TRADE & EXPORT FINANCE

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Trade & Supply Chain Finance

Special report
September 2014

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- Securitisation of trade receivables
- The post-SEPA migration landscape
- The rise of factoring

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Global head interview – Barclays

TXF talks with Dan Roberts, global head of trade finance at Barclays Bank in London.

Dan Roberts, global head of trade finance at Barclays Bank.

TXF: What are your views on where the trade finance market is at the present time, and what do you think are the biggest challenges that the industry faces?

Trade finance is at an exciting juncture; most of the regulations are now known but the industry is still adapting to Basel III, AML/KYC regulations, ring-fencing and resolution regimes, amongst other things. The impact in terms of reduction in the global fungibility of liquidity and capital are only now being absorbed into trade finance strategies. As well as regulation, there are some potentially disruptive technologies coming to the fore, and the rate of migration from consumer technology into corporate mainstream is happening at an increasing pace.

Career paths and demographics within the industry itself are also changing – in particular, we as an industry really have to make sure that young people who are starting out in and developing their careers in trade finance are getting enough relevant operational expertise.

Overall, trade finance faces some formidable challenges around balance sheets, around technology and around people. However, the amount of cross-border trade will continue to grow and trade finance is a very fragmented market – so there are plenty of opportunities for growth for the banks that adapt well to the changing environment.

We have been talking for years about convergence of consumer and corporate technology in financial services driving digitalisation of the trade industry, and I think we're now at the point where we're going to start seeing it happen.

TXF: Has the, or will the, cost of providing trade finance increase due to the greater pressure and requirements from regulators and those related to compliance?

No. In theory prices should have risen (and supply should have fallen) due to the higher costs; in practice, the impact of monetary policy has created an abundance of liquidity looking for a home, which has pushed margins

down. It is not clear what will trigger a reversal in pricing trends to more fundamental pricing levels; my guess would be either a geopolitical shock or the eventual reversal of QE in the US.

TXF: What position is the bank taking in regard to servicing new clients as well as SMEs?
We are always looking to build relationships with new trade clients across our core client groups: businesses of all sizes in the UK and Africa, global corporates and global financial institutions.

TXF: What do you see your clients asking for now that is different from the past? Do you see a different attitude from corporates?
Client expectations are changing. Clients are now asking for more provision of information, better customer service (faster turnaround, less tolerance for error) and expect more integrated front-end technologies. They are also interested in being able to have customisable, simplified non-proprietary yet secure access to their bank.

TXF: Technology within trade has grown massively over the last few years. What sort of investment has Barclays made in this area and what do you still need to do? How do you view the bank's trade technology offering in comparison to other institutions?
Indeed. We are investing in technology to digitise the front-end and front office, automate back-end processes to improve client experience, reduce costs and maintain high quality controls, and build a platform from which we can develop even more innovation going forward. Barclays has a strong track record of technology innovation across multiple product areas, and we believe that there are a lot of opportunities to deliver valuable, effective solutions that will benefit our trade clients as well.

Dan Roberts, global head of trade finance at Barclays Bank in London.

TXF: It is over 18 months on now since the official launch of the Bank Payment Obligation (BPO) from SWIFT, what is your view of the initiative, what if anything is holding it back and how important do you think it will be?
Overall, the concept remains appealing, but at this stage corporate take up rates remain slow. If end-user, by which I mean corporate, demand picks up, I think BPO should emerge as one of the growth products.

TXF: Is Barclays teaming with other FIs, and if so why and how does this make a difference for your clients?
Yes. We do this to ensure we provide maximum network coverage in the simplest and most effective way for our clients. Where appropriate, we partner on doc trade (network guarantees, L/C reissuance) and on large transactions.

TXF: Where do you see Barclays making a push in trade finance – product and/or region? Do you see the bank as having certain niche strengths?
We will be growing our business in our four core client segments: UK, Africa, global corporates and global financial institutions. Our investments in technology will build on our strengths in doc trade. The jewel in our crown today is our receivables finance capability, and we're seeing strong growth in the space.

TXF: What do you think the next big thing in trade will be?
We have been talking for years about convergence of consumer and corporate technology in financial services driving digitalisation of the trade industry, and I think we're now at the point where we're going to start seeing it happen. ■

Global head interview – Citi

Jonathan Bell talks with John Ahearn, global head of trade at Citi.

John Ahearn, global head of trade at Citi.

TXF: What are your views on where the trade finance market is at the present time, and what do you think are the biggest challenges that the industry faces?

The trade industry is at an inflection point – liquidity matters. We must adapt, reinvent our business and collaborate to remain relevant.

The current market pricing is unrealistic. Capital costs have risen significantly and are not reflected in current market prices. There is massive liquidity still being injected into the market by central banks. In many markets, current pricing levels do not meet required hurdles.

We are observing that Basel III is making the industry rethink how it uses balance sheets. There are new requirements such as the supplemental leverage ratio 'backstop', which can curb asset growth. Finally, compliance, sovereign and credit risk can be challenging.

TXF: How is the bank responding and dealing with the ever-increasing demands of regulators – both nationally and internationally? Is Citi completely provisioned for Basel III?

Citi is highly focused on allocation of resources and capital returns in order to exceed Basel's new capital ratios including Tier I, common ratios, liquidity coverage ratio (LCR) and supplemental leverage ratio. Citi is prepared for Basel III.

TXF: Has the, or will the, cost of providing trade finance increase due to the greater pressure and requirements from regulators and those related to compliance?

Basel III introduces radical changes in capital rules, new liquidity and leverage ratios as well as additional rules for global systemically important banks. It increases the quality and quantity of bank capital. This undoubtedly has implications for pricing across all products, client sectors and regions, especially for: ECA financing, emerging markets, FIs, SME and non-investment grade clients.

There are also new measures for liquidity (liquidity coverage ratio – LCR, and net stable funding

The trade industry is at an inflection point – liquidity matters. We must adapt, reinvent our business and collaborate to remain relevant.

ration – NSFR) that will impact deposit pricing, depending on the sources of deposits.

Additionally, compliance is becoming increasingly complex with continued strengthening of KYC, AML and other regulatory requirements, all of which cumulatively increase the costs associated with trade finance.

TXF: What position is the bank taking in regard to servicing new clients as well as SMEs?

Trade finance is playing an increasingly important role in the SME market as a significant portion of SMEs are part of large corporates' supply chain. Citi is committed to leverage its unparalleled global network and trade capabilities to help SMEs optimise the financing of their working capital cycle. In addition to providing traditional trade import and export services to our SME clients globally, Citi has helped provide access to lower cost financing to SMEs across the world through its award winning supplier finance solutions. Citi supports over 38,000 SME suppliers through its supplier finance programmes.

TXF: What do you see your clients asking for now that is different from the past? Do you see a different attitude from corporates?

The major difference centres on the fundamental transformation of how trade has evolved at Citi. Before 2004, discussions centered on various forms of letters of credit (LC's) and collections and tended to be very specific in scope with a narrower buying center within the corporate customer. Today, trade has taken on a much more holistic

John Ahearn, global head of trade at Citi

nature with our corporate clients, and our dialogue is much broader covering a large spectrum, including export agency finance, sales and distributor finance, supplier finance, account receivables finance, document outsourcing etc. In addition, we have repositioned our traditional LC offerings as part of a streamlined and digitised interaction with the bank to support our clients' continuum of procurement, work in progress and sales activities.

Given all the disruptions in markets over the recent years, there has been a greater recognition of the importance of trade from our corporate customers, as they think much more carefully about the structure of their balance sheets, as well as the funding strategies and strengths of the balance sheets of their trading partners. This in turn has created much stronger engagement and knowledge around trade in all its forms.

TXF: Is the use of insurance sector (credit and PRI) by the bank greater or less now than in the recent past?

In specific geographies insurance has been vital. The private market is a very large and diverse insurance market place with a number of new players entering the arena, creating a competitive platform for clients.

Banks are now the biggest buyers of non-payment insurance in the private insurance market. The insurance market has been flexible in its ability to work with banks and cater for their requirements, for example, amending wordings so they are Basel II/III compliant (depending on individual banks' approach to the regulations).

There are many reasons why banks might buy political risk and trade credit insurance including:

- Relieving pressure on regulatory capital: under Basel II/III, most FIs recognise CCI as a regulatory capital risk mitigant
- Reducing risk weighted assets
- Managing credit portfolios
- Improving the return on individual transactions
- Relieving country aggregation limits
- Relieving counterparty aggregation limits.

TXF: Given increasing supply chain complexities, with an ever increasing number of participants in global supply chains, what are you doing now that may be different from the past to assess corporate/counterparty risk factors?

Citi continuously looks to improve on its risk management best practices, which evolve constantly across geographies and products.

A key focus of Citi trade is making sure that we apply the latest guidelines and stay ahead of counterparty risk, which is an inherent part of our business model globally. While the assessment of counterparty risk is an ongoing process that looks to capture all aspects of the relationship with the customer, Citi trade is particularly focused on the electronic validation of trade data.

As a business, we have undertaken a worldwide effort to transition from paper-based processing, still dominant in the letters of credit space for instance, to the electronic transfer of data via pre-formatted file exchange. This transition is a very significant endeavour that will continue in the years to come. We believe that Citi is at the forefront of this effort and is in an ideal position to deliver to its clients the significant benefits resulting from this fundamental transformation.

TXF: Technology within trade has grown massively over the last few years. What sort of investment has Citi made in this area and what do you still need to do? How do you view the bank's trade technology offering in comparison to other institutions?

We've made substantial technology investments towards our CitiDirect front end, insourcing capabilities, digitisation of trade documents, globalising our supply chain finance solution and mobile applications; all of which support our underlying corporate and FI customers. Based on our research, we believe Citi invests more in technology annually than many trade banks make in annual revenue.

TXF: It has been over 18 months since the official launch of the Bank Payment Obligation (BPO) from SWIFT. What is your view of the initiative, what if anything is holding it back, and how important do you think it will be?

Citi was an early supporter of the BPO, as we saw the steady growth in open account trade flows. We have successfully completed a proof of concept by using the TSU (Trade Service Utility) as the matching engine to compare purchase order/invoice data fields. The biggest challenge for banks will be to enhance existing client portals with required BPO data fields to facilitate full end-to-end automation. The other big challenge is the shortage of legal framework for this instrument. We are paying close attention to both the market adoption and client interest in this capability.

TXF: Is Citi teaming with other FIs, and if so why and how does this make a difference for your clients?

As a leader in syndicated facilities, we support clients with large infrastructure deals. Through our distribution desk, or the export credit agencies team, we have facilitated over $50 billion in transactions this year.

TXF: Citi has had considerable success with its initial trade securitisation programme. What is the next step in this arena for you?

Trade MAPS has been an immensely valuable defease platform for both Citi and Santander. It has enabled us to offer trade finance assets as a new asset class to a completely new group of investors, who otherwise would not purchase this asset type. We created this new ABS asset class and were able to tap into the traditional ABS investor group.

We are already actively preparing for a second issuance

We've made substantial technology investments towards our CitiDirect front end, insourcing capabilities, digitisation of trade documents, globalising our supply chain finance solution and mobile applications; all of which support our underlying corporate and FI customers.

along with our partner Santander. In addition, we are working with a few global trade banks, as well as a few select regional trade banks, for additional future issuances. Considerable efforts and resources are required for any securitisation issuance, and more so for the first time issuers with whom we are currently working with.

We view the Trade MAPS platform as a viable option for trade banks to effectively manage their growing balance sheet and achieve the host of reliefs/benefits associated with the programme: funding, capital, credit, etc. We created this platform for multi bank use so we will encourage other banks to partner with us on future issuance.

TXF: Where do you see Citi making a push in trade finance – product and/or region? Do you see the bank as having certain niche strengths?

Globally, the business is driven by cross border commercial trade and alternative financing options. Citi's strength is financing cross border flows, leveraging our global foot print and customer base. With global trade continuing to move from letters of credit to open account, our receivable based solutions continue to see growth. We are also exploring balance sheet friendly solutions to assist our global clients in expanding sales in rapid growth markets.

TXF: What do you think the next big thing in trade will be?

We think there will be acceleration of trade bank consolidation – already the top three banks have gained five points of market share since 2008.

Capital rules make it harder for banks to compete, especially those without operations scale and large global networks. Banks without access to US dollar funding will struggle, and banks who don't consider trade to be core will reinvest their limited capital elsewhere. Regional and local banks will need to create partnerships with leading trade banks to continue to participate in the sector.

We see the emergence of new risk distribution strategies with banks acting as intermediaries between corporates and investors. No longer can we all just 'book and hold'. Originate to distribute will be the new model. This also means increased sale of assets on a funded basis, and decreased use of unfunded sales. We will also see increased sales to nontraditional investors rather than primarily bank to bank risk distribution.

Industry collaboration including Trade MAPS, ICC Register and BAFT's London group: this collaboration will help create industry definitions, solutions for risk distribution and broaden the appeal of trade assets to new types of investors, such as insurance companies and pension funds.

Trade outsourcing solutions for bank partners: this includes various programmes ranging from traditional LC relay/reissuance programmes to full outsourcing of operations and technology. However, this can also include risk distribution solutions to help banks move capital off-balance sheet to investors. Solutions will be structured to allow partner banks to retain customer relationship and credit decisions while leveraging our scale, efficiency, infrastructure, risk distribution and other capabilities to improve their trade economics, despite challenging macro economic and regulatory environment.

TXF: What, if any, is your favourite football/rugby/baseball team?

NY Mets because they play in Citi Field. ■

Industry collaboration including Trade MAPS, ICC Register and BAFT's London group: this collaboration will help create industry definitions, solutions for risk distribution and broaden the appeal of trade assets to new types of investors, such as insurance companies and pension funds.

Global head interview – HSBC

TXF talks with Stuart Tait, global head of trade and trade receivables at HSBC.

Stuart Tait, global head of trade and trade receivables at HSBC.

TXF: You have just recently taken over the reigns as global head of the bank's global trade and receivables division. What are your views on where the trade finance market is at the present time, and what do you think are the biggest challenges that the industry faces?

Trade finance is closely linked to the real economy, so there will always be challenges, whether economic cycles, political instability or structural reform.

It has been a tough few years for the trade finance market, with slower trade volumes and an increasingly complex regulatory environment. However, these factors have also made trade finance more relevant in the banking landscape, as businesses look for better ways to optimise their working capital, particularly when they are moving into new markets.

There is also cause for optimism. HSBC research shows that global trade is picking up momentum following two years of very sluggish growth. We anticipate the value of merchandise trade will build steadily to 8% per year by 2016, up from just 2.5% in 2013. In particular businesses in cyclical sectors, such as transport equipment and metals, stand to benefit the greatest from the upturn.

TXF: How is the bank responding and dealing with the ever-increasing demands of regulators – both nationally and internationally? Is HSBC completely provisioned for Basel III?

The global financial crisis has rightly led to a reinforced regulatory framework, aimed at making the financial system safer. It is important to ensure that there is a recognition of the low risk and self-liquidating nature of trade finance – and we welcomed Basel's decision to lower the capital requirements for trade finance. The next step is to continue the discussions to ensure regulatory coherence. With a total capital ratio of 14.2% at end of June 2014, HSBC has appropriate levels of capital to support its business strategy and meet its regulatory requirements.

It is also important the industry continues to support policy makers' understanding of the pivotal role trade finance plays within the global system of trade. Last year, the Federal Reserve Bank of New York described the critical role that banks play "in facilitating international trade by guaranteeing international payments and ... reducing the risk of trade transactions". Without a reliable international trade finance network, exporters and importers would face greater risk and incur higher day-to-day business costs. In some instances, without trade fi-

nance, a deal could not take place at all – particularly if one of the parties is considered to be higher risk. These effects would be felt disproportionately in emerging regions and by SMEs, for whom trade finance offers an indispensable form of collateral.

TXF: Some three years ago, the bank merged the trade and receivables business. What has this meant in terms of organising your staff/teams, and how has this helped your clients?

