

SIBOS TALKS TRADE

Liz Salecka talks to senior trade executives about the key themes that emerged at Sibos 2012, and discusses some of the latest initiatives in trade finance.

The implications of increased financial services regulation, and Basel III in particular, have dominated Sibos in recent years and the 2012 convention held in Osaka, Japan proved no exception.

Of particular importance this year were the strategies banks now need to meet a plethora of regulations from Basel III to Dodd Frank and Fatca, as well as varied global, regional and national requirements. Notwithstanding this, the impact of tougher regulations on banks operating in the trade finance space also came under the spotlight.

“Regulation is at the top of the agenda, along with compliance and anti-money laundering (AML), particularly in relation to the cost of meeting these new

regulations,” comments Jeremy Shaw, head of trade finance for Emea at JP Morgan. “One thing that has come out this year is that banks are looking closely at the regulatory environment, and some banks are assessing whether trade is still a business line for them or whether they need to review their provision of trade finance.”

However, some delegates stressed that banks are starting to see the light at the end of the tunnel.

“Over the last 12 months, we have seen a real tangible move forward in many areas of Basel III and there has been a lot of feedback on taking a more sensible approach to trade finance on the EU side,” says Tan Kah Chye, global head of trade and working capital at Barclays. “We have had more constructive discussions on the fourth capital requirements directive, which show that regulators are listening to

feedback from both banks and corporates on what a suitable capital structure is.”

The ascendancy of Asia in global commerce also dominated much of the conference debate in Osaka, with banks examining how they can capture more business through collaborative models and product innovation.

Swift hosted a number of sessions on improving efficiencies in traditional letter of credit-based trade, as well as the role of the bank payment obligation (BPO) in reducing the time needed to convert trade to cash in both global and intra-Asian commerce.

The trade-related debate started with a briefing from the International Chamber of Commerce on the new uniform rules for the bank payment obligation (URBPO), which will be made available in 2013.

“The BPO is a key theme – and

justifiably so because it is a potential game-changer that will drive efficiencies for buyers, suppliers and banks. Any time that you can replace documents with data, you increase efficiency and reduce costs,” comments Chris Bozek, managing director, global trade and supply chain product head at Bank of America Merrill Lynch (BofAML).

JP Morgan’s Shaw adds: “The BPO will link counterparties electronically and automate the entire process while mitigating risks. It offers the opportunity to add financing to an open account transaction, so there are a lot of positives.”

Some questions, nevertheless, remained over the timescales involved in achieving widespread adoption of the BPO.

“The BPO is still in its very early stages, and we need to formally clarify its capital treatment, legal treatment and the rules governing use of the BPO. Letters of credit have been around for a long time, and there are clear rules as to how counterparties deal with each other in letter of credit-based transactions,” says Adnan Ghani, head of transaction services origination, UK at Royal Bank of Scotland.

He nevertheless says that the BPO is expected to develop and fill a niche between open account and letter of credit-based transactions.

“One challenge banks face is how they can add value in the open account space – and the BPO can do this by helping clients to mitigate the risks involved. Trade banks need to offer more solutions in the open account space, and the BPO does fit in here as an option for clients who do not want to pay for full mitigation of risk.”

“The BPO will add value, but it will not replace letters of credit or open account trade,” says Tan at Barclays, who also believes that widespread adoption of the BPO may prove a long journey. “We are



seeing lots of multi-national corporations (MNC’s) demonstrate thought-leadership here, and they are helping to push the BPO forward. MNCs will get the ball rolling, and then over time, they are expected to bring in their mid-market and SME suppliers.”

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► Tan Kah Chye, Barclays

The rise of the Rmb

In line with Asia’s growth as a global trading power, Sibos also examined the internationalisation of China’s renminbi (Rmb) and its future as a trade settlement currency. The conference heard that more than 1,000 financial institutions in over

90 countries are already doing business in Rmb. According to Swift, it is now the world’s 14th most used payments currency and third largest for trade letters of credit.

“Rmb trade deservedly has a strong focus as it is seeing double-digit growth worldwide,” says Bozek at BofAML. “Rmb trade settlement is now taking off in Europe and LatAm – specifically in Brazil. As more new products become available, and regulations permit, Rmb settlement will only increase.”

“While the actual level of trade transactions settled in Rmb is still relatively low, we have to remember that 26% of the world’s manufacturing capacity is in China, and that China has a strong political desire to internationalise the Rmb,” adds Ghani. “We will continue to see the Rmb’s strong growth to become a leading trade settlement currency. This is unlikely to happen in just five years; but in 20 years, the situation may be quite different.”

