Trading safely, smartly, successfully

HSBC UK

Together we thrive

Foreword

Ambition and drive are at the heart of successful businesses the world over. And it is those qualities that inspire companies to break into established and emerging markets, seizing opportunities wherever they may be.

But as those pioneering companies expand their horizons, they can be exposed to a new set of risks that can impact significantly on the way they want to grow.

Those risks could include commercial aspects such as non-payment or the delays and costs that can be incurred due to incorrect documentation. Businesses also need to consider aspects such as sanctions and embargoes or the reputational risk that can arise if they do not undertake the necessary due diligence on a new trading partner.

The challenges are there but the passion that drives businesses to expand overseas can also be applied to mitigating the risks and smoothing the journey to global growth.

Although businesses today are operating in a somewhat uncertain environment as we wait to see the outcome of the Brexit negotiations, the opportunities for overseas growth remain in Europe and beyond.

For many, the temptation is to adopt a ‘wait and see’ approach. However, despite the fact that the dust is yet to settle, I believe this is a time for action and businesses should not put their growth plans on hold.

Whether you are an experienced exporter, already on your export journey, or just starting to think about trading overseas, this guide may help you to trade smarter and mitigate the risks of buying and selling internationally.

At HSBC, we are keen to use our experience and global footprint to support you throughout your growth journey as you explore new opportunities both at home and further afield.

Our global presence and connectivity allows us often to be at both ends of a deal in international trade, helping businesses to expand their growth horizons smartly, safely and successfully.

Amanda Murphy
Head of Commercial Bank, HSBC UK

1. Growing your business overseas

If you're trading with new customers in new markets there are certain pieces of information you will need to be sure of regarding those customers and the countries in which they operate. This section explains what checks you'll need to make, and what to bear in mind before getting into a trading relationship.

Key points

- Due diligence on overseas trading partners should be as thorough as for domestic trading partners.
- Country risk is a vital element in assessing the overall potential of an overseas trading partner and should be thoroughly researched.
- Cross check information on overseas trading partners from as many sources as possible.

The UK accounts for 4% of global GDP. That leaves 96% of the world to aim for

Source: www.export.great.gov.uk

When companies start trading internationally it makes sense to build up a good relationship with new overseas trading partners. Doing thorough research into potential partners can maximise growth opportunities, as well as foster a good commercial relationship.

Due diligence for growth

An increasing number of companies are expanding internationally in search of growth. One of the keys to success is to maintain at least the same standards of due diligence as you would domestically. For example, doing the necessary background research such as checking bank and trade credit references, or asking a new customer for prepayment against a proforma invoice for the first few orders.

As a minimum, the same standards of due diligence should be applied when doing business with customers overseas. If not, profits could be affected by bad debts, and there is the chance that longer-term growth prospects may be impacted by the reputational damage of (even unwittingly) forming undesirable trading relationships.

Country risk

It is not uncommon to find that countries that promise to deliver the most growth may also have economic volatility and, particularly, unfamiliar political and business cultures. So when starting trade in a new and unfamiliar market, due diligence is particularly important as you are assuming the risks associated with that country even though you have no control over those

risks. Wars and civil disturbance may be red flags, but there may be more subtle warning signs, such as:

- Volatility of foreign exchange rates.
- Changes to local banking regulations.
- Restrictions on inward investment.

Make sure any restrictions and their implications for sales opportunities are fully understood before entering the market. A market that at first glance appears to offer outstanding return on equity is considerably less attractive if it's impossible to repatriate profits, or only at a disadvantageous exchange rate.

This due diligence applies equally on the supply side. Growing globalisation has increased awareness of supply chain opportunities, but also of their vulnerabilities. Companies can no longer just focus on contingency plans relating to their own operations when they look to maximise supply chain benefits. In addition, it's important to:

- Have a direct interest in suppliers' ability to fulfil orders which includes ensuring that suppliers have sufficiently robust business recovery arrangements in place.
- Consider how any country risks might impact the suppliers' ability to deliver.

Cross checking

It's essential with any profitable business relationship that there is mutual trust, something that is not always easy to achieve when the parties concerned are separated by perhaps thousands of miles, different cultures, languages and limited face-to-face contact. Potential buyers/suppliers may appear to offer exceptional sales/supply opportunities but:

- Their financial security is a vital factor in assessing the true value of these opportunities.
- Determining this is more difficult when trading online or at a distance.

When checking credit status, it is also important to establish who actually owns a potential trading partner's bank account. Details such as an International Bank Account Number (IBAN) and a BIC/SWIFT code or similar may prove that it is a valid bank account, but not its ownership.

A standard stage in money laundering is the resale of assets originally purchased with the proceeds of criminal or terrorist activity. Therefore – and especially if an overseas supplier is offering goods at an exceptionally attractive price – it is important to know who actually owns the account to which payment will be made.

Social media can be a useful tool when evaluating potential trading partners. Comments about a trading partner made by third parties on social media may or may not be accurate but they may provide leads for follow-up research. By the same token, employees of potential trading partners may reveal important information during their social media activities.

2. Vetting a trading partner

Nothing beats a face-to-face meeting before starting with a new trading partner. But if that's not possible then there are alternative ways to assess if a company is all they claim to be. This section offers some tips, from checking with their insurance provider to looking up their address using online mapping services.

Key points

- Fraud can be a risk in international trade, so vetting new trading partners is essential.
- Without adequate due diligence, there is the possibility of financial loss, criminal proceedings and reputational damage.
- Be alert for behaviour or requests that seem unusual or are different from standard practice.

While the physical distance between a business and a new international partner can be thousands of miles, this needn't be a barrier to a profitable and mutually beneficial trading relationship. However, as with domestic activity, there is always the possibility that a potential overseas partner is not all that they claim. They may appear to offer a valuable sales/supply opportunity, but vigilance and careful scrutiny are advisable if that opportunity is to be maximised and losses through fraud minimised.

