The great forex ripoff: how banks win twice on every foreign-currency transaction

By Harry Scherzer

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While factors such as remittances, illicit financial flows, foreign aid, and debt make it difficult to pull together an absolute number, it's safe to say that hundreds of billions of rands enter and leave South Africa every year.

Source: Supplied. Harry Scherzer, chief executive officer of Future Forex.

What’s harder to visualise is the many individual transactions that make up those hundreds of billions. Unless that is, you’re one of the businesses or individuals who make up the ecosystem from which these transactions ensue.

Maybe you’ve got a business that relies on imports and exports. Or perhaps you’re trying to emigrate financially or invest offshore. Whichever of those scenarios applies to you, chances are you keep a close eye on the relevant exchange rate every time you have to move money out of, and into, the country.

What you might not realise is that isn’t the only figure you should be keeping an eye on. Even if you’re a major corporation that’s managed to negotiate better-than-usual rates, your bank or forex provider is probably winning twice on every transaction without you even realising it.

Understanding the spread

In order to understand how they’re doing so, it’s worth taking a deeper dive into the fees you’re typically charged every time you make an international financial transaction.

The first can be broadly categorised as transaction fees. They’re usually charged as set fees and will be itemised in your transaction record. In other words, you should be able to tell how much those fees will cost you on every transaction before you’ve even made it.

Where things start to get a little murkier is with the exchange rate margin, sometimes referred to as the spread. In essence, this margin is the difference between the official exchange rate and the rate the bank is offering you. So, for example, if you’re importing a batch order of surfboards from the USA, the official exchange rate might be around R19.22 but the bank will charge you something like R19.44.

The thing is, that margin or spread is seldom implemented transparently. Some of it is genuinely the difference between the market rate and what the bank is able to offer (and there’s nothing wrong with that). A significant portion, however, acts as a sort of shadow fee that the bank charges on every transaction.

Now, the spread may not seem like a lot – it’s a matter of cents on every dollar (or any other global currency) – but on large transactions, the cost can actually be significant. In fact, on a transaction of more than R1m, you can end up paying upwards of R20,000 per payment.

If the transaction’s a one-off, you might be willing to just eat it. But if you’re paying that every month, it might be worth questioning whether or not you’re being ripped off. After all, if you're a business owner, that’s money you could spend on employee salary increases, operational improvements, or even expansion. And if you’re an individual making offshore investments, it could impact your future financial freedom (anyone who knows anything about compound interest will tell you that small amounts can make a big difference over time).

Look for transparency and more

But what should you do if you’re in a situation where you feel like you’re losing out on every international transaction?

The important thing to remember is that you’re not stuck. Just as you can find a better deal on insurance by shopping around, so you can with foreign-exchange transactions. The trick is to not simply switch from big bank to big bank. Taking that approach means that you’ll likely run into the same issues over and over again.

Instead, you should look for a forex service provider that is 100% transparent about the fees it charges and which has lower fees as part of its overall offering. You’re unlikely to ever get a company that doesn’t charge an exchange-rate margin but you can at least find one that’s completely transparent about it. That at least means that you have an added degree of certainty when it comes to your transactions.

Beyond transparency, you should look for a provider that has the right proprietary technology and strong relationships with its banking partners to give you the best currency-conversion rates. Additionally, the ability to ensure that each of your transactions meets Reserve Bank and Sars compliance guidelines should go without saying; so, for that matter, should personalised service, hassle-free onboarding, and instant conversions.

Stop getting swindled

It should be clear then that going the traditional route with foreign-exchange transactions isn't in your best interests. It should also be clear that this is true whether you're a business or an individual. If you want to avoid that scenario, then you need to start looking for a more transparent forex service provider. And you should start doing so immediately.

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