

Payments, transfers and loans - taking a more tailored approach to personal currency management

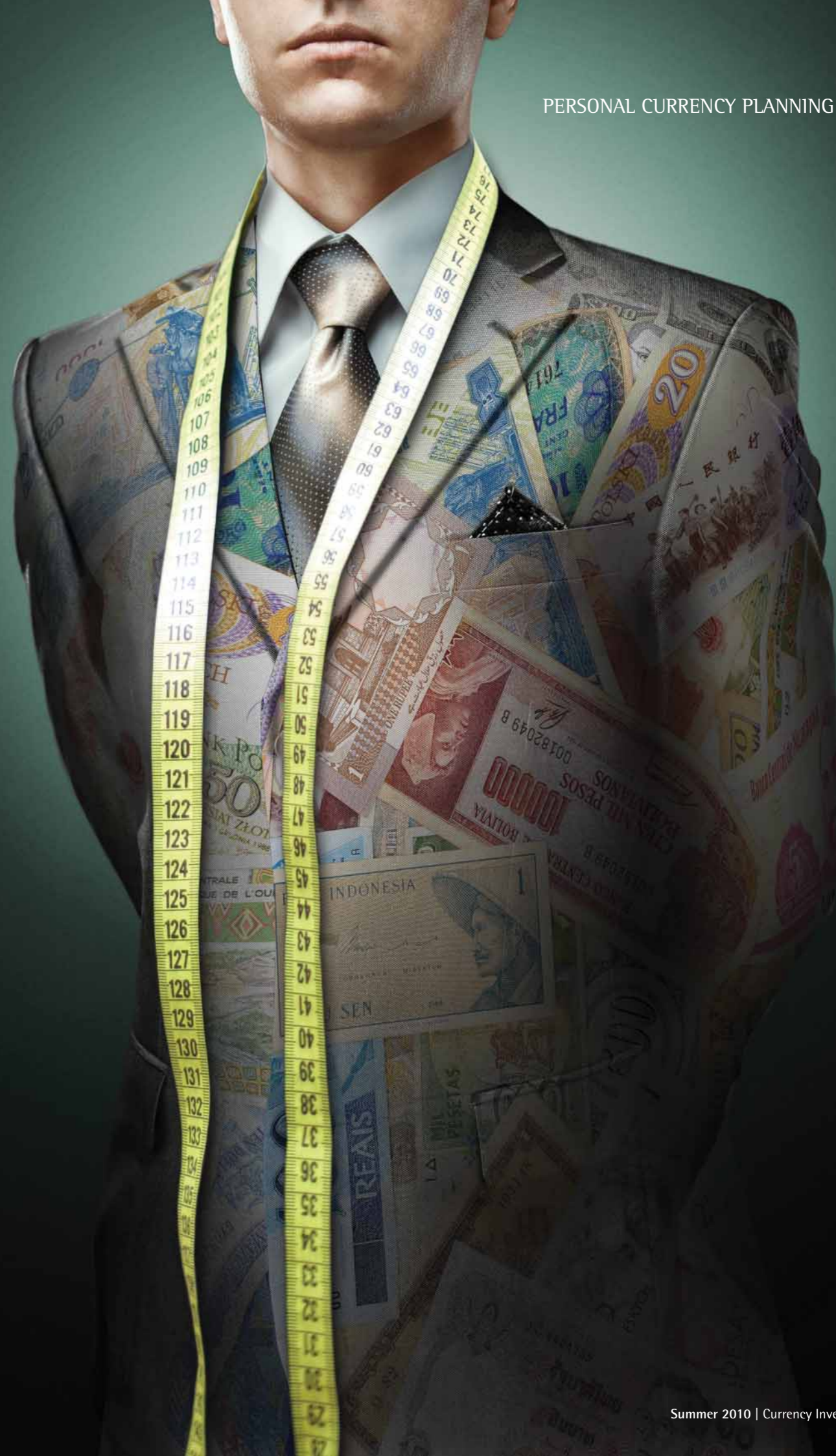
Anyone taking a holiday abroad checks the exchange rate, and tries to avoid losing out when they change their spending money. But today, it's not just about holidays - many people work globally and hold assets in different countries. When they are buying and selling property internationally, or receiving salaries in one currency and making payments in another, the impact of exchange rates on all transactions becomes crucial. Most traditional banks offer international money management services, but it's becoming increasingly popular to open an account with a specialised payment provider. Cecilia Shakerley takes a look at how personal currency management can help high net worth individuals optimise their personal balance sheets.