Points to check:

Correspondence
The best way to check the legitimacy of a potential trading partner is to visit them. However, a certain amount can be deduced from correspondence received, such as letters, business forms, invoices, etc. For instance, a legitimate business can reasonably be expected to have a professionally designed logo, so the absence of such a logo on an invoice or letterhead may be a warning sign.

Addresses
Addresses are another important point to check. Is the address complete? Does it actually exist? HSBC, for instance, spotted the use of a suspicious UK address by an exporter who was trying to arrange a fraudulent shipment

to Hong Kong. Common sense suggested that a street noted primarily for doctors was perhaps not where such a business would be based.

Online and social media activity
An established business also tends to have a registered domain name, which is likely to be used for its website and its email, which suggests an investment in marketing. The use of personal email accounts on a business website is not a good sign.

Social media activity, in terms of both comments about the business and comments by its employees, can also be a useful source of information. It is advisable to exercise caution here: a large amount of negative feedback may be genuinely representative, but it might also be an aggressive competitor trying to damage a company's reputation via multiple anonymous posts. Social media activity can be useful as a starting point for further investigations but it may not necessarily be an accurate picture of the company's reputation.

Checking the trading partner's website is also a good idea. Does it look professional and something that a serious commercial business would be happy to have as a shop window for its activities? Often sites that have been set up to commit fraud will have had minimal investment, using standard templates and supplying only the most basic details.

Trade credit insurance
Consider using a trade credit insurance provider to vet new trading partners; they will have proprietary information gathered by their teams working on the ground in a country. This can be a valuable additional cross-check on a potential trading partner and will help to verify their suitability and credibility.

Where non-payment of a trade debt would materially impact a company's financials, especially its working capital, trade credit insurance may be the solution. This type of insurance covers various risks of non-payment resulting from trade both domestically and internationally.

Site visit
However, nothing beats a face-to-face meeting. Video conferencing is not a substitute – it is easy enough to window-dress the background to appear credible on a web cam. It could be that a fraudster may borrow an office in order to pass themselves off as a national company.

A site visit is also an opportunity to check how business is conducted. A major customer or supplier with a sound ethical policy and robust safety standards inspires confidence and minimises any reputational concerns.

Red and amber flags

When considering a new trading relationship, asking some key questions about a potential or new trading partner is a vital part of your due diligence:

- Is the trading partner reluctant to provide clear answers to routine financial, commercial, technical or other questions?
- Is the transaction in keeping with their stated business strategy?
- Are they deviating from their historical pattern of trading activity by value, frequency or type of goods?
- Is pressure or aggression being applied?
- Are there any comments about the trading partner on social media worthy of further investigation?
- Are there significant discrepancies between the description of goods on the bill of lading (or invoice) and the actual goods shipped?
- Have there been inconsistencies with the shipment location, terms or descriptions and the Letter of Credit? Have they made unauthorised alterations to documents?
- Does the trading partner refuse to provide documents to prove shipment of goods?
- Have there been unexplained changes to payment instructions?
- Are they issuing instructions to pay a third party? Is a shell company party to the transaction?
- Does the transaction involve the receipt of cash (or other payments) from third parties that have no apparent connection?
- Are they offering unusually favourable terms, such as pricing substantially far above or below the expected market rate, an interest rate substantially above/below the prevailing rate, or a lump sum cash payment?
- Does the transaction involve an unusual trigger point for payment (e.g. before goods are shipped, with no documentation required)?
- Does the shipment make economic sense? For example, the use of a 40-foot container to transport a small amount of relatively low-value goods.

3. Setting up international bank accounts

International business means international banking, and this can open up your business to an increased risk of fraud. It means your international bank accounts need to be properly set up, carefully managed and regularly monitored. This section explains how to go about it.

Key points

- Trading internationally may involve opening additional bank accounts – increasing the potential for fraud, therefore regular and frequent scrutiny of account activity is essential.
- Split bank account control among staff.
- Verbally check any changes in customer or supplier bank details to minimise risk of fraud.

When trading overseas, keeping abreast of movements in and out of business bank accounts can help maximise profitability.

Multiple accounts, multiple controls

A successful business trading internationally may have a number of overseas bank accounts. Distance and time differences make it easier to lose track of account activity, so it is vital to have good account management processes in place. It is sound practice to:

- Ensure daily visibility of accounts.
- Use electronic reporting.
- Regularly review balances and transactions.

It is easy to miss suspicious activity if the only check on account activity is a monthly reconciliation. As a minimum, the same precautions should apply as for a domestic account. Particularly where a business employs staff overseas, it is important to have appropriate processes for those who have control of bank accounts. Consider having multiple levels of approval in relation to opening bank accounts and day-to-day operations. Ultimately, all activity should be managed from the centre.

Rigorous security procedures should be maintained in relation to any online banking activity. Cyber threats take many forms, so policies relating to matters such as storage of banking credentials, opening of suspicious emails, personal electronic equipment and USB keys should be properly enforced.

Payment diversion fraud
Fraudsters will often attempt to use email and automatic invoicing processes to divert payments into bank accounts under their control. An email or letter may arrive notifying a change of a legitimate customer/supplier's banking details – often using the same company name but with a different bank. All the details may look correct – fraudsters will be prepared to invest in things such as authentic-looking headed business paper as part of the act.

A good way to avoid this sort of fraud is to maintain a regular dialogue with customers, but also to make a point of calling up to double check every time a change of payment details instruction is delivered. Apart from minimising fraud, this is also helpful in strengthening trading relationships.

For further information on money laundering, visit www.imolin.org

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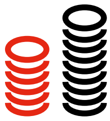
The number of Chinese cities with a population over 1 million

Source: UK Government



The UK is the largest G20 investor in India

Source: UK Government

4. Managing international payments

There are various ways to make and receive payments from abroad. Each have their own benefits. So before starting to make payments it's worth checking with your relationship manager to see which ones are most appropriate. However, here are some helpful tips.

Key points

- The payment type used for international trade transactions reflects both the exporters' and importers' credit appetites.
- Explore all payment options available that have differing levels of credit, cost and risk.
- For new traders, understanding which may be the most appropriate payment type for a particular transaction can be challenging so speaking to an experienced trade bank about the available options can prove invaluable.

