

SESSION 11:

GLOBAL RISK MANAGEMENT

HOW TO PURSUE EXPORT BUSINESS SAFELY



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Hello, my name is Bob Erwin and welcome to this 11th session of Export-U2.

This series of online mini-courses has been prepared by the University of Georgia Small Business Development Centers, in close collaboration with the US Export Assistance Center in Atlanta.

We are grateful for the generous support given by the US Department of Commerce.



ALL BUSINESS ENTAILS RISK



To start, let us be clear: All business entails some degree of risk and international trade is no exception.



HOW TO MANAGE TRADE RISK



AVOID IT
***IN THE FIRST
PLACE!***

*Do your homework
and take prudent
countermeasures.*

Photo: Monks on a Roller Coaster. All over [web](#)

So, if some degree of risk is always associated with international trade, what is the best way to manage it? Well, the best way is

– Click –1-

to avoid it in the first place. And, the best way to accomplish this is by

– Click –2-

doing your homework in advance, and then taking prudent countermeasures to limit your risk exposure.

– Click –3- (1all go away)

A: RISK TYPES

- Country
- Transaction
- Buyer



International trade risk is almost never as extreme as that befalling this poor exporter, but risk should also not be underestimated. You really need to look before you leap.

To Better understand trade risk, we must first examine the three broad types of risk associated with exporting. These include:

- Click – 1 Country risk
- Click – 2 Transaction related risk, and
- Click – 3 Buyer risk.



Under the general heading of country risk, there are three subcategories:

– click –1- Political risk, as happened in the 1970s when Moammar Qaddafi nationalized all of the oil infrastructure in Libya. --- You may also encounter

– click –2- Economic risk, for example when a foreign currency's value plummets, especially if you are not getting paid in US dollars. --- By the way, this is a real \$100 trillion note from Zimbabwe, which is now totally worthless. The country now uses US dollars for currency. And finally,

– click –3- Military or conflict-related risk.

Session 11:
Global Risk Management

www.Coface.com

COFACE RATINGS

VIET NAM

POPULATION: 91,678 MILLION
GDP PER CAPITA: 2088 US\$

COUNTRY RISK ASSESSMENT: B
BUSINESS CLIMATE: C
CHANGE COUNTRY: [Icon]
COMPARE COUNTRIES: [Icon]

SYNTHESIS

Locate the country [Icon] Print [Icon]

MAJOR MACRO ECONOMIC INDICATORS

	2015	2015	2015 (e)	2014 (f)
GDP growth (%)	6.0	6.7	6.2	6.5
Inflation (yearly average) (%)	4.7	0.6	2.0	3.7
Budget balance (% GDP)	-6.1	-6.6	-6.5	-6.0
Current account balance (% GDP)	5.4	0.8	0.7	1.0
Public debt (% GDP)	55.1	56.3	62.0	64.6

(e) Estimate (f) Forecast

STRENGTHS

- Cheap, skilled labour
- Strong agricultural potential and natural resources
- Development strategy based on openness, a move upmarket and diversification of the economy
- Economy barely affected by the Chinese slowdown

WEAKNESSES

- Shortcomings in the business climate
- Lack of infrastructure
- Unfinished reform of the public sector
- Growing inequality
- Weak banking system

Scroll down to map button

As we discussed briefly in session 2, Coface is the world's largest provider of export insurance....

On their website, we can see that country risk is in fact quantifiable, and. Insurance companies use this sort of country risk data to determine price quotations on export insurance.

On the Coface home page, you can

-CLICK-1- scroll down to the “Country Risk Map” button,...Clicking that button

-CLICK-2- brings up this map of country risk map.. There is an key to their risk scoring system at the bottom of the page. Scores range from A, for low risk, through E which indicates extreme risk.

If you click on a specific country,

-CLICK-3- a pop-up shows its country risk scores, and if you

-CLICK-4- click on the link in this pop-up, you open a page with additional details

on risk scoring for a specific country, such as Vietnam, shown here.

