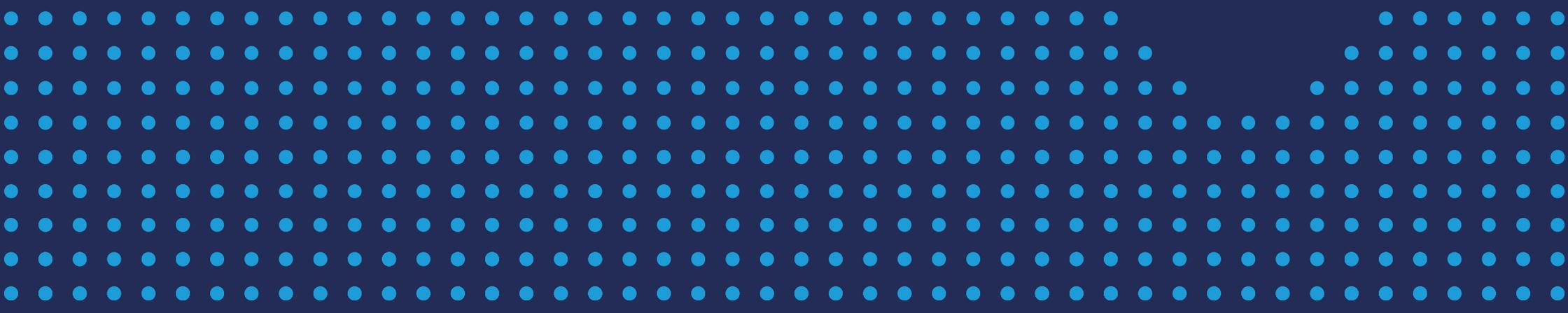
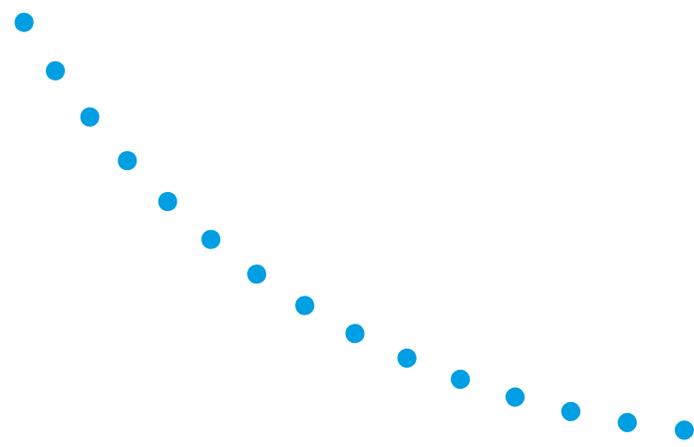
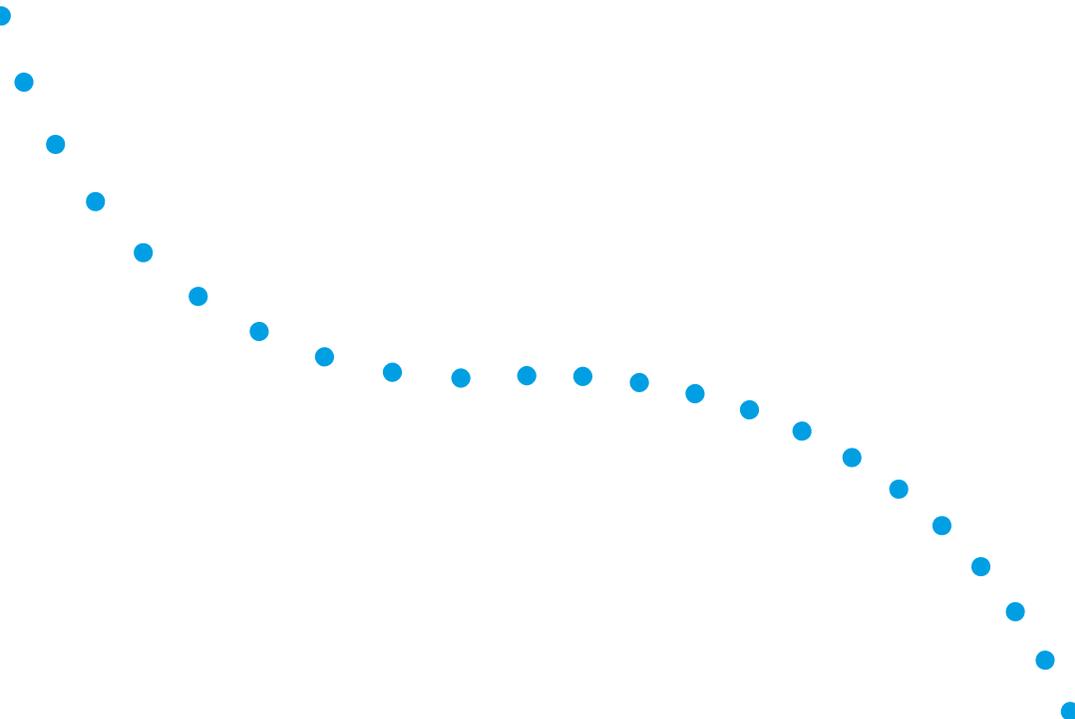


