Seize the day

Trade finance has a unique opportunity to demonstrate its value, and evolve into an advanced model, suited to the needs of increasingly complex global supply chains, says **Alexander R Malaket**.

Trade finance is at a watershed moment in its long history, and the ultimate outcome of that moment – a truly transformational shift reflective of the value of trade and supply chain finance – is in the minds and hands of industry leaders.

Trade finance is coming out of the global financial and economic crisis well positioned to translate its new-found profile into corporate and political capital, and to continue – and accelerate – pre-crisis initiatives in innovation.

The integration of trade finance within broader global transaction banking businesses, the development of products and solutions linked to open account trade and global supply chains, and increasingly serious efforts to respond to the needs of SMEs – these are all recent developments in the finance of international trade that, taken together, create a sense of momentum and unexplored potential. Trade finance is valuable to buyers and suppliers, and fundamental to the flow of global commerce including trade linked to international development, and to the flow of increasingly critical commodities, including emerging global powers such as China and India.

"Traditional" trade finance has now grown, irreversibly, to encompass far more than a narrow transactional band of activity in the business of international commerce. The next chapter in the evolution of trade finance within the context of transaction banking includes a focus on collaborative models within financial services and beyond, as well as technology-enabled evolution beyond the long-pursued model of "dematerialisation" (paperless transactions), to include mobile.

Greater engagement of corporate executives, as well as the involvement of top-flight consultancies, which now see trade finance as a more "strategic" realm of activity, will facilitate intellectually rigorous discussion and innovation. Numerous initiatives, which seek to link financing with procurement and supply chain management, and efforts by SWIFT to contribute to innovation in the business of trade finance, are finding traction because market conditions and the mindset among key leaders are primed to react to such initiatives.

SWIFT has been working to actualise solutions such as the Trade Services Utility and the Bank Payment Obligation, while concurrently inviting corporates into what was largely a banking network. Some argue that there is, fundamentally, "nothing new" in the supply chain finance (SCF) models now marketed with vigour by leading providers of trade finance – that financing remains unchanged, and that SCF is little more than clever marketing and repackaging of familiar products.

On a transactional level, there is validity in this argument, however, the sea-change is in the way in which trade financiers, including non-bank providers, see their business, its scope of activity and its impact across more than a narrow band of transactional activity. The concurrent evolution of processes and technologies capable of enabling an updated model of trade and supply chain finance supports the sense of new possibilities.

Trade finance is at a watershed moment in its long history, and the ultimate outcome of that moment – a truly transformational shift reflective of the value of trade and supply chain finance, or a feeble and short-lived sputter leading back to the familiar – is in the minds and hands of industry leaders. Acknowledging the realities and lessons of the global crisis, and the critical need to assure sound stewardship, it remains appropriate to pursue models of trade finance well suited to the needs of global traders of the 21st century. //

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