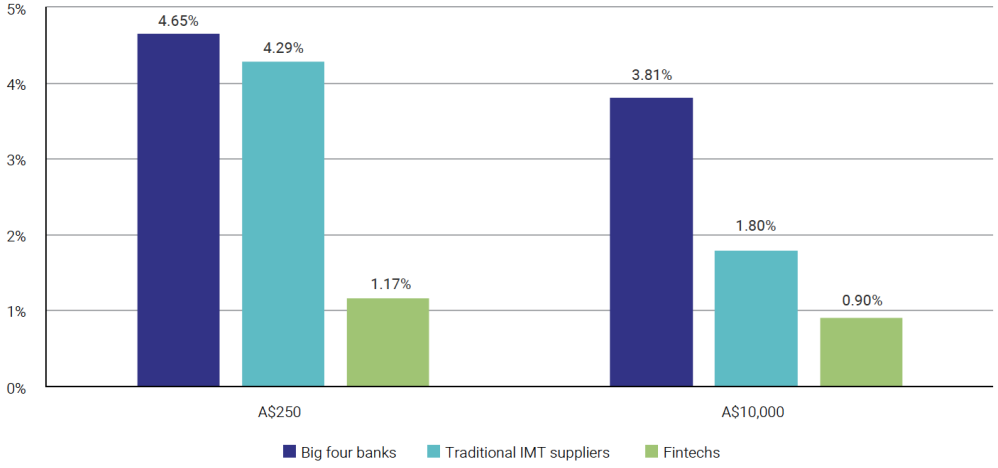
However...

- Significant price disparities persist among IMT providers, with the Big Four banks being the highest-price suppliers.
  - For an average transaction of A$3,138 through a Big Four bank IMT, consumers could save approximately A$108 by opting for a lower-price provider. *(ACCC, 2024)*
  - This amounts to over A$200 million in potential savings across the market.

Motivation

Figure 8: Average cost of a A$250 and a A$10,000 IMT across the 3 currency corridors, by supplier group



(Source: ACCC, Updated report (2024))

Lack of Transparency in IMT

- The total cost of an IMT to the consumer is a combination of the retail exchange rate and added fees.
  - Major suppliers, particularly the Big Four banks, promote "fee-free" transactions, embedding margins within the retail exchange rate.
  - Consumers remain unaware of the "true" cost of a transaction, as **exchange rate margins** are not explicitly disclosed.

Exchange rate margin

$$\text{Margin} = \underbrace{(\text{Retail exchange rate} - \text{Mid-market rate})}_{\text{Mark-up}} \times \text{Amount sent}$$

Lack of Transparency in IMT

- Lack of transparency on exchange rate margins may lead consumers to assume zero fees, making better prices seem unattainable.
  - 40% of respondents indicated they most often use a Big Four bank to make IMTs. Of these, one third noted that they have never and would never consider using a non-bank. *(ACCC, 2024)*
- As a result, many may see no value in searching for alternatives.
  - 42% of respondents did not compare prices when selecting a provider *(ACCC, 2024)*.

Quotes from FinTech

- *"... in order for consumers to know exact prices and therefore have the urge to compare providers and international payments, we need price transparency... people should know what they are paying for an international transfer upfront and in full... Traditional financial institutions... still charge exorbitant fees... The effect of hiding these fees in a marked-up exchange rate is that customers remain unaware of the costs of their international transactions and consequently can't even begin the process of trying to find a better deal, because they don't have a prompt to do so."*[1]

- *"A bank will say transferring $10,000 US to the US costs $0, but they fail to disclose that there's a 3.6% mark-up over the mid-market rate, making the cost more like $572 AUD than "free".*[2]

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[1] Mr Jack Pinczewski. APAC Government Relations Lead, Wise. Committee Hansard, 03 May 2023, p. 27.

[2] Wise, 'White paper: Implementing transparency & fairness in cross-border payments for Australian consumers', p. 1, https://wise.com/imaginary-v2/images/ad43ac35cada363f50ee3e072abfb9b6-Australian.

