



Trends in Trade & Trade Finance:

Observations on Selected Developments

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OUTLINE

I. Trends in Trade & International Business

- Convergence
- Client Sophistication
- Geographic Shift

II. Trends in Trade Banking & Trade Finance

- Consolidation & Integration
- Technology
- Regulation

III. Implications & Conclusions

- Business Solutions
- Product Development
- Differentiation



I. Trends in Trade & International Business

- **Convergence**
- **Client Sophistication**
- **Geographic Shift**





CONVERGENCE

Key elements of trade & international business are integrating, overlapping, and converging to reshape the landscape of cross-border commerce...

- Trade development & investment promotion are increasingly seen as complementary
- Active traders from all segments are involved in both import and export business – ‘Integrative Trade’
- Domestic & international business are viewed holistically
- Trade and supply chain management are related business processes; ‘financial supply chain’ concept is mainstream



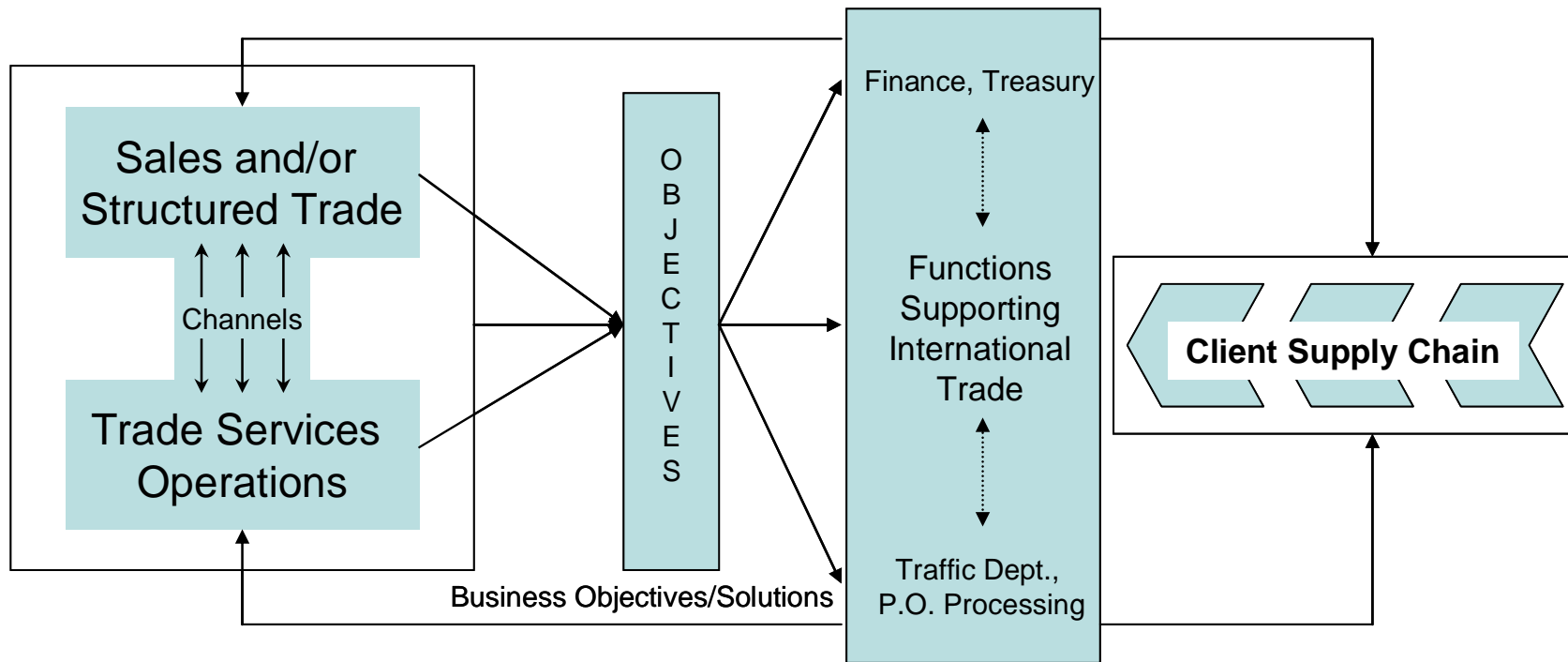


CONVERGENCE

Trade business requirements are motivating a more integrated product & service delivery approach

