Hitting its stride

Conditions are volatile but trade and supply chain finance continues to make steady progress, says **A.R. Malaket** who paints a predominantly optimistic picture for the business in the coming months.

In the year ahead, trade is likely to remain top-of-mind among political and business leaders, and trade finance will continue to enjoy a significant amount of profile, both as an element of the evolving transaction banking value proposition, and on its own merits. Business and political conditions remain volatile and the financial sector remains the target of necessary, if in some respects unwelcome attention, so in such circumstances, any attempt to take a forward-view implies a level of journalistic risk. Nevertheless, here are a few observations on trade and supply chain finance for the coming year.

2012 will see a continuing positive evolution and developments in the business of trade and supply chain finance. The banks will continue to mature their transaction banking offerings, including solutions in the fast-growing supply chain space, and will extend their focus from large client-based programs to better service the mid-market and small-and-medium-sized enterprises, responding to both the political demand for such solutions, and the continuing relative attractiveness of margins in that client segment.

Regulation and compliance will continue to be central to the management challenges faced by bankers in particular, however, the decidedly more mature tone of the dialogue between trade financiers and the Bank for International Settlements will continue to develop in a far more constructive manner than was the case even a year ago.

The solution-oriented approach and the fact-based arguments presented by the industry, together with the appropriate and laudable response by the Basel Committee on Banking Supervision, bode well for a healthy and constructive dynamic going forward. Trade finance was rewarded last October by a positive adjustment of the Basel III regulations based on recognition of unintended consequences to the business of trade finance. In that development lies the seed for achieving the appropriate balance between effective, equitable regulation and the ability to conduct legitimate, well-managed trade finance business.

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Trade flows will continue to be reshaped by political crises, commercial sourcing patterns and the continuing, growing influence of G20 economies, and demand for trade finance will shift accordingly, with continued focus on effective risk mitigation. The role of export credit agencies and international financial institution programs will continue to grow in importance, and activity in trade-related asset distribution will continue to pick up momentum, as trade bankers seek to maximise capital efficiency while ensuring adequate capacity to underwrite new business.

While investment in technology and trade banking capacity will see an uptick in certain regions and institutions, the broader issues in the financial sector are likely to drive further consolidation and a level of pullback from international activity in other areas, opening the door for non-bank providers to enter the cross-border financing business as we have seen in the context of boutique providers and significant increases in international factoring and invoice financing business.

One question which may resurface in the context of a more rationalised banking sector is the issue of expertise and resources: can our industry deploy enough expertise and resources to support the evolution and growth of this business? At what point will we begin to take a more strategic approach to attracting and developing the next generation of trade financiers? We live and will continue to live, in interesting times. //

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