Managing Cross-Border Payment Costs, Risks and Efficiency

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Globalisation is accelerating the flow of people, goods and services, capital, energy and information across country borders. For a multinational corporation, the impact of globalisation extends further than the opportunity to expand into new markets: it involves new ways of doing business, creating strategic and operational challenges and opportunities. Treasurers have a pivotal role in facilitating their company's global expansion and supporting changing business models, creating the backbone for supplier and customer engagements by enabling efficient, cost-effective payments and collections. Innovations in cross-border payments are a prime example of how business trends are changing. In a growing number of businesses, traditional treasury mechanisms for facilitating cross-border trade no longer support these emerging business models effectively, necessitating new techniques and approaches.

Increased costs, reduced efficiency

Cross-border payments are typically considered by treasurers as a challenging but necessary condition for doing business. These challenges include:

Cost. Cross-border payments are more expensive than domestic payments, and it is often difficult to assess and deduce charges incurred through multiple correspondent banks, leading to a loss of value and a lack of visibility and auditability.

Information. As payment messages are transferred between banks and across borders, information held on the payment may be truncated or the detail lost, making payments and collections more difficult to reconcile.

Complexity. As companies work with a growing number of suppliers worldwide, the number of accounts that the company has to open and maintain frequently proliferates, resulting in growing administration and control issues.

Risk. By maintaining multiple foreign currency accounts, the company is exposed to FX risks and may need to exchange currency to fund supplier payments, which adds cost and administrative effort.

Changing nature of supply and demand

These challenges directly counter treasurers’ and finance managers’ objective to achieve cost-effective, highly automated
Insight

Box 1: Case Study: Eliminating risk, maximising efficiency in cross-border payments

Business challenge
An independent provider of port cost management services to the shipping industry has developed a highly competitive, and rapidly growing service for enabling prompt, convenient payments from shipping companies to port agents at the point of ship docking for voyage-related costs. Missed or delayed payments could result in ship detention or arrest and high daily charges. Although shipping services are typically denominated in USD, port charges are charged in local currencies, leading to considerable FX risks and costs.

Citi’s solution
Citi provided the company with an electronic file upload solution that enables the immediate processing of multiple payments with different formats, currencies and beneficiaries. As the solution uses SWIFT MT 103 messages, payment beneficiaries receive a payment confirmation, enabling vessels to clear ports without any delay.

The result
Following an implementation of only two months, the solution enables cross-border payments to be made to port authorities in the appropriate format and currency, minimising the associated administrative burden, operational or FX risks. As a result, the company has achieved close to 100% straight through processing rates. Furthermore, the company’s shipping company clients are also cushioned against the risk and cost of FX conversion. The strength of the solution enables the company to offer a highly competitive, attractive service to its clients and therefore expand its offering further.

end-to-end payments processing. Traditionally, companies have tried to mitigate some of the challenges of international payments by paying suppliers in their base currency or another major currency such as USD, therefore minimising the number of currencies and accounts they need to maintain. However, as new business models emerge, the nature of supply and demand is changing dramatically for certain industries. For example, in the past, suppliers to a large technology company may themselves have been medium- or large-sized companies, with a similar degree of financial sophistication. Today, distributed development of applications for mobile and tablet devices and the growth of open source development mean that suppliers could be micro businesses or individuals located in any part of the world. These companies or individuals may not be in a position to accept foreign currency payments. Furthermore, it would be prohibitively expensive and administratively intensive to collect bank account details (which may only be used once or on an ad-hoc basis), maintain local accounts and/or make cross-border payments to these suppliers, often for very small amounts.

A similar challenge relates to collections. In many industries, companies have historically adopted a distributor model, so collections are typically large, regular amounts received electronically from distributors or agents. Increasingly, companies are engaging more directly with the end customer, such as through eCommerce models. This means that companies increasingly need to be able to manage smaller collections through a wider variety of payment methods and currencies. This includes domestic payment methods, which may be cash or manual payments but increasingly new forms of electronic payments such as mobile payments.

