The right way to win customers

The “back-to-basics” mantra that resonates in many financial centres must incorporate a return of personal and business relationships, says **ALEXANDER R. MALAKET, CITP**, president OPUS Advisory Services International Inc

The question of the moment is, “How can financial institutions gain a competitive advantage in transaction banking in a hyper-competitive climate?”

The global crisis and ongoing impact of several scandalous developments involving some of the biggest names in banking, combine to raise some very serious, and unfortunately, persistent questions about the integrity of the banking system in many parts of the world.

While senior bankers speak on one hand about the need to transform and to rebuild confidence among retail and corporate clients alike, others in the very same organisations perpetrate acts of stunning negligence or outright fraud, and the positive messaging and good intentions are all but lost in the fog of adverse consequences, massive financial loss, and damaging association with drug cartels and other undesirable elements.

The “back-to-basics” mantra that resonates still in many financial centres seems very focused on transactional basics: the idea that bankers should focus on banking: deposit-taking, lending and other transaction businesses, including trade finance. What is less visible is a realisation among leaders in the industry that trust is a fundamental element of any attempt to succeed in a shift to a “back-to-basics” approach to financial services.

Trade finance, and its current evolutions in supply chain finance, as well as upcoming propositions such as the SWIFT/ICC Bank Payment Obligation, is surrounded in many markets by a certain air of mystique and complexity, poorly understood by conventional bankers and corporate executives alike, but, fundamentally, is a business that facilitates the flow of goods across borders. It’s a financial service that is linked to real-economy activity, and that contributes very clearly to economic growth, national and global GDP, and to the reduction of poverty and the

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support of international development in economies across the globe.

At the same time, trade finance, partly by its cross-border nature, and partly as a direct result of the complexity associated with it, turns out to be a popular means by which illicit funds are laundered or transferred to embargoed locations or individuals. Quite frequently, the prevention of such outcomes rests with relatively obscure trade operations specialists toiling in a bank back-office, and identifying something suspicious in a set of documents linked to a letter of credit.

Bankers bemoan the burdens of regulatory oversight and point to armies of compliance officers and complex, expensive technology solutions required to meet the requirements of local and international regulators, yet several of the recent failings in the financial services sector have been self-inflicted, at a time when political leaders can ill-afford to further alienate their constituents.

Regulators are left with little option but to impose further compliance requirements and to seek further preventative measures, such as the increasing and increasingly firm focus on assuring adequate anti-money laundering measures, or higher levels of capital reserve, even in demonstrably secure businesses such as trade finance.

The recency and persistence of serious errors, negligence or outright illegal activity in banks assures that the regulatory pressure will not soon be reduced. Even in regions like the Middle East, where banks largely avoided the toxic assets crisis, and where Islamic banking principles have clearly assisted financiers to remain focused on the fundamentals, will continue to be impacted by regulatory pressure, in some cases, originating from the extra-territorial application of laws and regulations through bank branches in foreign jurisdictions, or on the basis of the use of global currencies in the provision of trade and supply chain finance.

In short, no jurisdiction will escape the regulatory wave that continues to build, fed in part by the global crisis, but re-energised periodically by the self-defeating actions of financial institutions.

Trade finance, as an industry and as a specialised, cross-border activity within a bank, has a tremendous opportunity to shift the approach and focus around regulation from a defensive, responsive mode to one that links regulatory compliance to the rebuilding of trust among clients, which ties directly to a clear focus on "back-to-basics", and that manages the resulting trust into a clear competitive asset and a strong differentiator.

Trust, like appropriate environmental policy, corporate social responsibility and effective branding, translates clearly into economic value, higher retention of clients, and higher shares of wallet among existing clients. If ethical conduct and an imperative to do the right thing, and to be good corporate citizens, are not sufficient motivations to drive an improvement in the deplorable conduct of some of our top financial institutions, perhaps pure economics and the discipline of market forces – the buying choices of retail and corporate clients – will be.

Trade finance, especially when conducted on the basis of traditional products such as letters of credit, is a business built on trust. While the risk mitigation mechanisms are advanced and quite flexible, the system works, and facilitates trillions of dollars worth of global trade every year because the system of rules, practices and mechanisms rely on a certain level of trust that parties will behave as required over the lifecycle of a transaction.

Banks and financial services companies play an undeniably critical role in the conduct of business and trade, and in the creation of economic value. However, the regulatory pressures on this sector will increase significantly, and on a global basis, before perhaps abating once again in the coming five to 10 years. Trade financiers can lead a transformational approach to regulation, turning its successful adoption into an asset in competition for the trust – and the wallet – of the customer, across the globe.

"Back to basics" must be about more than simply a return to core products. It must incorporate a return to key principles of personal and business relationships – one of which is – undeniably - trust. Trade financiers can take measures immediately to raise the expected standard within their individual institutions and within the banking sector, and by the cross-border nature of their business, can immediately take this discussion – and its following actions – global.

Back to basics. Trust. Profitability. There must be a link in there somewhere…