

Opportunities and Threats to International Trade for UK Business



WORLDFIRST

Introduction

UK businesses, no matter their size – whether run from a laptop in someone’s home or across a network of offices across the country – are increasingly operating within a global marketplace. The ability to trade internationally seamlessly has become an integral part, if not, the lifeblood of many businesses who would previously have been limited to their domestic markets.

As a result, more money than ever is crossing international borders, as these businesses import, export and pay for the services they need. But, with that comes increased exposure to currency volatility and a need to manage currency risk.

WorldFirst surveyed 255 members of the Institute of Directors (IoD) to gauge their international trade activity and assess how prepared they are to manage the peaks and troughs of foreign exchange markets.

The study found that businesses are increasingly trading internationally and are increasingly at risk of adverse currency movements. Whilst they are aware of the risks that come with moving large amounts of money across currencies, they rely on traditional methods of currency transfers using banks and are potentially losing out to more cost effective and flexible methods which may be hindering their business growth and expansion.

As the need to navigate currency volatility becomes even more key for these businesses’ international growth ambitions, this paper seeks to assess what measures they are taking to protect their position in the global marketplace.

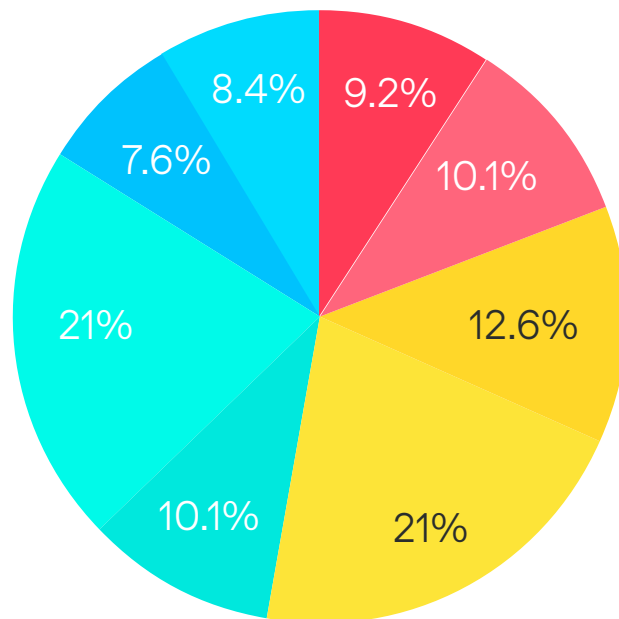


UK businesses moves significant amounts of money across borders

Of the more than 250 IoD members surveyed by WorldFirst, one in five (21%) make over 10 foreign currency transfers a month. A further 15% make between six to 10 transfers a month.

Total value of international currency transfers made per year

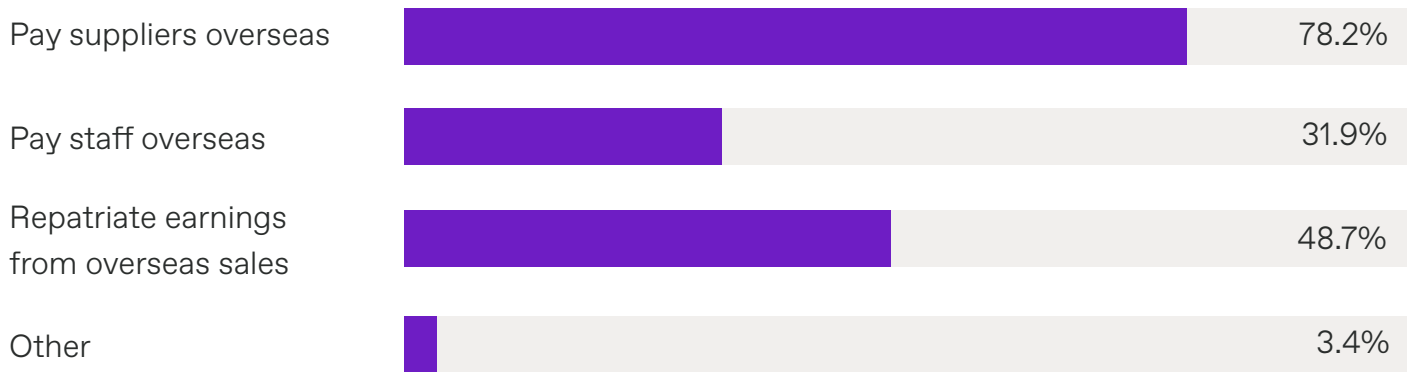
And these aren't small transfers. In fact, the average total transferred on an annual basis was £3m, with 8% of the businesses surveyed making transfers of more than £10m per year.



