

INTERNATIONAL BUSINESS

PART 2: INTERNATIONAL PAYMENTS

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INTERNATIONAL BUSINESS

PART 2: INTERNATIONAL PAYMENTS

Businesses that trade internationally need an efficient way of managing their foreign – or cross-border – payments. There are many options, and the best solution for you depends on the number, size and terms of your company's payments.

Your international business bank can offer expert advice to help you find the most advantageous methods, and can offer cash management programs and other services that make cross-border payments easier and more cost-effective.

What you will learn:

Incoming Foreign Payments

Some things to remember when you invoice foreign customers and receive foreign payments.

Outgoing Foreign Payments

What is the most efficient and least expensive way to pay foreign creditors?

Collection Service

Consider outsourcing your invoicing and payment collection functions.

International Cash Management

Draw upon a wide range of services to manage your payments, liquidity and foreign currency positions.

INCOMING FOREIGN PAYMENTS

Here are some factors to keep in mind when you are managing your company's payments from foreign countries.

Invoicing

When you send an invoice or a request for a payment to a foreign customer, you must always indicate your IBAN (International Bank Account Number) and the Bank's BIC (Bank Identifier Code), also known as its SWIFT address.

These codes enable you to receive quick, secure payments from abroad directly in the account you desire. In many cases, they can also spare your foreign customers extra costs.

Payment methods

Choose funds transfers instead of checks. It can take a long time to have a check cashed abroad, and there is a risk of manipulation and insufficient funds.

Many payments from a specific country?

If you have many payments from a particular country, it can be an advantage to set up a local account. It is possible to set up local accounts in a number of countries through a network of branches and partner banks.

Collections abroad

If you want to use collections in foreign countries, consider the bank's Collection Service solution. You simply deliver a file with all of your collection information to the bank, and they can collect payments from your customers in almost anywhere in the world.

OUTGOING FOREIGN PAYMENTS

There are various methods you can use to make cross-border payments. You can:

- Use funds transfers instead of checks. Checks are expensive for both you and the beneficiary since they require manual processing in a bank.
- Order fund transfers online through Business eBanking.

Always state the BIC and IBAN correctly. You must always state the IBAN in countries that have adopted its use. We recommend that you update your company's creditor information on an ongoing basis so that you make sure it's correct.

Where possible have the sender and payee share the costs of the transfer. If you choose another distribution of costs, you risk paying high fees to foreign banks.

Many Bank Groups have a comprehensive network of partner banks that offer bank transfers through the SWIFT system in Business eBanking.

In order to make these payment types, personal information relating to individuals named in the payment form may be provided to overseas authorities in order to comply with applicable legal obligations and prevent crime.

Making Payments to Europe

In June 2005, the European Payments Council (EPC) passed a resolution requiring all European banks to provide IBAN and BIC from 1 January 2007 to process all cross-border (non-domestic) Euro payments, within EU and EEA (Norway, Iceland, Liechtenstein) and Switzerland.

If you are requesting to make a payment to an account within Europe you must quote your beneficiary's IBAN and BIC on your payment request. Failure to do so will result in additional fees being charged to you and possibly a delay in the payment being forwarded to the beneficiary.

Euro payment instructions effective from January 1, 2007 onwards (which do not include a valid IBAN) to many countries in Europe will NOT be accepted for processing.

Accounts in other countries

If you make many cross-border payments to particular countries, it might be an advantage for you to open an account with banks in the countries in question.

IBAN

IBAN stands for **International Bank Account Number** and is a number attached to all accounts in the EU countries plus Norway, Switzerland, Liechtenstein and Iceland. The IBAN is made up of a code that identifies the country the account belongs to, the account holder's bank and the account number itself. The IBAN makes it easier and faster to process cross-border payments.

Why use the IBAN?

The IBAN makes automatic processing of cross-border payments easier and enables the bank to check, immediately upon receipt, whether the account numbers are correct. This ensures a fast credit to the account. At the same time, you avoid fees for manual processing of transfers.

How an IBAN is constructed

The IBAN is an international standard (ISO 13616). The number comprises maximum 34 alphanumeric characters, which are structured as follows:

- Two letters representing the home country of the account-holding bank (ISO 3166 country code with two letters, e.g. IE for Ireland)
- Two numbers that are a control key
- Maximum of 30 alphanumeric characters that identify the bank and the ordinary account number

An IBAN in Danske Bank consists of 22 characters, which comprise the ISO country code + control key + sort code + the ordinary account number of 8 digits.

Importers and the IBAN

Ask your foreign supplier to notify you of its IBAN so that you can write it on the payment orders that you send via Northern Bank. If your supplier lives in the EU, the IBAN must appear on its invoices.

