Moving money globally

Needlessly losing money on global payments?

Learn from businesses who aren't

Introduction

Whether it's paying suppliers, handling employee salaries, or moving revenue across borders, in today's fast-paced, interconnected world, sending and receiving overseas payments effectively is crucial for the success of your business.

The problem is, this means your business, your profits, and your budget sheet can be at the mercy of foreign exchange (FX) markets. This exposure is known as FX risk.

FX risk can significantly impact your business

If you're paying suppliers outside of the UK and the value of the pound rises, you may benefit more than expected. However, if the pound falls, your balance sheet will suffer. Without proper management of your global payments, you could be gambling with your bottom line. If you want to jump straight to it, click here.

In this guide, we'll break down everything you need to know about the hidden impact of currency exchange and provide actionable tips for you to manage your FX risk.

Hear from businesses like yours

We spoke with several financial directors and CFOs about how moving exchange rates impact their businesses and how they manage their FX risk. Their insights can help you develop strategies to prevent unnecessary FX costs in your own business.
To head to managing FX risk, click here.

OFX have been doing this for over 25 years, and we believe that currency exchange doesn't need to be complicated. So, if you're one of the many businesses still making and receiving international payments via your bank, this one's for you.

With a few simple steps, you'll be able to improve the accuracy of your financial forecasts, help increase the value of your international trade, make yourself look like a superhero in your next board meeting, and potentially even put yourself in the driving seat for that next promotion.

Are you ready to take control of your international payments?

Let's get started.

Maeve McMahon
President, EMEA
OFX

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Alex, OFXpert since 2007

What you need to know about international payments

Some of the reasons businesses make international payments today

Globalisation has opened new trade routes, offering businesses more opportunities than ever before, and with it, a growing need to transfer money across borders.

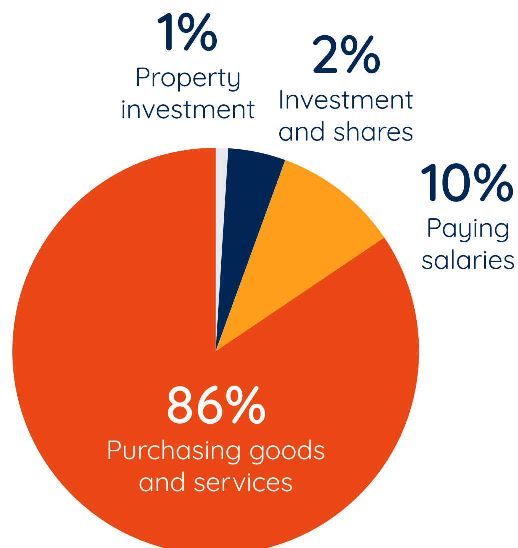
In 2023 alone, businesses made almost £31 trillion worth of international payments, a figure projected to soar to £44 trillion by 2030.

To put this into perspective, by the end of the decade, businesses will be transferring an expected $154 billion internationally every single day.

So, what's driving this?

Some of the most common reasons that companies send and receive international payments

According to OFX data, the most common reasons customers in the UK transferred money overseas are:



OFX customers - May 2023-April 2024

Why businesses currently engage in international trade

At the latest count, each year the UK exports £865 billion and imports £898 billion worth of goods.[1] So, if you're operating in the UK, chances are your business is trading internationally.

Positively, the most recent ONS analysis shows that UK businesses that trade internationally are 70% more productive than those that don't.[2]

And there are several reasons why.

What makes international trade so beneficial for businesses?

Access to raw materials and resources

Global markets offer access to supplies and goods that are not available in the UK, ensuring businesses have what they need to thrive.

Lower costs

Even for items available in the UK, importing from countries where production costs are lower allows businesses to reduce their costs, helping to boost profit margins or compete domestically on price.

Flexibility

Importing businesses are able to quickly respond to market demands, and ensure that they have what customers want, when they want it.

Reliability of supply

By importing goods from multiple suppliers around the globe, businesses can avoid dependency on a single country or supplier and ensure a reliable and consistent supply chain.

Business growth

Exporting allows businesses to expand their market reach and tap into new customer bases overseas. Beyond the benefits to the bottom-line, this also ensures a diversified revenue stream that can weather economic downturns.

Considering the bigger picture of global payments

Fraser Crawford
Chief Financial Officer @ HICX

"The majority of our customers are US based. But as we're remote-first, we have employees and contractors in over 20 countries around the world. This means that we have a main stream of income that's U.S. dollars, but our costs are usually in GBP and Euros.

