

# The Black Hole of Doing Currency Conversions

Banks can be an expensive way to exchange currency. There are better ways to safely send and receive money across borders.

BY ERIC UHLFELDER

IMAGINE depositing \$100,000 in a bank. A few days later, you find only \$96,000 in your account.

This is in essence a problem that many bank customers can experience when receiving foreign payments into a domestic account. What they expect to receive, based on the prevailing exchange rate, and what they actually end up with are often quite different amounts, because of expenses involved in converting currency.

For people who work for overseas clients, send money to loved ones abroad, buy property or invest in a different currency, pay for a student's foreign education or for child support abroad, or receive a foreign inheritance, this can be a big deal.

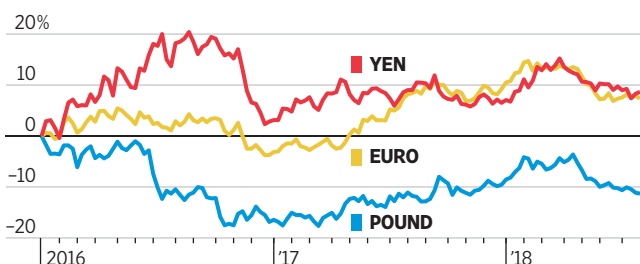
According to FXC Intelligence, a company that tracks foreign-exchange specialists and their rates, the cost of converting euros into dollars through leading U.S. banks recently ranged from about 3.2% to 4.6% of the euro amount being converted.

Why are such costs so high?

A small portion comes from service fees. But most of it comes from the spread between the interbank exchange rate—the rate at which banks transact with each other (published in newspapers and online)—and the rates at which banks convert foreign into local currency for customers. Large corporations and sophisticated investors typically se-

## Masking the Costs?

With cross rates always changing, it can be hard to judge the efficiency of trade executions. Euro, pound and yen vs. the dollar.



Source: Tullett Prebon

THE WALL STREET JOURNAL.

cure spreads just hundredths of a percentage point off interbank rates when converting major currencies. But for less-sophisticated clients, it's often another matter—and a surprise to those who don't realize how widely exchange rates can vary from the interbank rate and from bank to bank.

"Most Americans have limited familiarity with how foreign-exchange markets work," says Richard Levich, professor of finance and international business at New York University's Stern School of Business. And he finds even sophisticated clients can "get hit" by unexpectedly large spreads.

Darren Hutchinson, head of commercial activities in the Americas for the international-payment specialist **WorldFirst U.K. Ltd.**, agrees. "I find a common sentiment among Americans is they believe 'exchange rates are exchange rates' and all one needs to worry about are fees. But they would be mistaken, because the spread off the interbank rate is where the largest loss of value occurs."

Major banks including Citigroup, JPMorgan Chase, State Street and Bank of New York Mellon declined to comment for this article on the issue of spreads.

There are less costly alter-

natives to banks for currency conversions, including **World First** and **OFX Group**, among many others. Both OFX and WorldFirst are established, regulated, international money-transfer companies. Both can execute a €10,000 transaction or the equivalent (about \$11,680 at current interbank exchange rates) at a spread of 1% from the interbank rate with no additional fees, and they offer better terms with larger and more frequent activity.

"We've always been aware banks are expensive means for transacting foreign exchange," says Manny Parikh, controller at P.E. Guerin, a decorative-hardware manufacturer in New York. With 10% of the firm's business involving foreign-currency transactions, Guerin has limited its foreign-exchange-related costs to about 0.5% through WorldFirst.

Fxcompared.com is a helpful website, managed by FXC Intelligence, that compares the costs of currency conversions of more than two dozen international money-transfer companies it closely monitors.

*Mr. Uhlfelder writes about international capital markets from New York. He can be reached at [reports@wsi.com](mailto:reports@wsi.com).*