

# **Financial and Other Implication of Accepting Foreign and Domestic Payments over the Internet**

By

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## **Abstract**

The author has accepted academic conference fees from attendees over the Internet using PayPal for ten professional conferences and others are underway. Most recently, attendees of a conference held in France were given the option of paying in U.S. Dollars or Euros. The self-authored software has evolved over time to expand operational capabilities and meet the challenges of a continuously changing environment. The purpose of this paper is to describe the logic of the software and its implementation. During the process, the practical side of PayPal operations as it relates to this software and conference management will be described, including observations on credit card payment business practices, exchange rate challenges and the difficulties in trying to withdraw Euros from a PayPal account as a U.S. citizen. As one might suspect, what will work in theory frequently does not work well in practice.

## **Background**

Until the advent of PayPal (<http://www.PayPal.com>) and, later, Google (<http://checkout.google.com>), it was not practical for regional academic organizations, such as Southeastern Informs, to accept credit card payments. For a merchant or organization to be able to process Visa, MasterCard and other credit card charges in 2006, all services offered by the major credit card companies required a \$60 per month fee plus an additional fee for each transaction. If you needed a machine to swipe a card, it cost \$60 per month plus transaction fees. If you did not need a machine, but wanted to post credit card payments over the Internet, the software licensing cost was \$60 per month plus transaction fees.

A typical per transaction charge for a regional conference would have been 1.5% plus \$0.25. Paying \$60 per month for months in which there are no transactions is enough to dissuade any small organization from accepting credit cards. The percentage rate was also variable, with the rate varying in inverse proportion to total monthly transactions volume. The volume for a regional academic organization is too low to qualify for a more attractive percentage rate.

Today, the major credit card companies do have “some” competition. For example, PaySimple (<http://www.PaySimple.com>) advertises \$34.95 per month, plus 2.29% and \$.29 per transaction. Their on-line information does not provide insight into whether their offerings include accepting payments in foreign currencies, which is a must for many academic conferences, or whether there would be additional foreign transaction fees, as there currently are with PayPal. The breakeven between MasterCard/Visa and PaySimple would be 363 credit card paying conference attendees for an organization with a \$100 registration fee, with PaySimple being less expensive up to the breakeven point. Similarly, the MasterCard/Visa and PayPal breakeven is in PayPal’s favor up to 497 attendees.

In addition to the basic cost of accepting funds by credit card, the major credit card companies and PaySimple required a credit card to be swiped through a machine connected to a telephone line or the information entered manually over the internet. This means that some person in the organization would have to manually enter a good deal of information without error for every transaction made by each conference registrant. This is a big negative.

In addition, there is the potential problem of data security. If credit card information is stolen, the merchant may have legal liability for subsequent misdeeds of the thief.

PayPal offered the first really workable alternative to hooking up with a major credit card company. To get very attractive percentage rates and the use of their software, merchants could pay a monthly fee of \$30. However, one could opt for “PayPal Standard,” which involved no monthly fee and basically the same per transaction charges of 1.9% to 2.9%, based on monthly volume, plus \$0.30 per transaction. The volume for professional conferences is far short of the mark for more favorable rates, so the rate then and today, is 2.9%. The additional charges and challenges involved in international transactions are described below.

To take advantage of PayPal Standard, one has to develop suitable software to transfer needed information to PayPal, including a return path, and transfer the user to the secure PayPal site, when the user clicks a “Buy Now” button. After payment, the purchaser has to click the correct button on the PayPal screen to be returned to the merchant (ConferenceMgt.com) website, where the transaction would be automatically recorded in the database, using personally-written software. If the registrant does not return to the site, the payment has to be entered manually.

### **PayPal versus Google**

As with most oligopolistic industries, there is little pricing difference between PayPal and Google. On domestic charges, paid in U.S. Dollars (USD), the fees are identical. Costs have not declined with Google’s entry into the market or declined over time.

Google is late in the game and their merchant website does not contain any information on receiving funds in foreign currencies or in receiving U.S. Dollars from a buyer outside the United States. PayPal’s help leaves a lot to be desired, but Google’s help sends one to a list of questions submitted by inquiring merchants, and user (not Google) responses. The response is frequently “No responses.”