At a basic level, trading internationally is not that dissimilar to trading domestically, except that when dealing with businesses based in overseas markets, receiving and making payments can be a more complex process. However, this need not be an obstacle to international sales/supply opportunities.

Payment options

The good news is that a wide variety of established trade payment instruments are available that allow you to tailor the level of credit granted on transactions to the individual circumstances. International payment options include:

- Open account payment.
- Documentary collection.
- Letters of Credit.
- Payment in advance.

The payment risk ladder

Open account payment is similar to offering credit to a domestic customer. Typically, the credit term (e.g. 30 days) starts once the goods are dispatched and invoiced, in line with the terms of trade.

At least 80% of global trade is on an open account basis[1]– it is the simplest and the least expensive method of payment, but it does assume a level of confidence in a trading partner's ability/willingness to pay.

Many businesses enter into international trade with a small transaction, shipping goods on open account, sending an invoice and getting paid in 30 days. With this option, the business offers limited credit, while waiting for payment.

[1] www.swift.com

As more orders come in and a business relationship grows, opportunities increase, but so does the scope for non-payment. Other trading instruments, such as Letters of Credit, import bills and trade credit insurance, offer greater credit control while the relationship evolves and trust develops.

Types of transaction

For any individual transaction, the most appropriate method will depend upon factors such as the size of the transaction, each party's commercial leverage, and the exporter's and importer's relative cost of financing.

Documentary collections

A documentary collection, where a bill of exchange is drawn up, allows the exporter to keep control of the goods and raise additional finance.

Documentary collections are typically used by exporters selling to importers with whom they have an established relationship.

There are a number of nuances associated with documentary collections. One variant is that an overseas bank, acting on behalf of the exporter's bank, will only release the documents necessary for the importer to take possession of the goods once the importer formally accepts the terms of the bill. However, the importer may not necessarily settle the bill when it becomes due.

On the other hand the costs associated with a documentary collection are lower than with a Letter of Credit (see below). Not all documentary collections include presentation of a bill of exchange for acceptance by the buyer; for example, some documentary collections are payable at sight, so there is no bill and little chance of the buyer getting the goods before it has paid for them. Others require acceptance or avalisation[1] of the bill by the buyer's bank. In this scenario, the seller is no longer concerned about whether the buyer will pay, but rather whether its bank will.

Letters of Credit

The importer arranges a Letter of Credit (LC) with its bank (the 'issuing bank' which pays a correspondent bank (the 'advising bank') once all the necessary documentation is submitted. It is important to note that LCs are not an absolute and automatic guarantee of payment; the bank will only pay if the exporter presents all the right documents before the expiry date of the Letter of Credit.

Letters of Credit are typically used for exports to new customers. They offer reassurance to exporters that they will be paid (subject to them presenting the right documentation within the appropriate time frame) and to importers that they will actually receive the goods they ordered. However, in its simplest form an LC does not protect an exporter from the default of the issuing bank or country risk (e.g. where the importer's government changes the law so that the settlement of LCs becomes impossible). Exporters may then find it worthwhile to discuss the various possible additional options relating to LCs (such as confirmation) with their banks in order to select the solution best suited to their needs.

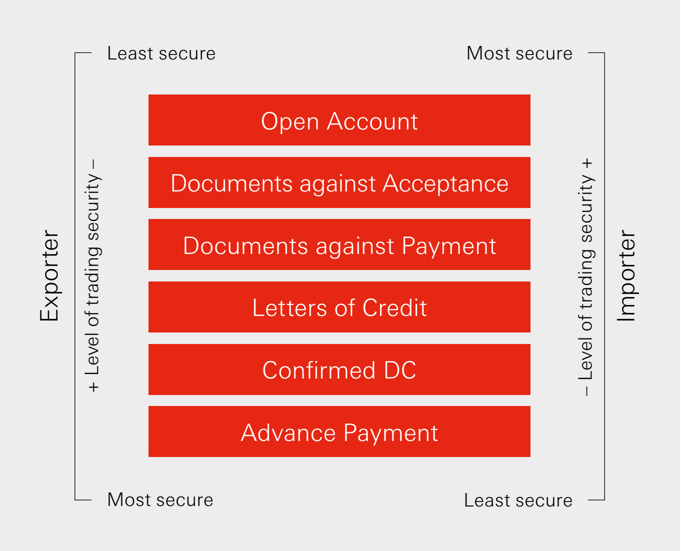
Advance payment

Full or part pre-payment is often used for low value sales to individuals or new customers. Although it is the least favourable option from the buyer's perspective, start-up businesses often use advance payment via credit card. Many websites use an online payment processor such as PayPal, Google Checkout or WorldPay to provide a measure of comfort to both buyer and seller. Be aware that the degree of protection and the dispute process can vary significantly among payment processors.

Receivables Finance

Companies trading internationally are increasingly using Receivables Finance to complement open account trading and to free up working capital. In this scenario, a Receivables Finance company or bank will pay the business a percentage (as much as 90%) of an invoice, usually within 24 hours of it being issued. This type of financing – in which outstanding invoices are used as collateral – can help companies access a stable and flexible cash flow.

Payment Risk Ladder



[1] Avalisation is an endorsement of a bill by a bank, rendering the bank liable on that bill.

5. Safeguarding online transfers

International online transfers are quick and efficient. But you need to put the right security in place, particularly if your team uses its own devices such as smartphones or USB keys at work. This section shows you what to do, and what exactly is meant by the word 'phishing'.

Key points

- Online banking is a powerful and efficient way of making international payments, but good security procedures are essential to minimise the chance of external fraud.
- Robust procedures, such as distributing the payment process across several employees, are vital to reduce employee fraud.
- International payments often involve unfamiliar systems and procedures that banks can offer guidance on.

When involved in international trade it makes sense to make and receive payments by the method most suited to the needs of your business. This will almost certainly involve using the internet, but for trading to be profitable and secure there are some things to consider.

