



Sibos highlights liquidity needs

Sibos 2009 in Hong Kong probably lacked the drama of last year's conference, hosted as the world's financial system went into meltdown. However, the same topics of conversation persisted this year, with banks and corporates keen to find a way to plug the liquidity gap in trade finance. *Liz Salecka* reports.

The global squeeze on trade finance and sourcing new avenues of financing for international trade were major themes of discussion at Sibos 2009, which brought together both corporates and banks seeking to find solutions to the current liquidity shortfalls. Not surprisingly, the implications of the financial crisis for Asian exporters in the wake of weaker demand and extended

payment terms from western buyers came under the spotlight.

Tan Kah Chye, global head of trade finance at Standard Chartered Bank, pointed out that 200 banks have continued to support trade flows, but noted: "The increase in prices hurts corporates more than the fact that some banks are withdrawing from the trade finance market."

Meanwhile, Lawrence Webb, global head of trade and supply chain at HSBC,

revealed that 90% of Hong Kong-based corporates still expect access to credit in the short term: "I'm not convinced there is a shortage of credit in the world," he says. "It's just that distribution and access is limited in some markets... trust needs to be re-established and this will take time. We all also need to fundamentally understand supply chain financing and all the partners within it – from the large buyers to the smaller suppliers."

John Ahearn, managing director of supply chain management, structured trade and asset optimisation at Citi, remained convinced that buyers with a strong credit rating are still in a good position.

"Because of their financial strength, they will be able to continue to trade on open account and also extract more value from their suppliers," he says. "Companies that are in a weaker position will find themselves being forced to move back to traditional bank products such as letters of credit. This situation is going to be further impacted by the fact that many trade insurers have also left the market or downsized their exposure."

He concluded that, in the current environment, supply chain finance automation has to become a greater priority. "All of the metrics to drive better working capital are creating the need for greater transparency and quick and efficient processing of transactions. This has been a trend over the last couple of years but has now taken on more urgency."

Strong support for convergence

This year's Sibos saw both banks and IT services providers launch new and enhanced supply chain finance solutions in a move to capitalise on corporates' growing requirements for greater flexibility, increased functionality and converged services.

A number of major players announced plans for integrated treasury and trade solutions in response to corporate treasurers' demands for the capabilities to manage trade and supply chain finance, alongside their traditional remit of corporate cashflows.

Deutsche Bank revealed its new financial supply chain management (FSCM) platform that integrates its trade and cash management capabilities, as well as payments and reporting.

"Deutsche Bank's new financial supply chain management platform will further address client demand for efficient working capital management, generation of liquidity on favourable terms, the provision of open account-based risk mitigation and

improved automation across the supply chain," says Jon Richman, global product head, trade and financial supply chain, global transaction banking, Deutsche Bank. He explains that the fully integrated offering will provide a higher value service through improved trading partner connectivity, visibility, activity reconciliation and the earlier release of finance.

"The platform is global and will be supported by Deutsche Bank's robust trade and supply chain risk methodologies and client on-boarding processes."

Another player to respond to the new demands was IT services provider CGI Technology, which has incorporated cash management capabilities, as well as accounts receivable, into its global trade and supply chain platform – Proponix360.

"Trade and trade finance is a complex business, and building trade into an existing cash management or treasury system is a more complicated approach than the one we have taken, which focuses on building competitive trade capabilities," says Steve Starace, vice-president of banking and investment at CGI Technology and Solutions.

"For corporate customers, the services offered need to facilitate working capital through the provision of finance, supply chain and liquidity management capabilities. We want to make this a complete end-to-end platform that

corporates' risks, but now it is about optimising working capital. It is about being able to offer pre and post-shipment finance and factoring facilities, but this is not an easy capability for banks in this region to roll out. Small and medium-sized banks cannot justify the investment but by investing in our model, which is offered as a managed service, they can acquire these capabilities at a cheaper price."

He adds that CGI's recent initiative follows growing interest from local banks themselves, and points out that the enhanced solution is already in use at Australia New Zealand Bank (ANZ). "Proponix is offered as a managed service so when we provide additional functionality we make it available to all our clients," Starace says. "Asia is booming and will continue to be the epicentre of world trade, and we want to capitalise on this. Our client ANZ plan to roll out this capability in the Asian market and target other institutions in this geography."

S1 Enterprise also acknowledged the demand for collaborative solutions at this year's Sibos – particularly from mid-market corporates seeking to leverage on their trade finance activities.

It has implemented its own integrated solution at a major Asian bank, which with greater visibility of, and control over, the end-to-end trade finance to treasury processes.



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supports a variety of customers." The recent cash management enhancements to Proponix360, which represent a first-phase capability, will enable users to make domestic, bulk and international payments; transfer funds between accounts; and make balance inquiries via the same portal they currently use for trade finance.

Starace also points out that CGI is eager to capitalise on new opportunities in the Asia Pacific region, where corporates are looking for integrated trade and cash management services, but local banks have yet to make appropriate investments in the technologies required.

