International Business Payments: The Obstacles And The Options

IT'S WELL INTO THE 21ST CENTURY. BUSINESS HAS NEVER BEEN SO INTERNATIONAL.

You'd think that paying a company in another country would be routine by now Unfortunately, that's not the reality for most businesses today. Instead, international payments are tricky, expensive, and slow. Worst still, you never know the exact cost of an international payment until the transaction is complete. So, your suppliers get nasty surprises and your cash management is based on guesswork.

For domestic payments, this has all been solved. If you're paying a business in your own country, you've got a choice of relatively low cost and efficient payment options. But the situation for cross-border payments is far more complex and expensive.

The average cost of using your bank to transfer money across international borders is somewhere around 7%[1]. And that single number can only be an estimate, because it hides a myriad of fees and opaque FX rates applied by the banks processing the payments.

That's a lot of money, but it doesn't buy an efficient service.

Until now, there have only been two options for making international payments. This article summarizes the two standard ones and introduces you to a third (and we think much, much better) way.

Choosing The Right Option For Making International Business Payments

The reasons for paying someone overseas are pretty standard:

- **Settling invoices for overseas suppliers or customers**
- **Paying overseas employees**
- **Making intra-company transfers**

Clearly, these are all routine transactions that ought to have well-grooved processes by now.

Most businesses choose one of two main ways to make international payments: you can use your business bank or an international payment specialist. Each has its pros and cons.

[1]FT – https://ftalphaville.ft.com/2019/10/03/1570100615000/Aradical-plan-to-slash-cross-border-paymentcosts----with-subscription-fees/

Using Your Bank For International Payments

Banks are still one of the most common ways to make international business payments and have traditionally charged a premium for the privilege.

As high as their transaction fees can be, there's also the foreign exchange (FX) margin to take into account. This is the difference between what they charge you for currency conversion and the mid-market or interbank rate that they pay. This FX cost—often hidden—can far exceed the stated transaction fee.

Your business also has poor visibility over the exchange rate you actually pay, with some banks only displaying an indicative mid-market rate. Often you only see how much you've been charged for a transaction when your bank statement arrives.

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International Payment Specialists

International payment specialists (fintechs like TransferWise, for instance) are recent entrants to the payments market. They specialise in making international payments and were created to address the problems that have plagued bank-led payments for decades.

Notably, they compete on price.

The downsides: For most specialists, each payment can be a chore, so while they may work well for consumer payments, they don't scale very well for businesses. Secondly, international payment specialists are just that. If they have domestic payment capability at all, it's unlikely to be proven and robust. So, if you're hoping to centralise all of your payments in one system (an increasingly popular capability), you're out of luck.

Who Pays The Charges?

When businesses send international payments over the SWIFT network, the remitting bank and receiving bank each charge a fee for processing the payment. The SWIFT network allows for the sending bank to add a code to the payment instruction that determines how the charges are handled.

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- **(Shared) SHA – The payer pays all fees charged by their bank and the beneficiary pays any correspondent or intermediary fees.**
- **(Beneficiary) BEN – The recipient pays all the associated fees, which are automatically deducted from the funds they receive. The payer pays none of the fees.**
- **(Our) OUR – The issuer pays all transaction fees and the beneficiary receives the full amount of the payment.**

Fee deductions can damage relationships with suppliers or customers (who expected the full payment) and could mean goods are withheld and prices are higher in future.

For SWIFT transactions, the only way to ensure that the beneficiary receives the full value of the payment is to use OUR, which typically incurs an additional charge of £10-£20 from the sending bank. For Euro transfers in the SEPA region, payments are always processed so that the recipient receives the full value of the invoice without deduction of any correspondent or intermediary fees.

Intermediary Fees

If either the sending or receiving bank has no international presence, it has to use an intermediary or correspondent bank which will also charge a fee. That adds to the total transaction cost and adds another layer of opacity to the charging structure.

Naturally, this is frustrating for finance professionals who discover too late that their invoices were underpaid or shorted due to the transaction fee deductions and FX margins. Fee deductions can damage relationships with suppliers or customers (who expected the full payment) and could mean goods are withheld and prices are higher in future.