EXIM RATINGS

Wow!
You can't get insurance for Afghanistan.
I wonder why?

The screenshot shows the EXIM Country Limitation Schedule website. The page title is "COUNTRY LIMITATION SCHEDULE". It features a search bar and a table with columns for "COUNTRY", "SECTOR", "Up to 1", "1 to 7", and "Over 7 Years". The table lists countries starting with 'A', including Afghanistan and Albania. For Afghanistan, the "Notes" link is highlighted with a red box. A hand icon is pointing to this link.

COUNTRY	SECTOR	Up to 1	1 to 7	Over 7 Years
Afghanistan	Public Sector	X	X	X
	Private Sector	X	X	X
Albania	Public Sector			
	Private Sector			

The Export Import Bank of the United States, also known as EXIM Bank, is a US Government agency that provides export credit insurance and financing.

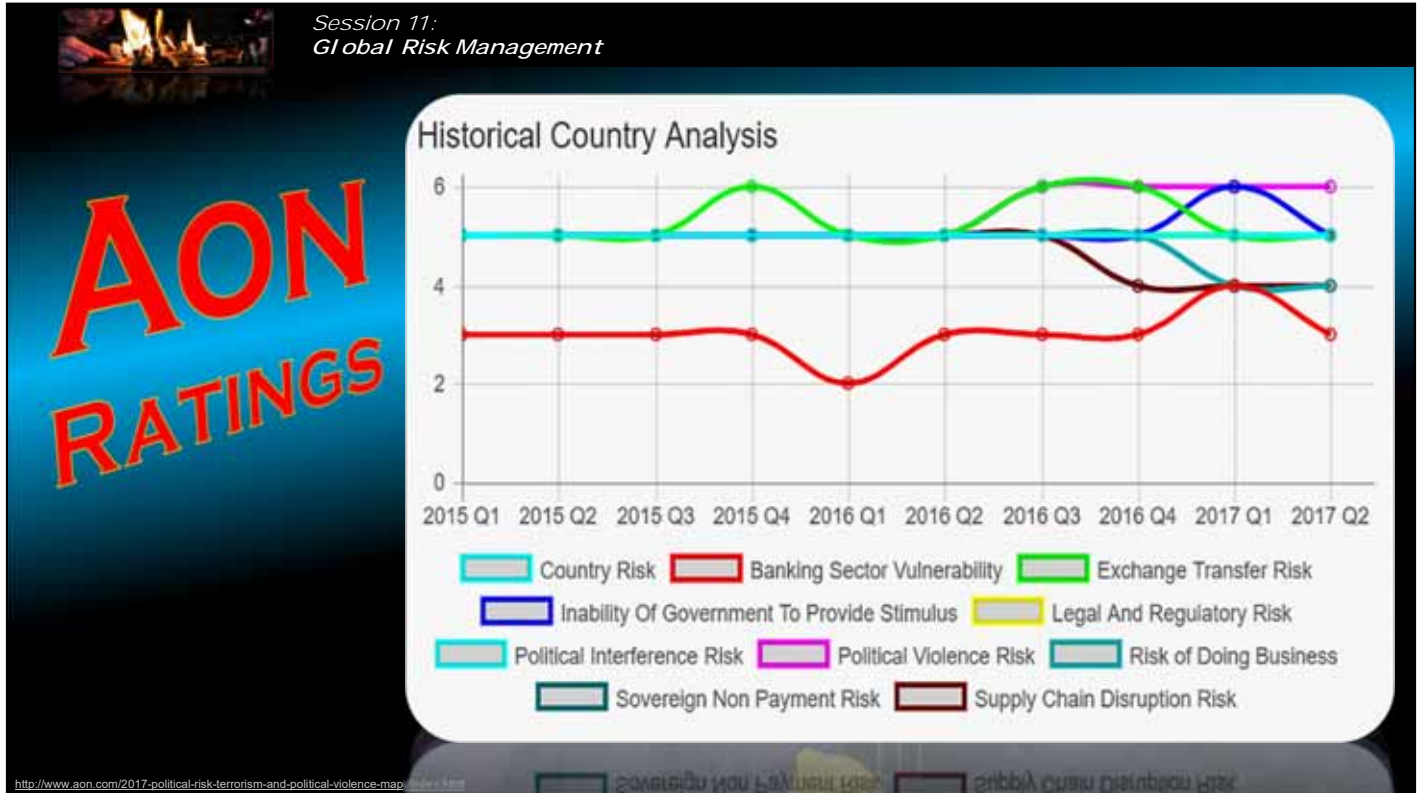
It is also another good source for country risk information. ... For example,

