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Deutsche Bank

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Build Cost Savings, Pricing Transparency into Cross-Currency Payments

Each year European corporations initiate billions of euros in payments with a foreign exchange (FX) element. Unfortunately, these cross-currency transactions are often processed in an inefficient — and unnecessarily costly — manner.

In fact, in the midst of these hard economic times, some companies are paying hundreds of thousands of euros more than is necessary for cross-currency payments.

Why So Costly?

There are many reasons why, using traditional processes, that cross-currency payments are so costly, both in terms of time and money. Some revolve around the need to maintain multiple local currency accounts, as many as one in each country where you make payments. Multiple bank accounts result in multiple account maintenance fees and additional audit fees and time-consuming reconciliation duties.

What's more, often your primary bank provider may not support local currency accounts in each of the countries where you send payments. The need to use multiple banks requires you to manage multiple bank relationships and adopt a number of electronic banking systems, each with different formats, security and communication interfaces.

The traditional process for making these payments is also time-consuming because it requires two steps. First you conduct a foreign exchange trade to fund the local currency account. Then, in a distinct second step, you initiate a wire transfer out of that account. This second step may require you to go to another system to match the FX deal information to the underlying settlement and/or payment.

In addition, the foreign exchange rates that banks offer on these transactions are often much higher than prevailing market rates. In a traditional manual environment, a bank may have to charge a significant spread over live market rates to hedge against intraday currency volatility.

For many companies, costs related to sub-optimal exchange rates can go unnoticed, or are simply not tracked, since FX payment costs are not accounted for in profit-and-loss statements. But these costs can be quite significant and in many cases can be material.

Global Platform Offers a Solution
Deutsche Bank offers a solution in the form of FX4Cash, a global foreign exchange and payments processing platform. FX4Cash allows corporations to make local payments in 126 different currencies — 50 were added last summer — across more than 160 countries using only one or two primary funding accounts. Furthermore, FX4Cash streamlines cross-currency payments by combining the FX trade and settlement aspects of processing into a single flow.

Many corporations now benefit from substantially reduced costs on FX transactions due to FX4Cash's real-time pricing capabilities and greatly improved transparency. Deutsche Bank can provide competitive live market rates to FX4Cash users, because the Bank doesn't have to build in a spread to cover intraday volatility risk on FX4Cash transactions.

The platform supports a range of front-end client access payment channels, including host-to-host file transmissions, electronic banking systems and SWIFT.

PSD Mandates Pricing Transparency
FX4Cash also will enable corporate treasury managers to take advantage of FX pricing transparency mandated by the Payment Services Directive (PSD). The PSD creates a uniform European legal framework for payment transactions, harmonising customer protection and the rights and obligations for payment service providers and users.

Today, if you are a corporate treasurer in Belgium and you send a payment through your bank to Great Britain, the bank is not required, prior to execution of that transaction, to report to you the exchange rate that will be applied. However, beginning in November, the PSD will mandate that banks offer transparent pricing, and FX4Cash will enable corporates to take advantage of that transparency.

Active Client Funding
Deutsche Bank continues to invest in FX4Cash to address market needs. One recent enhancement is active client funding. This new feature means a company no longer is required to have an account with Deutsche Bank to use FX4Cash. For example, a company that has accounts with another institution can send Deutsche Bank a single euro payment each day to cover all of its US dollar wires that day.

We firmly believe that most multinational businesses that have a need to manage cross-currency transactions can benefit from FX4Cash. Just a few examples of likely candidates are airlines, shipping companies and firms that have large volumes of overseas payroll payments or overseas payments to or from suppliers and customers, or that make large numbers of pension and dividend distributions to overseas retirees and shareholders.

To learn more about how FX4Cash can help you to reduce the costs and inefficiency associated with cross-currency payments, and to take advantage of transparent pricing, contact a Deutsche Bank Cash Management Sales Representative.