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What Your Firm Needs to Know Before it Makes a Global Payment

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“How long will it take this payment to get there?”

A very simple question that is asked dozens of times a day in law firms worldwide isn't as simple as it seems. Quite frankly, the answer is: “That depends.”

With the practice of law having become a truly global industry, legal practitioners increasingly have to deal with the intricacies of sending cross border payments. The U.S. dollar (USD) is at near multi-decade lows against many major currencies, so the days of simply writing a USD check drawn on a U.S. bank account are all but over.

An Evolving Payments Environment

A few years ago, the practice of sending a USD payment for bills to pay vendor/supplier invoices denominated in a foreign currency was common. You could easily get the rate off the Internet and send a check in the mail, or send a USD wire. Now the practice of simply sending a check in the mail is quickly diminishing because of the prevalence of check fraud and international mail delays.

Not to mention the issue of currency fluctuations. For years, the USD was king – law firms could send USD payments to foreign vendors and suppliers, and the extra fees charged by their banks were often overlooked because the dollar was appreciating. But now, as it loses value, the rest of the world no longer views the USD as royalty. Those same vendors and suppliers want payment in their own currency because even the extra premium added by the foreign law firms billing in USD is eroding due to the greenback's weakness.

Examining Your Firm's Needs

Every international payment has its own nuances, so you cannot have a blanket policy to cover each one you make. Thus, when you need to make a payment, consider the following questions:

- Where are you sending the money?
- When does it need to be there?
- Are you sending USD or foreign currency?
- Is there an intermediary bank involved?
- If sending USD abroad, which intermediary bank is being used?
- Is the money being sent for standard or expedited value?
- Are you sending the payment as a wire (urgent) or a low value payment (non-urgent)?
- Has your staff ensured that the payee (and the payee's bank) isn't on the Office of Foreign Asset Control's (OFAC) Specially Designated Nationals List?
- Are you certain that you have the most up-to-date bank and routing information?

The Options

You could, of course, put a check in a briefcase and personally hand deliver the payment to the other side of the world...but realistically speaking, an electronic payment via wire transfer or low value payment is the fastest and most secure way of sending money overseas.

A **wire transfer (high value)** is the quickest of all of these new expedited methods. Standard value for international payments is one day to Canada and Mexico and two days for anywhere else in the world. But be beware – while it is possible to send money with same day value via a wire, again one must be sensitive to time differences. For example, you may send money to the United Kingdom with same day value if a payment is processed before 11 a.m. E.S.T. However, it is very important to note that you need to advise your bank or third party payment provider that you wish for the payment to be sent with the fastest possible value. Also, be aware that extra fees may be charged for expedited payments.

International low value payment (non-urgent) or, as it is often called, the international ACH or IACH is another electronic method of sending money that is starting to gain ground in the United States. Their first benefit is cost – international ACH payments are less expensive to send and to receive.

The mathematics of it can be fairly simple for both the sender and the receiver, making it substantially cheaper to send an international low value payment over a wire. Depending on your provider, you may see savings of up to 75 percent per transaction. Because you know the value date for these types of payments, even some time sensitive payments like international payroll and office fundings can be switched to this method.

Though the savings for a U.S. firm making payments is obvious and easy to quantify, the savings for the firm receiving the funds can also be quite significant. Let's say that a firm located in Canada receives an average of 300 incoming payments from clients and U.S. associates each month and is charged the USD equivalent of \$10 per incoming wire. If all of the company's clients and U.S. associates paid it with a CAD low value payment, the firm could save more than \$30,000 a year in incoming wire fees.

Because the practice of law is often done through reciprocation (you scratch my back and I'll scratch yours) it is very possible that you can ask law firms who pay you to send money via a USD ACH. Currently the use of international low-value payments isn't widely used (mainly due to the lack of education on financial institutions afraid of losing fee revenue and the fact that most banks don't offer it), however, it will undoubtedly be the preferred payment method in the very near future.

Just keep in mind that this method of payment is meant to be used for frequent non-urgent type payments that can arrive within a couple of days; the standard value for an international low value payment is usually between three-four days. However, many payments don't need to arrive the same day, next day, or even in two days. For these types of payments, the international low value payment may be the best choice.

Sending a foreign currency to its home country (EUR to Germany; JPY to Japan; SGD to Singapore) is different than sending a USD transaction internationally. When sending a payment internationally using the USD, or, for that matter, whenever sending a non-home currency to another country, there will always be an intermediary bank involved. This could potentially delay the payment and/or have additional fees incurred by having an additional bank involved, often taking the form of a beneficiary deduction.

An intermediary bank is a bank used when sending a non-local currency internationally. For example, a bank in Brazil might use a bank in New York City when sending USD denominated payments to Brazil. While these payments are generally sent with standard value (two days or less), the introduction of an intermediary bank may delay the payment. The old adage of having too many hands involved in a process sometimes also applies to banks!

Know Your Risk

From the outset, a comprehensive risk and error assessment should play an enormous role in the decision-making process when considering a payment strategy. Quite simply, the cost of not getting it right – e.g.: lost payments, payment errors, payment tracking, delivery and receipt issues and dependence on paper and cost –

are unacceptable in today's world of global business. These "little" things can make a tremendous difference in the amount of time and money you expend on your international payments. With a watchful eye on what really matters, more legal firms are focusing their efforts on international payments providers that offer features to help overcome these pains associated with the process.

Finally, the last item to think about when sending a payment is ensuring that the payee and the payee's bank are not on the Office of Foreign Assets Control's (OFAC) Specially Designated Nationals (SDN) list. This regularly updated list notes "individuals and companies owned or controlled by, or acting for or on behalf of, targeted countries." It also lists individuals, groups, and entities, such as terrorists and narcotics traffickers designated under programs, that are not country-specific.

Most bank and payment providers should have automatic scans to alert your staff of an "OFAC hit" before a payment is sent. The list can be found here: <http://www.treas.gov/offices/enforcement/ofac/>. The list is rather comprehensive, so there may be instances when your payee's name is similar to one appearing on the list. This is called a "false positive" match. In this instance, your bank or payment provider will need additional information, such as the payee's full name, date of birth, or nationality, showing that the person or entity being paid differs from the one appearing on the list, before the payment can be released.

Summing It Up

The economic environment, currency fluctuations and increasingly global presence of law firms all point to one thing: international payments cannot be viewed as just transactions, your firm needs to have a strategy to address them. And if you get that strategy right, your firm can save significant time and money – time and money that you can invest somewhere else.

About the Authors

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SIDEBAR

Selecting an International Payments Provider

Making a global payment doesn't have to be an intimidating or time consuming process – it's just about finding the right strategic partner for your business, not just an institution to process transactions. But the international payments field is getting crowded with new providers – from banks to specialist companies – entering the market touting new solutions. So how can a firm determine which provider can provide the services and counsel it needs for its international payments strategy? Here are some questions to ask.

- How long have you been processing international payments?
- How many global payments do you process a year? What's a ballpark dollar value on that?
- Can you provide any references from satisfied customers?
- Are there parts of the globe you cannot process payments to? If so, which countries?
- How will you help my company manage its currency risk?
- How do you prevent transaction errors?
- If I work with your institution, who will be my point person?