How To Mitigate Currency Risk For Your Customers

business customers international

Summary: After the global slowdown ends, international business will expand again. We offer you steps to guide your international customers when this happens.

The Lake Pontchartrain Causeway in Louisiana is considered the longest continuous bridge over water in the world. Pretty impressive! Bankers are also acting as a bridge for their international customers to their overseas suppliers and customers in a way that mitigates their risk.

International trade affects many companies, even those that aren't obviously engaging in overseas business. A firm might buy its materials in the US and sell its products to Americans -- but the machinery used to make its materials comes from overseas. Even the most local businesses could have international links in their supply chains.

International commerce has grown substantially over recent years; after the pandemic-related global slowdown ends, international business will expand again. So, knowing how to help your customers in the global market, will help them grow faster. Business customers rely on CFIs for letters of credit, loans against accounts payable, international payments, and advice. CFIs rely on fee and interest income from those services, especially with low interest rates.

How customers are at risk. The first step in protecting customers from currency risk is to figure out the exact ways they're at risk, whether that's in their supply chains, immediate suppliers, customers, further upstream in their supply chains, or a mix of some or all those exposures. Talk to them to find this out.

How much risk. Ask business customers to figure out what percentage of their costs are in foreign currencies, making sure to look at the indirect ways foreign currencies might affect their situation. If the exchange rate between those foreign-currency exposures and the US dollar suddenly changed so that their costs were 15% higher, could they absorb the additional cost?

Choosing less volatile currencies. If their businesses couldn't handle an overnight, steep exchange-rate change, customers have two relatively simple options. First, they can track the currencies that affect their business most over time. Are any of these particularly volatile? If so, looking for markets in currencies that aren't experiencing high volatility might be a sensible move.

Lock in currency rates. Even after all this, your business customer may still look to you for more help. If that is the case, you may want to suggest foreign exchange forward contracts for them. This service helps safeguard your customers against exchange rate fluctuation risk by "locking-in" foreign exchange rates for settlement at a future date. Not only that, but you can gain fee income too.

Diversifying the risk. Lastly, a business customer could also consider diversifying the risk. Rather than selling exclusively to Thailand (for instance), a business might deliberately diversify its market.

While it may not be on top of mind right now, helping your international business customers mitigate currency risk is still important. These steps give you a way to do that. If you need additional information, feel free to reach out to us.

GENERATE HIGHER FEE INCOME WITH FX FORWARDS

Your financial institution can offer foreign exchange forward contracts that allow your customer to manage exchange rate risk while you generate extra fee income. Contact us today for more information.