-Click -1-

here you will note that the bank will not insure or finance shipments to Afghanistan, which is a strong indication of high country risk.

-Click-2-

The small links under each country name lead to an explanations for their risk assessments.



The Aon insurance company also has its own online version of an
-CLICK-1-

interactive risk map, their website also has a ton of other risk related data, reports, and graphs, etc.

-CLICK-2-

This graph, for example, shows a country's historical risk profile and trend, by graphing several key risk factors.

The red horizontal line, for instance, shows the banking sector's vulnerability, which might affect payment for imported US goods.

Session 11:
Global Risk MANAGEMENT

www.coface.com

RISK AVERSE?

Safe countries also present export opportunity



Photos: Riot, listed as free to use on Google, 4736547475_235d31e3cc_o.jpgwww.flickr.com by Jason Harrova Niagara Falls' New Year's Eve Concert

It goes without saying that special care should be taken when dealing with countries with less than a B Coface risk score, or which are on Exim Bank's Exclusion list.

Of course,---if you are extremely risk-averse...

– Click –1- always remember that safe countries, like Canada, may also present good export opportunities.



COUNTRY INFO

- U.S. Commercial Service
 - (and www.Export.gov)
- State trade offices
- Trade associations
- SBDC ITC's
- Other exporters



Photo: NASA/Earth EN-US11055468513_1366x768.jpg Also: Man: <http://onefineweasel.blogspot.com/>

There are any number of other sources for advice on country risk. Some of the best sources include::

– Click –1

The US Department of Commerce, through its US Commercial Service.

– Click –2

state government international trade offices.And, even some ...

– Click –3

larger trade associations may provide export risk advice.

Some states also have ...

– Click –4

SBDC international trade centers, like the one here in Georgia.

And, finally,

– Click –5

You may find it helpful to consult with other non-competing businesses that are already exporting to your target country.

-Click-6

SESSION 11:
GLOBAL RISK MANAGEMENT

TRANSACTION RISK

- Special permits or certificates?
- Excessive tariffs, taxes, fees?
- Foreign language contracts?
- Imprecise shipping terms (not using INCOTERMS)



Image: Bureaucracy - all over the web. Matrix all over the web.

The second broad category of risk is related to the actual export transactions. Here, foreign bureaucracies may obstruct trade business. They may require:

- Click –1- Confusing special permits and certificates, or...
- Click – 2- Impose excessively high import tariffs, taxes, or fees.....
- Click –3- Language can also make things difficult when you are trying to finalize the precise terms of a sale.

Generally, English speakers find verbal communication most difficult in Asia, where they cannot even phonetically sound-out words from text.

And finally,

- Click –4- the imprecise use of INCOTERMS for shipping can reap havoc with a transaction.

1-800-USA-TRADE

(U.S. Trade Information Center)

- Duty & tax rates?
(know your HS number first)
- Trade agreements?
- Quotas?
- Permits?
- Embargos?

Recognizing the significance of these transactional barriers to trade, the US government has established the

-CLICK-1-

Trade Information Center, in Washington DC, which maintains current information on the subject.

You can call them at 1-800-USA- TRADE

They have the very latest on

- Click -2-

import duty and tax rates, trade agreements, quotas, permits, and embargoes, etc.

However, be aware that you must first obtain the harmonized code for your product, before seeking their advice.



You also need to consider the risks associated with foreign banks and buyers.

