ICC BANKING COMMISSION | GUIDING INTERNATIONAL BANKING PRACTICE | DRIVING CHANGE IN TRADE FINANCE

2014 RETHINKING TRADE & FINANCE

AN ICC PRIVATE SECTOR DEVELOPMENT PERSPECTIVE

ICC INTERNATIONAL CHAMBER OF COMMERCE

The world business organization

FALCON
GROUP

The alternative global financier

www.falcontradecorp.com

ACKNOWLEDGEMENTS

We are pleased to release Rethinking Trade & Finance 2014, a flagship private sector initiative of the International Chamber of Commerce (ICC). Leading international institutions and foremost experts in banking and international institutions collaborated in its completion.

The survey uncovers patterns in business and trade, helping our members make sense of these changes and their implications. An accurate snapshot of market trends, the survey enables bankers, traders and government officials to gauge global trade expectations.

We would like to thank all of our ICC Banking Commission members for their timely inputs to this report. We would like to express our gratitude to ICC's network of 93 national committees for providing information and advice to lead us through the often-complex process of conducting such a global survey.

The present report depended on the support of various experts from organizations outside ICC. Marc Auboin of the World Trade Organization was instrumental in requesting that this Survey be established. We would like to extend our special thanks to our partners in this Survey: Mariem Malouche and Amir Fouad of The World Bank Group; Fabrice Morel from the Berne Union; Anders Aeroe and Torek Farhadi from the International Trade Centre (ITC); Steven Beck and Alisa Di Caprio of the Asian Development Bank; André Casterman and Nadine Louis from SWIFT; Rudolf Putz and Kamola Makhmudova of the European Bank for Reconstruction and Development; Bonnie Galat of the International Finance Corporation; Gema Sacristan of the Inter-American Development Bank; Varapat Chensavasdijai and Michele Ruta from the International Monetary Fund (IMF); Daniel Sheriff of Trade and Export Finance; and Peter Mulroy from Factors Chain International.

BAFT-IFSA kindly circulated the ICC Survey questionnaire to its members. SWIFT once again graciously provided background information and contemporaneous data on trade finance messaging volumes worldwide on an exclusive basis.

We would also like to thank Vincent O'Brien of the ICC Banking Commission Executive Committee; and Derek Ennis of Coastline Solutions for their timely inputs to this report. The ICC thanks its members and sponsors for their support in the preparation of this Survey.

Partners:

ABOUT THE INTERNATIONAL CHAMBER OF COMMERCE (ICC)

A world network of national committees keeps the ICC International Secretariat in Paris informed about national and regional business priorities. More than 2,000 experts drawn from ICC's member companies feed their knowledge and experience into crafting the ICC stance on specific business issues.

The United Nations, the World Trade Organization, the G20 and many other intergovernmental bodies, both international and regional, are kept in touch with the views of international business through ICC.

For more information please visit: www.iccwbo.org

Background information

Go to page for further reading

Find more online

Key findings

Editor
Thierry Senechal, Senior Policy Manager, Executive Secretary, ICC Banking Commission

Production Manager
Thomas Paris, ICC Banking Commission

Editorial Committee
Marc Auboin, Counsellor, Economic Research and Statistics Division, WTO
Amir Fouad, Communications & Research Analyst, International Trade Department, World Bank
Anders Aeroe, Director, Division of Market Development, International Trade Centre (ITC)
Peter Mulroy, Secretary General, Factors Chain International (FCI)
Rudolf Putz, Deputy Director, Trade Finance Programme, European Bank for Reconstruction and Development (EBRD)
Derek Ennis, CEO, Coastline Solutions
Vincent O'Brien, Trade Finance Expert and Chair, ICC Banking Commission Market Intelligence
Tim Schmidt-Eisenlohr, Assistant Professor, Economics Department, University of Illinois
Ruediger Geis, Senior Product Manager for trade related issues within Financial Institutions, Commerzbank
Fabrice Morel, Deputy Secretary-General, Berne Union
Karin Oszusky, Advisor, OPEC Fund for International Development (OFID)
Nadine Louis, Market Manager Supply Chain, SWIFT
Steven Beck, Head of Trade Finance, Asian Development Bank (ADB)
Gema Sacristan, Chief, Financial Markets Division, Inter-American Development Bank (IADB)

Sponsorship Management
Luz A. Rodriguez, Global Partnerships Manager, International Chamber of Commerce (ICC)

Design
www.wearezephyr.com

ICC Services, 33-43 Avenue du Président Wilson, 75116 Paris, France

ICC Publication No. 867E • ISBN: 978-92-842-0263-8

Visit the ICC Banking Commission website:
www.iccwbo.org/about-icc/policy-commissions/banking

WE WOULD LIKE TO THANK OUR SPONSORS:

BMO Capital Markets
Your ambition achieved.

BNP PARIBAS

China Systems
2014 ICC Banking Commission Preferred Partner

FALCON GROUP

ifs University College
Incorporated by Royal Charter

MISYS FINANCIAL SOFTWARE

RBS

Santander
2014 ICC Banking Commission Preferred Partner

Surecomp
driving global trade
2014 ICC Banking Commission Preferred Partner

თიბისი ბანკი
TBC BANK
თქვენ გვერდით

WELLS FARGO

IN THIS REPORT

REFERENCE INFORMATION

SUMMARY REVIEW

With the purpose of identifying the highlights of this report, this section provides a summary of the patterns, challenges and opportunities in trade finance.

THE FULL REPORT

A detailed statistical analysis of the regional and global trends in trade finance followed by a digest of the activities of multilateral development banks and export credit agencies in trade finance that charts their growing presence.

LOOKING AHEAD

A panel of industry experts share their views on the drivers and solutions to a more robust and resilient market, with a few retrospective observations on the Survey and a call to take part in the next edition.

TABLE OF FIGURES

ACRONYMS

ADB	Asian Development Bank
AfDB	African Development Bank
BAFT	Bankers Association for Finance and Trade
BCBS	Basel Committee on Banking Supervision
BIS	Bank of International Settlement
Bp	Basis point
BRIC	Fast-growing developing economies of Brazil, Russia, India, and China
CCF	Credit Conversion Factor
DCI	ICC's quarterly newsletter, DCInsight (ICC Publication)
DDA	Doha Development Agenda
EBRD	European Bank for Reconstruction and Development
ECA	Export Credit Agency
ECA	Europe and Central Asia
GTA	Global Trade Alert
GDP	Gross Domestic Product
ICC	International Chamber of Commerce
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IFSA	International Financial Services Association
ILO	International Labor Organization
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
LCs	Letters of credit
LGD	Loss Given Default
MDB	Multilateral Development Bank
MDGs	Millennium Development Goals
MENA	Middle East and North Africa
MIC	Middle-Income Countries
NTM	Non Tariff Measure
PO	Procedural Obstacles
PRC	People's Republic of China
SAR	South Asia
SME	Small and Medium-sized Enterprise
SSA	Sub-Saharan Africa
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UCP	Uniform Customs and Practices for Documentary Credits (ICC Rules)
UK	United Kingdom
US$	United States Dollar
WTO	World Trade Organization

FOREWORD

Over the past six years the ICC Banking Commission has played a valuable role in providing meaningful statistical data and information to the Basel Committee demonstrating the very low risk trade finance represents for Banks.

As a result, Basel has relaxed the post financial crisis capital ratios banks had to set aside for trade finance activities, and as such, liquidity is no longer a constraint. The ICC Global surveys which gather this data are the outcome of steadfast collaboration throughout the industry, export credit agencies, international financial institutions and regional development banks.

However, as the global recovery continues, the prudential and regulatory requirements in vetting and dealing with banks and clients in the southern hemisphere bears prohibitively increased costs of compliance. The consequence is that gradually, smaller banks in the southern hemisphere could fall off from the network of banks participating in global trade.

In reality, there should not be mutual exclusivity between regulation and its cost for compliance. To pave the way for smaller banks in the developing world to play their legitimate role in national development, we must make sure that multiple counterparty relationships are maintained in global transactions, including banks in developing countries.

Collectively, we must strive to weave a broader fabric of financial institutions, including those in the lower end of the market, enabling them to contribute towards trade growth.

The lack of access to trade finance obstructs the ability of firms in developing countries, the vast majority of which are small and medium-sized enterprises (SMEs), to participate in value chains and production networks. There is a need to alleviate the constraints faced by banks in these countries and enable them to scale up financing for trade. In most cases, the productive ability of firms in the developing world is moving faster than the ability of local banks to finance their activities.

To be competitive in trade, firms must have access to deeper financial markets which can offer them the choice of appropriate financial instruments for growth, be it loan or capital. This will allow them to make the necessary investments in their quality and standards infrastructure, upgrade logistics, invest in human resources and technology, finance research and development for innovation. Financing enables these firms to upgrade themselves to the requisite level to integrate into value chains. Being a part of this production and distribution network offers considerable developmental opportunities to many firms involved and a wide array of economic actors are enabled to harvest the related benefits.

ITC, as a joint agency of the United Nations and the World Trade Organisation with a mandate to enhance trade in developing countries, works to increase the capacities of SMEs in understanding and obtaining affordable financing instruments for trade.

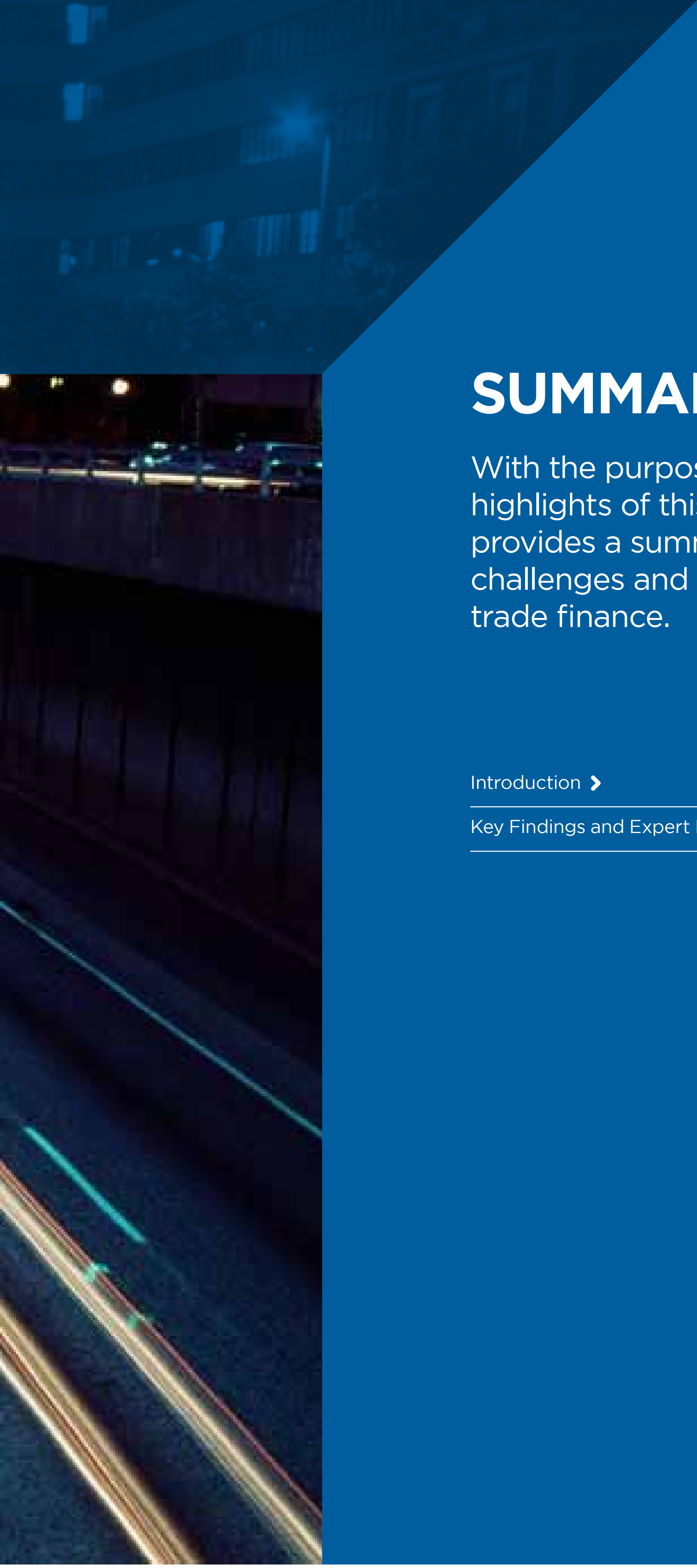
Trade Finance supports development. Over time, new techniques of injecting liquidities along the trade value chain have made the financial sector an integral part of trade growth. In the developing world however, access to affordable finance is still among the most problematic factors identified by firms in Sub-Saharan Africa, limiting their global growth. Closing this gap can increase productivity, competitiveness in trade and create jobs, all of which contribute to sustainable development.

ITC, in collaboration with other development partners, banks and the ICC, can offer support in developing training and education modules on trade finance, connecting the dots to reduce transaction costs by creating a more level playing field and increasing the trade capacity of poorer countries.

This work has never been more important in today's competitive international trading environment where access to finance can make a difference in innovation, enterprise development and economic growth.

Arancha González
Executive Director
International Trade Centre (ITC)

I. REFERENCE INFORMATION | II. SUMMARY REVIEW | III. THE FULL REPORT | IV. LOOKING AHEAD



SUMMARY REVIEW

With the purpose of identifying the highlights of this report, this section provides a summary of the patterns, challenges and opportunities in trade finance.

INTRODUCTION

Six years ago, a small group of bankers from the ICC Banking Commission gathered to consider the launch of a major publication featuring comprehensive market statistics on the behavior of trade finance in midst of the financial crisis. 2014 marked marks the 6th anniversary of the founding of the Rethinking Trade & Finance series, now a well-established flagship publication of the ICC Banking Commission.

Throughout these past few years, financial institutions have ridden the highs, and plunged to the lows of in the business cycle. Despite these dramatic changes in the economic environment, trade finance has remained a key focus area for bankers and policy makers willing to support private sector development in emerging markets. More than ever, market intelligence remains at the heart of the ICC Banking Commission's work—not only formulating banking standards and advocating policy measures rules to level the playing field, but also providing high quality foresight and objective analysis to respond to events and help the industry to take judicious actions.

The relevance of the ICC series Rethinking Trade & Finance has never been greater. This 2014 edition explores the ways in which the trade finance industry is coping with current uncertainties and driving forces in a turbulent world. A major component of the report, the ICC global trade finance questionnaire, was deployed in January 2014 and distributed to the ICC Banking Commission's 600+ members and institutional partners in 150+ countries, garnering record responses from a growing pool of 298 participants. Looking ahead, key industry leaders provided their insights on the challenges that may have a critical and defining impact on trade finance over the next years.

In particular, we noted that financial institutions are making significant changes in response to regulatory actions and increasingly far-reaching global financial crime regulations cutting across legal, risk, operations and tax functions in the industry. The report also acknowledges that much still needs to be done to stabilize the global financial system and restore growth in many regions.

In closing, I take this opportunity to thank the ICC Banking Commission members and partners for contributing to the ICC Rethinking Trade & Finance series over the years. The existence of this important industry tool is only possible through your continued support and investment in the project – I cannot express enough thanks to each of you for your involvement.

Sincerely,

Thierry Senechal
Senior Policy Manager
Executive Secretary, ICC Banking Commission

KEY FINDINGS AND EXPERT INSIGHTS

The release of the ICC Global Trade Finance surveys has become a much anticipated event in the trade finance calendar with participation increasing steadily year-on-year both in terms of the number of respondent banks and countries. This year we have had record participation with 298 responses from 127 countries.

Since the inception of the surveys we have seen more banks consider trade finance as a core line of business which has enhanced the importance and relevance of the survey findings.

The results of this year's survey lead us to be cautiously optimistic, with a realization that this optimism is framed within a fragile international trade environment. This fragility is magnified by unpredictable political developments on the fringes of Europe, the Middle East, South East Asia and other part of the emerging world.

The Global Economy: Reversal of Fortunes with deceleration and uneven growth.

In tandem with the improvement in world GDP, world trade growth strengthened from a slow pace at the end of 2013, with improved but uneven outcomes for both advanced and emerging economies. Global trade growth is expected to gradually strengthen through 2016, with a projected annual growth rate at that time of 5.1% (up from 3.1% in 2013). However, when compared to trade growth before the great trade collapse of 2008-2009, trade growth has slowed down with the dividend gap of higher trade growth compared to GDP growth narrowing sharply.

It is worth keeping in mind that from the 1990's trade has tended to grow at close to double the pace of GDP growth. When we fast forward to 2012, we see in contrast that trade growth fell to about to the same rate as GDP, and remained at a similar pace during 2013

Current growth is increasingly being driven by the improved performance in advanced economies, primarily the United States. We have seen a significant reversal of fortunes where deceleration can be seen in the emerging markets, notably in China.

The crisis in Ukraine also poses some downside risks to global trade prospects, and the danger of a sharp rise in European gas prices could set back a fragile Eurozone economy where interest rate reduction is likely and some form of quantitative easing possibly on the cards. US figures at the start of 2014 have been subdued to a degree by climatic factors, while underlying growth in Japan remains robust and currently ahead of expectations.

Some key factors in the lackluster trade growth in 2013 involved the direct impact of recession in the European Union, the high unemployment rate right across the Eurozone, and uncertainty as to when

the Federal Reserve would wind down its monetary stimulus in the United States. The consequences, including financial volatility in developing economies in the second half of 2013, could be seen in a number of key emerging markets, particularly those carrying significant current account imbalances. Trade imbalances negatively impact the ability of a country to trade in an ever-increasing competitive market.

Emerging markets may be slowing but with the emergence of new trade corridors the importance of South-South trade has grown more significant in the overall development of trade. South-South trade accounted for over half of developing country exports since 2010. South-South trade has grown by 17% since 2001. South-South exports now represent 46% of the global exports, up from 35% in 2001 and it is expected that this trend will continue, though perhaps at a slower pace.

Government rebalancing, protectionist trade, restrictive measures and supply chain barriers impede trade development and create an uneven global trade environment.

In the current challenging environment, recent trends in government spending and fiscal stimulus policies may hamper accelerated cross-border trade growth, as such policies have favored and been targeted at domestic stimulus as opposed to trade liberalization measures.

Furthermore, trade restrictions are proving stubbornly troublesome and it is of concern that in this report we see that the G20 countries accounted for three quarters of the trade restrictive measures imposed since 2008.

On the positive side, a long-awaited breakthrough in trade facilitation appears to have been achieved with the WTO agreement reached at the Ninth Ministerial Conference in Bali in December 2013. It is hoped that the aspirations derived in terms of trade facilitation will be achieved. For example, it is contended that if every country improved just two key supply chain barriers (1- border administration and transport and 2- communications infrastructure and related services) even halfway to the world's best practices, then global GDP could increase by US$2.6 trillion and exports by US$1.6 trillion. The targets have been identified but urgent action should be taken now to ensure their implementation.

Trade finance data is generally positive but the industry still faces headwinds which impact on day to day operational trade finance.

This survey has provided us encouraging data in which we can see that 68% of respondents reported positively that the availability of trade finance increased by value compared to the previous year even though most respondents highlighted that the increase was marginal.

In the context of the needs of corporate customers who drive the trade finance business it was positive to see that the alarming rise in fees for trade risk after the 2009 trade collapse has abated. However, an enigma has surfaced in that even though a large gap remains for access to finance and risk coverage, 80% of respondents reported that trade finance pricing is lower or unchanged.

Another positive trend emerged in that 69% of respondents noted a decline in reported court injunctions barring payment under trade finance instruments, indicating a return to relatively normal trading conditions.

However, regarding documentary credits, the 'discrepancy challenge' remains with many banks continuing to be particularly cautious in examining documents. Only 7% of respondents to the survey reported a decrease in spurious discrepancies when documents are presented under documentary credits.

Trade finance availability increased but the trade finance gap widens especially in the context of access to trade finance for Small to Medium Sized Enterprises (SMEs).

In terms of the trade finance gap, 41% of respondents reported that they perceive a shortfall of trade finance globally. This "trade finance gap", remains a major challenge, especially for SMEs as without access to trade finance, now widely acknowledged as an engine of growth, SMEs will not be able to contribute substantially towards economic recovery and development.

From 2013-2014, it remains clear that SMEs, particularly in emerging markets, continue to rely on loans in local currency or overdrafts to finance their international trade activities with the consequent restriction on their ability to trade at optimum level during these challenging times.

Open account, short-term credit insurance, factoring and technology driven supply chain finance are fast becoming the order of the day.

Open account business is increasing in market share and this is corroborated objectively in the report in that during 2013, the SWIFT trade volumes (Collections, Guarantee, Letters of Credit) did not increase but experienced a decrease of 0.65% despite an overall increase in trade flows.

The SWIFT analysis in this year's survey is comprehensive and a particularly telling figure that reports a key trend is that during 2013 the Renminbi (RMB) became the second most used currency in trade finance SWIFT messaging, overtaking the Euro.

The analysis within this report clearly shows that the acceleration in open account business is driven with the support of international factoring, which shows a five-year compound annual growth rate (CAGR) of 24.8%. This is far above the 13.1% CAGR for domestic factoring. Simply put, cross-border factoring volume increased at nearly double the pace compared to domestic factoring growth.

Furthermore, it is worth noting that the volume of exports covered by members of the Berne Union (International Union of Credit and Investment Insurers) increased by 4%, to reach a total amount of US$1.8 trillion.

Out of the total business volume of Berne Union members, more than US$1.6 trillion represented short-term export credit insurance, a very significant proportion of which is open account trade. Medium and long-term export credit insurance amounted to a figure of just over US$160 billion during 2013.

Supply chain finance may soon be reaching a tipping point within the bank-mediated trade finance industry, with 66% of respondents underlining the increasing importance of supply chain finance within their banks. This should bode well for the ICC/SWIFT Bank Payment Obligation project where interest has been growing and take-up increasing marginally. There is a clear consensus on the need for a technology driven supply chain solution.

Regulation, compliance and Know Your Customer (KYC) requirements are at an all-time high and the new focus within the international trade finance industry.

It is clear that compliance, regulation and KYC issues are challenges in the trade finance markets. In addition to the general resource and cost impact of regulatory requirements, 60% of the respondents considered that lack of harmonization of compliance standard created significant challenges for the industry.

Know Your Customer Principles (KYC) have also come center stage in terms of issues holding back trade finance business and are seen as a critical factor hampering the smooth flow of trade finance as banks retreat from markets or transactions where they are unable to fulfill the KYC requirement due, for example, to limited communication infrastructure or the lack of fundamental credit or financial information on trading parties. Furthermore, 65% of respondents reported that implementation of Basel III regulations is to some extent, or to a large extent, affecting the cost of funds and liquidity for trade finance.

It is worth highlighting that despite the challenging market conditions, documented losses when using traditional trade finance remains very low. This has been reported by the ICC Global Survey respondents, the Multilateral Development Banks, as well as figures from the ICC Trade Register.

