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THE LAST WORD

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Travel? Change before you go

A big trip for our family is to Sentosa. Once a year though, at Christmas, we venture out of the country. A funny thing my wife and I have found is our minds goes mushy when we travel. Maybe it's jet lag but it also happens when we go to Malaysia. We don't think as clearly, even though we don't realize it until we return home and see the crazy things we bought in the name of: "We should buy this now because we probably won't be here again for a long, long time." I am talking about things like the straw Mexican hat we bought – called a sombrero – which in Spanish means: "The only way you are going to take this hat home without squishing it is to pack it in its own suitcase".

How to get a good deal on all your foreign purchases

Of course, the easiest way is not buy them in the first place but that's too easy. So, on to the next best choice: Reduce costs.

The unique thing about overseas purchases is you have to buy them all in a foreign currency which is designed to confuse you (best case) or rob you (worst case). The first currency conversion decision is: Should you convert your money in Singapore or at your destination? My advice is: Do it in Singapore. You are more familiar with how things work here, like where to convert your money. As you know, it comes down to two choices: banks and money changers.

In foreign countries, you often have a third choice, which is a guy on the street corner who is somehow able to whisper and shout at the same time and says to every foreigner passing him: "Change money? Good rate. Change money? Good rate." Of course, he gives a terrible rate so don't even think about whispering back. In fact, don't talk to anyone in a foreign country about changing your money. Change it at … drum roll … a Singapore money changer! Yes, my in-depth research reveals they give the best rates. How do they do it? Mostly, it's by accepting lower profit margins than banks.

Another advantage of money changers is they are usually bunched together so if you're in good shape, you can run between them to see which offers the lowest rates. The problem is all money changers in one area might offer the same terrible rate. An example is the airport where you typically have two big-name banks located next to each other, with both offering nearly identical rates.

I often wondered if they switched their role as the "low-cost bank" every week but I have never checked it out. Tell me if you do that research and send me the answer. I will reward you with a nice thank-you note.

Three tips

Lesson #1: Never change money at the airport. Their rates are always the worst, even worse than the guy on the street corner in the foreign country.

Lesson #2: Among money changers, who has the best rates? Get ready for a surprise: I have found that it is none other than our own super-retailer and down-market version of Harrods: Mustafa Centre. After that, the second best deal is the money changers at Change Alley. In third place are money changers scattered throughout the city, like at Lucky Plaza, Peninsula Plaza or other shopping malls.

Lesson #3: Don't take my word for it. Find out for yourself.

The best way to do that is not to run from one shop to another to see which has the lowest rate for that hour. Instead, do what the money changers do and calculate the spread. It's easy and is simply the difference between their buying and selling rates. For an added bit of sophistication, divide that by either the buying or selling rate to see the spread as a percentage. Then you are set to compare money changers. You may be surprised to find that some specialise and offer the best deal in one or two but not all currencies.

As an example, take the friendly money changer I use, Hamid, who is an India-born Singaporean. If you bring him your Singapore dollars, he will sell you US dollars at a rate of 1.28. It means you give him 128 Singapore dollars and you'll get 100 US dollars in exchange. If you return from your trip and have a few US dollars to convert, you must give Hamid US$100 to get 126.50 Singapore dollars.

This gives Hamid a spread of 1.28 - 1.265 = 0.015. You can stop there and calculate the spread among many money changers to see if it is less than Hamid's. Or you can go one step further and calculate the charge as a per cent. It is 0.015 divided by 1.26 which is 0.012 or about 1.2 per cent. You can compare it to the spread percentage offered by other banks and money changers, and the one with the lowest spread wins. (Like golf!) I find that Mustafa has a spread as low as 1.00 per cent (also called 100 basis points) while for most currencies, banks charge 3.00 per cent or more. (Terrible!)

Credit cards

How about not changing money at all and simply use credit cards overseas?

The credit cards also charge and it's not cheap – from 2.50 to 3.00 per cent to convert your foreign credit card purchases back to Singapore dollars. It's not a good deal and not at all transparent since they don't tell the exact exchange rate or how many times they convert the currency.

For example, it is standard that the banks and card companies do a "double conversion". They will convert, say, Malaysian ringgit to US dollars and then US dollars to Singapore dollars.

Why not save and just convert once from ringgit to Singapore dollars? The best answer I have been able to get from the banks and card companies is: "Well, that's how it is." It's only when you pay in US dollars that double conversion doesn't occur. It applies for all other currencies. Those high charges are probably unnecessary and in a US court case (Schwartz vs. Visa), Judge Ronald Sabraw found that Visa and MasterCard "merely act as a clearinghouse, performing arithmetical calculations at insignificant cost".

Their clearing charges are only 1 or 2 basis points (thousands) and are so low that two large US credit card issuers, Charles Schwab and Capital One, don't even bother to charge. They waive credit card currency conversion fees entirely. For us, all credit cards charge so there is no way out. It may make you angry but there are still advantages to paying with a credit card when overseas. First, you don't have to carry so much cash and second, you can delay payment for about 52 days from the time you make your overseas purchase until the time you pay your credit card bill.

After that, credit card charges of 2 per cent per month kick in along with late fees if you don't pay their minimum charge of about 3 per cent of the bill.

Can they do that? Yes. You'll find it in the fine print and legalese of the contract you signed when you first took your credit card. Remember that?

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