– Click –

And while this is an exaggeration, it is only prudent to exercise due diligence when exporting.

OVERSEAS BANK RATINGS



Not all overseas banks or banking systems are trustworthy. For example, would you trust this Bank in Hungary? It might be a perfectly sound institution, but how can you tell?

-CLICK-1- And, what about this bank? Or

-CLICK-2- or this one?

-CLICK-3- Fortunately there are global bank rating services.

Fitch Ratings is the largest and most comprehensive, and you can access it by signing up for a free username and password.

The screenshot shows the Fitch Ratings website interface. At the top, there is a search bar and a 'Hide Filters' button. Below the header, there is a table of bank ratings. The table has columns for 'ENTITY', 'RATING', 'STATUS', and 'DATE'. Two rows are visible: 'Bank of Baroda' and 'Axis Bank Ltd.'. The 'Bank of Baroda' row shows a rating of 'F3' with a status of 'Affirmed' and a date of '27 Jun 2017'. Below this, there is a sub-row for 'Ultimate Parent' with a rating of 'BBB-' (highlighted with a red box and a small black circle), a status of 'Affirmed', and a date of '27 Jun 2017'. A yellow box highlights a link for 'LATEST RATING ACTION COMMENTARY' and a 'VIEW RESEARCH' link. The 'Axis Bank Ltd.' row shows a rating of 'F3' with a status of 'Affirmed' and a date of '27 Jun 2017'. Below this, there is a sub-row for 'Ultimate Parent' with a rating of 'BBB-' (highlighted with a red box and a small black circle), a status of 'Affirmed', and a date of '27 Jun 2017'. On the right side of the page, there are filters for 'RATING TYPES', 'GEOGRAPHY', and 'MARKET SECTOR'. The 'RATING TYPES' filter shows 'Bank Ratings'. The 'GEOGRAPHY' filter shows 'Emerging Markets' with sub-filters for 'Asia-Pacific' and 'India'. The 'MARKET SECTOR' filter shows 'Financial Institutions' with a sub-filter for 'Banks'. There are also buttons for 'CREATE PDF' and 'SHARE'.

ENTITY	RATING	STATUS	DATE
Bank of Baroda	F3	Affirmed	27 Jun 2017
★ Ultimate Parent	BBB- ●	Affirmed	27 Jun 2017
LATEST RATING ACTION COMMENTARY VIEW RESEARCH			
	2	Affirmed	27 Jun 2017
	WD	Withdrawn	25 Jan 2012
	BBB-	Affirmed	27 Jun 2017
	bb+	Affirmed	27 Jun 2017
Axis Bank Ltd.	F3	Affirmed	27 Jun 2017
★ Ultimate Parent	BBB- ●	Affirmed	27 Jun 2017

Here is a screenshot from Fitch's website showing its bank rating list.

You will note that in the Rating column

-CLICK-1-

overall bank scores are shown next to the small black circles. These scores are on an A to D scale.

You can also click on the links...to the left

-CLICK-2-

for an explanation of the scoring.

BUYER CREDIT CHECKS

- **Dun & Bradstreet:**

<http://www.dnb.com/>

- **Coface:**

<http://www.internationalcreditreports.com>

- **USCS Company Profiles:**

<https://www.export.gov/International-Company-Profile>



Photo: Godfather. All over the web.

When I started in this business, back in the 1980s, it was very difficult if not impossible to get a credit rating for a person or company outside of the US or Western Europe.

