A Global Connection

SWIFT's annual Sibos conference is just around the corner, and this year attendees will gather in Dubai. With Middle Eastern companies following the trend now seen in many emerging markets and increasing the sophistication of their treasury and cash management operations, it is apropos that this conference should be held in one of the key centers of regional corporate life.

Regional banks are taking advantage of companies' increasing focus on their cash activities by building up their transaction services businesses. And they are successfully grabbing market share from their larger, global peers. With region-specific solutions and strong partners for global coverage, many of the key Middle Eastern players are on their way to becoming powerhouses in this space.

For SWIFT, the annual conference has an increasing corporate focus, reflecting the global financial-messaging infrastructure outfit's push to pick up corporate clients. Alliance Lite2—its user-friendly, resource-light solution to provide corporate access—is attracting a wider corporate audience than ever, and SWIFT connectivity is moving down the value chain from the largest blue-chips to mid-tier companies.

With a growing range of corporate-focused solutions—enabling everything from basic bank statements and payments messaging to trade and supply chain finance—SWIFT is making it increasingly easy for companies to conduct business worldwide.

Denise Bedell
Managing Editor
Global Finance
dbedell@gfmag.com

Stealing The Show

Middle East banks say they are catching up to the global transaction banks, and in some cases winning greater market share by delivering solutions that meet the specific needs of companies doing business across the region.

As transaction banking develops more fully in the Middle East, local banks are expanding their offerings for treasury and cash management, investing in new technology and partnering with global transaction-services firms to provide best-of-breed solutions on a global scale. In some instances, local and regional banks say they are taking business away from global banks, which have long served multinational corporations in the region.

For the past five years, the focus of local and regional banks was building value-added cash-management and trade capabilities, often under a transaction-banking umbrella. "Transaction banking, which used to be the preserve of global banks and largely unfamiliar to others, has become a household name among banks big and small," says Murali Subramanian, executive vice president and head of transaction banking at Abu Dhabi Commercial Bank (ADCB). "The driver for this is not hard to guess; it is the attractiveness from a regulatory (Basel

III) and client-retention perspective, as well as a stable source of fee income that has gained more appreciation."

ADCB was an early mover in attracting global talent and committing considerable resources in setting up what it describes as a world-class transaction-banking offering. The bank also formed alliances with global banks like Bank of America Merrill Lynch, Kookmin Bank and Banco Santander in order to overcome its limited international footprint. This has served it well in delivering global solutions to its own clients, as well as providing a "house bank" in the UAE for the global clients of its overseas partners who are looking to establish themselves in the region, Subramanian says.

By leveraging their balance sheets and investing in systems and people, Middle Eastern banks have built up their transaction banking business, says Farooq Siddiqi, regional head of transaction banking, MENA, Standard Chartered. And as they set up, they are expected to gain more momentum. "Local banks have been gaining business in cases where global banks have no on-the-ground presence or where the business has been exclusively mandated to local banks—for example, government-related businesses," he explains.

International banks, he says, still have the advantage of a global network and of being able to provide solutions on both sides of the transaction, especially in cases of cross-border and global trade. "Standard Chartered, which has had a presence in the region for more than 90 years, is more local than most international banks and more international than local banks," asserts Siddiqi.

The Middle East's transaction banking pie is growing, Siddiqi continues, with more companies realizing the benefits of transaction banking as a product and the region strengthening its position as a key player in global trade.

Nadya Talhouni, senior vice president and head of cash management and trade finance at Arab Bank, based in Amman, Jordan, says transaction banking has become an integral part of its core corporate banking offering, adding to its overall fee income base and achieving a solid share of wallet with customers. Arab Bank has also invested in infrastructure to ensure that its products maintain a high level of global and regional standards, she says.

NO ONE SIZE FITS ALL

Its electronic banking solutions were built and developed in accordance with the diverse needs of the Middle East and North Africa regions in mind. "The one-size-fits-all approach is not something that can be applied in the MENA region," Talhouni explains. "Arab Bank, with more than 80 years of experience in this part of the world, leverages its local expertise to provide transaction banking solutions required by local and multinational companies working across the region."

The treasury and cash-management business is a critical component to Arab Bank's overall relationship-based focus, Talhouni says. "We must be in a position to meet corporate customers' needs through a holistic approach, be it funding, payments, trade, et cetera," she says. "We understand the operating model of our customers and work with them to provide the needed solutions."

More importance is being given to reciprocal business.

—Thomas, ADCB

The diversity of the region is demonstrated by the profile of companies requiring transaction-banking solutions, she says. They run the gamut, from international multinational corporations operating in MENA to regional MNCs expanding geographically to purely domestic companies. "Whether it's a one-person or family-owned business, a multinational corporation or anything in between, Arab Bank works closely with these firms to ensure that they obtain a well-integrated solution," Talhouni says.

