THE BEGINNERS GUIDE TO GETTING A BETTER DEAL ON CURRENCY EXCHANGE
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Introduction

It’s not just when you go on holiday that you might need to transfer money from one currency to another. In the modern world, more people than ever before are sending money to and from countries overseas, for a variety of different reasons. Perhaps you are business involved in importing or exporting goods and services overseas. Maybe you are a private individual with overseas property interests, or an expat living, working or studying abroad – whatever the reason, at some stage it’s highly likely that you’re going to need some help moving your money internationally.

The problem is that most people still don’t really know how the whole thing works. Many of us, at some point in our lives, will have to move a large amount of money from one country to another – but when that time comes around, how many people can genuinely say that they will know what they’re doing? That’s why we’ve created this quick guide to try and help educate people about the different scenarios where currency exchange is involved. By spreading some awareness of the circumstances and recommending some steps which can be taken to protect your money, we hope that more people will be ready if and when that situation comes around.
The Currency Market

Today the foreign exchange or ‘currency market’ (you’ll also hear it referred to as the ‘FX market’ or ‘forex market’) is the largest financial market in the world, trading more than $4trn around the world every day. A third of this is traded in London.

It is unique because it’s open 24hrs a day between 20:15 GMT on Sunday and 22.00 GMT on Friday. During this time thousands of factors affect each individual currency, ranging from British elections to American retail sales to floods in China. The main players are the banks who trade the vast majority of the $4trn every day at the ‘interbank’ rate - literally a rate between the banks. Smaller banks and brokers can get this rate as well and by taking smaller profits, they will in turn be able to pass this advantage on to their clients.

These markets are always evolving. Obviously prices change by the second but rules around the exchange of certain currencies do as well. Some are still “pegged” to a more major currency so as to guarantee some form of stability to their pricing. It can be to a rigid price or it can be allowed to trade in a tight range and normally this is done against a major trade partner, for example the Danish Krone (DKK) is pegged to the euro (EUR) and the UAE dirham (AED) to the US dollar (USD).

While you may think the main reason for the currency markets is trade, it isn’t. Although companies will take part in the market to pay for imports, repatriate funds from exports and make foreign investments, these days the main purpose of the FX market is speculation. Of the $4trn traded daily, only 2% is used for trade; the rest is made up of traders and market participants positioning themselves for where they think prices will go.
The vast majority of activity on the modern money markets is speculative trading. In short, the participant in the transaction has no intention of actually receiving the currency he or she has bought at their end, but in fact they were simply speculating on the flow of that specific currency at the time. It’s estimated that around 80% of all foreign exchange transactions are of this nature.

Of course, it’s not just traders who are impacted by the changing nature of the foreign exchange markets. In an increasingly global society, more and more people need to send money overseas for a variety of reasons than ever before.

Whether you’re a business importing or exporting goods, or a private individual transferring funds to pay student fees, buying property abroad or moving your pension overseas, the currency markets can make a real difference as to how far your money will go.

Trying to understand the currency markets may seem like a daunting prospect, but it really isn’t that tricky. By understanding the exchange rates, you could save money when making an international currency transfer.
The Exchange Rates

Fluctuations in the exchange rates can make a huge difference in the amount of money you end up with – in extreme circumstances the value of competing currencies can move by as much as 10% over the course of just a few days. There are, of course, obvious risks to dealing in the world’s financial markets and it can be tough trying to navigate them without specialist help. So let’s start with the basics…

What are foreign exchange rates?

The exchange rate is determined by the value of one country’s currency against another. So when you see a GBPEUR rate (pounds versus euro) of 1.15, that means every pound is worth €1.15. A higher rate means more euro for your pounds, and therefore more for your money.

What affects foreign exchange rates?

Inflation rates. If these are low compared with other countries, the exchange rate will tend to be higher. When the rate of inflation is low, exports become more competitive and with it, the demand for sterling to buy UK goods increases.

Interest rates. If these are high in relation to other countries, it’s more attractive to deposit money in the UK. There’s a better return from savings, so the demand for sterling is higher.

Other factors. These include government debt, political stability and government intervention. For example, a government’s strategy to weaken a currency to make exports more attractive.

Does it really make a difference?

It can make a big difference. The exchange rates can fluctuate dramatically. For example, at the start of February 2013, the GBPEUR rate (pounds versus euro) was at 1.15, but a year later, in February 2014, the rate was well over 1.22.

So in February 2013, if you were changing £1000 into euro, you’d have got around €1150. A year later, this would have risen to over €1220. Such fluctuations can also happen over the space of weeks and even days, and you can see how a favourable exchange rate makes such a difference if you’re dealing with even larger sums of money.
Why would I need to move my money overseas?

