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THE SUNDAY TIMES

Beware the overpriced exchange rate deals

Huge margins at several popular high street money-changing services are costing consumers thousands

Ali Hussain Published: 15 June 2014



Travellers might pay mark-ups even if deals are billed as commission-free

HOLIDAYMAKERS and owners of overseas property are being warned they are wasting thousands of pounds on “hidden” foreign exchange fees.

Last week sterling surged to new highs after the Bank of England’s governor, Mark Carney, said interest rates could rise before the end of this year. The pound hit its highest level against the dollar in more than five years, while against the euro it rose to an 18-month high.

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However, new analysis reveals a murky world of sky-high mark-ups which are applied each time a customer converts pounds using a foreign currency account. These are normally used to service an overseas mortgage or to cover costs for frequent travel abroad

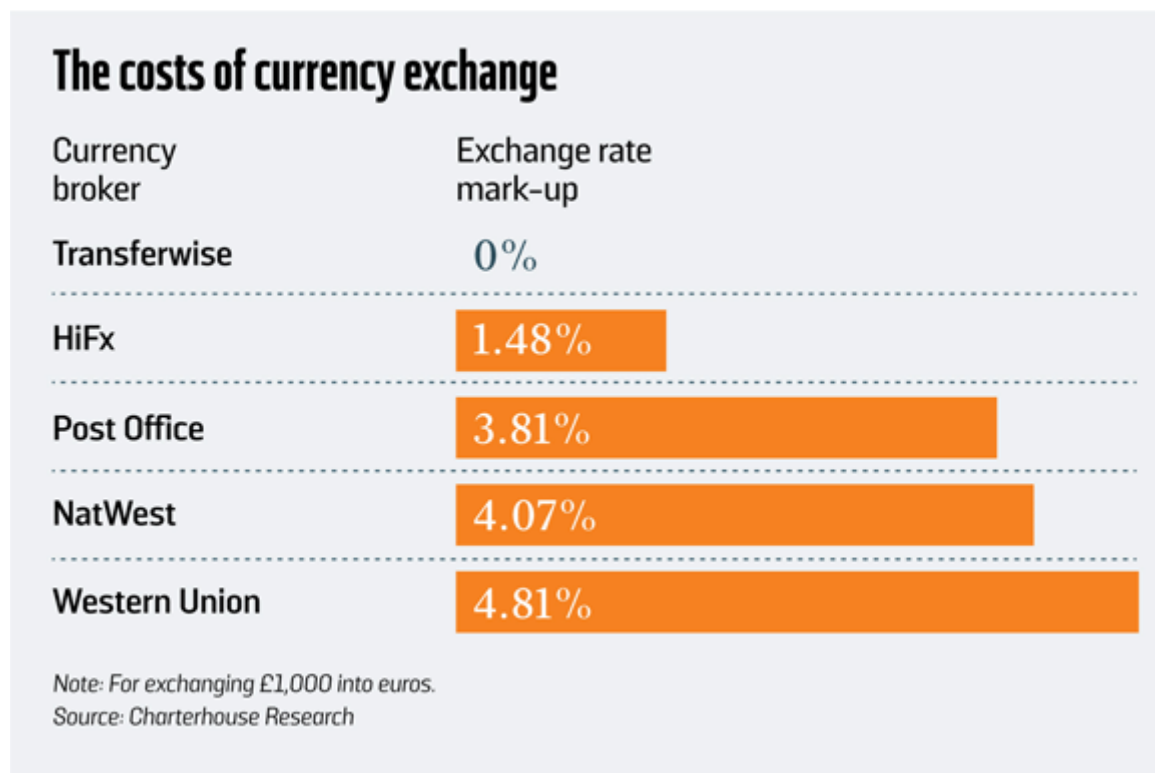
Transferwise, which charges an upfront fee rather than a margin on exchange, has uncovered the disparity in exchange rates and fees levied by high street banks and brokers — in some cases adding almost 10% to the cost. About £2.4bn is held in foreign exchange accounts by UK customers, according to the British Bankers' Association, with £700m held in euros.

The Transferwise research, carried out by the independent analyst Charterhouse Research, shows currency buyers miss out on the full benefit of currency movements because of the margins applied on conversion. These are on top of commission fees.

Some providers, such as Caxton FX, Lloyds International and the Post Office, advertise commission-free exchanges, but last week were profiting from a mark-up of 2.03%, 2.65% and 3.81% respectively on the conversion of £1,000 to euros. The taxpayer-backed RBS and NatWest, as well as Western Union, had a mark-up of more than 4% as well as commission charges. Kevin Mountford, banking expert at the comparison firm Moneysupermarket, said: "It's all about the total cost when you exchange currency. Wide variations between providers in both commissions and conversion rates can make comparisons difficult. A move to more transparent upfront fees is a step in the right direction."

Mountford said that banks dominate the foreign exchange market but have some of the worst exchange rates. "Most people still rely on their banks to transfer money abroad, but the convenience of doing so could prove costly. Working out the margin on exchange can be difficult, meaning they are effectively hidden from most consumers," he said.

The analysis comes as George Osborne, the chancellor, pledged last week to crack down on currency manipulation by bank traders amid fears the multitrillion-pound foreign exchange market was being rigged.



Transferwise, which entered the market in 2011, last week secured £14.7m backing from entrepreneur Sir Richard Branson, .

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A stronger pound coupled with falling mortgage rates is making overseas property purchases more attractive, according to International Private Finance, a foreign mortgage broker. On a typical €250,000 (£200,000) mortgage, monthly repayments have fallen by about £48 since the start of the year. Euro mortgages have fallen by about one percentage point this year in Spain, 0.55 points in Portugal and about 0.3 points in France.

Transferwise charges a 0.5% fee and no margin on the currency exchange, so customers benefit from exchange rates normally enjoyed by banks. Last week, exchanging £1,000 would have got you €62 less at a Western Union branch and about €53 less with RBS and NatWest, compared with using Transferwise.

The disadvantage is that you are not able to lock in rates now for delivery at a later date, a useful service for those looking to buy property in the future but who fear exchange rates may move against them.

Those who want to lock in rates now should consider forward contracts available from the likes of HiFx and World First, which provides Times Currency Services. These allow currency buyers to fix a rate, even though they do not need the cash until later — up to a year in advance. A forward contract will require a 10% deposit, with the balance paid on receipt of the cash.

Last week, World First had a 1.05% currency margin and HiFx 1.48%. World First does not charge a separate fee. HiFx waives its £9 transfer charge if you convert more than £3,000.

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Mrs Sharon Cons...

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Mrs Sharon Constancon

7 days ago

Many market players have been mentioned here, there are many more providing this service. The complication for the company or individual is choosing the right one and then being able to benchmark rates regularly - both time wasting exercises. Companies and individuals need to determine what they need and this often requires getting independent advice - either from internal expertise or outsourced treasury managers who learn to understand the intricacies of your needs and know the interbank rates and what are acceptable margins.

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Gentleman living in Surrey

7 days ago

We wouldn't have to undergo this pain in the EU if we had the euro.

Thanks to Gordon Brown the English are all missing out

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If the Scots have got the balls they should vote Yes to independence, and adopt the euro.

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Roger Dickinson

7 days ago

If I have money in the form of US Dollars (in America) and wish to bring this money over to the UK and convert it £UK what is the least expensive way to do this? Help with this would be really appreciated.

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