Breaking out of the FX STATUS QUO

A February 2015 report from research conducted by Loudhouse Research on behalf of freemarketFX Ltd



Are customers keeping pace with foreign exchange innovation?



Finance directors, SME owners and high-net-worth individuals ('HNWI') across the UK spend millions each year on foreign exchange ('FX') costs. The following research shows that the majority are failing to capitalise on improving services and highly competitive transaction rates offered in a rapidly growing sector.

Whilst reductions in overheads and operating in a more financially-savvy manner are paramount for all FDs, business owners and sole traders, many are accustomed to the 'status quo' banks and brokers have created, where unnecessarily high costs are the unquestioned norm.

This unique report into FX services and expectations considers why customers aren't pursuing the simple and efficient alternative currency solutions that could have a noticeable impact on the bottom line. ▶

Section 1

The state of FX today

83% of businesses surveyed still use banks as their principal foreign currency provider

The disruptive potential of new financial technology ('FinTech') platforms in the world of foreign exchange has been gaining greater mainstream attention. Many may even think they've heard it all before.

And yet, not much has changed about the way businesses approach FX. In spite of a dynamic market where technology drives near-daily innovations, there is still a tendency to

predominantly use traditional partners - such as banks - for making and receiving payments in foreign currencies.

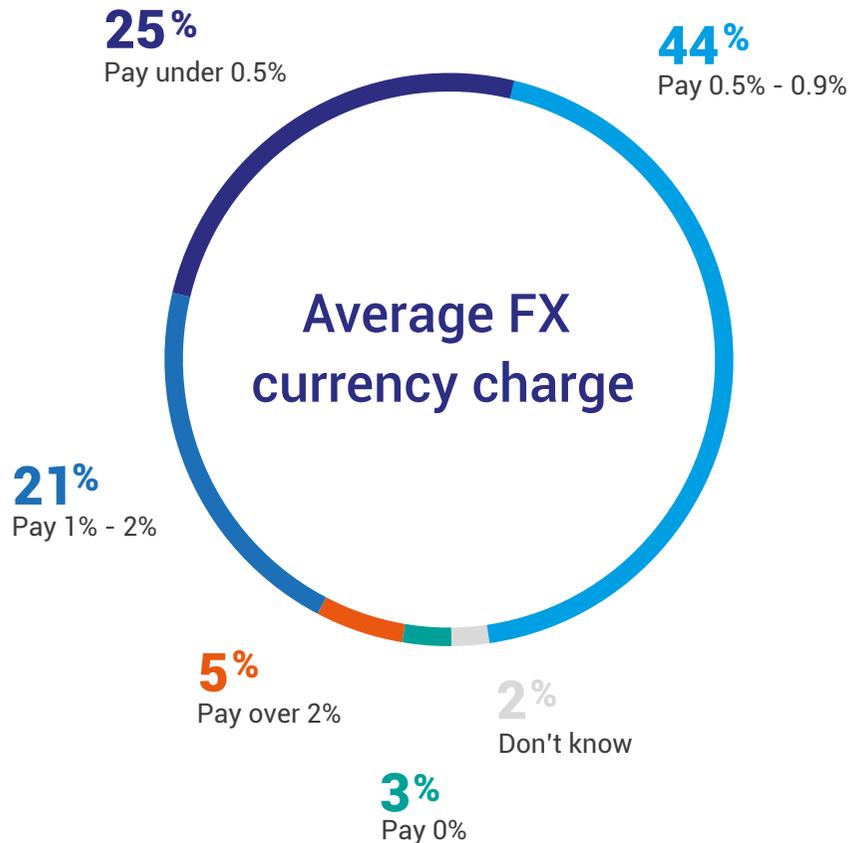