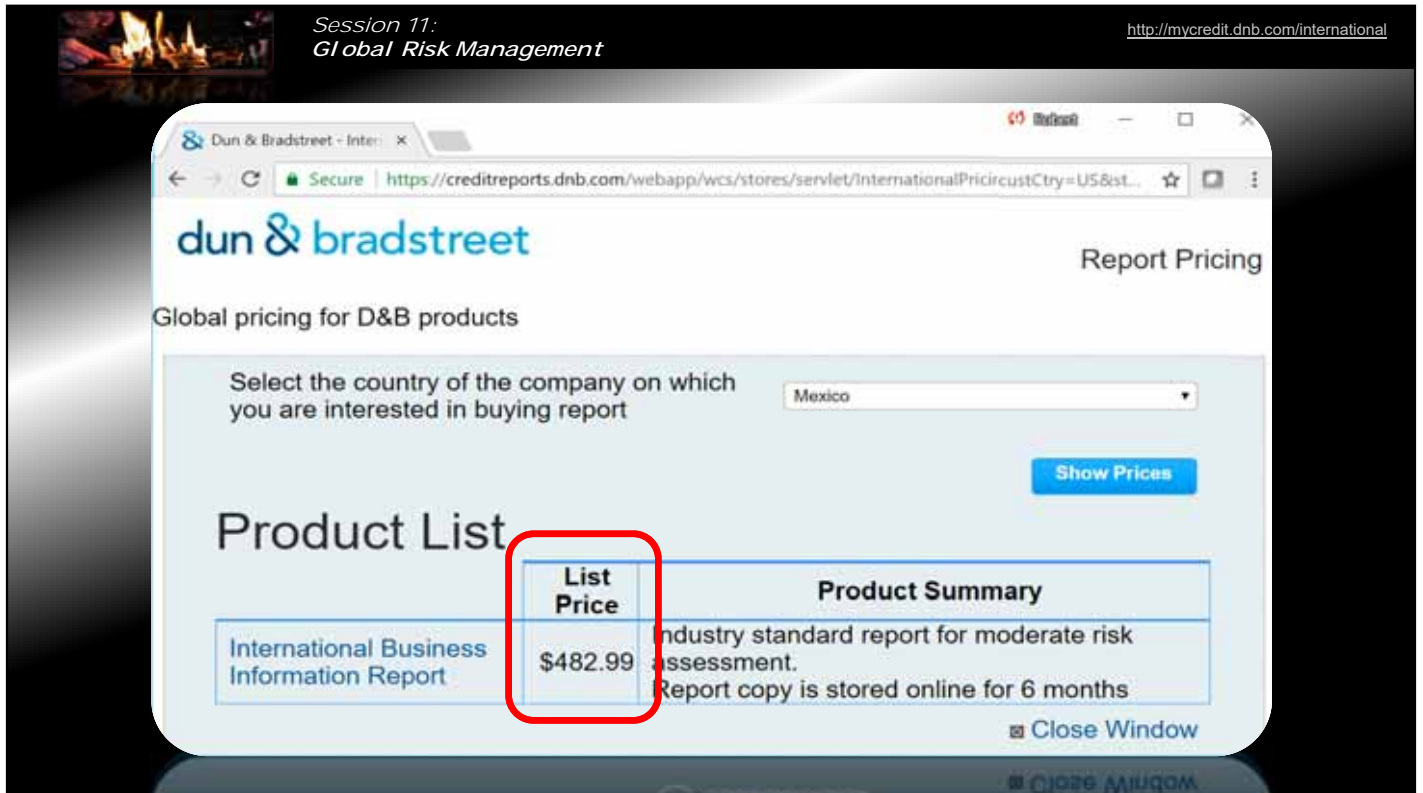
The Internet has changed all of that.Now credit checks on overseas customers are available from several different public and private sources.

– Click –1- Dun & Bradstreet is the world’s largest credit rating service, and it offers online credit checks in many countries.

To start, you just go to their home page and use the pull-down menu to select the country of interest.

– Click –2- Coface Insurance offers a similar service, and

– Click –3- The US Department of Commerce can check on export customers in places where commercial credit ratings are unavailable.



Here is some information on D&B's "International Business Report.

You simply use the

-CLICK-1-

pull-down list to select the country of interest. I would advise that you call the toll-free number to get a firm quote.

I have found that prices for this type of report tend to hover around

-CLICK-2-

\$400 to \$500, which seems quite reasonable when weighed against the problems you might face in dealing with a bad foreign debtor.