From a finance perspective, you want as much as possible to be forecastable and be accurate. By using the FX mechanisms that are out there we can narrow where our FX is going to fall, rather than just leaving it open to the environment"

HICX supplier management solutions help some of the largest companies in the world to build productive working relationships with all their suppliers.

[1]Trade: Key Economic Indicators - House of Commons Library, May 2024.
[2]UK trade in goods and productivity: new findings - Office for National Statistics, March 2024.

Key trade partners:
Where businesses import and export

So where is business being done?

According to the Department for Business and Trade, the UK's import market relies heavily on the EU (52%), the USA (13%), and China (6.5%). When considering exports, 41% of the UK's export is the EU, while the US accounts for over a fifth (22%) of all exports.[3]

As global trade dynamics continue to evolve, UK businesses are likely to see increased trading with emerging markets such as China, India and Brazil, driven by growing economic opportunities and bilateral trade agreements.

Our data echoes this, showing that UK businesses are primarily exchanging GBP/USD to trade with both the US and China. For trade partners closer to home, GBP/EUR remains key, while entering the top ten are both Hong Kong and India, indicating that GBP/HKD and GBP/INR pairings are also on the rise.

At a glance: Import / Export routes for UK OFX customers

OFX customers - May 2023-April 2024

[3]Trade and investment core statistics book - GOV.UK

How regularly do businesses make currency transfers?

Being aware of what other businesses are doing and the frequency of currency transfers can help you understand best practice and effectively manage your own international financial activities.

As it stands, 9 in 10 OFX customers make regular FX payments, with importers and exporters in industries such as manufacturing, logistics, retail, construction, and IT having a recurring need for currency transfers.

These businesses typically use services like ours on a quarterly or semi-annual basis to facilitate efficient international financial transactions.

Working on a global scale

Wesley Haagmans, CFO @ Braden Group

“Our environmental solutions are designed to address the challenges faced by our planet's race to net zero emissions including selective catalyst reduction technology, hybrid electric gas turbine solutions and life extension demands, which together support the need for greater efficiency and productivity.

We are growing fast and have to manage currencies, that's because we have a head office in The Netherlands and operating subsidiaries in the USA, UK, Canada, China, Germany, France and Spain. On top of this, we also outsource our manufacturing to partners around the world. So, any unmanaged shift in currency exchange rates becomes a risk to the company.”

Braden is a leading provider of balanced solutions for air handling, noise mitigation, emissions control and energy storage solutions.

Niall, OFXpert since 2019

How UK businesses send and receive international payments

Unfortunately, a lot of businesses aren't aware that they're missing out on a better way to make international payments. As a result, many businesses still opt for using their bank when it comes to international payments. Sometimes it's hard to shake a sense of trust and familiarity.

But the downside of this — and there's a few — is that using a bank for currency exchange can come with a host of hidden fees, unfavourable rates and avoidable delays.

Whether it's a fee for maintaining accounts in different locations, transfer costs, or marked-up conversion fees, it's estimated that small businesses in the UK shell out billions of pounds to major banks annually for subpar rates and little to no service.

Here's how some finance leaders have felt since making the switch to a dedicated FX provider, if you want to jump straight to how businesses approach their FX planning, click here.

Using tools to manage unstable currency markets

Reema Patel, Finance Director @ Bicycle

"One of the most frustrating aspects of managing FX is dealing with the volatility of currency markets, which can lead to unpredictable costs and financial uncertainty. Additionally, the complexity of timing trades to achieve the best rates and the administrative burden of managing multiple transactions across different currencies add to the challenge.

We have mitigated these issues by partnering with an FX provider, who have helped with expert guidance, competitive exchange rates and hedging solutions."

Bicycle is a multi-award winning leading media and creative studio based in London.

Leaning on expert guidance

Fraser Crawford, Chief Finance Officer @ HICX

"I don't have time to look and see what's happened with FX on a daily basis. Working with OFX is like having a little guardian Angel on your shoulder that can give you a call and say, 'By the way, you might want to think about this...' — It's like having a safety blanket."

Understanding the risks

Vikki Shaw, Management accountant @ North South Wines

"If you transfer via the bank, there's not really any communication or flexibility. You can make a payment, but that's where the service starts and ends.

