Banking product or relationship service?

Trade services and their core transactional products are viewed by most as being highly commoditized, and increasingly so as new technologies and operating models (such as outsourcing/offshoring) impact the business. Alexander R. Malaket considers the question: do trade services have a meaningful role to play in the relationship-intensive world of corporate trade finance?

International trade is, despite its complexities, challenges and risks, a business which truly covers the full spectrum of organizations, from one-person private companies sourcing or selling overseas, to the largest global conglomerates with leading-edge integrated supply chains and international networks that rival those of national governments.

In the following article, we convey a few messages from the perspective of large corporate importers and exporters, with the concurrent objective of exploring the contributions of trade services operations to the development of successful corporate/trade bank relationships.

Do trade services units have a value-added role to play in the relationship banking approach which trade banks provide (or aspire to provide) to their most favoured clients? We consider this question from a North American perspective, based upon recent observations, as well as several interviews conducted with executives of large corporate importers and exporters, operating on a global basis.

Transaction or relationship?

Executives in leading companies pursuing international trade seem to grasp quite clearly that trade finance services are increasingly commoditized, and that even commercial credit issues on the import side of a transaction are not necessarily impediments to securing trade finance from competing financial institutions.

Leading corporates which operate globally can have credit ratings which rival those of their banks, and such 'investment grade' organizations rarely have difficulty obtaining financing – even availing themselves directly through the capital markets, without the need for an intermediary.

On the export side, the possibility of securing transactional trade finance support from competing institutions is even easier, and the relationship link is arguably less important than the correspondent network (or the tolerance for country risk) of a competing trade bank.

Despite the commodity view, and an astute perception related to leverage and negotiating positions among corporate executives, trade bankers can develop successful, sustainable and partner-like arrangements with large corporates, but only if they meet certain fundamental expectations.

An assistant treasurer of a world-leading natural resources company describes his company's approach to trade banking relationships as being very open, based upon win/win business, and relaying on a healthy and positive competitive dynamic. This company actively manages its trade finance relationships, encouraging banks to secure fair returns for their services, and explicitly discouraging the provision of trade finance services on a 'loss-leader' basis, in hopes of pursuing other business in exchange.

The company maintains banking relationships with eight or nine leading global banks, and identifies preferred service providers, encouraging its business units to support those relationships whenever feasible. Trade specialists are looked upon as experts, and their advisory support is valued by the company, which indicates that it will accept to pay a premium on certain transactional products in exchange for the value of those advisory services. This approach is cited as an example of the mutually beneficial relationship approach that can be developed between trade banker and corporate executive.

As the controller of a global forest products company indicates, trade financiers need to be "...creative and responsive, and must be committed to service excel- ➤

➤lence", before they can even hope to be considered as service providers. This fundamental expectation arises directly from the fact that the company sees its own business as being highly commoditized, and actively looks for ways to differentiate its offerings in competitive international markets. If the company provides 24/7 coverage for its clients and suppliers, why, she asks, shouldn't the trade finance group at the bank?

Corporate clients may exercise significant leverage, and may even 'shop their business', driving margins down in an already competitive business, yet savvy senior executives appear well-disposed to a relationship approach to trade finance – if the right value proposition is brought to the table.

While it may be argued that relationship development is the purview of structured trade specialists, account managers and senior bankers, transactional service delivery rests primarily with the trade services units. The approach that is taken by front-line specialists – even in the case of outsourced processing – will affect the overall quality of the relationship.

What about responsiveness and commitment to service excellence? And further, what about business relationships explicitly managed to generate agreed returns for services provided? The relationship approach appears to offer some important advantages, even when it is applied in a highly transactional/commoditized context. A director of international merchandizing for a leading global retailer indicates that his company takes a ten-year view of their banking relationships – asking about the long-term health of the institution, and assessing the ethical/moral fit of the two organizations over the next decade.

Know your client, or KYC...

The golden rule of investment advisors applies equally well and equally compellingly to the business of trade finance and the relationship of corporates with their trade specialists.

Corporate clients clearly value relationships with trade specialists who know the intricacies of structuring a letter of credit, or understand the complexities involved in an ECA-backed, multi-country structured deal. They also clearly value a trade bank that knows their industry and their company.

Offering an off-the-shelf product adds little value in the estimation of our interview participants, and this sentiment is echoed repeatedly: leading corporate importers and exporters are looking for trade specialists who can provide business solutions, not merely facilitate transactions, even through cumbersome banking instruments.

The KYC expectation translates very practically to trade services on numerous levels, from corporate executives who object (as some do) to the remote, centralized operating model of trade banks, through to senior managers who deem that their bankers undervalue the global relationship when responding to the needs of a specific division or business unit, often due to an incomplete understanding of the corporate client's business.