Quotes from Big Banks

- *"The customer knows exactly how much they'll get. They can see the rate. They can do a comparison with other banks or they can go onto comparison sites. So we think actually the best thing from a customer's viewpoint is to know exactly how much they will get. . . ".*[3]
- *"The fees are very transparent. The rate itself is more complicated in the sense that sending $100 to the United States is a very different thing to what the foreign exchange mid-market rate refers to, which is pricing for people sending hundreds of millions of dollars and billions of dollars. So that's sort of a wholesale rate. I'm not sure that people would expect to get the wholesale rate...".*[4]
- *"The most important thing is just to make it simple. If you need to transfer a hundred dollars Kiwi to New Zealand, you need to know what it costs you in Australian dollars; or if you have a hundred dollars Australian, what it is going to become in New Zealand. Trying to break it down into the components is quite confusing."*[5]

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[3] Mr David Cohen, Deputy Chief Executive Officer, CBA, Committee Hansard, 13 July 2023, p. 27.
[4] Mr Shayne Elliott, Chief Executive Officer, ANZ. Committee Hansard, 12 July 2023, p. 30.
[5] Mr Peter King, Chief Executive Officer, Westpac Group, Committee Hansard, 13 July 2023, p. 53.

Empirical Question

- Greater transparency in IMT markets, may:
  1) Incentivise consumers to search and obtain better deals **(Clarify the benefit of search)**.
  2) Overwhelm consumers, leading to confusion rather than assistance **(Information overload)**.

BETA's Work: The Effects of Different Types of Price Layouts on Consumer Decision Making

- Hypothesis: consistency in presentation across providers may make offers easier to compare.
- **Subtracting fees**:
  - Simplified comparisons and helped consumers' choice.
- **Displaying a prompt with the total cost of the transaction**:
  - Improved comparisons only when the presentation of fees varied.

Remaining question: How does information about total transfer charges impact consumer search behaviour?

What We Did

- **Incentivised Online Experiment**, including:
  - Screenshots of real-world FX rates.
  - Simulated search costs.
  - Recruitment through Proflic platform.
- **Exit Survey**, covering:
  - Demographic questions.
  - Experience and understanding of FX transfers.

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- **Experiments**
  1. Transparency of mid-market rate and total transfer charges
  2. Transparency of the benefits of search

Methodology - Offers

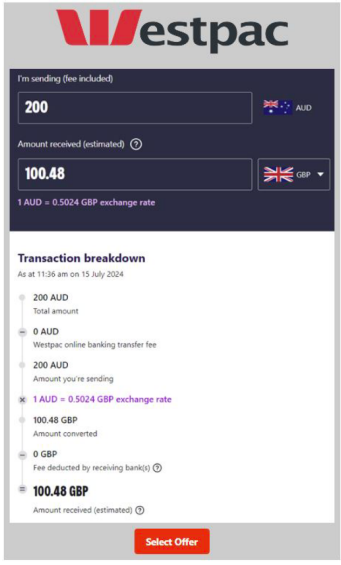
- Participants are shown screenshots of real offers from actual foreign exchange providers.
  - Three major Australian banks (prominent): CBA, NAB, and Westpac. ANZ excluded as they were adding fees, rather than subtracting them.
  - Three global fintech companies (non-prominent): Revolut, Wise, and Xe.
- Offers display a A$200 transfer to GBP using each provider's online offer calculator.

Experiment 1 Methodology - Treatment

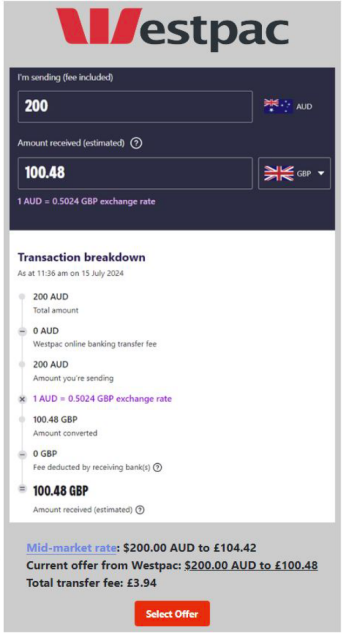
Two experimental conditions:

- **Obscure**: Participants see the amount paid, amount received, offered exchange rate, and any fixed transfer fees.
- **Transparent**: In addition to the above information, participants can compare the "mid-market rate" with offered exchange rates.
  - The total transfer fee, combining any fixed fee and exchange rate mark-up, is explicitly displayed.