PayPal has a “sandbox,” where merchant software can be tested. It mirrors their real domestic transaction site except that no transaction actually takes place. A developer or merchant can set himself up as a customer and experience the screens that customers will encounter domestically. Since their documentation does not tell you everything you need to know, this is a very valuable tool.

PayPal’s documentation is quite good, but the website operations are changed without a simultaneous change in documentation or notification. As such, your own “help desk” in most respects. To my knowledge, PayPal does not have a sandbox that would allow a domestic merchant to simulate the experience of a foreign purchaser. Google’s on-line information does not indicate that they have a sandbox.

## **Considerations in Development and Implementation of the Software**

For an organization to rely on the Internet for data processing, the interfaces have to be obvious and transparent, easy to use and understand, and have great reliability. One of the most important tasks in running a conference is managing the financial flows and the attendant record keeping. The record of financial inflows should be in one place only, and the software should not only accommodate payments over the Internet, but also cash and checks received by the Program Chair. Since most conferences require a registration fee be paid prior to submitting to the Proceedings, there has to be a mechanism to handle an account receivable, e.g. the check is in the mail. There must be one or more vehicles to perform an extensive audit.

At least two input interfaces need to be provided, one manual and one automated, as well as software to report receipt status to the Program Chair/Treasurer and to the individual registrant. Since PayPal fees are not entirely predictable, an additional interface for the PayPal administrator is needed to note additional transaction fees associated with foreign transactions.

Most organizations have things that might be purchased beyond a registration payment, and there may be different fees for different classes of registrants. The software should provide for various registration fees, automatically adjust for late fees, and allow for additional purchases, such as one or more extra luncheon tickets or tee shirts. This requires double-entry bookkeeping.

### **Web Software and Interfaces**

The Web-CMS (Web Conference Management System) has a basic logic to its user interfaces in which only relevant choices are offered. For example, a button to click to edit a paper appears only after the logged in person has submitted a paper. Similarly, buttons associated with downloading and reviewing papers appear only after one or more reviews have been assigned to the person.

The user interface is totally driven by the database in that there are no static html pages. All pages seen by users are streamed out on the spot by the Web-CMS software. As such, information saved to the database is immediately incorporated in the next streamed out page.

Similarly, all screens that provide the opportunity to alter database information are given confirmation screens, so a user will know for sure that a desired change has been made. This predictability makes the interfaces comfortable to use and provides the user with confidence.

### **The Registrant Interface and Software**

There are two software routines available to the registrant.

#### **The First Financial Choice**

This routine is activated by clicking on a button entitled “Pay Conference Registration and Fees.” It provides a screen that shows the items that can be purchased and, after the user has selected items of interest, shows a second screen reporting a summary of purchase quantities, currency

amounts and total purchase amount. The transaction can be cancelled on either screen. The second screen contains the PayPal “Buy Now” button, and clicking it transfers the user to the secure PayPal site.

The software that provides the first screen prepares it live from the database. The top part optionally allows one to select a registration type, such as regular registration versus student registration. Through the use of radio buttons, only one type of registration can be selected. If there is a late fee, that fee will be shown after the date specified in the database.

Below the registration choices, any number of additional purchase choices can be displayed, including the number of items being purchased, such as extra luncheon tickets. To activate one or more of these, the user clicks a checkbox. There is no option to enter a non-standard payment amount. One chooses from the choices listed from the Payments Definition File.

Once the user has been transferred to the PayPal site, control is in PayPal’s hands. If the user is an existing PayPal customer, he or she may use their account to pay fees. Otherwise, domestic payments can be conveniently made using a major credit card, without the need to become a PayPal customer. This is not necessarily true for those outside the United States. Further comments on this issue appear below.

### The Second Financial Choice

The second software routine is initiated by clicking “See Charges and Payments,” and reports the status of purchases and payments previously made, in double-entry style. The first line or lines show descriptions of one or more items purchased and individual debit amounts. The last line normally shows a credit amount and how the total amount was paid, such as through PayPal, by cash or by check. The debit versus credit orientation is from the perspective of the organization’s balance sheet.

