



Analysis

Risk Mitigation and the Brexit Effect

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Biography

Tanya Giles is the Regional Manager of Atradius Wales and the South West, having established Atradius' front office presence in the region. She has over 28 years' experience in trade credit insurance.

Initially joining Atradius (www.atradius.co.uk) with the Risk Services Unit, advising businesses on trading risks, Tanya has managed the UK SME commercial team and has worked closely with SME specialists within the Atradius broker network. Delivering and promoting the Atradius service as a passionate advocate for the importance of professional customer offering led Tanya to take up the role of UK Customer Services Manager. She is confident that Atradius is the right choice for brokers and businesses and firmly believes in Atradius' commitment to its customers, its ability to anticipate business needs and deliver the right solution; an ethos which is at the core of Atradius' DNA.

Tanya regularly represents the voice of Atradius at external events and works closely with a network of strategic partners, both within the broker community and key representative organisations such as Chambers of Commerce and Chartered Institute of Credit Management.

Keywords Export, International trade, Atradius, Trade credit insurance, Brexit, Business advice
Paper type Research

Abstract

If we have learned anything over the last few years, it's to expect the unexpected. The vote for Brexit, Trump's victory at the White House and China's slowdown; just three things which have shaken the business world in a way that had not been expected. But, as the author of this article explains, despite the ever-changing economic environment which brings new risks seemingly every day, businesses cannot – and should not, stand still if they want to succeed.

Introduction

On a positive note, the fears surrounding the impact to UK economy in the immediate aftermath of the Brexit referendum have, as yet, been largely unfounded. While the UK has not emerged unscathed, we have seen extraordinary resilience in the business climate. Figures show that the economy surpassed expectations with growth holding up at 1.8% in 2017. In the first quarter, estimates of GDP growth were revised upwards from 0.1% to 0.2% and again from 0.4% to 0.6% in the second quarter. Meanwhile, manufacturing output has surged and industrial production has reached its highest level in seven years. That said, businesses are still struggling and one only has to look at the retail sector for evidence of this.



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However, the clouds of Brexit continue to loom on the horizon, not just in the UK but also for other EU27 countries where historic trading relationships now face an uncertain future. Uncertainty surrounding Brexit has become the new norm, creating an economic fragility that businesses must not ignore. Indeed, while the future trade relationship between the UK and the rest of the EU is still not clear, some developments within UK-EU trade flows are already evident.

A recent Atradius report¹ published three years on from the Brexit referendum revealed that UK exports to the EU have grown by 6.8%, the highest growth rate since early 2012. However, simultaneously, trade from the EU to the UK has flattened at just 0.9%. The shift has been driven by the depreciation of the pound against the euro since June 2016, reducing purchasing power in the UK and boosting the competitiveness of UK exports, further supported by robust demand in European markets. By comparison, growth in intra-EU-27 exports has increased by 6.8%. This is significant as this is a reversal of the relationship observed in the post global crisis period when EU exports to the UK grew at a faster pace than vice versa.

To put it in perspective, from 2011 to 2015 EU exports to the UK grew, on average, 6.4% per year compared to a growth of 1.2% in UK-EU exports. However, following the 2015 UK election which paved the way for the in/out referendum, the tides began to turn. The subsequent change in trade developments correlates to the depreciation of the pound which has made UK products more competitive in European markets with European products becoming relatively more expensive for Britons, thereby losing competitiveness. This is reinforced by GDP growth developments with the falling pound weakening consumer purchasing power and weighing on GDP and reducing import demand.

Meanwhile, as the news headlines bear witness, business failures are an ever-present threat. UK insolvencies have increased for the second consecutive year, rising by 2% in 2017 with the construction, retail and hospitality sectors being the most affected. Atradius economists forecast that the upward trend in UK business insolvencies is set to continue with an increase of 4% anticipated for 2018. In today's uncertain trading environment we recommend:

- **Stay sharp** – Risk is an inherent part of international trade and with a cyclic economy, we will always see good times and bad times. Any business which is doing well against the backdrop of uncertainty should be applauded but cannot let success blind it from any pockets of underlying risk. Good intentions are not enough, there are too many examples of businesses getting it wrong and suffering from the consequences. Staying sharp is key to long-term success.
- **Knowledge is King** – The number one piece of advice we give to any business is do your research. As a matter of course, this includes researching your market to ensure there is true demand for your product or service, clarifying the size of your potential target audience and confirming their purchasing power as well as checking out the competition to find your competitive edge.