(a) *Obscure*



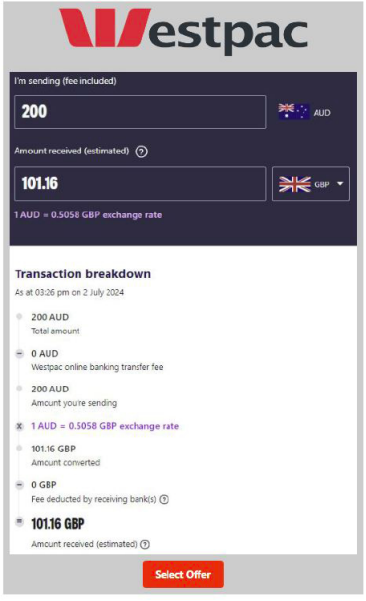
(b) *Transparent*



Experiment 1 Methodology - Task

- Participants are assigned to the Obscure or Transparent condition.
- Participants are shown an offer from a prominent firm and can choose to:
  - Accept the offer.
  - Search for an additional offer.
- Simulated search cost: reversing a random 20-digit alphanumeric string.
  - Accept any of the available searched offers.
  - Continue searching up to 5 times (up to 6 total offers). This number not known to participants
- Participants payments increases with amount received in chosen offer (1 to 1)

Select an offer to complete the transfer:

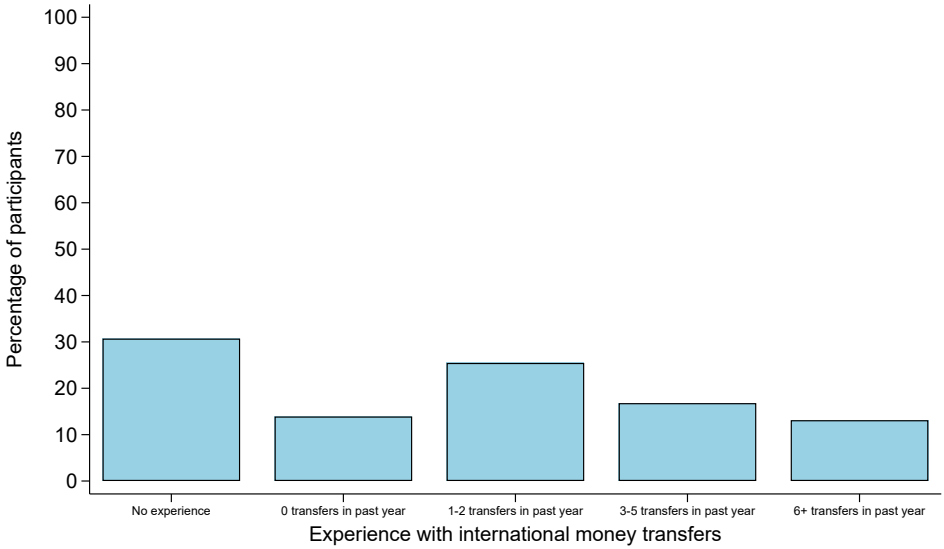


To make this offer available, reverse the following string in the space below:

