



# **Export New Zealand Go Global Series**

Managing your Export  
Finance risk

# Export Credit Risk

- Exporters must be aware of the Credit risk they face in collection of receivables
- You must have a Credit policy that is understood and complied with by all divisions of the company, Finance, Accounts Payable, Shipping, Sales
- Credit risks have increased markedly as a result of the Global Financial Crisis and the resultant Credit contraction overseas
- This manifests itself in the following ways;
  - Slower orders and sales
  - Requests for extended credit terms
  - Bad and doubtful debts
  - Distressed shipments
- The result of these factors is;
  - Reduced sales turnover
  - Margin compression
  - Increased requirement for Working Capital facilities
  - Losses
  - Increased costs

# What can you do about this?

## Methods of managing Credit Risk :

- All methods of managing Credit Risk involve a transfer of risk from the debtor to a trusted third party
- Banks can assist, either alone, working with other banks or working with insurance underwriters
- The three main methods of transferring risk are;
  - Documentary Letters of Credit
  - Limited Recourse Trade Finance and Receivable Purchase Facilities
  - Insure the debtor using Credit Insurance

# Documentary Letters of Credit

- An L/C transfers risk from the buyer to their bank.
- If you, or your banker, are uncomfortable with the risk of the buyers bank, you can request your own bank to confirm the L/C.
- An L/C Confirmation transfers the risk from the buyers bank to your own bank.
- Whilst L/C's have a reputation of being cumbersome and expensive, this is unfounded.
- The merchants of Venice and Florence invented Letters of Credit in the 14<sup>th</sup> Century and they remain a cornerstone of International Trade Finance

# Receivables Finance

- Where the buyer is a publicly listed and rated entity, your bank may be able to purchase your receivable from you on a limited recourse basis.
- You remain exposed to Commercial Risk, however you transfer the Credit Risk for non-payment to your bank.
- Generally, these are larger facilities and your bank may enhance their credit risk by insuring the debtor themselves.
- Such facilities are useful, but expensive to set up, therefore they are not for everyone.

# Limited Recourse Trade Finance

- Where you hold Trade Credit Insurance on your debtors, the policy can be assigned to your bank to assist in the provision of Working Capital facilities
- This transfers part of the risk the bank runs from you, our customer, to the Credit Insurer
- The bank remains exposed to the commercial risk of the transaction and the uninsured portion of the credit risk on your debtors.
- This is the reason we retain limited recourse on the exporter and will require you to provide some extra security

# Provision of Credit by Banks

- New Zealand's banks are amongst the best rated in the world.
- We are open for business and providing support for good, credit worthy proposals.
- Working capital is imperative and is an area that many businesses do not pay enough attention to.

# What can exporters do to help themselves?

- Have regular, robust management reporting
- Concentrate more attention on Inventory and Debtor management
- Ensure you advise your banker early of all trends in the business, both good and bad
- Have a foreign exchange risk management policy that is documented, approved by the Board and complied with and reported on
- Communicate, communicate, communicate !!!!
- Bankers hate surprises !!!!