



9 October 2024

Committee Secretary  
NZ Parliament Finance Committee  
Parliament Buildings  
Private Bag 18041  
Wellington 6160

### **Wise Submission to Finance Committee Inquiry into Banking Competition**

Dear Committee Secretariat,

We thank the committee for the opportunity to make a submission into the Finance and Expenditure Committee's Inquiry into banking competition.

#### **About Wise**

Wise is a global technology company, building the best way to move and manage money around the world. With the Wise account, people and businesses can hold over 50 currencies, move money between countries and spend money abroad.

Large companies and banks use Wise technology too; an entirely new cross-border payments network that will one day power money without borders for everyone, everywhere. However you use the platform, Wise is on a mission to make your life easier and save you money.

Co-founded by Kristo Käärman and Taavet Hinrikus, Wise launched in 2011 under the name TransferWise. It is one of the world's fastest growing, profitable technology companies and is listed on the London Stock Exchange under the ticker, WISE.

16 million people and businesses use Wise, which processes around £10 billion in cross-border transactions every month, and in 2023 alone, we saved customers £1.5 billion in fees. We now welcome 100,000 new personal and business customers to the platform each week.

Wise operates in New Zealand currently as a foreign FBO under our global Wise PLC. entity through which we provide our send, spend and hold money services.

We note the focus areas for the inquiry outlined in the terms of reference and note that our submission will concentrate on the lack of price illustrations in international payments and how this relates to the absence of customer switching.

Reform to increase competition in New Zealand's banking and payment systems can increase productivity and reduce costs for businesses and consumers in Aotearoa.

### **Context of the NZ Parliamentary Inquiry**

We note that the last time that this matter was looked at holistically in New Zealand was in 2016 when NZ Treasury commissioned Deloitte to conduct a "Review of the Money Remittance Market in New Zealand".<sup>1</sup>

While the intention behind the review was welcome, the effluxion of time between the publication of this report and the present day as well as the shortcomings in methodology around the understanding of dynamics for competition in international payments means that it would be important for NZ Treasury to be encouraged to review, update and improve on this work in order to better understand the market for international payments and provide a detailed policy basis for increases in banking competition in this space for the future.

We also note that the New Zealand Commerce Commission has, in its recent review of competition in the personal banking industry, specifically noted that the issue of the costs of international money transfer, "suggests possible useful lines of enquiry for further study or analysis as it appears that there is room to improve competition for these services".<sup>2</sup>

The issues raised within the Commerce Commission's desktop research illustrate that there is a considerable amount of valuable reform which can be studied and emulated from abroad into the issue of international money transfers which can assist in reducing prices bringing more efficiency to the New Zealand banking sector and economy more broadly.

We recommend that the Parliamentary Finance and Expenditure Committee build on this work by the Commerce Commission by making an examination of international money transfer a key pillar of its inquiry into banking competition.

### **Competition in the market for international payments**

Competition in any market relies on the ability of consumers to make purchasing decisions based on understanding of what products exist and the prices of those products. A consumer, realising the benefit of a product or service and being aware of its price, then makes a decision about which firm they will engage to meet their need.

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<sup>1</sup> NZ Treasury, Review of the Money Remittance Market in New Zealand: A report on the problems affecting the remittance services between New Zealand and the Pacific, prepared by Deloitte for the Treasury, accessed from: <https://www.treasury.govt.nz/sites/default/files/2013-06/remittance-review.pdf>

<sup>2</sup> Commerce Commission New Zealand, Market study into personal banking services Final Report, published 20 August, 2024, [https://comcom.govt.nz/\\_data/assets/pdf\\_file/0019/362035/Final-report-Personal-banking-services-market-study-20-August-2024-Amended-27-August-2024.pdf](https://comcom.govt.nz/_data/assets/pdf_file/0019/362035/Final-report-Personal-banking-services-market-study-20-August-2024-Amended-27-August-2024.pdf), p19

Consumers' choosing between firms drives competition as firms then compete on the basis of providing the best product or service or the lowest price or a combination of both in order to attract customers.

Wise surveyed consumer understanding about the market for international payments and determined that while 53% of New Zealanders say they understand the costs of international payments, only 26% identified that their bank would use a FX rate which is marked up over the mid-market rate.<sup>3</sup>

This discord between purported understanding and actual understanding is a key reason why costs for foreign currency transactions remain high in New Zealand despite there being a number of players in the market for international payments.

This leads consumers to underestimate the costs to them when making an international transaction and the lack of up front price information therefore results in 'sticky' consumer behaviour where customers simply stay with their existing bank or financial service provider when making international transactions.

According to the Australian Productivity Commission, "consumers struggle to understand and compare the different types of prices charged",<sup>4</sup> due to this absence of meaningful information, "if consumers do not respond to price signals, it affects competition in foreign transactions".<sup>5</sup>

Competition in the market for international payments should be a focus of the committee's work, particularly given the relatively large exposure of

### **Current regulation of International Money Transfers in New Zealand**

Similar to many parts of the rest of the world, there currently are no regulations specifically for the pricing of international payments for consumers in New Zealand. The requirements of the *Retail Payment System Act 2022* do not apply to international transactions nor are there any scheme rules set under the schemes administered by Payments NZ.

The broad based protections found in the *Fair Trading Act 1986*, the *Consumer Guarantees Act 1993* and the *Credit Contracts and Consumer Finance Act 2003*, do not require the disclosure of a fee where that fee is hidden in a disadvantageous foreign exchange rate.

The absence of any reasonable regulation to ensure consumer protection in this market means that banks and other financial institutions can set their pricing

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<sup>3</sup> YouGov, "Foreign Exchange Understanding (NZ)", Our research can be provided to the Committee in a separate commercial-in-confidence annexure.