Merging our trade and receivables finance businesses has made it easier for our customers to do business with us. We have also been consolidating our operating platforms for Receivables Finance into regional hubs, with Europe and Asia completed in the first half of 2014. This means we have the ability to deploy these capabilities rapidly, providing better risk management and lower operating costs. We can also provide our customers with a more consistent offering, especially as supply chains become longer and more complex.

We have also built on our existing network to leverage our commodities and structured trade finance capability – covering global value chains from both producing countries and consuming markets. We now have a team of experts in the main producing, trading and consuming nations, across Europe, Asia, Latin America, MENA and will soon have a North American team.

Finally, thinking about the way trade finance will continue to develop, with greater interest in trade finance assets, we are concentrating on building out our global forfaiting and risk distribution capabilities using a 'follow-the-sun' model, from Asia, through Europe and into the Americas.

Stuart Tait, global head of trade and trade receivables at HSBC.

TXF: Trade is very much at the core of the bank's offering; where do you think you cast an edge or advantage over your biggest competitors?

GTRF is core to HSBC's future growth and a priority investment area for the Group Board. This leading position has been achieved through two unrivalled advantages: our global network and our customer base. We are positioned at either end of the top 20 trade corridors and with a strong foothold in emerging economies, our global connectivity gives us access to 87% of the world's trade flows. This competitive edge has been gained over decades and is difficult to replicate. Secondly, our extensive customer base – from the smaller SME to multinationals – means we bank companies right through the world's global supply chains.

TXF: What areas of global trade – product and delivery wise, as opposed to global/regional – do you think you still need to improve on?

We are looking at the world through the lense of a corporate treasurer. This means focusing on working capital efficiency and defining clear propositions using existing products such as payments and cash management, trade and receivables and FX. Also expect to see HSBC making more of its international footprint delivering solutions, such as supply chain across multiple geographies.

TXF: The bank has made a positive effort to deliver more finance, particularly working capital to corporates in the SME sector. How successful has this been? With many banks increasingly focused on established clients, how interested is the bank in being approached by new clients?

HSBC is committed to support its business banking customers, and in 2013 we launched a series of funds to help small and medium-sized enterprises with international ambitions. SME funds were set up in the UK, Egypt, Malta, Turkey, France, Mexico, the USA, the UAE and Canada. A total of $13.3 billion was made available to smaller companies last year.

HSBC finances businesses of all sizes – from the smaller SME to multinationals – and we have business development managers in markets across the world talking to existing and potential customers every day. In short, we are very much open to new business.

TXF: Technology within trade has grown massively over the last few years. What sort of investment has HSBC made in this area and what do you still need to do?

As the world becomes more interconnected and companies grow in scale and complexity, and in which supply chains can span multiple geographies, thousands of buyers and suppliers expect their banks to offer multi-regional, multi-currency and multi-language in a single technology platform. To meet those needs, we have significantly invested in technology over the past couple of years. An example of that is the launch of 'supply chain solutions, approved invoice' (SCS-AI) to help corporate clients manage their global supply chains effectively and strengthen their supplier relationships. SCS-AI was made available to clients in 2013 from three key hubs in Europe, Asia and the US. Local solutions were launched in India and Indonesia in early 2014.

Today, traditional trade is largely dominated by manual, paper-based processes. This presents enormous opportunity for increased efficiencies, which will be facilitated by the development of technology.

TXF: It has been over 18 months now since the official launch of the Bank Payment Obligation (BPO) from SWIFT. What is your view of the initiative, what if anything is holding it back and how important do you think it will be?

HSBC continues to invest in BPO capabilities. Market interest is certainly developing, but the uptake is still maturing as large corporate clients are asking more questions about BPO. We anticipate that growth of interest amongst corporates will accelerate as the BPO ecosystem develops and is commercialised. HSBC aims to offer Bank Payment Obligations in 2015.

TXF: HSBC has been one of the banks at the forefront of renminbi (RMB) utilisation within global trade. How advanced is this? With full internationalisation of the RMB some years off, is the RMB as a global trade currency being overplayed?

We believe the renminbi (RMB) will continue to be a driving force in global trade. The first stage of China's three-stage plan for the renminbi – to establish it as a trade currency – is already well-advanced. The proportion of China's total trade settled on renminbi has increased from 3% in 2010 to 18% in 2013. We expect it to reach 30 per cent within a couple of years. And at the end of 2013, according to SWIFT, the renminbi overtook the euro as the number two trade currency in the world.

It is also recognised that using the RMB is a competitive edge for businesses doing business with China. Having said that, it's also fair to say the benefits of trading in the RMB have not been fully understood in most countries. Research carried out by HSBC in July this year found that only 22% of businesses currently use the RMB. Half of respondents from Singapore, 44% from the US and 42% from the UK said they believe RMB usage brings financial benefits, yet less than a third of their German and Canadian peers share this view. This data highlights the need for better education on the RMB. But the outlook for future RMB use is positive. Overall, 59% of decision-makers surveyed said they plan to increase their cross-border activity with mainland China over the next 12 months, rising to 86% in the UK, 74% in Canada, 73% in the UAE and 63% in France. With RMB capabilities across 53 markets, we fully support our customers in understanding and making the most of the benefits of the internationalisation of the Chinese currency.

TXF: What do you think the next big thing in trade will be? What and where will be the big trade flows of the future?

We're optimistic about the outlook for trade. We believe global trade will grow faster than world GDP, driven by the long-term fundamentals we're seeing in the emerging markets. Urbanisation and infrastructure needs, and the emergence of a truly global middle class – we expect three billion people to join the middle classes by 2050 – will create significant opportunities. Billions of new consumers will be hungry for brands and developing wider diets. We can also expect South-South trade flows to receive further boost, with, most notably, Latin America's commodities production growth which happens on the back of China, and India's appetite for raw materials. And more developed economies will undoubtedly benefit from the expanding middle classes in the faster-developing markets.

TXF: What, if any, is your favourite football/rugby team?

No hesitation, it's the England rugby team. ■

Global head interview – Lloyds Bank

TXF talks with Jackie Keogh, MD, trade and supply chain, Lloyds Bank Commercial Banking.

Jackie Keogh, MD, trade and supply chain, Lloyds Bank Commercial Banking

TXF: One year on from taking over the reigns of global trade at Lloyds Bank, what do you see as the main challenges you have had to face, and possibly still face in transaction banking?

Two challenges spring to mind. The first is the need to build Lloyds Banking Group's reputation in trade. My first impression after joining the group was that trade was one of its best kept secrets. We have made major strides to build knowledge and confidence internally but we need to now capitalise on this with our clients and the industry at large.

The second is that the bank has and continues to make significant investments in the trade and supply chain business. Our team has grown in numbers and quality with some key external hires and internal upskilling. We are in the midst of a multi-year, multi-million pound infrastructure investment programme on both our traditional trade and open account platforms. The challenge we face is ensuring we invest wisely to achieve the greatest client benefit, whilst not taking our eye off the ball and thereby ensuring we continue to meet client needs on a day-to-day basis.

As an increasing number of SMEs expand into export markets they expect the same level of capability and service whether the transaction is domestic or international.

TXF: How do you see the position of the bank with the ever bigger burden of regulatory change, both national and international? How have these impacted your trade proposition, and do you feel the bank is well placed to service clients in the way you want?

It goes without saying that regulation comes with a cost, whether that is to capital or through the increased governance it requires and, as such, it can make some banks more conservative and reduce choice for clients.

However the regulators' focus on increasing transparency for clients around areas such as price and terms & conditions can only be welcomed as it strengthens client relationships. I personally believe that going forward banks who lead the way on transparency may actually gain a competitive advantage.

Some regulations, particularly those that result in inconsistency by geography, can be detrimental to clients as it creates an uneven playing field and greater confusion for clients.

Jackie Keogh, MD, trade and supply chain, Lloyds Bank Commercial Banking

TXF: What are your clients asking for now that is different from the recent past? What changes are you seeing in their requirements?

As an increasing number of SMEs expand into export markets they expect the same level of capability and service whether the transaction is domestic or international. Whilst they appreciate the complexity of different regulation and practices, they consider resolving these issues seamlessly as a role of their bank.

We are seeing greater client demand for end-to-end transaction support and less tolerance of organisational silos getting in the way of an integrated supply chain proposition. Likewise it is no longer just the very large global corporates that look to benefit from off balance sheet treatment. Mid market clients now demand the same downstream, e.g. supplier finance, and upstream, e.g. receivable purchase, offering as their larger counterparts.

TXF: What changes has the bank made to its back office to help the trade finance provision, and do you think the bank has the right balance in terms of technology and trade finance platform investment?

At the end of 2013 Lloyds Banking Group took the strategic decision to combine their transaction banking and commercial finance divisions. 2014 has been a year of converting the ambition of delivering a true working capital product-agnostic vision into reality.

This major undertaking impacts all aspects of the trade and supply chain business, both front and back office, from people, platform, processes, to products. The client proposition now includes both traditional trade and open account, addressing both payables and receivables. Finding the right balance on technology and platform when undertaking this type of change is an ongoing endeavour and often the question relates more to what can be absorbed rather than should we do more.

TXF: Is Lloyds Bank embracing the Bank Payment Obligation (BPO), and how do you see the future development of this SWIFT initiative?

Lloyds Banking Group is taking a watching brief on the BPO. We continue to gain insights on client needs and there is a keen interest in innovative solutions. Having been personally involved in the BPO in my time at SWIFT, I remain confident that industry standards are required in the open account space. Whether the current ver-

sion of the BPO is the answer or not is yet to be seen. At some point, hopefully in the not too distant future, the BPO, or a similar proposition, will reach a tipping point and the network effect will drive wide adoption.

TXF: In what ways are you cooperating with other financial institutions, and how do you see this helping your corporate clients?

In common with all financial institutions that don't have a true global network, we rely on our key relationship banks and correspondents to help support our corporate clients' global needs. The nature of our cooperation varies based on the type of service and level of integration required but is always driven by client demand.

With increased costs of KYC, banks are becoming even more selective regarding which FI relationships they leverage and increasingly they now seek to develop stronger ties with like-minded institutions. Going forward I can see the need to put more rigour around customer service to deliver a consistent client experience as products lose any real differentiation.

TXF: With many banks sticking to big corporates and relationship clients, is Lloyds making positive moves to finance more in the SME sector and/or new clients?

We are proud to be the leading UK bank in the SME segment and as part of our commitment to 'helping Britain prosper' we continue to expand our lending to this key client segment.

Our SME charter makes public pledges on Access to finance – we promise to make more money available for SMEs, and more easily; Transparency – we promise to be clear about the terms on which we lend and the decisions we make; Support – we promise to provide a wide range of help to businesses, whatever their stage of growth.

TXF: What other target areas does the bank have for trade finance going forward?

A focus area for trade finance at the bank going forward is to enhance our propositions by industry sector so that we can target client pain points as market dynamics shift away from a highly liquid environment. This requires a deep knowledge of all players in the supply chain in order to drive benefit for our clients well beyond their own balance sheet.

TXFL Is the bank looking at securitisation programmes for trade receivables at any level, and do you see this as the best way for trade banks to move assets off balance sheet?

Currently Lloyds Banking Group has sufficient client and country appetite to take and hold assets. When pressure points are reached we continue to attract adequate bilateral interest. However the growth in trade securitisation does offer attractive future potential when the need arises.

With greater pressure on capital banks will continue to seek ways to allow them to free up capacity to serve their clients. What remains to be seen is how appealing these assets will be to investors when interest rates are less stable and returns can be achieved in their traditional asset classes.

TXF: What do you see as the next big development in trade finance?

That's a tough question. The letter of credit has been around 'forever' and has been forecast to die for decades. New instruments appear but are they new or just old products repackaged? It has been argued that supplier finance is merely reverse factoring. In that context Dynamic Discounting is worth watching.

Beyond the product perspective we can't ignore the growth in RMB in trade. The Chinese economy has slowed down and with it the pressure to switch to RMB. But banks and corporate clients that have not equipped themselves with both the infrastructure and flow of information may find themselves lacking. ■

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Global head interview – Santander

Jonathan Bell talks with Jose Luis Calderon, global head of global transaction banking at Santander.

Jose Luis Calderon, global head of global transaction banking at Santander.

TXF: What state do you view the trade finance sector in at the present time – and how is Santander's global transaction banking business developing?

Despite the financial crisis, trade finance is growing at a faster pace than GDP.

Most banks are investing in trade finance and supply chain finance. That proves the business case and the positive outlook.

Santander is growing in all its core geographies thanks to a larger product offering. New products have been successfully launched in recent years, and they are maturing. The pricing pressure in mature markets is largely compensated for by the new income generators.

TXF: What do you see as the biggest challenges to the provision of trade finance today, and what as a bank are you doing about it?

The main challenges are risk assessment and compliance costs, and the increasing fragmentation of the corporate supply chains.

TXF: With global supply chains ever-more complex, are the supply chain finance solutions available, and the provision of those, sufficient to meet the demands of corporate treasurers?

We think the current product offering covers large parts of the supply chain and it's proven that banks have provided the market with competitive solutions to improve working capital. Nevertheless, there is obviously still room to improve in some fields (e.g. e-invoicing, reconciliation, etc).

TXF: What additional tools are you employing to assess corporate risk? And are you using the private insurance market more so now than in the past? If so, what type

New products have been successfully launched in recent years and they are maturing. The pricing pressure in mature markets is largely compensated by the new income generators.

of products are you sourcing?
We deployed a new system called Trade Asset Mobilisation, including comprehensive insurance coverage, multilaterals, private investors-distributions (Trade MAPS and other investment vehicles), on top of the regular banking distribution. We believe this initiative is ahead of the curve and will be a market trend.

TXF: How do you see the introduction of the BPO (Bank Payment Obligation) helping your bank extend supply chain finance services for corporate clients?
It will continue on a slow path until a critical mass is achieved. The value proposition is good but not good enough to push this forward. The cross-border factoring business could be relevant to achieve that.

TXF: In what ways are you cooperating with other FIs, and how does this help your corporate clients?
We are cooperating in all correspondent banking spaces and distribution activities and, at the same time, we are involved in some alliances of business referral.

TXF: Santander has a comprehensive footprint across Latin America, and it has also made big investments in markets such as the UK. What leverage does this give the bank, and where do you see real growth in terms of transaction banking?

Jose Luis Calderon, global head of global transaction banking at Santander

We have a clear vision on the objectives our investments should follow. Santander strategy is very clear as we normally aim to be a top three player in all our core markets. That gives us a deep local market knowledge with many customers and branches, and that allows risk analysis capabilities on the ground.

We have a clear competitive advantage versus our local competitors due to our wide product offering. Thanks to this, our size and our entrepreneurial approach in trade finance, we can provide a better service than our competitors.

We are currently extending our reach with certain operations in the USA, UK and Poland. These are growing rapidly and will be key to further increases in the value of our trade finance business.

TXF: How much is technology/tech innovation helping the provision of trade and supply chain finance? Have tech innovations delivered? What further opportunities do you see to improve efficiency and your offering to clients?
We are lucky that our platforms have been built over the course of many years, with real business needs and not as 'proof of concept' in a laboratory. They have provided solutions to real customers' demands over many years, and this is a key success factor. So, innovation in product development and the application of technology to industrialise our product offering has been instrumental for our success.

TXF: How do you view the future of the availability, cost and provision of trade and supply chain finance in the near to medium-term?
I foresee a promising future for these products, based on the evolution of international trade and the needs of companies to find ever more efficient ways of financing and mitigating risks.

TXF: What football team do you support?
I support Real Madrid, the FIFA Club of the 20th century (and on the way to winning the award again). ■

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Global head interview – UniCredit

Jonathan Bells talks with Alfredo Bresciani, international trade finance sales, at UniCredit.

Alfredo Bresciani, international trade finance sales, at UniCredit.

