SMEs can avoid costly foreign exchange risks

Thanks to the volatile nature of global currencies, small businesses which participate in international trade could fall victim to costly foreign exchange risks.

Zak Sivalingum, FNB regional head, Gauteng East

“According to the South African Revenue Service (Sars) trade statistics, between 1 January to 31 December 2018 exports increased by 5.4% from R1,183.58bn in 2017 to R1,246.94bn in 2018. It is evident that more businesses are taking advantage of the opportunities presented by doing business abroad in order to remain competitive and diversify their revenue streams,” says Zak Sivalingum, FNB regional head in Gauteng East.

“SMEs which are still new on this journey should be wary of currency exchange risks that impact every business that trades abroad, from selling goods and services to the sourcing of raw materials to produce finished goods etc,” adds Sivalingum.

He shares a few tips that businesses should consider to avoid these risks:

- ## Risk analysis

  The first step is to proactively evaluate the types of risks that your business is facing and devising a risk management approach that aligns to your business model.

- ## Currency hedging

  This is a widely known strategy that businesses use to protect themselves against currency exchange risks. There are a variety of tools that are used for hedging, such as forward contracts, fx orders and fx derivatives. Many businesses opt for a forward contract which provides a protection mechanism by enabling them to buy and sell currencies at a predetermined exchange rate.

- ## Technology

  SMEs can also take advantage of newer advanced technological tools that use automation to help them manage their exposure to foreign currency risks. Banks have digitised their online banking platforms to facilitate seamless transactions.

- ## Dedicated resource

It is advisable to assign a dedicated individual within the company who will be tasked with monitoring and managing the exposure of the company to such risks. This should be implemented in line with a foreign exchange risk policy which sets out guidelines and principles that the business should adhere to when doing business abroad.

“SMEs which are serious about expanding their businesses abroad should prioritise having a currency risk management plan in place which should be updated regularly as the business evolves.

Losses resulting from currency risks could have a devastating impact on the bottom line of SMEs which are not yet fully established,” concludes Sivalingum.