### **The Program Chair (or Treasurer) Interface and Software**

Since the program chair (or treasurer) is also a regular registrant, the software described above is also available. The same financial screens are shown to both the program chair and treasurer. In addition to the regular user screens, there are two additional software choices.

### The First Additional Financial Choice

This routine provides the mechanism for the program chair to enter information into the database on non-PayPal payments. In addition to being able to record cash and checks received from conference participants, the software provides a generic option so that anything can be recorded manually. The program chair enters the amount and the description. An example transaction would be a partial sponsorship of a coffee break being paid by check.

If there is a need for the sponsorship to be paid by credit card through PayPal, the specifics are manually added to the Payments Definitions File, so the paying individual can log in and pay. During the time this information is in the Payments Definition File, the sponsorship information is seen by anyone who is trying to pay fees, e.g. Coffee Break Sponsorship \$400.00. It is

appropriate for the PayPal administrator to maintain full control over PayPal functions, so this shortcoming is livable. If it becomes necessary at some point, the software could be rewritten to show certain Payments Definition File items to selected users only.

If a registrant sends in a check to pay for something, the program chair or treasurer uses this routine. It offers all the alternatives seen by regular users, plus the generic option and the option to enter an account receivable, so that a person sending a check can upload a Proceedings submission without the cash actually being in hand.

An important difference is in the confirmation screen. The program chair can select the whether the payment is cash, check or an account receivable, and if by check, record the check number. There is provision to also include ledger account numbers, although this function has not been used to date.

### The Second Additional Financial Choice

This routine shows all payment information organized alphabetically by registrant name, and credit lines are color coded to distinguish PayPal entries from others. Thereby, it is a complete record of conference cash receipts. In addition, there is a summary near the bottom that reports the item count and total dollar amount for each item. This provides an easy to use record of registrations by type, number of extra luncheon tickets and other things.

The reported amounts are before any adjustments for PayPal or other fees, so they represent gross sales. At the very bottom, the amounts net of fees are reported, so that the organization knows at any moment the cash to actually be received.

### **The PayPal Administrator Interfaces and Software**

All the routines above are available to the PayPal administrator, plus an additional routine to record the specifics related to PayPal charges and administration charges. It is also used during the PayPal transactions audit. ConferenceMgt.com charges a flat 1.1% fee for services as PayPal administrator and this is built into the software. During this past year, a several unpredictable charges have been added by PayPal, so each payment requires manual scrutiny and possible data entry.

The PayPal administrator performs the following functions:

- Each charge has to be checked on the PayPal website. When a payment is made, PayPal sends a confirmation e-mail to the payee and to ConferenceMgt.com. The e-mail to the administrator used to contain invoice information that could be used to determine whose fees were being paid, but it is only occasionally provided now. This unilateral change by PayPal has notably added to the administrator's workload. Quite frequently, the payee is not the registrant, but another person, such as a department secretary. The record on the PayPal site has to be opened to reveal details to determine whose fees were paid.
- The payment has to be verified as correct in the database. In some cases, web users do not click on the correct button to return from PayPal to the ConferenceMgt.com website, so their payment is not automatically entered into the database. If not there, manual entry of the transaction is required on a timely basis.