TXF: What are your views on where the trade finance market is at the present time, and what do you think are the biggest challenges that the industry faces?

The trade finance market is at an exciting crossroads, and opportunities abound. For instance, the barriers to trade are falling in places they have stood for decades. In China, we are seeing impressive growth in the adoption of RMB (renminbi) by international exporters, and we expect this will be a game changer in the market.

Meanwhile, regulators worldwide have introduced a raft of regulations for both banks and corporates since the financial crisis in 2008, and the ensuing global recession. Adapting to an ever-more globalised and regulated market environment is a challenge for UniCredit and its corporate clients – and it is one that we are excited to meet.

TXF: How is the bank responding to and dealing with the ever-increasing demands of regulators – both nationally and internationally? Is UniCredit completely pro-

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visioned for Basel III?

With the SEPA (Single European Payment Area) payments format mandated for over a month now, corporates have moved past the implementation phase and are looking ahead to life after SEPA. In our view, they need not consider compliance with the SEPA credit transfer (SCT) and direct debit (SDD) schemes to be the end of efficiency-creation in treasury management.

In fact, the SCT and SDD schemes – as well as the transition to the SEPA-designated XML payment format – lay the foundations for greater efficiency gains. For example, UniCredit provides corporates with the expertise and know-how to create payments (and perhaps collections) factories. These are central, payment-executing units that can work on behalf of multiple subsidiaries – and, in doing so, increase visibility and control of liquidity and cash management for corporate treasurers, while reducing transaction cost and risk.

With regard to Basel III provision, UniCredit is one of the most stable banks in Europe. In the first half of 2014, our fully-loaded CET1 ratio increased to 10.4% and our fully-loaded Basel III leverage ratio stood at 4.7%. Both are among the best in Europe.

TXF: Has the, or will the, cost of providing trade finance increase due to the greater pressure and requirements from regulators and those related to compliance?

As stated, a raft of regulations has been introduced, and these will inevitably generate a greater requirement in terms of processes and compliance. That said, the burden is likely to fall disproportionately on smaller banks, who may respond by seeking partnerships in order to develop efficiencies. And in this field, the experience has proven that banks are not allowed to make mistakes.

Alfredo Bresciani, head of international trade & finance sales, at UniCredit

TXF: What position is the bank taking in regard to servicing new clients as well as SMEs? How do you provision in new corporate risk factors?

As global trade flows shift – with emerging markets taking an ever greater share – many smaller companies and mid-caps are struggling to find efficient, cost-effective banking services for their new payments and FX requirements. Payments to emerging markets are increasingly in local currencies, from the Chinese yuan to the Thai baht.

Corporates will look to their bank to make such payments, although their bank – often a mid-tier, local bank – may rely on more costly and less efficient processes compared to the combined FX and payments offerings provided by global banks. Yet these businesses are reluctant to switch to global banking providers, because of the loss of relationship and service such a move might entail.

In our view, greater collaboration between local and major banks can result in a better service for mid-caps, allowing companies to combine territorial proximity with cost-operative efficiencies and global competencies offered by leading players. What's more, mid-tier banks can outsource the technology and execution costs while earning revenue through an income split on the FX rate with the larger banks.

Such a system already exists in UniCredit's PayFX. Through the required nostro accounts, we can execute foreign currency payments in 25 euro/currency pairs. The mid-tier bank – which deals only in euros – avoids losing business and gains a revenue stream from the FX rate.

TXF: What do you see your clients asking for now that is different from the recent past? Do you see a different attitude from corporates?

Certainly, we see a shift in the nature of our customer's needs. Because the desire to expand to new locations needs to be balanced with thorough management of counterparty credit risk, CFOs or treasurers are no longer looking for a single, global transaction bank for their entire business.

Instead, they seek trusted partners with whom they can build long-term relationships to better support their requirements in certain markets.

Building strong partnerships with our clients is crucial for us, as our key priority at UniCredit is to focus on our clients' needs, building up intimate relationships and focusing our internal organisation in a way to meet our client's needs and delivers exactly what is important for our clients.

We are also working together with our sales and product forces with the aim of always adopting an innovative, consultative approach and a CFO perspective (understanding what is of the utmost importance for a CFO and fitting in the feet of our clients).

We strive to share information and knowledge with our sales forces, to gain an in depth understanding of each industry sector, physical supply chain, the dynamics affecting specific sectors/ markets and the key important factors in the relationships between buyers and suppliers. Our aim is that our sales are recognised by our clients as trusted advisers strongly differentiating from the competition.

TXF: With corporate contracts and supply chains constantly changing/evolving, how are you as a bank able to keep on top of what is required to service their needs?

Remaining abreast of developments in supply chain finance (SCF) is vital. In the past, SCF was almost exclusively buyer-driven, involving revolving receivables purchase programmes intended to lengthen days payable outstanding. At the time, the emphasis from many businesses was on the optimisation of inventories and supplies – as such, the safeguarding of liquidity served its purpose.

Yet, modern supply chain managers have a different focus. The variance in corporate working capital requirements has pushed SCF to take a more holistic view – one aligned to the interests of both buyers and suppliers. For the banks offering SCF, such a comprehensive view is a tough ask – but it's a requirement that must be met if they are to remain relevant to trade.

TXF: Technology within trade has grown massively over the last few years. What sort of investment has UniCredit made in this area and what do you still need to do? How do you view the bank's trade technology offering in comparison to other institutions?

New technology is at the forefront of efficiency-generation in trade finance. UniCredit is fully aware of it, and aims to be a leader for innovation by supporting its customers in adapting to changes. A great opportunity for efficiency enhancement, for example, is the development of Bank Payment Obligations (BPO). This solution would not have been possible only a decade ago, and we are very excited about the potential it has as a new trade settlement tool. BPOs (like the adoption of RMB) can also turn out to be game changer in the market.

Elsewhere, virtual accounts structures are allowing corporates to build on the efficiencies offered by SEPA. Taken to its logical conclusion, such a system could allow corporates to maintain only one 'physical' account, while creating, closing and managing their virtual accounts through an online portal. This is an example of how new technology can respond to the new market environment, increasing transparency, efficiency and flexibility for corporates.

Remaining abreast of developments in supply chain finance (SCF) is vital. In the past, SCF was almost exclusively buyer-driven, involving revolving receivables purchase programmes intended to lengthen days payable outstanding.

TXF: It has been over 18 months since the official launch of the Bank Payment Obligation (BPO) from SWIFT. What is your view of the initiative, what if anything is holding it back and how important do you think it will be?

While take up of BPOs has been slow, we expect it to pick up. In our view, the key obstacle is one of education. Treasury and sales departments, which have fully understood the potential of BPO, should coordinate to establish a common knowledge of the tool.

The sales force will thus play a key role in expanding this understanding to the customers, and will convince them of the compelling efficiencies of the offer. For these purposes, UniCredit has rolled out a workshop programme aimed at furnishing treasury departments and sales forces with valuable information – fostering conversation and providing expertise. And a set of BPO rules (URBPO) – developed in collaboration by SWIFT and the Banking Commission of the International Chamber of Commerce (ICC) – has done much to increase understanding in the wider market.

Ultimately, the extent to which BPOs are adopted remains to be seen. But we believe that treasuries are attracted by the improved visibility, liquidity, risk mitigation, payment timing, and commercial terms on offer for both sides. These are the benefits that will see BPOs become a successful and commonplace trade settlement tool.

TXF: Is UniCredit teaming with other FIs, and if so why and how does this make a difference for your clients?

We place considerable value on our large network of correspondent banks. Indeed, leveraging these relationships enables us to finance a greater number of deals than would otherwise be possible. BPOs and other innovations – such as PayFX – are new ways in which we can leverage these relationships with greater efficiency.

TXF: UniCredit has a big and strong footprint in Russia, Ukraine and throughout Eastern Europe, how has the bank and client business been impacted by the current volatile geopolitical situation?

UniCredit hopes for a peaceful resolution, of course. That said, trade finance as a technique can cope with geo-political volatility. That's its role and where we can deliver added value solutions to our clients.

TXF: Where do you see the bank making a push in trade finance – product and/or region? Do you see the bank as having certain niche strengths?

Our niche strength is across the transaction banking space. We see GTB as the core of corporate banking and UniCredit's offerings are based on that key principle.

TXF: What do you think the next big thing in trade will be?

Frequent changes in policy measures, each more relaxed than the last, are fast bringing about the liberalisation of the RMB. While only 2% of external Chinese trade was settled in RMB in 2010, this figure leapt to 18% by last year. The increasing adoption of new currencies in global trade is a trend we are watching very closely indeed.

TXF: What, if any, is your favourite football team?

UniCredit sponsors the Champion's League so it's our role to support all the teams taking part – but with Juventus FC always in mind. ■

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Looking at the post-SEPA migration landscape

Jonathan Bell talks with Martin Runow, head of cash management for corporates, Americas, Deutsche Bank, about the post-SEPA migration landscape.

TXF: How has the Single Euro Payment Area (SEPA) come about, and what is its importance to consumers and corporates in European markets?

Fundamentally, SEPA is about the euro and its functionality as one homogenous currency. In order for the eurozone to truly function in its intended way – as a single currency trading area – cross-border payments and collections within the region should be at least as fast, easy and cheap as previously localised payments. SEPA has made this come to pass by standardising the regulations and formats for all electronic payments within the eurozone – effective for any cash flows throughout the 34 affiliated countries including all EU member states (both within and without the eurozone), the European Free Trade Association nations (Norway, Iceland, Liechtenstein and Switzerland), Monaco and San Marino, as of 1 August, 2014.

TXF: What are the benefits and/or disadvantages of SEPA?

The immediate and most readily apparent effects for corporates are advances in harmonisation, standardisation and automation. Standardisation comprises directives regulating payments, and the use of XML ISO 20022 format across the board.

For both consumers and corporates, SEPA should result in lower prices for payment services by making the banking market more competitive; in part because the standardisation of communication channels and formats will bring the quality of other aspects of banking service to the fore.

Previously, regulatory environments – even local interpretations of regional regulations – differed between national borders, and their established natures offered little scope for innovation. SEPA's introductory phase engendered the SEPA credit transfer (SCT) and SEPA direct debit (SDD) which were designed to provide a standard payment service product based on common core features and best-practices across Europe.

For both consumers and corporates, SEPA should result in lower prices for payment services by making the banking market more competitive; in part because the standardisation of communication channels and formats will bring the quality of other aspects of banking service to the fore. Individuals will enjoy the increased speed and security of payments – but it is corporates that will really notice the streamlining effect of SEPA.

TXF: What should corporates do now post-SEPA migration? Overall, do you see post-migration as a time of challenges or opportunities?

Despite the initial costs and complexities of implementation, SEPA will be shown to be a positive advancement in a broader environment of increasing regulatory pressures, continuing risk concerns and heightened liquidity demands. The direct benefits discussed above should be seen as just the first step in the SEPA journey.

In fact, SEPA regulations should be viewed by corporates as the preparatory foundation for further enhancements made possible by its removal of barriers – bringing about the opportunity to optimise treasury functions, bank relationships and group connectivity. Treasurers now have the opportunity to review their compliance-related projects and identify newly possible areas for internal improvements – either in operational efficiency, risk control, value-creation or cost reduction.

Martin Runow, head of cash management for corporates, Americas, Deutsche Bank

Firstly, the nature of SEPA makes rationalisation and centralisation possible: for the first time, corporates have the potential to reduce their web of bank accounts down to fewer, or ultimately to one single account that can handle all euro payments. This in turn creates the potential to centralise treasury functions from several subsidiary departments to one more efficient and more highly automated treasury centre.

For example, utilising payments and collections factories – allowing payment- and/or collection-on-behalf-of structures to be instituted – is one way to access the advantages of centralisation. Such enhancements offer reduced risk mitigation, lower staffing costs and chances of human error, improved visibility and faster processing times.

This should also result in increased liquidity, due to more efficient infrastructures, clearing and treasury processes – also possible through upgrading technology systems and software or reducing corporate-to-bank tools, communication links and systems. Due in part to concerns around risk mitigation – which have become all the more prominent in recent years – some corporates are seeking higher levels of bank agnosticism, as evidenced by the popularity of SWIFT. SEPA's compulsory XML format supports this objective, as well as the integration of non-proprietary models with the rest of the company, since the standardisation of formats gives corporates the freedom to move from one bank to another more easily and thereby reduce their dependency on any particular provider.

TXF: Are we at a situation now where banks will need to develop new services to meet the needs of SEPA?

Several existent tools will serve the development of in-house banks well, such as virtual accounts or cash pooling. But banks such as Deutsche Bank that are committed to helping clients – and indeed the wider market – extract the optimal advantages from the new landscape will continue to research and innovate.

The SEPA model for combining local best-practices and applying them to a larger area can be imitated in other ways. For example, while they have not been offered

in the first round of SEPA products, additional optional services (AOS) – such as France's CAI (Customer Account Information) and Italy's SEDA (SEPA-compliant electronic database alignment) – may be adapted to be plugged-in on a market-wide basis.

TXF: Looking forward, what are the next expected milestones of SEPA, and will it be beneficial overall for banks and corporates alike?

As a catalyst for change, and now that the migration date has passed, SEPA will see corporates continuing to capitalise on the innovations and consolidations that it has introduced. Corporates within the SEPA zone, those outside SEPA that nonetheless must comply due to cash flows, and even those not obliged to migrate, can all leverage this blueprint for simplification and harmonisation across their organisations.

Multinational corporates can leverage the global acceptance of the XML format to standardise communication and treasury processes across their corporate body as a whole. It is also possible that we will see other geographical zones attempting to standardise in this way going forwards, as the true results of SEPA become evident – for example, using XML for data flows to integrate foreign exchange into cross-border transactions. Whether within a corporate or in other SEPA-like initiatives, such uses will lead to harmonised and enriched data, better transparency and improved ease of compliance.

TXF: What is Deutsche Bank doing to help its clients deal with SEPA issues?

Deutsche Bank has provided clients with support throughout the migration process; guiding them through seamless implementation, providing them with information on and access to further opportunities through the SEPA gateway, and continuing to help those who wish to extend the advantages on a broader and deeper scale. The suitability and viability of any of the discussed means of leveraging the new payments landscape varies depending on each corporate's particular starting point. Internal structural improvements need to be designed on an individualised level, and it is here that Deutsche Bank's expertise and tailored solutions are indispensable.

Indeed, comprehensive and up-to-date knowledge is key – corporates must ensure their banks can provide them with true clarity in a constantly changing regulatory environment. It is to this end that we are always working towards a more holistic view of treasury needs, from local developments (tracked by our new market infrastructure unit) to cutting-edge solutions, as well as the thinking behind our soon-to-be-launched SEPA whitepaper looking at the deeper and wider treasury opportunities following migration.

TXF: The IBOS Association (International Banking – One Solution) commented on 1 August 2014 that "the whole SEPA project has been a failure". How do you view that statement?

The initial logistical complexities that corporates faced during SEPA migration cannot be ignored – but the changes yet to come will show how worthwhile this process has been. Undeniably, it has caused upheaval – but the results are smoother, more efficient and unified processes that will pave the way for other enhancements towards optimal automation, connectivity, and harmonisation. Corporates that identify their own particular opportunities for such progress – and implement swiftly and seamlessly with the support of a specialist provider – will find themselves at the crest of a new wave of payment innovation. ■

The initial logistical complexities that corporates faced during SEPA migration cannot be ignored – but the changes yet to come will show how worthwhile this process has been.

CGI delivers enhanced products and benefits for banks

Jonathan Bell at TXF talks to Kitt Carswell and Frank Tezzi at CGI about the enhanced development of the CGI Trade360® platform for trade finance banks, and how the software and technology company works to ensure its clients achieve maximum efficiency and operational benefits.

TXF: What sort of reception have you had from clients over the past year with the use of CGI Trade360? What feedback have you had and how important is this dialogue?