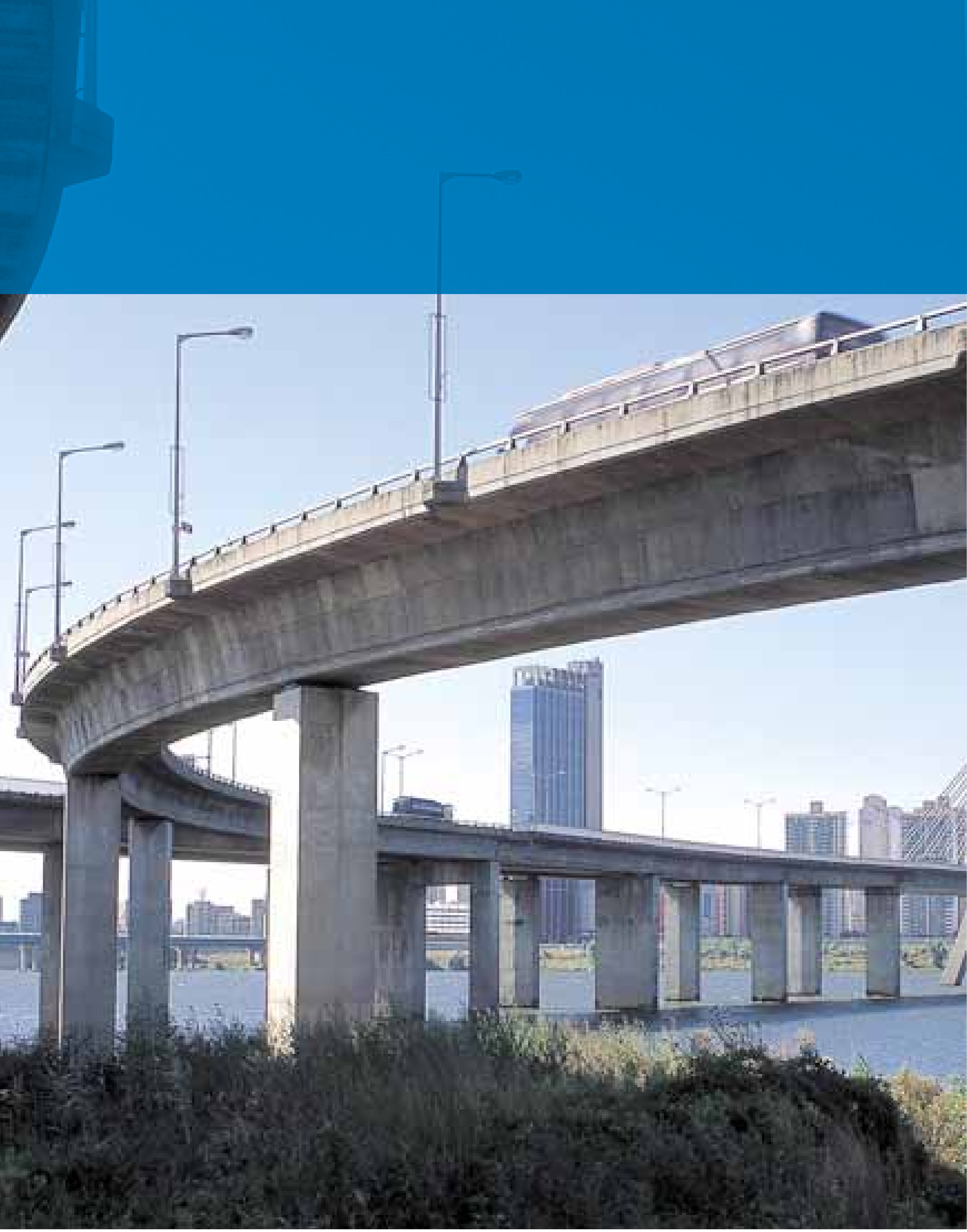
An important observation is that these issues though challenging are necessary and, in any event, are here to stay. It is a positive development to see that the trade finance industry is embracing these issues; with the ICC Banking Commission advancing dialogue and policy discussion to facilitate the evolution of streamlined global practice.

The power of partnership between stakeholders involved in trade development

It must be highlighted that a major side benefit derived from the financial crisis is the spirit of partnership that has evolved between the stakeholders and partners since commencement of the ICC Global Trade Finance Surveys.

This collective partnership has facilitated the provision of timely data on developments as they emerge which in turn enables speedy policy and operational decision to be taken and, in turn, implemented.

Vincent O'Brien
Member of the Executive Committee,
ICC Banking Commission
Chair, ICC Banking Commission
Market Intelligence Task Force



THE FULL REPORT

A detailed statistical analysis of the regional and global trends in trade finance followed by a digest of the activities of multilateral development banks and export credit agencies in trade finance that charts their growing presence.

WORLD ECONOMIC OUTLOOK

The trajectory of trade over the last 25 years is decidedly split into two parts: the period prior to the Great Trade Collapse of 2008-9, during which global trade growth far outpaced global GDP growth, and the period after the crisis, during which global trade and global GDP have grown at roughly the same pace. Even despite a sharp recovery in the wake of the crisis, real year-over-year growth in global trade has decelerated significantly in recent years, from 13.9 percent in the period ending Q1 2010 to 4.1 percent in the period ending Q3 2013 (including a low of 2.0 percent in Q1 2013). Discussion on the emergence of global value chains in international trade and their potential to affect global trade trends is on the rise, while the continued use of trade-restrictive measures by G20 countries far outpaces efforts to liberalize or remove existing barriers. At the multilateral level, the WTO's Ninth Ministerial Conference in December 2013 produced a landmark agreement, but much work is needed to ensure that its goals of better trade facilitation, agricultural trade and improved market access for Least Developed Countries (LDCs) ultimately come to pass.

Global trade trends in 2013

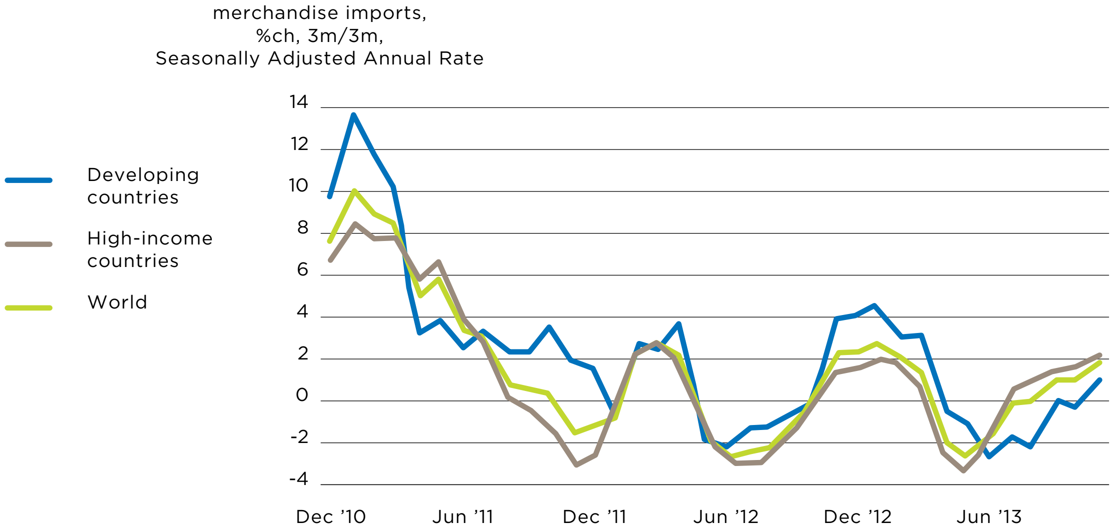
Although by the third quarter of 2013 real year-over-year global trade growth in constant prices had crept back up to 4.1 percent, this has yet to offset what has ultimately been an aggregate deceleration since the financial crisis, including absolute declines in trade across products and regions. This subdued trade growth over the last several years has been heavily fueled by weak overall demand in high-income countries. At the same time, the composition of demand has shifted away from import sensitive products like investment goods, while government spending and fiscal stimulus have favored domestic products over imports. Developing countries have mitigated the decreased demand from the North by trading more with each other — South-South trade has accounted for over half of developing country exports since 2010 — but aggregate demand from developing countries has also not been immune to the overall post-crisis decline in trade (Figure 1).

South-South trade has accounted for over half of developing country exports since 2010.

The tide turned in 2013, however, as high-income countries began to emerge from years of sluggishness and recession to report stable growth, coupled with an uptick in import demand. In the United States, GDP growth rose steadily in 2013 in the wake of increased consumer spending, rising industrial output, and employment gains. In the EU, Germany spearheaded a rebound in growth that began in the second quarter and is expected to increase to 1.1 percent in 2014. These recovering trends present a marked shift from the previous several years, during which developing countries pulled the weight of the global economy largely on their own. As the US remains the world's largest importer and the Euro Area persists as the most important trading partner for many developing countries, their recovery bodes well for the state of global trade moving forward.

International commodity prices, particularly in food and metals, have been on the decline over the last year and a half, a precipitous drop that has negatively impacted the exports and fiscal revenues of commodity exporters, and ultimately worsened their terms of trade. In parts of Sub-Saharan Africa and Latin America, the average terms-of-trade losses in 2013 (compared to 2012) reached as high as 2.5 percent of GDP. The negative effects of the price drops on commodity exporters will likely linger into 2014, even as demand in high income economies is expected to strengthen. Furthermore, middle-income producers recorded small but significant income declines in 2013 which could also weigh heavily on growth in the coming year.

Figure 1: Impact of deceleration in import demand on developing and high-income countries



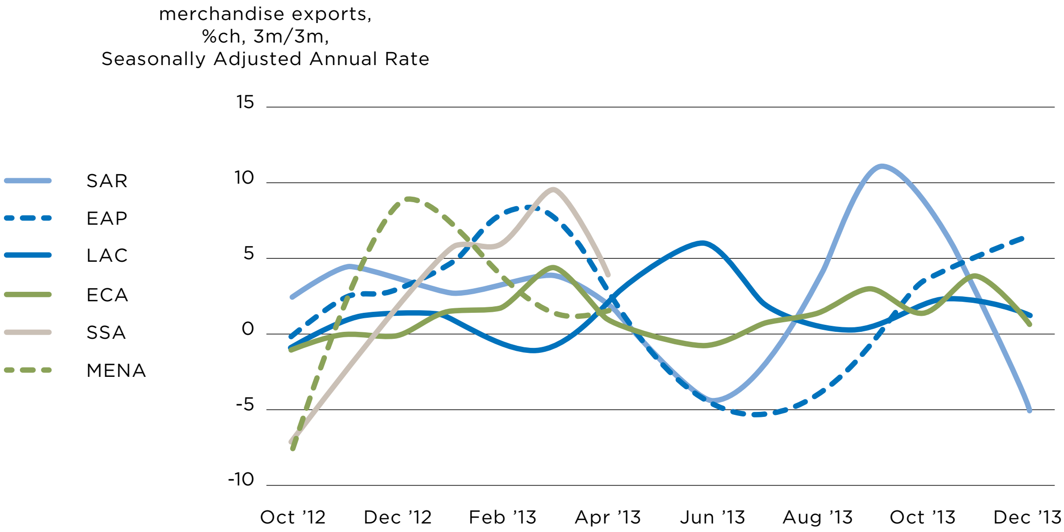
Source: World Bank

As was the case in 2012, developing country exports fluctuated throughout 2013, with significant variation from region to region (see Figure 2). The East Asia and Pacific (EAP) region was able to offset a second quarter slump with strong export growth from midyear onward, buoyed not only by increased demand from high-income countries and policy stimulus from China, but also increased net exports by Indonesia, Malaysia, the Philippines, and Thailand. It was the only region to end the year with its exports experiencing a consistent and unequivocal upswing. The brief Q3 surge of exports in South Asia (SAR), for example, though more dramatic than in East Asia, proved part of cyclical trend that decelerated in the final quarter.

Exports in 2013 were least volatile in the Europe and Central Asia (ECA) and Latin America and the Caribbean (LAC) regions. Most countries in ECA fared well in 2013 behind the strength of Central Asian energy exports and healthier demand from the EU. Though non-energy commodity exporters like Belarus, Ukraine and the Kyrgyz Republic experienced negative terms of trade shocks, most countries in the region saw their average monthly growth in real exports hover around one percent. In LAC, Argentina, Ecuador, and Guyana were consistent bright spots in a region that saw January to November merchandise exports grow at rate nearly half that of the equivalent period in 2012.

The East Asia and Pacific (EAP) was the only region to end the year with its exports experiencing a consistent and unequivocal upswing.

Figure 2: Export performance varied by regions in 2013



ECA: Europe and Central Asia, LAC: Latin America and the Caribbean, EAP: East Asia and Pacific, MENA: Middle East and North Africa, SAR: South Asia, SSA: Sub-Saharan Africa.

Source: World Bank

5.1%

Global trade is expected to gradually strengthen through 2016, with a projected annual growth rate of 5.1%.

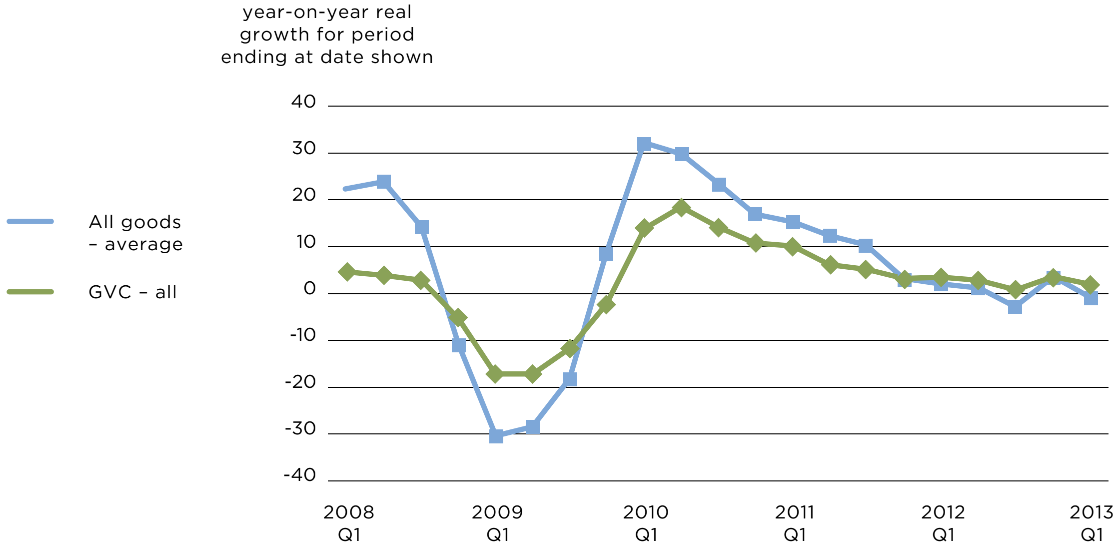
In Sub-Saharan Africa (SSA), export growth outperformed other regions in Q4 2012 and Q1 2013, part of larger trend of increased economic growth on the continent in 2013. Real GDP growth for the year jumped from 3.5 percent in 2012 to 4.7 percent in 2013, complemented by a US$6 billion increase in foreign direct investment flows and a 6.2 percent increase in remittances. Unfortunately, these economic gains were not shared by neighboring countries in the Middle East and North Africa (MENA), which has remained in economic turmoil for the duration of the Arab Spring and where the region's economic performance has continued to suffer from the lingering effects of political instability.[2]

Global trade, which has been decidedly weak of late, is expected to gradually strengthen through 2016, with a projected annual growth rate at that time of 5.1 percent (up from 3.1 percent in 2013). This trend should occur on the heels of steady recovery in import demand in the US, China, Indonesia and EU, as well as continued export success amongst developing countries as they continue to trade more amongst themselves. Exporters of manufacturing products and services such as China, Malaysia, the Philippines, and Thailand, as well as economies with relatively low unit labor costs and competitive exchange rates (e.g. Cambodia, Lao PDR, Myanmar, Vietnam) stand to benefit the most from this projected trade increase. However, declining commodity prices will continue to have negative terms-of-trade consequences for commodity exporters. In addition, while burgeoning South-South trade has led to a rapid increase in developing country market shares over the last decade, the volume of trade in the coming years is unlikely to surpass pre-crisis trends, which suggests a potential slowing down in this dominant long-term trend.

The significance of global value chains

International trade has evolved over the past several decades from the simple paradigm of manufacturing a final product in one country and selling it in another to a world in which products often cross several borders and accrue value added in multiple international locations before going to market. This fragmentation of the production process, known as a global value chain (GVC), involves a high volume of trade in intermediate parts before final goods are assembled. The GVC process was first exemplified by North American automobile production in the 1960s before becoming the more commonplace practice that it is today, e.g. in the manufacture of consumer electronics. Intermediate inputs now account for more than half of high-income country imports and close to three quarters of imports from large emerging economies like Brazil and China.

Figure 3: Trade in GVCs has decelerated more rapidly than in total trade



Source: World Bank, ITC

Coupled with comparative advantage and a favorable logistics environment, GVCs offer significant opportunities to countries able to specialize in specific segments of the supply chain, such as inexpensive labor, technical skills, or abundant machinery. But there is a downside. GVCs also rapidly transmit demand shocks from final goods to intermediate inputs, which can exacerbate or even cause trade downturns. A decrease in demand for a complex GVC good like automobiles directly impacts the level of demand in the intermediate components that make up that good, e.g. auto parts. And if demand for complex GVC goods declines more rapidly than demand for simple goods that require no intermediate processing, global trade in aggregate could decelerate more rapidly than otherwise.

Furthermore, GVCs are characterized by information asymmetry and uncertainty, particularly on the part of intermediate goods producers. While exporters of final goods can rely on inventory to stay afloat during periods of contracted demand, suppliers of inputs have less information about demand trends for final goods and see their sales fall far more abruptly and rapidly, which may cause them to act in a more risk-averse manner. This phenomenon seems to be at play in the current post-crisis trade slowdown, during which the average amount of gross trade to value added trade has declined because of a shift away from products that tend to have long value chains (and a low share of final exporter value added) toward products that involve fewer intermediate steps.

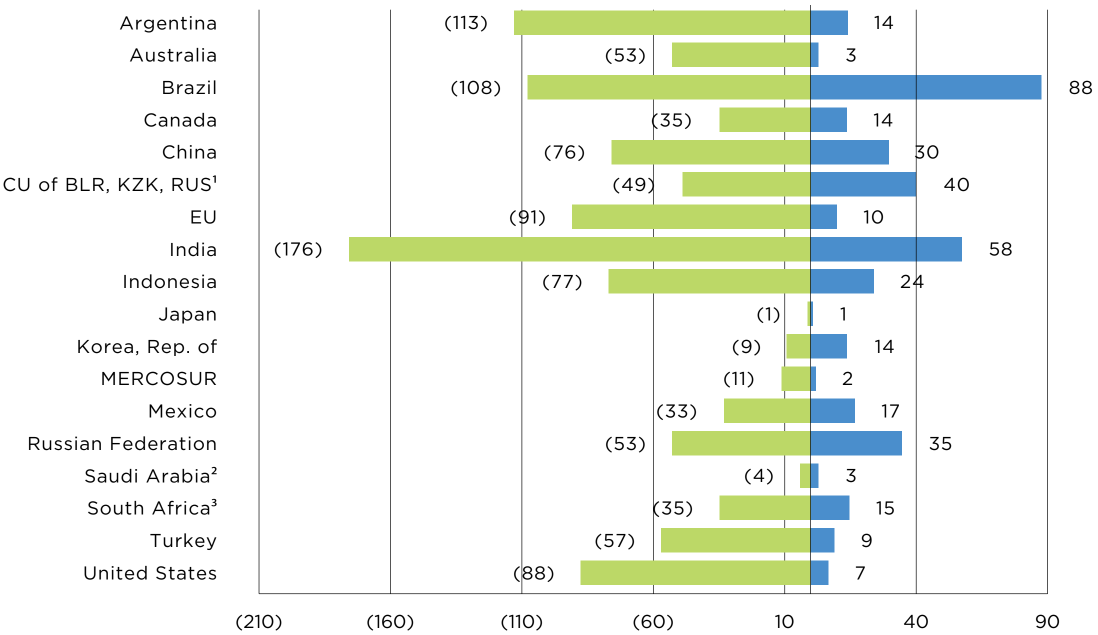
G20 countries account for three quarters of the trade restrictive measures imposed since 2008.

The experience of three important product groups that together make up about 20 percent of global merchandise trade – apparel and footwear, electronics, and motor vehicles and parts[3] – helps to illustrate this point. Figure 3 shows that in the current slowdown, trade in the three GVCs taken together has declined more rapidly than global trade, as was also the case during the financial crisis itself. However, while GVC trade in the 2008-2009 episode collapsed more rapidly than global trade and then boomed back, the current slowdown in GVC trade relative to total trade is more subtle. Arguably, GVC and non-GVC trade have grown at about the same rate since late 2011. But in four of the last five rolling 12-month windows calculated on quarterly data, GVC trade has grown less rapidly than total trade. In the most recent window for which data are available, that ending in Q1 2013, total global merchandise trade increased by 2.0 percent while GVC trade declined by 0.6 percent.

G20 countries failing to fill the trade reform vacuum

At a time when leadership on trade reform is sorely needed, G20 countries have vowed only to refrain from imposing new trade-restrictive measures, but that commitment has not been met. On the contrary, G20 countries now account for three quarters of the trade-restrictive measures imposed since November 2008. The impact of the increase in trade restrictions affects 4-5 percent of world trade, not including the much higher cost of forgone gains from trade resulting

Figure 4: Number of newly initiated trade measures by G20 Countries (2008-2013)



Source: Authors' calculations using WTO data from WTO (2013) from the failure to lower existing trade barriers. While it is true that G20 members also account for a majority of the trade-*liberalizing* measures implemented to date, such measures are on the decline. According to the World Trade Organization (WTO), they represent only 33 percent of the measures enacted in the last six months compared with 40 percent of the measures implemented in the previous seven month monitoring period.

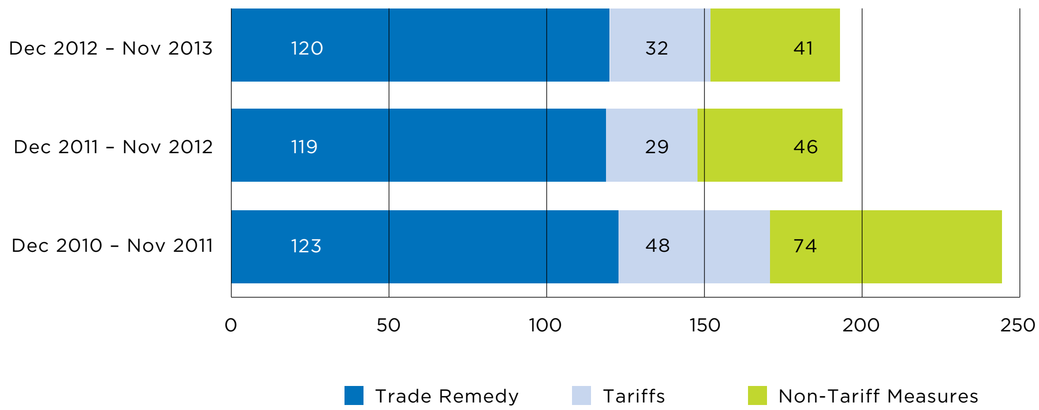
According to the WTO's monitoring of trade protectionist measures, 193 new trade-restrictive measures were introduced by G20 countries between December 2012 and November 2013 (Figure 5), mostly in the form of antidumping measures and other trade remedies. Non-tariff measures (NTMs) such as technical requirements or restrictions on agricultural products, local content requirements, licensing, and export bans also remain largely unabated. Though the total number of new trade restrictions is lower than the amount imposed in the immediate aftermath of the crisis, the continued use of such measures despite an open commitment to exercise restraint is damaging the G20's credibility as a viable leader of trade reform.

By the end of 2012, the accumulated stock of trade remedy measures alone covered about 3.2 percent of the imported products in G20 emerging economies and about 2 percent in G20 advanced economies, an increase of 60 percent and 22 percent, respectively, from pre-crisis (end-2007) levels. Most of the increase in these restrictions has impacted exports of emerging economies, especially those of China, with the largest proportional impact arising from restrictions imposed by other emerging economies. From mid-May 2013 onward, metals accounted for 42 percent of antidumping initiations, followed by chemical products at 17 percent.

