

# A marriage made in heaven?

For the last decade, banks have taken various measures to integrate their cash and trade businesses, a move they say puts them in a stronger position to reduce risk in companies' financial supply chains and increase working capital. Intuitive logic, however, doesn't always win the day. It requires people to accept it, and some customers are not buying it.

In 2002, Dutch bank, ABN AMRO decided it didn't want to be a "me too" in the payments space. "At that time it wasn't a renowned payments bank," recalls Ann Cairns, managing director and head, Financial Industry Advisory Group, Alvarez and Marsal and former CEO of transaction banking at the Dutch Bank. (Cairns has since left her position at Alvarez and Marsal). "Upon my joining the bank, they were thinking of creating something that helped the client manage their working capital and we started thinking through what does that mean?"

ABN-AMRO's "light-bulb" moment came when it decided to combine its cash and trade businesses. "We started seeing trade as being in the same spectrum of the payment curve," explains Cairns. "Trade is a continuum where you may move from a letter of credit into a cash payment and if the client wants to control their risk they may decide

to use a trade instrument. A trade payment is more effective than a pure cash transaction. It has a lot of documentation to control risk inside the supply chain and if the supplier is confident about the person they are selling to, it quickly changes from a trade payment into a cash payment."

Alicia Vicente-Vega, group head, sales strategy, International Business & Market Management, Commerzbank, says it decided to bring cash and trade together from a sales perspective in 2004. It was an obvious decision for the bank, which has its roots in the trade business. "From the customer perspective, often when we were talking to treasurers, we could not separate the two [cash and trade]," says Vicente-Vega. "You can only survive as a bank if you think like this." When Dresdner joined Commerzbank in 2008, its cash and trade businesses were also integrated. "We trained

sales people to be able to do both so they were all-rounders," says Dirk Braun, specialist, sale strategy, cash management, Commerzbank.

Lars Millberg, head, Global Transaction Services (GTS), SEB Merchant Bank, had his epiphany about cash and trade when he switched from cash management to trade finance in early 2007. "I was doing the job for a couple of months and realised it was the same thing." For the last year-and-a-half, cash and trade have worked as combined business units under the GTS business line at SEB. Millberg says it means the bank is better placed to understand a company's entire working capital needs in terms of commercial payments and liquidity.

## Mistakes along the way

This is not plug and play, however. You don't just wake up one morning having been a trade banker

for the last 20 years and start talking cash management. It has been more of an evolution for most banks with some stops and starts along the way. When SEB first attempted to merge cash and trade 10 years ago, Millberg says it made the mistake of trying to make cash management responsible for both cash and trade. “There are few people in the world who can master the two. You need specialists – product specialists that sit together and when they work together the magic is created.” Alex Caviezel, regional executive, treasury services, EMEA, J.P. Morgan, says 10 years ago attempts to meld the two were fairly

“unsophisticated”. “At that point trade finance was of less interest. There was a lot more liquidity in the market and counterparty and bank risk was low down the pecking order. Some banks said trade finance was of no value to their core clients so they did away with it completely.” Little did they know that a financial crisis of epic proportions was coming their way and that it would help put trade back in the driving seat. “Today, trade finance has become an attractive lifeline to a lot of companies,” Caviezel explains. “All of a sudden, the cash management relationship discussion is more around how

do we take advantage of export-import programs?” Credit risk dynamics within the financial supply chain are also outside the domain of cash management but sit comfortably within areas such as trade finance, says Caviezel. Equally, with companies also focusing more on liquidity management, he says the proceeds of trade can be swept into a pooling structure. “There are all sorts of areas where trade feeds into cash,” he says. “This is a sweet spot for those banks that have integrated the two.”

#### When two became one

When banks they say they have integrated cash and trade, what do they mean? Are the two businesses integrated on both the front and the back end? In general they are talking about the customer-facing side of the business. Recalling her time at ABN AMRO, Cairns says, “The sales role became multi-disciplined but further back in the process it made sense to maintain trade experts and payment experts, as operationally you wanted a mix.” Amol Gupte, head of Treasury & Trade Solutions, North America, Citi Global Transaction Services, says a good example of how cash and trade can work well together is the partnership Citi

“We don’t participate in SCF programs. We have early payment discounts with customers but on a selective basis. We don’t require these services. What we need is cash management.”

Colin Talbot, CEVA Logistics





“Trade finance has become an attractive lifeline to a lot of companies. All of a sudden, the discussion is more around how do we take advantage of export-import programs?”