Slowing growth in the Eurozone and the Greek debt crisis has seen the Euro hit an all time low against sterling this year. Perhaps a surprising result of this, however, has been the popularity of Euro mortgages. In the first quarter of 2010, international mortgage brokers saw a marked increase in borrowers taking advantage of the fact that they can reduce the sterling cost of purchasing a property abroad by using a Euro-denominated mortgage. Over the past 20 years, most UK-based buyers of overseas property have raised money against their UK property and used the sterling funds to purchase abroad. But the plummeting Euro has seen an increasing number of people look at securing Euro-denominated debt against a Euro-valued property asset. The benefit of taking out a Euro mortgage on a French property is that the currency of the asset and the liability are matched, avoiding the impact of exchange-rate fluctuations. In addition,

if sterling strengthens as experts predict, the cost of the mortgage - both the monthly repayment and the balance outstanding - will fall.

It's this kind of thinking that's making the services of personal currency managers increasingly attractive to anybody who needs to move money around the globe. Davis Sear is Global Managing Director of Travelex, the world's largest non-bank foreign exchange specialist. He says: "Effective currency management is critical. In fact it's now a necessity, not just to businesses but also for individuals due to the significant costs incurred when transferring money to suppliers or beneficiaries internationally."

Individuals who need to move large sums regularly between currencies can not only reduce risk by employing expert advisors, but actually make currency work to their advantage. And the





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timing can be when we are moving larger sums of money: “If you were transferring £100,000 into Euros, on the 19th April you would have received €113,000. But just a couple of months later, on the 14th June, you would get €121,000 – a difference of €8,000. We ensure you trade at the right time, when rates are in your favour, by giving you an expert insight to the currency markets.”

Forward Contracts

But as we all know, most payments need to be made on a specific day. So how can currency managers help us work around this? I spoke to David Thomas, who is Senior Commercial Dealer at Personal FX, a division of Global Reach Partners. He told me about several services companies like his offer. Perhaps most well known are ‘Forward Contracts’. Put simply, these are agreements between a buyer and a seller. The seller agrees to deliver an asset at a specified price to be paid on a date in the future. Theoretically, these contracts help clients hedge against volatility and reduce their overall market risk.

Locking into a price can secure a good rate for a future date if funds aren’t available.

But of course if the rate improves it can have the opposite effect.

That’s where the expert advice of currency managers comes in. David Thomas gives us an example: “Client A used our services to buy a property in Italy and as such needed to purchase a number of Euros for a deposit followed by monthly mortgage payments. Initially they decided in conjunction with conversations with one of our senior dealers to buy their 150,000 Euro deposit at a price of 1.18 in June 2009. At the same time they made the decision to hedge their mortgage payments for the forthcoming year at the same rate. Over the last 12 months we saw GBP / EUR trade as low as 1.0630 and the decision they made to hedge gave them the assurances they needed to aid their budgeting process.”

Another way that clients can aid their hedging of foreign currency is by working limit orders. These are essentially orders to purchase currency at a pre-determined rate in market. The European style

volatility of today’s market makes expert management increasingly important. Mark Bodega, Director of HiFX, another leading foreign exchange specialist, told us about a client who had moved to France for his retirement and was still holding around £200,000 with a bank in the UK. “When the credit crisis hit, he moved the entire amount to Credit Agricole, as he felt they were a more secure institution at the time than this particular UK bank. However, the shifting of these funds to other countries and therefore into other currencies does leave clients exposed to fluctuations in the exchange rates, meaning they now must monitor exchange rates and begin to understand how and why they move. For many clients, this can be very daunting, as they will have little or no experience in this arena,” says Bodega. Which is why expert advice from a specialist currency broker can help individuals optimise their personal balance sheets.

