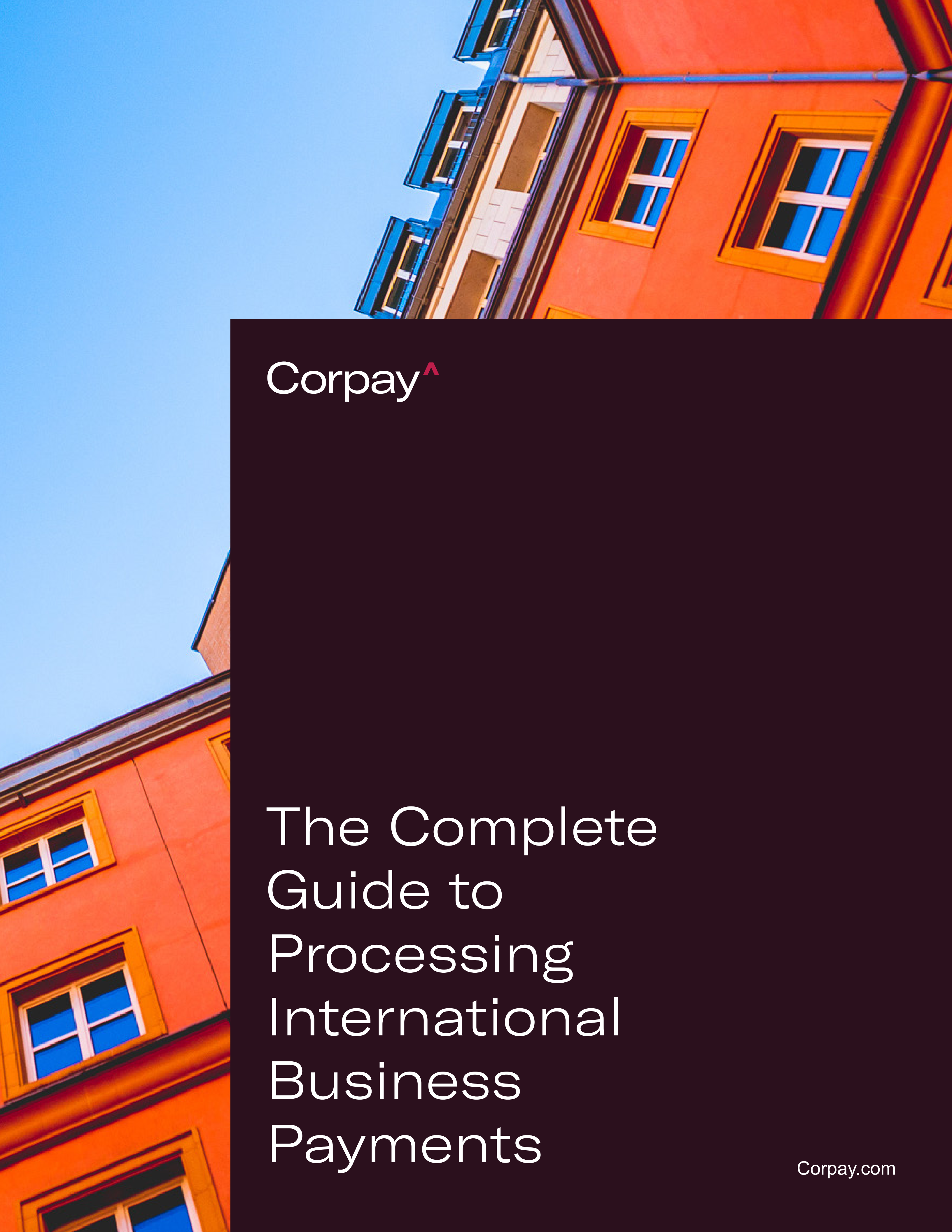


Corpay

The Complete Guide to Processing International Business Payments

Corpay.com

Evaluating Your Cross-Border Payment Cost & Efficiency

Do you want to maximize the efficiency of your payments operation?
Our guide will help you evaluate and streamline your cross-border payments processes and costs.

Contents

Introduction

How to evaluate your organization for the following:

- □ Calculating the Cost of Your Payments
- □ Tips for Improving Efficiency
- □ The Location of Funds
- □ Fees and Charges
- □ Foreign Exchange Exposure and Risk

Conclusion & next steps

Introduction

As businesses gain better access to the global marketplace through technological advances, the need for efficient cross-border payment processes is increasing. It's a tricky balancing act when you want to be an agile company, but also need to stay efficient and keep your customers and suppliers happy. What can you do if you feel current cross-border payment processes and technology are out-dated and not meeting the needs of your business? Start by analyzing how efficient your payments are, and then decide where to make improvements.

