

Save Money When You Change Your Money

By choosing the wrong venue for your exchange transactions, you lose several percentage points on every transaction

Friday, April 15, 2005;

With a fluctuating world economy and the U.S. dollar selling at varying rates against other currencies, it becomes more and more important to avoid or reduce the 10% loss that most of us incur on changing our currency or traveler's checks into foreign funds.

That statement--with its 10% reference--will come as a shock to many. Yep, whenever you exchange money, chances are you're giving away around 10% of its value during the transaction. The dollar is not doing so well nowadays, so it's silly to needlessly give away a decent slice of currency to middlemen. Might as well get as much as you can, right?

Every little bit counts, and the place to begin saving is in the initial purchase of traveler's checks for the trip. For years, the U.S. Department of Justice has investigated the strange coincidence that almost all sellers of traveler's checks (most of them banks) charge a uniform fee--ranging from \$1 to \$2 per \$100--for doing so. Since these banks enjoy other forms of income from the lucrative travelers check business, they really don't need that fee, and a few of them waive it. As the first step towards saving that ultimate total of up to 10%, you should seek to buy your checks from a bank that charges no fee.

Often, the friendly manager of a small bank will waive the fee for a good customer. Some banks waive the fee for people with special accounts, or for members of their travel club, or for senior citizens, or for any number of other promotional reasons. Ask your own bank manager to consider waiving it for you, a long-time depositor. Saving the fee is the first step towards enjoying even greater savings overseas.

Once abroad, you'll discover to your horror that most exchange offices charge both a fee and a commission for changing your traveler's checks into the local currency, in addition to imposing a hideously-weighted (in their favor) exchange rate in doing so. Calculated even conservatively, those fees and commissions can often add up to as much as 8% of the average transaction at those little, one-person booths called "Bureaux de Change" that are scattered about Piccadilly Circus and Leicester Square, Place de la Madeleine and Via del Corso, in London, Paris and Rome.

Therefore, the first, unbreakable rule of smart travel--I wish it were written in neon in the heavens above--is never to change your traveler's checks (or dollar currency) in any such exchange office, but only in a big, huge bank in the very center of the city.

Not only in a big, huge bank, but in a bank affiliated with the issuer of the traveler's checks you're using. Cash Barclay's Travelers Checks at a Barclay's Bank in London, cash American Express Travelers Checks at an American Express Office, Thomas Cook Travelers Checks at a Thomas Cook office, and so on. If you do, you'll usually save the "encashment fee" that alone can amount to 5% and more at a "bureau de change."

(I say "usually" because a handful of European countries require a fee by law, and in those countries, even the well-known travelers check companies can't avoid it. Since the mandated fee is a flat sum per transaction, regardless of the amount you cash, it pays--in those countries only--to cash a fairly large amount of traveler's checks at a time, in order to reduce the percentage of your loss).

But even if you can't get to a bank affiliated with the issuer of your brand of travelers check, go to a bank nevertheless; they invariably impose much lower commissions for cashing traveler's checks than do the small

"bureaux de change" to which I've referred. It almost always pays to stifle that impulse to dart into a closet-sized Piccadilly Circus currency shop, and walk a few further blocks instead to a big, stuffy bank. You'll save.

The only place where banks themselves turn into the polite equivalent of highway robbers--no matter how prestigious their names, no matter how venerable their lineage--is at airports. In my experience, the moment a bank is given an airport location, it becomes just as rapacious, just as immoderate, as the flashiest, cockney money-changer. Possibly because they must pay heavy concession fees to the airport for the right to deal with a captive audience, the rates, commissions and fees of airport banks are calculated to cost you as much as 8% of the amount you exchange--considerably more than you'd pay at the very same bank in town.

The other locations where you should never cash traveler's checks are hotels (you should also never send laundry from, or make international phone calls from, a hotel). Hotels regard money-changing as a "profit center" opportunity. While their fees and commissions may be reasonable, the exchange rates they use are ridiculous.

To summarize this initial point: always cash your traveler's checks in a big, in-city bank. And try to use a bank affiliated with your brand of travelers check.

But which brand of travelers check should you buy? In my firm view, any of them, there being very little difference among all major brands. All such companies maintain literally thousands of affiliated offices overseas that will replace your checks if they are lost or stolen, and with approximately the same speed and efficiency. I once visited the awesomely-impressive, indeed cavernous, refund offices staffed by hundreds of employees and equipped with hundreds of computers and telephones at the Florida headquarters of a major, travelers-check-issuing company--and it was not one of the top two or three firms. Buy the brand handled by a bank that will waive the issuance fee.

Should you, though, buy dollar-denominated travelers checks or those in foreign currencies--euros, pounds and yen?

Contrary to the advice you'll receive from well-meaning friends, there is no answer to that question. If you think the dollar is about to decline in value in the time between your purchase of traveler's checks and your use of them, then buy foreign-currency traveler's checks. Then, if the dollar does decline, you'll gain. If you think that the dollar is about to strengthen, then buy dollar-denominated travelers checks; and if you're right, you'll be better off. Trouble is, you're gambling either way; and since you don't know what the currency markets will do in the weeks ahead--no one really does--there's no sure way of making the choice.

Tussling with that conundrum, one banker-friend of mine advises people to "hedge." Buy half your traveler's checks denominated in dollars, he says, and the other half in a foreign currency, and you can't lose; when one declines, the other usually strengthens, and the total amount of your funds stays absolutely even.

Whatever decision you reach on any of the above issues, you should at least convert virtually all your travel money for an overseas trip into some form of traveler's checks--for two reasons:

First, the traditional one. Traveler's checks are quickly refunded if they are lost or stolen; you avoid the loss of cash. Often I hear sad tales of tourists whose hotel rooms in Madrid or wherever were robbed of \$800 in cash, or their pockets picked in Venice for almost as much--and I marvel. What in the world were they doing with that amount of cash, which they would certainly never carry even in the United States? Buy traveler's checks!

And there's a second reason for doing so: all money changers--big and small, reputable and questionable--use a better exchange rate in the cashing of traveler's checks than in the conversion of actual currency, a difference--indeed--of as much as 1% or 2%.

In other words, they pay out more foreign money for your traveler's checks than for your U.S. dollars. Why? Money merchants will tell you that for a number of reasons, including those of security, the expense of handling traveler's checks is less than for dealing with currency. Ask any expert traveler, who will confirm that around the world, traveler's checks are worth more in exchange transactions than the equivalent amount of dollar bills.

ATM machines abroad

How about using ATM machines for your cash needs overseas? This is an excellent option and one that we recommend highly (although not to the exclusion of traveler's cheques; we'll explain why below). Nowadays, there are ATM machines that honor American bank networks (Cirrus, Plus, etc.) in every major city in the world. And ATM machines (as well as credit cards) give you remarkably good exchange rates, similar to those enjoyed by corporations when they exchange tens of thousands of dollars. Fees at individual ATM machines around the world vary, just as charges are different at various spots around the U.S. Also, check with your bank to make sure that it does not charge an additional fee for using your card overseas.

The problems with ATM's? Some smaller or more remote locations still lack them, and you can sometimes find yourself without access to one when you need it. ATM's are also not as plentiful abroad as they are in the U.S. While there may be hundreds in every larger city in Europe, you won't be able to find them on every block in every neighborhood. In certain circumstances you may have to hike many a mile before you'll find one that can take your card.

Our solution? Always carry traveler's cheques, credit cards, and ATM cards (never rely on just one). That way you're never stuck when a smaller hotel doesn't accept your Visa card, or you find yourself in a village with no ATM machine. When it comes to currency, we follow the Boy Scout's motto: Be Prepared!