LESS IS MORE

Middle Eastern banks say there is also a trend among companies in the region to limit the number of transaction banks they use. "The traditional approach of dealing with a multitude of banks is less feasible, from both an efficiency and cost basis," explains Talhouni. "Companies prefer to deal with two or three banks; those that can provide them with streamlined operations, speed and, of course, competitive pricing."

Lloyd Caughey, director of transaction service origination for Middle East and Africa at RBS, says banks can classify products and revenue items that make up transaction services in many different ways. In the United Arab Emirates, regional banks may classify transaction services as purely a fee-based business, whereas international banks may link the activity to fee and interest revenue flows. "It would be possible, therefore," says Caughey, "for a regional bank to increase its fee-based revenue and an international bank to increase its interest-based transaction revenue and for both to claim additional market share."

RBS continues to increase market share in its chosen products and within a specific target market, Caughey says. "Local companies are particularly receptive to our supply-chain-finance and commodity finance capabilities in the UAE."

"It would be fair to say, though, that the international banks who offered liquidity in the Middle East without being physically present in the region have been less active, and some international banks have refocused their strategies here," Caughey adds.

Following the 2008 global financial crisis, clients were forced to review their banking relationships based on the support they received during the crisis, says Isaac Thomas, senior vice president and head of cash management for ADCB. "Today, more importance is being given to reciprocal business and ancillary business," he says. "Transaction banking and consumer banking services are considered as rewards for proportionate financing support from the bank."

The Middle East's transaction banking pie is growing.

—Siddiqi, Standard Chartered

Thomas says clients are unlikely to put all their eggs in one basket and focus on a single platform or cash management bank. "Recently, there has been a trend to adopt bank-neutral, single-platform solutions that are overlays on feeds from the various core banks," he says. "This is quite an exciting challenge to the traditional proprietary cash-management solutions."

ACCELERATING MARKET SHARE

Local and regional banks say they are also increasing their share of the trade finance business. "Regional banks are implementing more-sophisticated solutions, not only to differentiate themselves from the international banks' offerings," says Talhouni of Arab Bank, "but also due to their intrinsic commitment to the region, as the success of the customer will mean the success of the banking industry."

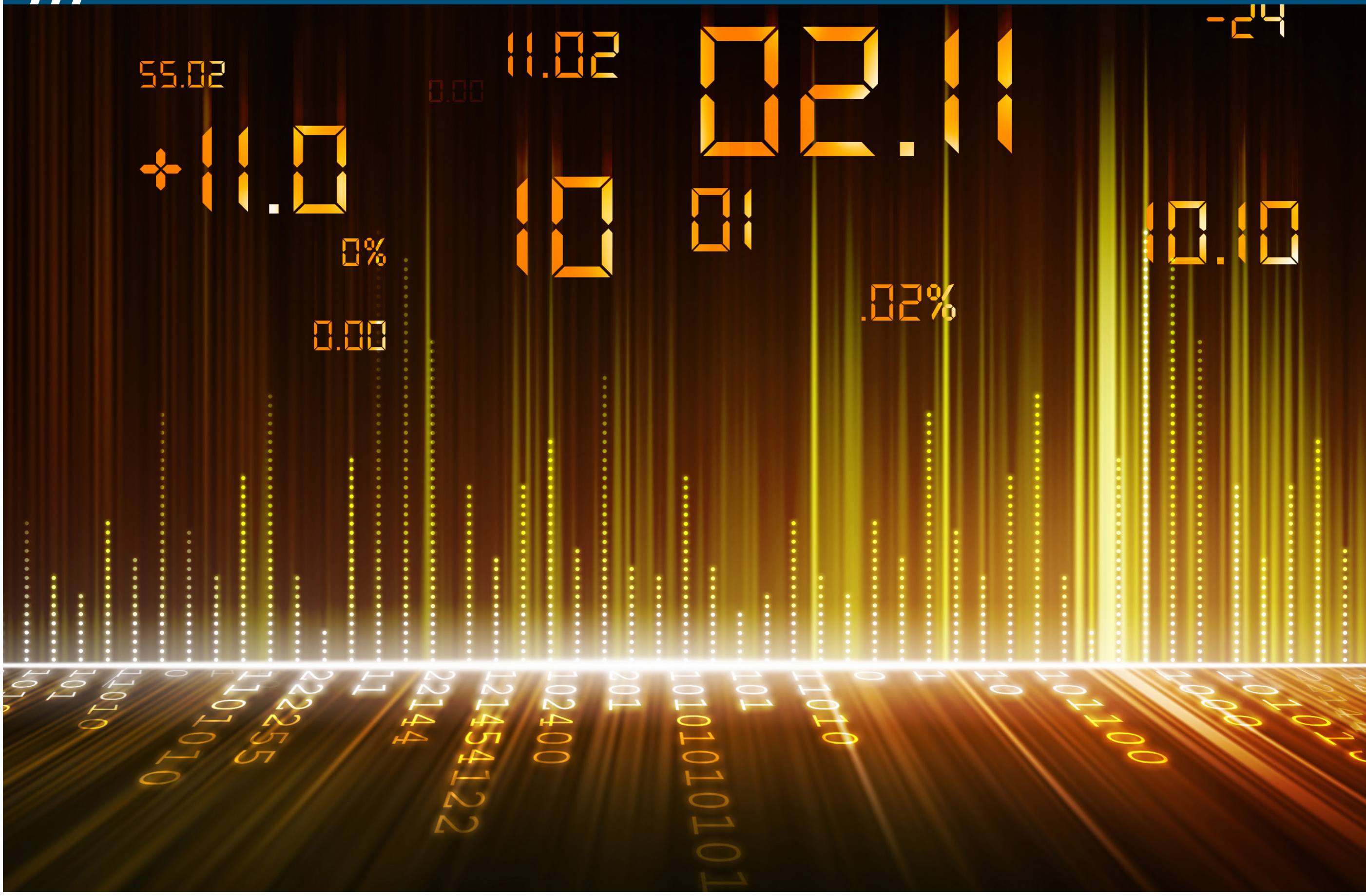
Krishnakumar Duraiswamy, senior vice president and head of trade finance at ADCB, says the bank's strategy is to focus on the UAE economy, as well as growing trade flows between the Middle East and Asia, especially the India-UAE corridor. Duraiswamy says ADCB has dedicated client segments catering to trading, services and manufacturing companies, contracting and multinational businesses.