<sup>4</sup> *Productivity Commission*, "Competition in the Australian Financial System", Productivity Commission Inquiry Report No. 89, 29 June 2018 accessed from: <https://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system.pdf>, p496

<sup>5</sup> *Ibid.*

structures in any manner they see fit. This means that there is a lack of ability to compare between providers as well as a lack of price information provided up front to consumers curtailing their ability to notice a bad deal.

Wise's research in this space has noted the prevalence of uncertainty about the costs associated with International Money Transfers. The general confusion is felt most keenly by those who have less in the way of education and disposable income.

### **Potential Impact on the New Zealand Economy**

The New Zealand Government has, in an ad hoc manner, recognised the importance of international payments to the prosperity and economic wellbeing of its citizens and that of our region. Wise proposes that improving the values of these flows while reducing their costs meets many policy goals which at the moment are unaligned.

#### *Small Business Inputs*

The absence of competition in this market affects not only those who are sending money overseas for personal remittances, but also small businesses or sole traders who have international payment obligations.

For those businesses who have these international payment obligations it means an additional potential 5-7% increase in the costs of their inputs. Given many small businesses operate on slim margins these are stressors which they cannot afford and it generally prompts small businesses to move the costs to consumers which means higher prices in shops and for services.

The flow on effect through the economy from the costs of these small business payments means that the broader effect on the economy will yield additional productivity gains. If structured properly, these productivity gains may be felt throughout the entirety of the New Zealand economy.

#### *Online Commerce*

The broader economic impacts are also seen in the additional costs for those who are engaging in online commerce. Research from international payments firm PPRO suggests that the total market for international e-commerce from New Zealand is in the realm of \$2bn NZD in 2022.<sup>6</sup>

The costs of these international payments could well be in excess of \$100,000,000 NZD in the year 2022 given the FX markups which are found on card and international transfer payments.

With consumer trends moving further and further towards online commerce and direct payments these cross-currency payments are being effectively taxed by banks who

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<sup>6</sup> [https://info.ppro.com//859983/2023-10-10/9yr8q/859983/1696947551dqZusB9v/PPRO\\_New\\_Zealand\\_\\_country\\_report.pdf](https://info.ppro.com//859983/2023-10-10/9yr8q/859983/1696947551dqZusB9v/PPRO_New_Zealand__country_report.pdf)

are taking a proportion of these payments as economic rents in the movement of money around the world.

### *Remittance Flows*

The NZ Government has acknowledged the importance of remittances in its work in Pacific Banking,<sup>7</sup> Pacific Remittances<sup>8</sup> and Labour Mobility.<sup>9</sup> Even more importantly, the New Zealand Government should acknowledge the importance of international payments from the perspective of the New Zealand diaspora living and working overseas who send and receive money regularly.

Remittance flows in and out of Aotearoa are two-way flows. There are considerable amounts being sent *out* of New Zealand to support friends and family in countries of origin or to support family who live in near neighbours like Australia.

It is a missed opportunity that there is not a whole of government strategy to help reduce the costs of payments in and out of New Zealand to deliver economy wide reform which will lead to reductions in costs for consumers, businesses and commensurate increases in productivity and eased pressures on cost of living.

All of these costs, to consumers, small businesses and remitters are forms of economic rent where payment made for this service is over and above what is necessary to support the provision of this service and be profitable. Banks generally have a take rate of between 400-600 basis points on these transactions where Wise, for example, has a global take rate of 67 basis points showing significant potential savings to consumers - were the costs of international payments illustrated.

True microeconomic reform which will drive growth and efficiency in the New Zealand economy needs to come from means by which competition is enhanced and consumer outcomes are prioritised. Through transparently pricing foreign exchange products we can deliver a measure of this microeconomic reform.

### **Wise's suggested policy recommendations to improve banking competition**

Wise recommends that the market for International Money Transfer is:

1. Regulated to mandate the presentation of price information for consumers in a standardised manner,
2. Required to provide sufficient information to allow for consumers to compare between different providers and hence stimulate competition.

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<sup>7</sup> Reserve Bank of New Zealand, Pacific Remittances Project, accessed from: <https://www.rbnz.govt.nz/regulation-and-supervision/cross-sector-oversight/our-relationship-with-other-financial-regulators/pacific-remittances-project> on 1 October 2024.

<sup>8</sup> Reserve Bank of New Zealand, Media Release, "Reserve Bank supports global call to action on remittances", <https://www.rbnz.govt.nz/hub/news/2020/06/reserve-bank-supports-global-call-to-action-on-remittances>

<sup>9</sup> Ministry of Foreign Affairs, Labour Mobility, <https://www.mfat.govt.nz/en/aid-and-development/labour-mobility>

3. Mandated to prevent the advertisement of "\$0 fee" or "fee free" international money transfer services where a fee is contained within the FX spread.

Specifically, Wise recommends that International Money Transfer providers must:

1. Present information on the costs of the transaction to customers in an up front and intelligible manner;
2. Provide digital tools which can be customisable based on currency route and amount to be sent;
3. When a transfer has a fixed fee component, that this fixed fee be subtracted from the total amount which is being transferred; and,
4. In New Zealand Dollar terms, show the total cost of a transaction comprising both the fixed fee amount and the fee in the retail mark-up when compared to a reasonable benchmark rate;

This principle of transparency is applicable across other products and services within the market for financial services. Consumer confusion remains a considerable obstacle to competition and this is not necessarily solved through the emergence in the market of newer, more competitive financial technology firms.

If the underlying regulatory framework for the illustration of prices to consumers is not remedied, the frustration and concern that consumers have in assessing how they can get the best deal remains and consequently the cost of living remains needlessly high.

Yours faithfully,



Jack Pinczewski  
APAC Government Relations Lead  
Wise