Frank Tezzi, vice president, trade and supply chain solutions at CGI, says: "One of the things that CGI's Trade and Supply Chain group is known for is our deep and collaborative relationship with our clients. Our client banks tell us that this is our brand. This is not an accident. We have fostered very close relationships with our client banks individually and also as a community, where we meet in-person twice yearly in working committees to discuss trends, agree on service and product direction and to improve every aspect of our day-to-day interactions. This creates a hugely positive dynamic that both our clients and CGI deeply value."

In addition to this functional aspect, Tezzi says from a market perspective over the past year they are noticing some distinct changes. He notes: "We have also seen more banks look to leverage the assets they have. Our client banks are looking to see how they can consolidate their structured trade finance, how they can bring their commodity trade finance on to the platform, how they can bring their trade receivables into different groups and overall consolidation across a single solution – whether that be for a single market jurisdiction or on a regional basis."

Kitt Carswell, senior offering manager and executive consultant, trade and supply chain solutions at CGI, adds: "Some of

"One of the things that CGI's Trade and Supply Chain group is known for is our deep and collaborative relationship with our clients. Our client banks tell us that this is our brand. This is not an accident."

Kitt Carswell, senior offering manager and executive consultant, trade and supply chain solutions at CGI

the recent results of this collaborative relationship with our clients are web services for mobile platforms and corporate banking portals, integrated payables, and collateral management. We are also beginning the use of automated testing in collaboration with clients."

Tezzi adds: "What does speak volumes is when our clients renew contracts with us and they not only do that without fail, but seek to bind in those contract extensions for the long-term. Our biggest client has just renewed with us till 2022 – and this is the third time they have extended with us, BMO has renewed till 2021 and BTMU till 2020. This shows our delivery excellence and operational excellence, and the power driving the product."

TXF: What has CGI done to enhance and add to the good performance based on that feedback?

Says Tezzi: "In addition to the ideas that CGI brings to the table, CGI takes the collaborative lead with clients to define requirements and design enhancements whether from the community or individual client banks."

TXF: You have always valued further product development through its usage – can you explain the concept of software as a service (SaaS) and the CGI offering?

"Simply put, the Trade360 SaaS delivery model frees the client bank from managing its own trade technology to focus on its business, while CGI takes responsibility for the application, infrastructure, operation and support of the platform on the bank's behalf. The fee structure is based on transaction volumes, so costs are predictable and aligned with business activity. The SaaS model allows unparalleled speed to market with three functional releases a year delivered directly to production," explains Tezzi.

TXF: Is this something that is easily adaptable for clients, without having to undergo more of the learning curve?

Tezzi responds: "Providing these releases keeps our clients ahead of the curve relative to the market demands and competitors, but because client banks can choose which new capabilities to use immediately and which they will use at a later time, they only need to climb the learning curve when they are ready."

TXF: Have you rolled out new functionalities (i.e., integrated payables), add-ons or products to the core offering, and how have those been received?

"CGI delivers at least three functional releases a year into production. It is one of the great benefits of the SaaS model that banks no longer need to be concerned with justifying an upgrade project competing with the bank's other priorities. CGI does everything but the final user acceptance testing (UAT), and then the new release is deployed into production shortly after and available immediately across the client bank's entire trade footprint," states Tezzi.

In addition, Carswell adds: "People tend to focus on the parts of the system

they are using the most. Testing for everyone happens at the same time. Absorbing the new functionalities within an organisation though tends to be less critical. An institution may choose to absorb a certain part of a new release as it may help them bring in additional revenues, while other parts of the release can be left till they need to use that detail.

"As a result of this and CGI's close collaboration with its clients, there is a continual evolution of new capabilities that are aligned with the real needs of our clients' customers and the market in general. Recent examples, as already mentioned, are:

- **Web services** – Our new web service server exposes the power of our CGI Trade360 Portal's data and business services to the bank's mobile or proprietary corporate portal. This allows banks to deliver rich and proven functionality across its customer channels.
- **Integrated payables** – Building on Trade360's numerous existing payables products, this solution takes payables to a new level of simplicity for customers and portfolio based straight-through-processing for banks. Customers provide payables data in one common format to pay invoices on its due date, pay a buyer-discounted amount to capture the invoice discount terms or as the result of dynamic discounting or processing under an approved payables finance programme. The latter includes automatic eligibility assessment, supplier finance instructions, the Supplier Portal for the bank to offer invoice purchase and automatic invoice financing.

  Due payments for a day are automatically aggregated across the portfolio by payment method and then by supplier (up to 10,000), making the process both efficient for the bank and cost effective for the customer.
- **Collateral management** – Collateral for commodity finance and structured trade finance has long been managed on spreadsheets, but today's regulatory environment, emphasis on risk management and desire to grow the business demand a higher degree of deal and portfolio visibility and control. Moving from spreadsheets to a collateral application takes collateral out of a fragmented world of spreadsheets into one with global and real-time visibility across deals, portfolios and geographies. Deeper control and management become possible including automatic market pricing, automatic reconciliation to collateral managers (e.g., warehouse), and automatic ratio and limits calculations, plus much more."

"As a result of this and CGI's close collaboration with its clients, there is a continual evolution of new capabilities that are aligned with the real needs of our clients' customers and the market in general."

Frank Tezzi, vice president, trade and supply chain solutions at CGI

Carswell adds: "In addition to providing robust functionality and real-time visibility, having collateral management on the same integrated platform as the LC and finance products that are already used to support the commodity finance and structured trade finance businesses, will lead to the complete end-to-end life cycle for these businesses. Our collateral management functionality will go live with clients in December this year."

TXF: What changes are you seeing in the overall open account frame and requirements of corporates in their dealings with banks, and what is CGI doing to meet the demands of constant evolution in this space?

Tezzi notes: "Open account continues to be the avenue for growth for trade banks, yet so many banks have no open account capability or a collection of standalone applications accumulated tactically to resolve individual customer demand. Either case does not leave the bank in a good position to give customers a seamless experience across trade products or a cost effective way of delivering them. CGI has taken the integrated platform approach to resolving both of these constraints to business growth."

Adds Carswell: "Rather than developing separate solutions for open account, CGI has been adding open account solutions to its integrated Trade360 global transaction platform since 2007. Now, over 20 of the nearly 50 products supported on the platform are open account solutions, which we categorised as buyer-centric payables solutions and seller-centric receivables solutions. As such, the Trade360 SaaS integrated platform approach provides banks with a strategic growth path at no additional cost, since the bank is only charged for what it is using.

"There are additional phases for integrated payables and collateral management to add functionality to the portal and link all the relevant products into the end-to-end commodity finance and structured finance businesses that will be delivered in upcoming releases.

"Our client banks are even able to outsource this or any other Trade360 capability to smaller banks that are not able to deal with open account processing. The native ability of Trade360 to insource 'out of the box' makes this an attractive source of revenue for our clients. BMO for example outsources to certain small US banks. And because the overall platform and system is really flexible they can tailor the services they offer themselves."

Tezzi remarks: "If you look at the market place, there are a number of small banks out there that are trapped – they don't have open account capability and are running outdated applications at a time when their corporates are asking for more. So the question for those small banks is do they buy in new systems or do they outsource. This gives our client banks an advantage as they can market to these institutions the Trade360 integrated capability they already have."

TXF: Banks are increasingly conscious of the cost of overheads, how are you as a banking technology provider collaborating with the banks to ensure that the costs of their trade operations are kept as low as possible?

Says Tezzi: "Trade operations are costly, which is why from its inception the design of the CGI Trade360 global transaction platform was driven by the concept of creating the most efficient operations possible. Truly global processing, flexible operating models, workflow and imaging, streamlined transaction processing and straight-through-processing were integral to its business architecture. These guiding principles continue to lead to greater efficiencies and reduced operating costs.

"In addition, the SaaS delivery model provides cost reductions through shared infrastructure and reduces investment for new capabilities."

TXF: National Bank of Canada has very recently implemented CGI Trade360, what criteria led them to adopt the platform and can you outline how the trials and implementation process takes place with a new customer?

"National Bank of Canada needed to provide a modern front-end to its customers, improve the efficiency of its back-office and extend its open account business," states Tezzi.

Carswell states: "Interestingly, National Bank of Canada has a pretty strong open account business. By bringing additional capabilities on board with Trade360 it has allowed the bank to not only upgrade capabilities considerably, but will also permit these businesses to scale in a greater way."

He adds: "CGI has an unblemished record of successful implementations, which we attribute to our implementation methodology that emphasises joint accountability and a collaborative approach to the project work.

"An implementation normally begins with a frame workshop to flush out any gaps and to assess the work efforts for configuration and integration, leading to a project plan and prioritised customisations, if any.

The project is normally organised into two phases:

- Phase I (2-4 months) includes set-up, training, and configuration of bank's environments;
- Phase II (7-8 months) includes integration, development, and testing (potentially in parallel with phase I).

Equally important is close management attention through executive steering committee and ongoing management meetings."

TXF: How do you see the further evolution of the CGI Trade360 platform overall?

Carswell concludes: "Trade has become a quickly evolving business that will require continuous evolution of the platform. Some areas that we see in the short-term is rapid expansion of mobile, continued progress to deploy corporate portals, higher demand for SWIFT for corporate as a customer channel, further BPO enhancement, platform support for supplier on-boarding, expanded buyer/supplier collaboration and multi-bank portals to name a few.

"On the broader horizon is the development of efficient sourcing of funds for approved payables finance and other open account financing solutions and the convergence of GTB (global transaction banking) platforms to provide seamless customer experience and efficient technology and operations. Trade finance growth is moving at such a pace that it is likely to outstrip available sources of funding available through traditional bank funding methods unless new avenues are found. As those new funding mechanisms develop within the industry, will we seek to plug into them in keeping with our philosophy of interoperability." ■

Who cares about cash?

Prof Michael Henke, managing director, Fraunhofer Institute for Material Flow and Logistics (IML) and Dr David Wuttke, postdoctoral researcher, European Business School provide an insight into some of the research they have undertaken in the way that cash is managed throughout the supply chain.

When supply chain managers and CPOs do their jobs well, they ensure they have the right product at the right quantity at the right place and the right time. When treasurers and CFOs do their jobs well, they ensure they balance their liquidity needs and have enough cash to cover company needs. But who is responsible for cash flows along the supply chain, such as those between a buyer and a supplier?

When a finance division only cares about extending payment terms and manufacturing only about products, firms often overlook threats and opportunities in their supply chain. With financial supply chain management and supply chain finance, firms can improve their competitiveness. But success is not to be taken for granted.

Financial supply chain management (FSCM) is the optimised planning, managing, and controlling of supply chain cash flows to facilitate efficient supply chain material flows. To give a concrete example: a procurement manager engaged in FSCM does not only care about a smooth product flow and high service levels, but they also talk with the supplier about finance and ensure that the supplier neither runs out of cash nor requires expensive factoring which, ultimately, would lead to higher costs for the entire supply chain.

While traditional supply chain management poses the question 'Do our suppliers have the physical capability to produce the goods in a sufficient quality and quantity?', FSCM goes a step further and adds the question, 'Are our suppliers also financially capable of producing efficiently what we demand?'

Summarising five years of extensive research of both empirical studies and analytical models, we found several successful instances of the use of FSCM. But we also found instances with improvement potential. And finally, we found that it is time to clarify some myths. Let us highlight five key insights on the finance and operations interface:

1. FSCM solutions must be tailored to manufacturing and financing needs.

For banks and service providers, SCF is usually product, sometimes a commodity. Banks thus seek to convince their potential clients of the large benefits hidden in their supply chains, waiting to be unleashed by the power of supply chain finance.

However, there is no one-size-fits-all solution; each firm requires individual adjustments. It is true; the concept of SCF where a buyer confirms their supplier's invoice so that the supplier can obtain the due amount from a bank at low interest rate is the same for each application. But each firm has its unique methods and procedures, and its individual executives. And the specific suppliers within an industry also have many particularities.

The most successful companies that we studied often spend a significant management effort towards adjusting existing solutions to their context. Firms had to get all internal stakeholders on board: the

finance function taking a corporate finance perspective, as well as procurement managers being familiar with the supplier base.

When firms reported internal resistance, it was most often because they did not find a solution that is tailored to the procurement managers' needs. For instance, one manager once complained: "We are incentivised to negotiate low prices and now they want us to use this financial platform on top, but this is not what we were trained for." A clear message sent from both successful and not so successful firms is that behavioural factors are central in determining the bottom line impact of FSCM programmes.

Solutions must be so specifically tailored that managers who use them in their daily routines feel confident about and are convinced of them. Hence aligning incentives is only a first step. Managers must not only be motivated to do the right thing, they must also be knowledgeable about it.

2. From information integration to knowledge integration

Since the advent of modern supply chain management, the necessity of integrating information flows has not only become better articulated, but also most modern companies now rely on integrated enterprise resource planning (ERP) systems that afford them excellent information availability.

FSCM is even more demanding. Using FSCM, supply chain managers must be able to interpret financial information in a meaningful fashion; they must be aware that it is not always in the interest of a firm to maximize product availability.

On the other hand, treasurers must understand that working capital is important, but days payables outstanding (DPO) targets can sacrifice other supply chain goals – after all, one's own DPOs are the supplier's sales outstanding. In these firms, knowledge integration is required. Through joint work in project teams, active communication – formal and particularly informal – managers can learn from each other. Only when a company truly overcomes its silo mentality can it fully actualise the potentials of FSCM. And these potentials are often multifaceted.

3. More than arbitrage

We often hear that SCF is great because it enables suppliers to benefit from their customers' strong credit rating, namely through interest arbitrage. But if managers believe that arbitrage is the main benefit of SCF, they are often mistaken.

In fact, we found in an analytical study that there are many firms that benefit more from the financial flexibility added through SCF. Suppliers who engage in SCF programmes are entitled to discount their confirmed invoices, but they are not obliged to. In other words, treasurers may discount their invoices whenever there is an investment opportunity that they would have foregone otherwise. Firms with tight credit line limits will thus particularly benefit from SCF, even when their credit rating is not much better than their customer's is.

Moreover, soft benefits, such as the information that invoices have been released, do not only create more transparency but also more trust. While supply chain managers ultimately communicate with their suppliers, it is the task of corporate finance experts to interpret this value added, inform, and convince their colleagues.

4. Strengthening the supply chain

In manufacturing it is well known that today's competition moved away from firm versus firm towards supply chains versus supply chains. Therefore, firms along supply chains increasingly align their manufacturing strategies, and integrate them with supply chain management strategies. They share a common understanding as to whether efficiency or responsiveness will be decisive in their supply chain's compet-

Michael Henke, managing director, Fraunhofer Institute for Material Flow

David Wuttke, postdoctoral researcher, European Business School

itive environment.

Indeed, it is quite common to use the strength of central firms to strengthen other parts of the supply chain, for instance through information sharing or joint research and development projects. However, firms seem to be very reluctant to share their financial strength with their business partners. Carefully assessing when it is crucial to support suppliers financially can have substantial long-term impacts. In turn, when several firms within a supply chain require liquidity input, it is always worthwhile to consider third party logistics providers who are willing to take on inventory ownership.

5. Talk the same language

Managers often complain about their counterparts not talking the same language. Let us take this metaphor literally. When we meet people who speak other languages, they are usually from other countries, maybe from far away. They have different cultural backgrounds and we often have difficulties understanding what they say. Even if we learned their language and are almost fluent, we often miss the nuances.

The same holds true between manufacturing and finance. What does working capital mean? What is inventory? What is risk? What is uncertainty? What is a default? Only when managers in the same firm and in the same supply chain have shared understandings of these terms, can they pull together in the same direction. Only when procurement managers are capable of communicating the bottom line impact of their work to their CFO, can they expect acknowledgements. Only when treasury is able to translate the benefits of supply chain finance solutions in the language of their procurement managers, will they be happy and confident to convince suppliers in a language that the suppliers will understand.