But as a number of large global banks have recently exited the region, Duraiswamy says this has accelerated the growth in market share of local banks and large regional banks in trade and cash management. According to some reports, international banks have retrenched to cut costs or avoid stricter money-laundering and Know Your Customer regulations. Keen to stress the benefits of working with indigenous banks, Duraiswamy says ADCB offers value-added solutions and caters to the entire working-capital cycle. "Global banks tend to look to the secondary market for their trade finance business, and local banks are key players in the primary market."

The UAE economy comprises mainly small and medium-size enterprises that deal with large global suppliers, as well as regional players, he says. "Many clients still prefer simple, paper-based trading and simple trade-finance solutions." Family-owned firms are quite common in the region, and they are typically franchisees of global brands, as well as providers of diverse trading and other services in their own capacities. To cater for these kinds of firms, Subramanian of ADCB says, regional solutions need to be tailored to ensure they are less IT-heavy product offerings, facilitate quicker decision-making, real-time messaging and advice, mobile authorizations and the processing of paper instructions, all areas where the Middle East banks believe they can excel. ■

One-size-fits-all cannot be applied in MENA.

—Talhouni, Arab Bank



The New Normal

More companies than ever are launching supply-chain finance programs to reduce costs, ensure the stability of their supply chains and improve working capital efficiency. And growing competition among program vendors is making it easier and cheaper to do so.

Supply chain finance is proving to be no fad but rather business as usual, as more companies adopt its tools and methods, realize its benefits and spread its functionality to corporate outposts worldwide. Indeed, companies have more options than ever before, from proprietary systems offered by global banks to bank-neutral platforms that can accommodate different funding feeds. And the introduction of the bank payment obligation, or automated letter of credit, could help make it easier for smaller, less well known suppliers to get needed credit and even pre-shipment finance.

"Supply chain finance (SCF) is more known, and there's more information now than before. Providers are finding there

>40%

of companies in a recent survey reported having a supply-chain finance program in place

Source: Aberdeen Group

"It certainly made our [extended DPO] initiative easier for vendors to accept. It gives them another reason to want to do business with Big Lots."

—Poff, Big Lots

are new ways of offering access to more customers and being more competitive," says Enrico Camerinelli, senior analyst at Aite Group.

In the broadest sense, supply chain finance refers to any payment arrangement between buyers and sellers linked to the process of getting a product to market. Traditionally, it is initiated by the buyer—usually a large company that wants better terms, for example a longer payment cycle, from a supplier. In return, and in order to preserve that supplier's financial health, the buyer offers some type of recompense, such as access to more affordable credit through a banking partner, or participation in a sophisticated solution that manages and optimizes payments among many participants in the supply chain.