By working with a currency specialist and utilising their insight, we can see the benefits as a small company as we can make sure that we aren't taking too many high risks."

North South Wines is a leading UK-based wine distributor based in London that discovers and supplies wines that deliver exceptional quality and value to customers.

Dealing with pricing pressures and the cost of goods

Without the right risk management in place, a volatile FX market can make a huge impact on the cost of trading overseas.

Each business responds to this differently, with some absorbing the costs, others passing it onto their customers, and others ensuring they hedge their FX spend to avoid the risk altogether.

Based on the interviews we held with Finance leaders transferring currency, it seems that it's most common for businesses to absorb any losses, with those we spoke to building their strategy to avoid this:

Fraser Crawford, Chief Financial Officer @ HICX

"Because most of our contracts are multi-year agreements, where the value of the agreement is set at the point of contract, we work knowing that we would have to swallow any losses on our FX."

Vikki Shaw, Management Accountant @ North South Wines

"It cannot be passed on to our customers, if the market were to go against us. Our prices are set in stone, so we would have to take the loss or gain on the FX spend and put it into our P&L.

That's why we look at our FX needs monthly alongside our cash flow. We then work with OFX to hedge our FX spend and try to purchase either at, or higher than our budget, to ensure that we cover 100% of our expenditure for when it is due to be paid."

Wesley Haagmans, CFO @ Braden Group

"We work on a project-by-project basis with our clients, meaning our costs are agreed at the outset of our relationship. Because of this, any FX losses must be absorbed by the business.

In the past, our business did not consider FX risk. Then, with an unexpected drop in the value of the US Dollar, we lost hundreds of thousands of dollars on a particular project.

Our shareholders were not happy with that. But it's a lesson learnt. So, the first thing I did when I appointed CFO was to set up a clear treasury policy that manages our FX risk."

Navigating FX and FX markets

Foreign Exchange, commonly known as FX or Forex, is the global financial market where currencies are traded against each other.

With trillions of dollars exchanged every day, FX has a direct impact on economies, businesses, and individuals worldwide. And because of this high activity, exchange rates are constantly changing.

This means £1,000,000 in your budget sheet today could be worth thousands less tomorrow.
Jump here to see how to protect your business from unwanted FX costs, click here.

Factors influencing FX markets

FX markets are influenced by various factors, including:

- **Economic Stability:** Interest rate decisions and other policies by central banks.
- **Current Events:** Wars, civil unrest, and surges in demand.
- **Political Events:** Elections, economic policies, and geopolitical tensions.

Understanding these factors can help businesses navigate the complexities of the FX market, allowing them to make informed decisions to manage risks and maximise opportunities in international payments.

What this means for you

If you're doing business in different currencies, you need to be aware of FX trends.

Here's why:

- **Impact on costs and profits**

  Currency exchange rates directly affect your bottom line.

  For example, if your domestic currency weakens, the cost you're paying to import increases, which in turn squeezes your profit margins. On the other hand, being ready to take advantage of favourable rates can reduce costs, boost profits, or allow you to offer competitive prices to drive sales.

- **Budget and financial planning**

  We get it — Your budget is your number one priority.

  But without knowing the real value of your future costs and revenues, there'll always be an element of guesswork.

  By staying on top of FX markets you'll not only be able to improve your forecasting and planning, but you'll be better placed to manage your costs, mitigate any risks, and gain a competitive advantage.

Daljinder, OFXpert since 2007

What solutions can help me?

With all the key currency shifts and global news that you need to know for the day, week or month ahead, we suggest subscribing to our daily alerts and checking out our monthly Currency Outlook.

Plus, by working with an FX specialist, you can find a solution that allows you to make transfers at the right time for your business. Whether it's selecting a target rate or protecting a set exchange rate for the next 12 months, this forms part of your FX risk management strategy.

Some of those tools you can use:

Spot Transfer

When every second counts, Spot Transfers mean you can quickly and easily send money from A to B in 50+ currencies. Great rates. No hidden fees. Seriously secure.

Forward Contracts

Don't let exchange rate shifts catch you by surprise. Otherwise known as a simple hedge, Forward Contracts allow you to lock in today's exchange rate for the next 12 months. No worries. No surprises. Job done.

Limit Orders

Have an exchange rate in mind and happy to wait for it? Simply name your currency price, book a Limit Order and we'll buy it if it comes up within the next 6 months.

