



Global Business Payments: Your Best Practices Guide

Table of Contents

1. Overview	3
2. Understanding Your Markets	3
3. Building a Risk Management Strategy	4
4. Utilizing Global Payments Platforms	5
5. About OANDA FX Payments	7

Overview

Expanding your business into the global marketplace is an exciting and monumental endeavour. However, it does require a carefully-executed foreign exchange and global payments strategy. From risk management to global payments platforms, there are several practices and strategies that can streamline your procedures and support your growth. There are key points of knowledge that will help you protect your business from loss, over-complication, and compliance-related tribulations.

To ensure that you are complying with local laws and regulations in all areas that you conduct business, understanding the local environment is a must. But beyond that, it's imperative to craft a strategy that protects you while reducing extra time, stress, and cost that may be associated with both sending and receiving payments.

In this guide we explore several areas of focus worth taking into account when it comes to global payments. Further, we outline the best practices associated with each. While it can seem daunting and complex, global business payments can be simple if you gain a basic understanding and take advantage of the resources available.

Understand Your Markets

Businesses that operate on a cross-border basis may send and receive international payments for a number of reasons. For example: paying contractors, buying inventory, selling products or services, paying for international offices or warehouses, or compensating international business partners. Regardless of the size of your presence in a variety of markets, it's important to understand local governance on both ends of the transaction.

If you are paying out or receiving money in a currency other than your own, you must comply with the local rules and regulations. Prior to your expansion into a new country, compliance laws and currency volatility should be considered. Best practices include:

Build a Localized Understanding

While you may understand the supply and demand in your desired area of expansion, learning about the ways in which foreign exchange and global payments are governed is also an essential part of the process. Do your research or even seek out a local foreign exchange expert; this will help you gain a local understanding and perhaps help you decide whether or not it's the right market for you.

Do an Employment Analysis

If you would like to hire an employee in another country, there is a lot to take into account. Regardless of where someone is employed, their place of residence will dictate their payroll and employment standards. Therefore, the laws that are in place where your business is headquartered may not apply if you are hiring internationally. You will need to become acquainted with the payroll, tax, overtime, holiday pay, and vacation laws, among others. To understand if hiring is feasible and worthwhile in a new region, you'll want to make yourself aware of federal, state, and local laws that may pertain to a local employee and, in turn, your business operations.

Do a Currency Analysis

Whether you are sending or receiving payments in another currency, it's important to understand how that currency has fluctuated over time for an indication of its volatility and how it compares to your native currency.

If you only accept payments in your local currency, you may not be impacted financially by the state of your customers' local currencies. Though, their willingness to purchase your product or service may fluctuate along with their currency, depending on how it compares to yours. This is worth taking into account when imagining your ideal clientbase.

On the other side of the coin, if you make international purchases or payments in a currency other than your local currency, you can be significantly impacted by fluctuation. Before expanding your business operations into a new region, understand your exposure by analysing the local currency and any indications of price volatility.

Compare Local Payments Procedures

While accepting payments in your local currency may not make you vulnerable to loss in the face of currency fluctuations, other countries may use payment methods that you don't accept or that are unfamiliar. Before advertising in new markets, it's important to compare payment methods to make sure you can serve that region or get an idea for additional methods of payment you may want to consider accepting.

Build A Risk Management Strategy

When you're operating a cross-border business, a comprehensive risk management strategy is a key component of your company's foundations. The first step in risk management is identifying your business' exposure. Moreover, you must examine your business practices and growth trajectory to gain an understanding of where you are vulnerable to loss in the face of currency exchange. There are a few types of risk foreign exchange risk to take into account.

First is transactional risk which pertains to the volatility that one may experience due to fluctuating rates between different currencies. This happens when a transaction is put forth in two different currencies and a rate is calculated upon settling the transaction. An example of this would be accepting an order for goods from someone in another country based on a certain price. But, when the order processes, the price has changed due to currency fluctuations. Generally, the longer the time difference between when the transaction is executed and settled, the greater risk you take on.

The next is translational risk, always known as accounting risk. This comes about when a company has offices or subsidiaries in other countries. As a result, this business can face losses due to currency exchange rate fluctuations.

Finally, there is economic risk, also known as forecast risk. This happens when a company's market value is impacted by unavoidable exposure to currency fluctuations.

It is based primarily on translating assets on balance sheets in foreign exchange. The risk associated with transactions comes from the potential lag time between entering into a transaction and settling it. Whereas risk associated with translation comes from translating the results of a transaction into another currency. An example of transactional risk would be the purchasing of a product at an agreed upon price, only to have the fluctuation change the amount of the final cost by the time it has gone through. An example of translational risk would be owning an asset in a foreign market and seeing the value fluctuate when translated into another currency.

