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Deutsche Bank

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Introduce Greater Efficiencies To Processing Cross-Currency Payments

Each year corporations initiate billions of dollars in payments with a foreign exchange (FX) element. In fact, according to epaynews.com, about 8% of all payments are cross-border transactions. Unfortunately, cross-currency transactions are often processed in an inefficient and costly manner.

Cross-currency payment inefficiency can be a problem for most large corporations in today's global economy. Many companies make cross-currency transactions that range widely in both size and purpose.

For instance, your company might have a vendor in the Philippines that wants to be paid in peso. Or maybe you have international payroll — even if it's just a single US–based employee on temporary assignment in Paris.

Other common reasons for cross-currency payments are pension and dividend distributions to retirees and shareholders living outside the United States, overseas royalty payments and funding international subsidiaries.

Why So Costly?

There are many reasons why, using traditional processes, 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 time-consuming reconciliation duties.

What's more, 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 could require you to adopt a number of electronic banking systems.

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.

Working Capital Management, Translation Issues

The traditional means of making cross-currency payments also can lead to deficiencies in working capital management. The problem is that you can end up maintaining idle balances in accounts all over the world. In addition to the opportunity cost related to lost interest, these idle balances can create translation risk.

An example would be if your company knew it was going to be making payments in the coming year in Thai bhat and funded a local currency account with the equivalent of $500,000 in bhat. Then, for unforeseen reasons, you only have Thai bhat payments equivalent to $50,000 that year. That leaves several hundred thousand dollars worth of bhat sitting idle in your account. Due to in-country currency restrictions, if you trade the bhat for dollars you might lose 10% or 20% on the transaction.

Maintaining multiple local currency accounts can also incur translation costs when the value of those accounts must be reported each quarter and currency fluctuations are unfavorable.

Global Platform Offers a Solution

Deutsche Bank offers a solution in the form of a global foreign exchange and payments processing platform, FX4Cash.

FX4Cash allows corporations to make local payments in 77 different currencies while using only one or two primary funding accounts. Furthermore, it streamlines cross-currency payments by combining the FX trade and settlement aspects of processing into a single flow.

FX4Cash addressees other challenges posed by cross-currency payments by integrating them into a company's existing payables processes.

The platform supports a range of front-end client access payment channels, including host-to-host file transmissions, electronic banking systems and SWIFT — for corporations that leverage the SWIFT Member Administered Closed User Group (MACUG) structure.

Different Ways to Use FX4Cash

One Fortune 100 corporation in the oil and gas industry is using FX4Cash to make cross-currency vendor payments, shipping-related payments and payments to contractors and other partners around the world. The company is initiating these payments through a daily host-to-host file transfer, leveraging true straight-through processing.

The product's versatility is illustrated by another client, a multinational firm leveraging FX4Cash through Deutsche Bank's db-direct internet electronic banking system. The company is using the platform to centralize and aggregate FX payments originated by its subsidiaries across the globe.

This corporation gives subsidiary personnel the ability to input FX payment instructions. The US headquarters aggregates all of the payments on behalf of the subsidiaries into one or more FX trades to gain an enhanced exchange rate, as well as visibility and control of the payment flows.

To learn more about how FX4Cash can introduce greater efficiency into your cross-currency payment process, contact your Cash Management Sales Representative.