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Trade & Supply Chain Finance

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UniCredit
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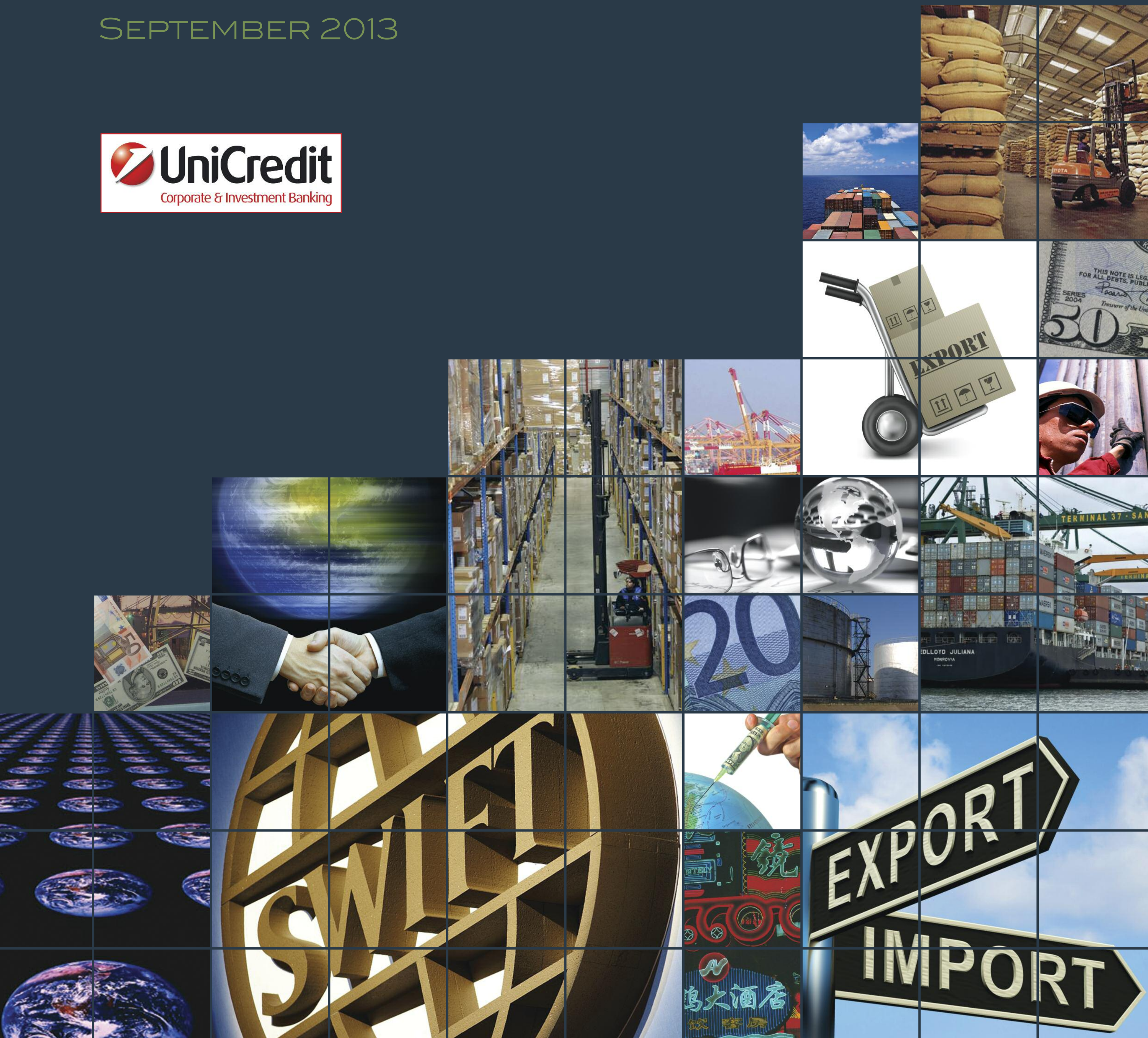

Global head interview – UniCredit

TXF talks to UniCredit about the current state of the trade and supply chain finance market.

Markus Wohlgeschaffen, head of global trade finance & services, global transaction banking, UniCredit

TXF: What state do you view the trade finance sector in at the present time – and how is your business developing?
During the GFC (global financial crisis) trade banks overall failed to provide finance to the market as they had done so in the past. Since then, many banks have largely focused on core relationship business. Is this the new norm? What lessons have been learned?
Business overall has never been brighter. After the 2008-2009 turmoil of the financial crisis trade, it has really come out of the shade into a tangible business that people understand. We deal with the flow of goods and world trade helps overcome the global crisis and we as trade financiers are directly involved and can give real value in the entire value chain. This is good for our business – and it is something we can see in our results. It is especially the case in supply chain finance, which is the innovative part of our business and trade – as this is picking up in volume really well.

Trade finance is an attractive asset class to be in – and many banks recognise this. Consequently there is a lot of competition, so prices as such go down and with respect to liquidity, one could say that at the moment there is over-liquidity in the market. Economies are also picking up and many clients are well prepared.

Our business flows are improving. The whole group has put a strategic focus on transaction banking – and it is one of the cornerstones of our strategic endeavours. We see a lot of management attention and resource allocation at the same time. This pays off as we are in a growth business.

TXF: What do you see as the biggest hindrance to the provision of trade finance today, and what are you doing about it?
We see a number of challenges. First of all we have to understand that we are dealing with a rather new concept – a concept that deals with a holistic approach. And by this I mean we have to consider and combine products that in the past have been separated from the overall trade picture – rather as silos. Likewise, our clients were organised as such also – they had the finance department, the procurement department, IT, legal and accounting etc.