Unfortunately, currency exchange is often something that people leave until the last minute, which means taking the rate as it is at that time. Personal currency managers can give their clients advice and flexibility on timing. David Kerns is Personal Client Dealing Manager at MoneyCorp. He explains how important



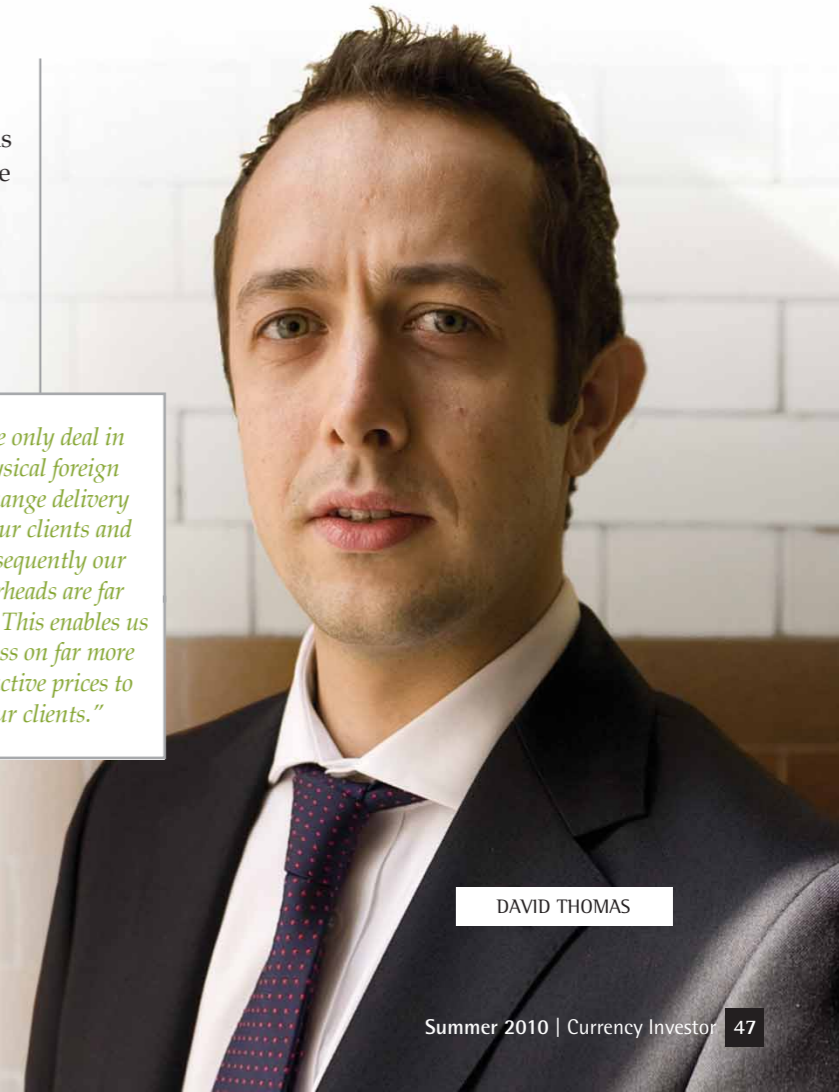
dictates that this price can be paid only on the date specified in the agreement. In the American style, it may be paid on any date up to it. Thomas says: “This zero-cost strategy enables clients to maximize upside on any given market move and can also be worked in conjunction with what is known as a “stop-loss” order in order to hedge against a fall in the market price.”

Specialised services

So why should we consider these services when most traditional banks offer international transfers?

Perhaps the most obvious reason to trade with a specialised currency broker is quite simply the competitive rates of exchange they can offer, compared with traditional banks. Bodega says one of his clients had €577,000 to repatriate to sterling. “She had spoken to her bank who had quoted her 4 cents off the interbank price, but we were able to save her around 3 cents or €15,000.” The kind of exchange rate savings that currency services like HiFX offer may seem insignificant for everyday or one-off exchanges. But their

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“Over the past 3 years banking institutions have had reduced revenue streams and are using foreign exchange as a viable replacement to lost revenues. Unfortunately the private client and the individual investor have had to bear the brunt of these charges. As such it is in the bank’s interest to make a substantial margin to justify undertaking the transaction. We only deal in physical foreign exchange delivery for our clients and consequently our overheads are far lower. This enables us to pass on far more attractive prices to our clients.”

