Out of the shadows

Trade finance is evolving, based on a maturing of the industry vision and dialogue on several levels. **A.R. Malaket** says it is time to bring end-clients and other stakeholders much more into the discussion.

The business of financing international trade is highly concentrated, with something in the order of 85% of trade finance provided by the top five global players, depending on which set of statistics one is inclined to quote. Several providers are reacting to lessons from the global crisis and seeking to marry global reach with local, client-focused knowledge and relationships.

Such incremental developments are however, just the beginning. Innovators are looking at comprehensive solutions to address the evolving needs of complex global supply chains across a wide range of markets – even assessing opportunities to apply certain techniques in the context of "domestic" supply chain and commercial transactions. Efforts to extend trade finance solutions in scope and breadth of application include attention to areas such as invoice and receivables financing as elements of such supply chain finance programs.

The threat of disintermediation of trade banks remains a reality, as corporates have demonstrated a willingness and an ability to source trade finance through the capital markets. One response is for bankers and trade financiers to proactively extend the dialogue, which shapes the evolution of trade and supply chain finance solutions to include end-clients, risk insurers and other stakeholders.

Corporate treasurers and finance executives who bemoan, with justification, the commoditised nature of banking and trade finance services ("Replace the bank logo and the cover page, and many trade finance presentations look very similar," observed one CFO in Europe), must become more engaged in shaping the development of trade and supply chain finance. Likewise, senior executives in export credit agencies, international financial institutions and private sector insurers have much to contribute to a dialogue around trade and supply chain finance solutions.

Some of the evolution in trade finance will originate within product development units at the more innovative financial institutions, however, part of the impetus for evolution must come from the client side – from corporate executives demanding solutions to changing market conditions and transactional requirements.

One area for treasury and finance executives, insurers and other stakeholders to participate in far more actively, is the area of trade finance regulation – including capital adequacy. While regulatory concerns appear at first glance to be a matter internal to the banks, the reality is that capital-related costs incurred by the banks will result in additional financing costs to the end-client; if the client is large enough and engages in significant trade financing, those additional costs can add up to millions of dollars per year. Additionally, the amount of capital allocated by banks to the business of trade finance can be significantly reduced, if the capital efficiency and favourable risk profile of the trade business is poorly communicated.

Trade banking no longer has what some perceive as the "luxury" to operate in the shadows: it is a strategic activity and a core element of the business of global commerce, and with that profile, comes the opportunity to innovate and engage. Innovators must take the lead, but engagement of a broad group of stakeholders will soon be the price of admission to any serious initiative in the business of international trade finance. //

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