To bring the people together to introduce a common understanding that all the various pieces have to work together – this has arguably been the biggest challenge. So we have had to explain that we have to apply a rather holistic, than a singular product driven approach to optimise the value chain, and reduce operational risks and unleash liquidity along the value chain.

TXF: Regulatory requirements have forced banks to re-examine their capital requirements and overall lending activities. How do you view your bank in this regard, and how do you think the trade banking sector is placed overall?

I guess the industry woke up. What the industry has done and is doing is to join forces – not only banks, but other stakeholders like the ICC for example – and explain what we are doing. The trade business used to be a niche business, but we have moved away from that and we are now much broader and vital business. So we have had to go to the regulators and explain what we are doing – and we are well advanced in that dialogue.

My personal view is that as financial institutions we have to stop complaining about the regulatory environment and we have to prove to the regulators that our business is a good business with respect to value generation and risk awareness.

TXF: With global supply chains ever-more complex, are the supply chain finance solutions available, and the provision of those, sufficient to meet the demands of corporate treasurers? What additional tools are you employing to assess corporate risk?

First of all we need to understand what are the driving forces of our clients. The key issue here is an easy integration of our products and services. And what our clients do is to try and deal with these ever-more complex supply chains by managing all the intrinsic risks. Our clients do an awful lot of work in order to electrify the supply and value chains.

We as financial institutions have to understand that we need to plug into this electrification. At the moment with letters of credit, we ask for paper – but what our clients are doing is trying to eliminate paper. So we have to get used to these developments.

I recently attended a procurement conference, where I was the only banker, and I learned that at this very time there is a revolution taking place in the supply chain – there is an explosion of technology. Every 10 years the amount of data in the supply chain is expanded 1,000 times. So electronic data, mass data, this is something we have to deal with and with simple solutions getting plugged in to the supply chain.

These discussions are going on all the time with our clients. And we have started to try and get into a dialogue with the procurement people, because in the past, bankers would only talk with corporate financing department – as it was a kind of closed shop. We have had to break this up, so that all parties are together and we

Markus Wohlgeschaffen at UniCredit in Munich

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have this inter-cultural dialogue. There has been a big educational and awareness programme on all sides.

We also have to be multi-participant capable – we cannot solely rely on bank proprietary solutions. Our clients want multi-bank and multi-participant solutions and we have taken this on board.

TXF: As further trade corridors and trade flows develop, how can you as a bank help all the parties involved in the flow of goods? How do you see involvement of MFIs (multilateral financial institutions) in this space and are you able and willing to partner with them in such schemes?

New corridors that have opened up present a whole new window of associated risks. We always appreciate that when volumes increase, then so do the risks. We also know that it is important to find partners that can help manage those risks for us. Teaming up with multilateral development institutions or any kind of risk taker that can bring value-added to the whole value chain and we make use of these resources when available.

But we also look at transactions on their own merit – and we follow the golden banking rules – does the deal stack up? And of course we follow our strategic goals in that we want to support the trade flows of our corporate clients in our core markets.

So, for example a pure China-Angola transaction where there is no linkage to our core markets would not be within our parameters – even if there was a body such as IFC on one side.

TXF: How much is technology/tech innovation helping the provision of trade and supply chain finance? Have tech innovations delivered? What further opportunities do you see to improve efficiency and your offering to clients?

As I mentioned earlier, our clients try everything to avoid media friction and to increase electrification. New technology helps all parties to plug in to the systems of our clients, supply chain processes, and

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also to help us to avoid risks, manage risks and to introduce some real-time risk management. So IT, technology is a big relief for us and enables us to capture business that we previously could not, giving us enormous advantages.

As a bank we have increased our client base because of our own technological innovations. We have invested in multi-banking platforms; which is extremely appreciated by our corporate clients with global spread.

As an example, in one instance we were dealing forfaiting transactions on a pure manual basis with a client, so we could only capture the big volume invoices/receivables. So we could capture 50% of the overall business volume – which was pretty remarkable given the circumstances. So the other 50% that we could not capture because it was so granular was a big pity for us because we saw it but we couldn't grasp it.

With the right technology it is easy to upload thousands of invoices for very small or notional amounts and everything is digested automatically by the technological platform. Hence we managed to capture the other 50% of the business with the introduction of a new and more sophisticated platform. We and the client are very happy about that.

TXF: How do you view the future of the availability of, cost of and provision of trade and supply chain finance in the near to medium term?

Trade finance is a very attractive business segment. This is recognised by everybody, and as such going forward there is likely to be more competition by non-bank providers and logistical companies that control the goods. Ultimately this will have an impact on prices – with pricing going south rather than north.

In general terms, the classical products such as working capital facilities going forward will require more equity – because they are related to higher net risk. Whenever we deal with transaction-based finance, we have a complete different view of risk.

In the past we had to evaluate balance sheets that reflected the company two years before, with transaction-based finance we have a more immediate way to control and manage our risks and as such our net returns will increase and this will allow us to reduce risk costs overall on transaction-based finance. This, in turn, will have an impact on pricing and make transaction-based financing more advantageous than the classic working capital or other traditional products that banks have offered up to now.

The cost of increased technology for banks will pay for itself pretty quickly. It is more an issue of investing in new processes, but we are compelled to do it due to the regulatory requirements. So there should be a reduction in pricing on transaction-based finance and an increase in the pricing of traditional trade products.

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