193

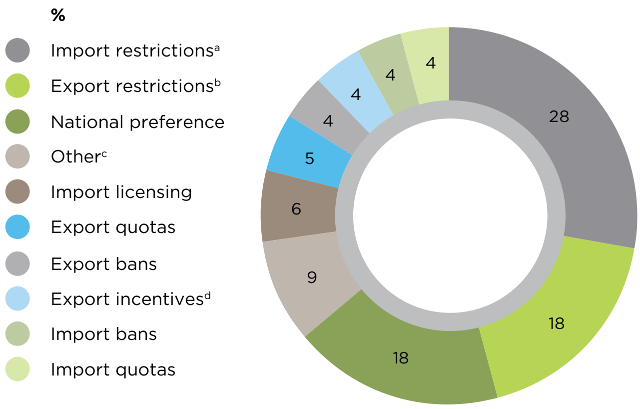
new trade-restrictive measures were introduced by G20 countries between December 2012 and November 2013.

Figure 5: Antidumping measures continue to make up the bulk of new G20 trade restrictions



Source: Authors' calculations using WTO data from WTO (2013)

Figure 6: Types of G20-imposed Non-Tariff Measures from 2011-2013[4]



Source: Authors' calculations using WTO data from WTO (2013)

Definition

Non-tariff measures (NTMs) are policy measures other than ordinary custom tariffs that have the potential to affect the international trade in goods.

The initiation of "behind-the-border" NTMs remains a persistent policy tool through which G20 countries affect trade. Although the WTO recognizes the right to use NTMs to achieve legitimate, non-trade-related policy objectives, poorly designed NTMs have the potential to negatively impact prices, competitiveness and overall trade volumes. Restrictions on imports and exports make up nearly half of the G20-imposed NTMs since October 2011 according to WTO numbers, while tax exemptions, price preferences for locally produced content, and other "buy national" provisions are on the rise (Figure 6). In 2013, both import limits and export support measures were among the policy tools designed and deployed to conserve foreign currency in the face of increased financial market volatility. But in addition to their lack of transparency and difficulty to measure, such NTMs all too often fail to address underlying sources of vulnerability and they can be construed as deliberate attempts to restrict access to domestic markets.

As by far the most prevalent users of trade-restrictive policy measures, G20 members have yet to comprehensively review the trade restrictions imposed since the crisis or make a concerted effort to eliminate those that are clearly protectionist and trade distorting within a target period. This failure has stalled the agenda to open up world trade, including further reducing trade barriers in the traditional areas of industrial goods and agriculture. Furthermore, additional gains stand to be made by liberalizing trade in services. Current services commitments do not represent a significant increase in market opening, but a critical mass of countries agreeing to bind current levels of openness would encourage greater investment and reduce the uncertainty that firms are facing. Services account for most non-labor costs of production, so reforming inefficient domestic regulations and other actions to improve the efficiency of service delivery must be a major G20 policy focus in the years ahead.

Implementing the WTO's landmark Bali agreement a worthwhile challenge

The agreement reached by the WTO at its Ninth Ministerial Conference in Bali in December 2013 was the first since the organization's establishment in 1995. Covering trade facilitation, rules governing agricultural trade, and improved market access for LDCs, the agreement will provide important economic benefits to the world economy and to developing countries in particular, forging a much needed and welcome way forward after over a decade of stalled negotiations since the launch of the Doha Round in 2001. The Bali agreement comes at an important time as momentum had been shifting away from and diluting hard-won gains in multilateral mechanisms towards bilateral and preferential trade agreements. This is especially important for LDCs that rely most heavily on the multilateral system to have a more equal voice, secure market access and effectively integrate into the world economy.

The centerpiece of the Bali package, the Trade Facilitation Agreement (TFA), is designed to streamline border procedures, increase transparency, reduce inefficiencies and improve competitiveness. Reducing high transaction costs and unnecessary red tape would provide a sizable boost to global GDP. Developing countries currently take about three times longer and twice as much documentation and cost to import goods than do high-income OECD countries. According to a recent report by the World Economic Forum and the World Bank Group, reducing supply chain barriers to trade could increase GDP by nearly 5 percent and trade by 15 percent. If every country improved just two key supply chain barriers — border administration and transport and communications infrastructure and related services — even halfway to the world's best practices, global GDP could increase by US$2.6 trillion and exports by US$1.6 trillion – six times more than could be achieved from eradicating all remaining import tariffs.

There is much to be done to help countries, especially the poorest, implement the TFA and reap its benefits. For example, with US$5.8 billion disbursed in 2013 on trade facilitation projects, the World Bank Group is actively supporting trade facilitation improvements to remove barriers that hamper developing countries' participation in the global trading system. However, with the new Bali agreement in place, the *who, what,* and *how* of implementation comes to the fore. Questions remain as to who will ratify the deal and who will remain unbound by its provisions by choosing not to ratify. In a process that could take up to two years, two-thirds of WTO members are needed for the deal to go into effect. And while the agreement theoretically ensures "duty free and quota free" access to foreign markets for LDCs, it is not entirely clear if high-income and more developed emerging economies will refrain from excluding vital products like garments or agricultural products from this guarantee.

5.8
US$ BILLION

spent in 2013 on trade facilitation projects.

If every country improved just two key supply chain barriers... global GDP could increase by US$2.6 trillion.

[1] Data do not include developed economies; regional data for MENA do not include Gulf Cooperation Council (GCC) countries

[2] Export data for both MENA and SSA lag behind the other regions and are only available through April 2013

[3] The GVCs in these goods include more trade than is included in the definitions. A significant amount of primary trade - in metals, chemicals, fossil fuels, electric power, and natural fibers produced in agriculture – is involved in providing inputs into the goods these three industries. Moreover, GVCs exist for other complex goods, such as capital equipment, precision instruments, and chemical-based consumer goods such as cosmetics and personal care products. It is possible that the three GVCs analyzed behave similarly to other GVCs, though the extent of the correspondence is uncertain.

[4] [a] Includes new import requirements, registration, “criterion” and “reference” values, new administrative procedures

[b] Includes new export requirements, registration, “criterion” and “reference” values, new administrative procedures

[c] Includes inspections, tariff rate quotas, and licensing and other requirements applied to both imports and exports.

[d] Includes tax refunds, tax breaks, export financing

References

Altomonte, Carlo; Di Mauro, Filippo; Ottaviano, Gianmarco; Rungi, Armando; and Vicard, Vincent (2012). Global Value Chains During the Great Trade Collapse: A Bullwhip Effect?” *European Central Bank Working Paper Series*, No. 1412, January 2012.

International Centre for Trade and Sustainable Development (2013). “Success in Bali Sparks Questions over Doha, WTO Future”, *Bridges Weekly Trade News Digest*, Volume 17, Number 41, 12 December 2013.

Ferrantino, Michael J. and Taglioni, Daria (2014). Global Value Chains in the Current Trade Slowdown, *Economic Premise,* Number 137, World Bank, March 2014.

Malouche, Mariem; Reyes, José-Daniel; and Fouad, Amir (2013). Making Trade Policy More Transparent: A New Database of Non-Tariff Measures, *Economic Premise*, Number 128, World Bank, November 2013.

Sturgeon, Timothy J. and Memedovic, Olga (2011). Mapping Global Value Chains: Intermediate Goods Trade and Structural Change in the World Economy, *UNIDO Development Policy and Strategic Research Branch Working Paper 05/2010*, Vienna: United Nations Industrial Development Organization, 2011.

World Bank (2014). Global Economic Prospects: Coping with policy normalization in high-income countries, Volume 8, January 2014.

World Bank (2013). Global Economic Prospects: Less volatile, but slower growth, Volume 7, June 2013.

World Bank (2013). What is the World Bank Doing on Aid for Trade: A report highlighting the World Bank Group’s support to address the main constraints which firms in developing countries face in connecting to value chains, June 2013.

World Economic Forum (2013). Enabling Trade: Valuing Growth Opportunities, Report, 2013.

World Trade Organization (2013). Report on G-20 Trade Measures (Mid-May 2013 to mid-November 2013), 18 December 2013.

Zavacka, Veronika (2012). The Bullwhip Effect and the Great Trade Collapse”, *European Bank for Reconstruction and Development Working Paper No. 148*, September 2012.

GLOBAL AND REGIONAL TRENDS IN TRADE FINANCE

Introduction

The ICC Banking Commission has undertaken another global trade finance Survey to gather reliable quantitative and qualitative data for the trade finance market and to gauge the current position and outlook for trade in 2014.

Geographical Spread of Respondents

The ICC Global Trade Finance Survey 2014 received 298 responses from 127 countries around the Globe. As in previous years the volume of responses was led by the advanced countries. It is encouraging to see the significant increase in participation both in terms of respondent banks and country participation.

The purpose of the Survey is to obtain information from the marketplace that reflects current commercial and operational practice in the community of banks working in international trade finance, to aid senior executives and world leaders in formulating policy.

In addition to participation by members of the ICC Banking Commission, cooperation and partnership with trade organizations was also key to producing this Survey.

The contributions of these organizations have helped build on the success of previous Surveys – both in terms of content examined and participation. SWIFT has again provided recent and exclusive historical trade flow data (volume and value) for contextual and comparative purposes.

The members of the ICC Banking Commission once again responded to the call to provide information on trade products to the marketplace. The development banks (EBRD, IFC, IDB and ADB) again mobilized the member banks in their respective trade facilitation programs to participate in the online Survey and contributed a section with their responses to the crisis.

The methodology for this Survey was primarily based on a 37-item questionnaire developed to collect information from the trade finance banking members of the participating organizations.

57.9%

of respondents reported an increase in overall trade finance activity.

60%

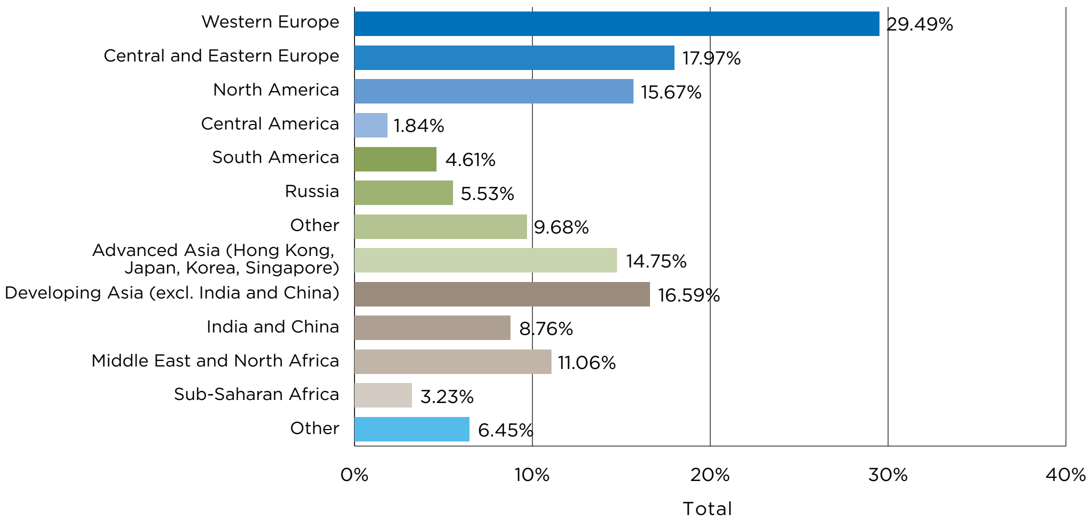
of respondents felt the lack of harmonization of compliance standards created problems.

Key findings

- While there are signs trade finance is more available, the reported increase is marginal
- The shortage of trade finance for international trade remains a major challenge for economic recovery and development
- To finance exports and imports traders, especially SMEs in emerging markets, continue to rely on loans in local currency or overdrafts, restricting their ability to trade at optimum levels during these challenging times
- Encouragingly, 68% reported trade finance increased by value, but less than the year before
- The alarming rise in fees for trade risk after the 2009 trade collapse has abated
- An enigma surfaced: a large gap remains in the market for trade finance and risk coverage even while 80% reported trade finance pricing is lower or unchanged
- A total of 69% of respondents noted a decline in reported court injunctions barring payment under trade finance instruments, indicating a return to normal trading conditions
- Banks remain cautious in examining documents. Worryingly, only 7% reported a decrease in spurious discrepancies when documents are presented under a letter of credit
- Know Your Customer Principles are seen hampering the smooth flow of trade finance
- 65% said implementation of Basel III regulations is to some extent or a large extent affecting the cost of funds and liquidity for trade finance
- Documented losses are low on trade finance products

Figure 7: Technical Analysis of Respondents Data

A total of 298 banks responded to the Survey from 127 countries



The progression and increasing importance of the Asian markets can be seen in the 2014 survey in that more than 40% or respondents came from the Asian trade finance markets. This increasing visibility of the Asian markets in the participation in trade finance policy and dialogue is encouraging and reflects the physical participation of trade finance professionals at ICC Banking Commission meetings where the fastest growing delegations of attendees are coming from the Asian countries. (See Figure 7)

The realization of the importance of active participation in trade development as a driver for economic development now appears clearer than ever in the history of ICC Global Trade Finance Surveys. The broad geographical reach of the survey enhances the richness of the data collected for use as a resource by stakeholders and policy makers in international trade and finance.

The largest group of respondents (with 46.05%) represented banks with less than 50 employees working in trade finance. (See Figure 8)

This shows that consolidation of employment levels continues within the industry but also takes stock of the fact that the number of responses coming from issuing banks within the MDB's trade programs is increasing. These issuing banks are typically in the development stage of trade finance services and consequently have smaller trade finance operations.

While the United States and Europe have made some progress in re-energizing trade finance, the center of gravity continues to come from Asia and the business focus of respondents reflects this shift with 40% of respondents identifying the Asian markets as the primary region for trade business focus. (See Figure 9)

This is an interesting revelation as with trade slowing down a few percentage points in Asia, these markets are still growing fast in comparison to the advanced economies.

Survey Participation

- 2010 – 161 banks in 75 countries
- 2011 – 210 banks in 94 countries
- 2012 – 229 banks in 110 countries.
- 2013 – 260 banks in 112 countries
- 2014 – 298 banks in 127 countries

Figure 8: Employee level within trade finance banks

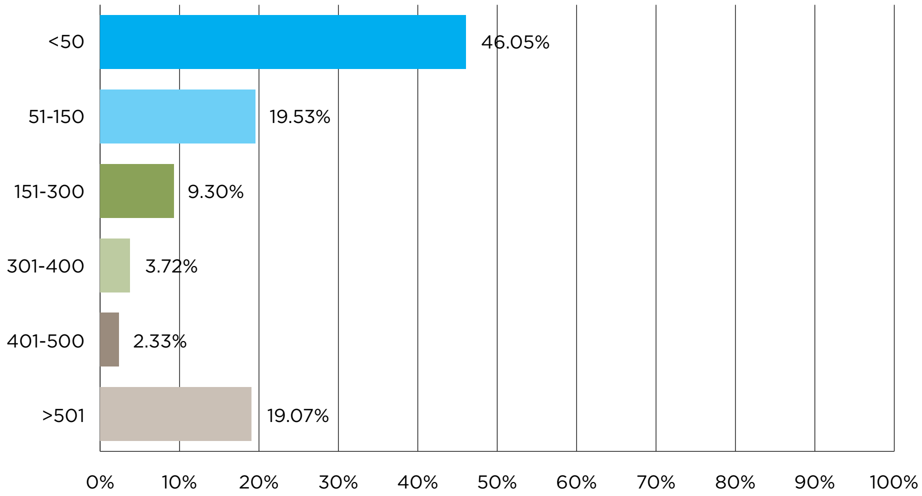


Figure 9: Regional Focus

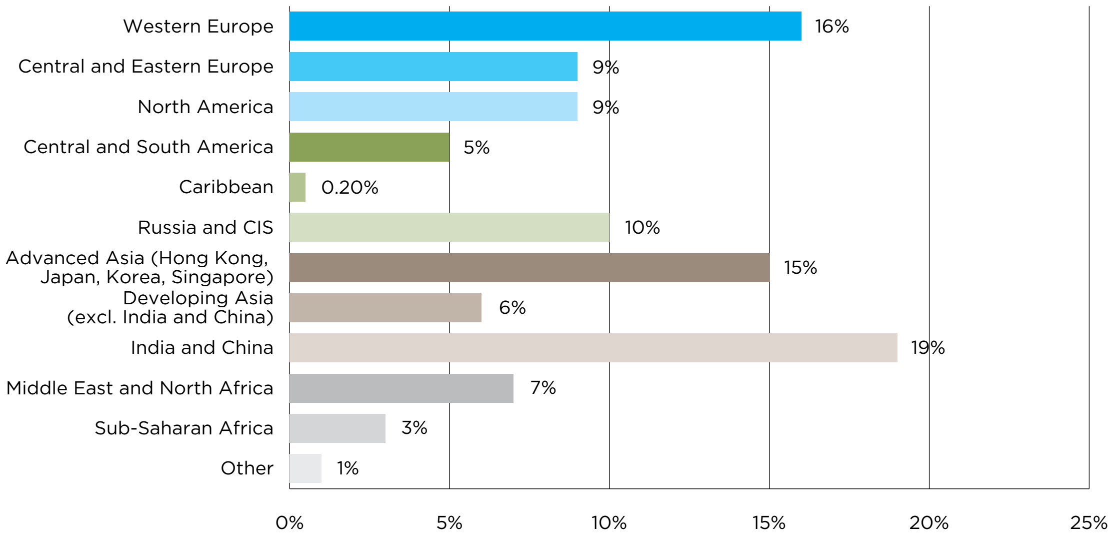
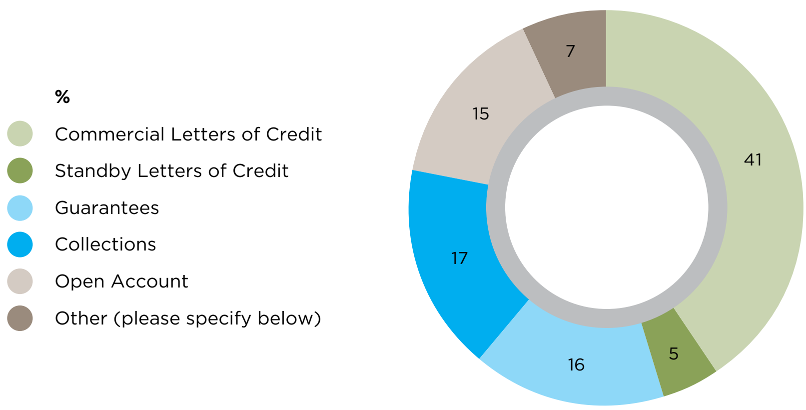


Figure 10: Export Trade Finance Mix



When we examine the overall makeup of export trade finance products handled by respondent banks, we see that commercial letters of credit as a proportion of overall trade finance products are in a slow but steady decline: from 44% in 2011 to 43% in 2012 and coming in at 41% in the current report. (See Figure 10)

This slow downward trend is consistent with the reported shift from traditional trade finance products to open account or transactions structured with the risk of default covered by an independent guarantee or standby letter of credit or credit insurance.

Trends in Import Trade Finance Volumes

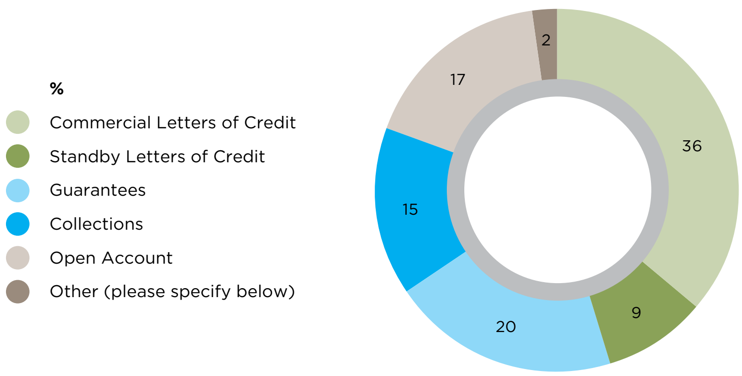
On the Import side, the shift from traditional trade finance products such as commercial letters of credit, guarantees and standbys and collections is more evident, with respondents showing a reported continuing decrease in the 2014 survey in the makeup of trade products handled.

- Commercial Letters of Credit – down from 44% in 2011 to 39% in 2012 and in this year's survey reporting on the calendar year of 2013, down again to 36%.

Interestingly, consistent with trends on the export side, respondents have reported an increase in the demand for guarantees to cover the potential risk of default or non-performance under commercial contracts. On the import side, guarantees increased from 16% in 2012 to 20% in 2013. The use of Standby Letters of Credit also witnessed a small increase from on the import side (8% in 2012) to 9% in the 2013.

It can be clearly seen in the market place, that with the global challenges continuing in most advanced markets exporters, or sellers, are fighting hard for trade sales and market expansion. This competitive trend puts the buyers, or importers, in the stronger negotiating position as regards to the terms of trade and indeed the terms of payment.

Figure 11: Import Trade Finance Mix



Commercial letters

↓ 3%

Guarantees

↑ 4%

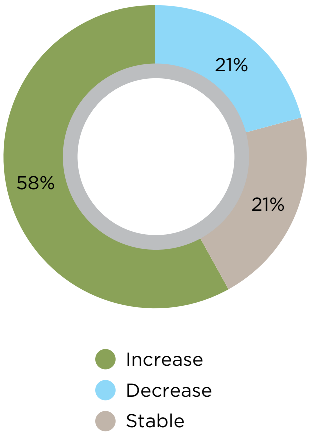
Standby letters of credit

↑ 1%

Collections

= No change

Figure 12: Overall trade finance activity



This shift from traditional trade products to open account also reflects this increased buyer or importer negotiation power in what remains a buyers' market. A further factor is that with exporters and importers making extensive use of electronic communications in all aspects of their business, they are seeking out alternatives to avoid the perceived inefficiencies of the traditional and largely paper based commercial letter of credit.

This does not by any means indicate that the role of the commercial letter of credit will be short lived but in instances where parties have a trading history then more efficient alternatives are being developed and implemented as the survey figures demonstrate.

Despite the fact that respondents indicated that as an overall percentage of trade finance products handled, commercial letters are losing share, it is somewhat encouraging to note that the number of overall transactions is increasing in that 51% of respondents reported an increase in commercial letters of credit.

This is not surprising as despite the slowdown in trade growth, growth continued nevertheless at a modest pace of just over 2% in 2013. The growth in traditional trade products has not been dynamic but has remained consistent with overall trade growth.

Overall trade finance activity (2013)

In the context of overall trade finance activity the reported figures are encouraging. 57.59% of respondents reported an increase in overall trade finance activity. As a collective group it was interesting to see that 44.87% or respondents reported an increase in demand for 'bank undertakings' which encompasses commercial letters of credit, bank guarantees and standby letters of credit.

Further positive news was that 62.37% of respondents felt that their banks could satisfy their customers demand for trade finance.

This figure of 62.37% is indeed a positive figure but also highlights that a significant gap remains in the provision of trade finance, especially for the growing SME sectors in emerging markets.

Availability of trade finance

While the gap in availability of trade finance has been well documented, there has been some encouraging feedback from respondents:

- 50% reported increased credit lines for corporate customers.
- 44.76% of respondents reported increased availability of trade credit lines for financial institutions.

These reported increases in availability of trade finance credit lines, while welcome, do not detract from the challenge of making affordable trade finance available to SME companies:

- 41% of respondents believe there is a shortfall of trade finance globally.

The shortage of trade finance available in the international trade arena remains a primary challenge for recovery and economic development. In this context, approximately 70% of respondents consider that the Multilateral Development Banks have an important role to play in providing access to trade finance, especially for SME companies:

- 70% of respondents consider that the Multilateral Development Banks have an important role to play in providing access to trade finance

Many traders especially SMEs in emerging markets are continuing to rely on local based currency loans or overdrafts to finance both export and import trade flows. This limiting situation is detrimental to the companies, their economies and their ability to trade through these challenging times.

