



## YOUR MONEY

### PURCHASING FOREX

# Compare exchange price offered by seller with interbank rate

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Reserve Bank of India (RBI) Governor Sanjay Malhotra recently flagged concerns over the wide gap in foreign exchange (forex) pricing between retail and corporate customers. He said these disparities were far greater than could be justified by operational costs alone. His comment underscores the need for retail buyers to exercise due diligence when purchasing forex.

#### Components of forex cost

The first element is the exchange rate. "Typically, banks trade foreign exchange with each other at what is called the mid-market rate or the interbank rate. This is the rate Google shows when you search for the exchange rate between two currencies. When you compare the mid-market rate with

the exchange rate offered by multiple providers, you may find that it differs significantly," says Shrawan Saraogi, Asia-Pacific (APAC) head-banking and expansion, Wise.

Next, banks charge a margin, which can be hefty in the case of some players. Over and above the exchange rate and the margin could be other fees. Goods and Services Tax (GST) also applies.

Additional charges may arise from the payment method. "If you are loading foreign currency onto a prepaid card, you may have to pay a small fee," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors.

#### Other charges

Pavan Kavad, managing director, Prithvi Exchange, emphasises the need to understand options like "beneficiary"

charge and "our" charge. Beneficiary charge is levied by the bank receiving the money abroad. As a result, the recipient may receive less money than was sent.

Some players may not reveal this fee upfront to the customer and later blame the receiving bank for deducting it. Choose the "our" option to ensure you pay all the fees and the recipient gets the full amount.

An "hour-based fee" also exists, charged by the sender bank. It is based on urgency or time of day. You can avoid it by planning your remittance ahead of your deadline.

Forex card users should beware of dynamic currency conversion (DCC). "When you withdraw money from an ATM or swipe your card abroad, the machine may prompt you to go for the DCC option. It is best avoided," says Kavad. DCC pro-

viders often use an unfavourable exchange rate.

#### Pricing gap

As explained earlier, a margin is often embedded in the exchange rate offered to retail customers (by pegging it higher than the mid-market or interbank rate). "Retail customers are often not aware of the spread they are being charged," says Dhawan.

"On average, globally, banks charge a 7 per cent margin. In India, even some top-tier banks charge a 3-5 per cent margin. On average, across the globe, we charge customers 0.6 per cent or less," says Saraogi. He adds that the rate difference between corporate and retail clients can range from 3 to 5 per cent.

#### What should you do?

One way to assess how much you paid in fees is to compare the amount sent with the amount received. "Suppose you send ₹1 lakh. Check what the person at the other end receives. That is the effective price you are paying," says Saraogi. Alternatively, compare quotes from various providers for sending a specific amount. Review past remittances as well for unexpected deductions by the receiving bank.

Finally, factor in the speed of remittance. "Some traditional players may take a few days to transfer the money, whereas others may do so within minutes or hours," says Saraogi.

### MISTAKES TO AVOID WHEN BUYING FOREX

- Failing to allocate sufficient time to explore multiple options
- Accepting the first available rate without comparing across providers
- Purchasing forex at expensive locations like airports or hotels
- Not engaging with the provider's relationship manager to negotiate better rate

## How to spot a genuine Sebi-registered financial advisor and avoid scams

Investment-related scams, many involving elderly, have seen an alarming rise. In most cases, fraudsters masquerade as financial advisors and lure investors with promises of guaranteed returns. However, spotting a Sebi-registered investment advisor is not that difficult.

#### Letter of Engagement: Your first line of defence

Under the Sebi (Investment Advisors) Regulations, 2013, all Registered Investment Advisors are legally required to enter into a formal agreement with their clients before offering any financial advice or collecting

fees. The document is known as a Letter of Engagement (LoE). What you should remember

- Never invest based on cold calls or messages promising "guaranteed" returns.
- Insist on the Letter of Engagement and never

make any payments before signing it.

- Ask questions: A competent advisor will welcome your curiosity and explain their advice in terms you understand.
- Verify the advisor's Sebi registration number on the official Sebi website.
- Report any suspicious

activity to Sebi or the investor helpline immediately.

**Verify registration on Sebi's official website** Before engaging with an investment advisor, ensure they are registered with Sebi. You can verify this by visiting the Sebi website and searching for the advisor's details.