Online banking: power but also responsibility
International online banking systems are very powerful – they give businesses the ability to move funds from one account to another safely, efficiently and rapidly. When a bank receives instructions from a customer through an authorised electronic channel it will normally process them automatically, which makes it essential to be security-conscious with regard to online banking credentials.

These credentials are often the target of phishing scams, which are attempts by criminals to 'fish' for the security information used to access online banking systems. Be suspicious of any emails requesting banking information, such as the security credentials used for logging in to bank accounts. HSBC and most other banks will not send emails asking for confirmation of security details, so delete these emails without opening them or any attachments and report them to the bank.

Phishing is just one example of a cyber threat; there are many other tactics criminals may use, such as:

- Taking advantage of the increasing acceptance of Bring Your Own Device (BYOD).
- Exploiting employees' use of personal USB keys in the workplace.

A further potential issue is internal network security among company computers: a proper perimeter firewall may be in place, but if that is breached or circumvented, measures need to be in place to prevent the attack propagating further. Possible remedies include:

- Only allowing the loading of bank payment platforms from designated machines, which may also be separately firewalled from the rest of the corporate network.
- Splitting networks into discrete segments with each segment segregated from the others by its own firewall.

Does your business have and enforce a social media policy? Social engineering is another way in which criminals can improve their chances of success. For example, gaining a relatively modest amount of personal information about an employee from social media can then be used to craft far more effective phishing emails that have spoofed sender addresses (so they appear to come from a trusted source) and subject lines that seem relevant to a recent social media interaction.

Employee fraud

Unfortunately, businesses also experience fraud and crime from employees, so there is a need to apply the same precautions to the transfer of international funds as to domestic transfers.

The right governance and segregation of duties are essential to ensure that no single employee has the power to transfer funds. To help prevent fraud, put in place guidelines on who can handle payments for different types of transactions and review audit trails every day.

Global payments

Depending on the kind of account and the size of payments, your existing bank may be able to process their international payments without difficulty. Payments can be made in multiple currencies via various payment mechanisms and your bank should be able to provide guidance on the best method for the specific circumstances.

However, overseas payment mechanisms can have very different timings and costs from domestic ones. Again your bank should be able to provide guidance on these. If regular overseas transactions are likely, consider opening accounts with an international bank in the relevant countries so payments can be routed as domestic payments via the local clearing systems. Depending on transaction volume and standing charges, this may be less expensive and faster than making cross border payments.

6. Managing currency fluctuations

You can't do much about currency fluctuations, but you can reduce the negative impact they might have on your business. Carefully managed, foreign currency can even be used to make your business more profitable and more attractive to overseas customers. This section explains more.

Key points

- Accepting payment from overseas buyers in foreign currency incurs exposure to fluctuating exchange rates.
- Currency fluctuations can be managed through appropriate use of hedging instruments, such as forwards or options.
- Speak to HSBC to help you build a foreign exchange strategy for your business.
- Effective management means an exporter may have a competitive advantage by offering to accept payment in the importer's domestic currency.
- HSBC business customers can open a UK-based Chinese Renminbi (RMB) account to carry out and settle RMB cross-border trade deals directly with China, which can help mitigate exchange rate risk when trading with China.

Trading internationally for the first time means having to deal with different currencies. To maintain profitability, it's important to be aware of the exchange rate achieved, since there may be currency fluctuations during the period between paying for supplies to fulfil an order and receiving payment. Negotiating sales denominated in foreign currency and taking steps to minimise the attendant currency volatility may improve profitability.

Currency as a competitive tool

If transacting business in foreign currencies, there is a competitive opportunity in being able to accept payment in the local (foreign) currency, because there is a comfort factor for importers in being able to pay in their own currency.

However, while being prepared to accept payment in a foreign currency may confer a competitive advantage, it does so at the cost of currency volatility. Fluctuating exchange rates may affect profitability and also make it more difficult to forecast cash flow.

Example

Consider a UK-based exporter that has a buyer (importer) for its product in New York. The exporter has agreed the quantity, specification and a price in US dollars with the importer. However, by the time the goods have been shipped and the credit period has elapsed, the Sterling/US dollar rate may have changed significantly.

For example:

If the current Sterling/US dollar rate is 1.30 and the exporter agrees a 1 million US dollar sale on 90-day terms, the equivalent sterling value today is approximately £770,000, but if by the time the importer pays in 90 days the exchange rate has moved to 1.40, then the exporter will only receive about £715,000.

Especially in low margin industries, that discrepancy could easily result in the exporter losing money on the sale. It is also worth bearing in mind that the move of 0.1 in the exchange rate in this example only represents a change of some 7.7%, which over a 90-day period is by no means exceptional for Sterling/US dollar. Furthermore, other currency pairs can be far more volatile.

Choices and tools
Fortunately there are a number of means of mitigating the effect of currency fluctuations to maximise the profitability of overseas trade, but it is important to understand the available hedging instruments and how appropriate they are for the business' individual transaction profile. For instance, a company doing the occasional overseas sale will have very different hedging needs from one exporting on a daily basis. One popular foreign exchange hedging strategy is to use a mix of forward contracts and currency options:

- A Forward can be transacted with many banks and in its most simple form is a contract to exchange a fixed amount of currency at a pre-agreed rate on a specific date. It provides certainty around the exchange rate but is a contractual obligation. So if the importer is slow in paying and the exporter cannot deliver the currency on the specified date, the exporter may incur additional charges.

- An Option is a similar instrument, except that in its simplest form the buyer of an option has the right (but not the obligation) to exchange a fixed amount of currency at a pre-agreed rate. Depending upon the type of option purchased, this may have to be done on, or before, a certain date. Using a combination of these two instruments gives a business looking to hedge its currency position a useful combination of certainty and flexibility.

Mexico is predicted to be the world's fifth largest economy by 2050

Source: UK Government

7. Avoiding delays and costs

Making sure you've got the right documentation isn't the most exciting part of doing business overseas. But it is one of the most important aspects to avoid delays and costs. This section shows you the common pitfalls and how to avoid them.