This is evidence of inertia in the FX world. It's understandable. Many are too time-poor to investigate alternatives - there are always other priorities and distractions. Some may already have bought all their currency or be locked in for a year with providers such as

brokers. And, of course, when it comes to buying currency, there will always be an assumption that established banks or brokers are safer. Banks and brokers are a cornerstone of the foreign currency market, but familiarity is not always synonymous with value. ▶

0.8%

is the average charge for a currency transaction across all surveyed participants

Whether you're a finance director, SME owner or HNWI, every penny counts and unnecessarily high charges sting. Alternative FX providers are using technological innovation to streamline the entire currency transaction process, cutting out the middleman and passing on the savings to the customer. Commissions as low as 0.2% on currency transactions are now available and better value will become the norm in future. ▶



Section 2

The value of knowing better

70%

of businesses say they are being charged

It's clear that a lot of businesses have become accustomed to the way things have always been done in the FX industry. The vast majority of companies surveyed are being charged over 0.5%.

The dominance of banks and brokers in the currency exchange market has created a status quo where many are being charged over the odds for their foreign exchange transactions. Finance directors, SME owners and HNWI are often comfortable with paying over the odds, often because there is little time to hunt for a more cost-effective alternative. But there are better, less expensive alternatives out there.

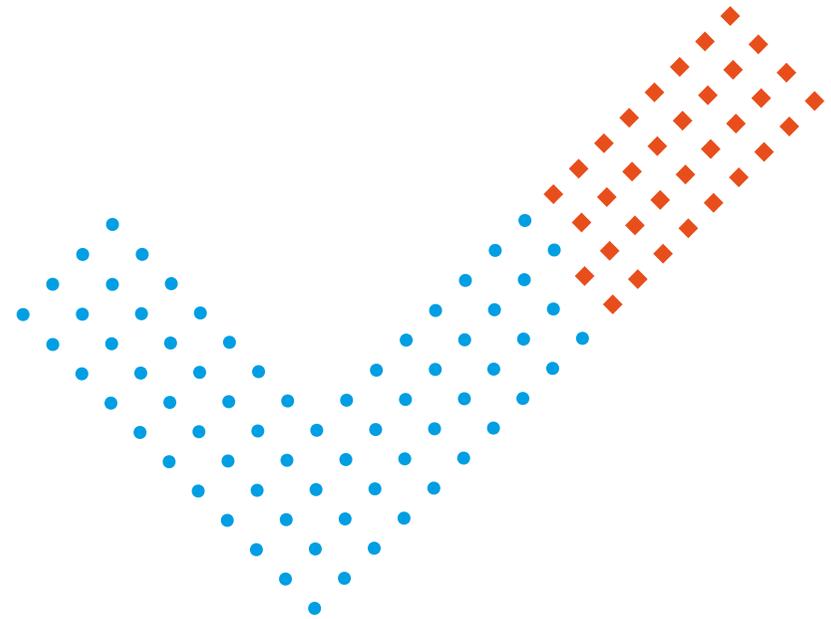
0.5% or more for each foreign currency transaction