Why is it so hard to be efficient when it comes to cross-border payments?

With the best will in the world, there are so many factors that impact an organization's cross-border payment efficiency – both external and internal.

External factors may include:

- Tighter regulation
- Different information requirements for
- payments in different jurisdictions
- Different banking standards in different jurisdictions
- Foreign exchange volatility

Internal factors may include:

- Managing cash flow
- De-centralized vs centralized accounts payable (AP) teams
- IT resource for the integration of payment platforms with legacy accounting and enterprise resource planning (ERP) systems
- Lack of visibility and transparency on payment costs & charges
- Managing multiple banking relationships and multiple banking systems

So what is the true cost of your organization's cross-border payments? In order to get a full picture there are several key areas to evaluate: processes, location of funds, fees and charges, and foreign exchange exposure and risk.

Let's take a look at each one in detail.

Payment Processes: How to Evaluate?

You may find that most of your hidden cross-border payment costs are buried in your payment processes. Inefficient processes may result in slow payment runs, higher staff costs and a greater potential for error. For example, switching from paper to electronic invoicing can lower processing costs by 33% according to a PayStream report (1). An AIIM report on invoice processing put this figure even higher at 50%, and showed making the switch to electronic invoicing can also boost staff productivity (2).

Risks of Relying on Manual Input

Manual input means some level of manual data entry is required in your procure-to-pay (P2P) process. As well as being more time-consuming than an automated process, manual input carries a number of risks that stem from the human element. Some of these potentials are:

Manual Keying Errors
Such errors are common and may occur when entering beneficiary bank details, quantities, currencies and even values.

Security Breaches
Whereby staff members are able to maliciously manipulate payment information.

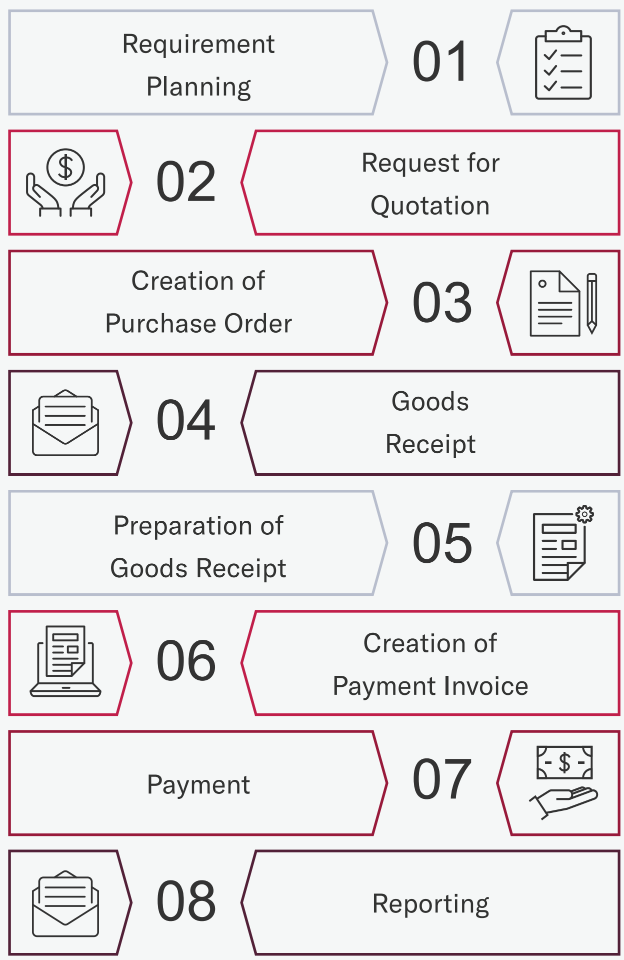
Weak Audit Trail
If processes take place outside of a system, or within a legacy system, there may not be a sufficient audit trail for tracking activity.

How to Evaluate Your Current Payments Processes?

One way is to start by mapping out your current P2P process. Identify the systems and staff necessary at each stage, and then highlight any areas where manual input takes place.