Exporters and the IBAN

The IBAN must appear on your invoices so that your foreign customers can write it on the payment orders to you.

How do you get an IBAN?

The bank assigns an IBAN to each of your accounts. You cannot automatically calculate an IBAN yourself, as each bank might have different methods of registering their account numbers in the IBAN. The IBAN appears on account statements and in the bank's online systems.

List of Countries with Mandatory IBAN for Euro payments since 01/01/07

Country	Example of IBAN construction
Austria	AT611904300234573278
Belgium	BE65539007547034
Bulgaria	BG80BNBG96611020345678
Cyprus	CY17002001280000001200527600
Czech Republic	CZ6508000000192000145399
Denmark	DK5000400440116243
Estonia	EE382200221020145685
Finland	FI2112345600000786
France	FR1420041010050500013M02607
Germany	DE89370400440532013087
Greece	GR1601101250000000012300695
Hungary	HU42117730161111101800000000
Iceland	IS140159260076545510730339
Ireland	IE08DABA95150112345678
Italy	IT60X0542811101000000123332
Latvia	LV80BANK0000435195001
Liechtenstein	LI9300762011623852957
Lithuania	LT121000011101001000
Luxembourg	LU280019400644750000
Malta	MT84MALT011000012345MTLCAST001S
Netherlands	NL91ABNA0417164299
Norway	NO9386011117946
Poland	PL61109010140000071219812874
Portugal	PT50000201231234567890154
Romania	RO49AAAA1B31007593840000
Slovakia	SK3112000000198742637541
Slovenia	SI56191000000123438
Spain	ES9121000418450200051322
Sweden	SE3550000000054910000008
Switzerland	CH9300762011623852957
UK	GB29DABA95012112345678

Please note that the accounts listed above are fictional and are for illustrative purposes only.

OTHER COUNTRIES THAT REQUIRE IBAN

Andorra	AD1200012030200359100100
Tunisia	TN5914207207100707129648
Turkey	TR330006100519785467851327

BIC (SWIFT)

A BIC (**Bank Identifier Code**) identifies the beneficiary's bank quickly and easily. SWIFT owns and administers the BIC system. The BIC is the same as the bank's SWIFT address.

Here are the BICs (SWIFT addresses) for divisions of the Danske Bank Group in various countries:

Danske Bank unit	Bank Identifier Code
Danske Bank, Denmark	DABADKKK
BG Bank (Denmark)	DABADKKK
Danske Bank in Sweden	DABASESX
Fokus Bank (Norway)	DABANO22
Northern Bank (Northern Ireland)	DABAGB2B
Danske Bank, London	DABAGB2L
National Irish Bank (Rep. of Ireland)	DABAIE2D
Danske Bank, Helsinki	DABAFIHX
Danske Bank, Hamburg	DABADEHH
Danske Bank Polska (Warsaw)	DABAPLPW
Danske Bank Int'l (Luxembourg)	DABALULL

EDI & EDIFACT

A growing number of companies exchange data electronically when they order goods and services, confirm orders, send invoices or make payment transfers. Many use their own IT platforms, operating systems or mainframe computers for quick and efficient **straight-through processing (STP)** of **electronic data interchange (EDI)** transactions with third parties such as customers, suppliers and banks.

No matter whether it is used for payments, payment status information, receivables, reconciliation information, account statements, exchange rate information or invoices, straight-through processing reduces costs and improves products and services.

Wide range of financial messages

Besides local formats in their home region, foreign banks provide most of the financial EDIFACT messages: PAYMUL, CREMUL, DEBMUL, DIRDEB, FINSTA, BANSTA, FINCAN and CONTRL. The messages can deliver and process most – if not all – types of information and transactions.

International business banks provide platforms for secure EDI of business data on a wide range of communication channels, either directly or via a VANS operator.

EDI formats

If you want more information about EDIFACT and EDI solutions, including the various data formats, visit the EDI & formats section of the Danske Bank Business site. There you can find information on the various data formats used in the EDI solutions available in their business systems. At present Danske Bank supports EDIFACT 96A. The section provides technical support for the IT suppliers or internal IT departments that develop and maintain integration solutions for Danske Bank's current or prospective corporate customers.

The pages also offer guidance for customers who are considering buying or developing solutions to integrate their company's own systems with their systems.

Download formats

In order to quickly give you the greatest possible flexibility in using EDIFACT and developing EDI solutions, you can download EDIFACT and comma-separated formats directly from your international business bank's website.