Supply chain finance came to the fore during the financial crisis and recession of 2008-09, when credit froze and buyers and suppliers struggled to get products to market. Cash, always important, was suddenly strategic, and many companies issued internal decrees to uncover and preserve as much liquidity as possible.

"Supply chain finance emerged as a critical strategic function," says Ankita Tyagi, a senior research associate at Aberdeen Group. "It's now falling much more under the office of the CFO, with treasury and risk management."

STAYING POWER

Having learned from the stresses of the financial crisis, companies are realizing that supply chain finance remains a good way to improve working capital metrics and preserve liquidity. A survey conducted by Aberdeen Group earlier this year showed that more than 40% of 145 respondents, including companies large and small and in various industries, have a supply-chain finance program in place.

"Part of what's driving it is that people can zero in on it and can make good decisions that support a company's strategy. If your strategy is working capital maximization, then there are certain things to do. And if your strategy is 'always in stock,' then there are others. There are different levers to pull," says Mike Giguere, principal in the supply chain practice at PwC.

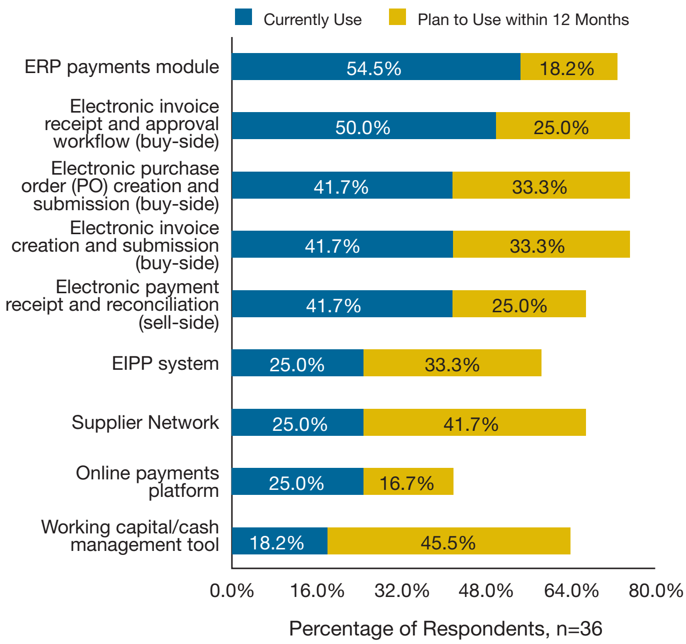
Michael McDonough, global head of supply chain finance at J.P. Morgan, agrees. "The proposition works whether there's a liquidity crisis or not. It makes sense. That's why it has some staying power. It has become a bit more mainstream."

Banks are jockeying to gain this type of business, playing on their ubiquity across the globe and their willingness to make use of their balance sheets.

At Bank of America Merrill Lynch, for example, the supply chain finance business has enjoyed a 70% uptick in new transactions since the end of last year and a 40% uptick in the use of international supply-chain facilities in the first quarter of this year, compared with the same period a year earlier, says Maureen Sullivan, North American trade sales head in global trade & supply chain solutions at Bank of America Merrill Lynch.

"Supply chain finance has experienced dramatic growth," Sullivan says. "And it's for three primary reasons: Buyers are looking for terms extensions, suppliers are looking for liquidity alternatives, and banks have strong appetites to use the balance

How Companies Are Using Technologies In Support of Supply Chain Finance



Source: Aberdeen Group

Grier, DuPont: DuPont uses various SCF options to drive working capital productivity

sheet in support of short-term commercial trade-related transactions, which is the underpinning of supply chain financing."

The growth that Bank of America Merrill Lynch has seen is typical for banks worldwide, according to research from working capital advisory firm Demica. Major international banks surveyed across the world are reporting 30% to 40% annual growth rates in supply-chain finance programs, the firm reported.

Smaller banks and their supplier customers may soon be helped to a bigger piece of the pie by a new tool for trade and communication, the bank payment obligation (BPO). Though it's been in the works for some time, just last month the ICC and SWIFT enacted rules to facilitate use of this electronic letter of credit and means of settlement to facilitate international supply chain finance, even before shipment.

J.P. Morgan's McDonough notes: "It can be thought of in some ways as in between a letter of credit and open account trading. Supply chain finance is designed for open account solutions, with no letter of credit." Still, he added, it remains to be seen how quickly, or how dramatically, BPO will change supply chain finance. "Adoption of the BPO will change how some suppliers source risk mitigation and funding, but we don't necessarily know yet what that will mean in terms of scale."

HEALTHY COMPETITION

Part of what is driving growth in supply chain finance is robust competition from nonbank players like Ariba, Basware, Paymode-X, Syncada, and PrimeRevenue. Of course, the savings and working capital management benefits are also a key draw.

