An Integrated Approach to International Payments

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Digital innovations over the past five years have changed dramatically not only the way we work, communicate and socialise, but also our expectations of how data can be used to transform processes, intelligence and services. If we buy a product or service online, for example, we can place an order, make and authorise a payment, receive notification of the order status, and track delivery from dispatch to arrival. Each of these points reflects a different step in the physical and financial supply chain, which in a large company would be managed by a distinct business function and set of systems. From a customer perspective, however, these steps are all part of one transaction. A joint interview with Adrian Brown and Wim Grosemans.

Providing information at each stage in the transaction process has become essential to enhance the customer experience and build confidence and trust. Increasingly, treasury and finance professionals are expecting a comparable degree of integration, transparency and transformation in their banking transactions, whether they are buying or selling domestically or cross-border.

The next step in payment efficiency

The quest for payment and collection efficiency is nothing new. Many companies have already achieved a high degree of visibility, control and efficiency in their payments and collection processes. Not only is the use of electronic payment instruments and processes now prevalent, but treasurers and finance managers are successfully introducing automatic reconciliation and account posting, centralised flows through payments/collection factories, and efficient techniques such as payments-on-behalf-of (POBO) and collections-on-behalf-of (COBO). These solutions are allowing companies of all sizes and located in all jurisdictions to streamline and automate their payments and collections regionally or globally, and reduce the number of accounts that they operate.

For many companies operating internationally, however, the final missing element of the transaction process is the foreign exchange (FX) component.

Depending on the industry and business model, most companies will need to pay and/or receive cash in multiple currencies. As a result, they need to maintain accounts in different currencies, and are subject to FX risk. Treasurers can choose to manage FX risk separately in the FX market, but this option is typically only open to treasuries with the necessary systems and resources in place, and/or for currencies in which exposures are sizeable. In some cases, currency specific regulations will make it more difficult to hold centralised current accounts. For smaller currency exposures, and for smaller treasury functions, it is not cost- or risk-effective to manage these exposures separately. As a result, treasurers are seeking integrated solutions that extend the payment and collection efficiencies they achieve for domestic transactions to cross-border and cross-currency transactions while managing FX risk.

Combining market leading capabilities

For BNP Paribas, as a market leader in both wholesale FX and transaction banking, combining these two capabilities was an obvious step by integrating our Global Markets transactional FX solution, FX+, into our payment and cash management solutions. We can therefore support clients? international cross-currency payment and collection requirements by converting foreign currency flows automatically. Our cross- currency payment solution is already available to clients in 12 countries in Asia, 6 commercial centres in the Middle East and 14 countries in Europe, covering 132 currencies, with the rest of Europe and North America to follow during the course of the next two years.

By integrating the FX risk management into an outgoing or incoming payment, cross-currency payments reduce the administrative burden and cost of maintaining multiple foreign currency accounts and reduce the FX risks to which the company would otherwise be subject. Clients benefit from transparent, auditable, automated end-to-end transaction processing, from execution through to FX conversion and reconciliation.

Cross-currency payments in practice

We are seeing considerable demand for BNPP?s cross-currency payments solutions from our clients. These have ranged from large multinational companies (MNCs) building regional or global payment factories, which may include POBO, through to small and medium-sized companies.

When we first launched the BNPP cross- currency payments solution, we expected that the largest MNCs would have less need for integrated cross-currency payment and collection solutions than small or mid-sized companies or those lacking a sophisticated treasury function. We have found, however, that, as treasurers of MNCs are expert in quantifying risk, the cost of managing this in- house, and the value of integration and automation, they have shown considerable interest in the benefits of cross-currency payments. These clients have spanned sectors as diverse as shipping, manufacturing, travel and retail.

The use of BNP Paribas cross-currency payments solution for collections has been slightly different. While the solution is equally applicable to collections, companies that have significant numbers of both payments and collections in a particular currency are likely to prefer a dedicated currency account to manage that currency. Cross-currency collections are ideally suited to companies that receive payments in a particular currency but have no offsetting liabilities in that currency, receive a small number or value of payments in a particular currency, or receive payments at unpredictable intervals or unexpectedly.

Convenience, flexibility and transparency

In developing our cross-currency payments solution, we have been guided by three principles: Convenience, Flexibility and Transparency. We continue to develop our cross-currency payments solution using these guiding principles, with a current focus on collections including rerouting and virtual IBANs.

Cross-currency payments are just one example of how we work proactively with clients to explore and optimise end-to-end processes and add value. In doing so, our aim is to optimise our clients? experience of international payments and collections, and facilitate the international business models of today and the future.

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