Next-generation solutions

This year’s Sibos also placed a strong emphasis on the need for banks to develop next-generation transaction banking business models to meet corporates’ increasingly sophisticated needs.

According to Ghani at RBS, banks now need to focus on the provision of holistic solutions which combine multiple products.

At the event, RBS demonstrated its new GlobalXChange solution, which brings together the bank’s capabilities in foreign exchange, payments and cash in a single, integrated offering, enabling corporates to combine their international cash flows with their foreign exchange requirements.

Meanwhile, Deutsche Bank announced



that it was making its FX4Cash solution, which combines foreign exchange and payments capabilities, available in Malaysia and Thailand. The solution provides corporates with access to 125 currencies through a single platform, enabling them to manage cross-border, cross-currency payments via one base currency account. Most recently, the bank has added Rmb to the platform to meet growing demand for Rmb cross-border trade settlement.

The importance of converged solutions was also emphasised by BofAML, which was highlighting Trade Pro®, a new global trade portal, which is available through CashPro® Online – the bank's treasury management and online banking channel – and offers an integrated view of treasury and trade functions. The solution was enhanced shortly before Sibos with the addition of a module for supply chain finance – Trade Pro SCF – to help buyers and their suppliers manage their cashflows.

“Whether the focus is on information

access, letters of credit or on payments processing, corporate clients demand end-to-end treasury and trade visibility via a mobile interface or desktop,” says Bozek, adding that BofAML now plans further launches in the mobile space. “We are now leveraging on our Cash Pro mobile access solutions to deliver the same for trade and supply chain.”

Meeting global demand for trade and SCF

The growth in demand for both trade and supply chain finance also came under the spotlight at Sibos 2012 with discussions on the need for banks to enter partnerships, which enable them to share risks as well as ensure the availability of funding.

In line with this, Citi and the International Finance Corporation (IFC) announced a 50:50 US\$1bn risk-sharing facility to stimulate trade growth in emerging markets, following on from a similar facility they both signed in October 2009. Citi plans to

use the funding to originate trade finance transactions in Africa, Asia, Central and Eastern Europe, LatAm and the Middle East by enabling bank clients to extend financing to local importers and exporters over the next three years.

“CORPORATE CLIENTS DEMAND END-TO-END TREASURY AND TRADE VISIBILITY VIA A MOBILE INTERFACE OR DESKTOP.”

▶ Chris Bozek, Bank of America Merrill Lynch

“We look forward to continuing our partnerships with banks, corporations and the public sector across the emerging markets to continue to stimulate global trade,” says Naveed Sultan, global head

Mobile cash and trade

Given the radical changes taking place in the global payments landscape today, it was inevitable that Sibos 2012 would place a strong focus on the provision of payment services in an increasingly standardised and regulated environment – as well as consider new opportunities in mobile payments.

“Mobile payments are likely to become an important part of the equation when it comes to replacing physical cash with electronic cash. Mobile technology can be used to pay suppliers and collect monies from customers,” comments Standard Chartered's global head of product, transaction banking, George Nast. “On the corporate side, there is the potential to see greater use of mobile technology as a collections instrument.”

However, the conference also heard about productivity and efficiency benefits that the secure use of mobile solutions can bring to both corporate treasurers and trade managers.

“There is another side to mobile technology which involves the delivery of information to chief financial officers and treasurers,” says Nast. “The whole experience of using a mobile device has changed. We can expect a trend towards the greater use of mobile devices for cash management as treasurers get more comfortable with using mobile devices



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▶ George Nast, Standard Chartered

in a secured fashion.”

At Sibos Standard Chartered illustrated the latest version of its remote payment and trade transaction authorisation app – Straight2Bank Mobile – which has been enhanced to provide corporates with greater efficiencies in working capital management.

The solution now offers improved cashflow forecasting and allows treasurers to review their transaction history, operating loans and deposits and third party bank account balances. It also offers capabilities to keep up-to-date with the latest utilisation of trade limits, guarantee statuses, and letters of credit and bills due.

However, Nast notes that the extent to which corporate executives will use mobile devices for trade finance activities is still debatable.

“The use of mobile devices in the trade space will inevitably prove more limited as this is still a document-intensive process,” he says, but adds: “One thing that might change this is the increased adoption of the BPO. The BPO is taking the need for documents out of trade and turning it into an electronic process of data matching – this is what's needed first.”