Trade Bank

Client Organization



Integrated Trade Finance Model

Channels for client information,
Internal communications and staffing

Service delivery based on client objectives
And business solutions

Holistic approach with broad access
to Client Organization





CLIENT SOPHISTICATION

As trade continues to be an engine of the global economy, clients are increasingly sophisticated about the business, and their expectations from service providers

- Customers are aware of/exercise leverage in shaping service delivery, product development
- Competitive pressures are translating into trade-related product & service delivery demands to bankers
- Large corporates value a commercial view and an efficient transaction processing capability
- The ability to offer attractive financing to trading partners is increasingly a competitive advantage, even among SME's





CLIENT SOPHISTICATION

A few selected comments/quotes from trade banking clients, to illustrate...

'We take a ten-year view of our trade banking relationships, assess the direction of the Bank and the compatibility of our value systems...'

'Open Account is increasingly important to us, but the products and services available simply do not meet our needs. Can we not develop a secondary market for these transactions, perhaps based upon Bills of Exchange?'

'We are in a highly competitive and volatile commodity business. If I have to operate 24/7 to meet the needs of my clients across the globe, my trade bank has to keep up'

'We are not interested in technology for its own sake. If the tool adds value, we will look at it, however, our processes in L/C transactions are optimized to the point where we prefer to use letters of credit than shift to Open Account, or some other option'





GEOGRAPHIC SHIFT

The shift in trade flows and trade-related growth is impacting business and trade banking, and will continue to be a key factor over the next decade

- Trade flows and trade banking needs are being shaped by the economic growth and trading power of China and India
- Growth and potential in South-South trade, across sectors and including SME's is a trend to watch
- The increasing role of 'multisourcing' will shape needs and requirements
- Emerging trade powers will leverage technology, leapfrogging legacy systems to devise leading-edge models





II. Trends in Trade Banking & Trade Finance

- **Consolidation & Integration**
- **Technology**
- **Regulation**





CONSOLIDATION & INTEGRATION

Consolidation in trade banking continues through sourcing arrangements; integration of product and service offerings is increasing

- Cost structures & P&L remain key in determining the position of trade, yet clarity is a challenge for many banks
- The trade business continues to consolidate through outsourcing
- In/outsourcing are increasingly viable based on market acceptance, maturity of the business model and IT enablement
- Product and service integration – trade, cash management, working capital optimization – is an increasingly common approach among leading banks
- Some move towards integrating trade and payments products
- Extension of trade service offerings beyond the historical range in a transaction

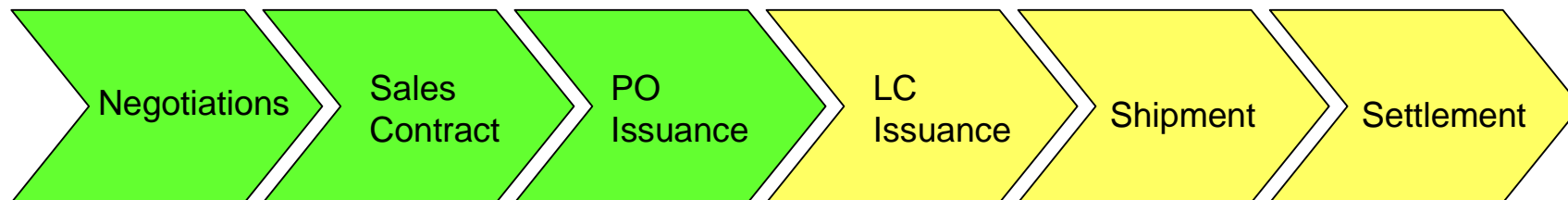
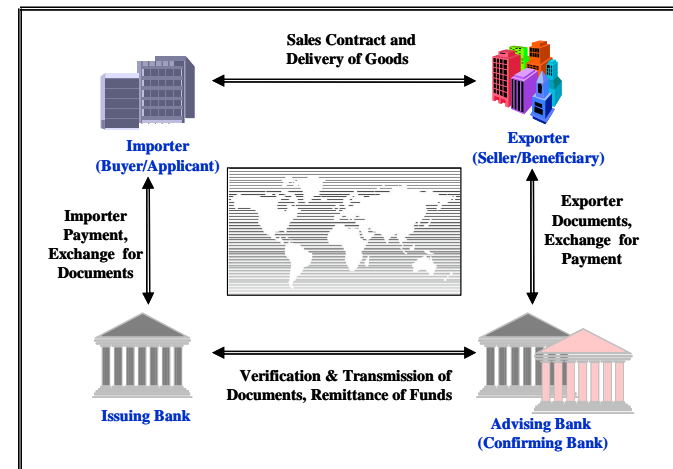