Key points

- Minimise contractual disputes and maximise profitability with correct trade documentation.
- Where payment methods such as Letters of Credit are involved, accurate documentation will help to ensure prompt payment by the importer's bank.
- One size does not fit all: documentary requirements can vary significantly by both country and importer.
- It's worth spending time in the careful preparation of trade documentation to maximise the likelihood of dispute-free, profitable trading.

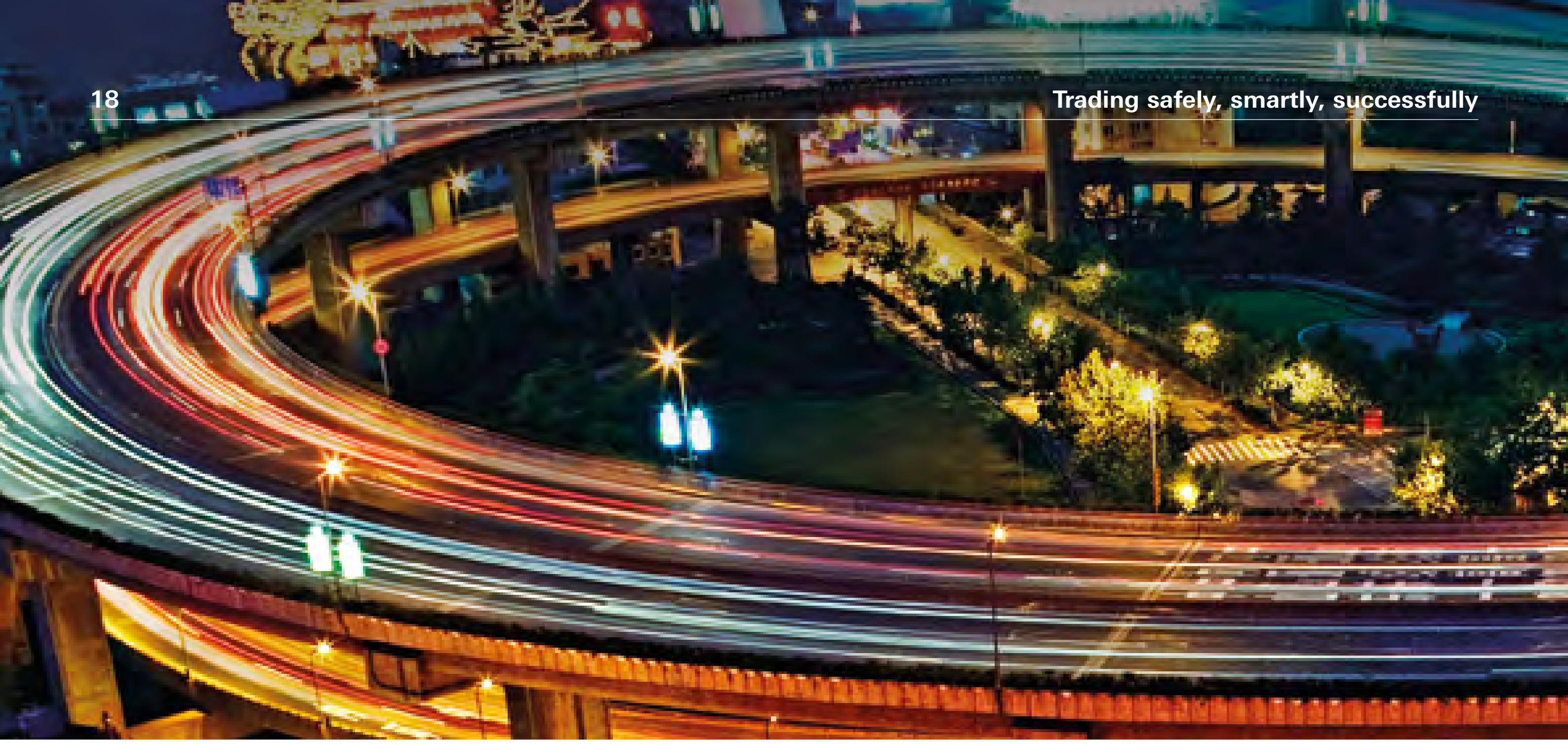
Trading abroad for the first time is a significant opportunity for any business, but it can be a confusing time with preparing goods for despatch and various administrative details to complete.

Transfer of responsibility

In the eagerness to fulfil sales orders it's easy to overlook the importance of accurate documentation. The process of getting documentation right starts even before a sales contract is signed.

If you are shipping goods abroad by sea, generally the point at which the importer will take responsibility for the goods is when they are loaded onto the ship at the embarkation port. In a sales contract, the trigger for an importer being obliged to pay for the goods tends to be the presentation of documents that prove that the goods have been loaded.

Often the point at which responsibility for the goods passes from the seller to the buyer will be expressed using Incoterms® rules (Incoterms is a trademark of the International Chamber of Commerce). These rules are internationally accepted three letter codes (e.g. FOB, CIF) that businesses shipping goods can use to define how the goods will be shipped and when responsibility for them will pass from exporter to importer. If using Incoterms® rules in a sales contract it is important to understand exactly what they mean if potential issues, such as underinsurance of goods or non-compliance with the Incoterms® rules are to be avoided.



Contractual documentation and Letters of Credit

The sales contract will often list the method of transport and other documents that the importer needs to clear the goods through customs and satisfy other import requirements. The exporter will usually need to present all these documents to trigger the importer's obligation to pay. The documentation list therefore requires careful attention before signing and it is important to ensure that all the requisite documents are available and can be produced. If the wrong documentation is supplied, or it contains errors, the importer might reject the delivery. Furthermore, any resulting delays and extra costs may be the exporter's responsibility.

Correct documentation is particularly important if payment is being made under a Letter of Credit (LC). These are (usually) irrevocable undertakings to pay against presentation of certain documents before the expiry date stated in the LC. LCs are usually issued by banks soon after a sales contract is signed.

