

TRADE FINANCE UNDER PRESSURE

What are the biggest challenges the Trade Finance industry is currently facing ?

What is your impact in the Trade Finance value chain ?

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Trade Finance

Challenges in Trade Finance landscape

Trade Finance has been a well established business for banks and financial institutions. Nevertheless, Bankers have been facing increasing burden of regulation, high capital and compliance costs while documentary credit portion of global trade, the most popular instruments in international trade, declined from 50% in 1970's to 15% today. Corporates prefer open account trading in which goods are shipped and delivered before payment is due to avoid costs and inconvenience of letter of credit and because over time, multinational corporations dealing together regularly decrease the perceived risk of a transaction.

Digitalisation and particularly blockchain seems to be the answer to enhance documentary credit by reducing risk, fastening the process and improving transaction efficiency therefore resulting in a better turnaround for all global trade participants. Various initiatives have arisen from groups of banks such as Volton (BNP Paribas, HSBC...), Marco Polo (ABN, ING, Société Générale) or We.Trade (Deutsche Bank, Natixis, Santander...), but previous digitalization evangelisms failed resulting in closed and unshared platforms needing paper to communicate from one to another.

Between constraints and innovation opportunities, traditional trade finance has to answer to growing challenges.

DEFINITION

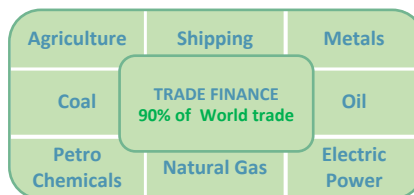


Letters of credit or documentary credits, represent a written liability in which a bank, on behalf of a buyer, assures a seller the payment will be made according to the trade agreement in place

5 Growing challenges in Trade Finance

1 Compliance

- Stringent regulations limit banks in their commercial activity
- Poor quality of applications (AML and KYC) remains a barrier to finance



2 Digital

- Moving from paper-based workflows to new digital solutions, mainly using a distributed ledger such as blockchain, is a huge gap to fulfil

3 Dollars liquidity

- Lack of US dollar liquidity remains a barrier to servicing trade finance needs

4 Capital constraint

- Increased the cost of trade finance (Basel III)
- Constraints on bonds' origination significantly reduced secondary market liquidity
- Poor receivables management degrades working capital, cash flow

5 Organisation

- Not optimized Client Management presents a risk of losing of client loyalty
- Cost pressure, high volume (activity) decrease operation efficiency

Trade finance in focus: Stake versus Solutions

Challenges	What is at stake?	What can be the solution?
Compliance	<ul style="list-style-type: none"> Traceability & Audit trail KYC / KYCC / KYT / KYG management 	<ul style="list-style-type: none"> Processes automation Dematerialization (Electronic document management, Optical Character Recognition System...)
Digital	<ul style="list-style-type: none"> How to manage the disruptive potential of new technologies such as blockchain 	<ul style="list-style-type: none"> Create a digital solution with all ecosystem participants that can become a robust network and a reference on a market segment Solutions must be based on 3 principles: <ul style="list-style-type: none"> Think big: high investments and collaboration Start small: focus with early adopters on one corridor with high volumes Grow fast: achieve significant scale and market share to become a key player
Dollar liquidity	<ul style="list-style-type: none"> Ability to access US dollar loans 	<ul style="list-style-type: none"> Development of new sources of funding (liquidity from emerging markets trading new currencies such as the RMB emergence) Better and deep origination capacity (securitization, new actors, new origins)
Capital constraint	<ul style="list-style-type: none"> Respect of leverage and liquidity ratios Benchmarking, price discovery of new bond offerings Receivables management improvement 	<ul style="list-style-type: none"> Originate to distribute model and better transaction execution management Data product, improving the flow of information and increasing transparency Enhance receivables discounting and factoring solutions
Organization	<ul style="list-style-type: none"> Client Service optimization Steering of margins Cost pressure Steering of operational activity 	<ul style="list-style-type: none"> Steering and improvement of SLA (processes automation; FO-to-BO workflow improvement; monitoring tools implementation) Reliable Database and dynamic dashboards based on production data Resources pooling (BO platform implementation; outsourcing / offshoring) Automated KPI and dashboard

Criteria for choosing winners include trade-related transaction volume, client management, competitive pricing, operations and risk monitoring, innovative products, services and technology.





Impact of each challenge on financial actors

	Compliance	Digital	Dollars liquidity	Capital Constraints	Organization
Bank	High impact	High impact	High impact	High impact	Medium impact
Insurance	Medium impact	High impact	Medium impact	High impact	Medium impact
Broker	Low impact	Medium impact	Medium impact	Low impact	Low impact
Trader	Medium impact	Medium impact	Medium impact	Low impact	Low impact
Corporates	Medium impact	High impact	Low impact	Medium impact	Medium impact

Legend: ■ Low impact ■ Medium impact ■ High impact


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Examples of possible interventions

 Strategic Marketing	<p>Better product management:</p> <ul style="list-style-type: none"> Development of tailored products and services (digitalization, guarantees) offer Definition of a new pricing offer Optimization of profitability management Definition of a cross-channel strategy to distribute traditional Trade Finance products
 Organization & Governance	<p>Definition and set-up of a new TOM of Trade Finance worldwide functions</p> <p>Business Process Outsourcing/Offshoring of international guarantees and documentary credits management:</p> <ul style="list-style-type: none"> Business Case to validate the relevance of a model with Business Process Outsourcing Definition of the transfer strategy Due diligence and assistance in the selection of a service provider Formalization of the outsourcing/offshoring Agreement
 Process & Change Management	<p>Business Process Outsourcing/Offshoring of international guarantees and documentary credits management:</p> <ul style="list-style-type: none"> Training and knowledge transfer Implementation and drafting of the monitoring/control procedures in regards to the delegated functions Definition and follow-up of SLAs of the activity <p>Operational efficiency improvement:</p> <ul style="list-style-type: none"> Diagnosis and optimization of operational processes
 Regulatory & Risk & Data quality	<p>Organisation efficiency improvement:</p> <ul style="list-style-type: none"> Gap analysis with new regulations Support to FO in Country Risk Management Data quality improvement regarding operations and clients in order to answer KYC requirements Set of a data quality TOM Audit of data and procedures impacting RWA, liquidity, NBI and client knowledge
 IT Strategy	<p>Animation of internal and external working groups to design new solutions</p> <p>Automation of documentary credits/international guarantees management:</p> <ul style="list-style-type: none"> RFI/RFP to select an editor for a documentary credits/international guarantees management tool Project management to implement a new tool (external or in-house application) Formalization of procedures, adaptation of existing processes and set up of training sessions to use the new tool

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