- £100 - £10k
- £10,001 - £50k
- £50,001 - £100k
- £100,001 - £500k
- £500,001 - £1m
- £1.1m - £5m
- £5.1m - £10m
- >£10m

Why businesses currently transfer money overseas

The most popular reasons are to pay overseas suppliers (78%) and to repatriate earnings from overseas sales (48%). It's not just a question of trade; UK businesses are interlinked with global ties throughout their production, so their prosperity really does depend on this global outlook.



FX troubles on the horizon

While these figures suggest UK businesses are maximising their position in the global marketplace today, it's hard to ignore the potential impact of the ever-changing political landscape.

Of the businesses surveyed, over half (55%) stated leaving the European Union would be a key factor affecting their trade overseas over the next 12 months; unsurprising given the top region for both importing and exporting was found to be Western Europe.

Most popular regions for UK imports and exports

Import

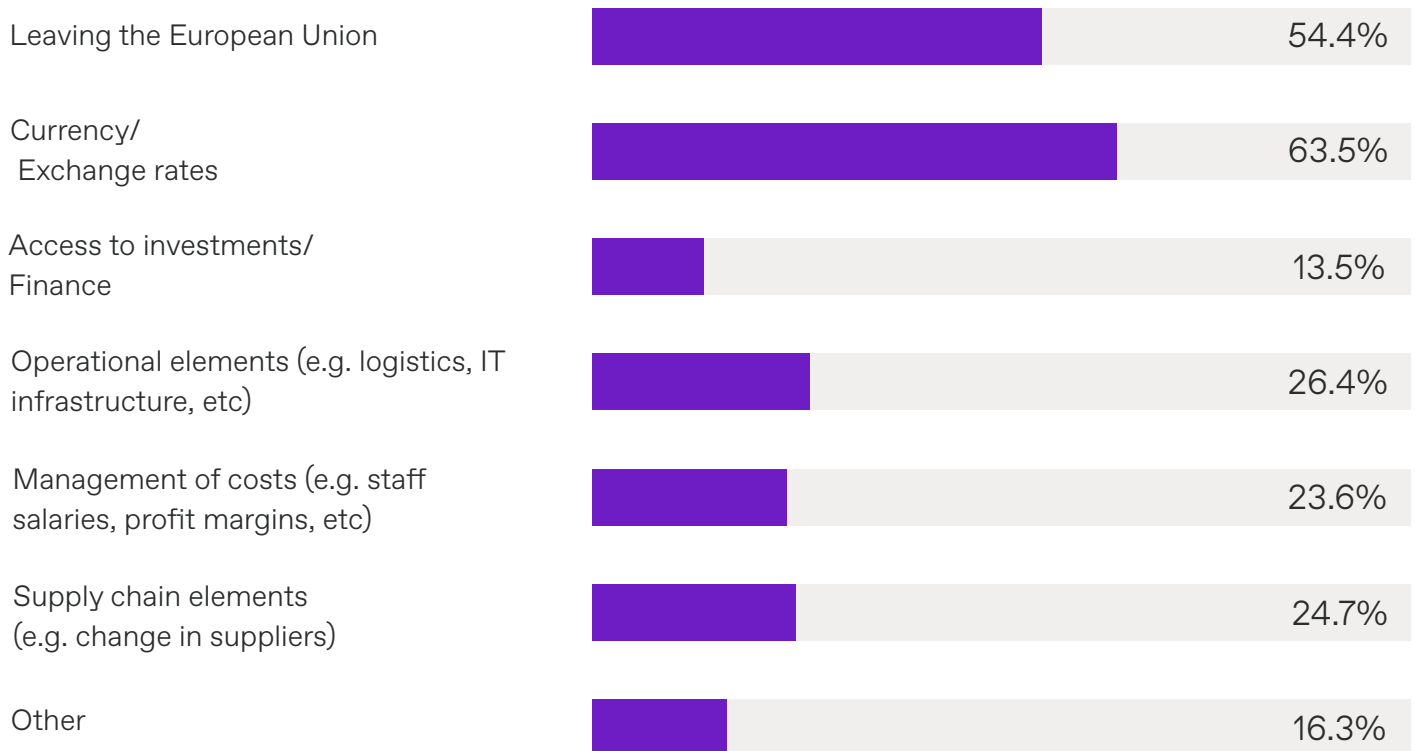
- Western Europe
- USA
- China
- Central Europe
- Eastern Europe

