

FOREIGN EXCHANGE: HOW TO CAPITALISE ON IT



Once the exclusive domain of the banks, foreign exchange for SMEs is a fast growing niche market dominated by a handful of specialist firms that are gobbling up a share of this global business worth billions of pounds a year. Research shows that many SMEs pay no attention to the risks associated with international payments. For the profit-driven, **Don Fenton looks at the tricks of the trade and how to take advantage of them**

Companies aren't tied to their banks anymore and the reason is simple: specialisation and cost. The leading specialist foreign exchange (FX) companies on the market are pretty much a new phenomenon in the world of international trade, most being only a generation in the making.

They tend to be 100 per cent focused on foreign exchange, offer their clients more attention than the banks, and comply with international regulatory authorities to a 'T' because all they do is foreign exchange.

Foreign exchange is the biggest business in the world with the big banks speculating on close to a trillion pounds every single day.

The largest specialty foreign exchange firms such as Custom House, Travelex and Ruesch move billions of pounds around the world annually, but these are real transactions as opposed to the speculative leverage that dominates the interbank foreign exchange market.

The incursion by non-bank specialists has really taken off in the last few years, helped by the launch of online foreign exchange trading such as Custom House's Multiple Payment Platform.

These companies have global treasury operations and offer advantages to companies that are major exporters to Europe, Asia, the United States and other world markets. They handle billions of euros, pounds and dollars that they need to exchange. In turn, companies elsewhere in the world that import from America, for example, need those dollars to pay their bills.

MOVING MONEY

If you're relying on your local bank for assistance doing business in other countries, you may be getting short-changed. That's because you're not getting the kind of innovative, flexible currency solutions that foreign exchange specialists can offer.

As UK businesses increasingly go global, they're frequently dealing in multiple currencies. And the success of any venture can often rest on getting the most favourable foreign exchange transaction rate.

That's where specialist foreign exchange companies come in. Through lower overheads and fewer branch offices than their banking competitors, savings in exchange rates are able to be passed directly onto the customer.

As experts, they know that when it comes to foreign exchange, speed, timing and efficiency are the keys to success.

They will customise a service that exactly meets the client company's needs and integrates seamlessly with their current business practices.

Good FX specialty providers are trusted by business leaders and Fortune 500 companies

because they can provide secure, award-winning foreign exchange services globally.

The best of them enable clients to transact billions of pounds annually, on-line and through their international networks of trading offices.

'The large banks are very good at providing foreign exchange to the large corporations that need to exchange millions of dollars, but when it comes to mid-size or small corporations then they are more challenged,' according to Peter Gustavson, founder and chief executive officer of Custom House.

Here are some of the services – tricks of the trade – that an experienced specialty foreign exchange provider will deliver.

WIRE TRANSFERS

In the international business arena, speed and flexibility are a competitive advantage.

This is especially true when you need to move funds.

International wire transfers are a safe and quick way to transfer funds anywhere in the world.

Specialty firms have relationships with a global network of banks that means fast, accurate transmission of your funds almost anywhere.

Because their treasury department operates 24 hours a day, seven days a week, wires are sent promptly, and beneficiary information is stored securely.

DRAFTS AND CHEQUES

A foreign currency draft means you can offer payment to your trading partners in their local currency.

Instead of waiting for domestic drafts to clear, they offer convenience and negotiating power that can translate into a competitive advantage in tough foreign markets.

RECEIPT OF FUNDS

So that all your foreign receivables – bank drafts, electronic transfers and cheques – are handled quickly, securely and cost effectively, an electronic transfer sends your funds directly to your bank accounts.

For recurring receipts, a service called automated conversion of funds gives companies maximum efficiency and better cashflow.

Foreign currency accounts provided by specialty providers let companies receive payments for automatic transfer into their accounts for immediate access to their funds without multiple account management.

MARKET INTELLIGENCE

Foreign exchange markets are volatile.

A good FX partner will constantly monitor and analyse economic trends and shifts in real time to help companies stay ahead of the competition.

Trading specialists provide timely and informative insight and help them plan a foreign exchange strategy more effectively.

The better providers give their clients complimentary market intelligence with analysis of the underlying trends and events affecting international currency markets.

FORWARD CONTRACTS

Because companies getting involved in foreign exchange are exposed to the fluctuations of the international currency market, an FX partner lets you lock in a rate today for delivery in the future.

Small shifts in exchange rates can affect your bottom line. With a forward contract, you receive a guaranteed exchange rate for currency to be bought or sold in the future.

A closed forward contract specifies an exact settlement date, while an open forward contract lets you settle the contract anytime within an agreed window.

EXCHANGE RATE BIDDING

Foreign exchange firms help you to reduce the risk of foreign exchange fluctuations, protect your profits and allow accurate, long-term budget planning.

They also let you settle foreign receivables or payables at the best price – always.

With an exchange rate bidding programme, trading specialists monitor international currency movements around the clock. They determine a target price with you and notify you when it has been reached and execute a transaction for you.

This allows you to take advantage of market currency shifts in multiple time zones and markets such as Tokyo, Singapore, London, Sydney and Hong Kong.

ONLINE SERVICES

Award-winning online services – such as

those offered by Custom House – let you process payables and receivables in-house with real-time rates 24/7.

They integrate seamlessly with leading accounting and order fulfillment programmes to save you time and money. This makes everything easy, secure and accurate.

As part of the service, you can also be provided with complete reports on payment volumes and trends so that you can generate business intelligence and plan strategically.

OUTSOURCING SERVICES

For many corporate customers, outsourcing services provide a complete global payment and foreign exchange back-up for their clients – including foreign currency transaction processing.

Outsourcing services can be a branded partnership agreement where you gain the benefits of the specialty firm's reputation in the industry.

They should also offer an agreement that lets you use their international infrastructure to power your internal processing.

Think of them as your foreign exchange division and open up new business opportunities, protect your client list and save capital investment costs.

PRIVATE CLIENT SERVICES

A handful of FX firms are leaders in managing private client business so you can make international purchases with confidence.

They offer cost-effective, custom solutions for managing foreign currency payments for international loans and mortgages.

Not only do they offer competitive exchange rates, but they also provide a secure global network, fully bonded trading specialists and international partner alliances for complementary services for your purchases.

An FX partner will work hard to understand your business and create truly customised foreign exchange services. ■

Don Fenton has lectured on international marketing and communications at two leading universities in Canada and has been the head of communications and spokesman for a \$1.2bn global mining company and a \$4bn real estate multinational. He is director, communications, for Custom House