Clearly, access to finance is a major issue to be addressed by the stakeholders in facilitating international trade and finance. Basel III remains an important subject for banks and the key issue now appears to be how the requirements will be met in a consistent manner by regulators and banks across the Globe.

Figure 13: Requests for Confirmation

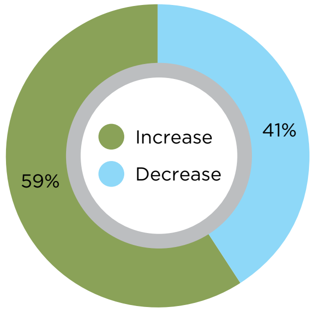
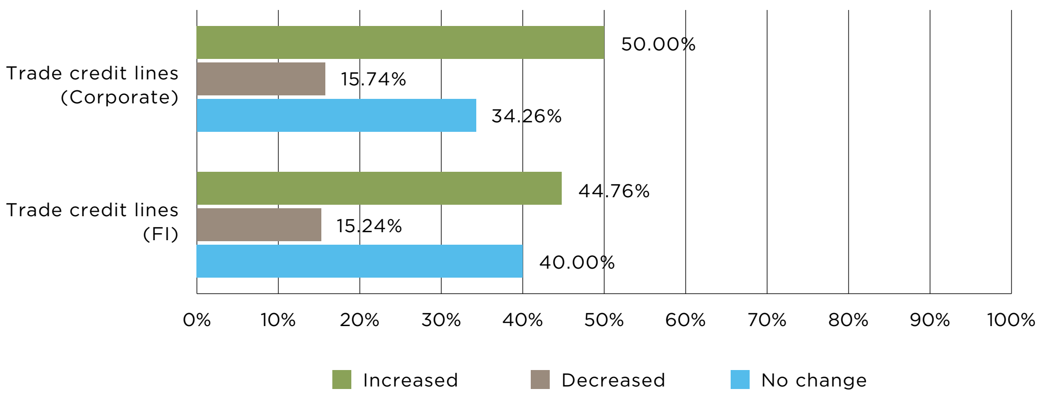


Figure 14: Availability of Trade Finance



57.9%

increase in overall trade finance activity

44.87%

increase in demand for bank undertakings

62.37%

of banks felt they could satisfy customer demand

Requests for confirmation (Comparing 2013 with 2012)

Many commentators on the international trade finance markets have made positive comments on the slow but steady increases in trade finance business activity over the past few years.

In terms of demand for confirmations, this year's survey appears to support this proposition in that 58.91% of respondents reported increased demand for confirmation of letters of credit.

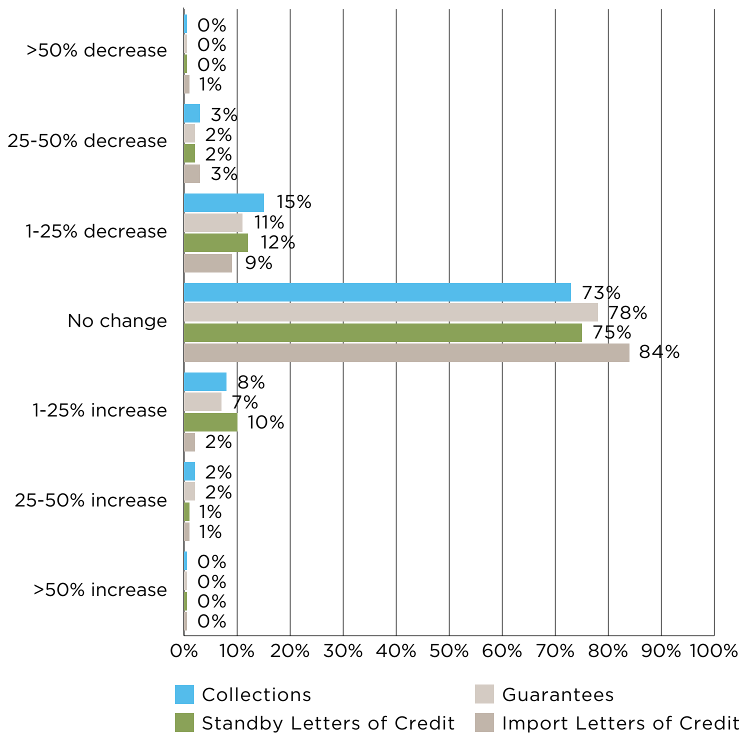
However, bear in mind that the figure in last year's survey was 67%. So – the growth continues albeit at a slightly slower pace.

It is also important to take on board that this demand is driven by the increased perception of risk by international traders in the global markets as well as the greater engagement of higher-risk markets in international trade and is not necessarily an indicator of market acceleration. Pricing also has an effect on demand and in this year's survey witnesses a slight downward trend in pricing for confirmations of commercial letters of credit.

Trends in trade finance fees (2013)

The alarming increase in fees for trade risk coverage following the international financial collapse in 2008–2009 has clearly abated. As collapse at its core was in the inter-bank lending market as a result of fears about levels of exposure to toxic mortgage assets, this had led to a shortage of pre-export

Figure 15: Trends in Trade Fees



finance and a reduction in trade flows. This stabilisation is predominantly driven by two factors:

1. Bank crowding into the market looking to trade finance as a good short-term asset.
2. Banks' realisation that traders profit margins on goods and services sold have been squeezed in order to maintain market share.

It is quite a conundrum that there is still a significant gap in the market concerning the availability of trade finance and risk coverage, but at the same time approximately 85% of respondents report no change in pricing; with some respondents reporting a decrease in pricing.

This finding was further underpinned with approximately 75% of respondents indicating that they do not expect an increase in trade finance fees during 2014.

Claims under guarantees and court injunctions (comparing 2013 with 2012)

The number of claims or demands under guarantees appears to be decreasing in the market as approximately 60% of respondents reported a decrease in the incidence of claims under bank guarantees. Furthermore, the positive trend in terms of court injunctions barring payment under guarantees also appears to be continuing with 81% of respondents reporting a decrease in the incidence of court injunctions.

Trends in documents refused (comparing 2013 with 2012)

The challenging situation concerning documentary compliance continues as 33.96% of respondents reported an increase in refusal rates of documents on first presentation. It should, however, be noted that this figure represents a significant improvement on the 46% returned in last year's survey.

The average refusal rate on Export Letters of Credit was 29% whereas the average refusal rate on Import Letters of Credit was 26%. This is interesting though not surprising as many banks are taking a strict compliance approach in order to minimize their own risk.

There was some positive feedback in terms of the overall trend with discrepant documents in that approximately 75% of respondents reported a drop in the overall rate of refusal of documents under commercial letters of credit.

Such operational problems, coupled with the relatively high cost and paper and process intensive nature of L/C transactions are propelling traders to seek out new payment alternatives. This is clearly evident in the market with the significant interest in the BPO project as reported in this year's survey. The increase in short-term export credit insurance and increases in the use of international factoring to finance export receivables also support the contention that traders are actively seeking out alternatives to the traditional commercial letter of credit.

60%

Decrease in claims under guarantees

Figure 16: Claims under guarantees and court injunctions

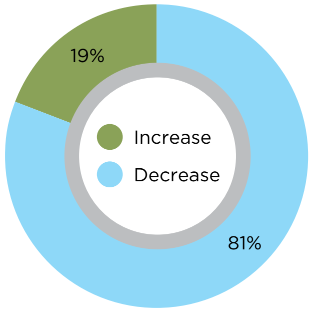


Figure 17: Trends in refusal of documents

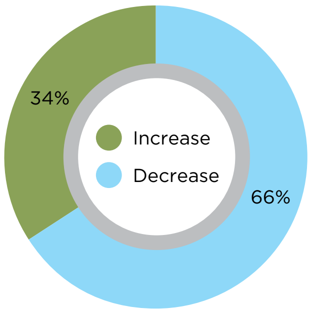


Figure 18: Percentage of fraud allegations

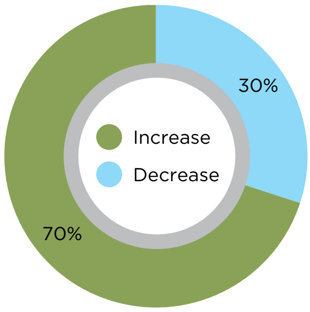


Figure 19: Termination of correspondent bank relationships due to increasing compliance costs

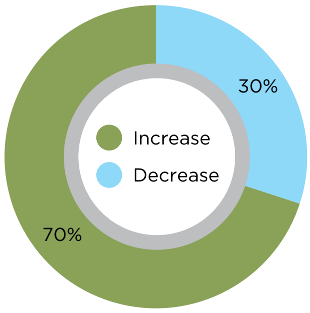


Figure 20: Declining transactions due to compliance issues

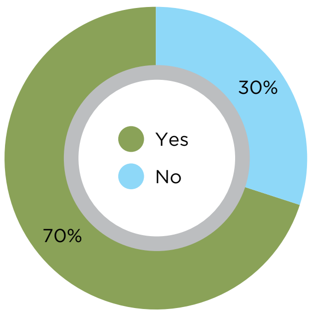
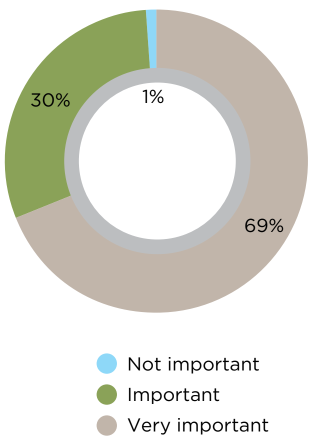


Figure 21: Sustainability and Trade Finance



Percentage of fraud allegations

We are also seeing a positive trend in the reported number of fraud allegations in relation to transactions supported by trade finance instruments. The 2013 survey saw 65% of respondents reporting a decrease in the number of allegations of fraud and this number has increased to 70% in this year's survey.

KYC "know your customer" principles impact on trade finance business

In each of our global surveys KYC and KYCC issues have come to the fore as having a significant impact on individual trade transactions and trade as a whole.

More than a third (38.52%) of respondents reported closing correspondent account relationships in 2013 due to the increasing cost and complexity of compliance (including more stringent AML and KYC).

Furthermore, it is clear that the number of transactions that were frustrated due to KYC and AML issues is quite significant with 67.77% of respondents reporting having declined transactions due to compliance issues.

Complying with sanctions and related regulations also remained a challenge for the industry in 2013; 41.03% of respondents reported that complying with sanctions restricted trade finance operations in 2013 to a greater extent than in previous years.

Furthermore, as anticipated, the business sector group most negatively impacted due to compliance was the SME businesses, who often lack the resources to positively deal with compliance challenges as they arise. In addition to this, SMEs the limited information available is such that banks are unable to complete the necessary KYC and due diligence activity, thus having to refuse support to a transaction or a particular trading SME.

This is further compounded as in excess of 60% of respondents felt that the lack of harmonisation of compliance standards created problems and challenges across the business spectrum.

- 60% of respondents felt lack of harmonisation of compliance standards created problems

The need for strong compliance standards and regulations is clearly understood and accepted across the trade finance industry. The challenge for the industry is now to satisfy all compliance requirements through developing standardised processes, terminology and technology which will minimise any negative consequences on trade finance business.

Sustainability and Trade Finance

While sustainability has been on the ICC agenda for quite some time, the importance of sustainability to banks active in trade finance has been addressed to some degree for the first time in the 2014 survey.

It was interesting to observe that 68.64% of respondents expressed that sustainability is very important to their bank. The ICC Banking Commission sees the sustainability element of trade transactions having paramount importance to our members and partners and this is fast becoming a priority project for the Commission.

HIGHLIGHT:

THE ICC TRADE REGISTER

This section will focus on the important highlights and key messages from the ICC Trade Register Report 2014. This report, produced by the International Chamber of Commerce's Banking Commission in collaboration with Oliver Wyman, presents a view of the risk profile of the Trade and Export Finance industry, globally.

Financial regulation requires a solid understanding of the critical issues by all sides – government, regulatory, industry, and multilateral institutions. Since 2009, the ICC Trade Register has helped enhance this understanding by making available much-needed data on trade and export finance for the first time and has since become the flagship publication for the ICC Banking Commission along with the ICC Global Surveys.

This year's ICC Trade Register Report is based upon a representative set of both Short and Medium to Long-term Trade and Export Finance transactions globally, contributed by 24 Trade and Export Finance banks (reflecting more than 4.5 million transactions totaling an exposure in excess of US$ 2.4 trillion), and the analysis derived from that robust, objective data set.

The objectives of the ICC Trade Register report include:

- To provide an objective and transparent view of the risk profile and characteristics of Trade and Export Finance (Short, Medium and Long-term) using a rich base of industry data, with the intention of contributing to informed policy and regulatory decisions relative to Trade and Export Finance
- To advance the understanding of Trade and Export Finance, its importance to global trade and the highly effective global risk mitigation capability of Trade and Export Finance products to a broad audience of interested parties
- To promote understanding of the international regulations affecting bank capital requirements for Trade and Export Finance, and their history and objectives, in order to create a uniform global view of this industry as part of the Banking Commission's commitment to effective and collaborative advocacy

The establishment and build-out of the ICC Trade Register was set as a multi-year process and this year's report on the results of the ICC Trade Register indeed represents a point-in-time perspective on the evolution of the ICC Trade Register to an increasingly comprehensive, globally consistent data set that is in a state of ongoing improvement and is solidly representative of the business of trade finance, comprehensive, globally consistent, and hence representative, data set.

As the ICC Trade Register's main objective is to provide a universally accepted source of risk data on Trade and Export Finance, the data itself and methodology need to be fully aligned with the global standards in risk measurement and risk management as defined by the Basel Committee. For this year's report it was possible to make a significant step forward in achieving this objective:

Probability of Default (PD) on an obligor level were reported and compared with transaction level default rates.

Available for download on the ICC Website

Loss Given Default (LGD) figures per product group were calculated based on transaction level information.

Insight into Exposure at Default (EAD) were increased through case study examples, such as a study showing product “lifecycle” data. This allows insight into process, recovery and payment activities in the life of a transaction. For EAD, the focus of next year’s study and build-out of the ICC Trade Register will be to move from case study examples to a statistically robust data set.

As a result, Expected Loss figures can be reported which are comparable with other portfolios. For this an assumption of EAD = 100% had to be taken, i.e. assuming that the full notional would be at risk for a bank in the case of a default and not considering for example expiries and non-compliant documentation, even though preliminary figures from the ICC Trade Register and the experience of many trade professionals suggest significantly lower conversion rates for some short-term products. As a result, the Expected Loss results should be interpreted as very conservative and would be expected to decline in line with a statistically robust reduction in EAD.

This step forward in terms of further developing and aligning the methodology, however, comes at a cost: some banks were not able to provide historical data in the required format due to limitations related to bank systems and accessibility of data in the required format readily and as a result the number of data points at disposal for analysis was significantly smaller than in last year’s report.

Despite these temporary limitations, the data is considered to be both robust and appropriately representative of market conditions, and the rigorous methodology and analytical techniques applied to the data, provide assurance of the quality of key conclusions and observations recorded in the full report. With the improved alignment to Basel, the analysis demonstrates the low risk profile of Short Term Trade Finance. Short-term products have a number of risk characteristics as follows:

Low default rate across all products – both at customer and transaction level, in fact only reaching one tenth of comparable Moody’s default rates, with the customer default rate being higher than the transaction default rates, hence strongly reinforcing the hypothesis that Trade Finance products have a relatively low likelihood of default.

Short maturity – most products have a shorter tenor than 180 days, except for Standby L/Cs and guarantees which have a longer tenor on average.

Event driven – the default event depends on the outcome of other preceding events – or the lack thereof - in the course of processing a Trade Finance transaction. In the example of L/Cs, payment by the bank is contingent on the presentation of compliant transaction documents, and as not all documents which are presented will be compliant this reduces the actual amount paid by a bank relative to the nominal amount written, which leads to a relatively low Exposure At Default or Loss Given Default.

Low overall transaction-level loss rate – taking into account the default rate, EAD and LGD on every transaction, the average total customer level Expected Loss for Trade Finance products is at least one tenth lower than the expected loss of the Moody's rated universe over the 2008-2012 period.

A similar conclusion can be drawn for Medium to Long-term (MLT) Trade Finance. MLT Trade Finance products in the Trade Register are those issued by an Export Credit Agency (ECA) which are backed by the sovereign of an OECD country. Thus, in the event of default, most banks should receive recoveries from the ECA at the coverage percentage agreed, as well as potential recoveries from the borrower. As a result, the expectation is that losses will be low unless the ECA itself defaults, which is typically considered unlikely as the ECAs have investment grade ratings and, for the purpose of the Trade Register, we have only included transactions where an ECA has provided either state-backed Guarantee or Insurance to the financing bank. Hence:

- While the default rate for MLT transactions is relatively low, the ECA coverage contributes directly to reducing the risk profile of MLT transactions.
- This can be demonstrated for cases where the ECA recovery has been completed or the ECA has accelerated payment - then the majority of amounts falling due have been recovered.

Analysis of Short-term Trade Finance products - Risk Characteristics

The customer default rate as seen in the table below is relatively low across all products. These default rates are higher than the transaction default rates; hence the data strongly reinforces the hypothesis that Trade Finance products have a relatively low likelihood of default.

	Customerdefault rate (%)	Moody's rating with same default rate	Transaction default rate (%)	Transaction default rate 2013 report
Export L/C	0.033%	Aaa-Aa	0.003%	0.016%
Import L/C	0.117%	Aa	0.041%	0.020%
Performance Guarantees	0.157%	Aa-A	0.027%	0.034%
Loans for Import/Export	0.241%	A-Baa	0.043%	0.021%

Comparing the default rates resulting from the Trade Register with Moody's corporate default rates for all products provides an interesting indication of the risk profile of Trade Finance: The comparable Trade Register customer default rate of 0.137% is significantly smaller – in fact one tenth only – than the 1.38% reported by Moody's for all corporate products in 2012.

- For Basel LGD purposes recoveries need to be discounted and cost for recovery included, which leads to an LGD of ~5%. II
- The overall result then is an Expected Loss of between approximately 0.02%, which suggests, as with the short-term results, the observed EL for MLT Trade Finance products to be much lower than the EL expected for 'vanilla' corporate lending, reflecting the characteristics of medium and long-term trade finance, including the benefits of ECA-based risk mitigation.

While the 2014 ICC Trade Register has made significant advancements since last year, the effort to drive further enhancements and to improve the methodology is continuing. This year, the ICC Trade Register Project Team has undertaken a review and revision of the strategic plan for the Register. The high-level objective is to enhance and reinforce the default data-gathering and related analytics which are at the core of the Register, while concurrently seeking ways to expand the scope of the Register.

For more information, please visit our website:
www.iccwbo.org/Products-and-Services/Trade-facilitation/ICC-Trade-Register

SWIFT TRADE MESSAGING TRENDS

The following section has been provided by the Society for Worldwide Interbank Financial Telecommunication (SWIFT) and outlines background information and contemporaneous data on trade finance messaging volumes worldwide on an exclusive basis.

Global Trends

Before considering the SWIFT trade volume statistics and related comments, their context should be understood. SWIFT trade traffic is only one part of the overall trade picture, but it can be considered a good indication of the overall usage trends for the L/C product, since we assume that around 90% of the letter of credit (L/C) transactions go via SWIFT.

"Traffic" refers to live transaction messages sent over the SWIFT network. When global figures are recorded, messages sent equal messages received. This chart refers to "category 4" and "category 7" traffic. SWIFT category 4 messages are flows for documentary collections – with the exception of three little-used "cash letter" messages. SWIFT category 7 messages are flows for commercial and standby letters of credit and guarantees.

Trade traffic falls for a third year

In 2013, the SWIFT trade volume shows a decrease of 0.65% (much less than last year decrease of 2.22%). This is due to a decrease of 5.80% in category 4, while the category 7 shows an increase of 0.97%.

Whilst documentary collections (category 4) represented 30% of total trade traffic in 2003, this fell to 23% in 2013.

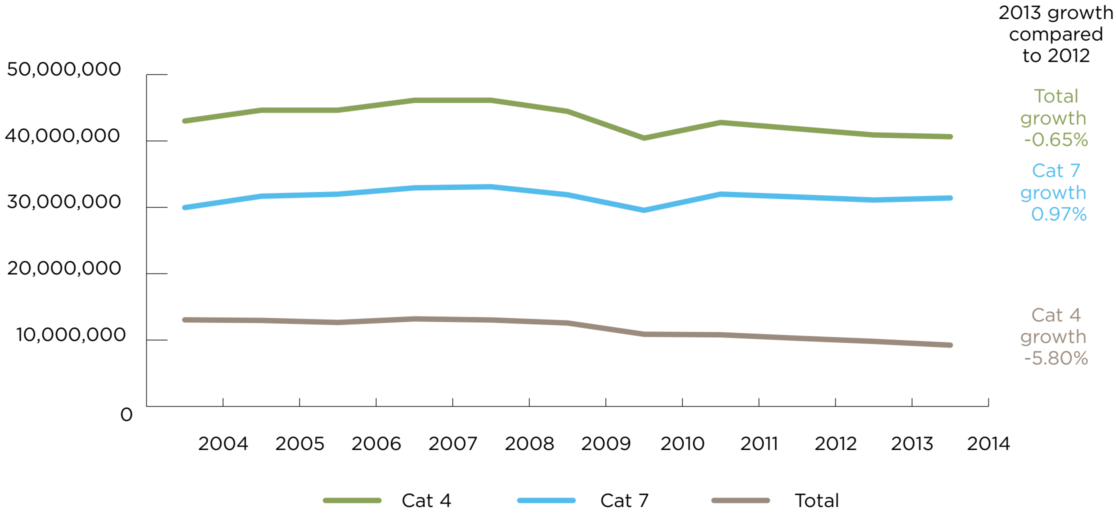
Regions preferences for usage of financial instruments such as L/C (MT 700) and collections (MT 400) through SWIFT

It is striking, although not surprising, to see the difference in usage MT 400 and MT 700 on a regional basis. Use of collections (MT 400) is low in Asia-Pacific, compared with the use of L/C (MT 700), whereas in North America and Europe – Euro Zone, the use of collections (MT 400) is much higher than L/C (MT 700).

Key findings

- In 2013, the SWIFT trade volume shows a decrease of 0.65% (much less than last year's decrease of 2.22%). This is due to a decrease of 5.80% in category 4, while the category 7 shows an increase of 0.97%.
- Asia-Pacific continues to register far greater volume of MT 700 with 68% (import) and 75% (export) of the world traffic in 2013. It is also the region that increased the most.
- Top countries in volume of MT 700 are China, Bangladesh, Hong Kong, Korea, India.
- The region that shows the highest annual decrease (MT 700) is North America.
- The average value of a Letter of Credit (MT 700 only, amount converted to US$) in 2012 was US$616,000. In 2013, it is US$653,000 (+6%).
- Renminbi (RMB) became 2nd most used currency in trade finance, overtaking the Euro.

Figure 22: SWIFT trade traffic worldwide in number of messages, 2004-2013



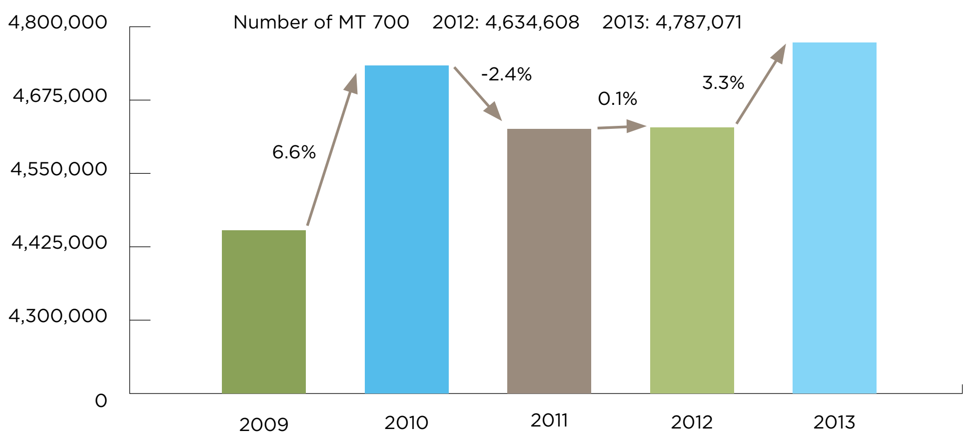
Volume of L/C on SWIFT

Although the SWIFT trade traffic (total messages of category 7 + category 4) decreased in 2013 compared to 2012, there is an increase of MT 700 in 2013.

