# Singapore banks unite to grow secondary market for trade finance

**Trade finance is beginning to undergo a potentially dramatic transformation of its secondary market. It's an innovation that will have positive knock-on effects for the entire industry, write *Holger Frank*, head of global transaction banking (GTB) and financial institutions group (FIG), Asia Pacific, and *Siow Chin Yeo* head of trade finance, Asia Pacific, at UniCredit.**

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The zeal for digitalisation has reached new peaks in recent years – and transaction banking has been no exception. Yet even as financial institutions embark upon ambitious digitalisation programmes, the field of trade finance – perhaps the most fundamental of all banking services – still remains largely reliant on paper-intensive processes.

You'll have heard this narrative before – but perhaps not for much longer. Innovations such as the bank payment obligation (BPO) are now live in many markets, while a number of highly promising blockchain solutions are in development. Meanwhile, banks are drawing together to address the current lack of an efficient and common secondary-market platform for trade finance, with plans for a digitalised marketplace that will drastically increase the speed, efficiency and transparency of reselling trade finance contracts – in turn increasing banks' capacity to lend in all geographies and sectors.

## Digitalising the secondary market

The movement to create a full digital infrastructure for buying and selling trade finance contracts took root in Singapore, where former ICC Banking Commission head Kah Chye Tan created Capital & Credit Risk Manager (CCRManager) – an online platform that enables trade finance providers to offer and sell their contracts to a wide range of investors quickly and simply – in a bid to improve the way trade finance works on a fundamental level.

To help him effect such essential structural changes, he enlisted funding from the Monetary Authority of Singapore and engaged banks from all over the world. At UniCredit, we are proud to number among the pilot banks for the project – using our established presence in Singapore and unique European footprint to help provide global coverage.

It's not just banks that will benefit from this innovation, however. The knock-on effect in the primary market promises to be significant – increasing banks' capacity to provide better support and additional solutions to their clients, even in geographies or industries where their risk appetite has already been exhausted.

**Holger Frank**, UniCredit

**Siow Chin Yeo**, UniCredit

**+ The project stands to transform trade finance debt into a fully-fledged asset class. +**

Of course, securing buy-in from global banks is no small challenge – not least because innovation budgets are limited and expectations are sky high. Selecting the right projects to invest in is therefore crucial. At the same time, banks must also be prepared to work within tight regulatory confines – increasing the pressure on the solution to hold serious promise. Nonetheless, CCRManager stands out for its potential to address two of the pre-eminent issues restraining trade finance: lagging digitalisation and opaque secondary market activity.

## An industry revitalised

Indeed, the benefits of CCRManager are legion. By providing a simple and efficient digital platform for selling trade finance contracts, the project stands to transform trade finance debt into a fully-fledged asset class. In doing so, it will open up trade finance to a whole new swathe of investors, such as asset managers and insurance companies – with many likely to be tempted by its famously low default rates.

What's more, the platform will drastically increase the number of transactions existing secondary market investors engage in – incentivised by easier handling, unprecedented pricing transparency and a growing repository of historical bid, offer and deal data.

As new investors flock in, and existing investors ramp up their participation, the number of bids on each contract will increase significantly – making the entire market more liquid. There is even potential, as a next step, to establish central counterparties (CCPs) in order to minimise the number of partners each participant has to deal with directly and thereby reduce counterparty, operational and legal risks.

At UniCredit, we see this as an a invaluable tool that can help us increase the volume of trade finance business we take on – while simultaneously making existing secondary-market processes significantly quicker, safer and more transparent.

For example, if a client wants support with a Tunisian partner, but its bank's risk appetite for Tunisian debt is already full, the bank can still provide support by selling the debt on the secondary market and rebalancing its risk distribution. What's more, with the enhanced efficiency of a digital market platform, this approach can be used even for relatively small contracts, thanks to the reduced financial and human resources costs associated with selling.

## Collaboration: the new banking zeitgeist

Without doubt this is a visionary project – set to completely overhaul processes in the secondary trade finance market. It is also one symptomatic of the increasingly collaborative atmosphere building in the banking industry. UniCredit is keen to play its part in this – seeking collaborative solutions in partnership with both fintechs and other banks in order to drive our solutions to the next level of competitiveness.

For example, we are working with a number of banks on an innovative, blockchain-based, trade finance platform – Digital Trade Chain – which promises to provide efficient and straightforward support for the growing number of small and medium-sized corporates requiring risk-mitigation and financing services for their open-account transactions.

This spirit of co-operation looks to be setting the tone for the coming years, promising an outpouring of benefits for all involved – from banks and regulators right through to corporate clients. Meanwhile, CCRManager continues to cut its ambitious path – looking to onboard 30 banks in the next 12 months while raising transaction volumes to US$10bn. The five-year vision projects 300-400 members using the platform, handling up to US$250bn in secondary market trade finance volumes. If this vision can be realised, we will have done something truly revolutionary: at once rejuvenating an old market, creating a new and attractive asset class for investors, and boosting trade finance provision for corporates.