Research outlook

So, who should care about cash flows in supply chains? Ultimately, this question must be answered by each firm individually because there is no once-and-for-all solution. Often a combination of the finance and the supply chain management function seems plausible because the former can provide the expertise and the latter can provide the required business insights and information.

Moving from information integration to knowledge integration between finance and manufacturing, firms can actualise their financial strengths to bolster their supply chain. Once managers manage to find a common language, they can soon explore further value added through FSCM, which goes beyond arbitrage.

While our five points highlight several challenges for firms, it is also evident that more research is needed to understand further implications of FSCM. What is the impact of SCF on financial KPIs? What behavioural factors determine the success or failure of FSCM projects? Such questions have to be answered by universities and research institutes in the future, to enable their corporate partners to fully leverage the potential of FSCM and SCF. ■

MINTed? Why the BRICS bank has to have a broad remit

By Rebecca Harding, CEO, Delta Economics

The rationale behind the newly established BRICS bank is clear: emerging economies, feeling their own strength, have addressed what they regard as the hegemony of US dominated structures like the World Bank and the IMF by going it alone. The bank, which will have a starting capital base of $50 billion ($10 billion each from Brazil, Russia, India, China and South Africa), will service infrastructure and economic development cooperation across the five countries.

Interestingly, its remit does not explicitly include trade and, more specifically, trade beyond the BRICS countries, but it should. Delta Economics is forecasting substantially flatter export growth for Asia and Latin America, compared to what was achieved during the peak of the post-crisis recovery, at 5.7% and 4.3% in 2014 and 2015 respectively. This suggests that there is a real need to recapture some of the energy that drove the rapid growth both before the crisis and in 2010 and 2011. Other countries, such as Mexico, Indonesia, Nigeria and Turkey (the MINTs) have forecast growth rates in trade of above 5% in 2014 and 2015, suggesting that it would be wrong for the bank to focus just on the infrastructure needs of a few countries, when there is an opportunity for growth beyond those.

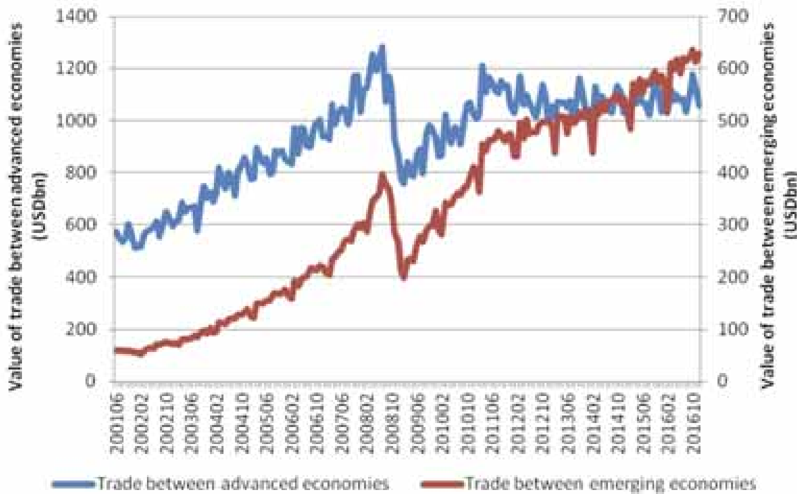
North-North, South-South trade is the trade between developed economies and the trade between emerging economies, and is illustrated in Figure 1.

Rebecca Harding, CEO, Delta Economics

Up to the middle of 2011, trade between developed and between emerging economies was recovering from the financial crisis rapidly with double-digit growth in both groupings. However, although trade between emerging economies has continued to grow, the rate at which it has grown has slackened off considerably. South-South trade is less than 50% of the value of trade between emerging economies and although it is likely to reach 50% in the final quarter of this year, on current trajectories it will only really take off in the first quarter of 2016.

Trade between emerging economies is

Figure 1: North-North and South-South trade, June 2001-December 2016



Source: DeltaMetrics 2014

Figure 2: Value of emerging market exports to the developed markets and developed market exports to emerging markets (USDbn), June 2001-Dec 2016

Source: DeltaMetrics 2014

very different to trade between developed economies; it tends to be highly concentrated in commodity and intermediate technology products. For example, 18 of Latin America's top 30 exports are commodities and a further five are intermediate products. Cars, tractors and refrigerators are exceptions. South Africa, apart from cars, exports predominantly commodities, as does Russia, while ten of Asia's top 30 export products are commodities and 16 out of the top 30 are intermediate manufactured goods. This paints a picture of interdependency in commodity and intermediate manufacture supply chains, but with real dependency on the developed North for imports of luxury goods like cars.

Figure 2 shows how exports from the South to the North have developed since June 2001.

Figure 2 shows two things: first, that trade between the two blocs has not been easy in 2014, and second that exports from the North to the South will grow more slowly than the exports from the South to the North up to the end of 2016. The slowdown in Asia, sustained economic difficulties in Latin America, the Ukraine crisis and miners' strikes in South Africa have all slowed trade in 2014, although Figure 2 shows that this is more marked in trade between southern nations and the north this year than between the north and the south, in part due to the fact that high end exports to China remain strong as the Chinese government attempts to move the economy towards a demand-led growth.

However, exports from the South to the North are likely to pick up more quickly over the next two years. As evidence of a fragile demand-led recovery in America and the UK grows, and as Europe begins to look towards Latin America and MENA for its energy supplies rather than Russia, it is likely that this process will be accentuated with growth within the emerging regions. This is also the case as Russia searches out for al-

ternative markets outside of the developed world, and as other emerging regions fill the gap in trade with the developed world supplying both substitute products, such as oil and wheat but also extending to soya and meat, where there are already strong supply chains emerging.

But, however important the crisis in the Ukraine is, the centrality of China to the BRICS cannot be understated. China accounts for some 64% of all BRICS trade, as illustrated in Figure 3.

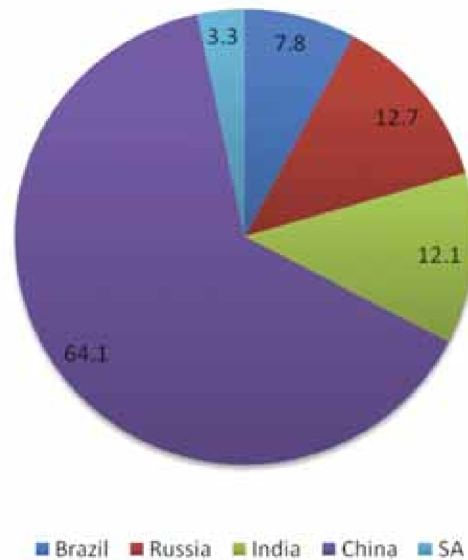
This is an opportunity of course for commodity trade and supply chain finance; for example, Delta Economics sees the growth in trade finance in base metals between China and South Africa growing by over 50% over the next five years and trade finance in mineral fuels between China and Russia growing by nearly 60% over the same time period in spite of the current crisis in Ukraine. This reinforces the view that Russia will shift its trade with the developed world to other regions where sanctions are more limited.

The importance of China helps to explain the importance of its currency in relation to trade. While the other BRICS currencies are either relatively weakly correlated with BRICS trade, or not at all correlated, the yuan's correlation with BRICS trade with the rest of the world is -0.94%. In other words, as the yuan weakens, BRICS trade strengthens, as shown in Figure 4.

The yuan is not a freely floating currency, and its recent depreciation has helped both Chinese trade and BRICS trade more generally. But Figure 4 really tells us two things. First, it highlights the growing importance of the yuan as a trade currency (and therefore as a trade finance currency). If the correlation remains this strong, then it is very likely that it will become as important as the euro is for Europe in pricing BRICS trade.

Second, the chart points clearly to the difficult year that 2014 has been and will continue to be for BRICS trade with Europe.

Figure 3: Expected 2014 share of BRICS countries in total BRICS trade

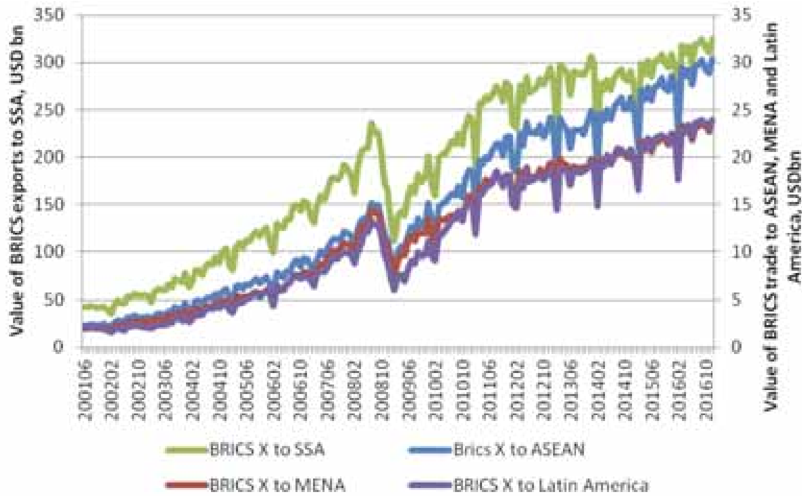


Source: DeltaMetrics 2014

Figure 4: Value of BRICS exports to the rest of the world versus CNY per USD, Last Price Monthly, June 2001-July 2014

Source: DeltaMetrics 2014

Figure 5: Value of BRICS trade to selected emerging regions, (USDbn/USDm) June 2001- Dec 2016



Source: DeltaMetrics 2014

Figure 6: China's trade with Mexico and Indonesia (USDm), June 2001-December 2016 vs CNY per USD Last Price Monthly, June 2001-July 2014

Source: DeltaMetrics 2014

The fall-off in trade with the rest of the world at the beginning of 2014 coincided with a big drop in Chinese exports in Q1, and the South African miners' strike affected base metal exports. Although there has been some recovery, it has been volatile and is continuing to be affected by the spill-over effects from the Ukraine crisis, which is affecting Russian oil exports to Europe.

The BRICS's and, more specifically, China's dominance, both of inward investment and of trade across emerging markets, will be reinforced by the BRICS bank, which will both act to formalise the relationship between the countries, making them a formal bloc in their own right, and will also increase their economic independence and influence. Figure 5, for example, illustrates the importance of sub-Saharan Africa to BRICS trade, and much of this is because of Chinese inward investment to ensure commodity supplies. This reflects the importance of the region to South Africa. It is also the region to have suffered most from the drop in trade in Q1 2014 and, while Delta Economics sees trade between BRICS countries and the other three trading blocs as recovering, it will take longer for exports to sub-Saharan Africa to recover to the levels they were at in 2013.

This stresses the importance both of the infrastructure remit of the BRICS bank, and its role beyond the five countries of the BRICS. If it is supporting growth and infrastructure development from those countries to other emerging economies, then it is a counter-balancing force for emerging market trade development globally, and not just within the BRICS.

However, there must also be an element of both reinforcing the importance of the yuan and protecting the interests and dominance of the BRICS as an entity and, of course, of China as the dominant power within the BRICS that will underpin the BRICS bank. What is interesting here, is the fact that the two countries with the

strongest correlation between the value of the yuan and Chinese trade, are Mexico and Indonesia: two of the MINTs with correlations of above -0.93.

Eight of the top 10 sectors exported from China to Mexico and Indonesia are intermediate manufactured goods, such as semi-conductors, computers, electrical components and machinery. These are global supply chains that move relatively quickly, as global corporates seek to minimise costs by locating elsewhere. Exports from China to Mexico of liquid crystal devices are forecast to grow at over 17% in 2014 alone, suggesting that Mexico's capacity to produce end products, such as cars, which use these devices is growing. The MINTs, fraught with economic and political challenges as they are, do not look like the growth engines they were assumed to be when the phrase was first coined, but should be included within the trade infrastructure development remit of the BRICS bank.

For the BRICS bank, then, there is an opportunity and a challenge. The opportunity is to establish the bank as a meaningful counter-balance to the IMF, with sufficient funds and a broad enough remit to support both the infrastructure and the reality of trade and trade finance. While the bank currently is limited in its remit to infrastructure and joint economic development, this should not remain the case for the simple reason that the BRICS bloc itself is too important to the rest of the world in terms of commodity and intermediate goods supply for it not to extend its support beyond those countries.

The emerging world, and the BRICS in particular, is fraught with geo-political, economic and structural economic development challenges that are reflected in the trade statistics for 2014, and this is the challenge of the BRICS bank. It is not enough to set up a counter-balancing institution if that institution is already likely to have to deal with high levels of sovereign indebtedness, and the fall-out from sanctions against Russia. Its capital base will need to be large for this, as will its remit – in short, it will need to be minted! ■

The emerging world, and the BRICS in particular, is fraught with geo-political, economic and structural economic development challenges that are reflected in the trade statistics for 2014, and this is the challenge for the BRICS bank.

Securitisation of trade receivables: an alternate source of corporate liquidity

Arnold Alpert, director – deal origination, Finacity, examines how securitisation programmes can assist corporates in raising liquidity.

Overview

Securitisation is a powerful technique for deriving flexible and efficient liquidity from a corporation's trade accounts receivables. It can provide committed, revolving funding on a non-recourse basis at a low 'all-in' cost, with the possibility for accounting sale treatment, term placement, or other useful features. Once the providence of large multinationals, advances in technology and the emergence of third-party specialists, like Finacity, have empowered corporates of many sizes and market sectors to take advantage of the benefits of securitisation.

Reasons to securitise

Raising cash efficiently is the most common reason to securitise receivables. An ability to convert what is typically the largest asset on a company's balance sheet into cost-effective financing represents an important enhancement in the field of working capital management. That the resulting instrument can be better-rated than the issuing company also presents a unique opportunity for credit arbitrage. A securitisation platform (and the capital markets access it provides) can grow and change over time, presenting a flexible financing path and durable source of funding diversification.

Balance sheet management objectives may also be achieved via securitisation, with international financial reporting standards (IFRS) or US generally accepted accounting principles (GAAP) sale treatment providing an opportunity to buy-back shares or deleverage. Debt-to-equity, return on assets, days sales outstanding, and the 'quick' ratio can each experience improvement and foster compliance with loan covenants or lower costs on existing grid-priced credit facilities.

Securitisation structure

Securitisation is essentially a legal construct. A company sells its trade receivables on a legal true sale basis to a bankruptcy-remote special purpose vehicle (SPV) established especially for the transaction. The SPV's security over customer collections creates a 'closed loop' between invoicing and payment. New receivables are purchased each day with retired receivables' cash in a revolving cycle that supports an extended funding duration.

Analysis of historic patterns in the creation and retirement of customer obligations determines the advance rate against the receivables collateral. This advance rate can be maximised with insight into industry dynamics and precision control over ledger data. Structures are predi-

cated on the performance and diversity of the receivables pool, and there is little emphasis on the credit quality of any individual customer.

Securitisations function as an 'overlay' on existing systems, preserving a company's control over processes, customer relationships, and servicing. Properly structured and implemented, a securitisation provides revolving funding, insight into working capital dynamics, and opportunities for efficiency improvements in treasury operations.

Capital markets construct

Securitisation fashions a company's book of commercial accounts receivables into investment-grade and non-investment grade securities. The relative proportion of these 'senior' and 'junior' notes is a function of the desired attachment point and underlying performance of the receivables pool. Published rating agency criteria describe the quantitative bases for structuring AAA, AA, A, and BBB notes. Higher attachment points usually result in better pricing, but less overall liquidity.

Pricing varies according to a company's credit quality, note tenor, complexity of the receivables pool, structural features, and macroeconomic factors. Banks and their asset-backed commercial paper conduits (CP conduits) are the usual investors in this structured paper, though standalone term issuance to traditional fixed-income investors is also possible. In a typical situation, the senior note is sold to an investor and the company retains the junior note. Customer defaults (up to the value of the junior 'first loss' note) are borne by the company absent mitigants like trade credit insurance or letters of credit, precisely as would be the case without a securitisation.

