

Cross-border banking



Setting your business up for successful cross-border operations

Understanding the vast differences in banking environments, and which differences have the most significant impact, is critical to optimizing working capital, streamlining processes and controlling payment costs when an organization has cross-border operations.

While the number of banks in the United States has consolidated during the past decade, the banking landscape is still much more fragmented than it is in Canada, where the top five banks control approximately 85 percent of total assets.¹ In the U.S., the top five banks only hold about 44 percent of total assets.²

The national U.S. banks have huge branch networks—larger than their Canadian counterparts—yet most do not offer the true coast-to-coast branch networks that are found with any of the larger Canadian banks. That's why in Canada, it is far more common for businesses to have just one banking relationship to manage treasury operations.

In Canada, the top 5 banks control
85%
of total assets.¹

In the U.S., the top 5 banks control
44%
of total assets.²

Commonly overlooked nuances between the U.S. and Canadian banking structures

Businesses with cross-border financial operations need to understand not only the differences between the two banking environments, but the practical implications of these differences, as well. On the surface, the financial products, services and processes closely mimic one another, but the nuances across the two markets can make all the difference.

For example, the overall collection process for cheques and ePayments in both countries is largely similar, outside of a few minor differences with respect to the physical appearance of cheques.

However, there are many nuances in the clearing processes. Funds availability for deposits is immediate in Canada (inter-bank settlement is not required) in the U.S., not all funds will be immediate. Canadian cheque payments are cleared on the same day they are deposited, but in the U.S., the

The true significance of the U.S.-Canadian relationship

While many other trade relationships get more attention in the news, few are more significant than the partnership between the U.S. and Canada. Canada buys more goods from the United States than any other nation—including all 28 countries of the European Union.

Since the Canada-U.S. Free Trade Agreement in 1989, trade between the two countries has more than tripled. Goods and services aren't the only things crossing the border. For example:

- **More than \$680 billion CA\$** of trade took place between Canada and the U.S. in 2014.³
- Nearly **9 million U.S. jobs** depend on trade and investment with Canada.⁴
- More than **400,000 people** cross the border every single day for business and pleasure.⁵



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Commonly overlooked nuances between the U.S. and Canadian banking structures

clearing process could require flowing through multiple touch points. This float, or lack of float in Canada's case, can have a significant impact on cash flow, which businesses must understand when setting up internal, cross-border banking guidelines.

Regarding receivables, there are two major differences to note:

In the U.S., low value ePayments are primarily facilitated in the Automated Clearing House (ACH) format, governed by the National Electronic Payments Association (NACHA). In Canada, low value ePayments are primarily facilitated in the Electronic Funds Transfer (EFT) format, and governed by the Canadian Payments Association (CPA). Most importantly, these formats do not translate across the border.

In the U.S., the ACH corporate trade exchange (CTX) format provides for payment details (addendum), whereas the EFT format in Canada does not—it is equivalent to cash concentration or disbursement format—requiring alternative approaches and more manual intervention to passing payment addenda to beneficiaries to facilitate reconciliation. So while the end payment results are the same, it's important to prepare your treasury staff to make the adjustment. If it makes sense for your business, you may also want to consider Electronic Data Interchange (EDI), which is offered by Canadian banks. EDI provides for enhanced remittance information over EFT and on par with ACH.

Secondly, while Remote Deposit Capture has been very widely used in the United States, particularly with small and medium-sized businesses for some time now, Canadian banks are just beginning to offer it.

While availability of remittance information differs between the two markets, it's worth noting that Canadian banks are expanding their account information reporting capabilities to improve the reconciliation of receivables information attached to collections. In addition, by the end of 2016, most banks will be exchanging cheque images, facilitating greater efficiencies with respect to payments collection.



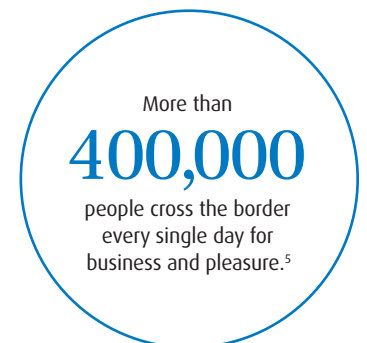
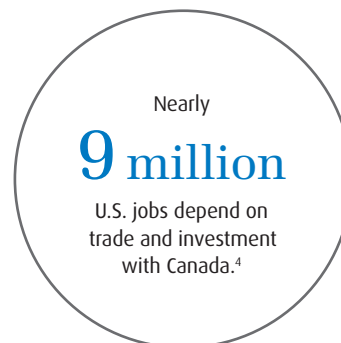
Finality is not assured for Canadian items such as cheques and pre-authorized debits.