Fortunately, there are a number of measures one can take to mitigate foreign exchange risk. At the forefront of these strategies is hedging.

Many businesses use hedging strategies to protect themselves from unexpected risks in the global marketplace.

One of the main hedging strategies is forward contracts. Forward contracts are when two parties sign a contract, agreeing for the buying or selling of assets on a specific date and price. The contract is non-standardized in terms of dates, which means they are agreed upon today for a future transaction on a date specified in the contract. Forwards can be used to hedge risk or allow you to take advantage of a favorable exchange rate prior to the future delivery date.

While the advantages of hedging are clear (risk mitigation and support through difficult market periods), the main disadvantage of hedging is that it minimizes both risk and reward. Hedging minimizes risk, but typically involves a cost which can consume profit.

It is also a difficult strategy for short-term investors, and can be frustrating when a market is moving in your favour, as investors who hedge have negative correlations on their earnings. And importantly, successful hedging requires strategy, knowledge, and experience.

Some types of hedging, currency hedging, for example, are far easier for beginners to master.

Partnering with an experienced hedging and foreign exchange firm for your currency risk management can be extremely beneficial if your business is new to cross-border operations.

Best practices in risk management include:

- Identifying exposure
- A comprehensive hedging strategy
- Constant reanalysis
- Partnering with experts when needed

Utilizing a Global Payments Platform

If you're looking to make a cross-border payment, there are a number of international payment methods. Payments of this type are increasingly common as economies become more global.

Some approaches such as international wire and bank transfers can be complex and expensive once you factor in fees and exchange. But of course, opting to avoid international transactions can prevent you from growing your overseas business and, in turn, your bottom line.

Regardless of whether you are consistently dealing with international payments or if you only conduct cross-border transfers from time to time, it's important to have systems and procedures in place so you can cut costs, avoid loss, and ensure security every step of the way.

This list breaks down the benefits of adopting an international payment processor and why that might be the right approach for you. Furthermore, it puts forth an understanding of Shift Connect's payment processing systems.

The benefits of global payment platforms include:

Eliminating Hidden Fees

Your business or your customers might be incurring fees during the payment process. In fact, most companies that process large sums or numbers of international receivables are paying far more than they should for transactions. Businesses can be charged flat fees on incoming wire transfers which can be up to \$20-50 and often aren't disclosed until the payment is received.

Rather than entering each transaction without clarity on the fees you will incur, payment processors offer solutions to streamline these bank rails and cut your costs. In addition, it gives you the peace of mind to only think about your transactions rather than all of the external factors potentially impacting those funds.

Reducing Loss & Improving Foreign Exchange Rates

Unpredictability surrounding foreign exchange has proved detrimental for countless businesses and individuals in the past. Because FX rates have a serious impact on both the payer and the receiver of a transaction, transparency and loss prevention are of the utmost importance.

Payers commonly look for fair and cost-effective FX rates, and businesses look to avoid short payments that may arise due to a payor or customer incorrectly accounting for the FX rate.

A good global payments provider shares their FX rates upfront and locks the rate in so your payers are never surprised by currency exchange fluctuations or interchange fees.

Simplifying Organization, Administration, & Reconciliation

Processes that come with well constructed international payment platforms relieve the stress and potential issues that arise during tasks such as attributing incoming receivables to customers, paying invoices, and international payment reconciliation. Short payments, manual errors, and the lack of transparency all increase operational costs and impact customer satisfaction. When you partner with a payment processor, they act as a trusted extension of your accounting



About OANDA FX Payments

OANDA, a global leader in online multi-asset trading services and currency data, and Currencycloud, the leader in providing B2B cross-border solutions, are working together through their respective partnerships with Shift Connect to deliver cross-border payments functionality to OANDA's North American corporate client base.

OANDA FX Payments helps North America's corporations to manage their global FX payments. Clients benefit from OANDA's international leadership in FX data and trading, coupled with trust in a leading brand and best in class technology partnerships. OANDA FX Payments provides dedicated and personalized customer support, coupled with an easy to use online platform.

The combination of OANDA, Shift Connect and Currencycloud brings together the best of breed payment technology and service solutions to deliver an unrivalled solution to OANDA's corporate clients in North America. OANDA's customers will now be able to make cross-border payments in more than 35 currencies.

To learn more about corporate FX payments, visit:

<https://www.shiftconnect.com/oanda/>

Or contact us via phone or email:

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