CP conduits fund senior notes on a floating rate basis – CP cost of funds generally tracks Libor and spreads currently range from 40 basis points (bp) to 240bp. Financing levels are variable and can be

Arnold Alpert, director – deal origination, Finacity

adjusted by the company as frequently as weekly. Conduit funding commitments can be three-year, though one-year annually renewing programmes are the norm in periods of stress and five-year commitments are achievable exceptionally. Fixed-rate and longer-termed issuance outside the bank market is possible and, indeed, may represent an attractive alternative to high-yield bonds. Securitisation limits investors' recourse to the receivables collateral – there are no financial guarantees made by the company.

A flexible funding platform

A company's investment in securitisation creates a durable, flexible, investment-grade funding platform. Once the receivables collateral is properly analysed and understood, it can be fashioned into a variety of notes to suit the company's instant funding needs or longer-term goals. AAA notes can be issued to minimise cost of funds or A notes can be created to prioritise liquidity – one client of Finacity sells both AAA and BBB tranches to balance quantum and quality of funding. Notes and their underlying investor commitments

can repeatedly be created, retired, or expired under a single platform. The composition of investors and specific terms of their funding are evolved over time.

Multiple (pari passu) notes within an individual tranche are also possible, each with different investors, pricing, tenor, term or variable funding basis. Concomitant issuance of one-year variable and three-year term notes in a benevolent pricing environment could represent a strategic balance between cost and commitment. The company can command its platform to issue additional series of notes, provided there is sufficient collateral and investor support.

The life of a securitisation platform is not limited in time and programmes may continue for 10 or more years, growing and changing with a company over cycles of investment, acquisition, and divestiture. Natural sales growth results in more receivables collateral, providing the platform scope to issue additional notes. The inclusion of additional company subsidiaries into an existing securitisation programme can likewise add to the available receivables pool and facilitate additional funding.

One Finacity client recently took advantage of the currency crisis abatement to add its Spanish and Italian subsidiaries to an existing programme, generating $250 million of additional liquidity. Acquisitive companies with an existing securitisation can quickly fold a target's accounts receivable into their platform, creating efficient purchase financing. Subsidiaries may also be removed from a company's securitisation, as may be necessitated by divestiture or other activity.

In order to ensure maximum flexibility, it is important for a company to take ownership over its securitisation platform. Third-party specialists like Finacity can support this by providing the necessary structuring experience, infrastructure, transparent reporting, and market guidance. Relying upon a relationship lender to establish and maintain a company's securitisation is a common option, but results in the platform being captive to the bank and obliged to incentives potentially different from those of the company.

Perceived complexity

All major ratings agencies have developed sales-based criteria for trade receivables securitisations that determine advance rate on a given pool by deducting ineligible receivables and then projecting loss and dilution rates to the desired level of credit enhancement. Smaller 're-

serves' for bond yield, fees, currency fluctuations, or other factors may also be assessed. Securitisations need not be formally rated by an agency, but public and private ratings are available at a cost if required by the investor. The maths behind these methodologies is penetrable, but a learning curve exists.

Qualitative considerations can also shape the advance rate. 'Unbilled' receivables that result from goods issued but not yet invoiced, for example, are valid collateral in many jurisdictions and can be included within a securitisation if properly tracked. Differentiating between 'contractual' dilution elements known at the time of invoicing (volume rebates, tolling, good customer credits, etc.) and 'non-contractual' dilution (short shipments, non-conforming goods, pricing errors, etc.) can also serve to increase the amount of liquidity derived from the receivables pool. Such elements can be identified by a sufficiently experienced treasury professional, but require knowledge of receivables securitisation frameworks to properly analyse.

Investing market norms also influence the funding outcome of a receivables securitisation. Certain investors may not accept trade credit insurance as enhancement on a portfolio; others may require an agency's private rating for regulatory capital purposes; some may insist on cross-default clauses in securitisation legal documentation; a few might have unusually high CP cost of funds. In this opaque matter, an advisor with sufficient breadth of market knowledge is an advantage.

Role of a securitisation specialist

A third-party expert can reduce complexity, increase funding efficiency, and slash securitisation's barriers to entry. Finacity, for example, essentially acts as our clients' in-house securitisation department. We perform quantitative and qualitative assessments of the receivables pool, leveraging our extensive experience, treasury knowledge, and advanced analytics; assist clients in understanding market norms to identify the most appropriate funding source (facilitating offering circulars and road shows on term deals); structure the securitisation to maximise liquidity in concert with investors' credit requirements; and manage the programme throughout its life (including a proprietary IT platform that automates the production of detailed daily securitisation reporting). Our involvement results in a strict and advantageous application of securitisation criteria, maximising liquidity and providing investors with transparent and accurate reporting.

Challenges and solutions

Specialist infrastructure and a template-process can facilitate companies' origination and maintenance of accounts receivables securitisation platforms, overcoming historical challenges in the space:

- **Industry:** receivables securitisation is applicable wherever there exists a non-interest bearing timing mismatch between a customer's obligation and

The life of a securitisation platform is not limited in time and programmes may continue for 10 or more years, growing and changing with a company over cycles of investment, acquisition, and divestiture.

payment. Areas as diverse as healthcare, commodities trading, telecommunications, energy distribution, transportation, freight, media, and manufacturing have successfully applied such structures. Precise control and reporting of ledger data is the common theme.

- **Reporting:** securitisation reporting is ultimately the company's responsibility. Organising and maintaining a basic level of reporting can require significant FTE commitment from a treasury department and still deliver suboptimal funding results. In particularly complex cases, it may be determined that the number of subsidiaries and systems make securitisation prohibitive. Finacity has delivered outstanding results in these instances, shouldering the workload and maximising liquidity through daily reporting.
- **Size:** up-front investment in a securitisation platform drives the minimum programme level required for funding to be efficient. Multiple subsidiaries, jurisdictions, and currencies increase complexity and cost. Finacity has facilitated securitisations as small as $35 million and $25 million should be viable by properly leveraging our infrastructure and templated approach. $100 million is the typical minimum for a Conduit-funded transaction and higher receivables levels can facilitate additional structuring options. Finacity's largest securitisation has been $1.7 billion and larger programmes exist in the market.
- **Off-balance sheet treatment:** sale treatment for receivables securitisation is possible under both US GAAP and IFRS. A more complex approach is required under IFRS and typically involves trade credit insurance, which increases costs and reduces flexibility. Finacity has successfully applied a volatility-based approach to achieve off-balance sheet treatment without need for insurance.
- **Credit underwriting:** smaller or financially weaker companies may (rightly or wrongly) be perceived by the capital markets to have lower customer underwriting standards or higher fraud risk. Finacity's rigorous and transparent approach to reporting provides confidence to investors, helping facilitate programme placement.
- **Performance volatility and customer concentrations:** extreme seasonality, performance volatility, and high customer concentrations in the receivables pool may make securitisation less efficient. Finacity has implemented specialised trade credit insurance and hybrid securitisation/factoring structures in certain cases to mitigate these effects. Our €100 million ($130 million) securitisation for Sonae Industria, for example, bootstrapped a €5 million factoring programme to fund otherwise ineligible receivables collateral. Smaller programmes also remain a possibility.
- **Cross-border receivables:** it is not uncommon in the increasingly globalised economy for a company to have receivables originated in multiple jurisdictions and currencies. Proper structuring and reporting can facilitate funding for most of these receivables within a single platform in constituent currencies or a single currency, as required. Where law or currency controls may present an issue (China, India, Brazil, etc.), a separate platform and funding source may be a solution. Finacity has successfully facilitated such local placements in Mexico and Colombia and is pursuing transactions in India, Turkey, Brazil, China, and elsewhere.

Securitisation remains a uniquely effective option for funding trade receivables, whose efficiency and applicability continues to evolve through improvements in structuring, technology, and capital markets. ■

Entering a new era in commerce and finance

André Casterman, global head, corporate and supply chain markets, SWIFT and member of the banking executive committee at the International Chamber of Commerce (ICC), examines how rapidly digitisation is influencing the trade space.

Electronic commerce, initially a consumer market phenomenon, is becoming firmly entrenched in the corporate space. The emergence of Business Networks and the digitisation of financial services represent significant changes for corporates and their banking partners. Combined, these innovations are transforming the way market participants transact with each other across end-to-end supply chains. The opportunity for transaction banks is as big as the risk of ignoring this transformation.

Digitising commerce

Business Networks which enable businesses to transact with each other digitally have proliferated. These platforms connect buyers and suppliers around the world, enabling manufacturers, wholesalers and exporters to digitally manage their trade flows. At present the market is diverse, ranging from a handful of dominant business-to-business hubs (e.g. Ariba and Basware) which each connect more than one million businesses and handle $500+ million worth of transactions through to hundreds of industry- or country-specific eInvoicing hubs.

The development of Business Networks demonstrates how collaboration between trading counterparties can simplify and streamline trade and financial processes by providing cloud-based purchase-to-pay solutions. The result is more efficient procurement, accounts payable and accounts receivable functions as well as leaner financial processes.

Digitising shipping information

Digitisation of trade flows is well illustrated by the transformation of one of the most manual processes in world trade – the bill

Business Networks which enable businesses to transact with each other digitally have proliferated. These platforms connect buyers and suppliers around the world, enabling manufacturers, wholesalers and exporters to digitally manage their trade flows.

André Casterman, global head of corporate and supply chain markets, at SWIFT in Brussels

of lading. This document, issued by a carrier, contains shipment of merchandise details and gives the title of that shipment to a specified party. Bills of lading are important documents used in international trade to help guarantee that exporters receive payment and importers receive merchandise.

Service providers such as essDOCS and Dubai Trade have been involved in the digitisation of bills of lading, working with the freight forwarders that issue them. Because electronic bills of lading are legally and functionally equivalent to paper bills of lading, they are ideally suited for faster and automated handling by bank systems.

Digitising trade finance processes

Securing electronic commerce requires banks to extend beyond paper-based practices and is now made possible via the new digital trade instrument, the Bank Payment Obligation (BPO). An alternative means of settlement in international trade, the BPO provides the benefits of a letter of credit (LC) in a digital multi-bank environment. Importantly for banks, it offers the possibility of intermediation earlier in the supply chain by offering risk mitigation and financing services as from the start of physical supply chains, i.e. where the sale contract is agreed.

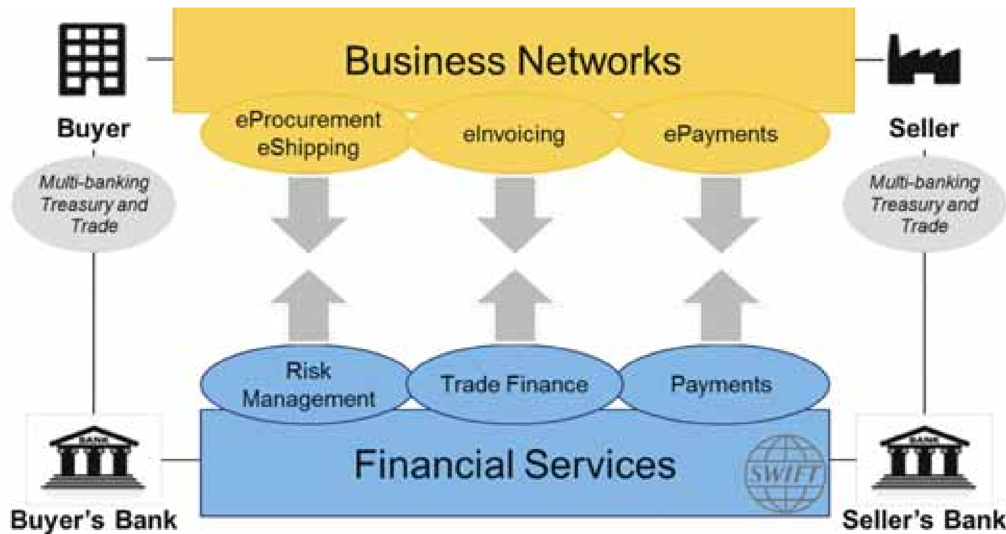
A BPO is an irrevocable undertaking given by one bank to another that payment will be made on a specified date after a specified event (such as delivery of goods) has taken place. The specified event is evidenced by a match report generated by SWIFT's Trade Services Utility (TSU). BPOs can be incorporated into SWIFT's TSU through a buyer's bank or a third party bank. The BPO is due when data is accurately matched or when all financial institutions involved in the transaction have accepted any mismatches or discrepancies.

This process results in a fully electronic alternative to the letter of credit (LC), which enables efficiency gains, working capital reduction and cost savings.

Risk management benefits of digitisation

The cost savings and efficiency gains that result from combining electronic commerce with electronic trade finance are attractive to buyers and sellers as well as for banks. Accelerating the lifecycle of trade transactions enhances the mutual appeal of both buyers and sellers as it mitigates risks in international trade for both trading partners while also enabling improvements in shipments and payment terms. Corporates also stand to benefit from easier – sometimes on-demand – access to financing and reduced operational risks associated with the manual processing of paper documents.

As more corporates flock to Business Networks, banks will be presented with an attractive opportunity to extend their financing services via those networks. As highlighted in SWIFT's white paper of April 2013, the BPO will offer trade financiers the opportunity to finance supply chains from



the very early start of supply chains, i.e., when the purchase order is raised, not just when the invoice is approved by the buyer.

Conclusion: collaboration key to unlock more value from digitisation

Business between corporates is carried out in an increasingly digital way. The digitisation of commerce and finance flows has come a very long way and now there is transformation in even the most difficult processes (e.g., shipping) to digitise.

Digitisation of commerce and finance is not solely about technology; it is an area that also requires collaboration between all of the parties involved in trade transactions: corporates, banks, Business Networks, banking networks and the supporting treasury and trade technology vendors.

The development of the BPO has proved that the financial services industry can join forces to solve a problem and that as a result, more financial services such as risk and financing services can be digitised.

The combination of Business Networks with the growing digitisation of payments and trade services has set the scene for a new, digital era of commerce and finance. Payments and trade bankers will significantly benefit from this new era. ■

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The combination of Business Networks with the growing digitisation of payments and trade services has set the scene for a new, digital era of commerce and finance.

The rise of factoring in today's trade landscape

Michel Leblanc, deputy vice president, international trade, National Bank of Canada, examines the expansion of factoring as a trade finance tool.

The decline in the use of documentary credits for risk mitigation has been prevalent across the entire global economy for some time. This has led to corporates seeking new ways to effectively manage trade risks.

Additionally, with the banking industry's move towards more conservative credit models and more stringent banking regulations, the adoption of programmes like factoring, reverse factoring and holistic supply chain financing is likely to increase further as companies continue to seek ways to optimise liquidity and fund investments.

There are a number of key points to consider when assessing these developments:

Factoring is primarily seller-centric

Traditionally, factoring negotiations are initiated by the seller, who decides to assign part of their portfolio to a factor. The factor checks the quality of the accounts receivable, and assesses the seller and the buyer. If the results are positive and diligence checks approved, then the factoring agreement will be signed and the seller will receive financing upon assignment. It is a quite simple structure. Major issues are ban on assignment, dilution and commercial dispute between the parties.

With reverse factoring the initiative is taken by the buyer, and the process can be handled through a less sophisticated platform then supply chain finance. The aim of factoring is to provide financial support to the seller and payment extensions to debtors, when required, easing cash flow.

Supply chain finance is buyer-centric

The supply chain finance process stems from the buyer, which wishes to offer financial support to suppliers. The suppliers view supply chain finance as a means to improving their financial flexibility, balance sheet treatment and financial ratios. The advantage of a supply chain finance programme is often greater for SMEs than for larger companies because it gives them access to less expensive supplier financing than they could obtain on their own. It does this by leveraging the credit rating of the buyer.

However, buyer schemes do not address all of a supplier's needs nor are they suitable for all buyers. A financial institution able to offer both supply chain finance and factoring is best placed to help its customers.