Procure to Pay Cycle

Please refer to the folloing page for a diagram of the procure-to-pay cycle.



* (Procure-to-pay (P2P) cycle diagram source: https://www.invensis.net/blog/wp-content/uploads/2015/04/Procure-to-Pay-Cycwle1.jpg)

Here are Some Examples of Where You May Find Inefficiencies and Manual Input

Whether you receive a paper or electronic invoice, your AP staff may need to manually key the details into your accounting software or ERP system. Such details may include quantity, timing and value.

Invoice Processing

Whether you receive a paper or electronic invoice, your AP staff may need to manually key the details into your accounting software or ERP system. Such details may include quantity, timing and value.

New Supplier Entry

When you take on a new supplier you may need to manually input their details, such as name, address and tax information. You may also need to input their bank details into your accounting or ERP system.

Beneficiary Bank Details

You may need to enter information into your bank payment provider's system, such as new or updated supplier bank details.

Reconciliation

Once a payment has been remitted you will need to update your accounts system to ensure the value leaving your bank account matches the value of the invoice. With multi-currency transactions, you may need to manually update the value in the accounting system if the foreign exchange rate has impacted the value of the payment leaving your bank account.

How to Calculate the Cost of Your Payment Process?

When manual input is needed it can increase the time it takes to carry out a payment run. To understand the impact of your manual processes you need to calculate their cost to your organization.

Factors You Might Consider

01 How many members of your team are responsible for supplier payments?

02 How often does your business make payment runs?

03 Roughly how many hours does your team spend processing payment runs per month?

04 Are your cross-border payments part of your domestic payment run?

05 How long does it take your team to reconcile payments?

06 What percentage of your payments are cross-border vs domestic?

Calculating Cross-Border Payment Processing Costs

To estimate the cost of your cross-border payment process, use this rough calculation:

Employee Cost Per Hour

$40,000

Average entry-level AP Clerk gross salary*
*Glassdoor August 2018

$44,000

Add 10% to include benefits (employer contributions to pension plans, unemployment insurance, etc)

$897.96

Divide by 49 working weeks
(factoring in holidays)

$25.65

Divide by 35 hours per week
(excluding 1-hour lunch breaks)

Note: These numbers are estimates intended to give a broad indication of costs involved rather than an accurate, detailed account. These amounts are based on a Canadian data. US numbers would be different, but the basic situation would be the same.

Monthly Payment Run Cost

Number of staff on payment run

Number of hours on payment run per month

Employee cost p/h
(see graphic on the left)

% Cross-border payments vs domestic payments**

**If your cross-border payments are part of your domestic payment run.

Tips for Improving Efficiency Around Payment Processes

The majority of manual processes involve transferring data from one system to another. **The easiest way to automate the process is through a level of system integration.** A simple way of doing this is generating a file from one system and mapping it across to the other system. A more advanced way of doing this is setting up an application program interface (API) that allows the two systems to talk to each other. Any level of integration will require internal IT resource, however working with an alternative payments provider can reduce burden on your internal IT team if resource is tight.

Paper and electronic invoices can be processed automatically using optical character recognition (OCR) and other scanning technologies. These read the content of the invoice and automatically populate the relevant fields within your accounts package or ERP system.

There are vendors that offer solutions to automate one or more of your AP processes from invoice processing through to reconciliation. More often than not their software can be integrated with existing systems within your organization.

Your payments provider should have the capability to accept a file from your accounting software or ERP system populated with all the payment and beneficiary data. They should also carry out some level of verification to ensure the payment details are valid, so there is less chance of the payment failing.

Location of Funds: How to Evaluate?

Where you hold funds can have a significant impact on the cost and efficiency of your payment operation. Businesses operate in a number of different ways, and this is often down to legacy processes that have not been updated in line with the evolving business model.

Local Currency Account Only

Generally, smaller businesses will operate all their payments, including cross-border payments, from their sole local account. Where foreign currency payments are being made the foreign exchange rate will be applied at the time of transaction.

Incoming payments will also arrive into this account. Where foreign currencies are received they will automatically be converted back to local currency at the bank's daily foreign exchange rate.

What you might want to consider:

- If you're sending and receiving payments in a currency other than local currency it may be a good idea to set up a currency account. This will help you avoid the impact of foreign exchange spreads on the value of your payments and receipts.
- The cost of receiving foreign currency payments into your local currency account will generally be high as the applied foreign exchange rate is unlikely to be competitive.