Export

- Western Europe
- USA
- Nordics
- Canada
- Central Europe

Key factors that will impact international trade in the next twelve months

The most important factor was found to be exchange rates, with 64% of the businesses surveyed considering currency volatility to be key in affecting their international prosperity over the next 12 months.



Nevertheless, businesses have been reticent to proactively manage currency risk. Despite more than 80% of businesses being aware of the impact of currency movements against a turbulent political backdrop, not enough are insulating themselves from danger - only 18% of those surveyed used hedging products to mitigate currency risks.

However, while UK businesses might be forward looking when it comes to expanding their trading boundaries, more often than not they are keeping their traditional financial relationships at home. More than seven out of ten businesses surveyed revealed they still rely on banks for international transfers, compared to just 14% that use an international money transfer provider.

Respondents to the survey said the main reason for choosing a bank when making currency transfers was ease and simplicity (64%).

How can businesses protect themselves against currency volatility

We believe that any business exposed to currency markets should actively manage its risk – market movements can hit your margins or increase costs without warning. There are a range of options for directors to consider to ensure they are not caught out by movements in the currency markets.

Ensure you're getting the best deal

Whilst many businesses rely on traditional banks for their payment and transfer needs, they may not be getting the best rate or service. A 2015 Censuwide survey found that 9 out of 10 (87%) of UK SMEs using a FinTech 'specialist' for foreign exchange rate their service as better than banks with 88% saying specialists provide greater transparency on fees. Many SMEs have been hurt by high street banks who tend to offer their best foreign exchange service to large businesses and multinationals.

There are a wealth of specialist providers like WorldFirst, powered by innovative technology who will work hard for you to get the best rates so directors need to be proactive and find one that is the right fit for them.

Forward contracts

A forward contract allows you to buy or sell an amount of currency at or before a set time in the future. It allows you to effectively pre-purchase your currency by paying a deposit ahead of time and knowing in advance what rate you're able to use for future transfers.

The rate for a forward contract may differ from the spot rate as the market calculates a forward rate depending on the difference between the interest rates between the two currencies.

Establish a hedging strategy

If your company raises a proportion of your revenues or pays a proportion of your costs in a foreign currency that is significant to your business, in our opinion, you should have a solid risk management strategy in place for example setting a budget rate for your product and service.

A global outlook is increasingly becoming an essential quality to succeed. It's therefore never been more important that businesses are taking appropriate steps to remain agile, to protect themselves and their money from volatility that can result from a global political backdrop that rarely sits still. Only by doing so will UK business ensure they are able to continue to prosper.

About WorldFirst

We're WorldFirst, experts in moving money around the world. As a fast growing FinTech business, we specialise in making foreign exchange simple, fast and fuss free for people and businesses with global ambitions. By combining best in-class technology with award-winning customer service, we've helped over 120,000 people, small businesses and online sellers transfer over £60bn since 2004. Our clients never stop. And neither do we.

We operate all over the world and have over 600 employees based in 6 offices across London, Amsterdam, Austin-TX, Hong Kong, Singapore and Sydney.



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