- In the process of reviewing details on the PayPal site, processing charges are reported. For domestic transactions in U.S. Dollars (USD), the standard fee is 2.9% plus \$0.30 per transaction. Additional fees apply for a U.S. resident who pays in a foreign currency or any foreign transaction. These fees are further discussed below. If the charges are non-standard, the additional fees must be manually recorded in the database, so that all PayPal fees are absorbed by the organization offering the conference.
- A fourth major function is to perform an audit of amounts paid by registrants versus the cash received from PayPal. There is very little profitability in accepting conference fees, so there is no room for error. As with other assistance provided to organizations offering professional conferences, this is viewed as a professional service contribution and not a profit making endeavor.
- Fortunately, the need to handle problems has not been a frequent occurrence. Problems encountered:
  - Duplicate registration payments require issuing a refund. This is not difficult.
  - If a person pays by e-Check, the funds are not released by PayPal until the check clears, so there is a need to monitor the situation until funds are released.
  - A more serious and time consuming problem occurs if a payee decides to cancel a payment or reports it as an unauthorized payment. As an example, a faculty member used a departmental credit card to register for a foreign conference and purchase additional items for a total payment of \$900.00. The department secretary did not recognize the charge and reported it as an unauthorized charge (fraud). The credit card company refused to pay PayPal and PayPal withheld the funds from ConferenceMgt.com. The secretary notified the credit card company one business day later that she was wrong and the charge should go through. This should have resolved the situation within one week. However, the information was not processed in a timely fashion by either or both PayPal and the credit card company, and this set off a very slow resolution process that can take up to three months to resolve. In this case, it appears that the process will take the full three months.

## **PayPal Practices and Charges**

### **The Experience of the Organization**

It would seem logical to accept registration fees in Euros when the conference is sited in the European Union, so that bills to be paid in Euros could be paid directly. Based on experience, this may not be the case, and reviewing outcomes is one of the objectives of this paper.

With such compelling logic, a course was charted to accept conference fees either in Euros or in USD. The relevant software was rewritten to accommodate Euros and to provide the registrant with the choice of payment currency. Conference fees are published at least six months in advance, so the fee in USD and Euros becomes cast in stone. However, exchange rates can change dramatically in short period of time. Not only does this impact a potential attendee's interest in attending, it impacts the ultimate charges to be paid by the organization. Not enough money is involved to justify hedging, so the organization is exposed to these exchange rate changes.

With a specific foreign conference sited in France, the registration fee was set in USD based on the USD to Euro exchange rate at the time of publication. The USD weakened, so USD receipts no longer would provide the same purchasing power in Euros. In addition, some U.S. residents decided to pay in Euros to lower their cost, and an unplanned additional PayPal charge was assessed, as discussed below.

If the PayPal account was set to accept USD only, registrants paying in Euros would have paid currency conversion fees to USD, and their payment would appear in the PayPal account in USD in the correct amount. In this case, the customer bears the cost of currency conversion, although the organization also experiences an additional fee.

As mentioned earlier, standard PayPal charges for U.S. registrants paying in USD is 2.9% plus \$0.30 per transaction. Approximately six months ago, PayPal unilaterally began assessing a 1% foreign transaction fee in addition to other charges. This also applies to a U.S. resident who chooses to pay in Euros, even though the customer appears to pay all currency conversion charges.

For payments received in Euros, logic suggests that the PayPal charges would also be 2.9% plus either \$0.30 or 0.30€. However, the percentage becomes 3.9% due to a foreign transactions fee. The per transaction charge is more likely to be 0.40€, depending on the country of residence of the payee. Since conference registration fees are fairly large dollar amounts, the per transaction charge has little total impact and will not be discussed further.

For registrants in other countries, paying in their local currency and converting into either USD or Euros, the size of the currency conversion fees paid by registrants was not investigated, but PayPal personnel stated that charges for their services and business practices vary from country to country.

In the normal domestic case, PayPal receipts can be electronically transferred to a checking account by providing bank account information to PayPal and using their functions to transfer funds into or out of the bank account. No additional charges are incurred. However, it is a whole new world when a U.S. business entity has authorized the receipt of Euros and has Euros in the PayPal account. The challenge is how to best get the funds out of PayPal, so that bills can be paid by the organization.

Supposedly, U.S. citizens cannot have a bank account denominated in a currency other than USD, although some countries apparently overlook this. In the European countries where attempts were made to establish a checking account, a non-resident could not set up a bank account in the local currency or in Euros. If it were possible, it appeared that there would be substantial monthly charges to maintain the account. No investigated alternatives were viable.