In 2013, the volume of MT 700 (Issue of a Documentary Credit) has increased by 3.3%; it is above 2008 to 2012 volumes.

From the SWIFT Watch Traffic and Value Analyser, MT 700 was selected because it is a structured message that contains the structured field 32B. This field contains the currency code and amount of the documentary credit. But the MT 700 only represents 15% of category 7, while the free format trade message MT 799 represents 37%. Note that the documentary credits issued through MT 799 (if any) were not taken into account in this analysis and only the MT 700 of 2013 has been analyzed. (See Figure below)

Figure 23: Volume of MT 700 2009-2013



Import Traffic

Asia-Pacific continues to register far greater volume for sent MT 700 (import) with 68% of the world traffic in 2013. It is followed by Europe – Euro Zone (8%) and Middle East (7%).

There are significant differences between regions. Looking at the annual figures, Asia-Pacific is the region with the highest annual increase of 6.97% in 2013 for import with L/C compared to 2012. The region that shows the highest annual decrease is North America with 11.1% in 2013 for import with L/C compared to 2012.

Top importing countries

Looking at the volume of MT 700 sent in 2013 (import) per country; the countries that imported the most using the L/C were respectively:

1. Bangladesh (+61%)
2. China (+6.1%)
3. Korea (-0.3%)
4. Hong Kong (-4.9%)
5. India (-3.9%)

From countries with a yearly volume higher than 10,000 trade messages MT 700 sent (import), here are the countries with the highest growth in 2013 compared to 2012:

- Bangladesh: 61%
- Ethiopia: 23%
- Sri Lanka: 16%
- Poland: 14%
- Nigeria: 7%
- Kenya: 6%
- Qatar: 6%

From countries with a yearly volume higher than 10,000 trade messages MT 700 sent (import), here are the countries with the highest decrease in 2013 compared to 2012:

- Canada: -14%
- South Africa: -13%
- United States: -12%
- Australia: -12%
- United Kingdom: -11%
- Jordan: -10%
- Peru: -8%

Figure 24: Import traffic

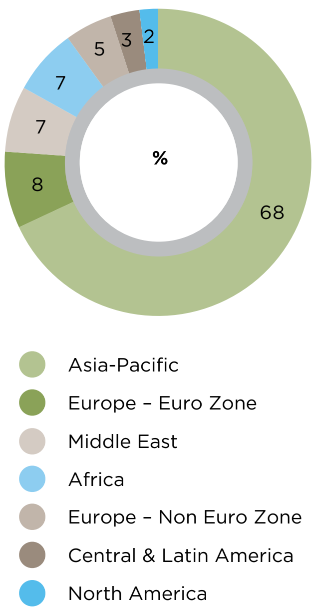
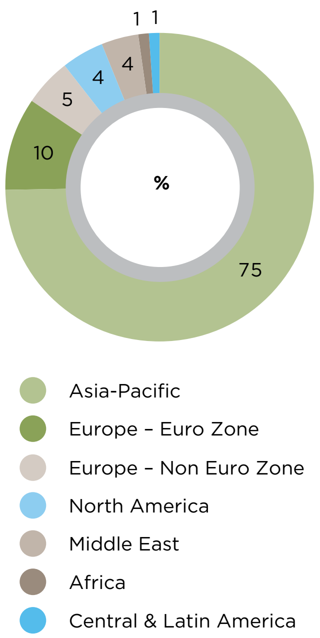


Figure 25: Export traffic



Bangladesh represents the highest importing country using letters of credit and represents the highest volume growth from 2012 to 2013 in both imports and exports.

Export Traffic

Asia-Pacific continues to register far greater volume for received MT 700 (export) with 75% of the world traffic in 2013. It is followed by Europe – Euro Zone (10%) and Europe – Non Euro Zone (5%).

There are large differences between regions. Looking at the annual figures, Asia-Pacific is the region with the highest annual increase of 5.52% in 2013 for export with L/C compared to 2012. The region that shows the highest annual decrease is North America with 5.24% in 2013 for export with L/C compared to 2012.

Top exporting countries

Looking at the volume of MT 700 received in 2013 (export) per country; the countries that exported the most were respectively:

1. China (+1%)
2. Hong Kong (-1.7%)
3. Bangladesh (+111%)
4. India (+7.5%)
5. Singapore (-5.5%)

From countries with a yearly volume higher than 10,000 trade messages MT 700 received (export), here are the countries with the highest growth in 2013 compared to 2012:

- Bangladesh: 111%
- Qatar: 14%
- Saudi Arabia: 10%
- India: 7%
- United Arab Emirates: 5%
- Vietnam: 5%
- Indonesia: 2%

From countries with a yearly volume higher than 10,000 trade messages MT 700 received (export), here are the countries with the highest decrease in 2013 compared to 2012.

- Switzerland: -10%
- Sweden: -10%
- Belgium: -10%
- France: -9%
- Turkey: -6%
- Korea: -6%
- United States: -6%

Average amount of an L/C is US$653,000

The average value of a Letter of Credit (MT 700 only, amount converted to US$) in 2012 was US$616,000. In 2013, it is US$653,000 (+6%).

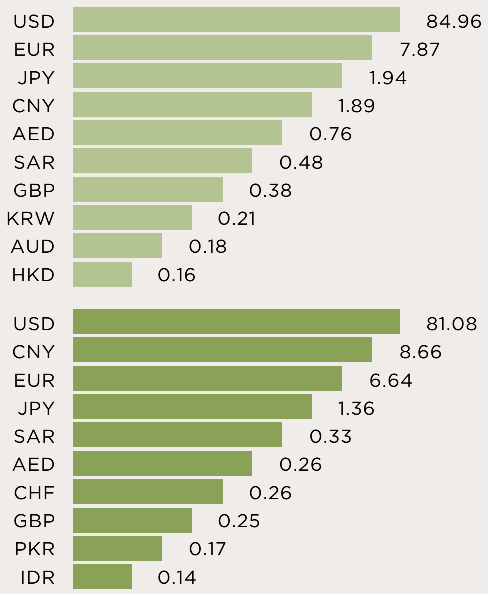
In 2013, the US$ is the currency used in 82% of the MT 700 (volume of L/C issued = number of MT 700). EUR is used in 10%.

In 2013, the US$ is the currency that represents 82% of the total value of L/C issued via SWIFT. The Renminbi (CNY or RMB) is the second currency representing 9%.

In October 2013, RMB became 2nd most used currency in trade finance – overtaking the Euro

SWIFT data shows that RMB usage in traditional trade finance – Letters of Credit and Collections – grew from an activity share of 1.89% in January 2012 to 8.66% in October 2013, propelling the RMB to the second most used currency in this market. It ranks behind the US$, which remains the leading currency with a share of 81.08%. The RMB overtook the Euro, which dropped from 7.87% in January 2012 to 6.64% in October 2013 and is now in third place. The top 5 countries using RMB for trade finance in October 2013 were China, Hong Kong, Singapore, Germany and Australia.

Figure 26: RMB as world trade finance currency in value



RMB webpage – Find out more about the RMB internationalisation and how SWIFT can support you in your RMB development strategy: http://www.swift.com/products/renminbi/overview

Figure 27: Volume of L/C (MT 700)

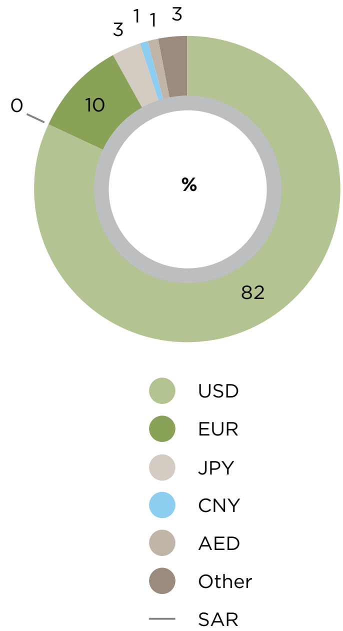
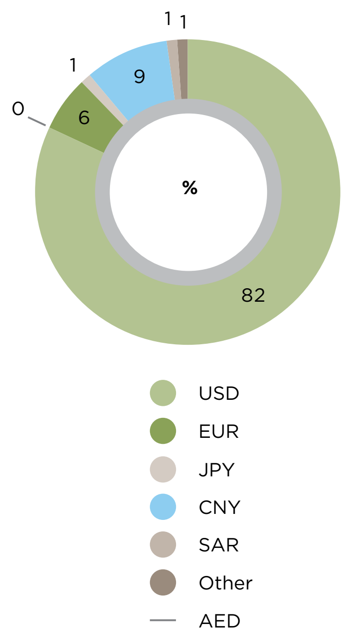


Figure 28: Amount of L/Cs (MT 700) (Converted to US$)



The Asia-Pacific region registers the highest volume of letters of credit use – covering 68% of imports and 75% of exports.

Asia-Pacific again issues most letters of credit for imports

In 2013, "Asia-Pacific" initiated 68% of the import transactions with L/C, i.e. it sent 68% of the MT 700 (in volume), followed by "Europe – Euro Zone" with 8%. But in average value (converted in US$), these 2 regions are not the highest. (See charts below)

The highest number of L/C is issued by Asia-Pacific. Most of the Asia-Pacific traffic is intra-regional. Asia-Pacific is using this instrument a lot, much more than other regions; that can explain why the average value of an L/C in this region is not the highest (US$620,000 for imports).

Figure 29: Volume of L/Cs issued (Importing regions)

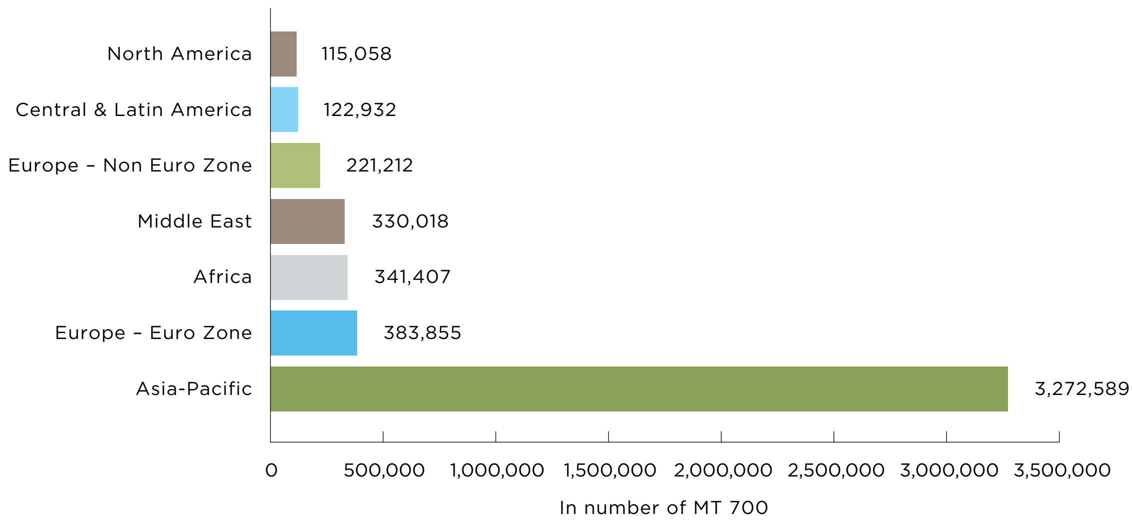
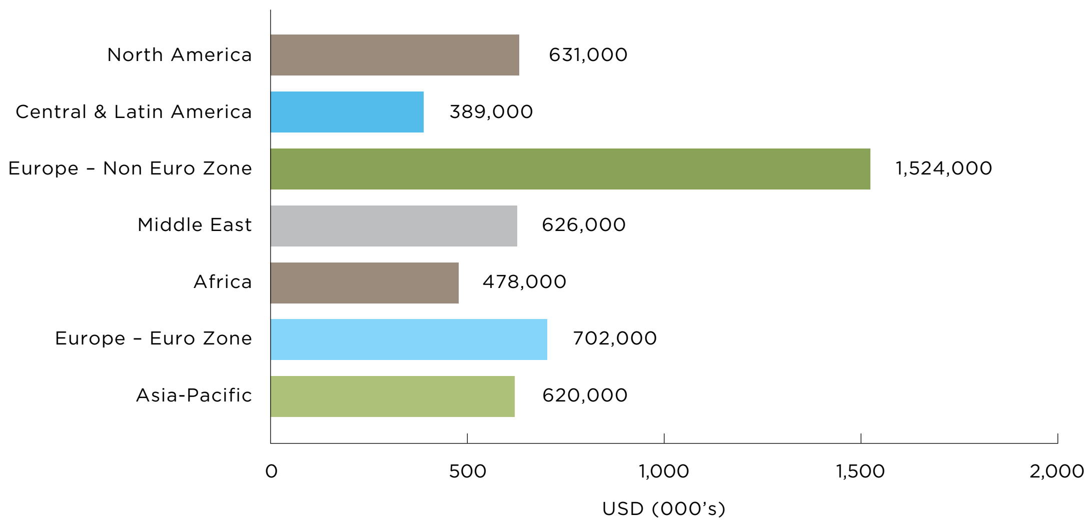


Figure 30: Average value of L/Cs issued (Importing regions)



Asia-Pacific lead exporter once more

In 2013, “Asia-Pacific” generated 75% of the export transactions with L/C, i.e. it received 75% of the MT 700 (in volume), followed by “Europe – Euro Zone” with 10%. But in average value (converted in US$), these 2 regions are the lowest. (See charts below)

The highest number of L/C is received by Asia-Pacific. Most of the Asia-Pacific traffic is intra-regional. Asia-Pacific is using this instrument a lot, much more than other regions. They might use it even for lower value transactions. That can explain why the average value of an L/C in this region is the lowest (US$513,000 for exports).

Figure 31: Volume of L/Cs issued (Exporting regions)

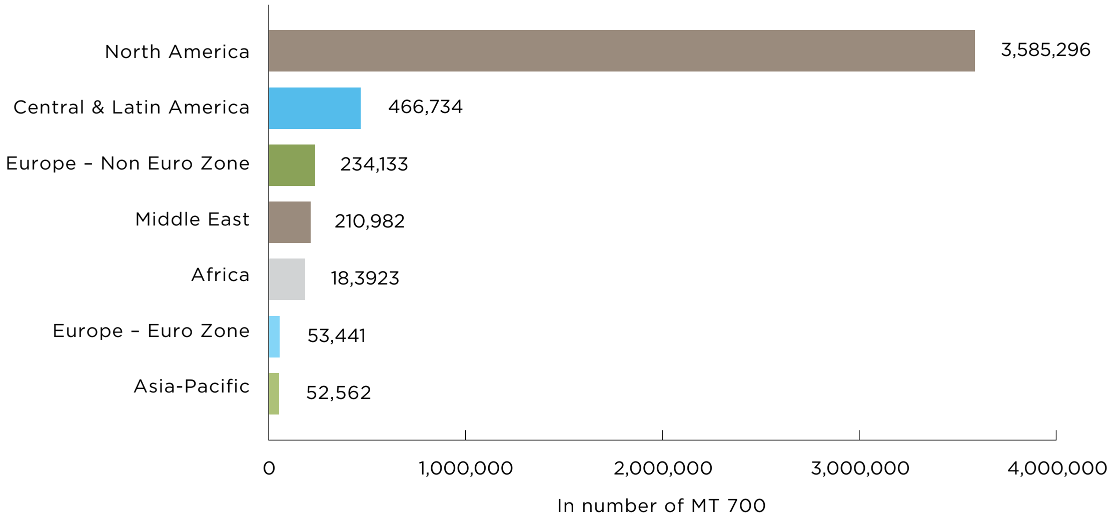
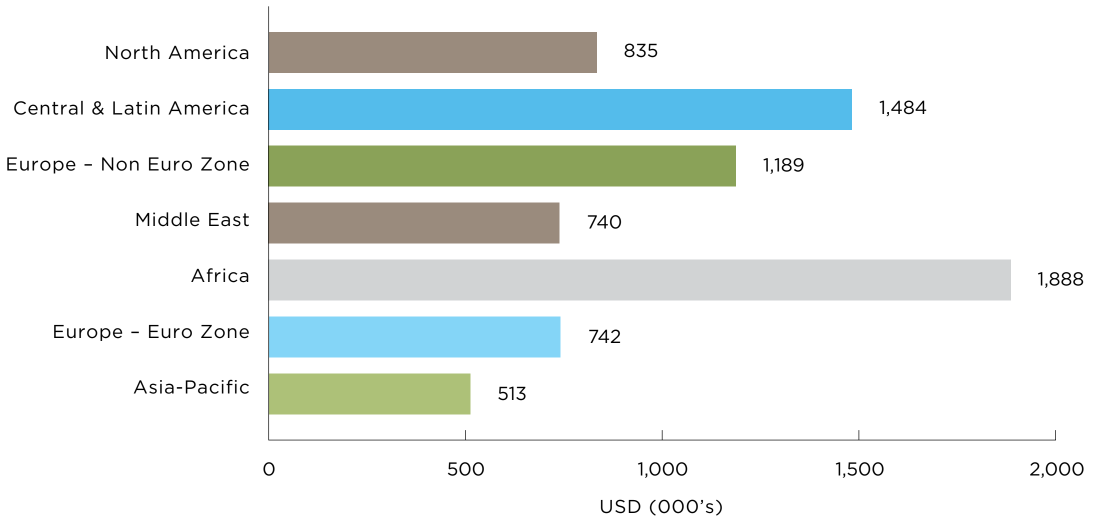


Figure 32: Average value of L/Cs issued (Exporting regions)

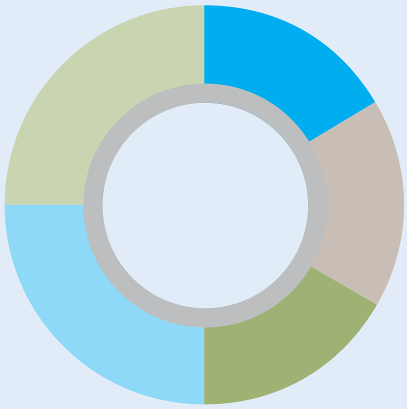


WATCH ANALYTICS

Watch Analysers, a set of tools to increase your business performance. Analyse traffic volumes, the associated value, the global market's activity, currency flows and your overall SWIFT expenses.

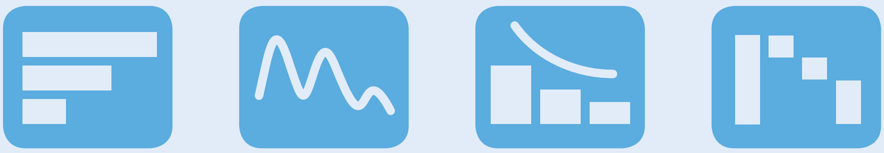
The data in this section was gathered by SWIFT Watch Analytics which provides direct access to dynamic search and analysis of business data.

- **Watch Message Cost Analyser:** Your SWIFT messaging costs and charges
- **Watch Billing Analyser:** Your SWIFT invoice in detail
- **Watch Market Analyser:** Total share
- **Watch Value Analyser:** Your transaction value by currency
- **Watch Traffic Analyser:** Your traffic volumes by market, message type and region



WATCH INSIGHTS

Visual and business-oriented dashboards on a subset of your customer's correspondent banking business. More market segments to follow.