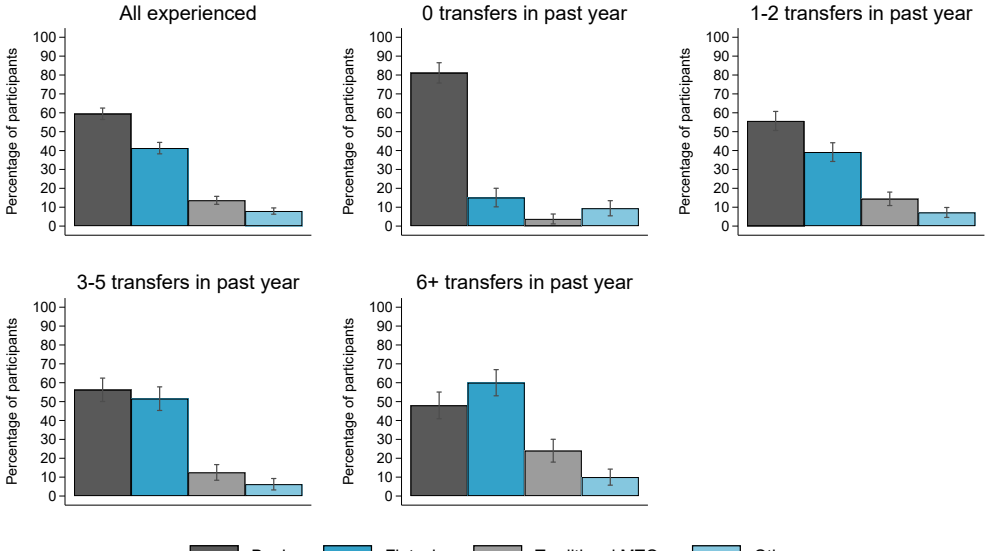
String: KTujOR2DjyHARk3EWioJ

Continue

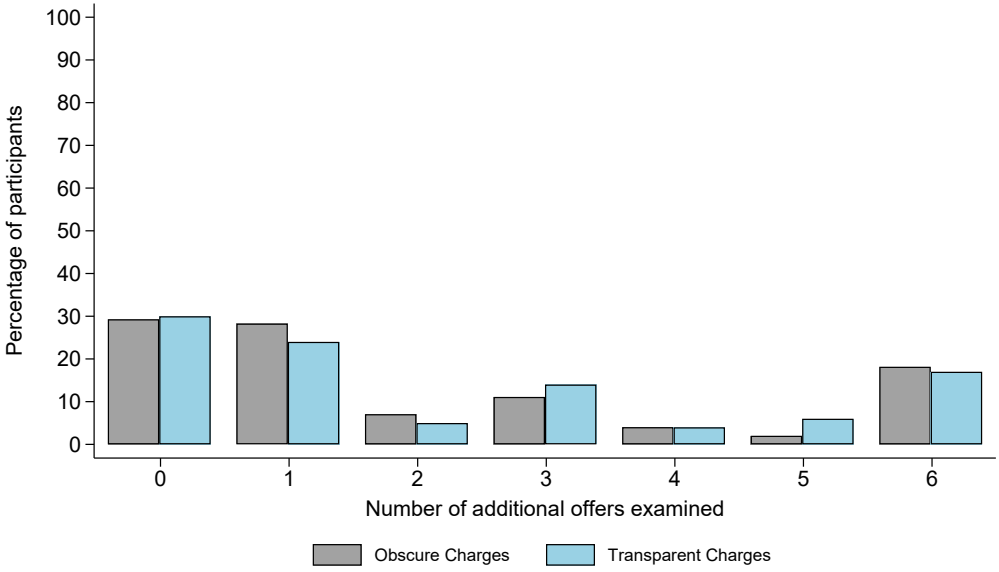
70% of Participants Had Previous Experience w/ Money Transfers



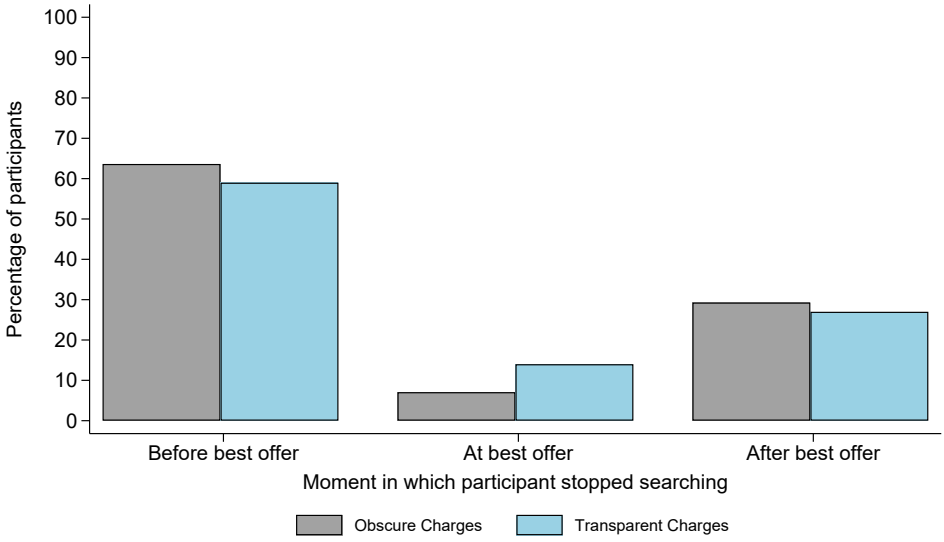
Association Between Recent Experience and Type of Provider Used