One PrimeRevenue customer, for example, US-based closeout retail chain Big Lots, has realized hundreds of millions of dollars in cash flow improvements since extending its payment terms and signing on with PrimeRevenue in 2006. PrimeRevenue provides a multibank SCF portal linking buyers and suppliers with banks.

Source: Demica

The Big Lots program is designed to help suppliers of seasonal items and furniture for the retailer, who are often based outside its home market of the US—accounting for about half of the company's suppliers. No supplier is required to use PrimeRevenue's program, but it can be useful in dealing with Big Lots' longer days payable outstanding (DPO) cycle.

"It certainly made our [extended DPO] initiative easier for vendors to accept," says Jared Poff, treasurer at Big Lots. "It gives them another reason to want to do business with Big Lots."

Poff says he considered many different options for supply-chain finance providers, including global banks, but appreciated the "bank-agnostic," "plug-and-play" nature of PrimeRevenue's offering, where the banks are behind the scenes.

"Part of what's driving [SCF] is that people can zero in on it and can make good decisions that support a company's strategy."

—Mike Giguere, PwC

Multinational science and engineering firm DuPont has also gleaned significant savings by using SCF, and takes a multi-pronged approach to its SCF programs. Donna Grier, vice president and treasurer at DuPont, notes: "For several years, DuPont has worked with key suppliers and partner banks to develop and utilize various financing options for our supply chains to support growth and drive working capital productivity." DuPont initiated its program four years ago and has since freed up almost $3 billion in cash from daily operations.

Most vendors are expanding their supply-chain finance offerings rapidly across the globe to keep up with customer demand. PrimeRevenue, for example, opened an office in Hong Kong last year and has beefed up business in South America and Europe.

Banks, too, are making sure their customers can access supply-chain finance products wherever they want them, says J.P. Morgan's McDonough. "US corporates may have a US solution, but now these programs are reaching maturity," he says. "More and more, we're seeing clients saying, 'I've got this here, now I'd like to use it elsewhere.' Supply chain finance continues to widen, in terms of the number of clients adopting it, and deepen, in terms of where it's being deployed. That's the biggest driver in terms of market growth." ■

Going Global And Mobile

Companies are increasingly using e-payments and looking at mobile channels. But moving money electronically cross-border can still be an issue.

The ways in which organizations are paying their suppliers and business partners continues to advance. Electronic and mobile payments represent a growing portion of overall payments. More corporate finance professionals also are making payments in an increasing number of emerging markets. A case in point: Merchandise trade between the European Union and Africa jumped from $147 billion in 2009 to $183.5 billion in 2011, according to the World Trade Organization.

Yet, even as payment tools and solutions steadily improve, finance execs can find their payment processes complicated by regulations that vary from one region of the world to another, as well as by constraints imposed by the systems they use.

"E-payments and mobile payments, which used to be tiny, small numbers, now are growing at an accelerated pace," says Jean Lassignardie, corporate vice president and chief sales and marketing officer with Capgemini Global Financial Services in Paris. According to a survey of industry experts by Chetan Sharma Consulting, mobile payments will be the breakthrough application in 2013, ahead of mobile Cloud services.

While mobile payments technology within consumer markets has captured a great deal of buzz—mobile payments solution Square is now processing $15 billion in annual payments and just launched in Japan—mobile is also becoming a viable B2B payment tool, especially in emerging markets and among mid-market businesses. One reason: Small companies often lack enough staff to work around a colleague's absence, says Jim Gifas, head of treasury solutions with RBS Citizens. "If the CFO is traveling and he or she is the only one that can approve payments, that's a real obstacle."

Financial institutions aren't the only ones offering mobile payment solutions. Technology firm Basware offers mobile purchase-to-pay solutions that allow users to review and approve or

Key Regulatory and Industry Initiatives, Global and Regional, 2012

Global — IMPACT ON PAYMENTS (HIGH to LOW)

- Basel III
- Checks Transformation
- Mobile Payments
- Contactless Cards / NFC
- Foreign Account Tax Compliance Act (FATCA)
- e-Invoicing
- eGovernment
- CPSS-IOSCO
- International Payments Framework (IPFA)
- AML / ATF

North America — IMPACT ON PAYMENTS (HIGH to LOW)

- Dodd-Frank Act
- Canada Task Force
- Fed Intraday Liquidity*
- Durbin Amendment
- Canada Code of Conduct for Cards

Asia-Pacific — IMPACT ON PAYMENTS (HIGH to LOW)

- Hong Kong Multi-Currency Clearing
- Japanese Payments Services Act
- National Payments Corporation of India
- Renminbi as a Settlement Currency
- Common Payments Network in Australia
- 100% FDI in Mobile Wallets in India