Develop footprint and portfolio for Payments and Cash Management

Manage correspondent network for Payments and Trade Finance

Develop footprint and portfolio for Trade Finance

Improve operational efficiency & quality

Find more online, go to www.swift.com

SWIFT: ADDITIONAL DATA ON REGIONS

Figure 33: Top 5 countries in volume of MT 700 sent

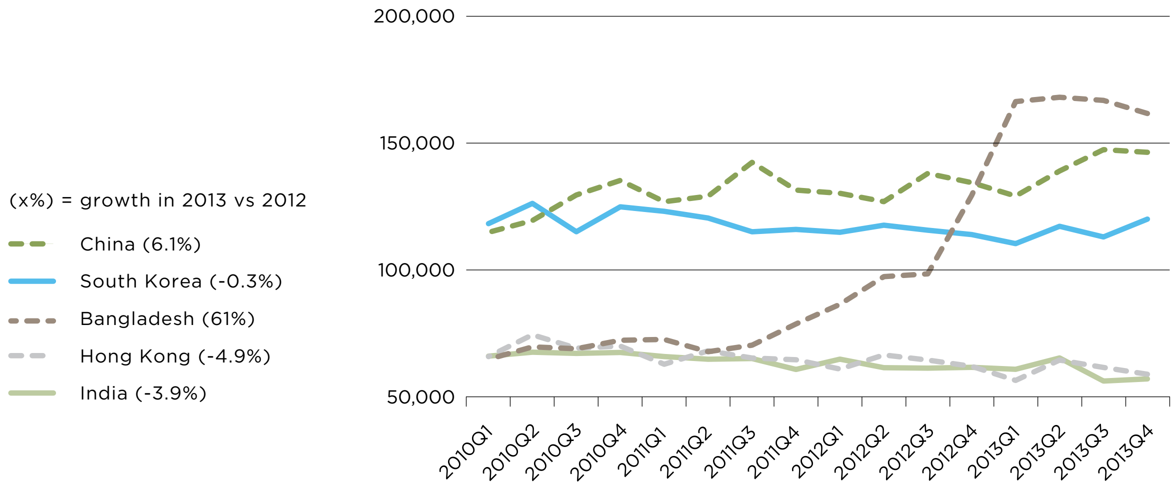


Figure 34: Top 6 to 15 countries in volume of MT 700 sent

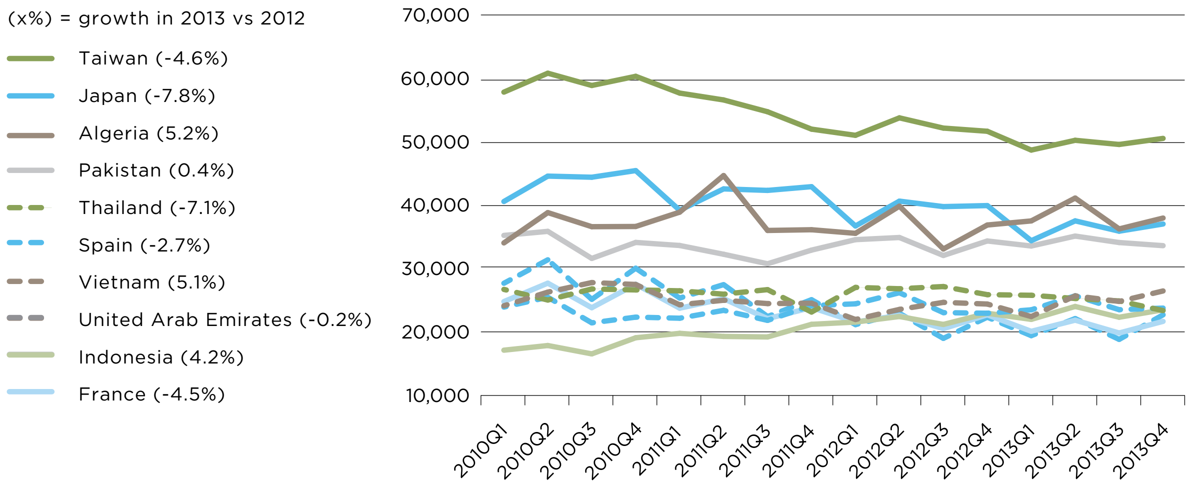


Figure 35: Top 5 countries in volume of MT 700 received

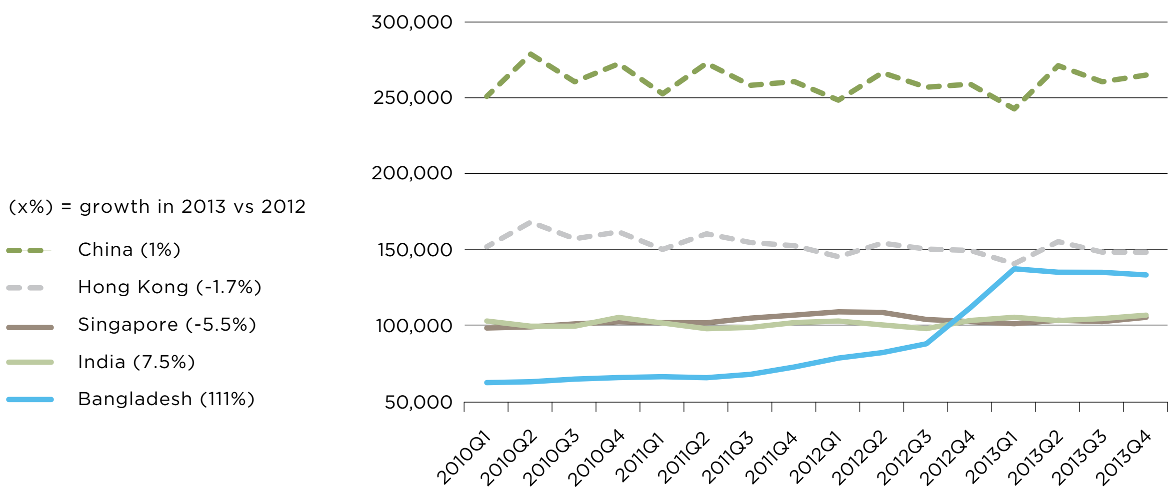


Figure 36: Top 6 to 15 countries in volume of MT 700 received

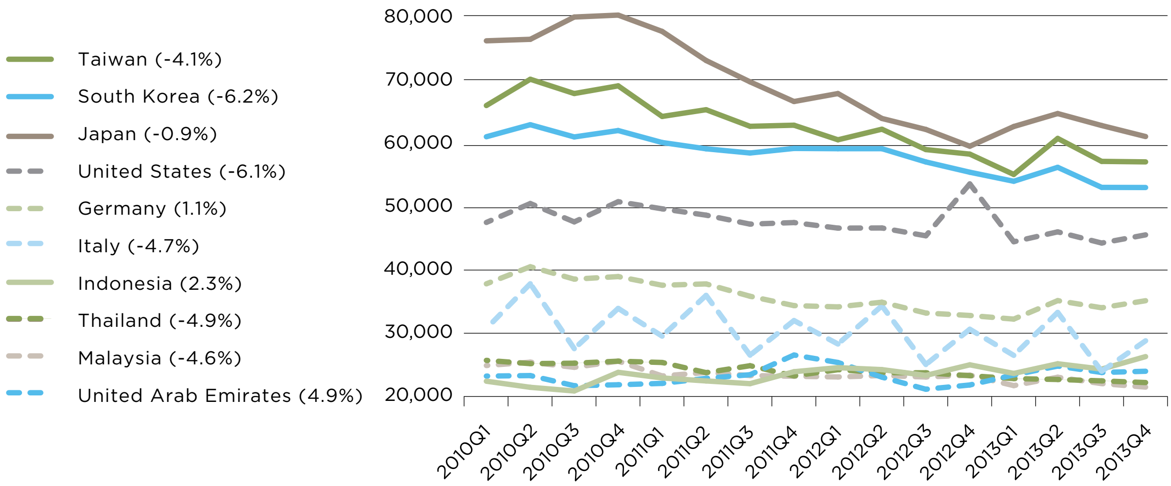


Figure 37: MT 400, MT 700 sent by region, 2013

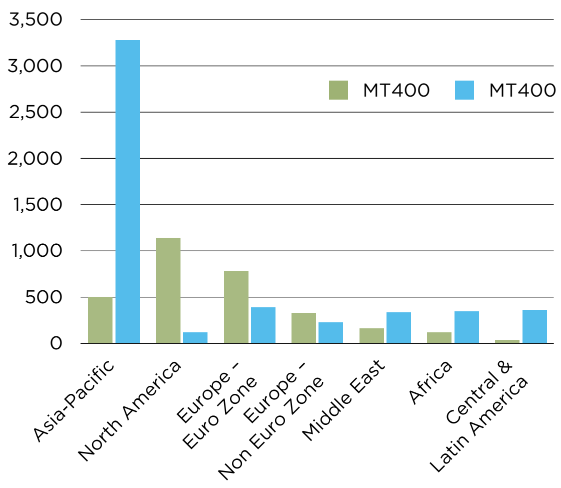
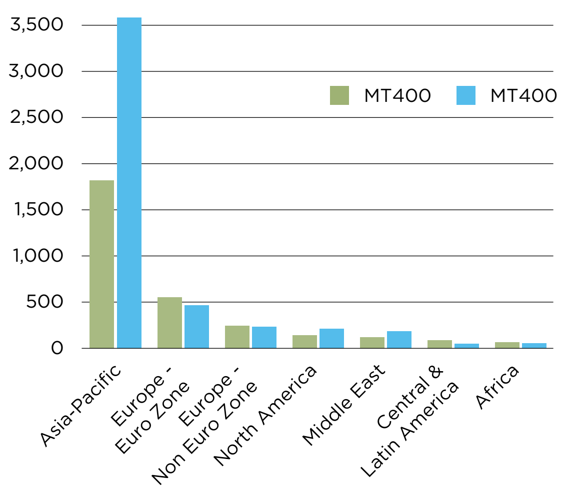


Figure 38: MT 400, MT 700 received by region, 2013



Regions preferences for usage of financial instruments such as L/C (MT 700) and collections (MT 400) through SWIFT

HIGHLIGHT: REGIONAL TRENDS UNITED ARAB EMIRATES

Figure 39: MT700 sent – UAE in the top 5 Middle East countries

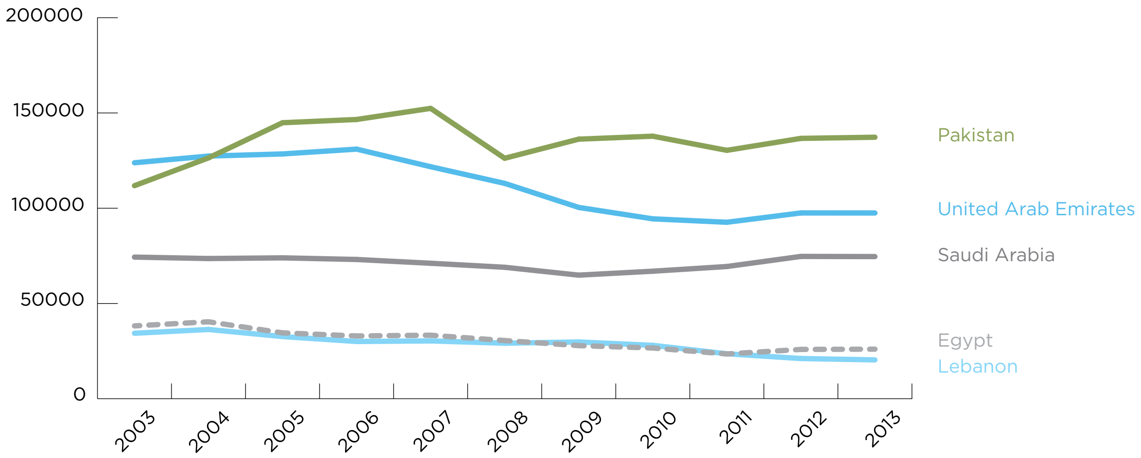
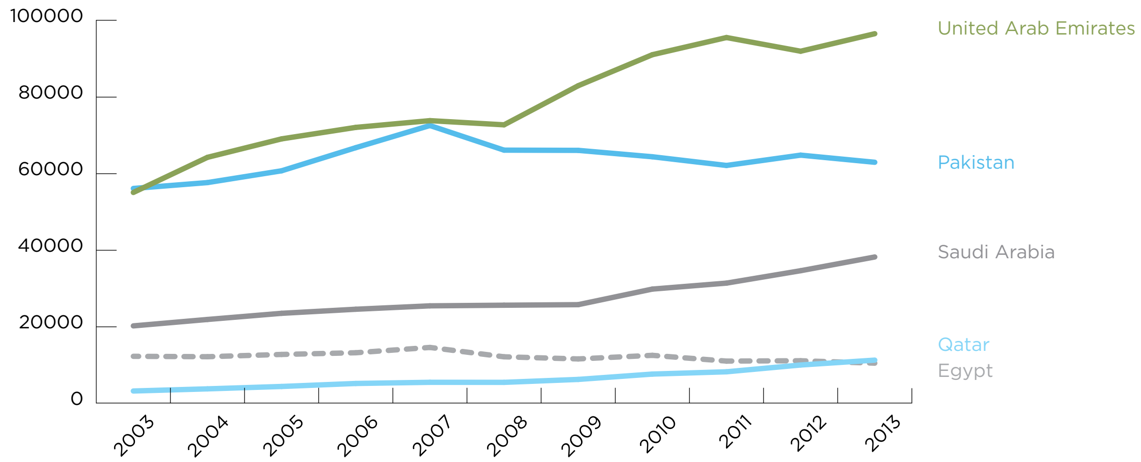


Figure 40: MT700 received – UAE in the top 5 Middle East countries



Definition

Category 7 supports messages which are exchanged between banks involved in the documentary credit and guarantee business.

- **MT 700 Scope:** This message is sent by the issuing bank to the advising bank. It is used to indicate the terms and conditions of a documentary credit which has been originated by the Sender (issuing bank).

Figure 41: MT400 sent – UAE in the top 5 Middle East countries

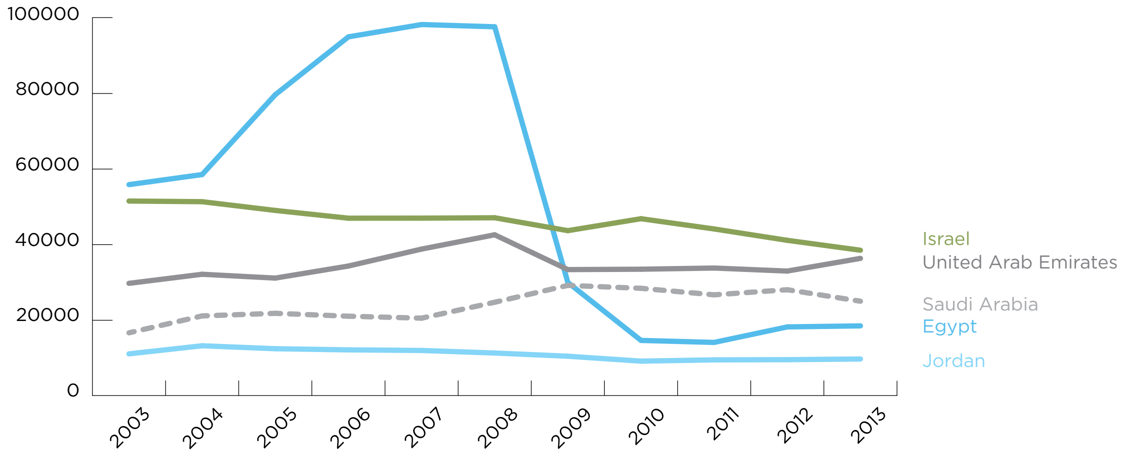
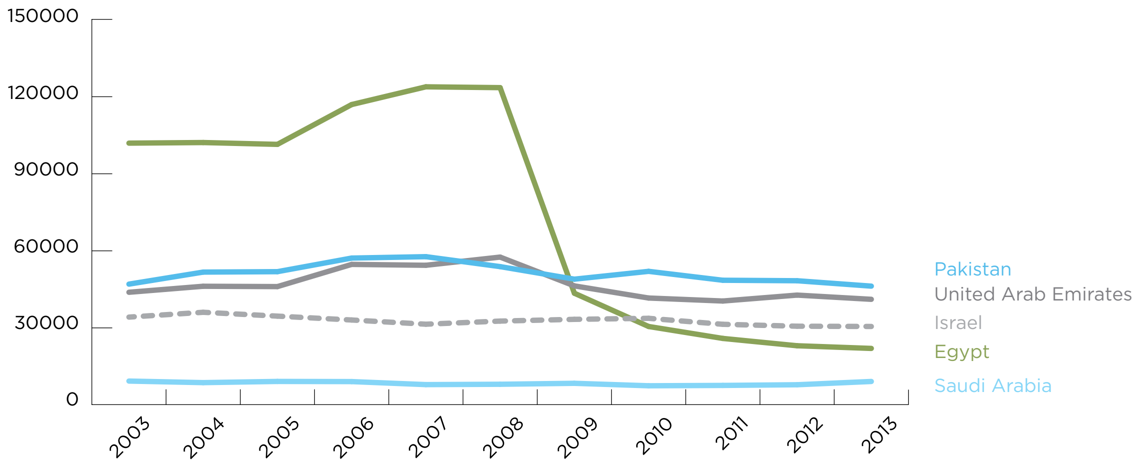


Figure 42: MT400 received – UAE in the top 5 Middle East countries



Definition continued

Category 4 consists of messages that are exchanged between banks in the handling of documentary and clean collections, for example, cheque collections, as well as cash letters.

- **MT 400 Scope:** This message type is sent by the collecting bank to the remitting bank. It may also be sent on behalf of the collecting bank by its branch/affiliate bank to the remitting bank or branch/affiliate of that bank or by a collecting bank to another collecting bank.

I. REFERENCE INFORMATION
II. SUMMARY REVIEW
III. THE FULL REPORT
IV. LOOKING AHEAD

HIGHLIGHT: REGIONAL TRENDS TURKEY

Figure 43: MT700 sent – Turkey in the top 10 European countries

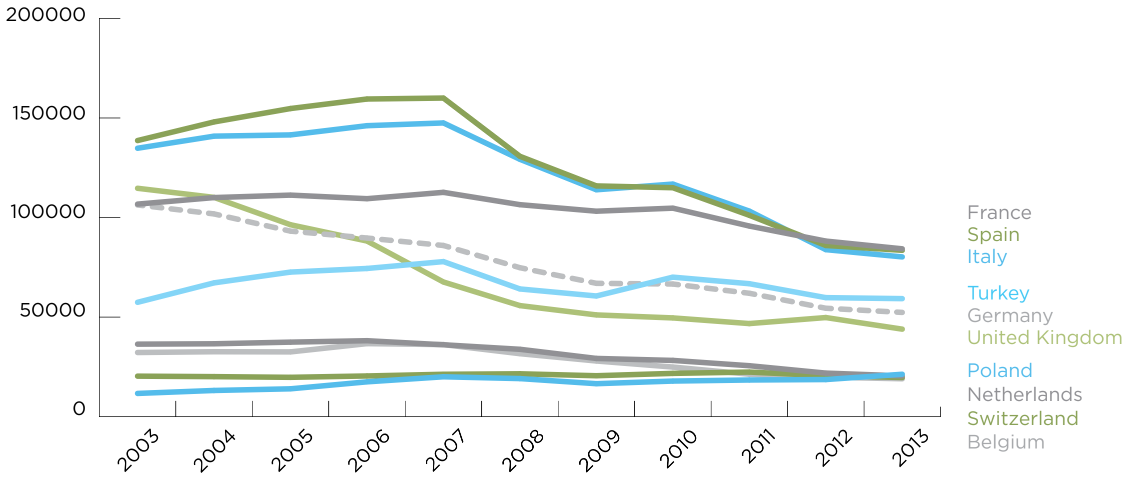
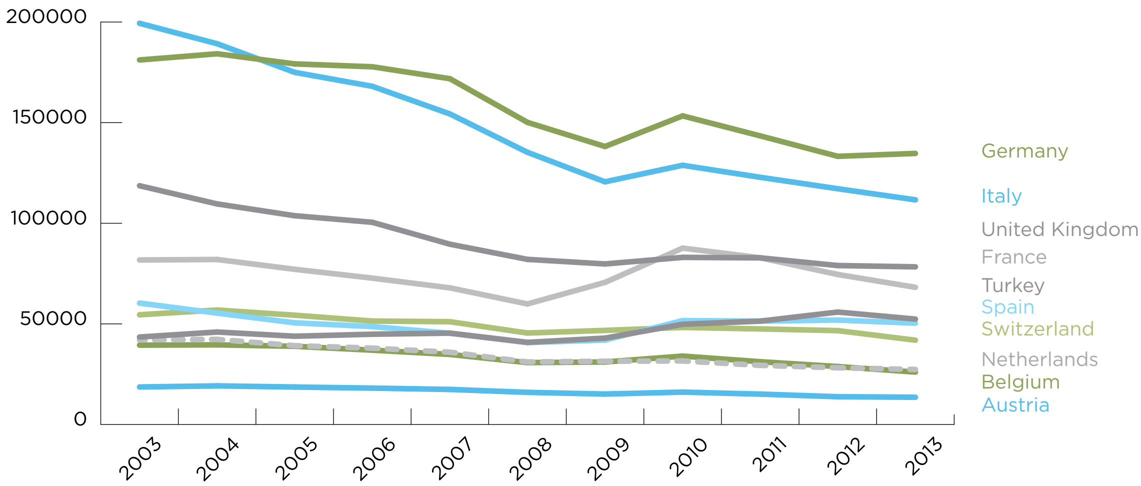


Figure 44: MT700 received – Turkey in the top 10 European countries



Definition

Category 7 supports messages which are exchanged between banks involved in the documentary credit and guarantee business.

- **MT 700 Scope:** This message is sent by the issuing bank to the advising bank. It is used to indicate the terms and conditions of a documentary credit which has been originated by the Sender (issuing bank).

Figure 45: MT400 sent – Turkey in the top 10 European countries

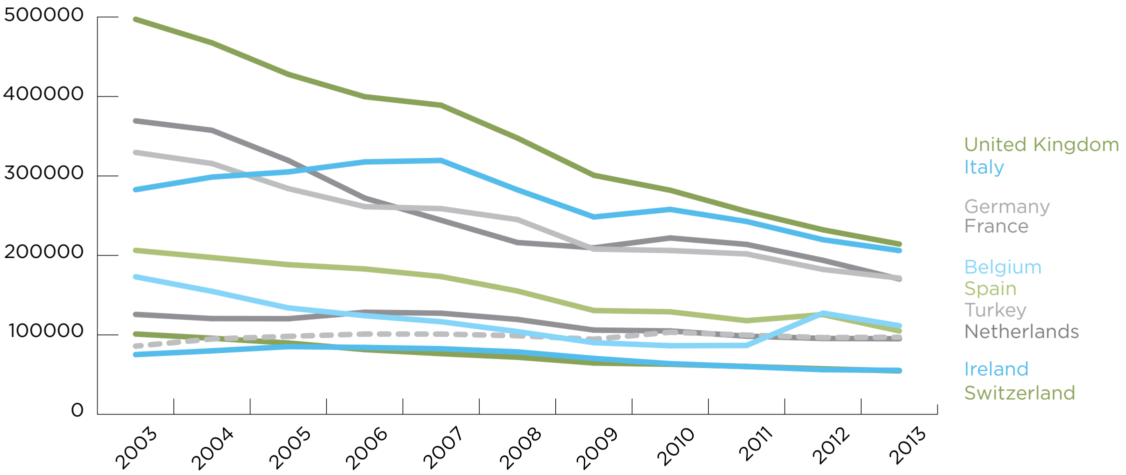
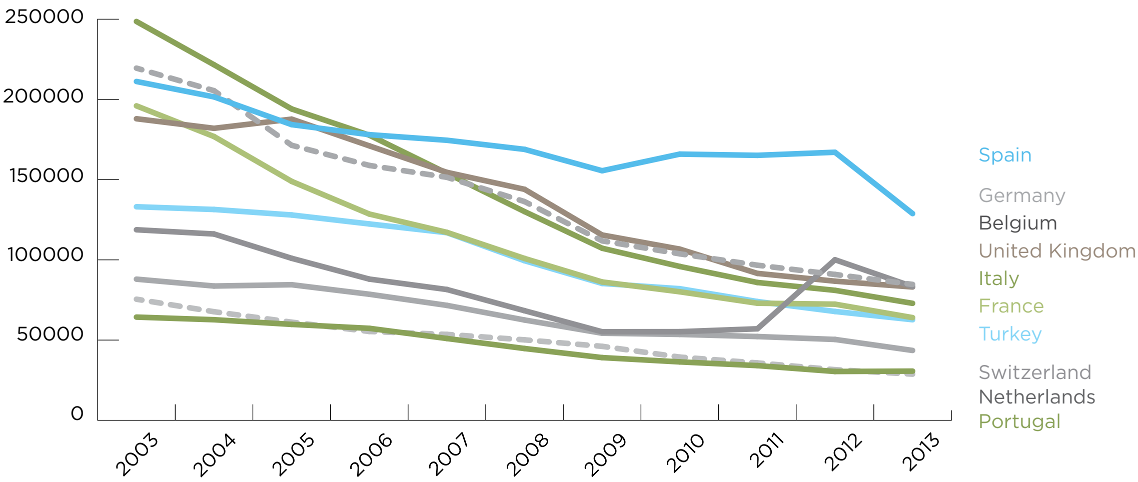


Figure 46: MT400 received – Turkey in the top 10 European countries



Definition continued

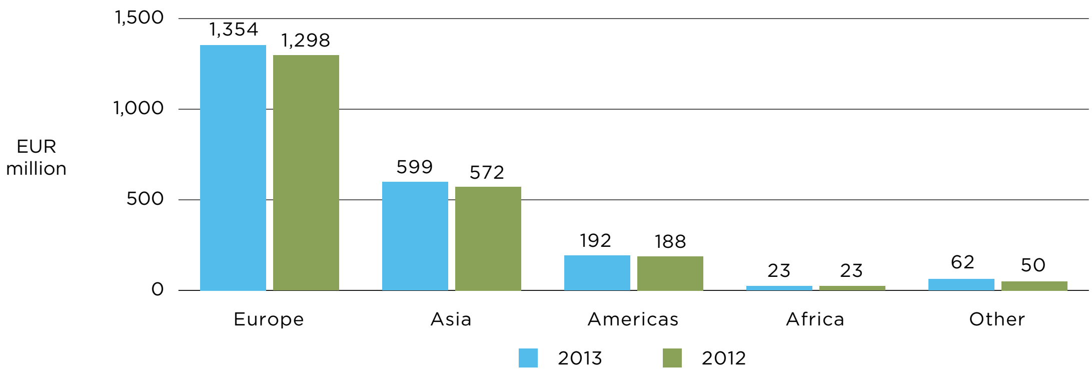
Category 4 consists of messages that are exchanged between banks in the handling of documentary and clean collections, for example, cheque collections, as well as cash letters.

- **MT 400 Scope:** This message type is sent by the collecting bank to the remitting bank. It may also be sent on behalf of the collecting bank by its branch/affiliate bank to the remitting bank or branch/affiliate of that bank or by a collecting bank to another collecting bank.

BUSINESS TRENDS IN FACTORING

The overall global factoring volume for 2013 increased to EUR2,231 billion, a year-on-year (YOY) growth of 4.6 percent, a rate slower than the 5.8 percent recorded in 2012. This growth was led predominantly in Europe (4.3%) and Asia (4.7%), which accounts for over 87% of the global factoring volumes, as can be seen below in Figure 47.