“Over the next five years, we will see the industry building more mobile applications for trade,” adds Tan Kah Chye, global head of trade and working capital at Barclays, pointing out that mobile solutions represent a key area of investment for the bank. “Screens are getting larger, and the use of iPads, which enable treasurers and other senior executives to view shipping and other documents and organise them in an efficient manner, is growing.

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of treasury and trade solutions business at Citi. The need for multi-bank arrangements to meet demand for ever-larger, global supply chain finance programmes also featured prominently, as did the need to attract alternative investors.

“We are seeing more collaboration between banks, as they recognise that they need to work together from both a risk management and a balance sheet funding perspective.”

This is being driven as much by need as the realisation that they do not want to have an oversized position to one client,” says JP Morgan’s Shaw, adding: “It has also become apparent that there are huge amounts of liquidity that can be brought into trade finance from other sources and that banks need to create tradable assets that will attract these alternative investors.”

Bozek adds: “In response to meeting client demands for growing programmes, banks must continue to expand risk distribution capabilities – both with other banks and non-FIs such as pension funds and insurance companies.”

Meanwhile, Tan points out that the last 12 months have seen much greater

interest from alternative investors in trade finance assets. “Hedge funds, pension funds and other non-bank investors are coming in because they realise that trade is a high-quality asset class,” he says.

“WE ARE SEEING MORE COLLABORATION BETWEEN BANKS.”

► Naveed Sultan, Citi

Despite recent attention on e-invoicing, and the potential role it can play in supply chain finance programmes by fully automating processes, this generated little debate at this year’s event – although its absence was noted.

“It is a matter of priorities, and e-invoicing may just not be at the top of the agenda right now. The Single Euro Payments Area (SEPA) deadline is just around the corner, whereas the movement towards e-invoicing is expected to take a long time,” says Ghani, noting that

RBS, in line with its holistic approach is currently discussing internally how supply chain finance payments and e-invoicing can be combined.

Meanwhile, George Nast, global head of product, transaction banking at Standard Chartered points out that one of the biggest issues surrounding e-invoicing is that there are no global standards governing its use. Fragmentation of the e-invoicing market is, hence, the biggest obstacle to mass take-up. “We have to create global standards before we can go fully electronic,” he says. “The provision of supply chain finance can act as an incentive in the sense that a large buyer can get its suppliers to move to e-invoicing by offering them easier access to earlier finance. However, supply chain finance is only one small part of the market.”

“There are a lot of software companies that are in a very strong position to offer e-invoicing,” adds Tan, pointing out that e-invoicing and supply chain finance do not have to be offered by the same organisation. “I think that in the future, we will see banks work in a more collaborative manner with other service providers.” GTR

The changing face of IT providers

Banks’ focus on the provision of holistic solutions to corporate clients has had its own implications for the financial technology sector, which is now witnessing greater industry consolidation as IT software and services companies seek to expand their own solution sets.

This year’s Sibos saw executives from leading Canadian trade finance solutions provider CGI and business and technology services company Logica join forces to demonstrate the benefits of their combined organisation, following CGI’s C\$2.8bn acquisition of the European company in August.

The latest deal follows the post-merger integration of Fundtech, a global provider of payment, cash management and financial supply chain software and services, with banking and payment solutions company BankServ, as well as Misys’ announcement of a new integrated solution strategy following its merger with trading and risk management software company Turaz.

“If you look at this from a broader perspective, we are seeing greater consolidation in our industry – much of which is being driven by market dynamics.



“WITH TODAY’S GLOBAL TRANSACTION BANKING MODEL, BANKS ARE LOOKING TO OBTAIN MORE PIECES, INCLUDING PAYMENTS, FROM ONE VENDOR.”

► Lode Snykers, CGI

There is a pressure on IT companies to expand their geographic presence,” says Frank Tezzi, vice-president of trade and supply chain solutions at CGI. “With today’s global transaction banking model, banks are looking to obtain more pieces, including payments, from one vendor.”

CGI’s acquisition of Logica has created a global provider of collections, trade finance, payments, foreign exchange, wealth management and risk and regulation solutions, active in five continents.

For CGI, which is best known for its trade and supply chain finance solution Trade360, the deal has boosted its capabilities in corporate banking,

particularly payments.

“Logica is very active in the payments space and with SEPA, which has major implications for transaction banks,” says Lode Snykers, global industry lead, financial services at CGI, who joined the combined group from Logica. “We are working with several European banks on SEPA, and are assisting them to reach out to corporates and ensure that they have SEPA in place to meet the EC deadline of 2014.”

He adds: “We are currently in the middle of looking at the strengths of the different offerings on both sides of our portfolio, and how we can revisit them to build a stronger value proposition for our clients.”