TRADE & EXPORT FINANCE

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Trade & Supply Chain Finance

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UniCredit
Corporate & Investment Banking

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Global head interview – UniCredit

Jonathan Bells talks with Alfredo Bresciani, international trade finance sales, at UniCredit.

Alfredo Bresciani, international trade finance sales, at UniCredit.

TXF: What are your views on where the trade finance market is at the present time, and what do you think are the biggest challenges that the industry faces?

The trade finance market is at an exciting crossroads, and opportunities abound. For instance, the barriers to trade are falling in places they have stood for decades. In China, we are seeing impressive growth in the adoption of RMB (renminbi) by international exporters, and we expect this will be a game changer in the market.

Meanwhile, regulators worldwide have introduced a raft of regulations for both banks and corporates since the financial crisis in 2008, and the ensuing global recession. Adapting to an ever-more globalised and regulated market environment is a challenge for UniCredit and its corporate clients – and it is one that we are excited to meet.

TXF: How is the bank responding to and dealing with the ever-increasing demands of regulators – both nationally and internationally? Is UniCredit completely pro-

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visioned for Basel III?

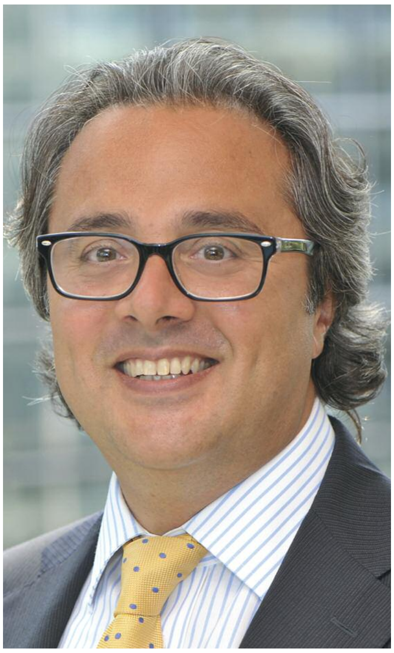
With the SEPA (Single European Payment Area) payments format mandated for over a month now, corporates have moved past the implementation phase and are looking ahead to life after SEPA. In our view, they need not consider compliance with the SEPA credit transfer (SCT) and direct debit (SDD) schemes to be the end of efficiency-creation in treasury management.

In fact, the SCT and SDD schemes – as well as the transition to the SEPA-designated XML payment format – lay the foundations for greater efficiency gains. For example, UniCredit provides corporates with the expertise and know-how to create payments (and perhaps collections) factories. These are central, payment-executing units that can work on behalf of multiple subsidiaries – and, in doing so, increase visibility and control of liquidity and cash management for corporate treasurers, while reducing transaction cost and risk.

With regard to Basel III provision, UniCredit is one of the most stable banks in Europe. In the first half of 2014, our fully-loaded CET1 ratio increased to 10.4% and our fully-loaded Basel III leverage ratio stood at 4.7%. Both are among the best in Europe.

TXF: Has the, or will the, cost of providing trade finance increase due to the greater pressure and requirements from regulators and those related to compliance?

As stated, a raft of regulations has been introduced, and these will inevitably generate a greater requirement in terms of processes



Alfredo Bresciani, head of international trade & finance sales, at UniCredit

and compliance. That said, the burden is likely to fall disproportionately on smaller banks, who may respond by seeking partnerships in order to develop efficiencies. And in this field, the experience has proven that banks are not allowed to make mistakes.

TXF: What position is the bank taking in regard to servicing new clients as well as SMEs? How do you provision in new corporate risk factors?

As global trade flows shift – with emerging markets taking an ever greater share – many smaller companies and mid-caps are struggling to find efficient, cost-effective banking services for their new payments and FX requirements. Payments to emerging markets are increasingly in local currencies, from the Chinese yuan to the Thai baht.

Corporates will look to their bank to make such payments, although their bank – often a mid-tier, local bank – may rely on more costly and less efficient processes compared to the combined FX and payments offerings provided by global banks. Yet these businesses are reluctant to switch to global banking providers, because of the loss of relationship and service such a move might entail.

In our view, greater collaboration between local and major banks can result in a better service for mid-caps, allowing companies to combine territorial proximity with cost-operative efficiencies and global competencies offered by leading players. What's more, mid-tier banks can outsource the technology and execution costs while earning revenue through an income split on the FX rate with the larger banks.

Such a system already exists in UniCredit's PayFX. Through the required nostro accounts, we can execute foreign currency payments in 25 euro/currency pairs. The mid-tier bank – which deals only in euros – avoids losing business and gains a revenue stream from the FX rate.

TXF: What do you see your clients asking for now that is different from the recent past? Do you see a different attitude from corporates?

Certainly, we see a shift in the nature of our customer's needs. Because the desire to expand to new locations needs to be balanced with thorough management of counterparty credit risk, CFOs or treasurers are no longer looking for a single, global transaction bank for their entire business.