Figure 47: Global factoring industry 2013 by region



Since the start of the financial crisis, especially during the surge years that took place immediately after the in the 2009-2011 period, factoring has been growing at a rate of 15% per annum, adding nearly EUR1 trillion in annual factoring volume during this time. The industry practically doubled in size during this 5-year period, a substantial feat considering the modern era of factoring began over a century ago in the United States, as can be seen in Figures 49 and 50.

Since 1993, the global factoring industry has been growing at a relatively fast pace, increasing on average nearly 10% per annum, as can be seen in Figure 51.

Domestic factoring accounted for EUR1,828 billion of the overall volume; while international factoring totalled EUR403 billion, amounting to 18 percent of the global volume. International delivered a five-year compound annual growth rate (CAGR) of 24.8 percent. This is far above the 13.1 percent CAGR for domestic factoring, meaning the cross-border factoring volume increased nearly double the pace compared to domestic growth.

Figure 48: Regional spread of the factoring industry

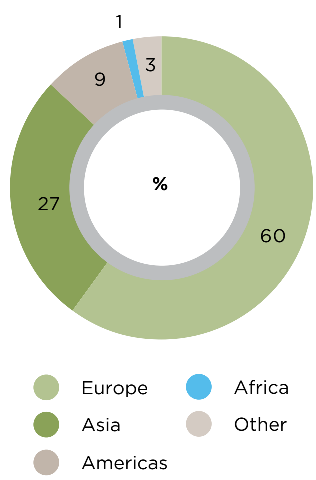


Figure 49: Total domestic factoring volume 2009-2013

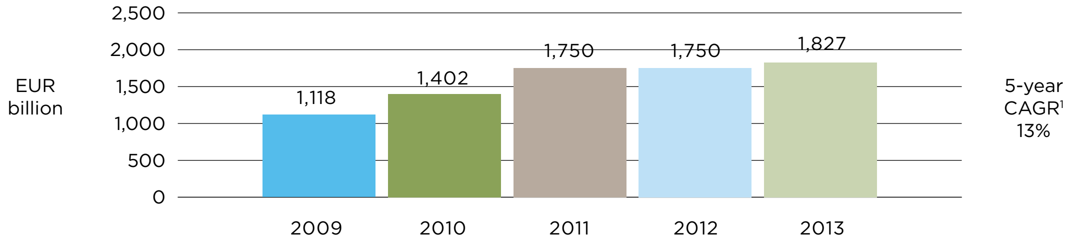
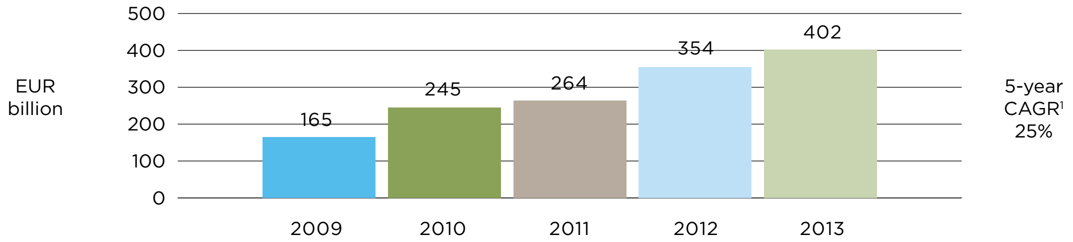


Figure 50: Total international cross-border factoring volume 2009-2013



[1] CAGR: Compound Annual Growth Rate

Over the last 5 years, the factoring industry has grown annually at a rate of 15% – nearly doubling in size.

The growth in cross-border factoring has again been driven by an increase in open account trade, especially from suppliers in the developing world, pushed by the major retailers/importers in the developed world, and the acceptance of factoring as a suitable alternative to traditional letters of credit. The greater China region has played the most important role in this impressive growth story, adding a staggering increase in cross-border factoring volume over the past three years.

Figure 51: Global factoring volume 1993-2013

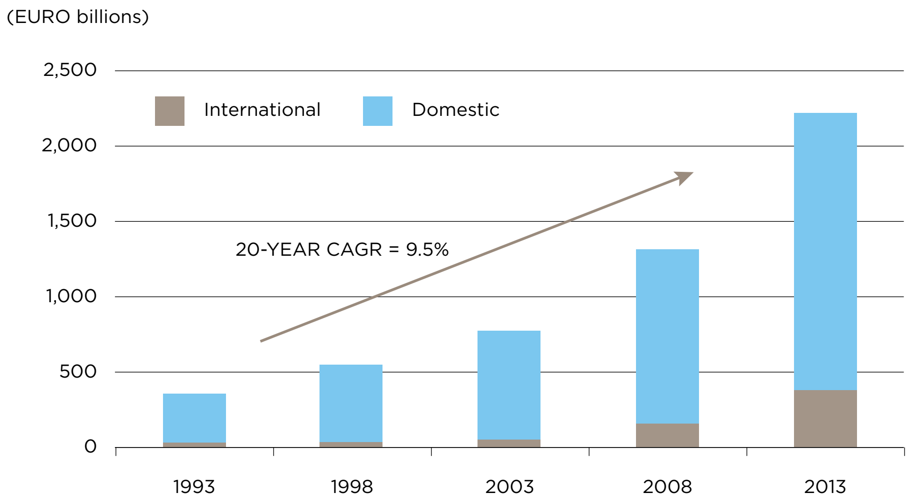
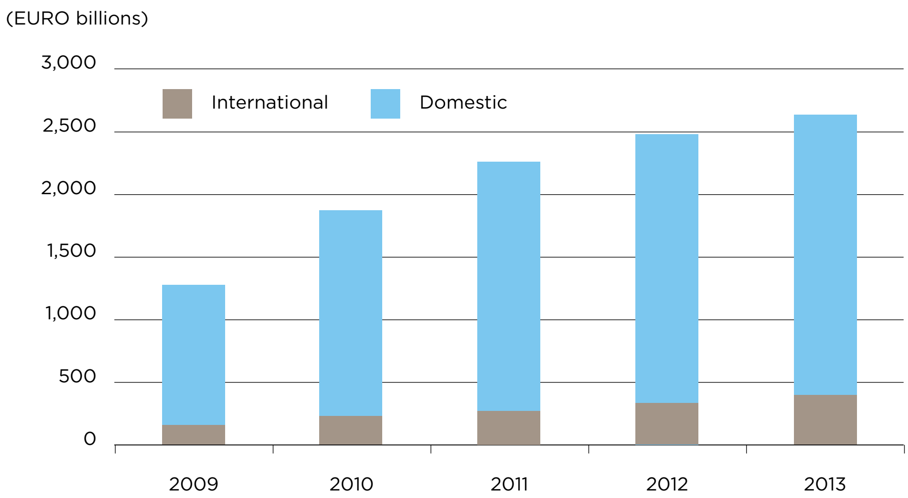


Figure 52: Global factoring volume: 5-year view

				All figures given in Euro billions
	Domestic	**Int'l**	**Total**	**Growth rate YOY%**
2009	1,118	166	1,284	-
2010	1,402	246	1,648	**28.3**
2011	**1,741**	**274**	**2,015**	**22.3**
2012	**1,779**	**353**	**2,132**	**5.8**
2013	**1,828**	**403**	**2,231**	**4.6**

Domestic Factoring 5-year CAGR = 13.1%
International Factoring 5-year CAGR = 24.8%
Total Factoring 5-year CAGR = 14.8%



The factoring industry has changed dramatically over the past 20 years. This significant increase in world factoring volume has been driven by a systematic growth in factoring throughout most of the developed and developing world, led by commercial bank-owned factoring companies or divisions of banks, especially in Europe and Asia. In Europe alone, over 90% of the factoring industry is made up of bank subsidiaries owned by commercial banks. In most of Asia, banks control the vast majority of the factoring activities there. Only until recently, banks in China were the only parties permitted to operate a factoring activity. But in other markets, like the United States and Brazil, factoring is unregulated, and therefore most players in these markets are considered non bank financial institutions (NBFIs). Nonetheless, the explosive growth of the industry, especially since the start of the financial crisis, is in large part inspired by the in part due to an enhanced perception of risk globally, but also stemming from the shift from overdraft/unsecured credit facilities to receivables-based factoring/invoice-discounting portfolios. This shift is also enhanced by the introduction of Basel II/III rules impacting capital

Definition

Recourse Factoring agreement implies that you are responsible for buying back invoices that aren't paid by your customers after a pre-determined period of time, which could be 60, 90 or even 120 days.

Non-recourse Factoring agreement implies your factor completely assumes the risk of non-payment by your customers, regardless of the reason.

Correspondent factoring volumes of cross-border business in 2013 generated over EUR25 billion in annual export volume.

requirements but also based on the understanding that factoring is a highly prudent form of funding.

Factoring is considered to be a product designed to provide financing to Small to Medium Sized Enterprises (SMEs). Funding is offered based upon the accounts receivables created by the client: With a factoring solution, the factor agrees to pay an agreed percentage of approved debts as soon as the receivables are assigned to the factor. The factor will often also undertake all credit management and collections work. There will normally be a charge for the collections service and, if it is required, for bad debt protection as well as a discount charge for finance provided in advance of collections.

Founded in 1968, Factors Chain International (FCI) is a global network of leading factoring companies, whose common aim is to facilitate international trade through factoring and related financial services. FCI has 271 members located in 75 countries, and is the world's largest factoring network, with member transactions representing 90% of the world's international cross-border correspondent factoring business conducted in 2013. Today, over 85% of the members of FCI are bank related.

FCI's correspondent factoring volume of cross-border business increased nearly 10% in 2013, generating over EUR25 billion in annual export volume. Its top three export factoring markets include China, Turkey, and Hong Kong. Its top three import factoring markets include the US, France and Germany.

Not only is most of the business conducted within the framework and membership of FCI, but FCI also provides a legal foundation to conduct cross-border correspondent factoring. The General Rules of International Factoring (GRIF) form the legal basis under which nearly all cross-border correspondent factoring business transactions are conducted, and this legal framework has been accepted by nearly every international factoring company around the world. FCI members also use a proprietary communication system called edifactoring.com. Like the SWIFT messaging system, edifactoring.com provides a sound and secure means by which members can issue factor guarantees, send invoice data, issue dispute notices, and send payment messages.

Factoring is at an interesting crossroads – international factoring in particular. The product has undergone an unprecedented growth spurt, and FCI has helped lead this growth, as evidenced in the nearly doubling in size of the industry over the past five years. Central bankers and regulators around the globe have looked at this growth story and have come to appreciate the product as a safe and secure method of financing trade. Governments and policy makers have come to appreciate the invaluable role factoring plays in financing SMEs.

It is also valuable to potential members of FCI interested in cross-border factoring as an alternative to traditional letters of credit and documentary collections. Monetary authorities and regulators have started to notice that factoring is one the most secure forms of working capital financing available to financial institutions today.

REGIONAL STUDY ON THE ROLE OF TRADE FINANCE IN SOUTH AMERICA

The International Monetary Fund (IMF) has continued to contribute to the debate on trade finance. This piece summarizes recent research on trade finance at the IMF—understanding the pattern of payment methods and identifying the role of trade finance in the great trade collapse.

Despite the ongoing effort, notably by the International Chamber of Commerce (ICC), to construct comprehensive trade finance database, the lack of understanding of trade financestems largely from the unavailability of sufficiently detailed data. Given that the choice of payment methods is made between the importer and the exporter, it is critical to consider the characteristics of both sides involved in the transaction, which requires buyer-or seller-level transaction data with payment method information.

The IMF provides a portrait of the pattern of payment methods in international trade at the national level, by employing the universe of Colombian import as well as Chilean export and import transactions data encompassing millions of transactions a year. The unique feature of these datasets – which identify the payment method used in each transaction, in addition to the fact that the majority of importers or exporters transact with multiple trading partners from different countries – enhances the quality of econometric analysis because it allows for exploiting within-firm variations, effectively controlling for firm-level characteristics such as nonpayment risks or financing conditions.

The data reveal that the open account is the predominant payment system in Chilean and Colombian trade. It accounts for as much as 90 percent of total import transactions in Colombia, and around 80 percent of import and export transactions in Chile, while letters-of-credit transactions covered only 5 percent of Colombian imports, and around 10 percent of Chilean imports and exports. It further shows that a substantial level of variations across destination or source countries is mostly explained by Asian countries – the share of transactions covered by the open account system declines to around 75 percent for Colombian imports from

The underdeveloped account receivables financing markets and their inherent advantages being diluted by various implicit or explicit state policies explains why the open account system is less frequently used in Asia.

References

Ahn, JaeBin, 2013, "Estimating the Direct Impact of Bank Liquidity Shocks on the Real Economy: Evidence from Imports by Letters of Credit in Colombia," (unpublished; Washington: International Monetary Fund).

Ahn, JaeBin, 2014, "Understanding Trade Finance: Theory and Evidence from Transaction-Level Data," (unpublished; Washington: International Monetary Fund).

Open account is the predominant payment system in Chilean (80%) and Colombian (90%) trade.

Asia and Chilean exports to Asia, and to around 50 percent for Chilean imports from Asia. Controlling for goods and firm-level fixed effects as well as other country-level characteristics, econometric analyses confirm that a transaction with an Asian trading partner tends to use the open account system significantly less by around 10-20 percentage points.

According to the IMF study (Ahn 2014), the predominance of the open account system can be explained by the peculiar feature of account receivables financing – when a trade finance loan is made with account receivables (i.e., trade credits) as collateral, it becomes self-liquidating and the lender retains recourse to the borrower, which makes it cheaper than otherwise. Further, account receivables offer a broader range of financing options such as factoring and securitization. To the extent that account receivables financing markets are less developed or their advantages are diluted by other implicit or explicit state policies, this explains why the open account system is less frequently used in Asia.

The IMF has also explored the trends in letter-of-credit import transactions in Colombia to identify the direct impact of bank liquidity shocks on real economic activity during the 2008-09 global financial crisis. The identification strategy adopted in Ahn (2013) takes advantage of the extremely detailed nature of Colombian import transaction data, which provide the names of importers, exporters, and banks for each letter-of-credit transaction. Together with the fact that there are many importer-exporter pairs that use multiple issuing banks for letter-of-credit transactions, the data allow for controlling for importer-exporter specific shocks, effectively separating out letter-of-credit supply shocks across issuing banks. Further, the non-fungible nature of letters of credit ensures that the estimated impact of bank liquidity shocks on the supply of letters of credit is directly translated into the real impact on import transactions. The paper finds a substantial impact of bank liquidity shocks on the supply of letters of credit. It also suggests that adverse bank liquidity shocks can explain about one third of the collapse in import transactions via letters of credit in Colombia.

Overall, recent research at the IMF proposes an alternative approach to understanding trade finance by studying customs transactions data at the national level. The main findings from this approach are expected to complement those from the annual ICC Global Survey, and to open up an agenda for future research.

BUSINESS TRENDS IN EXPORT FINANCE

Background

The survey was completed by 42 export finance professionals within banks. Of those surveyed, 24 percent represented banks headquartered in Germany, followed by France, the UK and United States (15 percent each). There were also respondents from Australia (7 percent), Africa (Nigeria, 5 percent) and Asia (Singapore, 2.5 percent). (See Figure 54)

The size of the banks included a wide spread, ranging from those with less than ten employees being directly involved in the processing of export finance products within the bank globally (5 percent) to those with more than 100 (41 percent). Nearly one in five respondents had between 21 and 50 employees, while there was 12 percent with either 10-20, 51-75 or 76-100 employees.

Only relevant industry professionals were invited and allowed to carry out the survey, safeguarding the quality and relevance of the results. While the survey results are completely anonymous, those who chose to reveal that they took part included the heads of export finance in several banks, increasing the credibility of the findings.

Summary Results

The inaugural ICC Export Finance Benchmarking Survey reveals a picture of an industry in transition but relatively high in confidence. 86 percent of respondents were optimistic about the prospects for the sector over the next 5 years with only 7 percent feeling quite pessimistic. This optimism carries into forecasts for the twelve months ahead, as compared with the previous year. A majority of respondents (69 percent) predict that the total value of their activity will increase.

Experienced personnel (weighted average score of 6.76) and strong relationships came out on top when respondents were asked what they thought banks needed most to be effective. Access to capital markets distribution (2.69), meanwhile, was seen as the least important ingredient.

Russia was the most popular borrower market by some margin, with 49 percent of respondents identifying it as being the most important. This means the heightened tensions in the region following political developments in Ukraine and Crimea take on extra significance in the context of export finance.

Key findings

- 86 percent of export financiers optimistic on the future health of the sector
- 62 percent report a reduction in fees over the past year, and 91 percent report a decrease in pricing
- Russia is overwhelmingly identified as the top market for export finance
- 71 percent report that the effect of Basel III has been negative to date, although a similar number concluded that it had made them more innovative
- 60 percent of export finance bankers see capital markets as critical to the future of the sector, but 63 percent are yet to conclude a deal involving institutional investors
- 30 percent of respondents are lending less than before the financial crisis, whereas only 9 percent report a reduction in arranging

Figure 54: Location of export finance business headquarters

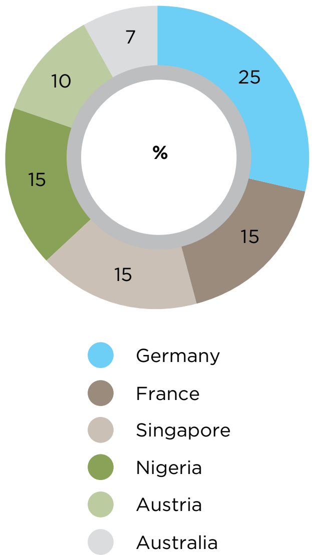
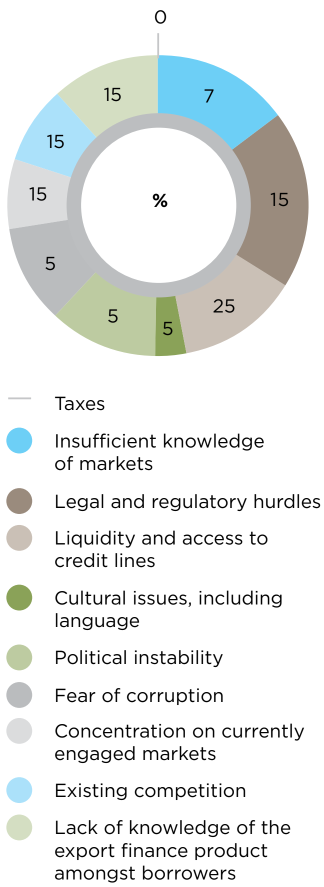


Figure 55: Most prohibitive factors to the export finance business



In terms of sector, industrial production/processing equipment and power/transmission have been the most frequently conducted export finance activities, with 40 percent of respondents naming each of the sectors as being among their top 3. The slight caveat to that is oil & gas upstream (19 percent) and downstream (36 percent) would be top of the list if they were categorised jointly.

While banks may be looking to do more export finance deals in new markets, just over half cited legal and regulatory hurdles as the most prohibitive factor to achieving those ambitions.

There was not a lot to cheer for banks in terms of pricing in export finance over the past year. Most banks (32 percent) reported a decrease in pricing of more than 20 percent. In contrast, only 2.5 percent of banks had seen an increase in pricing of more than 20 percent. 63 percent of respondents felt that increased competition was the reason behind changes in pricing. In terms of bank fees, 63 percent said their fees had decreased, just under a quarter felt they stayed the same, and only 2.5 percent felt they had increased.

The role of export credit agencies (ECAs) is a topical issue, and the majority of export finance banking professionals thought there was both a greater sense of competition with and amongst ECAs. The issue of direct lending by ECAs inspired a far less uniform response, with 15 percent feeling it provides unhealthy competition while just over a quarter felt it was a necessary intervention overall.

The growing importance of capital markets was once again reinforced, with 60 percent of professionals saying they thought capital markets were 'critical' to the future of export finance. The concept of working more closely with institutional investors, however, received a slightly less warm response – with just under 40 percent of respondents saying they did not think institutional investors had a better understanding of the export finance product today than they did two years ago. The biggest role institutional investors have played in export finance deals to date is as a provider of institutional debt.

Another growing role is that of export finance in project financings. Nearly 80 percent of respondents felt export finance was being used more within project finance, with 46 percent reporting its role had increased significantly.

There was no escaping the effects of Basel III for the banks. Only 12.5 percent saw their operations unaffected by the regulations, which came into force last year. The majority of those that were affected described that effect as negative (71 percent), indicating the work regulators have to do in convincing banks of the utility of the new rules. Only 3 percent of respondents described the effects of Basel III as positive. The sentiment in response to Basel III that most banks agreed with (84 percent) was the ambivalent 'It has made us more selective'. A silver lining for the regulations, meanwhile, came in the form of 86 percent of respondents disagreeing with the idea that Basel III has decreased client enthusiasm for the export finance product.

Basel III seen as negative for export finance, but a driver of innovation

The first question asked about Basel III was, simply, whether it had affected banks' operations. The answer to this was overwhelmingly affirmative, with 87.5 percent responding yes. Moreover, of that 87.5 percent of respondents, 42.5 percent described the effects as significant and 71 percent as negative.

Evidently, Basel III has posed some problems and disrupted the normal running order of banks' operations. However, when asked more specific questions about the effects of Basel III, some more positive consequences of the regulations were drawn out.

Most noteworthy, 72 percent of the export finance professionals agreed that Basel III had made them more innovative as an organisation and 86 percent reported that it had not decreased client enthusiasm for the export finance product. (See Figure 56)

84 percent agreed with the more ambivalent statement that Basel III had made them more selective. Whether this selectivity implies a greater prudence or less opportunities, it nonetheless reinforces the aim of regulators to focus more attention on the selection of deals.

On the negative side, approximately three quarters reported that Basel III had directly led to an increase in the cost of doing export finance. Following on from that, 69 percent said it had led to them increasing the price they are charging customers, demonstrating the knock-on effect that such regulation can have.

There was a fairly even split in terms of those who believed processes had been slowed down as a result of Basel III (53 percent) and those who did not think it had (47 percent).

Industry enthusiasm remains high

Despite the challenges the industry has encountered in recent years – the effects of which are expressed later on in this survey analysis – optimism is high. Tellingly, only 7 percent were pessimistic about the prospects for export finance over the next 5 years. The same amount deemed the situation too difficult to judge at the present time. 86 percent, however, were optimistic about the outlook.

There was a trend along size lines, whereby the banks with 50 employees or less had an optimism score of 64, while those with more than 50 employees had an optimism score of 85.

Universal decrease in pricing and fees

Although there is some discrepancy over the extent to which pricing in export finance has changed over the last year, there is almost unanimity about the point that it has gone down. In total, 91 percent of respondents report that pricing in export finance has decreased in the past 12 months. Of these, roughly one third say that it has decreased by more than 20 percent. By contrast, only four percent of respondents report an increase of any kind in pricing over the past year.

Figure 56: Have your bank's operations been effected by Basel III regulations?