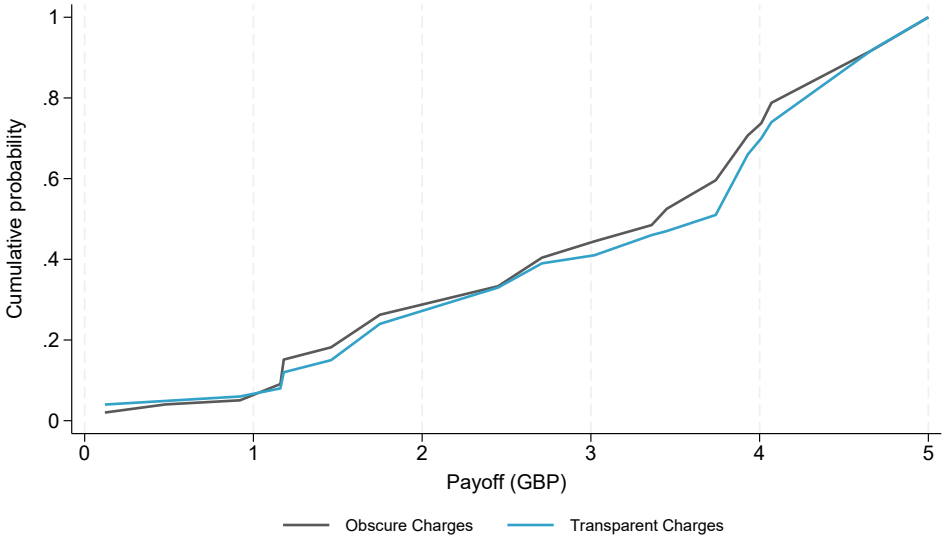
Transparency of Charges Did Not Affect Search Count



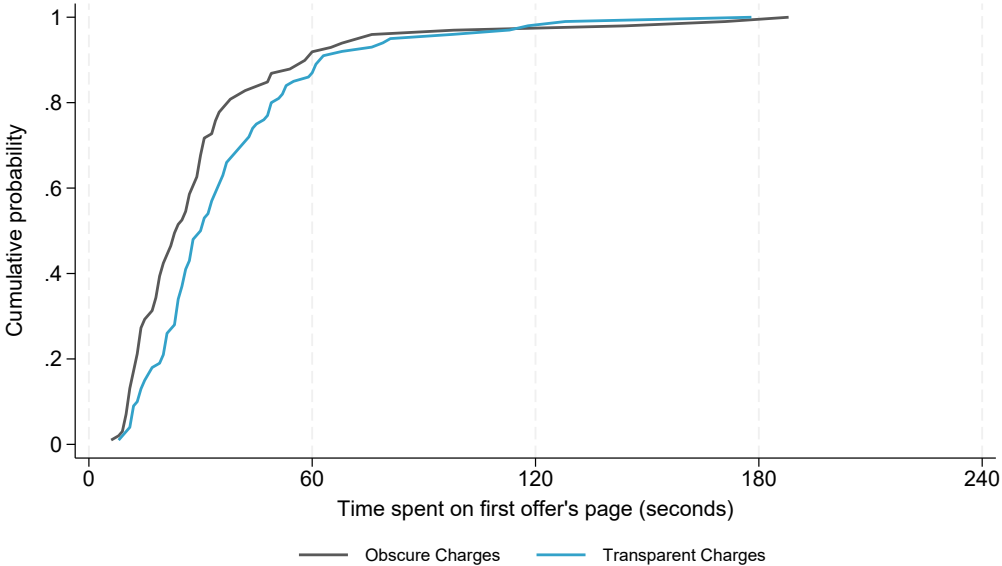
Most participants in Exp 1 stopped searching prematurely



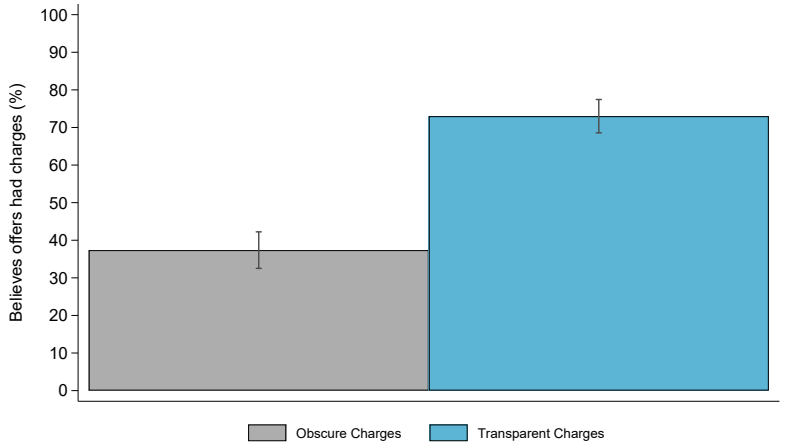
Transparency of Charges Did Not Affect Payoff