Foreign exchange is full of complex moving parts that create costs, certainly with banks and brokers. That these institutions pass this cost onto the customer in the form of high transaction rates is unfair. ▶

72% of participants believe that their existing fees are either fair or inexpensive

But what is remarkable is how this is now accepted as par for the course. Only 1 in 4 consider their existing rate to be expensive. It's rare that there's enough time to investigate alternatives and many may consider the difficulty of transitioning to a new provider prohibitive. But alternative providers are now establishing themselves and offering substantially lower costs, based on technology platforms that cut through the complexity of the entrenched system.

Customers also equate volume to value. A lot of small-to-medium sized businesses believe that their volumes are not high enough to warrant a discounted rate. ▶





90% think FX should be discounted based on the size of the transaction

It's no secret that banks and brokers save their best rates for larger institutions like governments and multinationals purchasing huge quantities of foreign currency. But this not only unfairly victimises SMEs and sole traders, it even punishes finance directors who may not be buying quite enough currency to unlock the truly best rates.

It's an entrenched mentality that highlights two key issues. Firstly, FX customers have an expectation of better value, but only on the condition of scale. Secondly, finance decision-makers have yet to discover low cost, flat rate transaction fees that benefit customers with any size of exchange requirement. ▶

Section 3

What does the future look like?

There is a shift in the market coming. As far as businesses are concerned, technology and disruptive models hold the key to a much better FX experience and service.

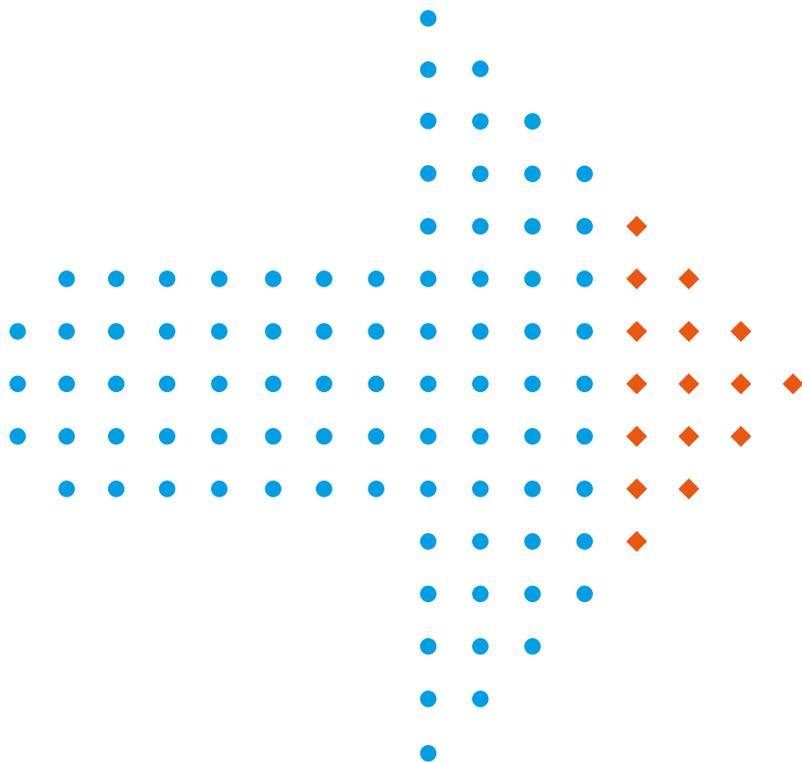
84% believe technology is increasingly an enabler of alternative offerings that can improve financial services

But there is a widely held concern that banks – currently the largest providers of currency services to businesses – will not be able to provide a competitive service in this shifting market.