Reema Patel, Finance Director @ Bicycle offers her tips to fellow finance leaders

Bicycle

"There are many benefits of working with FX partners depending on your business requirements."

The key benefits for our agency have been:

01 The competitive exchange rates they offer - OFX and other providers offer more competitive exchange rates compared to traditional banks, which can significantly reduce costs on international transactions.

02 The ability to set target rates and automate transactions when desired rates are reached which for us saved time and ensured optimal exchange rate outcomes.

03 Personalised support and guidance from FX specialists - tailoring FX risk management strategies to our specific needs, enhancing our overall FX management.

Vikki Shaw, Management Accountant @ North South Wines on how she is able to make informed FX decisions

north southwines

01 Consult experts before making a decision

"We always work closely with our OFXpert to ensure we are purchasing on the correct value date, and ideally getting a rate above budget."

02 Planning ahead

"Even when I need to make an exchange, sometimes I'll hold off on purchasing straight away and keep an eye on what the rates are.

More often I'll just speak to my OFXpert and get his view on where he thinks the market may be in a month, two months' time, and use that to make a decision."

03 Staying flexible

"Our OFXpert has more insight and knowledge than we would have. So, we feel confident that having that insight gives us an idea as to whether we should take risks, or whether we should wait. There's always flexibility, and the relationship is second to none."

How businesses approach their FX planning

Each business has different needs. But whether it's regularly reviewing a well-oiled machine, or putting the framework in place for a growing business, the finance leaders we spoke to are keeping their eyes firmly on delivering the best results for their business.

A regular review of FX practices

Fraser Crawford
Chief Financial Officer @ HICX

"The majority of our customers will pay on an annual basis, so we can look out fairly comfortably to see our needs for the 12 months ahead with the exception of any new business.

So, we have a pretty good idea around what we're going to be invoicing, what the timing looks like. That means I review our FX plan on a quarterly basis and just look three to six months ahead. But when it comes to doing the annual budget, then I'll potentially look further out."

Putting a strategic framework in place

Wesley Haagmans
CFO @ Braden Group

"We are a project-based business, meaning that the cycle of our work is 6 to 9 months. With multi-million-dollar contracts in different parts of the world, each one has an FX risk.

In the past, we worked on our FX on a project-by-project basis. But with our growth, we need to put a strategy in place that allows us to make clear monthly reporting. Doing so will allow us to see how we are using FX in our cash flow, and to have a consolidated view of our incomings and outgoings.

We are working with OFX to create a treasury strategy that fits with Braden and our needs. I don't have two or three people who can work on this daily. But as we grow, we need a strong partner, and an expert at the end of the phone who can help."

Tips for navigating FX markets from your peers

If you transfer via the bank, there's not really any communication or flexibility. You can make a payment, but that's where the service starts and ends.

By working with a currency specialist and utilising their insight, we can see the benefits as a small company as we can make sure that we aren't taking too many high risks.

Reema Patel, Finance Director @ Bicycle offers her tips to fellow finance leaders

Bicycle

1 Get the lay of the land

"First and foremost, it's essential to understand the specific risks associated with foreign exchange exposure, including how currency fluctuations are impacting your business' profitability and cash flow.

My guidance is you should conduct a thorough assessment of your current and anticipated foreign currency exposure – identifying the currencies involved, the timing of transactions, and the potential impact on your financials."

2 Seek expert support

"Once you have this information, seek advice from FX specialists who can provide insights and recommendations tailored to your business needs. Partners like OFX offer specialist services that can help you understand and implement effective hedging strategies."

3 Start small and grow

"My biggest tip would be to start small. Begin with simple hedging tools such as forward contracts to lock in exchange rates for future transactions. This approach can provide stability and protect against adverse currency movements without being overly complex. As you become more comfortable with hedging, you can explore more advanced strategies."

4 Continuous improvement

"Lastly, regularly review and monitor your FX exposure and hedging strategies. The FX market is dynamic, and ongoing assessment will help ensure that your strategies remain effective and aligned with your business goals."

How to protect your business from unwanted FX costs

In this section we'll explore the importance of an effective FX risk management strategy and provide tips for how you can avoid needlessly losing money on your global payments.