Europe — IMPACT ON PAYMENTS (HIGH to LOW)

- FSA Liquidity Regime*
- PSD
- SEPA / eSEPA
- e-Money Directive**
- Evolution of TARGET2
- Pressure on Card Interchange Fees
- UK Real-Time Retail Payments
- Digital Agenda in Europe
- ACH Frequent Settlement
- Alternative Card Schemes
- UCITS IV

Note: ACH — Automated Clearing House; AML/ATF—Anti-Money Laundering/Anti-Terrorism Financing; CPSS-IOSCO — Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO); FSA — Financial Services Authority (UK); NFC—Near-field communications; PSD—Payment Services Directive; SEPA — Single Euro Payments Area; UCITS—Undertakings for Collective Investment in Transferable Securities;
*Already implemented; **The E-Money Directive is currently under review
Source: Capgemini Analysis, 2012; World Payments Report, 2011

reject invoices and purchase requisitions while on the go, says Robert Cohen, VP, North America. "If you have a smart phone or tablet, you can be productive." The firm just launched InvoiceReady Mobile, a solution for SMEs.

And many government entities are using mobile applications not only to initiate payments to their citizens but also to boost the ability of small businesses to work with them, says Ed Glassman, global head of commercial payments with MasterCard Worldwide. "Often, small and medium businesses' entire business system is right there on their phones," Glassman points out.

More companies are bringing procurement and treasury into closer alignment.

—Ebru Pakcan, Citi

EMERGING MARKETS M-PAYMENTS BOOM

Mobile payment applications can be particularly valuable in emerging markets, and especially among microbusinesses, or those with just a handful of employees. "The lower the income, the more rapid the development of mobile payment services," says Lisa Wilhelm, founder and managing partner with consultancy Global Payment Experts. Often, simple money transfer capabilities solve the challenges these business owners face when they're only able to move money physically, Wilhelm says. Since many of these regions currently lack traditional payment infrastructures, it becomes easier to leapfrog straight to mobile payment solutions. One well-known example is M-Pesa, the money transfer system launched in Kenya in 2007.

The advantages of electronic and mobile payments solutions are profound. Along with safety is "the ability of any business to source suppliers from anywhere in the world, versus being held hostage to the high cost and uncompetitive prices of the local markets," Wilhelm says.

Despite these developments, companies can still run into obstacles when trying to pay vendors via electronic channels in some countries. One challenge is interoperability, Wilhelm says—a system may be tied to a specific bank or telco.

Government regulation can pose challenges as well. Chris Lundquist is accounts payable manager with software firm Novell. In early May he tried to wire a payment to an Argentine vendor in Argentine pesos. Previously, Novell had used checks to pay the vendor, but then it could be several months before the vendor was able to access the funds.

However, the switch was far from straightforward. "Before sending the file, we had to provide the reason for the payment, the branch location, the phone number of the beneficiary, and their name and address," as well as a wealth of other information, Lundquist says. Novell's bank had requested this information, indicating that these were requirements of the Argentine government. Although explicable, the lengthy information requirements added time and effort to the process.

Like Novell, many companies are steadily moving to electronic payment transactions. Along with efficiency, "you have a better handle on the health of the business, the dollars in and out," says Gareth Lodge, senior analyst with Celent, a financial institution consultancy.

The limited amount of remittance information that can be attached to many electronic payments is also tricky. Kongsberg Automotive, a Norwegian developer and manufacturer of automotive systems, now makes about half of its payments electronically and half via check, says Edward Pendergrass Jr, the company's financial controller based in the US. Pendergrass says it's not unusual to receive phone calls from suppliers wondering what a specific payment is supposed to cover. Of course, that reduces the efficiency of moving funds electronically in the first place.

Some companies are turning to nontraditional vendors to deal with the issue. "We are getting to the point that the data associated with a B2B financial transaction is more critical than the payment itself," says Markus Rupprecht, founder and chief strategy officer with Traxpay, an international provider of Cloud-based financial and payment services for corporate settlement networks and B2B trading platforms.

Flightright is a German firm that works with several hundred airlines to claim refunds for delays or cancellations on behalf of passengers and travel agencies. Once it receives the funds, it distributes them to passengers. One reimbursement from an airline may cover multiple passengers, and generally requires supporting information—such as flight manifests and court documents. Flightright also needs to transmit much of this data to the final receiver of the funds. However, given the traditional cutoff of 140 characters on remittances with traditional bank systems, this can be problematic. Flightright uses Traxpay, which allows unlimited characters and data, to sidestep the issue. Notes Flightright CEO Marcus Schmitt: "We can attach all the information we need to the payment."