They give an exporter greater certainty that they will be paid at the point they ship the goods, because as long as the exporter can present the correct documents to the issuing bank before the LC's expiry date, the issuing bank is bound to pay. In view of this responsibility, banks check documents presented under LCs very carefully to ensure that they comply with the terms of the Letter of Credit.

It is crucial for exporters to check that the documents required are ones they will be able to deliver before the LC expires. If there is a delay in shipment, or the documentation changes in any way, then the terms of the LC should also be changed to match. It's critical for this to be done as soon as possible, to ensure that the amended Letter of Credit is received before the goods are shipped.

Points to consider

Ensuring documentation is correct is not a trivial matter – it's an essential part of profitable international trading. Apart from any commercial considerations importers may also require documentation in a particular format so that it satisfies local customs or other regulatory requirements. Understanding precisely which documents are required is vital. Some issues to be aware of when completing documentation include:

- Incomplete, incorrect or expired documents can mean the exporter is no longer benefiting from the protection of a Letter of Credit.
- In addition to documents that provide evidence of shipment of goods and an invoice, there may be further documentation needed for customs declarations, and/or to satisfy import and sometimes export requirements.

Trade bodies and chambers of commerce can usually advise on preparing documentation. There are also service companies that can be engaged to manage export documentation and deal with freight forwarders.

Supply and sales chain integrity
When expanding overseas, either to achieve cost savings or new sales, supply and sales chain integrity becomes key. When using a supplier or distributor in the same country, monitoring their financial health and resilience and the relative importance of your commercial relationship is comparatively straightforward. When a supplier or distributor is perhaps thousands of miles away, this is less easy. Depending upon how widely your business is distributed among these suppliers/distributors, an unexpected failure may have severe consequences for your own business.

Diversification
One way of minimising the impact of such a failure is diversification – avoiding any single points of failure, such as a single supplier being the only manufacturer of a critical component.

Diversification needs to be balanced. If suppliers/distributors feel that they are only of marginal importance they may give priority to their other customers/suppliers who give them more business.

Working capital support
One way of building supplier/distributor loyalty through financing is providing working capital through mechanisms such as supply chain and distributor finance.

If suppliers/distributors are small, they will lack access to capital markets as a source of working capital. Difficulties in obtaining working capital not only affect their overall financial stability, they also affect the volume of business the supplier/distributor can transact, which may prevent them developing a larger relationship with your business.

Partnering with a suitable bank can make a considerable difference here. Suppliers/distributors can benefit from adequate working capital, usually at a lower cost than they could achieve independently. The key value in dealing with a bank is that it is capable of supporting your suppliers/distributors in this way because it has a sufficiently diverse global customer base.

Find out more

More information on trade documentation can be found on the International Chamber of Commerce web site: www.iccwbo.org

8. Ensuring safe transportation

A good reputation is everything when you're taking your business overseas. You have to look after it carefully, often in the face of a more complicated supply chain with more opportunities for things to go wrong. This section looks at ways to safeguard against risks to your reputation.

Key points

- Minimising transportation issues protects your reputation as a trusted exporter.
- Insurance helps, along with strong transportation management, as it avoids business and cash flow disruption.
- Ensure shipments are not on a vessel breaking sanctions, as the potential losses can be severe. Using a reputable firm of international freight forwarders can reduce the chance of this.
- Regularly reviewing Incoterms® and reminding importers of those that apply can prove prudent as well as reviewing and selecting transportation methods.
- Transportation can be every bit as critical as manufacturing or sourcing.
- Monitoring potential transportation problems can bring peace of mind and bottom line preservation.

Reliability is key to building a good reputation and punctual delivery of goods is clearly important. While the legal liability for safe shipment of goods may change during their movement, from an importer's perspective the reputational liability still tends to lie with the exporter. Even if it's the carrier or bad weather that actually delays or damages the goods, it is the exporter who may lose future business as a consequence.

To ensure clarity over who is responsible for what, International Commercial Terms (Incoterms®) are commonly used for international shipments of goods. These are internationally recognised standard trade terms published by the International Chamber of Commerce (ICC) and used in trade sales contracts to ensure clarity on the part of buyer and exporter with regards to:

- Which party is responsible for the cost of transporting the goods (including insurance, taxes and duties).
- Where the goods should be picked up from and transported to.
- Who is responsible for the goods at each step during transportation.

If you are exporting, make sure that the importer fully understands the Incoterms® rules applicable to a particular transaction, especially in the case of a new importer. While the importer may have no legal basis for complaint if they misunderstand the relevant Incoterms® rules, they may still

feel resentment towards the exporter who will bear any reputational consequences and payment may be delayed.

At the same time, it is equally important for exporters to be aware of their own position regarding agreed Incoterms® rules. For exporters that always deal on the same Incoterms® rules, this is usually less of an issue, but where agreed Incoterms® rules vary from transaction to transaction (or buyer to buyer) an oversight can be costly. The exporter may find itself having to cover an unforeseen cash flow gap or unexpectedly bearing the costs of shipment delay or damage.

For exporters new to international trade there is the mode of transport to consider. The majority of international trade tends to be via sea and is very different from domestic road haulage in terms of reasons for loss/damage/delay. Despite its usually lower cost, it may not necessarily be the most appropriate method of transport in terms of speed. So a regular review of transport methods can pay dividends when making shipments.

Importer behaviour when receiving cargo can impact an exporter's costs. If an importer fails to accept delivery punctually, an exporter may be liable for additional charges ('demurrage') from the shipper for a vessel or container that is not unloaded within the contractual period ('laytime'). Even if an importer receives a goods container, but does not return it empty within the specified period, the exporter may still be liable to additional charges ('detention') from the shipper.

Insurance can clearly play an important role in mitigating some of the potential problems in shipping internationally. However, while cargo insurance may cover some of these, the exporter will still have to deal with the associated business and cash flow disruption in the event of a loss, plus the administrative overhead of making a claim.