"In the past, banks focused on mitigating

"Combining trade finance and corporate banking is becoming essential for financial institutions to consider because of the dual benefits of meeting the demands of the bank's customers and the creation of internal efficiencies at the bank," says John Philpott, general manager, S1 Enterprise International.

He adds that the ability to track trade and corporate banking activities via a combined end-user interface, and report transactions online, is becoming vital to corporates' liquidity and working capital management.

Enhancing the supply chain

Sibos 2009 also saw a number of other

major enhancements to supply chain finance offerings from market players such as Wachovia (a Wells Fargo company), which is incorporating both receivables and payables into its supply chain finance platform to provide buyers and suppliers with real-time visibility into transactions from purchase order issuance through to cash collection.

The enhanced solution, which is being made available to organisations that participate/share risk in Wachovia's own supply chain finance programmes, as well as on a white-label basis to other financial institutions, represents an advancement on other platforms because it offers the capabilities to satisfy legal requirements and assess credit risks, says Stuart Roberts, group head of global supply chain finance at Wachovia.

"This platform is a step forward because it easily handles the unique credit risk aspects of each deal and accommodates the case by case nature of true sale requirements in the current regulatory environment," he explains to **GTR**.

"Because of the way changes in accounting standards leave much to the discretion of the clients' accounting and legal firms, programmes need to accommodate changes to the regulatory environment, and the requirements of accounting standards such as US Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS)."

He explains that rather than building trade capabilities into an existing treasury services platform, Wachovia is offering a true built-for-purpose supply chain finance platform.

"Whereas transactional bankers have

approached this from a platform-centric point of view, supply chain finance is all about financing. We are not trying to shoe horn a fit into existing infrastructure and programmes," he says.

Discussing prospects for the Asia Pacific region, Roberts still believes that local banks are more interested in participating in syndicated supply chain programmes, driven by major global banks, instead of offering enhanced trade finance facilities directly to local corporates themselves.

"We have found that the majority of banks interested in participating in syndicated deals tend to be located in the Middle East and Asia," he says. "Local banks in the Asia Pacific region are strong in self-liquidating finance with some level of recourse over a trade asset, and want to participate in deals on the buy and sell side."

He adds that Wachovia's enhanced supply chain finance platform is more likely to find appeal as a white-label solution with regional banks in countries such as Australia and Canada, and mid-sized banks in Europe.

Asian commitment

Another major trend to emerge at this year's Sibos was global banks' voiced commitment to the Asia Pacific region which, despite having been hard hit by the recent financial crisis, is expected to account for an increasingly larger share of exports.

JP Morgan, which recently joined the IFC and its funding partners to launch a US\$1bn funding facility as part of the global trade liquidity programme (GTLP), announced plans to open new branches and expand its treasury and trade services in the region – including services

geared at supporting strong growth in intra-regional trade.

"Asia is a major exporting region, and trade flows within the region are bringing a number of new opportunities. Although there has been a decline in global trade, trade flows within Asia have continued to grow and expand," says Simon Jones, regional treasury services executive – Asia, JP Morgan, adding that imports into China have been a major driver of growth in intra-regional trade.

"We are making a significant global investment to enhance our capabilities, and are focusing largely on China, India and, to a certain extent, South Korea.

"We already offer our full suite of cash management and trade services in the region, but we will also continue to enhance our capabilities and launch new services to meet the changing nature of trade."

One such new service is Asia Direct, which was launched at Sibos, to help Asian corporates and banks settle trade in US dollars within the region and Asian time zones by routing payments via existing clearing systems in Hong Kong and Tokyo.

JP Morgan has also enhanced its domestic cash management and trade finance services in India, where it also supports high and low-value electronic payments, as well as in South Korea.

"South Korea is an important market for us and, in response to customer demand, we have recently launched a wide range of enhancements to our domestic capabilities, such as a new Korean language internet banking platform. We have also seen a strong growth in demand for trade finance services," says Jones.

He adds that the bank has launched two other new products across Asia –

Misys sets up payments hub

Sibos 2009 also saw a number of payment solution launches and enhancements, including Misys' new packaged payments hub, which centralises all of an organisation's payment flows, including trade payments.

The solution, claims Misys, will help corporates gain improved visibility into their cashflows and trade payments, thereby enabling them to maximise corporate liquidity.

Barry Kislingbury, solutions manager, payments and messaging at Misys, explains to **GTR** that Misys Payment Manager is an off-the-shelf solution that enables all payments, made via disparate legacy systems, to be viewed through a single user interface.

"It enables users to keep all their existing legacy payment systems and glue them together for about one tenth of the cost," says Kislingbury, pointing out that the cost of investing in new payments engines or modernised payments infrastructure

is prohibitive for many organisations today.

"Many companies are not looking at replacing their existing systems today. A solution like this makes it easier to keep their existing payments systems in place, pull together payment flows, enhance levels of Straight-Through Processing (STP) and see where their money is, enabling them to better manage their cash and liquidity positions."

He explains that Misys Payment Manager also provides a single, central location from which system updates can be rolled out, and new standards implemented – including those related to trade.