Some changes to the payment process are taking place within corporations themselves. For example, a growing number of organizations are bringing procurement and treasury into closer alignment, says Ebru Pakcan, global head of payments for treasury and trade solutions with Citi. They are, for instance, not only paying suppliers but helping to finance them.

The goals of corporate payments process change typically remain fairly similar from one company to another, no matter the size or industry. They include "centralizing, automating and controlling [the payment function] to yield efficiencies in working capital and general control from a risk management perspective," Pakcan says. ■

The Great Divide

As inter- and intra-regional trade in emerging markets continues to grow, the gap between needed and available trade finance is also on the increase. But new financing sources and new tools offer the promise of closing the breach.

Trade between emerging markets nations is projected to surge in coming years, raising the question of whether trade financing will be able to keep up. A recent study conducted by the Asian Development Bank suggests there is already a shortfall in trade finance, with surveyed banks reporting that in 2011 they rejected \$1.6 trillion of the \$4.6 trillion in requests they received for trade finance, or more than a third of all requests.

Some of the concerns about trade finance capacity stem from the European financial crisis, which caused some European banks to pull back from financing trade in Asia and other emerging markets over the past couple of years. But that problem has largely been resolved as banks in the respective regions have stepped up.

Markus Ohlig, a Singapore-based consultant with Greenwich Associates, sees some ongoing constraint in the supply of trade finance as financial institutions in Europe get their books in order. "European banks still have too large balance sheets, and they will shrink their balance sheets," Ohlig says. "But in Asia, the local banks are so well funded."

"There certainly is no shortage of trade finance in the region," adds Simon Constantinides, Asia-Pacific head of global trade finance receivables for HSBC.

Sanjay Tandon, head of Asia trade business at Citi, concurs: "Some European banks did retreat in Q4 2011, and well into the first half of 2012, but those liquidity issues are gone now."

There were also fears that the Basel III capital requirements would limit the bank funds available for trade finance. In Europe that concern subsided after the European Union loosened trade finance capital requirements for European banks in April. Tandon notes, though, that US banks may be at a slight disadvantage unless US regulators follow the EU's lead.

As local banks play an increasing role, some trade financing may shift out of US dollars and into local currencies because local banks don't have the same access to dollar funding as global banks. Notes Ohlig: "European banks had a very well structured process in place prior to 2011 for raising short-term US dollar funding and using it for all kind of structured and trade financing."

Bankers say some changes are already occurring in the currencies in which trade is transacted, such as the growth in the use of the Chinese renminbi. HSBC's Constantinides notes that 12% of China trade was settled in renminbi in 2012, up 41% from 2011.

NEW BLOOD

Longer term, Ohlig views institutional investors as a promising source of funding for trade finance. He cited a structured trade finance vehicle sold to investors by Standard Chartered, and says other banks have done similar transactions.

This approach to funding trade finance is just getting started, he says, and the short-term nature of trade finance transactions, which generally last only three-to-six months, poses a challenge. "If you get third-party money, the problem is, you have to replenish the pool of transactions every three months," Ohlig says. "If one [transaction] runs off and you replace it with a new one, the investor wants to be sure the credit quality is the same. One of the key obstacles to overcome is to have a robust process in place by which the expiring transactions are replaced by new ones."

Longer term, institutional investors could be a promising source of funding for trade finance.

—Markus Ohlig, Greenwich Associates

For investors, such products offer an attractive return and short duration in a rising interest-rate environment, as well as diversification, Ohlig says.

TRANSFORMING TRADE FINANCE

As emerging markets nations ramp up their trade flows, many bankers expect more of the business to switch from relying on trade finance to using open account methods of financing.

In Asia letters of credit (LCs) are used far more frequently to finance trade than in other parts of the world, but that has its disadvantages, says Ashutosh Kumar, global head of corporate cash and trade at Standard Chartered. "LCs are very cumbersome, both from a corporate perspective and even a bank perspective," he says. "They're paper-intensive and flows are slow."

Given the time and effort involved in using letters of credit, Kumar predicts much of the expansion in global trade will be financed via open account arrangements. But companies will still be looking for ways to mitigate their payment risk, he says, and credit insurance is not readily available in some markets. Fortunately, banks are in the midst of rolling out the much-discussed bank payment obligation (BPO)—effectively, an automated letter of credit—that could prove useful.

"We are seeing a lot of customer interest in bank payment obligations," Kumar says. "The bank payment obligation is something that gives you the operational efficiency of open account while giving you the certainty of a letter of credit."

