Import Risk

Introduction

Like an export, import of goods is also associated with various types of risks. Some of these are

- Transport Risk – This risk is associated with the loss of goods during transportation.
- Quality Risk – This risk is associated with the final quality of the products.
- Delivery Risk – This risk arises when the goods are not delivered on time.
- Exchange Risk – This risk arises due to the change in the value of currency.

These risks are explained more fully below.

Transport Risk

For a better transport risk management, an importer must ensure that the goods supplied by the exporter is insured. Whether the goods are transported by Sea or by Air, the risk can be covered by Insurance. It is always advisable to set out the agreement between the parties as to the type of cover to be obtained in the Contract of Sale. Often Importers will wish to obtain Insurance cover from their own Insurance Company under a 'blanket cover' called an 'Open Policy' thus taking advantage of bulk billing and other relationships.

Quality risk

The proper quality risk analysis is important for the importer to ensure that the final products are as good as the sample. Occasionally, it has been found that the goods are not in accordance with samples, quality is not as specified, or they are otherwise unsatisfactory. To handle such situations in future, importer must take necessary protective measures in advance. One the best method to avoid such situation is to investigate the reputation and standing of the supplier. Even before receiving the final product, inspection can be done from the importer side or exporter side or by a third party agency.

In case of Bill of Exchange, with documents released against acceptance, the Importer is able to inspect the goods before payment is made to the Supplier at the maturity date. In this method of payment, if the goods are not in accordance with the Contract of Sale the Importer is able to stop payment on the accepted draft prior to maturity. Importers should consider what measures can be taken to ensure that the need for legal action does not arise. If the Importer has an agent in the Supplier's country it may be possible for closer supervision to be maintained over shipments.

Delivery Risk

Delivery of goods on time is important factor for the importer to reach the target market. For example any product or item which has been ordered for Christmas is of no use if it is received after the Christmas.

Importer must make the import contract very specific, so that importer always has an option of refusing payment if it is apparent that goods have not been shipped by the specific shipment date. Where an Importer is paying for goods by means of a Documentary Credit, the Issuing Bank can be instructed to include a 'latest date for shipment' in the terms of the Credit.

Exchange Risk

Before entering into a commercial contract, it is always advisable for the importer to determine the value of the product in domestic currency. As there is always a gap between the time of entering into the contract and the actual payment for the goods is received, so determining the value of the good in domestic currency will help an exporter to quote the right price for the product.

- Contracting to import in Indian Rupees.
- Entering into a Foreign Exchange Contract through Bank.
- Offsetting Export receivables against Import payables in the same currency by using a Foreign Currency Account.
- Where Pre / Post-Shipment Finance is provided with a Foreign Currency Loan in the currency of the transaction and Export receipts repay the loan.