In this country, many program chairs use their own funds for various things and are reimbursed dollar for dollar, so there is no taxable gain or loss. Associates in France would not agree to setting up an account in Euros to serve as a pass-through, due to differences in the way taxes are assessed or the way taxable income is tracked. However, even if they would have set up a Euro account, PayPal would not allow a transfer of Euros to a foreign bank account. This includes the bank account of a co-sponsoring French university.



Several alternatives remain. First, the Euros could be converted by PayPal to USD and the funds could be transferred to a U.S. bank account. The funds could then be converted back into Euros, so the organization could pay bills. This would involve two exchanges of currency, one at PayPal's rate and another at a banking retail rate. Based on current rates, 100€ would convert to \$138.93, and using a same day quote from M&T Bank, converting back to Euros would yield 91.12€. This represents an overall 8.89% loss in spendable Euros.<sup>1</sup>

The second alternative is to charge foreign purchases on a personal credit card. The credit card company would convert the Euros into USD for billing purposes at a reasonable rate, and the bill is paid in USD. There are several difficulties here. First, the size of conference cash flows might exceed the program chair's credit limit. Second, the program chair becomes personally responsible and potentially liable should difficulties arise. Third, not all foreign business entities will accept credit cards from foreigners. This scenario has too many negatives and is not recommended.

In the specific case of the French foreign conference, the French partner university had or set up a PayPal account denominated in Euros. The Euros in the ConferenceMgt.com account were "paid" to this partner, with no additional charges to the U.S. organization's account. This seemed reasonable and viable, but it was not without cost. The foreign partner pays fees too. Specifically, the payment comes from a foreign country, so the foreign country transaction fee of 1% applies, plus 2.9%, plus 0.40€ transaction fee. 100€ therefore becomes 95.70€, or an overall 4.3% loss in spendable Euros. Essentially, PayPal earned more than twice its normal charges on the conference receipts. While this is a significant loss, it is smaller than converting to USD and converting back to Euros. It was the best of the available alternatives.

### **The Experience of the Registrant**

Shortly after all things were put into place, foreign registrants began having difficulties when trying to pay by credit card, and they were reporting PayPal screens that were quite different from domestic screens. This all happened about the time that the foreign transaction fee appeared, so apparently PayPal changed business practices for foreigners without notifying U.S. merchants.

Repeated calls to PayPal produced no useful results. At the time, their help department was woefully undertrained in that they repeatedly asserted that foreign screens were essentially the same as domestic screens and the same operating rules applied. Not so on both counts.

In some countries, registrants were not able to pay using a credit card without revealing personal bank account numbers and having PayPal perform a small electronic deposit to prove that the account was real. Of course, with information to make direct deposits, the information could be used for direct withdrawals. The whole notion of paying by credit card is to keep banking information confidential and financial transactions at arm's length. In countries where corruption is wide-spread, citizens are very reluctant to reveal personal information, and for good reason.

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<sup>1</sup> M&T's recently quoted retail rates consume just over 7% of the amount of funds involved when either buying or selling Euros. This compares favorably with rates offered in France by hotels and other retail establishments, where the loss is as large as 10%.

For these people, an alternative would be to send a check denominated in Euros. The organization would then be exposed to bank retail rates totaling approximately 14% to cash it in the U.S. and converting the funds into Euro currency. Obviously, this is not a viable option for the organization.

In some other countries, based on the experience of several registrants, they were not able to use a credit card directly, but had to open a PayPal account in their local currency. Again, this requires the registrant to reveal bank account and personal information, and then PayPal manipulates funds in their bank account to prove the veracity of the account.

PayPal's merchant assistance group repeatedly indicated that this was not the case, so it is not wise to rely on what PayPal says about its foreign business practices. A number of foreign registrants described their experience as poor, and characterized PayPal as less than friendly or customer-oriented. The good news is that foreign customer complaints seem to be on the decline, so PayPal may be improving its practices.

### **The PayPal Experience**

PayPal has not been approached successfully for information on several fronts, so comments here will be limited to observations on their assessment of charges on ConferenceMgt.com transactions.

It would appear that most of PayPal's costs are not transaction based. With the computer infrastructure in place, the marginal cost of a transaction is likely to be negligible. As such, for domestic operations, the 2.9% plus \$0.30 per transaction essentially goes directly to gross profit.

