

More employees are working and retiring in foreign countries. Discover how cross-border payments for payroll, pension, benefits and interest can be made more efficiently and securely in this edition of The Bank of New York Mellon Treasury Services Innovation Series.

Who's Helping You?



By Colin Robertson



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Innovation Series
THE BANK OF NEW YORK MELLON TREASURY SERVICES

Globetrotting Pensions and Paychecks

How a single provider can standardize cross-border payments to improve service for corporations and payees.



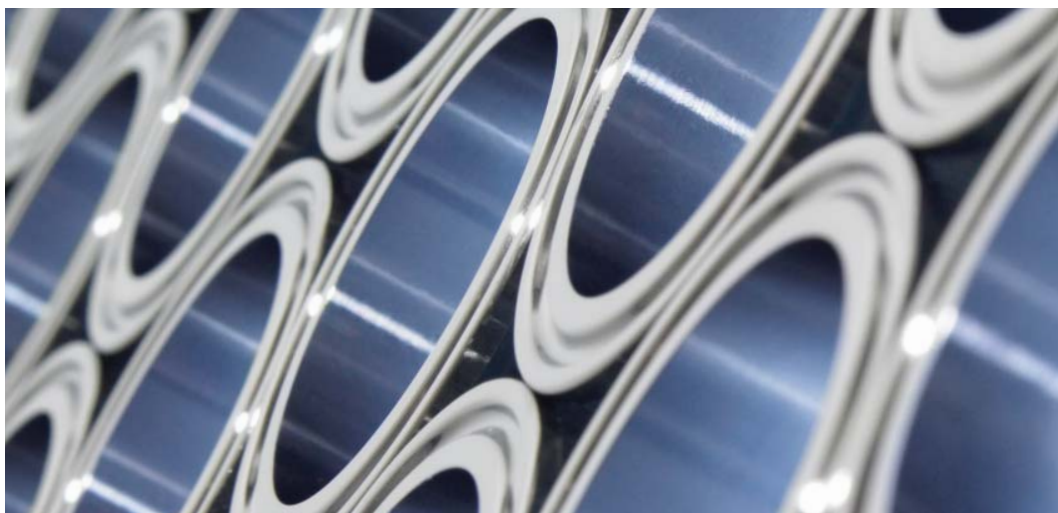
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In a global economy, corporations with increasing frequency employ workers living, temporarily or permanently, in countries foreign to the corporate home. Further, notably in Europe, whether for a lower cost of living or a more moderate climate, workers are retiring and resettling in foreign countries. These trends impact and create logistic problems for corporations in managing payments to employees – for pension, payroll, benefits, and interest.

The most serious problem in the cross-border payment process is lack of transparency, reflected in the differing fees paid for foreign exchange to banks in different countries and even within the same country. As an example, consider a retired U.S. worker moved to Mexico. He typically receives his pension benefit as a check in U.S. dollars, sent regular mail to his home address in Mexico. The paying agencies' traditional solution has been to continue making payments in the original currency by check or wire transfer to the beneficiary's country of residence. It is here that lack of transparency prevails and pension providers lose control of the process. The pensioner, converting to the local currency, finds different banks apply different exchange rates. Two pensioners in the same country and entitled to the same pension may receive amounts that vary unpredictably according to rates applied by local banks. Fees for incoming pension payments may differ again according to the instrument used (wire or check), or according to the currency of payment, variables of which the paying agency may be unaware. Foreign currency payments incur higher charges for the pensioner, not to mention the correspondent bank fees applied as the payment instructions travel the route from provider to beneficiary.



Funds availability is another troublesome issue, particularly if check payment in a foreign currency is used. Again, different beneficiary banks have different availability policies. The result can be a payee waiting weeks to receive funds while his deposit check is drawn on a bank in another country, accompanied with frustration and complaint on the part of the payee, and difficulty in providing adequate response for the payor who winds up spending disproportionate amounts of time, resource, and effort trying to make the process more efficient. What is needed is transparency within the process and a single payment provider in a controlled environment.

A single payment provider offers two important benefits that deliver reliable and cost-effective service:

1. Standardization of the disbursement process across all destination countries, and
2. Foreign exchange rate spreads based on a market standard benchmark rate for converting payments to the local currency of pensioners.

Standardization enables the paying agency to respond to queries proactively, confident that all pensioners are receiving the same level of service. Foreign exchange conversions completed according to a recognized market benchmark ensure that the best interests of both the pension agency and the beneficiaries are served.

A system of cross-border direct deposit allows paying agencies to effect electronic payments to pensioners on a worldwide basis using low-cost, batch-oriented payment systems. It provides timely and secure

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payment delivery with efficient service to beneficiaries. Cross-border direct deposit can be used for a wide range of payments including pensions, dividends, agent commissions, payroll, and other employee benefit plans. It is basically a three-step process.

1. The paying agent provides its bank with an electronic file transmission containing the payment instructions designated for the beneficiaries.
2. The bank receives and reformats the payment instructions to a) effect electronic payments conforming to the payment system requirements of the destination country, or b) issue a check that is forwarded to the beneficiary's postal address. For both payment instruments, the payment is converted into the local currency of the beneficiary.
3. The paying agent's cash accounts are debited and payment advices provided at the opening of business on value date. For electronic payments, the credit is deposited into the beneficiary's cash account in the designated country. For check payments, beneficiaries deposit checks that are cleared locally in the country of their residence.

A single payment service provider significantly reduces the amount of time and effort required to resolve issues associated with non-receipt of funds as well as return items or reclamations. Comprehensive payment reference information from a single source streamlines management of the reconciliation process, provides details of exchange rates used for cross-border payments, and it is cost effective.

The Bank of New York Mellon's Global Mass Payments service provides such a solution, and has already been implemented with great success by a major airline for all its cross-border pension payments. It is secure, competitively priced and easy to implement.



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Colin, in his role as the Relationship Sales Manager responsible for IPTSE's Northern Europe activities, works with financial services, corporate and public sector clients, to ensure delivery of value-added solutions that leverage the strength of the bank's various lines of business together with the payment, cash management or trade capabilities from the Treasury Management's suite of services.

Colin joined The Bank of New York in 2002 and brings over 25 years of international financial services experience obtained in multiple overseas assignments with Citibank in operations, IT, product management, product development and sales.

Colin has an Economics degree from The University of Western Ontario in Canada.

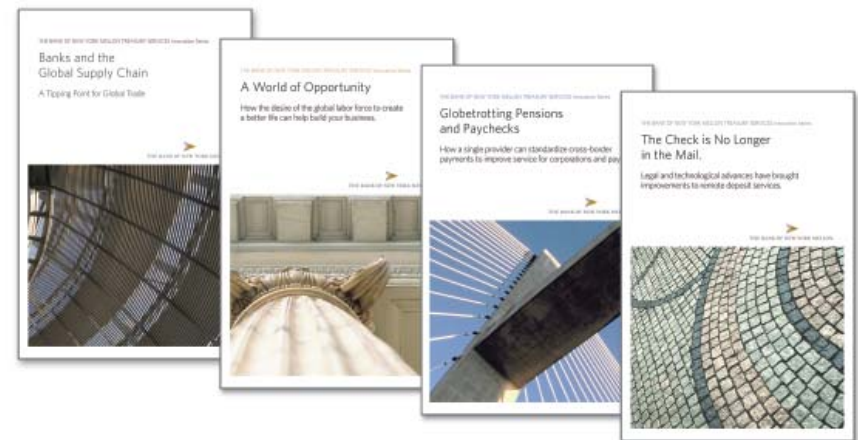
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