Strength in the face of adversity: Banks working with corporates to pursue new opportunities

The current environment is compelling transaction banks to re-examine client relationships, improve efficiency and step up innovation to remain competitive. Despite the impetus, it's good news for corporates – as *Luca Corsini*, Global Head of Trade Finance at UniCredit and new Global GTB Co-Head starting from August, explains – with benefits including fairer pricing, increased digitalisation, and new client-centric solutions based on their specific needs.

The challenges facing trade finance have been well documented – and they are upping the pressure on banks. In general, the continued shift from documentary trade to open account transactions is limiting some banks' involvement in global trade flows. Increased scrutiny from regulators, meanwhile, inevitably means higher costs, while a volatile macro-economic environment also poses concerns, with many regions that could previously boast of strong trade finance demand now struggling.

These trends are all affecting the number of projects undertaken involving trade finance, prompting banks to continue to drive internal efficiencies, improve service models and develop new, client-centric solutions through a holistic, collaborative, approach. Indeed, almost counter-intuitively, one segment that stands to gain from the current state of global trade is corporates – who will enjoy the advantages of increased digitalisation, fairer pricing, and innovative bank-fintech solutions based on their specific needs.

Regulatory pressures spark new service models

Chief among the drivers of change is regulation. For instance, Basel's risk-weighted asset (RWA) capital requirements are encouraging some banks to re-assess their trade finance service models. The Basel accord allows banks to use an Internal Ratings Based (IRB) approach to model RWA and the associated capital requirements. However, a lack of historical and performance data – nominally used to validate the risk attributes of trade finance – mean these internal models do not currently reflect trade finance's low-risk nature, even though market prices do.

As trade finance entails higher capital consumption and generates relatively small amounts of correlative revenue, RWA considerations are causing some banks to consider either diverting capital to other financial instruments, stopping trade lending altogether, or increasing the cost of providing trade products to customers. However, much of this depends on how the bank views its trade finance services. If trade finance is seen as a relationship-based offering that brings corporate clients into the bank's portfolio, low returns may well be deemed acceptable. However, if trade finance is seen as a standalone product, it will be subject to an increasing level of scrutiny as a revenue driver.

Consequently, RWA-modelling concerns are contributing to the wider trend of compliance driving transaction bank efficiency. It's a topic that has been explored extensively, but one consequence that has been largely overlooked is how banks are re-examining the way they serve clients. For example, many banks are looking to stratify their clients – across geographical and industry lines, for example, or potentially into brackets more familiar to consumer banking customers, such as "platinum" or "gold". Deciding whether to offer solutions to all clients, or to tailor the level of service depending on the importance of that client relationship will become a key consideration – as will pricing.

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> **Luca Corsini,** UniCredit

Meanwhile, new banks may move into the trade finance space and increase competition, but we may also see less competition, or competition in different segments. From the perspective of the corporate, much of this is good news – more tailored services at more competitive prices could be just around the corner – but they should consider their strategies carefully. For instance, distributing their trade finance needs across multiple banks as a "bronze" client won't bring same the level of service as, say, concentrating on a few banks as a "platinum" client where more attention and higher quality services will be on offer.

Doubling down on digital

Refining service models, of course, is just one means of driving efficiency – and banks are pursuing other avenues too, including simplifying processes through greater digitalisation. Beyond headline-making initiatives on cutting-edge technologies, banks are looking both to discover new technologies, such as blockchain, and rediscover others – the Bank Payment Obligation (BPO), for instance – in order to find an efficient way of serving clients' standard needs. This would mean rolling out digital services to a wider range of clients – effectively assembling a digital toolbox for carrying out routine business with greater efficiency.

We may see this in parallel with the stratification of clients mentioned above – with standardised digital products a cost-effective, yet compelling way of serving clients outside the premium bracket. Again, this is good news for corporates – promising greater access to cutting-edge digital products and more streamlined services, at lower prices.

The fintech question

In order to bring the most effective digital solutions to their corporate clients, transaction banks are increasingly turning to collaboration with fintechs. And while some still fear that fintechs will challenge the status quo in trade finance, it seems more likely that they will struggle to step into banks' shoes – not least due to the risk appetite and tailoring required.

However, there looks to be a great deal of potential in bank-fintech collaboration, with technology enabling multiple businesses to connect with multiple banks – and even outside investors – to create innovative financing solutions. Transaction banks are well placed to advise corporates here – drawing on their extensive market knowledge to assess where the most promising opportunities lie. Certainly, this is something we are experiencing more and more at UniCredit, with clients asking us to share our experience of fintechs. Our general assessment is that there is excellent scope for profitable partnerships.

A holistic approach

These collaborative bank-fintech ventures are particularly visible in the supply chain finance space, especially as corporates increasingly look to align their sales and procurement departments with the treasury. A key upshot of this is that these departments – and their businesses as a whole – are increasingly concerned with ensuring robust and healthy supply chains.

At the same time, banks are also working to reflect this change by becoming more holistic in their own offerings. Indeed, the growing use of supply chain finance is demonstrative of banks' increasingly holistic approach – leading supply chain finance away from a siloed product offering within the bank to a more open, collaborative model where technology specialists make significant contributions. Through collaboration with third-party technology providers, banks are beginning to bundle together products and features such as factoring, securitisation and supply chain finance, to deliver a comprehensive solution to their clients. One example is UniCredit's recent co-operation with fintech CRX Markets, where the two parties came together to offer a unique, cutting-edge solution to one of UniCredit's existing clients – catering for all its supply chain finance requirements, regardless of its liquidity situation. At UniCredit, we see this type of co-operation – based on client problems and powered by bank expertise and fintech innovation – as the way forward, offering clients solutions above and beyond what the bank alone can provide. Consequently, UniCredit is actively pursuing further fruitful collaborations.

It is through initiatives such as these that banks can continue to improve their services, even in the face of external pressures. For corporates – who may mistakenly see current headwinds as presage of a bleak future – this is the best of news. Trade finance has long been known as a resilient sector – and, through rigorous internal organisation, applied digital efficiencies, and ambitious fintech collaborations, banks can once more turn a challenging situation to the advantage of all.