Instead, they seek trusted partners with whom they can build long-term relationships to better support their requirements in certain markets.

Building strong partnerships with our clients is crucial for us, as our key priority at UniCredit is to focus on our clients' needs, building up intimate relationships and focusing our internal organisation in a way to meet our client's needs and delivers exactly what is important for our clients.

We are also working together with our sales and product forces with the aim of always adopting an innovative, consultative approach and a CFO perspective (understanding what is of the utmost importance for a CFO and fitting in the feet of our clients).

We strive to share information and knowledge with our sales forces, to gain an in depth understanding of each industry sector, physical supply chain, the dynamics affecting specific sectors/ markets and the key important factors in the relationships between buyers and suppliers. Our aim is that our sales are recognised by our clients as trusted advisers strongly differentiating from the competition.

TXF: With corporate contracts and supply chains constantly changing/evolving, how are you as a bank able to keep on top of what is required to service their needs?

Remaining abreast of developments in supply chain finance (SCF) is vital. In the past, SCF was almost exclusively buyer-driven, involving revolving receivables purchase programmes intended to lengthen days payable outstanding. At the time, the emphasis from many businesses was on the optimisation of inventories and supplies – as such, the safeguarding of liquidity served its purpose.

Yet, modern supply chain managers have a different focus. The variance in corporate working capital requirements has pushed SCF to take a more holistic view – one aligned to the interests of both buyers and suppliers. For the banks offering SCF, such a comprehensive view is a tough ask – but it's a requirement that must be met if they are to remain relevant to trade.

TXF: Technology within trade has grown massively over the last few years. What sort of investment has UniCredit made in this area and what do you still need to do? How do you view the bank's trade technology offering in comparison to other institutions?

New technology is at the forefront of efficiency-generation in trade finance. UniCredit is fully aware of it, and aims to be a leader for innovation by supporting its customers in adapting to changes. A great opportunity for efficiency enhancement, for example, is the development of Bank Payment Obligations (BPO). This solution would not have been possible only a decade ago, and we are very excited about the potential it has as a new trade settlement tool. BPOs (like the adoption of RMB) can also turn out to be game changer in the market.

Elsewhere, virtual accounts structures are allowing corporates to build on the efficiencies offered by SEPA. Taken to its logical conclusion, such a system could allow corporates to maintain only one 'physical' account, while creating, closing and managing their virtual accounts through an online portal. This is an example of how new technology can respond to the new market environment, increasing transparency, efficiency and flexibility for corporates.

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TXF: It has been over 18 months since the official launch of the Bank Payment Obligation (BPO) from SWIFT. What is your view of the initiative, what if anything is holding it back and how important do you think it will be?

While take up of BPOs has been slow, we expect it to pick up. In our view, the key obstacle is one of education. Treasury and sales departments, which have fully understood the potential of BPO, should coordinate to establish a common knowledge of the tool.

The sales force will thus play a key role in expanding this understanding to the customers, and will convince them of the compelling efficiencies of the offer. For these purposes, UniCredit has rolled out a workshop programme aimed at furnishing treasury departments and sales forces with valuable information – fostering conversation and providing expertise. And a set of BPO rules (URBPO) – developed in collaboration by SWIFT and the Banking Commission of the International Chamber of Commerce (ICC) – has done much to increase understanding in the wider market.

Ultimately, the extent to which BPOs are adopted remains to be seen. But we believe that treasuries are attracted by the improved visibility, liquidity, risk mitigation, payment timing, and commercial terms on offer for both sides. These are the benefits that will see BPOs become a successful and commonplace trade settlement tool.

TXF: Is UniCredit teaming with other FIs, and if so why and how does this make a difference for your clients?

We place considerable value on our large network of correspondent banks. Indeed, leveraging these relationships enables us to finance a greater number of deals than would otherwise be possible. BPOs and other innovations – such as PayFX – are new ways in which we can leverage these relationships with greater efficiency.

TXF: UniCredit has a big and strong footprint in Russia, Ukraine and throughout Eastern Europe, how has the bank and client business been impacted by the current volatile geopolitical situation?

UniCredit hopes for a peaceful resolution, of course. That said, trade finance as a technique can cope with geo-political volatility. That's its role and where we can deliver added value solutions to our clients.

TXF: Where do you see the bank making a push in trade finance – product and/or region? Do you see the bank as having certain niche strengths?

Our niche strength is across the transaction banking space. We see GTB as the core of corporate banking and UniCredit's offerings are based on that key principle.

TXF: What do you think the next big thing in trade will be?

Frequent changes in policy measures, each more relaxed than the last, are fast bringing about the liberalisation of the RMB. While only 2% of external Chinese trade was settled in RMB in 2010, this figure leapt to 18% by last year. The increasing adoption of new currencies in global trade is a trend we are watching very closely indeed.

TXF: What, if any, is your favourite football team?

UniCredit sponsors the Champion's League so it's our role to support all the teams taking part – but with Juventus FC always in mind. ■

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