Transparency of Charges Increased Time Spent on First Offer's Page

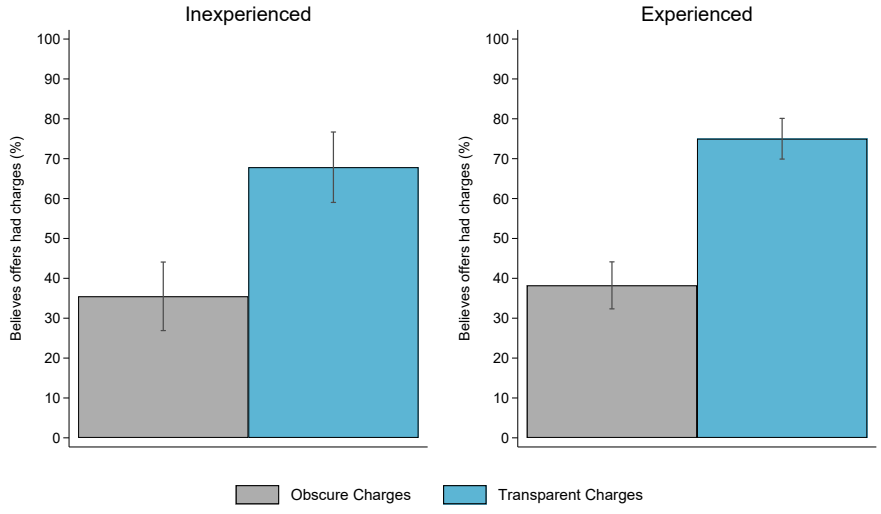


Transparency of Charges Significantly Increased Awareness of Charges



- Aware of charges: believes offers included upfront fee, markup, or both.
- Unaware: believes offers were free or doesn't remember whether they included any charges.

Same Effect For Inexperienced and Experienced Participants



Participants Who Did Not Search for Additional Offers Left Significant Money on the Table

Payoff by search count: 0 vs > 0

- Payoff $\bar{\Delta}$ among participants with search count > 0: GBP 2.35.
- Search time $\bar{\Delta}$ among participants with search count > 0: 2.99 min.

$\Rightarrow$ Mean foregone hourly payoff among participants with search count $= 0$: **GBP 47.16**.

- Median hourly earnings (mhe) in Australia: GBP 21.

$\Rightarrow$ **Mean foregone hourly payoff among participants with low search times $= 2.2 \times$ mhe**.

Experiment 1 Takeaway

- Results still leave us with a puzzle:
  - Transparency increases awareness of charges, but does not improve search.
  - This is despite the fact that significant money is being left on the table.
- Remaining question: Is the perceived benefit of search still not close enough to the true benefit of search?
  - Consumers may not learn anything about benefits of search from mark-up transparency
  - Would they search more if they knew the benefit explicitly?

Experiment 2 Methodology - Treatment

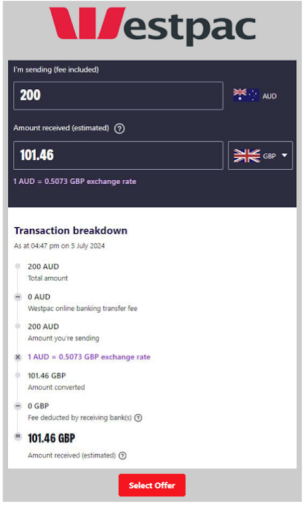
Two experimental conditions:

- **Obscure**: Participants see the amount paid, amount received, offered exchange rate, and any fixed transfer fees.
- **Best Offer Disclosed**: In addition to the above information, participants know there are six total offers and they know the value of the best offer available (but still have to find it).