Know who is moving your goods and where

Using a reputable firm of international freight forwarders will maximise the likelihood of trouble-free international trade. They should be able to advise on any specific country requirements in relation to trade sanctions. This is important because exporters need to be sure when arranging shipments that their goods are not being shipped on a vessel breaking sanctions.

Sanctions and embargoes are political trade restrictions put in place against target countries with the aim of maintaining or restoring international peace and security. They are one of the strongest diplomatic ways for a country to express disapproval for the behaviour or actions of another country and can entail limitations on trade, with different levels of restriction depending on relations between the countries or organisations.

There have been instances where an overseas exporter has controlled the shipping from an acceptable, non-sanctioned territory but because the vessel called at a port in a sanctioned country, HSBC has had to stop the transaction (all banks are required to screen for sanctioned countries), which in this case was breaking US OFAC sanctions, despite the goods never leaving the ship.

Find out more

More information on the transportation and delivery of goods can be found by visiting the International Federation of Freight Forwarders (FIATA) www.fiata.com

Did you know?

To keep pace with the ever-evolving global trade landscape, the latest update to the trade terms is currently in progress and is set to be unveiled in 2020. The Incoterms® 2020 Drafting Group includes lawyers, traders and company representatives from around the world. The overall process will take two years as practical input on what works and what could possibly be improved will be collected from a range of Incoterms® rules users worldwide and studied.

Source; International Chamber of Commerce

9. Protecting your business

Money laundering, bribery and sanctions are issues you'll have to be alert to when trading in certain countries around the world, and that can be easier said than done. This section tells you what to look out for and also how to avoid getting involved accidentally.

Key points

- Minimising the possibility of inadvertent involvement in illegal activity helps optimise returns by avoiding unexpected costs and business disruption.
- Being cautious when dealing with new trading partners is likely to pay dividends.
- New trading relationships may have the potential to involve bribery, which has commercial and criminal consequences.
- Due diligence should also apply with regard to sanctions, embargoes and money laundering.

Although the opportunities implicit in overseas trade can be highly attractive, maximising the net return requires an awareness of the risks of financial crime, including money laundering, bribery and an ability to manage complex international sanctions.

If the business has already conducted thorough due diligence on a new trading partner, then potential hazards such as bribery and breaching sanctions are less likely to be an issue. Nevertheless, it is important to be aware of and guard against them. It is equally important to ensure that any banks you use when making/receiving payments or trade finance should have high standards in this area. For example, HSBC has an absolute zero tolerance policy with regards to bribery and corruption.

Bribery

In a new trading relationship, there is the possibility of bribery arising, but it may not be immediately obvious. For example, payment of a facilitation fee could be considered a lawful incentive to foster new business. However, it may also be construed as bribery, which is illegal in many countries that have robust bribery and corruption laws.

Breaking those laws through the behaviour of employees overseas could make a company liable to prosecution in its domestic market. If employees enjoy hospitality or gifts while with a trading partner, for example, they may be subject to an element of obligation to direct more business to the partner, which may constitute an offence. Equally, passive awareness

of a company's business being facilitated by a third party making bribes can also constitute an offence of bribery.

These considerations make it essential to conduct research on the levels of bribery and corruption in target overseas markets and the implications this may have for new business. A useful starting point is to check countries against Transparency International's annual global corruption barometer www.transparency.org

Establishing an ethics policy that highlights what is and isn't acceptable when conducting business with trading partners will also provide some protection.

Sanctions and trade embargoes
These are political trade restrictions put in place against target countries or entities with the aim of maintaining or restoring international peace and security. So understanding any sanctions or embargoes applicable to the countries you are trading with is really important.

Businesses have a legal obligation to comply with trade embargoes and sanctions, so it is essential to check whether goods being bought or sold and/or trade counter-parties are subject to any sanctions or on a restricted list.

Inadvertent breaches of sanctions may be innocent, but can have severe consequences at both a corporate and individual level. Personnel may face prison sentences or significant fines and the company may also face fines and reputational damage.

Ignorance of the sanctions may be little or no defence. Therefore thorough due diligence is absolutely vital.

Money laundering
Money laundering is the process by which criminals and terrorists hide the origin of funds derived from unlawful conduct – essentially cleaning the proceeds of crime. Legitimate businesses can be inadvertently involved in this illegal process as unwitting participants, so there is a need to:

- Be diligent.
- Ask probing questions.
- Try to establish if transactions are legitimate.

If a deal looks too good to be true, consider whether there is a risk of becoming involved in a criminal offence.

In money laundering a large amount of funds may be moved around quickly, in an attempt to characterise them as resulting from a legitimate source. Traditionally, businesses that operate on a cash basis have been seen as high risk, as it was difficult to determine the source of funds.

But with the rise of online trading there are now a number of other ways to launder money, including through trade transactions.

Money laundering historically has been associated with primarily criminal activity, but it is now also closely associated with the financing of terrorism. Businesses need to be careful not to become involved unwittingly and should be aware that payments to/from certain countries carry a higher potential for links to financial crime. As many governments publish a list of these countries, checking this need not be overly challenging.

Find out more

Banks, trade bodies and chambers of commerce can give advice on local business practices. Find your local chamber of commerce on the British Chambers of Commerce website at www.britishchambers.org.uk

Find your trade association on the Trade Association Forum website at www.taforum.org.uk

Department for International Trade (DIT) is the Government Department that helps UK companies succeed in the global economy. They can help you access vital information and contacts, understand the market environment and identify opportunities. They can also help you set up meetings or promotional events. In short, they can help you to maximise the opportunities and minimise the risks. Visit the country pages on www.gov.uk/government/organisations/department-for-international-trade for information.

Find out more about live export opportunities for businesses via the Exporting is GREAT platform. Visit www.great.gov.uk to access advice and expertise to support you at every step on your exporting journey.

