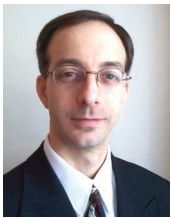


Is there time to evolve, or is it time to re-invent?

Trade services were once the operational backbone of a high-value, complex global business. Today, powerful market and technological forces are fundamentally reshaping the trade finance business and, according to Alexander R. Malaket, compelling thought leaders to ask: can trade services evolve to meet new demands, or is it time to re-invent the model?*



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Trade services: the future is here

The revolution in the business of trade finance, and consequently, in the nature and raison d'être of Trade Services has been discussed, analyzed and written about for years, with a curious combination of anticipation and quiet nervousness.

Despite transformational changes in many industries and businesses, including financial services, the traditional business models and value propositions around trade finance – and trade services – have been extremely resilient. Admirable in some respects, this 'staying power' has allowed trade services to remain relatively static as a business, even as trade finance reaches for and devises new ways to deliver value in an increasingly global environment.

The core product and service offerings of trade services – transaction processing and facilitation based upon esoteric, archaic and much-maligned banking instruments, remain valuable, and will certainly make a reasonable contribution to profitable international banking for some years to come. For those most comfortable with the familiar, trade operations and trade services can continue to exist, viably, by making incremental 'improvements' and by taking timid steps further down the value chain.

This approach, however safe in the short term, leads inexorably to marginalization, decreasing returns and, in the emerging trade business models, irrelevance. The path of incremental change will ensure that trade services and trade operations will become an increasingly small component of the dynamic, growing and innovative business of international trade and trade finance.

For trade banks and trade specialists looking to lead the market, driven by the compelling opportunities of this rich area of endeavour, there is no time left for incremental evolution.

The future of trade – and of trade services – is here. Time to re-invent the business model.

Trade winds – of change

Trade services and trade operations specialists provide an important and still core service within trade banking organizations. The question is, will the value proposition remain viable as it is currently understood, will it decrease over time as the market's expectations of trade service providers change, or can that value proposition increase, even as trade finance becomes a broader, more holistic business?

The forces compelling change, particularly among visionaries and thought leaders in trade banking, can be identified within financial services, as well as more broadly in business and trade. To paraphrase philosopher Thomas Kuhn, great discoveries, insights or advances are frequently realized at the 'intersection' or convergence of historically separate disciplines. Similarly, the challenges of emerging business models in trade – many involving the intersection of traditionally distinct product and service offerings – will provide opportunity for transformational change in trade services among leading trade banks.

Trade services and trade operations can remain highly focused, specialized and transaction-driven, a business where skilled bank specialists spend years issuing import letters of credit, and are eventually permitted to process payments under import LC's, before possibly gaining exposure to export 'document checking', progressing through the various familiar products and services.

Alternatively, trade services specialists, and their colleagues in structured trade, can look to the major developments in international banking and trade, and identify opportunities to derive increased value from ►

Trade services – evolve, or re-invent the model?

► trade operations, shifting from a transaction focus and something of a ‘utility’ function, to a leveraged, increasingly high-value role within trade finance. Some of the major developments which present opportunity for new business models in trade services include:

- Product and service integrations in financial services, which see trade products closely aligned with cash management solutions and working capital optimization, among others
- In/outsourcing of trade operations, including white label processing and offshoring
- Integration of global supply chain management into trade finance
- Increasingly effective and encompassing technology, which allows for enhanced document preparation and decisioning relative to documentary compliance
- Increasing momentum in online payment solutions and non-bank trade financing

There is no doubt that, in practical terms, extracting ‘new’ value from trade services presents significant people, process and operational challenges, however, none are insurmountable, and many revolve around attitudes and expectations – those that promote evolution, and those that try to preserve the familiar at the expense of the transformational.

Attitudes and expectations among trade specialists will determine whether the list of trends and developments above constitute a threat to Trade Services, promoting a retreat to familiar product-based processing, or whether they contain the seeds of next-generation trade services business models. In considering the options, trade services specialists must consider the ‘clear and present’ realities – AusTrade has been working on an export payments process in partnership with eBay’s online payment service for Australia, called Pay-Mate. Online trade meets government, meets online payments!

Trade services – re-invented

Trade finance, trade banking and trade services all possess recognized, proven and enduring value propositions. The degree to which these value propositions

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will increase even in the face of transformational trends in business and trade, depends upon a re-definition and re-invention of the value proposition. This process is already underway in trade banking as a whole, though less so in trade services.

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Based upon the major developments and trends in trade noted earlier, several opportunities can be identified, for expanding the trade services value proposition, thereby extending and re-inventing the trade operations business model. The ‘re-invention’ of the business model, short-term, will focus on better leverage of expertise, and more effective use of trade

Trend/Development	Value Proposition	Trade Services Re-invented
Bank product/service alignments	Expanded product expertise & advisory role	Trade Services advising on cashflow and working capital at the transaction level
Insourcing	Multi-level service delivery – bank clients and corporate clients	Trade operations teams as active service delivery channels and contributors to business development, rather than ‘invisible’ processors
Supply Chain Management	Trade solutions provider, with a holistic view beyond payments, risk and financing	Trade Services experts engaging with counterparts in logistics, purchasing, sales and other areas to help optimize the client Supply Chain
Technology	Focus on non-routine tasks and on providing decisioning/counsel that has not been automated	Trade Services experts that help leverage technological advances as trade facilitators rather than transaction processors
Emerging payment solutions and non-bank trade finance	Expertise on payment options, risk and cashflow impacts as well as fees and charges	Advisors on cross-border payment and finance options

services as a contributor to sales and client relationship development.

While the suggested “re-inventions” in the area of trade services may appear challenging, they do so only because, historically, investments in training and development in trade services have been relatively limited. It may be difficult to envision an established trade specialist engaging in supply chain optimization efforts, yet the subject matter is a natural extension of core trade expertise.

Increasing reference to the existence of ‘financial supply chains’ where financial flows mirror the flow of goods and services, suggest an intuitively interesting opportunity for astute trade bankers to assist customers in optimizing both supply chains simultaneously, and the detailed transactional knowledge of Trade Services staff can be valuable in such efforts.

Insourcing of trade processing presents further opportunity to extend the Trade Services value proposition, and to re-invent the business model, from primarily transaction processing, to service delivery, business development and ‘derivative’ service delivery – i.e., providing services to a client’s clients! As insourcing/outsourcing/offshoring continue to increase in the business of trade finance, banks seeking to outsource will look for differentiators that extend beyond fees and service level agreements (or SLA’s), to effective reporting and derivative client service delivery.

Outsourcers, already concerned about preserving customer relationships and minimizing the risk of losing customers to the insourcing institution, will shift focus from defensive concerns, to value-added services or information flow, which enhances their customer relationships despite the outsourcing arrangement. Trade Services will be critical to this dynamic. Effective differentiation will require the insourcing institution to

provide Trade Services that extend beyond straightforward transaction processing, no matter how efficient or cost-effective.

The transformation of trade services, while somewhat slower in pace than other areas of trade finance and trade banking, is inevitable, and will take place on two axes simultaneously – shifting from transaction processing to the provision of expert advice, and from single-product groups (trade) to multi-product (trade, cash, payments, FX...), across customer supply chains when necessary.

Trade services will be re-invented within the next five years, by design, and by default – by design for leading, visionary trade banks, and by default for those who persist in the illusion that ‘having always done it this way’ will be good enough to secure the future for trade services. ■

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Malaket was previously a senior trade consultant with a global US-based firm, working with financial services clients across North America. He spent several years in trade operations and projects with a Canadian Bank.

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