

Customizing and streamlining must underpin an SME's foreign currency strategy



BY NICK PRODANOVIC,
HEAD FX INTERNATIONAL PAYMENTS,
AMERICAN EXPRESS SINGAPORE

Singapore's SMEs do business all over the world which means that foreign currency risks are a part of everyday life. We all know that exchange rates never stand still, and movements can have big impacts on businesses - positive and negative.

This makes it all the more important that CFOs are familiar with the range of hedging options available to them – including forward contracts, limit orders, stop-loss orders, and foreign currency accounts - and get the strategic advice which will allow them to make informed decisions.

There is no cookie-cutter solution, ultimately each business must determine what best suits them. But that's also where getting help from experts like American ExpressFX International Payments can make a difference.

For instance, SMEs that want to keep a tight rein on cash flow should not maintain substantial balances in foreign currency accounts. Instead they choose to utilize forward contracts. This allows them to lock in a currency at a desired rate without having to provide the funds until a future date. Therefore, using forwards can create a similar outcome to a buy-and-hold strategy using foreign currency accounts but without the initial capital outlay. Thereby freeing up cash to invest in other priorities.

AT A HIGH LEVEL, A PRUDENT APPROACH TO MANAGING FX RISK SHOULD INCLUDE THE FOLLOWING FUNDAMENTALS:



1

• Understand your exposure:

Companies should analyze their business operations to determine currency exposures. Reviewing the past 12 months of trading activity is a great start. Then, overlaying with forecasts and future expectations for the business will provide a baseline and help with forecasting the flows for the next year.



2

• Establish your risk management framework:

Each business must consider a risk management framework aligned to its company's goals. This will be influenced by the complexity and scale of the business operations. At the very least every company should be setting some basic targets for managing their FX exposure. For example, hedging 60% of all forecast US Dollar exposures over the next quarter using 3-month window forwards.



3

• Choose the right hedging tools:

SMEs should understand the full range of hedging tools available and shortlist those they feel may be the most appropriate. Early on in the process businesses can test and learn what works best for them. The outcome may be the use of a combination of hedging tools.



4

• Evaluate and review periodically:

SMEs should regularly review their hedging strategies. Business goals and market conditions change so it's important to ensure that a company's forex risk management framework remains relevant.

All the above said, it's also worth bearing in mind some other steps SMEs can take to augment their hedging strategies – notably in streamlining their approach to payments.

The international nature of many Singaporean SMEs' business means that they deal with markets with sophisticated banking structures as well as those where remitting and tracking international payments is a challenge.

In the latter cases, this creates risks for even the most efficient business operations. The tracking of international payments is a particular issue in the many developing countries which have tight capital controls; such controls often lead to extra scrutiny that can cause delays, incur penalties, and create inventory hold ups. Currency fluctuations which can happen in an instant also mean that payment processing delays have the potential to lead to margin losses.

Streamlining

Streamlining can help SMEs pre-empt many of these risks. Some of this starts at home especially for businesses in Singapore which may have multiple overlapping payment processes – often with hidden costs – including layers of approvals across various teams. This can cause additional manual work and payment delays when key stakeholders are unavailable. Reviewing these process flows is a good first step in ensuring business efficiency.

Managing Cash flows

In looking at ways to streamline and mitigate volatility, an increasing number of companies in Singapore are also exploring how to better manage working capital. Some 70% plan to make more use of supply chain financing, 60% are looking to dynamic discounting, and 57% say they will utilize non-secured short-term financing*.

One option we've also been talking to clients about is AccessLineSM which is available to our Corporate Card Members. It creates a simple and secure payment system to suppliers (even those that don't accept corporate cards) both in Singapore and abroad. It streamlines payments, includes comprehensive reporting, and gives up to 51 days to pay.

The ability to pay suppliers faster also helps mitigate risk of currency fluctuations and in turn such a facility will effectively supplement a client's hedging strategy.

Switching to online

Another relatively simple step is to switch to online payments. Indeed, in an age when so many of us do so much of our personal buying and selling online, isn't it strange that so many businesses haven't sought to apply similar technology to their payment needs?

Online payments offer the same competitive rates as traditional methods and are transacted over secured networks. They also save time which can be crucial given the threat posed by currency exchange rate volatility.

It's also worth bearing in mind that a late or lost payment can affect a company not just operationally but also in terms of reputation. Becoming known as a dependable business partner creates an additional strand of competitive advantage.

While many SMEs are still behind the curve, we have seen a clear trend of American Express clients shifting online, especially among the younger generation of business owners. Our online platform offers live currency rates which mean real-time visibility of cost before confirming a payment – including the option of an alert so you can make payments precisely when your chosen currency rate is reached. It also provides processing, tracking, reconciliation and history information so that you have all the data on your foreign currency transactions in one place.

Conclusion

Whatever approach you take in customizing and streamlining your forex strategy, make sure you don't compromise security and trust for price. Look for what will create the most long-term value for your company. There are many full-suite services that ultimately are cost-effective and efficient so it's best to speak an FX professional to tailor solutions to your needs.

* American Express /Institutional Investor survey 2017