Locally Held Foreign Currency Accounts

Business who make or receive payments in currencies other than local currency will often hold additional currency accounts. Such accounts that are used only for making payments may not be the most cost-effective method of managing cross-border payments.

What you might want to consider:

- Businesses need to maintain a balance in the account, which has a direct impact on cashflow.
- The value of the currency in the account will need to be translated into local currency for end-of-year financial reporting.
- Moving currency into the account adds an additional step into the payment process.

Foreign Bank Accounts

Businesses who have operations in different countries will often set up local bank accounts in those countries managed either by their in-country employees or centrally.

What you might want to consider:

- Cost and compliance can sometimes be a barrier to setting up in-country bank accounts for your business.
- If the jurisdiction is not self-funding, the local currency account will need to be topped up on a regular basis.
- The currency held in the account will need to be re-valued during key financial reporting periods.
- If managed centrally, payments will need to be processed via a separate banking system. Depending on the banking standards, this may be a manual and time-consuming process.

Tips for Improving Efficiency Around Location of Funds

The overall cost of setting up and maintaining foreign bank accounts to reduce payment costs may be more expensive and time-consuming than holding locally based currency accounts and making cross-border payments.

Working with a single global bank can help when setting up foreign bank accounts from an administrative perspective. Look for the ability to manage all of your in-country bank accounts on one online platform from one view.

Some alternative cross-border payment providers offer online currency balances so you won't need to set up currency accounts with a bank.

Some alternative cross-border payment providers have access to in-country payment networks, which can help reduce payment costs.

Fees and Charges: How to Evaluate?

We recommend taking a look back at the last 12 months to assess the charges being levied by your bank or payments provider.

Here's a Breakdown of Some of the Fees and Charges You are Likely to See

- **Outgoing Transaction Fees**
  These are the fees your bank charges you for making an international payment. Your bank or payments provider will be transparent about these and they should appear on bank statements and remittances. It can be a flat fee (per payment) or a percentage of the value of the payment and can vary depending on the destination of your payment.

- **Incoming Transaction Fees**
  These are the fees your payments provider charges you for receiving cross-border payments into your bank account. These should be shown on your bank statement and any remittance your provider sends you. It can be a flat fee or sometimes a percentage of the value of the payment received.

- **Charges Incurred for Errors**
  If you send a payment that does not reach the intended beneficiary you may be charged by your bank to return the payment. The payment may be returned minus any intermediary bank charges.

- **Foreign Exchange Rate Incurred for Errors**
  If your payment requires a currency conversion and does not reach the intended recipient you will incur the loss of the foreign exchange spread. For example, on a CAD to USD conversion the CAD will be converted to USD and then back to CAD when returned to you. When you resend the payment you will incur the cost of the spread again. In this example, the three foreign exchange conversions could lead to a loss of 6% or more of the transaction value.

- **Investigations**
  If your payment requires a currency conversion and does not reach the intended recipient you will incur the loss of the foreign exchange spread. For example, on a CAD to USD conversion the CAD will be converted to USD and then back to CAD when returned to you. When you resend the payment you will incur the cost of the spread again. In this example, the three foreign exchange conversions could lead to a loss of 6% or more of the transaction value.

Tips for Improving Efficiency Around Fees and Charges

Using your bank is typically more expensive than using an alternative international payments provider.

Using a payment provider with in-country accounts can reduce charges.

Many alternative payment providers will charge a flat fee for payments irrespective of location and offer a free investigation service if there are any issues.

Make sure the full value of the payment reaches your supplier. If the beneficiary receives a smaller payment than they were expecting, it may affect the supplier relationship and mean your AP team has to deal with more queries.

Foreign Exchange Exposure and Risk: How to Evaluate?

Foreign exchange exposure and risk is common when sending and receiving cross-border payments. Most suppliers prefer to receive payments in their local currency to avoid currency risk and the cost of converting the currency. Likewise customers based in countries not domestic to you, will prefer to send their own currency to you.

Due to global economic uncertainty there is a lot of market volatility. Unless risk is managed, you may experience material losses and damage to your profit margins. Calculating your currency exposure is fairly simple and will help your business protect itself from currency market volatility in the future.

Here are Some of the Scenarios to Consider

- **Sending Foreign Exchange Payments:**
  If you need to pay an invoice in a currency different from the originating currency, the foreign exchange rate is applied at the point you approve the payment. However, some banks will apply a daily rate which you will discover a couple of days later on your statement.