A low credit score does not necessarily mean you should not deal with a company, but it does suggest caution in negotiating your terms of payment.



B: RISK MITIGATION

1. Avoid risky countries
2. Export credit insurance
3. An experienced forwarder
4. Secure payment methods
5. INCOTERMS
6. Quote with proforma

Now that we've discussed the various types of risk, let's consider how you can manage them.

As we will discuss on the following slides, there are at least six ways you can mitigate risk. These include:

-CLICK-1- Avoiding risky countries altogether,

-CLICK-2- Buying export credit insurance,

-CLICK-3- Making sure to use an experienced freight forwarder,

-CLICK-4- Applying secure methods of payment,

-CLICK-5- Using INCOTERMS to clearly define shipping responsibilities, and finally,

-CLICK-6- Using a pro forma invoice for export quotations.

**AVOID
RISKY
MARKETS**

Yes,
it reduces risk...



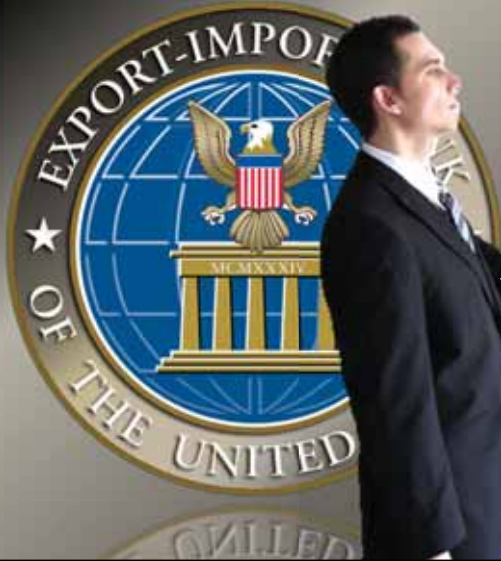
Many companies, quite reasonably, chose to avoid high-risk overseas markets altogether. This is certainly appropriate when countries have civil wars or a serious risk of terrorism, but

– click –1- Avoiding all risky countries can mean that you

– click –2- Pass-up some good sales opportunities. One strategy I have seen employed successfully is to

– click –3- Start by exporting to lower risk countries, and then expand to more challenging markets as you gain experience.

GET EXPORT CREDIT INSURANCE



- [AIG Global Trade & Political Risk](#)
- [Chubb](#)
- [CNA](#)
- [EULER, \(ACI\)](#)
- [Exporters Insurance Company](#)
- [Foreign Credit Insurance Assn.](#)
- [Gerling, NCM](#)
- [Lloyd's of London](#)

Clearly, one of the best ways to reduce your risk of nonpayment from overseas customers is to purchase export credit insurance.

Such insurance is available from...

-Click-1- EXIM Bank and from a number of private insurers.

-CLICK-2- Generally, if available, EXIM insurance will provide a higher level of coverage than private insurance.Of course, your overseas customer must be creditworthy before you can insure that account.

Typically, export insurance will cost less than 2% of the declared value of your goods.



USE AN EXPERIENCED FORWARDER

- Provides full shipping insurance
(10,000 containers lost each year)
- Has shipped to your destination
- Knows your product type
- Check references
(Won't give references why?)



Photo: Container lost at sea near San Francisco. All over the web.

Certainly, there is no substitute for an experienced freight forwarder. He can help you in several ways, including,

– Click –1- Making sure that you have adequate shipping insurance. –

Is worth noting here that every year an estimated 10,000 containers fall off ships and are lost at sea. You should always maintain enough insurance to fully cover this type of loss.

Ideally, your freight forwarder should have...

– Click –2- some experience with shipping to your export destination. And,

– Click –3- if at all possible, you should hire a forwarder that has experience with your type of product.

-Click-4- Finally, I recommend that you ask for references when engaging a new forwarder. Remember, if they won't give references, maybe there's a reason.



As explained more fully in webinar 8, ...there are a number of different payment mechanisms,... and some are more secure than others.