As the benefit of alternative FX platforms becomes apparent, customers will want to purchase currency with an institution that can be trusted to understand what it is doing with your money.

81% feel that banks struggle with the adoption of new FX technology and methodologies

Whilst banks will remain the dominant force in foreign exchange, either directly to the customer or as part of the transaction infrastructure, businesses are aware of alternative currency solutions and there's a willingness to use them. ▶



84% are prepared to use alternative providers and offerings when it comes to making or receiving payments in foreign currencies

This fact alone indicates that the existing dominance of the banks and brokers as suppliers (99%) with their fees of 0.5%+ (70%) is likely to come under pressure sooner rather than later. Particularly as the lower-cost, technology-enabled, providers are not just coming, but are actually here now.

Early adopters of these innovative new solutions will benefit from the flexibility, ease-of-use and cost savings these alternative providers can guarantee. ▶

Summary

An alternative currency ecosystem is emerging rapidly, and customers appear to be aware of the benefits it can bring to their businesses.

So why are so many comfortable with the rates and service they're receiving from the banks? What's stopping businesses from breaking out of the FX status quo? For many, it is a question of inertia. There are too many other things to think about, especially for sole traders and SME owners, where the number of priorities they must personally deal with are great. There may also be a concern that alternative providers may not provide the efficiency and quality of service that is expected.

Similarly, banks and brokers are in the enviable position of trustworthiness. When dealing with currency transactions, the legacy that many can boast often offsets any concerns. Alternative FX providers must prove they are as safe and trustworthy as more traditional providers.

However, there are clear indicators that momentum is building, as both recognition of alternatives and appetite to try new services are strong. The status quo is shifting, and those that consider the alternatives are set to enjoy lower transaction costs, speedier and more efficient service and the feeling of beating the odds and getting a fair deal on FX. ▶



A change in thinking could provide immediate benefits to a raft of businesses that consider discounts beyond their reach. Here are five key points to consider before making your next foreign exchange transaction.

1 Is it easy for you to use an alternative FX provider?

Because of the way in which alternative providers build their businesses on FinTech platforms, many can be implemented almost immediately without any change to existing banking relationships or service levels of the business.

2 Would your business benefit from lower transaction fees?

It's often one of the last considerations many people make, but the cost of currency transaction can have a significant impact on your bottom line. If you understand the true cost of buying foreign currency, you'll realise switching to a better rate could generate an easy and immediate saving that drives better profitability. ▶

3

Do you think that the only way to generate savings is through higher volume transactions?

The attitude that only high-volume transactions unlock the best rate just isn't true for all providers. Many alternative providers provide lower-cost transaction fees, regardless of volume.

4

When did your existing service provider last notify you of new or innovative offers?

Are you getting the kind of service that you expect from your provider? Technology is not new per se – all companies should be able to innovate, regardless of scale. In addition, a lack of transparency about how FX providers calculate their rates means businesses are rarely getting the best value.

5

Have you evaluated alternative FX providers to see if savings can be made?

Many businesses miss out on savings because they do not challenge their providers or compare overall rates. Putting your FX procurement out to tender could quickly reveal extremely attractive rates. ●

Methodology

102 key decision-makers, responsible for foreign exchange transactions within their organisation took part in telephone interviews with the independent research agency, Loudhouse. These decision-makers either work for, or own, organisations with a turnover of between £5m and £25m.

About Freemarket

freemarketFX is authorised by the Financial Conduct Authority. We have created a marketplace that allows our customers to reduce the currency bought from banks and brokers by aggregating their currency requirement with their peers.

This increases efficiency and significantly reduces costs. By using this innovative approach, our customers generate supply and demand for currency pairings (not the banks), which influences the efficiency of our marketplace. The benefits of which are then shared equally amongst all customers. A true currency co-operative.



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