Alex Caviezel, J.P. Morgan

recently announced with Syncada to develop a financial supply chain accounts payable solution for companies in the transport and logistics sector. “That is being driven by my cards and trade heads,” says Gupte. “We wouldn’t have been able to do that if they hadn’t been working together.”

Vicente-Vega says it is important to maintain specialist know-how when it comes to exotic solutions such as structured export trade finance. Training also plays a big part in determining how successful banks are. Braun of Commerzbank says training is ongoing as “the mindset between cash and trade is different”. Some banks acknowledged that the execution can be more difficult than the idea itself. It entails not only a lot of training, but also some attrition. Another way of ensuring cash and trade work more closely together is to align it with remuneration. Markus Wohlgeschaffen, head of Global Trade Finance & Services, UniCredit, says the overall cross-selling success rate between cash and trade is surely a key factor to be considered in terms of incentives and bonus determination. Nancy Atkinson, senior analyst, Aite Group says [cash and trade] are definitely becoming closer but it is not seamless as trade finance still requires

a particular level of expertise. On the back end, she says much more integration is needed for data mining purposes, particularly in terms of capturing data that can be used by banks for dynamic discounting or supply chain finance (SCF).

With cash and trade more closely aligned, many banks believe they are well placed to help companies reduce

risk in their financial supply chain and gain greater visibility and control over their working capital. “It is about making customers more aware of looking at their supply chain and where there are traps and triggers for working capital optimisation,” says Wohlgeschaffen. “The idea is to anticipate what the customer will ask us next by analysing their business activity. They may ask for a specific solution, but we will

## Reducing exposure to volatile copper prices

“In the last five years I have had no one coming to me from a bank, saying they want to do a proper analysis of my order-to-cash cycle,” says PierPaolo Di Fabio, group finance director, for Italy’s KME Group, which is one of Europe’s largest semi-finished producers of copper and copper alloys with annual revenues of EUR 3 billion.

Back in 2006 when he wanted a solution that exposed less of his balance sheet to volatile copper prices and freed up capital to buy more copper, he says the banks had little to offer. “In 2006 the company was financed by the same bank using a traditional corporate revolving loan. Nobody, not even the banks, looked at the company as being exposed to volatility in copper prices.”

Di Fabio wanted someone to finance his inventory (copper) from the moment he bought it to the moment he sold to the customer, reducing his risk and enabling him to generate more cash. “There was

not a single financial institution that was willing to buy the inventory or to manage our customer list of 10,000 customers.” Di Fabio opted for a compromise solution that was partially off balance sheet and combined inventory financing and factoring. The inventory financing was provided by a bank’s pool and the factoring by GE Capital (see box page 36). “Usually, back in 2006, banks just wanted to sell us the easy stuff – a corporate revolving loan – without looking at our group cash cycle,” says Di Fabio.

Today, he says there are certainly more European banks that propose asset-based lending and some factoring, however, they struggle to provide multi-jurisdiction solutions. “When a bank offers you a solution structured by them they usually do not tailor it to your cash cycle so you need, sometimes, to adapt to the structure,” he says. “They are trying to create a standard product and sell it massively. They are not flexible enough.”

say, ‘have you taken into consideration your inventories and are you aware that in comparison to your peers you are lagging in these areas?’” Solutions such as supply chain finance have come to embody this marriage between cash and trade. “First we had cash and trade integration, now it is supply chain finance,” says Alexander Malaket, president of OPUS Advisory Services. “Some of the leading players are doing some big dollar business in supply chain finance as some of the more traditional products are dwindling.”

Supply chain financing can give companies that are cash rich a higher return than if they placed it in a corporate deposit, says Brian Shanahan, senior director, REL Consultancy, which advises companies on working capital management. However, there are numerous obstacles to overcome for SCF to work. The challenge for the banks, says Shanahan, is whom do they sell to? “The treasurer doesn’t run the company, so they may take a solution but they cannot ensure it will be implemented in a big way. If it is CFO-led it is more likely to be successful, but in general there

are many other things for the CFO to focus on when it comes to working capital.” Not all treasurers see the value of combining cash and trade. A survey *financial-i* conducted of corporate treasurers globally about how they value different transaction banking services, showed that treasurers placed a higher value on cash, payments, collections and liquidity management solutions and said they wouldn’t be willing to pay over existing rates for services in trade, but would pay 5% over listed rates for cash and liquidity management solutions.

