

# An enhanced role for trade finance boutiques

*Falcon Trade Corporation gathered a select group of clients, speakers and business partners at its first annual trade and corporate finance forum in Dubai to discuss the global economic recovery and the role of specialised lenders.*



While we are seeing an uptick in trade flows and positive signs coming out of Asia and Brazil, trade finance remains on uncertain ground. Government support remains vital and many of the large trade banks remain cautious, constrained, or risk averse. It is in this environment that the role of alternative sources of finance comes to the fore – those specialist lenders with an appetite for risk, the ability to create bespoke structures, and the experience and knowledge of local markets.

It is against this backdrop that Falcon Trade Corporation chairman Kamel Alzarka, and CEO Will Nagle, gathered a select group of clients and partners together in Dubai to review the trade finance market and how the recovery is progressing. Indeed it is in many of the markets in which Falcon operates that the recovery is at its most robust, but there is a mixed bag globally. Some of the issues that were discussed at the Dubai forum are explored below.

On the one hand the recovery is creating an emerging market consumer class with a demand for sophisticated products – as demonstrated by Falcon client Selular Group of Indonesia – and on the other hand while a recovery may be boosting GDP it is much harder to boost GDP/capita, so this progress may be limited.

This will not simply be a downturn followed by a rebound though as there has been an economic shock combined with a financial shock which has historically doubled the length of time it takes for markets to recover to pre-crash levels. Banks are unable or unwilling to lend and that depresses spending. Volatility persists until counterparty risks fall or risk appetite picks up. The role of specialist lenders, and those institutions that can be more flexible than the larger trade banks, is therefore important.

International trade was both the first casualty and the first multiplier of the crisis through the sharp contraction in global demand that spread through interlinked production and supply chains, to the evaporation of trade credit and kneejerk protectionism.

But trade finance is also proving itself a way out of the crisis as it is an industry that never fails to innovate. The response has come from on high through export

credit agencies, multilaterals and G20 initiatives, and from within through specialist lenders, product innovation, and an enhanced role for emerging market banks.

There is still more to do. Markets where commercial bank appetite has not returned, and in which the various government and multilateral initiatives are still not having the desired effect, are perceived as difficult due to the high costs of data collection to assess counterparty risks. This is not just prime territory for specialised lenders with on the ground expertise, but also for other players like collateral managers and local banks. These are the types of institutions best suited to tackle the continuing problems of small businesses, small countries and small banks that suffer from a lack of credit, and deficits in trust and data.

No-one can do it all alone though, so there is still a role for the larger trade banks in the market through partnerships. Some have extensive networks that can provide the local distribution and data channels, while others have the technological edge and willingness to partner with other institutions. Trade finance is seen internally as a more important product than pre-crisis.

There are still challenges for the market as a whole – the secondary market is still weak and it will be a struggle to meet growing demand for trade finance. The possible treatment of trade under Basel III will put pressure on capacity in the market and pricing could creep upwards. Partnership and outsourcing of back-office technology and processing will increase as institutions of all sizes push to remain competitive.

The corporate focus will be on improving working capital management, documentation and data management through supply chain finance programmes while developing emerging markets sales through a mix of traditional and innovative trade finance solutions.

Increasingly corporates may find that the ideal trade finance partner is a smaller flexible institution with a diverse range of risk management techniques and an appetite to use them. Combined with the right partnerships, on-the-ground knowledge and data; out-sourced technology provision and processing; and the ability to provide bespoke solutions, this could prove to be the right model for part of today's market. ■