An effective FX risk management strategy can help you:

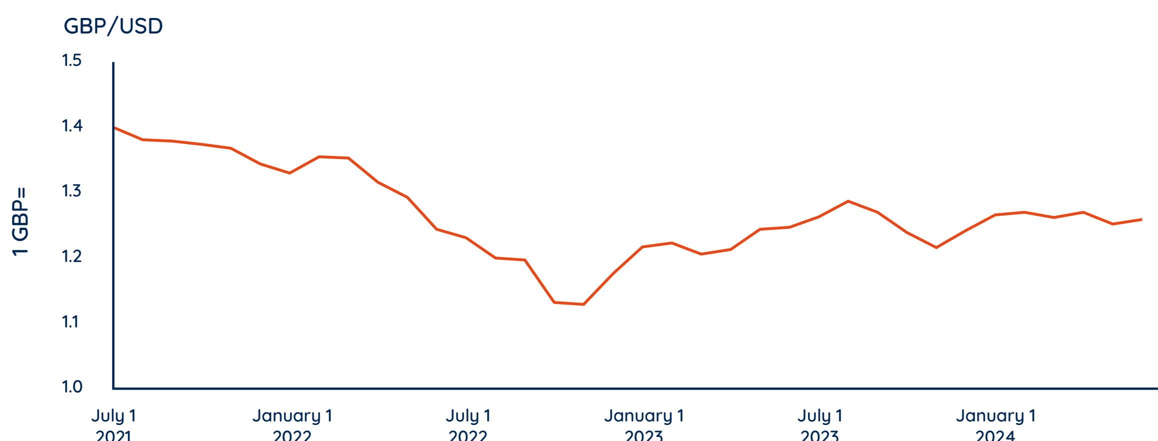
- Be more certain about your foreign exchange costs.
- Make fast, flexible transfers to capitalise on currency rates that go in your favour.
- Plan for market uncertainty so your budget is predictable and profitable.

Let's explore in more detail.

What is FX risk?

With every transaction there is foreign exchange risk. In a nutshell, this is the profit or losses that you can be exposed to as a result of changing currency exchange rates.

For example, in 2022, the Russia-Ukraine war sparked a European Energy Crisis, with 39 of the world's major central banks hiking interest rates 219 times across the year. The knock-on effect was that the EUR/USD exchange rate fell to a 20-year low, while GBP/USD fluctuated by nearly 25%.



However, it's not just major events that cause an issue. Any change in the exchange rate between the time you receive and pay an invoice can make a big impact on your bottom line.

Fraser Crawford, Chief Finance Officer @ HICX

"The biggest advice I'd give a fellow finance leader is — do not ignore FX.

We have seen over the last couple of years that you can have significant fluctuations in currency. So, if you're looking at a potential 5 or 10% swing away from your financial planning — that's the material number in your budget that you need to be considering."

The risks associated with FX

As we've explored, foreign exchange markets are influenced by a range of political, economic and market factors.

Understanding the risks of FX transactions is crucial for knowing how you can best operate in global markets and not get stung by a negative currency change.

The risks include:

- **Transaction risk** is where exchange rates change between the time a transaction is agreed and the payment being settled.
- **Economic risk** is the overall impact of currency fluctuations on a company's cash flows through exchange rates, interest rates, inflation, and other macroeconomic factors that can affect a company's financial performance. These events can be planned for though and normally known well in advance.
- **Translation risk** occurs when the financial statements of a company are converted from one currency to another, impacting reported profits and balance sheets through conversion.
- **Geo-political risk**. These risks, civil unrest and wars are typically unplanned and although difficult to manage should be factored in when considering how you manage FX risk.

Why FX risk management is important:

Taking steps to manage your FX risks gives you greater control over your budget, your forecasts and even allows you to save your business money.

But remember that currency fluctuations aren't always bad.

By being on top of FX changes, you could also leverage beneficial exchange rates to increase the value of your products, or lower your net spend.

FX risk management helps you:

- Protect your business and your budget from adverse currency movements.
- Get clear and concrete prices, making budgets and forecasting easier and more accurate.
- Capitalise on beneficial exchange rates and improve the figures on your balance sheet further.
- Improve customer experiences with consistent pricing and availability of products and services.

Checklist: FX hedging

Any risk management strategy that's worth its salt involves hedging. Because quite simply, hedging is a great way to eliminate or reduce your FX risk.

What is 'hedging'?

Hedging is how you protect your business from future changes in currency exchange rate. It works by committing a portion of your expected FX spend against a specified rate. Typically done by booking a Forward Contract for a specific timeframe, this means you secure a fixed price on any money exposed to foreign exchange risk. This helps protect you from any unexpected currency movements.