Colin Talbot, director, treasury operations, CEVA Logistics, says in the last six months he has received more visits from banks saying they have integrated cash and trade. However, he adds, what the banks are offering is nothing really new. “It hasn’t made a lot of different to us. We are optimising our cash globally by having better credit terms and using bank guarantees to extend terms. We don’t do factoring and if we did our CFO would prefer to do it internally rather than go through a bank, as the banks would charge us for that. We don’t participate in SCF programs. We have early payment discounts with

customers but on a selective basis. We don’t require these services. What we need is cash management.” Wohlgeschaffen says if banks explain the advantages of looking at cash and trade across the entire supply chain in terms of improved liquidity by means of concrete tangible figures, then treasurers are more likely to listen.

But Talbot’s comments suggest it is more about the banks wanting to sell a mix of solutions to companies rather than corporates actually asking for them. “It’s not about selling individual, or specific products,” asserts Chris Bozek, global trade and supply chain product head, Bank of America Merrill Lynch. “It is about the treasury and trade sales team and client managers consistently putting themselves in the shoes of that client and thinking in terms of working capital optimisation. Banks need to fully understand how their clients are conducting business.” Gupte of Citi maintains that cash and trade is about having a conversation that is richer than an individual product. “Yes I am selling them more products, but not all clients are going to buy the entire spectrum. They will take pieces of

“ We trained sales people to be able to do both so they were all-rounders. Training is ongoing, as the mindset between cash and trade is different.”

Dirk Braun, Commerzbank





“There are few people in the world who can master the two. You need specialists – product specialists that sit together and when they work together the magic is created.”

Lars Millberg, SEB Merchant Bank

it, which are important to them – a cards program, receivables financing. You are selling them a long-term product vision, and it doesn't always have to be with one bank. It's about the bank being seen as a trusted advisor.”

One cannot ignore, however, the underlying forces at work that are forcing banks to have this deeper conversation with their customers. While some payment services have become commoditised, Bozek of BoAML points out the opportunity for banks to “create value beyond that payment event”. Trade has also

changed. With more than 80% now conducted on open account, banks need to move with their clients by giving them a set of comprehensive solutions, which makes the cost of switching banks, higher.

But do banks really understand all the complexities of a company's financial supply chain (*see box page 34*)? And how do they gauge the success of this combined approach? If they get it right, there are obvious balance sheet benefits in terms of fee income and the ratio of product usage. Wohlgeschaffen says the true measure of success is the ability to

act as a strategic banking partner that understands, anticipates and satisfies customers' needs. The savings for clients are more difficult to quantify. “It depends if clients are efficient in managing their working capital,” says Gupte of Citi. “Where they are efficient, the percentage of value we can deliver is higher.” Millberg of SEB is more pragmatic about how far the bank's experiment with cash and trade has come. Citing Winston Churchill: “This is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning,” Millberg says, “People need time, but we are not in a rush.” //

## GE Capital – An alternative approach to working capital management

In 2006, when PierPaolo Di Fabio, of Italy's KME Group, which is one of Europe's largest semi-finished producers of copper and copper alloys, was looking to sell his receivables, he turned to the financing arm of industrial giant, GE. GE Capital provided a non-recourse factoring line to KME. “At the time, GE Capital were the only ones able to provide the solution,” says Di Fabio. “They are perhaps better placed because internally they have their own industrial group which they fund.”

“We're not a bank – we understand industry dynamics and the financial characteristics of customers,” says John Nelson, commercial leader, Lending, GE Capital. With the period

of “unlimited capital” coming to an end in the wake of the 2008 financial crisis, Nelson says alternative forms of financing such as invoice discounting and inventory finance are becoming increasingly attractive.

Geoff Healey, commercial leader, EMEA, GE Capital Commercial Distribution Finance, says they look to understand a company's business in more detail. “Manufacturers want a financing company that understands their industry, product lifecycle and the value of the product they sell,” he explains. “We look at the management team, their strengths and weaknesses. It's not just what's sitting on the P&L. How many trade cycles have they been through and survived? It is about bespoke

solutions rather than standardised banking products.”

But surely bespoke solutions cost more? Healey says distribution finance may be more expensive but having access to cash means companies can invest in something that could earn them a higher margin or early payment discounts. “At the time people were saying to me, why are you selling your receivables, isn't that more expensive? I said it was a committed line because it is my main financing. When I sell my receivables I have zero risk. It is important for my shareholders that I generate riskless cash and not raise debt to finance investments, which is more important than the number of basis points I am paying,” says Di Fabio.