

Trade finance collaboration set to step up in the year ahead



Adeline de Metz, Global Co-Head of Trade Finance at UniCredit, looks back at the trends that emerged in 2017 and takes a view on the year ahead. Notably, there is a resurgent appetite for growth among banks, as they join forces with other industry players to bring cutting-edge solutions to the market in order to meet ever more demanding client needs.

With 2017 now behind us, it's time to reflect on how the trade finance industry has developed over the past year, and to look ahead to consider what 2018 has in store. Firstly, there's a real sense that banks are redoubling their focus on growth after a period of caution marked by regulatory and compliance concerns such as anti-money laundering and know-your-customer requirements. With this spirit of growth returning, banks are actively developing new solutions, a trend that looks set to continue in 2018 – with collaborative efforts featuring increasingly prominently. Supply chain finance is one area set to continue reaping the rewards of industry co-operation – thereby helping to mediate the growing number of trades settled under open account terms – while SMEs are also set to benefit from upcoming blockchain advances.

Supply chain finance allays open account concerns

The shift from traditional documentary trade to open account transactions continued unabated in 2017. Traditional instruments such as letters of credit still have their place, of course – particularly for corporates trading in high-risk geographies – yet the popularity of open account for cross-border trade continues to grow. Europe, for instance, sees 80% of all cross-border transactions conducted via open account. Despite the simplicity and lower costs of open account trade, however, increased counterparty risk and reduced access to credit remain worries. Supply chain finance programmes – currently growing in popularity and sophistication – help solve both problems. Suppliers are not only guaranteed payment, but are paid early, and they can leverage the strong credit rating of buyers to access credit at better rates than before. There are also benefits for buyers, particularly from a working capital perspective – a good programme can strengthen supply chains and supplier relationships, while enabling the buyer to improve Days Payable Outstanding (DPO) by negotiating longer payment terms. Buyer-funded programmes can also represent a good use of surplus cash in the current climate of negative rates.

The field is also innovating rapidly. Buyer-centric solutions that are usually reserved for larger businesses

are now evolving to bring in smaller buyers. Similarly, supply chain finance programmes used to support just a few of the largest suppliers, but solutions are now on the market serving many more suppliers, including smaller businesses, across a wider range of geographies. Joint supply chain finance solutions offered by banks and fintechs are also set to feature prominently in 2018. UniCredit has worked with a number of fintechs to offer innovative supply chain finance solutions, ranging from digital portals that auction approved supplier receivables, to those that are able to quickly onboard suppliers anywhere in the world. This is



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an important development, as problems with supplier onboarding can often limit the success of supply chain finance programmes, with many suppliers put off by a lack of automation and overly complex documentation. As awareness and availability of this kind of solution grows, so will the number of supply chain finance users.

Blockchain to boost European trade

In Europe, another way that banks are looking to support corporates with open account trade is we.trade, previously known as Digital Trade Chain. Developed by UniCredit in partnership with seven other banks, we.trade is a digital platform that uses distributed ledger technology and smart contracts to help European SMEs access trade finance. The platform connects all trading parties and registers the full, end-to-end trading process – making it fully transparent. It is also fully automated – accelerating the order-to-settlement process – and should ultimately boost trade throughout the continent.

Looking ahead to 2018, there is now a roadmap for full deployment of the platform. The first test will go live in February, followed by full deployment

in the summer, when UniCredit will run a pilot in Italy and Germany. Given this timeline, we.trade is set to be one of the first commercially viable blockchain solutions in the industry.

Industry collaboration fuelling progress

The most promising solutions we are seeing all have something in common: they are the result of industry players working together to solve client problems at a new scale or level of sophistication. Last year saw the “competition versus collaboration” question debated almost ad nauseam. Yet as we enter 2018, the

question is largely settled, with bank-fintech collaboration emerging as a valuable way to ensure client needs are met in full.

Yet the manner in which banks and fintechs collaborate is also important. Rather than leaving corporates to search independently for their fintech and bank partners – which may raise issues around funding and lead to clashes of approach – banks and fintechs should work together as part of a collaborative “ecosystem” where both sides can ensure they can co-operate from an operational point of view. Working together and drawing on past experiences, banks and fintechs can proactively approach clients with ideas, or involve them early in the development of joint solutions in order to match their requirements precisely.

UniCredit favours this collaborative approach and we continue to monitor the fintech landscape for opportunities. Furthermore, we believe this culture of co-operation may well be the dominant theme of 2018. Shared resources, complementary capabilities, and different viewpoints all enable digital innovation to be executed more effectively – creating something bigger and better than one organisation could working alone.