International Cash Management

A highly desirable feature your business bank may offer is a comprehensive International Cash Management solution. This program gives your business the best foundation for easy, efficient management of liquidity, foreign exchange and interest rates.

These are a few of the advantages of the solution:

- Make cross-border payments and local payments in foreign countries
- See transactions and other information about your accounts in other countries via the Business eBanking office banking system
- Use a single system to manage all your payments, your liquidity and foreign currency positions

Country profiles for treasury and CM staff

We have gathered some important financial information about a number of countries that should be useful to the finance departments of companies with foreign trade.

See: **INTERNATIONAL BUSINESS,
Trade and Export Finance
Section 5: Foreign Banks**
for more information on Country Profiles.

INTERNATIONAL INVOICING: Collection Service

If your company trades abroad, you might be using considerable resources collecting from debtors in the various countries.

Collection Service can make the process more efficient, ease the administrative load and potentially give your company real savings. You can use it to collect payments from debtors from almost anywhere in the world.

WHAT IS COLLECTION SERVICE?

You deliver all your collection information electronically in a file to the Bank. They print and send your company's invoices to customers abroad. You need to communicate with only one service provider instead of a service provider in each country.

This can give you several advantages, such as:

- improved liquidity management
- fewer administrative tasks
- the possibility of a faster reminder procedure
- fewer manual payments to handle
- ease in repaying amounts to customers

Invoice collections can be printed in a designated language if required.

NOTE:

Collection Service was developed by Danske Bank, originally for use in northern Europe, where it offers direct debit payments in several countries. But it provides the same results in the United Kingdom and almost anywhere else in the world.

FOREX: FOREIGN EXCHANGE POLICY

Companies that trade internationally should have clearly defined foreign exchange and interest rate policies that serve as a framework for their financial strategies.

Your management must consider what the financial strategy needs to cover, the time horizon, and the framework for the operational implementation. Your bank can help you implement your foreign exchange policy. You will also need to consider your procedures on how to treat currency risk. For example, it is important to identify the cash flows in each currency to gain an overview of aggregate risk.

Speak to your business adviser about foreign exchange policy and to learn more about hedging currency risk.

HEDGING CURRENCY RISK

The basic **foreign exchange (forex)** transactions are listed below. You may be able to use forward transactions and currency-option-based strategies to manage your currency risk.

Spot transactions

A spot transaction is the exchange of an amount in one currency into another, typically effective two days after the date of the transaction.

Forward transactions

A forward transaction is a binding agreement to buy or sell a fixed amount in a given currency on a fixed date. By means of forward transactions, your company will know the exchange rate at which international sales or purchases are to be settled. There may be no set-up fees involved in entering such transactions.

Forward swaps

If you have both receipts and payables in the same foreign currency, but with timing mismatches, then your company may be able to avail of forward swaps to help manage your cash flow.

Currency-option-based strategies

Some companies with significant foreign exchange exposure may be in a position to avail of currency-option-based strategies to help manage the currency risk. These strategies will protect against unfavorable currency movements, and they can also give participation in favorable moves.

These products are regulated by the Financial Services Authority of the UK and are available only to companies which meet specific criteria.

Speak to your business adviser about your alternatives for managing your currency risk.

FOREX TRADING WITH ONLINE MARKETS

Some online markets allow you to trade whenever you want, and you decide which of your employees have permission to trade. Trades are approved with a digital signature for security purposes.

You can execute the transactions listed below:

Foreign exchange

- Spot trades
- Forward contracts
- Currency swaps

You can also unwind forward contracts, unwind them early or partially, and extend them.

In online markets you can undertake currency trades in major currencies 24 hours a day.

There are five major currencies involved in FOREX Trading:

- The U.S. Dollar
- The Euro
- The Japanese Yen
- The British Pound
- The Swiss Franc

These currencies are described in the following pages.

KINDS OF MAJOR CURRENCIES

The U.S. Dollar

The Dollar is the official unit of currency of the United States of America. Its abbreviated with a '\$' sign and placed with a 'US' to differentiate it from other dollar based currencies such as the Australian Dollar. The US. Dollar is the most used currency in international transactions and is also the world's largest 'foreign reserve' currency, with the majority of American notes held outside the United States. It is also the most traded currency in terms of foreign exchange trading.

For most of the 20th century, the US. Dollar was backed by reserves of gold bullion, until it officially went off it in order for it to become a floating currency, meaning a currency influenced by the market forces of supply and demand. The US. Dollar is considered the standard currency in the international markets for commodities such as petroleum and gold.