CONSOLIDATION & INTEGRATION

Tight margins, pressures on capital usage and the gradual shift to alternative trading approaches is motivating a realignment and extension of trade banking

Consolidation, integration and IT enablement, combined with evolving trade models, are providing opportunities for trade banks to become active in a wider range of activities across transactions.





TECHNOLOGY

Technology is a key enabler to trade and related processes, but its impact is still far below its potential

- Trade & IT: more E-evolution than a RE-evolution
- Networks and communities are playing key roles in re-shaping trade
- There is a general shift from 'replace' to 'complement' existing trade processes, capabilities & practices
- Effective IT needs to enable and inform: clarity on transaction status is increasingly valued





TECHNOLOGY

“Reports of my imminent demise have been greatly exaggerated”

- The Documentary Letter of Credit

- The L/C is still here, and continues to be a key tool in facilitating global trade, despite attempts to ‘virtualize’ its process through IT
- The rate of adoption of new trading models is relatively slow
- IT must prove its ability to enhance current processes, before it will be permitted to transform them
- Effective technology is not necessarily commercially viable; challenges in pricing/packaging new offerings remain common





REGULATION

*Trade banking is subject to significant regulation.
Does the business suffer from 'compliance mania'?*

- Regulatory & compliance requirements are everywhere; the reality of regulation can only increase in trade
- Limited understanding of trade is a key challenge in ensuring reasonable and equitable treatment
- Trade bankers will be challenged in balancing (necessary) compliance objectives, with the pursuit of profitable business
- Compliance and regulatory requirements will continue to involve significant cost and resources





REGULATION

“The only way we can be fully compliant today is to turn off the lights and close the door behind us as we close down the business and go home...”

There are numerous common challenges related to trade banking and regulation/compliance:

- Limited/lack of understanding of trade among auditors & compliance specialists
- Lack of clarity about the nature of transactions and their associated risk
- Limited communication and Management Information related to specific compliance issues

Tools, practices and processes which can illuminate the business of trade will help alleviate the challenge of compliance





III. Implications & Conclusions

- **Business Solutions**
- **Product Development**
- **Differentiation**
- **New Web-based Model**





BUSINESS SOLUTIONS

“We need a trade bank that is innovative, solution-oriented and responsive, and that looks at our relationship on a global basis...”

- High-value trade clients are looking for business solutions, not just processing factories
- Trade clients will increasingly challenge banks’ suggestions about adopting new IT solutions
- Solutions which provide clarity, rich-content reporting, multi-bank views of trade and of financial flows will be highly valued
- Capabilities which are bank-independent will be better received by larger corporates and multinationals





PRODUCT DEVELOPMENT

Dissatisfaction can be a precursor and a driver for change, or a state of grudging resignation. Trade clients are dissatisfied with the fundamental characteristics of trade banking...

- Responses to supply chain optimization requirements are very positive for trade banking
- Traders are actively looking for alternatives and are interested in a solution to Open Account
- Trade bankers must effectively communicate value, to ensure profitability
- Sophisticated clients can be a challenge, or the best possible partners in assisting with product development
- Solutions which offer flexibility, efficiency and clarity will be welcome in the trade finance market





DIFFERENTIATION

“You can deal with any trade bank you like, as long as it’s your primary account bank...”

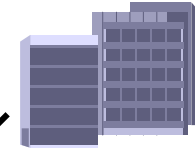
- Differentiated products/service delivery are critical in a commodity business, and will become increasingly key in trade banking
- Trade clients are increasingly aware of their options, and willing to ‘shop’ their business
- Non-bank providers will become serious providers of trade finance
- Initiatives which enable Banks to enhance their offering, while retaining control and differentiation options will provide maximum value





Conclusion

“The business of trade really is evolving, and the business of financing trade will HAVE to evolve with...”



**Importer
(Buyer/Applicant)**




**Exporter
(Seller/Beneficiary)**



Thank You.

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