Under certain circumstances, these items can be returned up to 90 days after being issued. In the U.S., this timeframe is only 24 hours. Given this difference, businesses need to ensure there is enough cash on hand to cover returned items for up to 90 days.

To modernize Canada's payment system, the CPA is implementing a number of changes that will take hold over the next couple of years. It will be adopting an internationally recognized payment messaging standard as the foundation of Canada's payment system: ISO 20022. This standard will provide increased capacity for remittance data to travel with a payment as well as interoperability across international clearing and settlement systems.

Understanding these nuances and creating best practices to account for them lays the foundation for operational efficiency.

By the numbers:





Differences in the banking landscapes and processes aren't the only challenges that businesses need to overcome.

Five ways to streamline cross-border operations

For businesses on either side of the border looking to expand or simply improve existing cross-border operations, here are five ways to improve cash flow and working capital and ensure overall business success:

1 Find and implement the most efficient business model for the organization.

Just because a business chooses to have cross-border operations does not mean that the business must have a brick-and-mortar presence on both sides of the border. Instead, an organization may decide to have a network of third-party distributors in the country of expansion because these distributors have established infrastructures and sales relationships. More businesses are also choosing to have remote staffers with no official company offices. Lastly, businesses may choose to only sell goods or services across the border while all company operations remain within one country.

2 Eliminate ambiguity that can cause confusion among the staff.

Leaders within treasury should establish internal processes and standards that can eliminate procedural inconsistencies and inefficiencies caused by ambiguity. For example, even seemingly minor details can impact the business. When looking at purchase orders or invoices, accounts payable and accounts receivable staff may not know which payments, either incoming or outgoing, are in U.S. dollars and which are in Canadian dollars. The easiest way to overcome confusion most often caused by paper-based processes is to move as much as possible to electronic payments.

3 Ensure the business is protected against fraud on both sides of the border.

Like payment clearing processes, there are differences that businesses must understand when protecting the organization

against fraud. Many cross-border businesses are learning an important lesson: Having chip and PIN-enabled credit cards on both sides of the border greatly reduces the risk of physical card fraud. While this infrastructure exists in Canada, the U.S. is still rolling out compatible cards and POS systems. Chip and signature, or payee name verification, also exists in Canada but is more commonly used in the U.S.

4 Think beyond the movement of money to account for regulatory, legal and cultural differences.

Differences in the banking landscapes and processes aren't the only challenges that businesses need to overcome. There are other tough questions that must be answered. Is the business ready to serve a market that operates in French, too? Are partnerships in place that can help leaders understand the treasury, tax and legal nuances? Is there enough liquidity and working capital available to cover potential cash needs?

5 Find the right partner to guide you through these challenges.

To answer all of these concerns—and the many others that exist—businesses should partner with experts who understand the banking systems and treasury best practices and have expertise in both countries' systems. To find the right financial partner, businesses should look for three main things: expertise and advice on cross-border banking and financial management, cross-border tools and solutions and support with regulations, documentation and implementation.

About BMO's cross-border expertise

BMO offers premier commercial banking services across the U.S. and Canada to help manage your cross-border business efficiently. Our experienced cross-border team has the expertise you need to support your U.S. and Canadian financial needs with a single, integrated approach. We'll help you navigate country-specific requirements and recommend the best roadmap for your success.

Our treasury solutions include a comprehensive suite of North American payment, receivables, liquidity and fraud mitigation solutions, accessible through an integrated online treasury management platform. Whether you are banking from the U.S. or Canada, you'll receive integrated and consistent service and support.

Still have questions? Read success stories from other businesses that took on cross-border treasury management.

Let's connect

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¹ <http://dtp.r.lib.athabascau.ca/action/download.php?filename=mba-12/open/eggertclaudioProject.pdf>

² <https://www.snl.com/InteractiveX/Article.aspx?cdid=A-30025507-14130>

³ http://can-am.gc.ca/relations/border_frontiere.aspx?lang=eng

⁴ <http://dtp.r.lib.athabascau.ca/action/download.php?filename=mba-12/open/eggertclaudioProject.pdf>

⁵ <https://www.snl.com/InteractiveX/Article.aspx?cdid=A-30025507-14130>