Although different in their approach, both factoring (traditional and reverse) and supply chain finance share a few elements in common: they operate in the open account space, rely on the perfected assignment of accounts receivables, and are potentially influenced by

external forces that could adversely impact the growth of the industry

What type of company uses factoring and why?

Small and medium enterprises, business start-ups, and undercapitalised companies are primary users of factoring solutions, in order to:

a) Protect against bad debt
b) Outsource their collection and sales ledger function
c) Optimise working capital

Contrary to the normal perception that factoring is used only by SMEs, large corporations or multinational companies also use factoring, particularly for the following additional reasons:

d) Improve their return on asset ratio (ROA). In some countries, their accounting standard allows them to remove the account receivables from their book if they are sold on a non-recourse basis.
e) As a sales enhancement tool, to reduce outstanding receivables, improve DSO, and enjoy higher sales to the buyers.

Factoring and supply chain financing in Europe

This is a strongly developing market but with no dominant players or single approach. Europe is not one unified country and there is also variation in adoption between the continent's numerous countries. In Spain for example there are higher levels of penetration than elsewhere, led by the major Spanish brands. Portugal has followed a similar level of development, with the UK, Germany and France still in a more developmental phase although gaining traction.

Throughout Europe, we are witnessing a growing utilisation of supply chain solutions and factoring and invoice discounting. These are entirely complementary approaches to meeting the liquidity and risk management needs of businesses who are undertaking open account sales and purchases.

Michel Leblanc, deputy vice president, international trade, National Bank of Canada

Factoring and supply chain financing in North America

In Canada, supply chain financing is more difficult to predict, as there are no openly available statistics on supply chain finance volumes. Nevertheless, many players (particularly large banks) believe the demand for supply chain finance solutions will grow, as market participants will try to gain a competitive edge by either offering longer payment terms to their buyers or negotiating longer payment terms with their suppliers.

In the USA, specialists predict a positive future. Over the last 18 months, the fastest growth has come from programmes that have international suppliers. Also, an interesting statistic shows that more than 98% of transactions by dollar value into and out of the US are conducted on open account terms.

Therefore the growth is likely to continue as companies will continue to look to diversify their capital structure and main-

tain their sales growth. However, this sector will remain in the hands of certain dominant financial institutions because there are few multi-banking supply chain finance platforms in development.

Factoring and supply chain financing in Asia

In various Asian countries the growth of factoring has been dramatic. China is an excellent example as financing for SMEs remains complicated and the request for longer terms and paperless transactions (no letters of credit) from buyers is increasing.

Factoring is growing fast and the international side of it is captured by Factors Chain International (FCI), acting as the lead organisation in this part of the world. However supply chain finance programmes in these markets need to be structured differently because of the regional complexities – including local legislation, multi-regime compliance and marketing the advantages to suppliers for banks in rolling out cross-border supply chain finance programmes.

Demica Intelligently Working Capital issued a report in May 2013 titled: A Research Review of Progress in the International Supply Chain Finance Market. Among the key findings in this report:

- Major international banks surveyed across the world are reporting 30%-40% annual growth rates in supply chain finance programmes;
- Strongest sectors for supply chain finance take-up are retail, manufacturing, consumer products, automotive, agriculture, chemicals and pharmaceuticals;
- Eastern Europe, India and China are currently considered the top three areas of the world with the greatest supply chain finance market potential in the future;
- Corporates point out that banks need to develop specific support packages to communicate benefits to suppliers, especially in cross-border programmes;
- Developing financial regulation is expected by financiers to present negligible obstacles for the development of the supply chain finance market.

For all the above reasons I believe the future of factoring and all related activities such as invoice discounting, reverse factoring and supply chain finance is well established and is part of the success of international trade.

However, regulations, rules, discipline and education are mandatory in order to make sure the growth of the volume and the business as well as the number of new players is well organised and fully developed. Hence, we see the role of FCI as a catalyst for all the participants in the supply chain finance world.

For more than 45 years, FCI has evolved into one of the most unique associations in the field of financial services. It is unique in that it holds a combination of special traits. FCI acts as a trade association supporting the growth of international factoring (IF), providing a legal foundation, offering a communication system, providing advice, learning, and guidance through a robust education platform, accentuated by an innovative marketing effort, and led by an engaged and focused secretariat.

Since the founding of this great association, FCI has been the undisputed leader in open account trade finance. With the advent of globalisation in the 1990s, and with the development of a vibrant chain and open door policy, FCI led the charge, doubling the size of the association, and taking advantage of the explosion in open account trade from East to West.

The FCI network is seen as having the capacity for supporting supply chain financing and factoring businesses. FCI has a role where banks initiating supply chain deals lack the international network to cover all suppliers and all countries. ■

Ambitious ITFA revamp looks to the future

Hesham Zakai reports on changes taking place within the International Forfaiting Association.

The International Trade and Forfaiting Association (ITFA), formerly the International Forfaiting Association (IFA), has undergone an ambitious revamp, focused on playing a bigger role in a changing market landscape, and building a more viable structure for the future.

Details of the changes were discussed at the association's annual conference – on its fifteenth anniversary – held in Barcelona on 10-12 September. The event welcomed 173 participants from 29 countries, while speakers included African Export-Import Bank (Afreximbank) vice president, Dr Benedict Oramah and Markus Wohlgeschaffen, head of global trade finance and services at UniCredit, among others.

Amongst a raft of new measures to be introduced by ITFA are: a database of members; more lobbying and influence over regulators and regulatory decisions; deeper relationships with various stakeholders in the sector; a new website (www.itfa.org) with better aesthetics and greater functionality, including the ability for members to write and upload articles on relevant issues; the creation of an expansive young professionals network; and more exposure for the association via participation at conferences and media interviews.

The capacity of the association to deliver on these aims was bolstered by the expansion of its executive board from seven to nine. Luiz Simione, managing di-

"Our aim is to help support young trade finance practitioners' professional growth, by developing a strong network that fosters education, knowledge exchange, transfer of ideas and skills, and a lot more."

rector – global head of forfaiting and risk distribution at HSBC, is one of the board's new recruits, and will be responsible for building on existing and new institutional relations.

"We want to grow as an association. We are a niche player, rather than the biggest player, but we want to be bigger. We want to be a strong voice for our market that is in contact with other important associations, such as the ICC or BAFT," says Paolo Provera, ITFA chairman.

"We also want to build greater credibility and develop our market presence. We are currently recognised as a European association, but we are actually international," adds Provera.

This last aim received a significant boost at the conference when Eric Intong Monchu, manager for trade finance at Afreximbank, announced the supranational bank's intention to join the association. A partnership with Afreximbank could be instrumental for ITFA in gaining traction with banks in African countries.

Dr Oramah had branded Africa as the next frontier for forfaiting – and this was not a description Sean Edwards, ITFA's deputy chairman, had any intention of disagreeing with.

"Africa is a missed opportunity historically, but a natural market for forfaiting," remarked Edwards in welcoming closer ties with Afreximbank.

Teresa Casal, special projects advisor for ITFA, added that the voluntary association would also be targeting other emerging markets – including China and Russia – based on their growth potential for trade finance.

Meanwhile, Albania's Banka Kombetare Tregtare joined the association in another indication of its widening reach.

"We are a body of skilled, experienced practitioners. We have more than 150 years of collective experience and knowledge as well as a young generation driving the association forward," says Casal.

The association will try to leverage the potential of its younger members through its new initiative 'Young Professionals in Trade Finance & Forfaiting: Let's Build the Future!'

Headed by Johanna Wissing, the initiative will include networking events, training courses and a flagship mentoring programme that will see young professionals paired up with their more experienced counterparts.

"The development of young potential is key to the continued growth and ongoing success of global trade in today's world, and in the ever-evolving and growing trade finance markets," says Wissing.

"Our aim is to help support young trade finance practitioners' professional growth by developing a strong network that fosters education, knowledge exchange, transfer of ideas and skills, and a lot more."

ITFA's re-brand is perhaps a belated recognition of the role of forfaiters in the trade world, but it is nonetheless a welcome one. The new regulatory landscape and obfuscation on topics of terminology and product standardisation, accentuates the need for coherent, coordinated approaches to key industry questions.

If it manages to successfully implement its ambitions, ITFA will certainly make significant steps in driving the industry forward. ■

Trade finance: in conversation with the masters

A man who attains mastery of an art reveals it in his every action.
- Samurai maxim

In this first instalment, Alexander R. Malaket, president of OPUS Advisory Services International, and author of 'Financing Trade and International Supply Chains' (Gower UK, 2014) shares insights and observations from Paul Johnson, director, senior product manager , Bank of America Merrill Lynch, based in Los Angeles, USA.

Those of us in the business of trade finance are well aware of an upcoming shortage of skill, expertise and depth in this discipline, as one (or two) generations of trade financiers retire, without the benefit of a next generation of specialists ready to fill the gap. This is a systemic issue, which is global in scope, and one that results from a combination of factors best left to separate and specific consideration.

Irrespective of the underlying causes, there is little doubt about the outcome: a great deal of experience, expertise and personal commitment to the business of financing international commerce will be missing from the global business environment in a few short years, unless the matter is addressed very specifically and very quickly. It is with a view to supporting – perhaps even helping to attract – the next generation of trade financiers, that this series has been envisioned and developed.

Meet Paul Johnson

Paul Johnson currently holds a product management remit covering trade and supply chain finance for Bank of America Merrill Lynch.

Paul grew up in rural England on a family farm. The Johnson family specialised in-flowers, growing them outdoors in the summer and forced in glasshouses with heat in the winter. The farm was just outside Boston on the east coast of England and the family did a lot of business with traders, growers and wholesalers in the Netherlands. Paul's interest in, and linkage to international trade – and trade finance – finds its roots during school holidays, when he had the chance to go along with one of the contract trucking companies during the overnight trip to the Amsterdam area. Door to door it was a 7-8 hour trip involving a roll-on and roll-off ferry trip from Harwich on East Coast to Hook of Holland.

Adolescent Paul would arrive to go through customs about 4 or 5 AM the next day, to ensure arrival at the market for the opening. Typically it was flowers in one direction and daffodil/tulip bulbs in the other. As this veteran of the industry describes it, he had a lot of exposure to cross-border trade from an early age. It was noted that all the business done by the Johnsons was on open account terms, even then.

I asked Paul recently to share what he considers to be some key lessons he has learned in his career in trade and trade finance.

Alexander Malaket, president of OPUS Advisory Services International

The topic of conversation: top lessons learnt

Lesson 1: A career that creates value, has value

The visibility and profile of transaction banking, and within that, of trade finance, has varied significantly, depending on the time period, the market and the degree to which trade has been (or has been acknowledged to be) central to the creation of economic value.

Before the financial crisis, trade financiers preferred to do their work in the background, without much fanfare or public profile, and certainly with less visibility than other, more 'high-flying' areas of investment banking and finance.

Since the peak of the global financial crisis and the economic crisis which followed (and lingers stubbornly today), the critical role of trade finance in enabling trade – 'real-economy' commercial activity – has been acknowledged at the highest levels of business and government. Trade financiers have experienced a renewed sense of pride in their business, a widely-shared appreciation for the importance and value of the trade they critically support through payment, financing and risk mitigation solutions. The positive impact of trade on international development and poverty reduction is particularly illustrative.

"As bankers, and trade financiers in particular", observes Paul, "we aim to help clients achieve commercial and economic goals, sometimes very significant in value and impact, and sometimes in extremely challenging markets and conditions. What is gratifying, in addition to successes we have in these areas, is the reality that the work of our clients, and hence our work, very often involves the facilitation or creation of social good: the creation of economic value and wealth through export activity, and the enhancement and the raising of standards of living through import and export activity."

Paul Johnson, director, senior product manager, Bank of America Merrill Lynch, in Los Angeles

Despite high-profile examples to the contrary, Paul expresses that view that most bankers intend to do the right thing and serve their clients and their communities well. It has long been demonstrated through observation and academically robust research and analysis that banks do not simply facilitate the movement of money, but that they play a critical role of the creation of economic value.

It is rewarding to be associated with and active in a business that creates – and is seen to create – value.

Lesson 2: Expect the unexpected

Trade, and by extension, the financing of international trade, requires senior practitioners to be globally oriented, highly aware and internationally effective, perhaps even prepared to be engaged and responsive in a business that runs across all timezones.

Trade finance is directly affected by, and sometimes even shapes, front-page news and events with potentially global impact. Geopolitics, territorial disputes, pronouncements by central bankers, multilat-

eral trade negotiations , concerns about organized crime and money laundering or terrorism financing: every one of these elements is part of the context in which trade financiers operate.

The complexities and challenges of commerce are significantly amplified when business crosses borders, as are the intricacies of finance. The same is true for the opportunities, both for enabling the success of clients, and for the personal and professional growth of those engaged in work that has an international, even global scope.

"What happens on the world stage has a direct impact on trade and trade finance: global events are not simply noise in the background. If sanctions are imposed on a country or a party, business is impacted that day. The scope of international commercial activity requires practitioners to expect periodic twists and turns: expect the unexpected."

Lesson 3: Engage in the community

It is extremely important and valuable for practitioners – and for industry stakeholders – to engage in industry-wide initiatives to proactively shape the landscape. Historically insular approaches within individual financial institutions, or as relates to the career paths of individuals, are no longer viable in a world where complexity and global reach demand a highly networked approach.

One or two people can make a significant difference, and it is critical today for leaders and emerging leaders to focus on bigger-picture issues, such as current industry concerns about economic value-creation and the re-development of trust with the communities served by financial institutions. Recent initiatives around sustainable trade and the development of a trade finance mechanism supporting sustainable trade are illustrative.

The impact of well-focused energy can be direct and very meaningful; trade financiers can create value, and can have a demonstrably positive impact in a wide range of areas, in the toughest or most challenged (and challenging) markets on the planet.

Lesson 4: Trade financiers on the front lines

The old investigative technique of 'following the money' works. It works so well, that governments have effectively recruited financial institutions, especially trade and international bankers, in enforcement activities linked to money laundering and terrorism finance.

"We are all very aware of this aspect of our work: it permeates everything we do today in the financing of international commerce. Trade financiers are on the front lines of global policy execution and enforcement related to money laundering and terrorism finance", says Paul.

While the post-crisis focus on banking system stability has placed a great deal of focus on regulations linked to capital adequacy and the financial strength of banks, there is equally critical focus on other requirements linked to cross-border law enforcement. This is partly due to the nature of trade finance: a business that is cross-border, with instruments and practices that are well-understood and trusted all over the world. Those same characteristics, critical to the facilitation of legitimate commerce, are tempting to those seeking to move illicit funds for criminal purposes or worse. Vigilant trade finance specialists can, and have, played a critical role in halting such transactions and in collaborating with authorities in resulting investigations.

Lesson 5: Put your client first

Banks and bankers have talked for years about the importance of being client-focused or client-centric, specifically acknowledging that the silo and product-based organizational structures of financial institutions are no longer fit for purpose. The degree to which such client-centricity has been achieved in practice

varies greatly, and it is probably fair to say that the industry still has significant work to do. It is worth noting, too, that the competitive environment has changed materially in the last decade, and particularly since the peak of the global crisis: there are now external factors, including the existence of alternative providers, that will compel banks to become client-centric at a faster pace.

"At the highest level", observes Paul, "clients face similar challenges and are looking for common solutions that require bankers, even specialists like trade financiers, to be able to have serious conversations with a decidedly commercially view that extends beyond the product and silo mindset. Senior bankers must not lose sight of the commercial 'mission' from a client's point of view, and having understood this, can then proceed to offer tailored, effective solutions instead of standardized products in support of that end-mission."

Relatedly, Johnson promotes the notion that bankers, including trade financiers must see their client needs, and their institutions' capabilities as holistically as possible, bringing to bear, for example, the full suite of global transaction banking capabilities to assist a client when needed.