The payments hub is suitable for banks of all sizes, and could also benefit corporates: "There is no reason why corporates facing the same sort of issues cannot use it. It is suitable for any type of corporate with a lot of payment systems in use which faces similar problems," adds Kislingbury.

Receivables Edge – a web-based accounts receivables management application for open account transactions, and Freight Payment and Auditing, a service which helps corporates manage logistics costs. “Freight Payment and Auditing is an electronic payment and transportation management solution that streamlines invoice payments and delivers visibility to global freight operations. There is a strong demand for this type of service, particularly in the Asia Pacific region, as companies are looking to generate more efficiency from within their supply chains.”

China’s pilot programme

JP Morgan is also one of a number of international banks supporting a new Chinese government-led initiative, which aims to facilitate China’s intra-regional trade, reduce risks for Chinese companies and boost the country’s business with

and Dongguan, and has launched a cross-border Rmb-denominated documentary credit service for eligible local companies. Chris Lewis, head of trade and supply chain, Greater China at HSBC, explains that, although the scope of the pilot project is limited, it is likely to be expanded. “This is a small, but significant step in the internationalisation of the Rmb. In the medium-to-long-term we will see more countries accommodated than are currently in the pilot,” he says. “Although in the short-term, Rmb-denominated trade volumes are expected to be minimal, the currency will have an important place in shaping global trade in the years to come.” He adds that both importers and exporters involved in Rmb cross-border trade will benefit from reduced foreign exchange risks, thus lower hedging costs, which often represent a barrier to growth. Standard Chartered Bank (China),

economies, and each economy has its own respective nuance. Another major challenge when dealing with China is the language differences.

“Banking in China is also largely decentralised with a large number of local branches, and this makes the traditional processes associated with letters of credit harder.”

The bank’s new LC relay programme will enable importers and their banks to benefit from local support on both sides of a letters of credit transaction, and improve the turnaround time for documentary processing when trading with China by two to three working days.

“The China LC relay programme will handle the transfer of documents from the exporter to our local Chinese branches, who check the documents on behalf of the issuing bank thereby minimising operational risk and providing a speedy resolution of any discrepancies. We are also in a strong position to deal with local language issues,” says Daswani, adding that issuing banks using the service can save on courier time and costs, and eliminate the risk of documents being lost as they are always scanned first.

“We also satisfy importers’ and issuing banks’ growing need for arrangements that can be supported by robust information exchange, through the provision of status reports and email alerts.”

Chinese exporters, he adds, can only benefit too: “As Chinese exporters become more sophisticated, they too want processing on the ground and the ability to realise cash flows sooner.”

Pakistan’s Fayal Bank, Habib Metropolitan Bank and Soneri Bank became the first three banks to sign up for the new LC relay programme – in a move that comes at a time when trade between Pakistan and China has risen at a compound annual growth rate of more than 25%.

Further signings with potentially 20 banking clients across the globe are anticipated by Standard Chartered Bank (China), which believes that letters of credit will continue to predominate in China, despite the movement towards open account trading.

“About 1.5 million letters of credit are issued to support trade with China annually – about five times that of any other country,” says Daswani. “It is premature to sound the death knell for letters of credit. Open account trading is gathering momentum, but with so many small-to-medium-sized enterprises (SMEs) in China, we are continuing to see demand for letters of credit.” **GTR**

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neighbouring countries.

Under the renminbi (Rmb) trade settlement scheme, which was announced by the Chinese government in April 2009, 400 selected enterprises in Shanghai, Shenzhen, Guangzhou, Zhuhai and Dongguan, as well as in Yunnan and Guangxi, are being encouraged to settle trades in Rmb – instead of US dollars. Companies in the five cities can use the Chinese currency for trades with corresponding enterprises in Hong Kong, while those in Yunnan and Guangxi can use it to settle trades within selected locations in the Association of Southeast Asian Nations (Asean) region.

JP Morgan is already offering payment and trade services related for the project, and settling trades in Rmb from its Hong Kong office.

The bank is expecting the project to grow. One of the drivers for adoption of the Rmb as a trade settlement currency will be government policy that encourages usage through tax rebates made available to exporters.

HSBC Bank (China) has also started settling cross-border trades in Rmb for companies based in Shanghai, Shenzhen, Guangzhou

meanwhile, became the first international bank to gain agent and settlement bank status in China, and is also settling trades in Rmb.

“This relates to a new pilot programme under which 400 enterprises in five designated cities have been allowed to start invoicing and settle cross-border transactions in Rmb,” says Bill Chin, regional head of sales for northeast Asia at Standard Chartered Bank. “It is the beginning of a long journey by the Chinese government and state council who eventually want to see the internationalisation of the Rmb.” Standard Chartered also stressed its commitment to encouraging trade with China at Sibos by launching the LC relay programme, which aims to service export trade flows from the country.

“The China LC relay programme will extend our clients’ reach into China at a time when trade flows with China are increasing,” says Neil Daswani, head of transaction banking, northeast Asia at Standard Chartered Bank, adding that exports from China reached US\$1.4tn last year.

“Reach into China has, in the past, proven difficult because it has a multitude of