You're probably used to changing money when you go on holiday, but there are plenty of other reasons why you might make a currency transfer. Here's our whistle-stop guide to some of the different scenarios which may require you to transfer a large amount of money internationally.

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Buying and Selling Property Overseas

Moving house is often described as one of the most stressful things you can do. It’s difficult enough if you’re moving to a new town, or even round the corner. But if you’re moving to a new home in a brand new country, that can take the stress to a whole new level. Similarly if you’ve been living abroad or you’ve owned a house overseas and you’re looking to sell up, the process of doing so can be daunting.

If you’re buying abroad, you might want to transfer the whole lot to pay for the property in one go, in which case, getting a good exchange is absolutely crucial. The more money you’re transferring, the higher the stakes, with changes in the exchange rates capable of costing you thousands of pounds in the space of just weeks and days.

You’ll still want to get a competitive rate if you’re making regular payments, whether it’s to pay for the mortgage or to make maintenance payments. With a foreign exchange company, you can set up a regular transfer order, and the payment will be made automatically, at the best exchange rate available on the day. Or you can set an exchange rate in advance – what’s known as a forward contract – and pay the same amount every month. This way, you’ll always know what you’ll pay, which will make budgeting a lot easier. Plus, if the exchange rate drops down, you won’t lose out, having already agreed the exchange rate. It does mean, however, that if the exchange rate should go in your favour, you won’t be able to benefit from that.
Paying International School Fees

If you or your son or daughter is heading abroad to study, you’ll probably need to transfer money across to pay for tuition fees or just to help with running costs. Let’s say one of your children has secured a place at a prestigious US college. Firstly, congratulations! Secondly, you’re going to want to make sure that the fees are paid in the right currency, on time, and that any allowances you send arrive quickly and reliably.

Choose a date for the payment to be made to the institution, and by setting up a regular account, you’ll know that it’ll always get there on time. By going one step further, and setting up forward contracts, you can fix an exchange rate up to three years ahead, so you’ll know exactly how much will arrive at the destination every term or month, and just how much cash will make up the allowance.
Working Abroad (Salaries & Bonuses)

Repatriating Income

Thousands of people work away from home, in industries as wide ranging as security, entertainment and manufacturing. If you’re working abroad and want to send money home, you’ll want to make absolutely sure that as much of those hard-earned funds are making it home as possible, and that you’re not losing out through poor exchange rates.

The best way of sending your money into your home bank account is by using a currency exchange company, and setting up what’s known as a forward contract. This enables you to fix an exchange rate in advance, and means that you’ll always know how much you’ll end up with. Whether the exchange rates go against you in the meantime makes no difference, as you’d already have agreed an exchange rate.

If you’re lucky enough to have received a bonus, choose a currency exchange company to send it home for you, as they’ll give you a better exchange rate than you’d get from your bank, and it could end up saving you a lot of money.

To know that your family will end up with the most possible money from your salary should give you real peace of mind, so that’s why it’s so important to keep your eye on the exchange rate. Strike while the iron is hot, and fix an exchange rate as soon as the rate’s in your favour.
One Off Purchases

From time to time, we all deserve to treat ourselves to a special purchase, and sometimes that requires having to transfer money overseas to pay for it.

Maybe you've had your eye on a famous painting for some time, or a horse, boat or plane that you always promised yourself. So why not take the plunge – you know you want to!

But before you do, make sure you can get the best deal on your currency exchange so you don't end up paying more than you need to. A currency exchange company can find the best way of transferring your payment and protect your money when the exchange rates fluctuate.

Similarly, if someone's making a one-off payment to you, ensure the funds are converted quickly and easily, and in the most cost-effective way for you. Minimise your risk against the currency markets by taking out a forward contract, which allows you to fix an exchange rate in advance, and know exactly what you’ll pay/receive. If you want to make the payment/sale straight away, then a spot contract means you’ll get the best exchange rate on the day.
Single Farm Payments

The Single Farm Payment (SFP) is a subsidy paid to farmers in the European Union, and is paid on a per-hectare basis. If you receive this payment, it can play an important role in safeguarding your livelihood.

Many farmers say they couldn’t make a profit without the subsidy, and the EU has spent tens of billions of pounds on it since introducing it back in 2003. When you receive your SP5 form from the Rural Payments Agency (RPA), it’s up to you whether you receive your Single Farm Payment in sterling or euros.

By choosing to take your SFP in euros, you have more control over the amount you receive. Contact a foreign exchange company to help you arrange the transfer. Then, by entering into a forward contract and locking into a favourable rate, it means you could end up with a higher payment for your SFP than if you had chosen to receive this subsidy in sterling.