Letters of credit involve documentation that moves from the seller to the seller's bank to the buyer's bank and finally to the buyer, but a bank payment obligation replaces those documents with data. After the seller invoices the buyer, the buyer provides data to its bank, that bank transmits data to the seller's bank, and the seller's bank makes payment when the seller supplies matching data. Standard Chartered estimates that BPOs can slice up to 10 days off the time required with a letter of credit.

As two companies become comfortable doing business with each other, they may no longer need the reassurance of a BPO, Kumar says. But the instrument also provides efficiencies because, with a BPO, the seller knows exactly which day it will receive payment. "Several customers want to use BPOs just as a pure payment mechanism," he says.

Citi's Tandon calls BPOs "one of the first banking-industry-led steps toward facilitating digital trade." The ICC BPO rules approved recently will help expedite adoption, he says, but notes that banks have considerable work to do to integrate their platforms and build comprehensive solutions around the BPO. "The SWFT TSU [trade services utility] with the BPO capability will provide bank-to-bank connectivity to deliver supply chain solutions across the wider community."

In fact, this development could help mediate the divide now seen in SCF platforms—with banks pushing their proprietary platforms while corporates prefer bank-agnostic solutions.

Given the vast increases in intraregional emerging markets trade, supply chain financing is of growing interest. Tandon notes that, particularly for intra-Asia trade, "what we have seen evolving is a lot of focus from the larger corporates on supply-chain financing solutions."

HSBC's Constantinides agrees that there is strong interest among Asian multinational companies. "The distributor might be selling to 50 or 60 companies, but the seller is only selling to one distributor, so there's a lot of counterparty exposure," he says. "The seller wants to move that asset off balance sheet quickly."

But, Tandon notes, as Asian companies do business in markets like Latin America and Africa, they're still relying on traditional trade products like letters of credit, "especially when dealing with relatively riskier markets in Africa." Security is still the name of the game. ■

Revealing Innovation

A number of new technology solutions building a presence, thanks to SWIFT's annual start-up challenge, hold the promise of making life easier in corporate treasury and financial management.

There are plenty of competitions designed to support start-ups, but few of these are intended specifically for the financial services industry. And fewer still have the potential to alter the future of corporate financial management. Innotribe—the annual start-up challenge run by SWIFT and held during the bank-sponsored messaging infrastructure outfit's yearly technology conference, Sibos—is one such competition.

Launched in 2011 at the Toronto Sibos, Innotribe encourages start-ups focusing on financial services. Kosta Peric, director, communications and Innotribe, at SWIFT, notes: "Many institutions don't realize that it is important to keep in touch with new technology and new trends. As an experiment, we launched the competition in Sibos in 2011, and it was a resounding success." After a positive reception in Toronto, the competition was launched on a wider scale last year, with regional challenges in London, Singapore and New York, followed by the grand finale at Sibos in Osaka. The regional rounds for this year's competition in Dubai are already under way.

The competition has brought much needed exposure to a number of start-ups worldwide, and not all of them focus on banks. Other solutions are designed to enhance corporate financial and risk management. One 2012 finalist, The Currency Cloud, acts as an intermediary for corporates of all sizes to make inexpensive cross-border payments.

Another of last year's finalists is Digital Shadows, a cybermonitoring firm that analyzes companies' digital footprints. "By that we mean all of the information that companies expose online—particularly through social media, Cloud services and the increasing use of mobile devices," explains Alastair Paterson, the company's CEO.

Paterson, Digital Shadows: The wealth of information online can undermine a company's security or reputation

"All of these great transformational forces mean that there is an ever-increasing amount of information on the Internet. While this can help companies improve their engagement with customers and their competitiveness, it can also, unfortunately, undermine a company's security or its reputation." Digital Shadows provides ongoing monitoring to identify and manage reputational risk exposures, such as those presented by confidential documents that could be online, as well as technical risks—for example the risk inherent in managing user names and passwords.

With the 2013 competition under way, another company that could be transformational for corporates is Paymandate, which has been selected at the European challenge to compete in this year's final run-off in Dubai. "This company focuses on preparing for migrating direct debit mandates and contracts to SEPA [Single Euro Payments Area]," says Peric. "This is a big problem that many corporates face, especially those with a large number of customers." Given the still-low migration rate of companies to SEPA and its fast-approaching deadline, the solution could be a godsend to companies with complex direct-debit schemes.

For start-ups, there are plenty of reasons to enter the competition aside from the $50,000 prize. Paterson observes that the process of entering the competition offers many benefits: "The material we had to produce for Innotribe and the coaching we had was really spot-on," he says. "It was material that we needed to produce anyway as a business, and it really helped us to sharpen up our messaging."

For those start-ups that have been successful in the Innotribe competition to date, what are the secret ingredients? Peric says: "I call it the three Ps of innovation: patience, perseverance and passion." ■