Mark Bodega says a client of his had been hoping to move £400k into Euros for an investment. In order to make the investment financially viable, they needed to achieve a rate of 1.20 Euros to the Pound, but in the interim wanted to keep the funds in an ISA to keep earning interest on them.

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“In this case, we set up a market order to buy €480,000 if the market reached a point where this rate could be achieved. When the market spiked, we were able to purchase this currency for the client and as we had a relationship with the client and a trading history in place we were able to allow the client up to 5 working days (in which time the rates dropped back to 1.1885) to transfer the sterling to settle on the trade, meaning they kept the sterling funds earning interest and achieved his target rate. This would not have been possible through traditional institutions as banks require the Sterling before they arrange a transfer for the client.”

These types of services are available to anybody and there are no fees to open an account. Transfer fees are generally minimal - around 15-20 GBP. Charges on regular payments plans are even lower. HiFX makes all transfers free of charge. But the kinds of people who will really benefit from trading on their currency exchanges are those who are transferring large sums.

So we can get specialised, personal services, with no fees. It sounds great – where’s the catch? Well, currency trading always involves risk. Companies like HiFX, Travelex, Global Reach Partners and Moneycorp profit from the difference between the rate they buy currency and the rate they sell it to you. But, they argue – you are still saving money if you chose them over a traditional bank.

benefits are far more significant when large sums are being transferred on a regular basis.

Companies like HiFX are encouraging people to question the rates their bank is charging for transfers. They say many high street banks charge up to 4% more than them to transfer funds between currencies. What’s more, traditional banks can charge commission fees, transfer charges and, depending on where you are sending money, receiving fees.

Furthermore, David Thomas highlights an issue which has particularly affected individuals:

Expert knowledge

The currency managers are of course using their specialist knowledge to make profit for their business. But it’s their knowledge that investors can utilise to make currency exchanges work in their favour. Bodega stresses how important their understanding can be:

“Recently in a 30 minute period, the exchange rate between Sterling and the Euro jumped by 1 cent after a comment made by the French Prime Minister. The move was short lived and it lost two thirds of these gains within a couple of hours. This sort of invaluable information is streamed live in our offices enabling us to pro-actively contact clients for them to take advantage of such moves, before they would otherwise have seen or heard about it.”

David Thomas argues that while regular banks tend to be reactive to a customer’s needs “we maintain a far more proactive stance. We make it our job to deliver a premium service to our clients based upon understanding their needs and being in a position to contact them if we see levels that we deem to be attractive”.

Bodega sums up: “Currency brokers specialise in one area, where as traditional banking institutions are more a ‘jack or all trades and master of none’. Traditional financial institutions are trying to sell a number of products and therefore cannot fully master the intricacies and complications involved in managing and executing international currency transfers.”

The future

Traditional banking relationships have being transformed as the financial crisis forces a reality check. Meanwhile the appetite for independence is facilitating a new standard for payments in a ‘many to many’ environment, with on-demand services through secure networks, transparency of pricing and service levels. FX is the most liquid and global market, but currencies are also massively sensitive to the economic and political events of individual countries and regions. The more market uncertainly, the greater the volatility in the FX market which impacts

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currency movements making them increasingly susceptible to fluctuations – changes which can be felt on a global scale.

When there are large movements in currencies, anyone moving money around is exposed. David Sear sums up by saying, “Risk management to minimise any exposure is becoming increasingly important, coupled with the need to find greater liquidity in the markets to ensure immediate accessibility to cash. The market is evolving to meet the challenges and demands of transacting in a digital world, based on speed, flexibility and quality of service, along with the regulatory impetus has ensured an evolving payments landscape.”



MARK BODEGA