It appears that the same is true of the 1% foreign transactions fee. When a foreign customer pays in USD, they pay a conversion fee from their local currency, and in the past no additional charge was passed on to the merchant. The foreign transactions fee increases their profit and, due to lack of competition in the market, they can charge additional fees nearly at will.

PayPal's currency exchange rate is currently very reasonable at a 2.5% deviation from the relevant currency quote. This has been verified based on actual transactions, against the St. Louis Federal Reserve exchange rate quote for noon of the day and the CNBC.com quote, which is also reported on television.

With this recognition and also the fact that PayPal makes money on both sides of many transactions, their profit potential is very large. Even if Google steps up to be a serious international competitor, the marketplace is an oligopoly and this author does not believe it will be truly competitive. The retail rates of the banking community are so unattractive that banks should not be considered competitors in this situation.

### **Conclusions**

From the point of view of an organization that puts on professional conferences, financial planning is difficult enough without uncertainties in the actual cash receipts. Recommendations depend on the specific circumstances.

## **Conferences Sited in the United States**

For domestic conferences in which foreign registrants are not critically important to conference success, the recommended route is to let the registrant bear the currency translation risks by specifying registration and other fees in USD. At the time the registrant pays the registration fee, the exchange rate must be acceptable or registration would not take place. The cost is certain. The ultimate cost of travel, food and lodging are the registrant's risk exposure.

The organization pays bills in USD, so nearly all is known except for the total number of registrants, minus the PayPal charges, which are one percentage point higher for foreign registrants. It is possible to specify a different registration fee for foreign participants. Given the possible perception that foreign participation is being discouraged, additional fees are not recommended.

Accepting a foreign currency for a domestic conference introduces risk to the organization because conference fees will be received over time and conversion to USD produces an uncertain amount. The organization also bears the cost of currency conversion. Nevertheless, it may be an effective marketing tool to do so. If foreign participation is important to conference success, it might be advisable, given a sufficient margin.

## **Conferences Sited in Foreign Countries**

While the Web-CMS software has been upgraded to accept payments in any foreign currency, the decision to actually do so is not easy. As described above, the practical details associated with accepting one or more foreign currencies are not inconsequential. If the conference offered in France did not have a French university as a sponsor that also had a PayPal account, the transaction fees would have been much higher.

The most important barrier to overcome is the belief that accepting a foreign currency will provide the same amount of funds to pay conference expenses. By planning on losing purchasing power through a combination of PayPal fees, ConferenceMgt.com fees and banking fees, the outcome becomes acceptable through proper pricing. Presuming what should theoretically work will actually work in practice, with an attendant assumption of insignificant fees, is a prescription for financial disappointment.

Assume that a conference will be offered in Europe. An untested, but possibly viable alternative to minimize fees is for a foreign partner to set up a PayPal account in Euros. It would seem that the payment software could be rewritten to direct USD payments to the U.S. PayPal account and the Euro payments directed to the foreign PayPal account. In the case of the French conference, Euros paid by a French registrant would be accepted without a foreign transactions fee, and the Euro balance could be transferred to the partner organization's Euro bank account with no additional charges. This approach has not been attempted, so there is no guarantee that it would work. It is highly likely that the server used to transfer control to PayPal for payment of Euros would have to be sited in France, making implementation complicated and difficult.

## **Final Thoughts**

Putting on a foreign professional conference is a difficult undertaking and certainly more difficult than offering a domestic conference. For a U.S. based organization and in absence of a foreign partner, accepting only USD is highly recommended, based on experience.

If success of the conference is thought to hinge on accepting a foreign currency in addition to USD, reworking software for one or more foreign partners to accept currencies other than USD is no small task, with implementation difficult.

Following the steps actually taken with the French conference is certainly viable when the sponsoring organization has a foreign partner and correctly recognizes the probable size of cash receipts during the planning process. Again, based on experience, there may be unpleasant surprises, and not limited to PayPal unilaterally changing the terms of business.