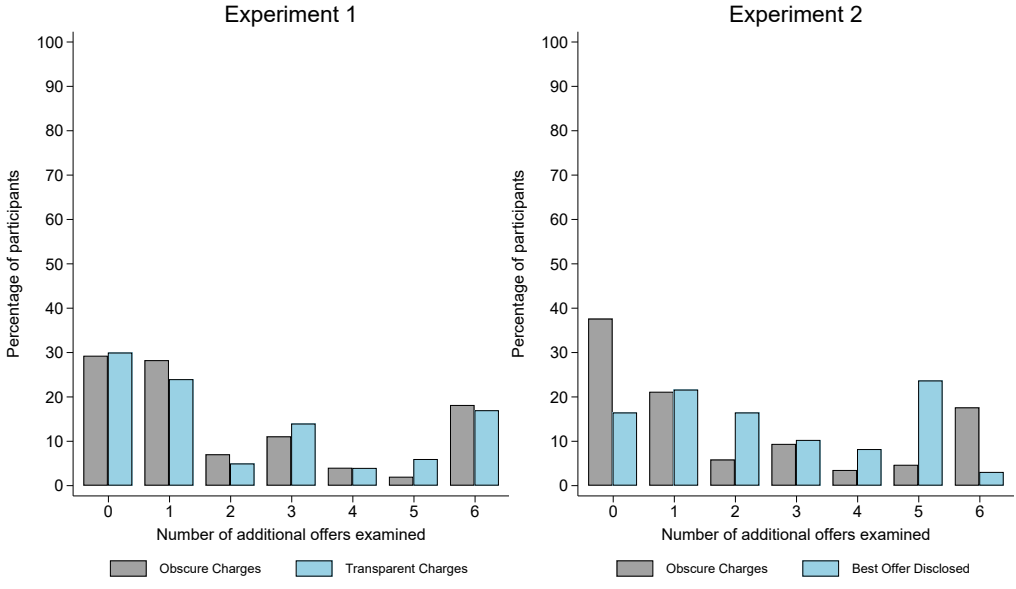
Experiment 2 Methodology - Treatment

All offers in this task are from July 5, 2024. There are six offers in total. Of these six offers, the offer that provides the largest quantity of British Pounds (£) will result in you receiving £105.00 from the transfer.

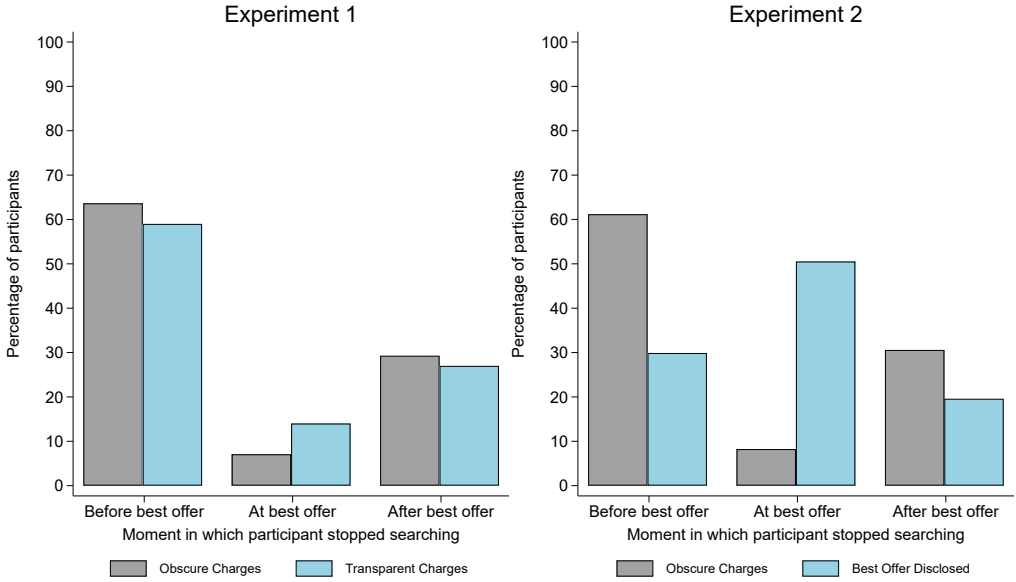
Select an offer to complete the transfer:



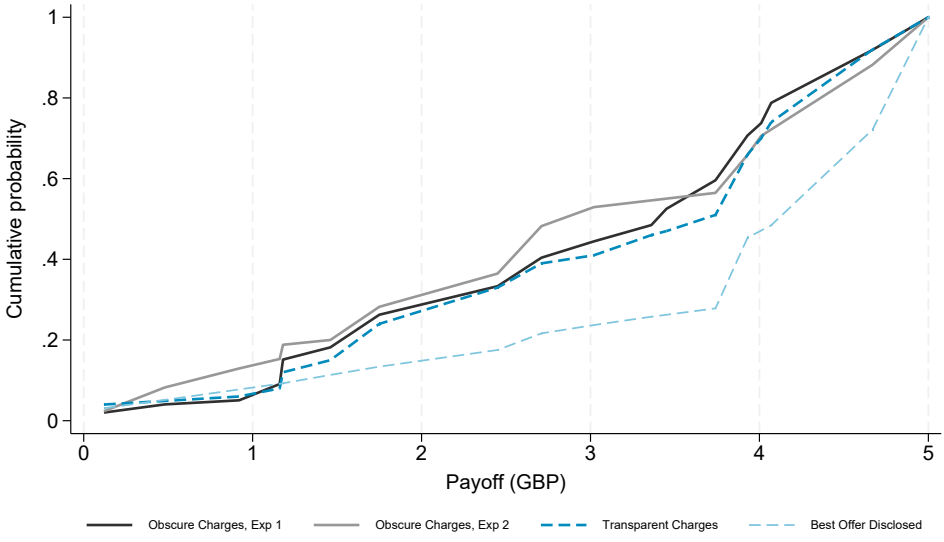
Disclosure of Best Offer Increased Search Count



