

FINANCIAL SERVICES

## Understanding the world of international payments

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Credit card, direct deposit, check, cash, e-pay making domestic payments is a breeze these days, with enough flexibility to offer optimization based on your vendor's payment preferences.

International payments, on the other hand, are much more complex, and bring to mind painful images of cumbersome wire submissions.

Alternate options, such as **fintech solutions**, enable companies to submit all their domestic and international payments in one file.

If the fintech also includes vendor maintenance as part of its services, then the payment file draws banking details from the fintech's vendor network, eliminating the responsibility of maintaining that data from AP teams' plates.

But before I delve too deeply into the process, let us take a step back and explore nomenclature.

Over time, companies have imposed their own internal vocabulary over common terms. Terms such as "wire," "direct deposit" and "ACH" are often used interchangeably, even though they operate differently.

Let us synchronize our understanding of these words.

*What is in a name?*

International versus cross-border versus FX

"Cross-border payments" is a self-explanatory term the definition is right in the name. These funds cross international borders to reach their destination.

"International payments" also describes cross-border payment activity, but carries other specific interpretations as well.

For example, it may also refer to funds transferred within a single country through a bank or fintech located outside of that country for example, Canada to Canada, but through a U.S. fintech.

The term "FX" (foreign exchange) is occasionally thrown around to describe international payments, though it typically refers to currency exchange instead of the transmission of funds.

At the end of the day, as long as your company recognizes the nuances, the use of any term is fine. For simplicity's sake, the rest of this article will refer to "international payments."

### *Stepping out of history and into the future*

#### Wire versus EFT

Wire is the most popular and recognizable form of international payment processing.

From a simplistic, yet technical standpoint, wire payments transmit account data from one bank to another. It is sometimes the only method for sending money from one country to another, especially when working with specific currency exchanges or infrequently paid countries.

The term "EFT" (Electronic Funds Transfer) is quite a bit broader. It is a catchall phrase used to describe any electronic payment process. Wire, ACH, direct deposit and other methods fall under this umbrella.

#### *Standardized codes*

Codes are commonly used to determine various international payment factors. Use of the wrong codes can cause downstream payment issues, so it is worth identifying each type, since they often appear to be very similar to one another.

#### Country codes

ISO (International Organization for Standardization) country codes are country-specific abbreviations with varied uses.

Although three ISO country code variations exist ISO Alpha-2, ISO Alpha-3, and ISO Alpha numeric the ISO Alpha-2 code is used most in the international payment scope, in IBANs and SWIFT codes.

As the name suggests, ISO Alpha-2 codes are 2-character codes assigned to each country for identification purposes. For example, the United States is "US", the United Kingdom is "GB", and China is "CN".

#### Currency codes

Currency codes are 3-digit codes that identify currencies. Their resemblance to ISO Alpha-3 country codes may cause confusion, so it is always worthwhile to make sure you have got the right code before adding it to payment instructions.

For example, the ISO Alpha-3 country code for the United States is "USA" while the currency code for U.S. dollars is "USD".

Similarly, "CHE" is the ISO Alpha-3 country code for Switzerland, while the currency code for Swiss francs is CHF".

#### Payment specifications

Information requirements for international payments are far less cut-and-dried than those for domestic processes. The details often vary depending on the payment type, currencies and the countries involved.

#### SWIFT/BIC codes

Veteran AP personnel are likely very familiar with the SWIFT system (Society for Worldwide Interbank Financial Telecommunications), which is known as the BIC system (Bank Identifier Code) in some countries.

**SWIFT codes were introduced in the 70s** as a way to streamline the global money-transferring process and reduce the possibility of human error.

SWIFT codes are a series of characters that identify the bank, country, and branch location to which a payment should be sent. Decades later, they still play a significant role.

#### Routing numbers

While SWIFT codes are still essential to send international payments, the growing financial industry has highlighted the need for additional details. Routing numbers are the collective answer, and play a fairly large role in the modern payment structure.

The caveat is that they may not always be called "routing numbers," which is a U.S. term. For example, Australia has the "BSB Code," China the "CNAPS" and India the "ISFC Code."

While it may seem redundant to provide both the SWIFT and routing details, it is an excellent way to clarify the payment destination.

#### IBANs and account numbers

IBANs (International Bank Account Number) arrived in the 90s as a way to further standardize banking information, and have been adopted primarily by countries in the European Union, the Middle East, and several countries in Africa. While IBANs vary in length depending on the country, they contain these common factors:

- ISO alpha-2 country code
- Check digits
- Bank identifier
- Branch identifier
- Account number

Because IBANs often include the bank identifier (which shares digits with the SWIFT code), further account information is not typically necessary, which massively simplifies the payment process.

Countries that have not adopted the IBAN must still provide the SWIFT code, routing details, and the account number, as well as any country-specific requirements with their invoices.

#### Country-specific details

Additional details can include purpose of payment, tax documentation, and company phone numbers, amongst other things. Since each country requires specific information, it can be tricky to know exactly what to supply.

When in doubt, ask your payment solution provider they can outline each country's requirements, as needed.

WHILE INTERNATIONAL payment processes have evolved over time, the task is still nothing to sneeze at.

Fortunately, fintechs have **simplified the process**, and store and maintain banking details on your behalf.

That way, when you are ready to pay your international vendors, you are good to go in just a few clicks of your mouse no more painful single-payment submissions through the bank.

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