While it prevents you from losing out if the exchange rate moves against you — you could also miss out if the exchange rate for the currency pair you need to trade changes in your favour. That means that the amount you want to 'hedge' may change depending on the amount of risk you can afford to take, and the way that currency markets are expected to move.

Here's a simple checklist for you to consider whether FX hedging is right for you.

CHECKLIST

What are your objectives?

Laying out clear goals and targets will help you decide whether hedging is the right approach for you, what products to use, and how much of your FX spend you wish to hedge. This will be unique to your balance sheet and import/export activities.

For example, if numbers are tight and your primary aim is to protect your business from losses, then a larger hedge placed into Forward Contracts will help protect you from any unexpected currency movements.

On the other hand, if you have a higher profit margin and feel confident you could absorb losses if the market moves against you, you might take a bolder approach by booking a Limit Order at your desired rate, hoping to maximise profits if and when the market moves in your favour.

How fixed are your prices?

If you rarely update your prices — annually for example — you will be more exposed to FX risk in the event of a fall. This is where fixing a rate via a Forward Contract can be a valuable way of ensuring that you don't operate at a loss.

For those who set their prices on a case-by-case basis, there's more flexibility. As the time between quoting and payment is relatively short, the risk is reduced, meaning you may feel comfortable following the latest FX rate when quoting for your services.

How solid is your forecast?

If you can predict the amount of currency you're going to need to buy and sell over the next 12 months, then a Forward Contract can help mitigate any risk to your budget.

While this is more difficult for newer businesses, those working with new suppliers, or for those entering a new market, it can offer peace of mind that your forecast and projected profits won't be impacted by factors outside of control.

For example, in 2023, there was a 10% swing between the lowest and highest value for GBP/USD. While this might not sound too significant at first glance, if you were to be spending £10 million in the USA, this could mean an extra million pounds lost from your budget.

How healthy is your cash flow?

You will also need to consider your current cash flow.

A Forward Contract often requires an upfront deposit, which is a percentage of the total hedge amount. You will also be contractually obligated to pay the remaining balance at the agreed date, which can be up to 12 months in the future.

Ensuring that you have the available funds to settle the agreement is essential for not defaulting on the agreement and for effective cash flow management.

Consider the downsides

If you book a Forward Contract, it may mean losing out if the market rate improves because you're contracted to settle at the agreed rate.

Tips for building a FX risk management plan

Want to reduce your FX exposure but not sure where to start?

4 steps to kickstart your FX risk management journey

At a glance: 3 strategies to get you started

You can build a simple hedging strategy that's right for you.

Here's 3 examples of common hedging strategies to get the ball rolling:

1
Hedging 50% of your annual exposure

Hedging half of your annual FX requirements helps protect you from the full impact of a poor exchange rate. This approach offers peace of mind while leaving 50% of left for the Spot market, ready to capitalise on favourable rate changes.

And if the rate does become volatile, you can adjust your hedge as needed.

2
Taper Forward Contracts

Consider placing four Forward Contracts at the start of the year, each covering a portion of your exposure and reducing the amount hedged each quarter.

This strategy provides excellent short-term protection, safeguards against adverse movements down the line, and allows you to benefit if the rate improves in the future.

3
Monthly Forward Contracts

To stay agile and responsive to favourable market trends, place a Forward Contract for a portion of your FX exposure on a monthly basis. This method offers short-term protection without locking you into a rate for the entire year.

It's also effective for specific invoices, allowing you to follow market trends closely and ensure you're able to pay invoices on time at the agreed rate.

Carla McCallion, Finance Manager @ United Rugby Championship

"We mainly used OFX for spot transfers, helping us save on our FX transactions. Recently we started using Forward Contracts to improve the management of our funds and reduce our exposure to currency risk.

OFX aided us in managing our currency exchange needs and mitigating our risk which, in turn, helped manage our profits and losses."

The United Rugby Championship is a global club rugby league where 16 teams from five powerhouse nations compete across two hemispheres to become the URC champion.

Find out more

Find out more about the latest market trends by checking out our:

Daily Currency Updates || Monthly Currency Outlook || Blog

Speak to a currency specialist today

Heard enough and ready to begin your FX risk management journey?

You can call or email us, anytime.

With offices in 9 countries, there's always an OFXpert to help you, 24/7.

Visit OFX.com today

or speak to an OFXpert: +44 207 614 4195

Rated 'Great' on

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