Macroeconomic changes are also shaping new cash flow dynamics. As companies expand their business in emerging regions such as Asia and Latin America, gradual market liberalisation and currency deregulation in countries such as China and Brazil mean that treasurers and finance managers can no longer rely on making and receiving payments to/from importers and exporters in USD or EUR. Instead, they need to be able to support RMB or BRL in order to maintain their competitive position, without loss of efficiency or control. Regulatory changes are not only an issue in emerging markets. The migration to SEPA (Single Euro Payments Area) in all Eurozone countries will mean that SEPA Credit Transfers and SEPA Direct Debits will replace existing domestic payment methods by 2014. While the aim of SEPA is to reduce costs and fragmentation across the Eurozone, and to facilitate intra-regional trade by eliminating cross-border payments within the Eurozone, companies outside of this area will need to review how they make payments to Eurozone countries to leverage the opportunities for standardisation and reduced costs.

New payment models for changing times
Shifting business paradigms have the potential to create further risk, complexity and cost to payment and collection processes unless treasurers and finance managers adopt a similar degree of innovation in the way that they do business. There are a variety of ways in which they can achieve this. Payments centralisation, through a payments factory or shared service centre is often an important element of an effective payments strategy, but centralisation alone does not solve the challenge of cross-border and international payments.

Leveraging the network. One important element in achieving an efficient global payments infrastructure and mitigating
the challenges associated with cross-border payments is to work with a bank with an extensive global network. For example, at Citi, we enable our clients to reduce the cost and data attrition associated with correspondent banking as we are typically able to transmit the majority of payment instructions across our branch network, reducing correspondence fees and ensuring the completeness and accuracy of data.

Simplifying cross-border payments. Leveraging a global network has other advantages too; for example, as the illustration in box 1 demonstrates, treasurers and finance managers have the opportunity to instruct a wide variety of cross-border payments through a single channel and a single file, irrespective of the ultimate format, currency and beneficiary. The bank then makes payments locally, using electronic, manual payments or cash as appropriate.

Multi-currency payments. Not only can treasurers and finance managers facilitate global payments more cost-effectively, but they can also do so without the need to open accounts in each currency, therefore minimising currency risk and simplifying account structures and administration. For example, Citi’s WorldLink® Payment Services enables companies to make payments and receive collections in 130 countries from a single account, across a wide variety of payment methods, whether manual or electronic. This is a powerful proposition for corporates, public sector bodies, non-government organisations and financial institutions alike, as it provides a framework to facilitate international growth reducing any additional cost or complexity.

Bespoke solutions. Increasingly, treasurers and finance managers need payment and collection solutions that are specific to changing business models, without compromising their objectives of centralisation, standardisation and efficiency. As the examples in boxes 1 and 2 illustrate, combining proven yet innovative solutions in a way that is unique to each company, and therefore addressing each company’s specific requirements, is rapidly becoming essential to enable the company to respond to changing market dynamics.

Globalisation in its many forms continues to transform the way that corporations do business. From market and currency deregulation, the emergence of new supplier and consumer markets to digitisation and technology innovation, new business challenges and opportunities are being created for corporations globally. Treasurers and finance managers need to be in a position to support the company’s commercial activities by providing efficient payments and collections. This increasingly involves innovative solutions that support competitive, flexible and global business models whilst maximising efficiency, control and risk mitigation. Working with a bank with a global network, a significant level of payment expertise, and bespoke solutions that combine both proven capabilities and continuous, commercially relevant innovation to corporations is critical to achieving this objective successfully.

Box 2: Case Study: Streamlining global payments

Business challenge
A leading, diversified global IT company headquartered in India sought to establish a shared service centre (SSC) to increase efficiency and control over global payments processing, and increase the use of electronic payments over cheques wherever possible.

Citi’s solution
The company has worked with Citi to enhance its SSC operations and now makes payments on behalf of the company in over 30 countries across a full range of payment methods, including supporting the group’s activities in North America, Latin America and Central & Eastern Europe.

The company uses Citi’s WorldLink® Payment Services solution in the UK to make foreign currency payments from a single account; and in the US for automating the production of cheques to suppliers, without additional administration or FX risk.

The result
The company has been able to expand the geographic reach and scale of its activities whilst further streamlining its processes, reducing costs, increasing standardisation and enhancing controls. One hundred per cent of payments in India and the UK, which are the company’s largest markets, are now made electronically through the direct file format connection, which is rapidly being extended to payments in other currencies and markets. Foreign currency payments have now been automated and require far less administration, enabling resources to be reallocated to more value-added tasks.

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