A modern payment platform, such as PTX, eliminates the barriers to efficiency, saves money on every international payment, and gives you a viable alternative to using banks or international payment specialists.

EFFECTIVE CASH MANAGEMENT RELIES ON KNOWING EXACTLY HOW MUCH CASH YOU HAVE IN THE BUSINESS AT ALL TIMES.

Negotiating Better Pricing

How much your business pays for its international payments fees is likely to depend on the value of your business. Larger organisations can negotiate more competitive fees and FX rates but this option is rarely open to companies with smaller transaction volumes.

In reality, even big corporations fail to get the best rates for international payments — and those that do rarely police their fees to see if they're actually getting the rates agreed.

International Payment Delays: The Time Zone Problem

If you're making cross-border payments to a different time zone, then the order has to be placed before a certain cut off time or it will be bumped to the next day. There are two reasons for the cut off time. First, the bank or specialist needs to buy the currency for the transaction, so their trading desks need to be open. Second, the bank in the receiving time zone needs to be available to receive and process the payment and add it to the recipient's bank account.

The cut-off times will vary by international payment service provider – bank or specialist. Early cut-off times may impact your businesses' financial operations if you are to achieve same day payment and the prompt release of goods by your supplier up to 43% of financial decision makers have stated they've had trouble paying suppliers on time when making international payments[2].

(Getting annoyed yet? Stay with us. There's just a bit more before we get to a better way).

Cash Management Problems

Effective cash management relies on knowing exactly how much cash you have in the business at all times. This becomes much harder if you don't know in advance what you'll be charged for your international payments.

Ideally, both the payer and the payee would see all fees up front—including intermediary bank fees and FX costs— for timely and accurate reconciliation and clearing. And the lack of transparency has other downstream effects For instance, your reconciliation will flag more "false positives" that need time-wasting investigation. Or you end up holding more cash as a safety margin to cover transaction liabilities. Not good.

The Third Way:
A Centralised Payments Platform

Today, there's a new option for businesses looking for more efficient, cost-effective and transparent international payments.

The idea is simple: a single, centralised solution for all payment types, domestic and international. Ours is called PTX, and it lets businesses use one platform for all payments - both domestic and international - with much greater transparency.

Many companies use PTX to rationalise the number of payment systems they support.

PTX Lets You Choose The Best Payment Route For Each Transaction, Taking Into Account:

- **The destination country of the beneficiary**
- **How quickly the payment needs to arrive**

It automatically includes intermediary bank charges, so all invoices are settled in full. And role segregation lets you separate your domestic and international AP workflows without creating the payment silos that make managing your payments so hard.

Whether you're a large or small business, PTX lets you make cross-border payments with maximum efficiency and much fairer fees. And with PTX's bulk payments capability and low-cost routing to thirteen major destinations, companies with significant international payment volumes save a lot of money every year.

With PTX, the fee structure is clear and transparent for all international payments, with live exchange rates throughout the day (from 00:01 on Monday to 22:00 on Friday). It also gives you more flexibility about when you can make a payment (cut off times vary a bit by currency and destination).

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Conclusion:
International Payments Innovation Is Here. And It's Way Better For Business.

Innovation in cross-border payments has failed to keep pace with the changes that have reshaped the domestic payments market. For too long, businesses like yours have paid too much for services that add complexity and deny you the visibility you need to manage your cash more effectively.

A modern payment platform, such as PTX, eliminates the barriers to efficiency, saves money on every international payment, and gives you a viable alternative to using banks or international payment specialists.

We're well into the 21st century. It's time to discover a better way to make international payments. To drill down more, visit the PTX page.

About Bottomline

Bottomline helps businesses transform the way they pay and get paid. A global leader in business payments and cash management, Bottomline's secure, comprehensive solutions modernize payments for businesses and financial institutions globally. With over 30 years of experience, moving more than $10 trillion in payments annually, Bottomline is committed to driving impactful results for customers by reimagining business payments and delivering solutions that add to the bottom line. Bottomline is a portfolio company of Thoma Bravo, one of the largest software private equity firms in the world, with more than $130 billion in assets under management.

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