In this case, all you’d have to do is ask to receive your SFP in euros, and transfer them to your chosen foreign exchange company through the Rural Payments Agency.
When you buy a property abroad, you can be sure that things work a little differently to how they do at home. Whether it’s taxes, insurance, work permits or anything else, learning the local customs and ‘ways of doing things’ will stand you in good stead.

When it comes to managing any property investments you have, the first thing you’ll need is a foreign bank account.

You’ll need to pay for any unexpected things around the property that need your attention – and they will come, especially if you’re renting the property out. Bills will need to be paid regularly, and on time. And then, of course, there are the mortgage payments themselves. Plus, if you are renting, you’ll need a place to receive your rental income.

So, there’s plenty to think about. On the money side of things, you can cut down on the expense by using a foreign exchange company to move your money from one place to the other.

If you’re making regular mortgage payments, set up a regular payments order, and by fixing an exchange rate in advance, you’ll know exactly what you’ll pay every month. This way, you’ll also avoid nasty surprises if the exchange rate goes against you – you won’t lose out.
Pension Transfers

For many people, the idea of retiring abroad is an attractive one. For some, the thought of warm, sunny days and an easier pace of life can be too tempting to resist. But how do you get your pension payments sent to your new home, and how do you get the most for your money?

If you’re retiring abroad, you may wish for your UK pension to be converted and transferred every month to the account you set up in your new country of residence. A foreign exchange company will be able to convert your funds into the right currency and transfer your money. If you want to have the same amount sent every month, you can set up an automatic regular transfer, so you won’t have to do anything. Just choose whether you want the funds sent at the exchange rate on the day or set up a forward contract, and fix an exchange rate in advance so you know what you’ll get every month.

If you want to transfer your pension savings into an overseas pension scheme, there are a few things you need to be aware of. The overseas scheme that receives the transfer must be a qualifying recognised overseas pension scheme (QROPS) or the transfer will be deemed an unauthorised payment, on which you’ll have to pay tax.

A QROPS scheme is one that meets the requirements set by UK tax law. The pension scheme must notify HM Revenue & Customs (HMRC) and confirm that it meets the legal requirements. A QROPS must broadly mirror the way a UK pension scheme works - meaning you should still get a lump sum and pension when you retire. However, this is subject to any local law or taxes in the country where the QROPS is operating or the country where you’re living.

Check that the scheme you want to transfer to is a QROPS, otherwise your current UK pension scheme is likely to refuse the transfer.
Emigrating or Moving Back Home

If you’re looking to start a new life abroad, or heading back home having lived overseas, you’ll know that there’s a lot to remember and plenty to organise. Paperwork, transport, buying new furniture, remembering to bring the kids... the list is endless.

One of the things that can cause some stress is the transfer of funds to pay for everything. You’ll want to get your timing right when it comes to making currency transfers; whether you’re buying or selling property or paying any of the other associated costs, your money will go a lot further if you can get the best possible exchange rate.

A currency exchange company will give you their best exchange rate, and you can transfer your money using a spot rate. Or you can fix an exchange rate in advance and take advantage of a forward contract, which means you’ll know exactly the amount you’ll pay when the time comes.

You can arrange for the money to go straight to the person or company you’re paying, for mortgage payments etc, or you can have the money sent to your new bank account in your new country of residence and you can take it from there.

Likewise, if you’re coming back home, a currency exchange company can bring your money back too.
Conclusion

Getting a Better Exchange Rate

Regardless of why you’re moving money, everyone wants a better deal. The trick is to get a better rate, as discussed, and also to avoid any unwarranted fees or charges.

So do I just go to my bank?
A lot of people do, but by doing so, they miss out on the services of FCA (Financial Conduct Authority) authorised experts that are big, secure and reputable. For example, World First can transfer your money quicker and cheaper than your banks, offering you a much better exchange rate.

Why can a currency exchange specialist can get me a better rate?
Simple - because they charge a smaller margin. Any exchange rates you see listed on news channels are the ‘Interbank Rates’ or ‘Mid Rates’. This is the rate at which banks buy and sell currency to each other, when they are transferring huge amounts, usually over $5million. These rates are not available to the general public or smaller companies. The rate that you actually get will be the ‘interbank rate’ plus a ‘spread’ which is added on top. Usually the actual rate you get will depend on how much you are transferring and which currencies you are transferring to and from. However, with a specialist currency company you will always get a more competitive rate than you would at a bank.

All clear on that?
Hopefully, this guide has helped you understand the world of currency, and how it works. Now you see why getting a good exchange rate is so important. And because life changes so quickly, you never know when you’ll need to send money overseas and manage your money as it crosses borders with you.

For more information visit www.worldfirst.com
To speak with a currency exchange expert – call us at 020 3468 6954