You will also need to assess if you have to tailor your product or service to meet the specific needs and tastes of your new customers and you will need to develop a comprehensive understanding of the market from the wider economic outlook, the impact of potential political decisions as well as nuances in local legal and regulatory structures.

- **When to bow and when to shake hands** – It is naïve to adopt a one-size-fits-all approach to international trade. While we are now part of a global business village giving us near instant access to new markets around the world, the cultures of trading nations remain steadfastly different. Understanding and demonstrating respect for local business cultures will go a long way and can prevent costly mistakes; whether it's avoiding behaviour that may cause offence, or adopting customs which can make you more attractive to do business with, it is worth taking time to do the research.
- **A robust approach to admin** – Getting the basics right is essential to ensure that you will get paid for your product or service. For example, make sure your shipment satisfies customs regulations, which national law applies to the contract and confirm which currency you are billing in. When it comes to 'dotting the i's and crossing the t's', taking extra care cannot be overstated. Too often, a simple mistake is the source of a sour deal. An arbitration clause in the contract can prevent future conflict should a dispute arise and as an additional safeguard, wherever possible include a retention of title clause so that you retain ownership of the goods until payment is made: should a problem arise, you can at least recover your capital cost by reclaiming unused goods from your debtor's administrator.
- **Set your payment terms** – Ensure your payment terms are clearly stated and agreed up front. Always ask if you can get paid upfront. If credit is the only option, have a written agreement on the costs and payment procedure. Can you offer an early payment incentive to reward timely payment? Stick rigidly to your side of the deal, invoice promptly and stay on top of billing with aged debtor reports and swift reminders when an invoice is unpaid.
- **Seek protection** – The ultimate safety net for protecting your business in any trade relationship, whether domestic or overseas, is trade credit insurance. With insurance protection in place, you have the comfort that if your customer does not, or cannot pay, your insurer will. Atradius supports its customers to trade with confidence by protecting them from the risks of non-payment.
- **Get the experts in** – Buying trade credit insurance from Atradius offers far more than payment protection. Atradius also provides unrivalled insights into global markets and provides trading advice at each stage of the trade journey. With exceptional worldwide trade expertise including business intelligence on more than 240 million companies and experts on the ground in more than 50 countries, Atradius provides the right support to ensure your trading relationships operate on the best possible foundations.



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Among its armoury, as well as offering real-time insights and expert analysis on new and existing trade relationships, Atradius also offers a suite of free economic, country and sector reports as well as a new digital credit management portal, Atrium, designed to directly and quickly address the everyday needs of customers and brokers. In addition, Atradius has enhanced its support to SMEs with a new streamlined cover option. Simple yet effective, Atradius Modula Freedom offers the protection SMEs need with a format, pricing structure and clear features designed specifically for them.

In conclusion

The outlook for the global economy appears to be brighter and 2017 marked a year of acceleration in global GDP growth, growing 0.6 percentage points faster than the year before. This year promises to be another year of strong global growth, with GDP growth forecast to push up to 3.2% – its highest level since 2011 – and up another 3% next year. Broadly speaking, trade growth is buoyant and investments beginning to recover.

However, the climate remains unpredictable and the role of risk management and risk mitigation is high on the priority list for most businesses. For a business to survive and thrive in today's environment, it is important to strike the right balance between confidence and caution – to be able to seize new trade opportunities while at the same time mitigating the risks.

Reference

¹ *Brexit effect already being felt in UK-EU trade*, <https://atradius.co.uk/reports/brexit-eu-trade-june-2018.html>

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