As the assistant treasurer notes, it may be unappealing to issue a large standby letter of credit in a high-risk emerging market, however, there are times when a top-tier corporate client will expect its bankers to accommodate such requirements. The response to such situations will help differentiate a transaction-oriented view ("this is too risky and not sufficiently profitable, we cannot secure approval to proceed") from a solution-oriented perspective ("this request comes in the context of an established trading relationship and appears to be a local regulatory requirement. We will review and recommend an appropriate course of action").

Such value-added actions are again well within the operational scope of trade services units, at the every least in terms of appropriate escalation and internal recommendations, based upon an appreciation for the overall relationship, and a holistic view of the client's transactional needs.

The 'relationship' aspect comes into focus when the transactional insights and expertise of trade operations can be effectively combined with the higher-level view of structured trade specialists, to provide corporate clients with the appropriate overall solution: creative, innovative and responsive.

Trade-forward: looking ahead

Leading corporates engaged successfully in global trade tend to be forward-looking, and value this quality in their trade finance specialists. An awareness of emerging requirements and expectations can assist trade banks in differentiating themselves from competitors, and several trends provide opportunities to offer some relationship-enhancing value.

The increasing conduct of international trade on open account is a well-established trend, and one that is very familiar to corporates trading across the largest undefended border in the world. Canada-US trade is largely concluded on open account terms; in addition to this textbook scenario, however, we know that trade involving some higher-risk markets is also increasingly concluded without recourse to the more secure instruments of trade banking.

While there are certain solutions being offered to assist with open account trade, we note that the level of awareness of these solutions among large corporates (and indeed, among mid-tier trade bankers) is limited at best.

One of the leading agri-food exporters in North America sought to obtain insight into the emerging solutions in open account trade, noting that an effective product offering would be of significant interest. Similarly, the forest products executive referenced earlier indicated that her company feels that existing services in this area are time-consuming and expensive, even in relation to traditional trade product offerings.

An interest was expressed in the establishment of a secondary market for open account transactions, perhaps based upon a bill of exchange. The executive who suggested this approach recognized the challenge of effecting due diligence on foreign commercial risk, but identified this as an opportunity for value-added solutioning.

Trade-related technology plays a unique role in the relationship between bank and corporate client. Large corporate clients, processing significant volumes of transactions, can demand highly customized technology solutions which can assist in automating nearly all aspects of a typical trade transaction – to the benefit of the corporate client, as well as the trade bank.

One organization indicates that its custom technology solution (nearly all documents are handled in electronic format) allows for the processing of 60,000 purchase orders and about 20,000 letter of credit transactions per year, with a dedicated staff of two specialists. This same company has no compelling desire to shift to Open Account trade (except for selected, high-value, low-volume suppliers), because the transaction costs have been so effectively controlled in the current model.

This company views its custom technology solution, coupled with incomparable supply chain and logistics capabilities – from fully redundant distribution centres to highly mobile 'virtual warehouses' – as a critically important competitive advantage. The company's primary trade bank scans documents, assisting with process efficiency and cost reduction – in terms of staffing, as well as document storage and management – and is seen as a key partner in a highly effective business solution.

Trade services teams can assist in identifying clients that transact the type of business that could be suited to open account trade, and could benefit from service offerings in this area. Similarly, the competitive advantage driven from technology can be maximized by accompanying process improvements, identified with the assistance of the transaction specialists in trade services. Incremental improvements in efficiency within large volume traders can add up to significant cost reductions and/or gains in productivity, assuring that transaction-level value-added will positively impact the overall relationship.

Large companies also face a significant increase in costs and resource requirements relative to regulatory issues and compliance requirements. One leading retail organization estimated that regulatory and compliance requirements have increased two to three-fold over a one year period.

The KYC expectation translates very practically to trade services on numerous levels, from corporate executives who object (as some do) to the remote, centralized operating model of trade banks, through to senior managers who deem that their bankers undervalue the global relationship when responding to the needs of a specific division or business unit.

Does this represent an opportunity for trade banks, to extend their documentary expertise and the disciplined attention to detail, into areas related to regulatory and compliance requirements? Perhaps, but only in the context of a relationship-based approach, that would require – and permit – trade operations personnel to understand the regulatory context as an element of a client's business requirements.

Commodity CAN meet relationship...

A common theme in our consideration of trade bankers' relationships with large corporates is the consistent request for trade specialists to take a holistic, relationship-based approach to their business dealings with these top-tier clients.

Understand the business objectives and needs of a company, locally and globally; avoid taking a silo approach to dealing with large corporate importers and exporters – either along lines of business, or based upon geographic focus – and ensure that trade finance services are offered in a creative, innovative and responsive manner.

In order for trade finance to be delivered in a truly relationship-based mode, all the key elements of a trade banking organization, from structured trade units, to marketing and product development, to technology support and trade services, must come together. The trade banking team must deliver excellent service in a focused, informed and effective manner, assuring differentiated, world-class service to leading exporters and importers.

Are we stating the obvious, or merely repeating a perspective that is well-known in trade finance circles? If that were so, executives of the world-class organizations whose views are reflected here would surely have taken the opportunity to convey a different message... ■