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Bin: 0900
 Brief: OZFOREX
 Page 1 of 2

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Foreign affair flirtation

Foreign exchange, long the province of the big banks, has found a cheaper, populist outlet. **James Dunn reports**

CAN the success of Aussie Home Loans in the residential lending market be replicated in another of the banks' lucrative fiefs, the \$67 billion a day foreign exchange market?

Matt Gilmour, managing director of online foreign exchange service OzForex, believes so. That is precisely the model he has set for his business.

"Foreign exchange is a market for the big banks that's been untouched by competition, but we see ourselves as similar to Aussie

Home Loans in that market," Gilmour says.

Like Aussie Home Loans, OzForex is an originator of foreign exchange business, which is transacted and settled for it by the Canadian-based Custom House Currency Exchange, one of North America's largest discount foreign exchange dealers.

Ninety-five per cent of OzForex's business is conducted over the internet, which, says Gilmour, means that it can offer anyone with a foreign exchange exposure cheaper rates than the major banks charge.

Mainly, that would include exporters and importers, expatriates, investors and travellers.

'Foreign exchange is a market for the banks that's been untouched by competition'

Matt Gilmour,
 OzForex managing director

Gilmour says he recently priced the purchase of £3000 (\$21,810) from six major providers — five banks and one non-bank — to send to the

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Page 2 of 2

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UK by telegraphic transfer.

The best provider, he says, charged a margin of about 1.2 per cent over the underlying "inter-bank" rate, while the worst charged a margin of 2 per cent. On this transaction, each 1 per cent of margin equates to about \$230 of extra cost, before additional transfer costs are paid.

"If you're a business person doing these kinds of transactions every week, the extra cost soon adds up," he says.

"We're saying that people should be aware that if they shop around, they can get a better deal."

The major banks don't seem to be quaking in their boots over the OzForex threat.

"You've got to be careful that you're comparing apples with oranges," says a National Australia Bank spokesman Geoff Lynch.

"OzForex may charge a cheaper rate, but it doesn't carry the payment risk and credit risk that the banks do.

"We make the transaction when you request it, not when you pay us, and if the market moves against us in the meantime, we lose money."

Lynch says his bank believes that its "full suite" of service in the foreign exchange market justifies the margins it takes.

"Our view is that there is a lot more that we provide than just the price at which you can deal."

It sounds like the argument in the share market between discount and full-service stockbrokers, and Gil-

mour, for one, is keen to make an analogy with the share market.

"When you go into the share market, everybody — institutions and retail — sees the market price," he says. "But in the foreign exchange market, the punter sees a different price to the wholesale players.

"While it is fair that smaller-volume deals attract a different price, most customers would be shocked at the size of the margins and the dollars involved."

Not fair, say the banks. Says a CBA spokesman: "Shares can be bought at the market price because you can deal in any size of parcel. But we've got to assemble \$5 million parcels to trade in the inter-bank foreign exchange market.

"In assembling that parcel we run substantial market risk, and there has to be a margin built in to our costs to do that."

Another criticism leveled at OzForex by the banks is that its price savings are based on the banks' indicative rates, which are posted on the bank websites at 7am and not updated until the next day.

"A customer coming in at 2pm could be quoted a very different rate, because the market moves," the CBA spokesman says.

"I don't think that our rates and OzForex's rates would be that far apart at that time. (OzForex's website states at what time its competitors' rates were taken.)

"And you have to remember when you're looking at examples, that the price depends on the liquidity of a particular cross (that is, exchange rate): the \$A/\$US quotes are going to be much more competitive than those for the \$A/Thai baht."

Anthony Challenor, head of e-strategy at Westpac financial markets, says his bank recently became the first major bank to offer online telegraphic transfers, effectively undercutting OzForex, charging a \$15 fee against \$20. (Westpac business customers can only transfer up to \$25,000 a day through this service.)

"We have to buy and sell those currencies that are being transferred. We take market and credit risk. I assume that OzForex outsources that risk," he says.

"But in the end, we don't believe that people think only in terms of price. Our customers want advice, they want help with risk management, and they want to execute, settle and confirm a trade in the same place."

Gilmour concedes that some people will always want to deal through their bank, but says the more people learn about pricing, the more his market share is growing.

"Half our customers are importers. There is an awful lot of them out there with a \$20,000 exposure. They like to know how to save themselves money."