- **Receiving Foreign Exchange Payments:**
  If the received currency does not match the currency of the account the account provider will automatically apply the foreign exchange rate.

- **Sending and Receiving Payments Using Currency Accounts:**
  If you are sending and receiving payments in the same currency, currency accounts are the most effective way of managing foreign exchange risk. However, if income and outgoings don't balance each other out, at some point in the year you will need to either

  - Fund the currency account, or
  - Convert excess currency back into your operating currency

Looking back at one year's worth of payments, you should be able to produce a report detailing all the currencies you send and receive and get a good idea of your currency risk.

How to Calculate Your Foreign Exchange Exposure

Calculate the volume of each currency you send on a monthly, quarterly and annual basis.

Calculate the volume of each currency you receive on a monthly, quarterly and annual basis.

To calculate your exposure: subtract the volume of currency you receive from the volume of currency you send during that period.

- Minus figure? You have a currency deficit. This indicates you will need to purchase currency to manage the deficit.
- Positive figure? You have a currency surplus. This indicates you will need to sell currency back to your operating currency.

Depending on the nature of your business you will gain more value from evaluating your currency exposure and risk over shorter or longer periods. If your costs and revenue are predictable you may gain more value from looking at exposure and risk over a longer-term basis, e.g. six or 12 months. If you have a very seasonal or less predictable business, assessing your risk on a monthly basis may be more appropriate.

Ways to Consider to Mitigating Your Foreign Exchange Exposure Risk

Once you have evaluated your foreign exchange exposure and risk you can look at ways to successfully mitigate them, such as:

- **Loading Your Currency Account:**
  Buying bulk sums of currency enables you to fix the rate on the currency for your payment run. This may be an option for very cash-rich businesses, but for normal businesses it can have a significant impact on cash flow.

- **Hedging:**
  Forward contracts and other derivative products enable you to fix the currency rate so you have certainty over the local currency value of your payments over a specific time period (irrespective of currency market movements). Typically you will only need to pay a deposit of up to 5% to fix the currency rate, diminishing the impact on cash flow of loading your currency account. You can hedge larger volumes of currency to cover your annual currency risk. Alternatively, some providers will allow you to hedge on a payment-by-payment basis giving you certainty that your payment value will match the invoice value.

- **Balancing Your Currency Account (Natural Hedging):**
  If you have good relationships with your customers/suppliers you could ask them to pay or invoice in a different currency so you can balance the outgoing and incoming currency in your account. This is sometimes referred to as a natural hedge.

Tips for Improving Efficiency Around Foreign Exchange Exposure and Risk

The foreign exchange rate applied to payments varies from supplier to supplier. It is worth monitoring this to make sure you are getting the most competitive rate.

Some alternative payment providers offer you the ability to manage your foreign exchange risk and exposure within their platform. This can be an extremely efficient way of making sure you have covered your risk and will also assist with forecasting.

Holding currency accounts with a bank can be expensive. Alternative payment providers offer currency balances within their platform that remove the time and cost of setting up and managing currency accounts with your bank.

References:
PayStream Invoice and Workflow Automation Benchmark Report: http://downloads.tradeshift.com/Final%20IWA%20Benchmarking%202013%208.30.13%20(1).pdf

Overcoming the Top Pitfalls of Manual Invoice Processing: http://www.aiim.org/pdfdocuments/pitfalls.pdf

Book Your Free Cross-border Payment Cost and Efficiency Consultation Today!

You should now have a clear understanding of the total costs of your cross-border payments and how efficient your processes are. This should put you in a good position to evaluate your current payments provider and decide whether they are cost-effective and able to meet your organization's needs. You may decide to switch to an alternative cross-border payment provider for greater efficiency and a better overall experience. We would be delighted to evaluate your cross-border payments and discuss how your organization would benefit from using an alternative provider.

Contact one of our experts today at connect@Corpay.com if you would like a free consultation of your cross-border payment processes.

Corpay.com

1 "Corpay" in this document refers to one or more of the following legal entities (all of which use the trade name Corpay): Cambridge Mercantile (Australia) Pty. Ltd.; Cambridge Mercantile Corp.; AFEX Offshore Ltd.; Associated Foreign Exchange (Singapore) Pte. Ltd.; and Cambridge Mercantile Corp. (U.S.A.).