The Euro

Euro is the official currency of the European Union. Introduced in 2002, Euro is one of the strongest contenders against the US Dollar. The European Standard Bank is the principal bank that makes a decision on the monetary policies like rise in interest rates, keeping inflation checked, etc. Keeping in view its past record (when despite the slow economic growth it kept the interest rates steady) we can say that Euro is less likely to face adjustments in exchange rate.

The influences of Euro are many. It has made many lives simpler by eliminating the currency exchange phenomenon from their daily lives, thus enabling easy payments and allowing to compare prices in a convenient way. At the same time, the negative aspects of the single currency include higher prices and more importantly, the lack of an autonomous economic policy.

Euro is mostly traded in pair with US Dollar. It means that when the US Dollar rises against the Euro, the Euro will fall. For example, if inflation is high and the Federal Reserve lifts the interest rates, this will result in upward trend of the US Dollar and thus Euro will slightly fall. Similarly, as the majority of world oil trade is done in US Dollars, so when the oil prices move higher, the Dollar also strengthens, thus affecting the Euro to decline. Euro is largely dependent on the manufacturing industry of the countries included in Euro Zone. Better production in these countries would increase the strength of Euro.

The Japanese Yen

The Japanese Yen is the official currency of Japan since 1870. It is one of the most widely used reserve currencies after the US. Dollar and the Euro.

After World War II, the value of the Japanese Yen was fixed at 360 Yen per U.S. Dollar through a plan by the United States of America, related to the Bretton Woods system in an attempt to stabilize the prices in the Japanese economy. This was maintained until 1971, when the Americans abandoned the system. Straight after this, they imposed a 10 percent surcharge towards imports, thus prompting the floating of international exchange rates in 1973. This greatly affected the Yen since imports had a high cost, while Japanese exports received little. The next 30 years showed a gradual rise in value of the Japanese Yen, despite events such as the 1973 and 1979 oil crises. 1985 and the Plaza Accord agreement helped the Yen double in value to 123 Yen per US. Dollar in 1992. April 1995 showed a further strengthened Yen at 80 Yen per Dollar, which made it nearly the same size as the US. economy. Despite being part of the top 5 countries with the most widely used reserve currencies, Japan is currently on the decline as a reserve currency over the past decade.

The Japanese economy is amongst the strongest in the world, with the United States of America having a higher Gross National Product (GNP). Its main imports include motor vehicles, electronics and computers. The United States is its most important trading partner and also trades with Taiwan, South Korea, Hong Kong, China and Singapore. Major Japanese industry is comprised of manufacturing, construction, distribution, real estate and services. The goods that Japan relies on through import include oil, foodstuffs and wood, supplied mostly by the United States, China, Indonesia, South Korea and Australia.

The British Pound

The British Pound Sterling, commonly known as the POUND is the official currency of the United Kingdom and the Crown Dependencies. When the Euro Zone countries introduced Euro as a single currency, the Pound Sterling became the oldest currency of the world being used. At the moment, it holds the world's third largest share of global currency reserves after US Dollar and Euro.

On the list of world's most-traded currencies, British Pound Sterling holds the fourth place. Its value fluctuates in relation to the other currencies. Despite the fact that Pound Sterling is not fixed to Euro for trading, mostly they move in sync with each other.

The pound is largely influenced by oil production in North Sea that greatly affects the British economy which in turn affects the pound. This clearly indicates that Britain has energy reserves and whenever the oil prices hike, the British pound also amplifies. The British Pound is largely influenced by the European currency, Euro. If Euro strengthens, the Pound is likely to become weak. Thus, trading Euro with Pound can turn out to be quite a liquid trading relationship.

The Swiss Frank

The Swiss Frank is the currency of Switzerland. It is also used in Liechtenstein. It is collectively agreed that Swiss Frank is the only currency in the countries of the Euro zone which has the potential to do better than the Euro, in the case of any disension between the member countries. It is very strongly backed by gold and is commonly known as the safest currency to trade in.

Factors which influence the Swiss Frank include economic inflation and contraction, excessive economic growth and political instability. It is carefully termed as a "safe haven currency". Virtually it has no or zero inflation at all. Another reason for the muscle of the Swiss Frank is a legal necessity that at least 40% is supported by gold reserves. When the price of gold increases in the international market, the Swiss Frank grows stronger.

We know that when a country increases its interest rates, the value of its currency also strengthens because foreign investors are magnetized by higher interest rates. For example, if the banks raise the interest rates in Switzerland, the shareholders may choose to get rid of other currencies and buy more Swiss Francs. In this case, the Swiss Franc will rise as compared to the other currencies. It is considered as a very stable currency in foreign exchange markets of the world.