-Click –1- Cash in advance is the most secure payment method, and is commonly used when exporting to new customers or to countries with elevated risk.

-CLICK-2- Letters of credit are only slightly less secure..... Here, banks guarantee the payment. But, LC's are relatively expensive, often costing more than four or five hundred dollars.

-CLICK-3- Documentary collections, are somewhat less secure.Here, the banks do not guarantee the transaction, but rather they release the payment once the shipping documents are presented to them.

-CLICK-4- Open account is the least secure payment method, ...but it is very commonly used with established accounts, ...since it is both cheap and customer friendly.

-Click –5- As you can see here, the security of payment terms for importers is exactly the reverse.

USE INCOTERMS



To avoid misunderstandings*

(See Webinar 7 for details)

There are a lot of steps in the actual shipping process, and specific costs are associated with each step.

To avoid confusion, you need to define precisely

-Click-1- who is responsible for each part of the journey.For this reason, it is essential that you use Incoterms to avoid misunderstandings with your customer.

-Click-2- Webinar 7 provides a more detailed overview of INCOTERMS.

ICC Guide to
Incoterms® 2010

Get the book:

<http://www.iccbooks.com>

INCOTERMS® 2010 *Export-U2*

Legend: COSTS (blue), RISK (orange), INSURANCE (red), All modes of transport (yellow), Sea (grey)

DESCRIPTION	EXW	FCA	CPT	CIP	DAT	DAP	DDP	FAS	FOB	CFR	CIF
EXW Ex Works	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance
FCA Free Carrier	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance
CPT Carriage Paid To	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance
CIP Carriage, Insurance Paid To	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance
DAT Delivered At Terminal	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance
DAP Delivered At Place	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance
DDP Delivered Duty Paid	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance
FAS Free Alongside Ship	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance
FOB Free On Board	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance
CFR Cost and Freight	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance
CIF Cost, Insurance and Freight	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance	Costs, Risk, Insurance

**FOR
MORE
INFO**

Download our
FREE Incoterms
wall chart:

<http://www.export-u2.com/RESOURCES/Other-downloads/other-downloads.html>

Here are a couple of good resources to help you understand INCOTERMS.

You can order

– click –1


the official Incoterms booklet from Amazon.com, published by the International Chamber of Commerce.Or, you can download our very nice,

– click –2

And totally free INCOTERMS wall chart using the web link below.

I should also note that Incoterms 2010 is in fact the most current version available.

SESSION 11:
GLOBAL RISK MANAGEMENT



QUOTE WITH A PRO-FORMA*

A price quote showing:

- Price of goods
- Freight charges
- Incoterms
- Payment terms
- Currency, etc. (US\$ if possible)

*for more info: see webinar 12

Photo: Counting money, all over the web

Another essential tool for managing risk is the Pro-forma Invoice,..... which is covered fully in webinar 12.

Don't be confused,

- -Click-1-
- this is not really an invoice, but rather a formal price quotation that clearly defines:
- -CLICK-2-
- - The price of your goods,
- - Freight charges,

- - The applicable Incoterms and payment terms,and of course
- - The currency being used.

Here, I should note that

-Click-2- whenever possible, you should make export quotations in US dollars. This avoids the risk associated with global currency market fluctuations.



SUMMARY:

1. Avoid risky countries
2. Export credit insurance
3. Experienced forwarder
4. Secure payment
5. INCOTERMS
6. Proforma



This concludes our brief discussion of export risk management

To review, here are the 6 risk mitigation strategies we have considered.

International trade risk is a huge subject with many complex and subtle aspects
.....some of which are addressed in other webinars.

You may also find it helpful to explore the subject of risk further,.. via the references provided on our "Links" page.



For specific advice on international trade risk,

-Click-1- you can contact your nearest US Export Assistance Center.

You can also call the Commerce Department's Trade Information Hotline..

-Click-2- at 1-800-USA-TRADE.

Thank you.

Session 11:

The End

Global Risk Management