"Relatively few banks are capable of delivering integrated solutions in this way", says Paul. "There are operational, systems and staff capability limitations, but it is both possible and necessary to rise above such constraints – to work actively so that internal organisational limitations are not imposed on a client."

Lesson 6: Reputational issues are critical; this is a people business

It is difficult not to acknowledge that the banking industry has suffered some self-inflicted injuries to its reputation, and through the actions of a relatively few who either seek to exploit their positions of trust, or demonstrate striking levels of incompetence, continues to do so. The industry has sustained significant reputational damage, and has collectively lost billions in shareholder value.

Despite this backdrop, Johnson focuses on the belief that bankers overwhelmingly seek to do well, serve their clients, and increasingly, recognize the importance of doing good. While it might not always be apparent, the industry does learn from its experiences, as trade financiers learned from a crisis in Kazakhstan some years ago. The lessons then were about the importance of industry collaboration and advocacy, but also about the long-held view that trade obligations are more likely to be settled in the event of political crisis or default: in the end, this was shown to be the case, and bankers learned that full recovery might be feasible against trade obligations, while working capital structures might be settled at 20%-30% of face value.

Each of the foregoing lessons has, at its core, a realization that trade – and trade finance – is a 'people business'. "Motivated and competent people are critical to success in trade finance", notes Paul. "This can be a complex business, and 24/7 in activity across every industry sector and client segment, from agri-food and commodities to manufactured goods, technology and service sector trade. On the financing side, it's about networks, skilled professionals, trusted colleagues and global reach."

Banking has significant work to do to rehabilitate its image in the world, and the global system of international commerce has its imperfections. However, trade financiers occupy a unique, high-value and high-impact role in the support and facilitation of cross-border commerce. There is a noticeable difference between a banker who happens to work in trade finance, and a trade financier who happens to work for a bank – just as there is a fundamental difference between someone doing a 'job' and someone passionately pursuing a vocation. ■

Quiet revolution: common network brings trading counterparties closer

As trade finance technology becomes more routine, international trade is getting more connected. Ian Kerr, CEO Bolero International, looks at the growing business case for ePresentation.

After years of being underutilised, electronic document presentation (ePresentation) has now become more understood and sought after than ever before. In certain commodity sectors, accelerating adoption has seen the technology become used on a regular basis, a trend that will doubtless continue.

This quiet revolution has been a long time in the making. Looking back, when the technology was first developed in the late 1990s, the market simply wasn't ready to connect the trade process electronically and adoption was low. Increasingly however, technology providers and their clients, partners and respective trading counterparties are realising that the advantages of the technology – and the business case for it – lie in the network.

The more counterparties that use a secure, reliable connectivity platform, the more each member benefits. This is where the technology has commonalities with a sustainable and connected trading ecosystem, where all engaged parties co-exist to their mutual benefit.

The fact that previously separate trade chains have common connections brings individual organisations, their trading partners and the wider community much closer together in an evolving and expanding trade cycle. The more connectivity that exists in this environment, the more value that different trading, shipping and banking partners will see.

Common interests

A great deal of value in ePresentation and the underlying technology comes from its ability to legally replace paper documents with 'original' and universally-accepted electronic ones, minimising the time they

A great deal of value in ePresentation and the underlying technology comes from its ability to legally replace paper documents with 'original' and universally-accepted electronic ones, minimising the time they spend in transit.

Ian Kerr, CEO Bolero International

spend in transit. Moreover, the electronic Bill of Lading (eBL), a critical component to full ePresentation, is also substantially more secure than its paper equivalent, reducing risk and ensuring users are automatically more protected.

The speed of electronic documents also reduces the likelihood of goods having to be discharged prior to the surrender of the bill of lading. This in turn reduces the need for letters of indemnity. As well as accelerating delivery of the document, the ability to exchange 'machine readable' structured data also creates further opportunities for straight-through processing in both banks and corporate enterprises.

Yet while previously, the business case and advantages of ePresentation and the digitisation of trade documents have concentrated on these operational and cost-saving benefits, the potential gains that organisations are seeing when joining a common technology network should also not be underestimated.

As with other communities, the most compelling aspect of the technology is not the participation of any one individual organisation but the collective power of being part of a connected 'living' trade finance ecosystem. Day-to-day, having a universally accepted platform in common makes the process of completing transactions with banks that are linked to carriers, for example, much more straightforward.

As more and more organisations are brought together, this wider and broader connectivity not only makes the process of doing business easier but also gives organisations a mutually trusted platform and assured transaction integrity. In turn, closer co-operation between the different parties becomes more practical. Organisations that have this common link are better-equipped to join together to tackle threats such as fraud, not least because they have opportunity to use the network to broaden their trading relationships and develop closer connections with existing partners.

Industry accepted, market tested

Recent consultations between the shipping association BIMCO and the industry culminated in a new clause which now gives eBLs the same status as paper bills of lading under the terms of the charter party. Normal protection and indemnity (P&I) insurance liabilities are also covered by the clubs to the same extent when using eBLs as their paper equivalent, removing any perceived risk.

To encourage broader adoption, technology providers have also re-evaluated the benefits to the different counterparties, ensuring that the commercial benefits to enterprises, carriers, banks or any other partners or counterparties are more apparent and in line with their own business requirements.

At an individual and organisational level, changing attitudes and factors have also raised interest in ePresentation. Doing business electronically is now commonplace in work and personal life. Likewise, the technology itself has evolved significantly and the number of large corporate partners using it has increased, prompting their trading ecosystems to take a fresh look.

Leading the charge in using ePresentation is the commodities sector, with many others starting to follow suit. The reasons for this are both internal and external. Externally, in the post-boom years market conditions have toughened significantly. Commodity prices have dropped, China's economy has slowed and the unprecedented demand for materials has reduced. At the time of writing, this had culminated in a 35% fall in the price of iron ore since the beginning of 2014.

With limited control over these external pressures, many commodity firms have looked inwards and are now using ePresentation to speed-up and streamline their trading processes. Crucially, this has helped some businesses to overcome the direct costs they incur when paperwork does not reach the recipient on time.

With consignments often worth millions of dollars, ensuring that transactions are completed efficiently and revenue is recognised at a reduced cost is key. Likewise, high-value international shipments often change hands several times between leaving port and arriving at their final destinations, which makes control over the electronic eBL in particular extremely critical as the transaction moves through the process.

The fact that this electronic document underpins the legal ownership of the shipment also offers a key advantage, making it tough for fraudsters to use fake paper BLs to seize ownership of goods and commodities. For these reasons, as well as being used in bulk, eBLs are also being rolled out in container shipments too, with multiple carriers now using container eBLs effectively and with confidence.

Globally applicable, mutually advantageous

Organisations that are already using ePresentation have been quick to see the benefits of improved working capital, reduced days sales outstanding (DSO), accelerated time to cash and effective credit line management and usage.

However, these important business gains are by no means restricted to any one particular sector or business type. While there has been a lot of traction in the commodities sector and among Chinese banks, exporters and their trading partners, organisations in South America and India are also showing strong interest in these new trade flows.

As a concept, ePresentation is internationally relevant. By integrating corporate enterprises, local or global bank and logistics service providers harmoniously with the growing network of connections and collaborations continuously being made in the trade sphere, the technology is increasingly creating a more connected and efficient working community. The more transactions are processed and concluded, the more the commercial business case will be realised. ■

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Improving the efficiency of FSCM to establish a 'win-win' situation

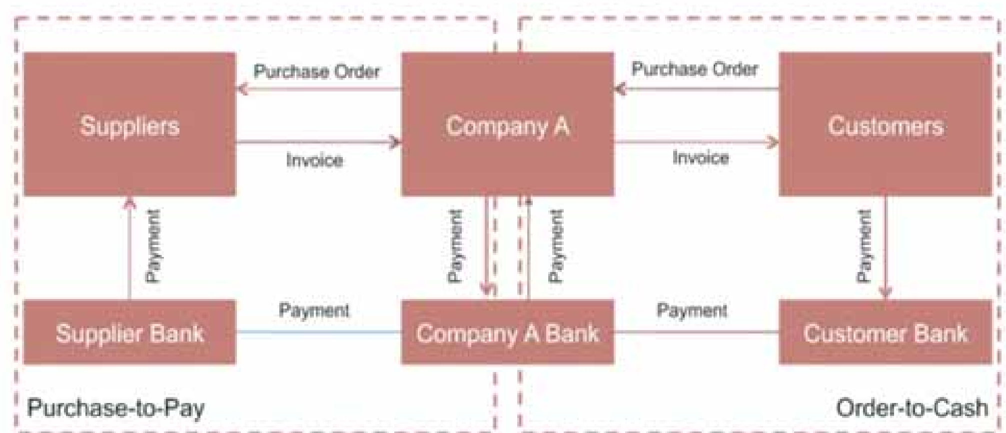
Frank-Oliver Wolf, global head of cash management & international business at Commerzbank, explains how enlightened companies are adopting a holistic view of financial supply chain management (FSCM) in order that everyone reaps the rewards.

Increased globalisation means that corporate competition is at its most intense. As such, companies must explore new techniques if they want to stay ahead. While the ultimate aim of finance directors of multi-national companies remains unchanged – optimising profit and liquidity while mitigating risk – they are now realising that the traditional method of solely focusing on improving working capital efficiency is no longer enough.

Heightened globalisation and increased cross-border trade means corporate competition is greater, counterparty risk is higher and supply chains are more intricate and geographically diverse. While, traditionally, companies invested heavily in their physical supply chains with considerable success, today, contract negotiations with foreign trade partners no longer focus purely on prices, delivery times and product characteristics. It is becoming more and more likely for business to be won or lost on the issue of financing.

This brings financial supply chain management (FSCM) to the fore. While the

Figure 1: Financial Supply Chain



Source: Asymmetric Solutions Ltd

physical supply chain involves the sourcing, production and distribution of goods and services, the financial supply chain focuses on the flow of financial information and money in the opposite direction (see figure 1). FSCM therefore recognises and analyses interrelated events to optimise these financial flows within a company and between business partners.

With this view in mind, realising the interconnected nature of the financial supply chain is essential. And as the flow chart highlights, it is possible for one weak link to damage the entire chain. For example, when the Tsunami hit Japan in March 2011, major local suppliers were completely wiped out, resulting in a negative impact on their worldwide buyers and the associated supply chains.

So how can trading companies manage the links in the chain to make sure everyone benefits? The key is to look at the financial supply chain holistically, using trade instruments to implement practical solutions that can ensure the chain's financial viability and profitability.

While the FSCM concept is not new, focus is now shifting from theoretical discussion to practical implementation. Realising the advantages of a holistic approach to FSCM is the first step, the second is to install the necessary building blocks for successful implementation. To achieve tangible benefits, companies

Frank-Oliver Wolf, global head of cash management & international business at Commerzbank

should therefore lean on their financial institution partners, leveraging their local expertise and working with them in order that all parties 'speak in the same language'. Large international correspondent banking networks can help here; offering local insight, increasing transparency and mitigating risk.

A holistic approach to FSCM

While working capital management looks internally to increase revenue – by optimising each individual internal process – a ho-

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listic approach to FSCM looks to support and strengthen the structure of the entire supply chain, from customers (order to cash) through to suppliers (purchase to pay). This can offer a significant competitive advantage.

Typically, buyers and suppliers would compete with one another to increase their respective revenues; while the importer would seek extended payment terms, the exporter demands faster payments. In order to maintain a working relationship, often the supplier would grant extended payment terms and potentially use expensive short-term borrowing to relieve the pressure. However, to compensate for this extra cost, unit prices might increase, and in turn, the competitiveness of both parties decrease. So, with the holistic approach to FSCM in mind, how is this resolved?

One way is for the buyer's bank to take over the financing side of the supplier – through forfaiting or the purchase of covered receivables, for example. This way the buyer receives extended payment terms and the supplier obtains immediate payment. If companies adopt the holistic view to FSCM – from the supplier all the way through to the customer – while realising the interlinked benefits to each unit, they will avoid pushing the cost down the chain and increase the competitiveness of all.

Another way to avoid pushing cost down the chain sees buyers helping suppliers burdened with high interest rates. In this respect, a 'win-win' situation may arise when a supplier is located in a high-interest rate country, such as Brazil, and is subject to less favourable interest rates than their buyers abroad. In all likelihood, this high cost of financing would be reflected in higher costs of goods. Yet, by approaching the supply chain holistically and recognising this, corporates can help their suppliers – working with their bank – to obtain financing at more favourable rates. The potential outcome: better liquidity for the supplier and lower cost of goods for the buyer.

What is more, such a holistic approach can have real impact on business performance – increasing revenue and improving client relationships (by allowing companies to provide longer payment terms for buyers). Better client relations will lead to a more reliable supply of goods and services, thus increasing the number and loyalty of customers – ultimately this virtuous cycle will have a positive impact throughout the entire supply chain.

Building blocks

However, for companies to reap the rewards that can be derived from adopting a holistic approach to FSCM, it is essential that there are certain building blocks in place: and here the onus is on their banking partners. It is clear that implementing holistic FSCM solutions over supply chains

We predict that, over time, a growing number of widespread organisations, together with suppliers and customers, will recognise how the practical implementation of FSCM will reduce cost, enhance liquidity and ultimately increase competitiveness.

that may stretch continents and time zones is no mean feat – doing so effectively therefore requires local expertise (at the same time as a global footprint), a common consensus and a personalised approach.

1. Utilising local expertise

Utilising local expertise is key. Recognising the global nature of multinational corporations' supply chains, finance managers rely on advice from banking consultants based all over the world. These local advisory service teams work closely with customers and project managers to facilitate 'end-to-end' solutions that can be adopted globally, whilst respecting local regulations and conventions.

In this respect, a large international correspondent banking network can help FSCM to work effectively – particularly when a buyer engages in business with an unknown international supplier for the first time. Local partner banks can perform risk and asset assessment, as well as company profiling, to significantly reduce counterparty risk. What is more, it is only by having local banking partners "on the ground" that larger banks can truly understand the potential impact on financial supply chains of political upheaval or regulatory change, for instance, as well as the likelihood that it may occur. Implementing successful solutions is therefore reliant on this local knowledge.

2. Speaking the same language

Of course, local knowledge can only take you so far, and much of the real efficiencies from FSCM come when buyers, suppliers and their banks 'speak in the same language', sharing a common view and goals. For instance, a buyer can only know that its supplier in Brazil is finding financing expensive to come by if it's willing to share this information. As such, transparency can be a real enabler of effective solutions. And this also extends to trade finance documentation: increasing document and policy transparency and standardisation – particularly for small or medium sized companies (SMEs) – is important in bridging the gap between banks and their clients as it minimises the possibility of default risk if everyone can see exactly what is going on.

Yet, while document standardisation should be welcomed, it is clear that FSCM solutions must be, at the same time, individually tailored to account for the uniqueness of each supply chain. This is significant because international supply chains frequently connect companies from a range of different profiles; therefore banks need to look to meet these individual needs by bringing together different departments from within. For example, German SMEs may have a variety of global suppliers and customers of different sizes and industries. To understand the specific needs of an organisation's financial supply chain, banks can analyse customers' balance sheets, its imports and exports, as well as its days payable outstanding (DPO), days inventory outstanding (DIO) and days sales outstanding (DSO) – in order to tailor specific solutions to each individual company within the chain.

Indeed, it is important that corporate customers realise that there are no standard solutions for efficient working capital management and financial supply chain management. Advisory services can only be efficient when a bank devises solutions specific to the customer's needs.

We predict that, over time, a growing number of widespread organisations, together with suppliers and customers, will recognise how the practical implementation of FSCM will reduce cost, enhance liquidity and ultimately increase competitiveness. While few singular techniques can achieve a win-win situation alone, holding a holistic view to financial supply chain management is essential to any company's future success. ■

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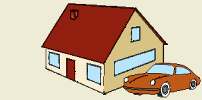

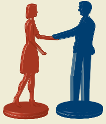

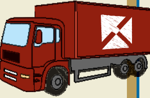

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