HSBC's Export Resource Centre has a range of insight, information and resources, including Country Guides, for new and experienced exporters. www.business.hsbc.uk/export

Transparency International www.transparency.org.uk

For further information on sanctions and embargoes and country specific guidance visit BIS www.gov.uk/sanctions-embargoes-and-restrictions

Steps to tackle the threat of financial crime

- Carry out thorough due diligence on any new trading partner
- Keep detailed records for international transactions
- Reconcile bank statements regularly
- Enforce controls and sign-off for large payments
- Keep an audit trail of compliance activities
- Question unusual transactions – for instance, if a customer transfers funds through a complex banking or money transfer arrangement
- Store records securely and with access controls
- Ensure all employees are fully trained and aware of financial crime risks, and their responsibilities in prevention.

Cybercrime

The increasing digitisation of industry plays a vital role in business growth, connecting companies to new customers, suppliers and opportunities. But it can also bring risk.

Cybercrime targets victims from private individuals to large corporates, through various forms of phishing and illicit installations of malware. Cyberattacks can have a significant impact on businesses from lost income to reputational damage, ransomed data and a breakdown in business continuity.

The due diligence that applies to any aspect of business is equally important when it comes to combatting the threat of cybercrime. A lot of attacks can be via emails that appear to be from people that you know or trust. Having a clear view of your supply chain and the suppliers and customers you deal with on a daily basis, can help you to identify potentially fraudulent communications.

The threats posed by cybercrime are always evolving, requiring constant vigilance but there are several steps you can take to minimise the risk of an attack.

Make use of industry-standard solutions
The first step in building a line of defence is to install and update anti-virus software and firewalls as well as separate email protections and internet proxy services.

Keep hardware and software up to date
As soon as vendors release new versions, you should update software and operating systems on every company-owned computer. This includes downloading security patches immediately if they are updated in between releases.

It's also important to upgrade hardware devices such as wireless routers. Vulnerabilities in internet-connected hardware can be exploited from anywhere in the world. You should also ensure that any mobile devices like laptops and smartphones used for business purposes are encrypted.

Train employees on best practices
Giving your employees the information they need to keep business systems and information safe is key. Educate them on existing cyber threats and keep them up to date with new ones that may impact your industry using trusted resources.

Staff should never open attachments or click on embedded links in emails originating from unknown sources. When they do receive a suspicious email, it's best to delete it without opening it. If an email appears to be from a trusted partner and asks for secure information such as login credentials or to reset a password – have employees report it to your security team as well as to the partner's.

Employees should also never download unauthorised software programmes, documents or applications directly from the web.

Have clear policies around security protocols
Many companies put a secure password policy in place so that passwords have a certain level of complexity. As an example, you may want to require that passwords be at least eight characters in length and include at least one number, capital letter and/or symbol.

Ensuring employees only have access to the systems and information they need to do their jobs can reduce exposure to insider threats. Dividing financial responsibilities among key staff members may also help minimise the risk of internal fraud.

Restricting internet access on business network-connected machines to only trusted sites and services can help protect your systems from potential malware infection from compromised websites. Limiting or eliminating the use of external media such as USB sticks will further reduce the risk of data theft and infection from malware.

Take precautions with external partners
Whether you are taking on board a new supplier or working with a new trading partner overseas, you need to carry out the necessary due diligence.

You should conduct thorough background checks on all third party suppliers with whom you work and review contracts periodically to ensure they are current. Pay special attention to suppliers who have access to or provide your IT systems such as technical support contractors or Cloud services.

The main types of cybercrime affecting businesses include:

Phishing
One of the most common cyber-attacks, phishing operates through emails which are often convincing and appear to come from legitimate senders. These messages entice their targets to click on links or attachments which, in turn, facilitate theft or fraud.

Malware
Malicious software is coded with the intention of harming its target. It can steal information, damage data, hijack website visits and spy on internet activity. Fraudulent redirection of internet banking users is an increasingly frequent form of attack.

Business email compromise
One of the newest emerging threats is Business Email Compromise, also known as CEO or Chairman Fraud.

A fraudster emails a company's payments team, impersonating a contractor, supplier or even someone in senior management. It might appear to be from the CEO, asking that an urgent payment be made, or from a supplier, requesting that future payments go to a new account.

Text and phone scams
Texts and phone calls can be used maliciously to facilitate theft and fraud. 'Vishing' calls try to alarm recipients into making payments or providing important financial information. 'Smishing' texts may additionally try to entice their target to click on malicious links, activating trojan viruses which can steal passwords and other high-value data.

10. Checklist

Now that you've read through the various topics associated with doing business internationally, here are some points to consider next time you're doing business overseas.

- ☐ Is your due diligence on overseas trading partners at least as thorough as for domestic relationships?
- ☐ Do you understand the implications of country risks?
- ☐ How certain are you that a potential trading partner is all they appear?
- ☐ Have you met them face to face, or failing that is a trusted third party prepared to vouch for them?
- ☐ How many control/authorisation layers do you have for your international bank accounts?
- ☐ How do you check whether the details of a change of remittance are genuine?
- ☐ What payment options are there for your international payments/receipts?
- ☐ What process do you have for understanding and choosing the most appropriate payment options for your needs?
- ☐ What measures do you have in place to prevent phishing and social engineering fraud?
- ☐ Does your internal network infrastructure negate the risk of attacks to your payment systems?
- ☐ Do you offer to accept payment in foreign currency to gain a competitive edge? If so, how will you hedge the consequent risks?
- ☐ Do you have robust procedures in place to ensure your trade documentation is accurate?
- ☐ How are you ensuring that your documentation is always appropriate for the jurisdiction concerned?
- ☐ If you use Incoterms®, have you made certain that your counterparties understand the implications?
- ☐ Are you sure that none of your shipments could be inadvertently breaching sanctions?
- ☐ Are you certain that none of your sales activities could be considered bribery?
- ☐ How are you monitoring transactions from high risk money laundering countries?

Call: +44 (0)800 78 31 300*
or speak to your HSBC Relationship Manager

Access free tools and resources to help grow your business:
www.business.hsbc.uk/export

*Lines are open from 9am - 5pm. To help us continually improve our service and in the interests of security we may monitor and/or record your call.

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