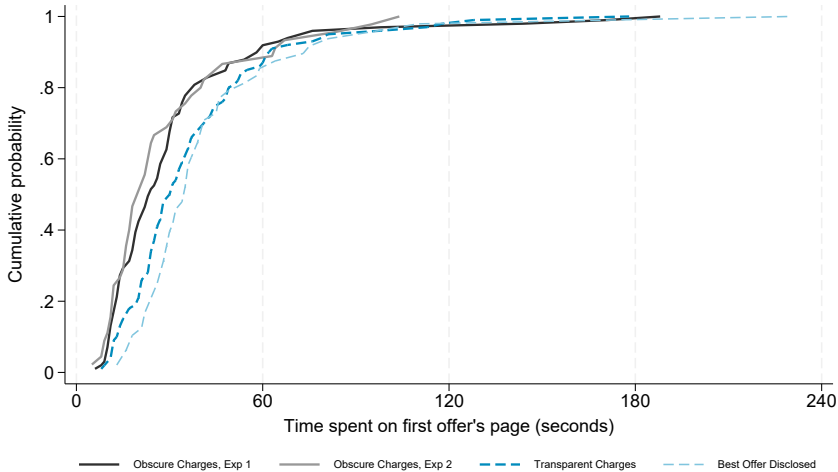
Disclosure of Best Offer Reduced Premature Stopping



Disclosure of Best Offer Increased Payoff



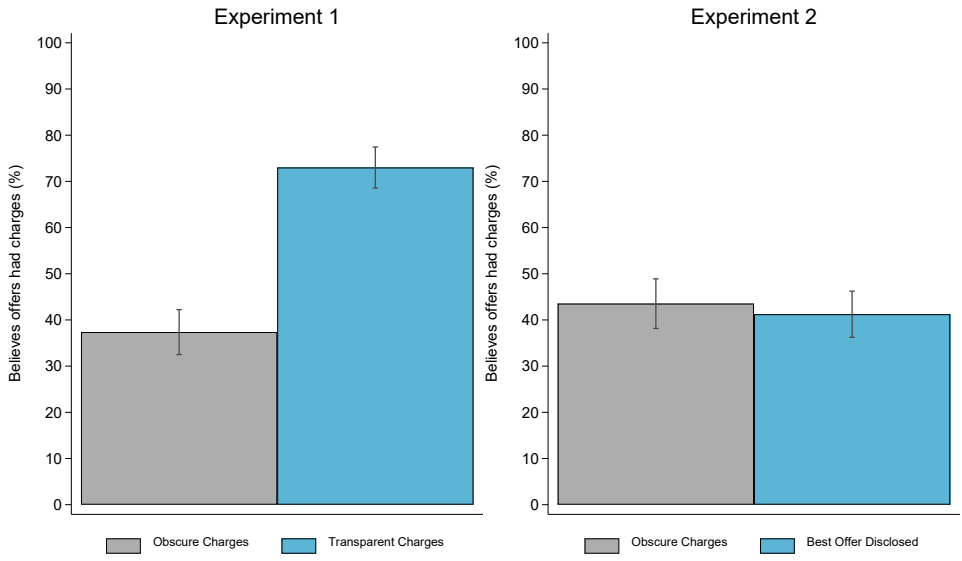
Disclosure of Best Offer Increased Time Spent on First Offer's Page



- Effect similar to that of making total charges transparent

Disclosure of Best Offer Did Not Increase Time Spent on Offer Pages Other than First

	(1) First offer	(2) Remaining offers
Transparent Charges	7.249**	5.891***
	(3.178)	(2.002)
Best Offer Disclosed	9.054**	1.602
	(4.322)	(2.639)
Return	3.258	0.709*
	(1.999)	(0.368)
Constant	-320.682	-66.035*
	(202.833)	(37.266)
Session FE	Yes	Yes
Date of offers FE	Yes	Yes
Offer number FE	NA	Yes
Number of observations	288	584

Notes: OLS. Column 2 pools data on all offer pages other than first; standard errors clustered by participant. Additional controls: experience, age, gender, nationality, education, perceptions about pricing of banks and fintechs. Largest 1% times excluded.

Disclosure of Best Offer Did Not Increase Awareness of Charges