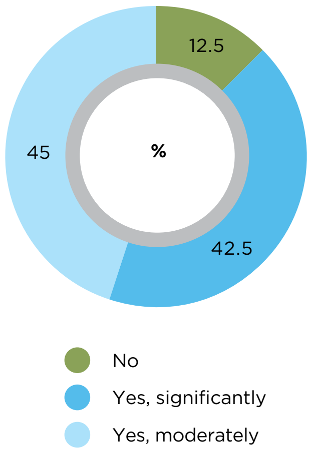
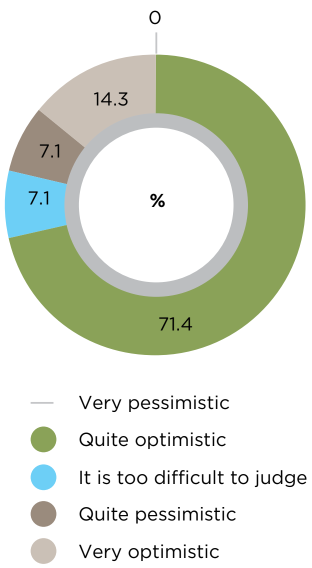


Figure 57: Prospects of the export finance sector 2013-2018



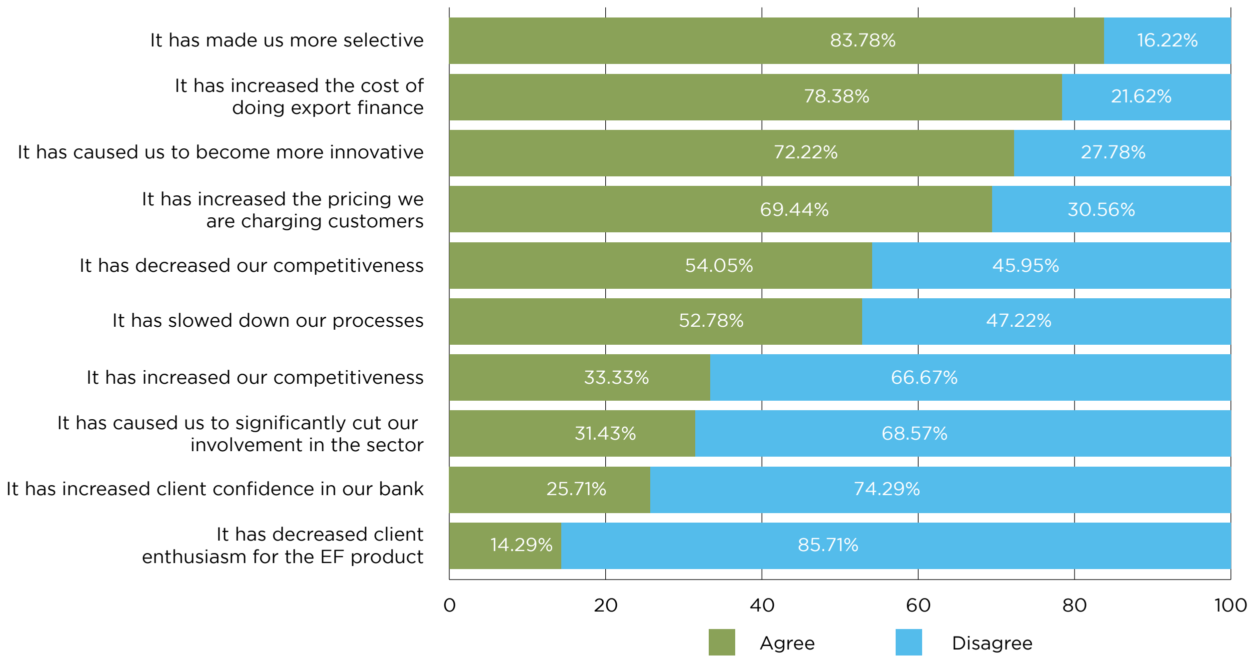
There was also a clear consensus as to whether increased competition had affected pricing (and thus effectively driven down pricing): 88 percent of respondents affirmed that it had, of which the majority (64 percent) believed it had influenced pricing to 'a great extent'.

Some of that competition is coming from export credit agencies (ECAs), according to 42 percent of the survey's respondents, who report an increased sense of competition with ECAs since the economic crisis. 29 percent are undecided on this point and the same number do not feel a greater sense of competition with ECAs.

The category of respondents who feel that pricing has decreased by more than 20 percent are the group most likely to feel there has been a greater sense of competition with ECAs. Indeed, 54 percent of this group feel a sense of competition with ECAs compared to the 42 percent figure when all participants' responses are taken into account.

There is a similar pattern when it comes to fees. 63 percent of those surveyed stated that fees had decreased and a further 25 percent said they had remained the same.

Figure 58: Effect of Basel III on banking operations



The value of export finance at banks increases moderately

It is a different picture, however, as far as the total value of export finance activity conducted by banks is concerned. A modest increase of between 1 and 10 percent was the most common trend in terms of the change in this volume over the past year (45 percent of respondents). In total, three quarters of the export finance professionals found that the value of export finance activity had increased while only 10 percent reported a decrease of any kind.

The export finance professionals expect that trajectory to continue into the next year, with 68 percent of them forecasting an increase in value for 2014 as compared with 2013. A further 22 percent think it will remain the same, but only 10 percent foresee a decrease.

Arranging rebounds more strongly than lending post-crisis

The most noticeable development in charting the changes of bank lending and arranging is the increase in arranging activity. Roughly half the respondents stated that arranging had increased as compared with the period immediately prior to the economic crisis – with a majority of those reporting a more than 10 percent increase. Only 9 percent said that their export finance arranging was lower now than it was in the period just before the crisis.

In terms of lending, just over half of respondents stated lending had increased while almost 30 percent said it had decreased.

Overall, then, the combination of changes in fees and pricing suggest squeezed margins for banks but the value and forecasts of export finance transactions point to a positive outlook going forward, driven by higher volumes.

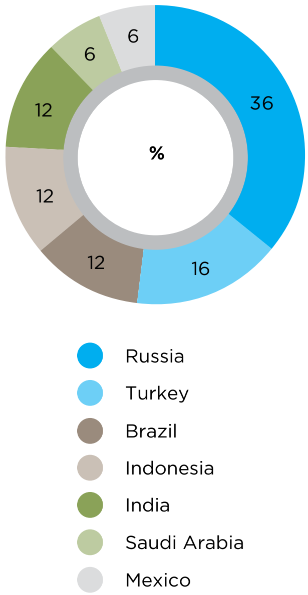
Highly skilled people and importer relationships are the key to export finance success

When asked to list the top three components banks needed to be effective in export finance, a weighted average system found that experienced and highly-skilled personnel was the most valued ingredient (6.76). Strong relationships with importers were the next most important aspect (5.78), and strong relationships with exporters (4.78) and strong relationships with ECAs (4.15) placed third and joint fourth respectively. Also in joint fourth was access to dollar liquidity (4.15), with strong balance sheets just 0.02 points behind. Time will tell whether this becomes more important as banks continue to respond to Basel III. Least important for affectivity, according to the respondents, was access to capital markets distribution (2.69).

Of those who felt strong relationships with ECAs was one of the three most important factors for successful export finance, two thirds felt that there had been a greater sense of competition with ECAs since the economic crisis. A similar number felt that direct lending by ECAs was either providing unhealthy competition or was only necessary in specific circumstances. This illustrates that the relationship between banks and ECAs is far from straightforward.

60 percent of respondents stated that capital markets solutions were critical to the future of export finance.

Figure 59: What are your top three borrower markets



Russia seen as the most important market, oil and gas the most important sector

A question was asked about where banks' key borrower markets were that would determine both the single most important country for banks and the countries that were part of the top three most important for banks. These answers were then given a weighted average to facilitate easy comparison. The predominant answer was the same both times: Russia. Indeed, as the graph shows, Russia is significantly the most popular borrower market, with just under half (49 percent) of respondents naming it as their top market, followed by Brazil (12 percent) and Turkey (10 percent) some way back. China and Indonesia were each named as the top market by 7 percent of respondents.

The picture is a much more balanced one when looking at strength across sectors. When asked to list their top three sectors for export finance, 40 percent selected industrial production/processing equipment and 40 percent listed power/transmission. Oil & gas downstream was selected by 36 percent of respondents and oil & gas upstream by 19 percent, meaning that across both streams the oil sector is still the most dominant.

Despite the increase in such projects, renewable energy only accounted for 10 percent of responses.

85 percent of those who listed industrial production/processing, power/transmission, or infrastructure projects as one of their top three sectors felt that export finance was being used more often within project financings than in the past.

Capital markets seen as critical to the future of export finance

60 percent of respondents stated that capital markets solutions were critical to the future of export finance. Of the other 40 percent, only 10 percent actually disagreed with the sentiment, while the remaining 30 percent were unsure.

Export financiers are not entirely convinced that institutional investors have a full understanding of the export finance product. With opinion generally split on the matter, a majority (39 percent) are not sure as to whether institutional investors' understanding is better today than it was two years ago. 37 percent of export finance professionals, on the other hand, are confident that the institutional investors understand their product better today, while a quarter think they do not.

A perceived lack of understanding is referenced once more when the question 'What is the biggest challenge to more institutional investors entering export finance' is asked. A strong majority, 47 percent, point to a lack of understanding of the product and associated risks. Meanwhile, one third believe it is about a concern over the liquidity of export finance assets. Only 9 percent believe pricing was the biggest obstacle and only slightly more (12 percent) identified lack of pooling options (securitisation) as the reason.

The majority of respondents speak with first-hand experience on the question of institutional investors, with most (62.5 percent) having successfully concluded business with them in the context of export finance. However, of this group, the most common basis for the rapport has been with the institutional investor acting as debt provider (56 percent). 44 percent have been involved in deals where institutional investors have acted as the buyer of packaged export finance debt.

BUSINESS TRENDS IN EXPORT CREDIT INSURANCE

Export credit insurance picks up in 2013

While international trade seems to have increased towards the end of 2013, the growth for the whole year has remained sluggish. Against this backdrop, the volume of exports covered by members of the Berne Union – International Union of Credit and Investment Insurers – increased by 4%, to reach a total amount of US$1.8 trillion.

Based on export figures for the first three quarters of 2013, global exports grew by 1% compared to the same period in 2012. The growth rate for export credit insurance was therefore significantly higher, and Berne Union members supported 10% of international trade in 2013.

Out of the total business volume, more than US$1.6 trillion represented short-term (ST) export credit insurance, while medium and long-term (MLT) export credit insurance amounted to just over US$160 billion.

Total claims paid by Berne Union members during 2013 amounted to US$4.4 billion, a slight reduction compared to the previous year. While ST claims moderately increased, MLT claims reduced by approximately 6%.

Since the beginning of the global financial crisis in 2008, Berne Union members have paid approximately US$24 billion to exporters to compensate them for losses suffered due to defaults by buyers or other obligors.

Within the continued volatile risk environment, Berne Union members provide ample insurance capacity of supporting international trade transactions and foster sustainable economic growth.

Short-term business – healthy growth and good results

Short-term business represents insurance of exports with repayment terms of less than one year – often 30, 60 or 90 days. These transactions are typically shipments of consumer goods, and the evolution of ST export credit insurance is closely linked with the cyclicality of the global economic environment.

The volume of ST export turnover insured by Berne Union members grew by 5.7% in 2013 and reached over US$1.6 trillion.

1.8
US$ TRILLION

the volume of exports covered by members of the Berne Union increased by 4% in 2013.

Global exports grew by 1% compared to the same period in 2012.

Figure 60: Short-Term Export Credit Insurance

MILLION US$	2005	2006	2007	2008	2009	2010	2011	2012	2013 est.
New business covered	843,719	975,262	1,126,721	1,296,878	1,122,608	1,257,794	1,495,227	1,538,609	1,639,743
Claims paid	702	783	1,007	1,128	2,418	1,508	1,323	1,827	1,913

New data seems to reflect an increased demand for risk mitigation products to protect international sales transactions.

This is significantly higher than the growth rate for international trade previously mentioned, and may reflect an increased demand for risk mitigation products to protect international sales transactions.

To support these international sales, the insurance capacity provided by Berne Union members, measured by the amount of credit limits approved and granted to exporters at a given point in time, stood at over one trillion US$ throughout 2013. At the end of the year, the capacity reached US$1.1 trillion – the highest level ever.

ST claims paid by Berne Union members to exporters following defaults on trade receivables rose from US$1.8 billion in 2012 to US$1.9 billion in 2013. This increase is slightly lower than the growth rate of the business and reflects a sound underwriting by the industry. It is noteworthy that the total claims figure is influenced by one of the large Berne Union members, who suffered a disproportional rise in claims. For most of the membership, ST claims paid have actually remained stable or even reduced year over year.

In spite of strong pricing competition in some areas of the market, it seems that Berne Union members have been able to command adequate premium rates, commensurate with the risks they bear. The ST loss ratio for Berne Union members as a whole is slightly lower in 2013 compared to 2012.

Historically, Export Credit Agencies (ECAs) tend to have higher ST loss ratios than private market insurers. A plausible explanation is that, by mandate, the role of ECAs has always been to support their national exporters and to cover transactions across a broad risk spectrum, in part beyond the appetite of private market participants.

The highest volumes of ST claims paid in 2013 resulted from defaults in Iran (US$191 million), Italy (US$186 million), the United States (US$145 million), Brazil (US$143 million), and Spain (US$108 million).

Many Berne Union members paid claims due to buyer defaults in Western European countries and the United States. This is quite normal and reflects the fact that these countries are those with the largest volumes of international trade and, as a consequence, with the largest ST exposures for Berne Union members.
Trade with Brazil has significantly increased in recent years and

Figure 61: Medium and Long-Term Export Credit Insurance

MILLION US$	2005	2006	2007	2008	2009	2010	2011	2012	2013
New business covered	104,241	126,891	142,120	153,591	190,589	173,393	191,195	181,025	160,849
- of which insurance	100,433	119,321	132,522	142,225	164,038	161,529	177,005	157,238	146,770
- of which lending	3,808	7,570	9,599	11,366	26,552	11,864	14,190	23,397	14,079
Claims paid	2,115	1,913	1,245	1,128	3,004	1,836	2,457	2,608	2,440

the amount of insured transactions and related claims paid has risen commensurately.

Currently, only few Berne Union members continue to insure ST exports to Iran. The exposure on Iran is small though volume of claims paid is high.

Medium and long-term business – demand for ECA cover still high

The MLT statistics of the Berne Union capture insurance coverage provided by state-backed ECAs only. In addition to those which provide insurance cover, some member ECAs also provide finance. These activities are reflected in the data as well and represent approximately 10% of the business reported.

MLT export credit insurance covers exports of capital goods, with repayment terms typically of 5 to 7 years, and as much as 10 or 15 years in some cases such as aircraft, ship or project finance. Most of the business is done with banks as the insured.

The total portfolio of MLT transactions insured by Berne Union ECAs reached US$657 billion at the end of 2013. This represents an increase of 4.5% and is the highest level of exposure ever recorded.

New business volume fell by 11% in 2013, to US$161 billion: lower than the historical record years of 2009 and 2011 (US$191 billion in each). Notwithstanding, this level remains higher than business volumes written prior to the global financial crisis.

Though new business volumes fell in 2013, the risk portfolios continued to grow, reflecting lower levels of policy expiry and cancellation.

New business has decreased for most of the large providers of MLT cover, certainly for the ECAs in OECD countries. This is not a result of a change in cover policy by the ECAs but reflects the underlying deal flow upon which ECAs are dependent on. In a continued challenging global risk environment, Berne Union ECAs continue to offer risk mitigation capacity to protect banks from obligor defaults.

Medium and long-term cover reached the highest amount ever recorded at US$657 billion at the end of 2013 – a 4.5% increase.

Given the political and economic uncertainties in the global environment, the support of ECAs appears to be more than ever crucial to help banks and exporters trade internationally.

Claims paid to customers by ECAs under MLT transactions reduced by 6% from US$2.6 billion in 2012 to US$2.4 billion in 2013. Countries where the highest claims payments were experienced are Iran (US$871 million), Saudi Arabia (US$221 million), United Arab Emirates (US$178 million), Ukraine (US$113 million), and Egypt (US$99 million).

The background to various claims situations are specific and differ significantly from country to country. A number of Berne Union ECAs have been affected by the Iranian situation, where obligors experience difficulties on transferring payments abroad. Iranian claims are linked to long-term transactions signed prior to the imposition of the sanctions. Little new cover on Iran has been issued in 2012 and 2013.

Losses experienced in Ukraine were widespread, where claims paid with respect to Saudi Arabia, the United Arab Emirates and Egypt were borne by relatively few ECAs.

But for claims in Iran, losses experienced in MLT business in 2013 would have been at their lowest level since 2008. However, the fact that a single situation significantly affects a large number of exporters in multiple countries illustrates the need for risk mitigation in cross-border transactions. Given the political and economic uncertainties in the global environment, the support of ECAs seems, more than ever, to be critical in assisting banks and exporters to trade internationally.

Outlook – a strong credit insurance industry prepared to handle international risks

With the exception of claims on Iran, 2013 has been a very good year for Berne Union members. The economic outlook is characterised by mildly positive signs for the recovery in Europe and other industrialised countries, though the growth in emerging markets has started to look less robust in recent months.

While the situation remains volatile, it is business as usual for export credit insurers who are familiar with and are well equipped to manage commercial and political risks.

Sections of the credit insurance market experience strong competition which leads to ample capacity and attractive pricing for exporters and banks. However positive the situation was in 2013, past losses serve as a reminder that pricing of risk mitigation products needs to be commensurate with the risks insured.

Once again, the performance of credit and investment insurers in 2014 will depend on global trade and global growth. With strong risk management tools and rigorous underwriting processes in place, Berne Union members, both public and private, have a major contribution to make in sustaining trade flows and further strengthen economic growth.

BUSINESS TRENDS IN TRADE FACILITATION PROGRAMMES

2013 saw the Multilateral development banks (MDBs) expand their global reach and penetration deeper into SME trade supports. Since the onset of the global financial crisis in 2008 and the prolonged period of uneven economic recovery, MDBs have expanded, diversifed, and launched innovative trade finance models. MDBs have been a lifeline for emerging markets and second- and third-tier banks, to support their growing base of small- and medium-sized customers during a time of economic turmoil. Historically these programs have been driven by needs of issuing banks in emerging markets but now confirming banks have accelerated their use of trade facilitation programs to offset risk and achieve best use of capital under Basel requirements.

It remains quite incredible that despite providing strong support for high-risk emerging markets, these programs have recorded no losses as of the date of publishing this global report.

The MDB's have clearly demonstrated the importance of trade finance education in enhancing access to finance, especially for SME companies who historically were not familiar with trade finance structures, products and benefits.

The standby letter of credit issued subject to the UCP 600 rules of the ICC is a mainstay in underpinning trade risks in all of the trade facilitation initiatives. Interestingly, despite supporting more than US$60 billion worth of trade into what, in many instances, could be considered high-risk markets, there had not been any write-offs or losses at the time of writing this report.

Despite the surge in activity of the development bank supporting trade finance it is now very clear to the stakeholders to economic development that trade finance is a mission critical component for recovery, economic development and alleviation of poverty.

MDBs have been a lifeline for emerging markets and second- and third-tier banks, to support their growing customer base during a time of economic turmoil.

Figure 62: MDB Trade Facilitation – Summary of Coverage

	EBRD	IFC	IDB	ADB
Program Title	TFP	GTFP	TFFP	TFP
Number of Countries of Operation	23	96	21	18
Program Commencement	1999	2005	2005	2004
Number of Trade Transactions since Commencement (year end 31 December 2012)	15,508	31,600	4,457	8,338
Value of Transactions since Commencement	EUR9.9 billion	US$28.8 billion	US$4.23 billion	US$16.7 billion
Number of Confirming Banks	800+	1,100	297	124
Claims to Date	2 – no losses	zero	zero	zero
Website	ebrd.com/tfp	www.ifc.org/gtfp	www.iadb.org/tffp	www.adb.org/tfp

While the Eurozone returned to modest growth in the second quarter of 2013, there has been a downturn in the largest economies of the EBRD region including Russia, Turkey and Poland.

European Bank for Reconstruction and Development (EBRD)

Trade finance wanes in Eastern Europe and CIS

The economic slowdown in many countries in Eastern Europe and the CIS, which began in the second half of 2011 as a result of the Eurozone crisis, has continued in 2013. However, external drivers and regional distribution of growth have recently shifted. While the Eurozone returned to modest growth in the second quarter of 2013, there has been a downturn also affecting the largest economies of the EBRD region including Russia, Turkey and Poland.

As a consequence, countries initially less exposed to the Eurozone crises have suffered weaker trade and remittances and declining growth. In central Europe and the Balkan states, and in south-eastern Europe exports have recovered and deleveraging has moderated. Nevertheless, the slow-down in their economies has continued, driven by a fall in domestic consumption and investment. Also the cautious lending approach of western commercial banks towards importers and banks in Belarus, Kazakhstan and Ukraine continued, due to ongoing political or economic instabilities.

Countries in Central Asia also witnessed weaker growth with subdued demand for trade finance. Lower copper and coal prices combined with a sharp reduction in foreign directed investments due to the ongoing uncertainties in the investment climate in the mining industry caused a weaker GDP growth particularly in Mongolia. This also negatively affected the once staggering growth rates in the country's demand for international trade finance business.

Owing to the limited availability of trade finance limits, general export and import volumes were also weaker in the Caucasus region. The political change in Georgia resulted in a wait-and-see approach of local investments reflecting negatively particularly on the import of longer lasting investment goods. In September 2013, Armenia announced that it will join the 2009 established Customs Union of Russia, Kazakhstan and Belarus which shall further strengthen trade ties among these CIS countries and potentially increase much needed availability of trade finance which remains scarce for the time being.

Summary of activity (volumes & values 2013)

Owing to the lack of available trade finance limit and the cautious approach of most foreign commercial banks and export credit agencies towards local banks in Eastern Europe and the CIS region, particularly smaller and regional private banks in Russia and other CIS countries continued to request support under the EBRD Trade Facilitation Programme (TFP).

The TFP aims to promote foreign trade to, from and within Central and Eastern Europe and the CIS as well as in the recently added EBRD countries of operation Jordan, Morocco and Tunisia as well as Egypt. Through the programme, the EBRD provides guarantees to international confirming banks and factoring companies, taking the political and commercial payment risk of international trade transactions undertaken by banks in the countries of operations and the recipient countries (the issuing banks). The programme can guarantee any genuine trade transaction to, from and within these countries of operations. 105 issuing banks and factoring companies in the region participate in the programme with limits exceeding EUR1 billion. In addition, the TFP includes over 800 confirming banks throughout the world.

In 2013 the programme facilitated a record number of more than 2,000 trade transactions for a total of EUR1.2 billion.

Summary of developmental impact

TFP cover was particularly important for trade finance transactions with larger amounts and longer tenors in Belarus, Kazakhstan, Russia and Ukraine while in smaller countries such as Armenia, Azerbaijan, Georgia and Moldova the TFP supported a higher number of small transactions with very short tenors, underlining particular support through the Programme for SME-sized exporters and importers. In Armenia, for example, the average transaction amount was only EUR120,000 and the average tenor less than 180 days.

2,000 trade transactions for a total of EUR1.2 billion – EBRD trade facilitation programme in 2013.

500+

intra-regional transactions reached a record in 2013.

130

banks and 500 trade specialists in the EBRD region participated in the e-Learning Programme.

Intra-regional transactions within EBRD's countries of operation have long been a major focus of the TFP; and recent examples include the export of leather goods from Ukraine to Belarus, machinery from Bulgaria to Russia and food stuff from Turkey to Azerbaijan. In 2013 the programme facilitated a record of more than 500 such intra-regional trade transactions.

In addition to risk cover, the TFP provides technical assistance to banks with very limited or no trade finance experience. These banks often lack not only the necessary technical skills to execute documentary and structured trade-finance transactions but also have difficulty in promoting trade-finance solutions to their customers. Technical assistance is provided in the form of consultancy service and classroom-style training courses on topics such as UCP 600 rules, URDG rules and correspondent banking.

Innovations in international trade and finance

In addition to classical types of technical assistance the EBRD has developed an online training course in cooperation with the International Chamber of Commerce (ICC) covering all of the ICC international trade-finance products and the Incoterms rules. The study programme is flexible and can be accessed for 12 months from the date of subscription. On completion of a training module, a student can request an ICC certificate of achievement for each module indicating the highest score achieved in each course assessment. Since the launch more than 500 trade specialists from over 130 banks across EBRD region have taken part in such e-Learning Programme.

This partnership model using best practices in blended learning has been highly acclaimed across the trade finance industry with leading international banks providing scholarships and prizes to best performing graduates.

Default or claims experience

Economies and subsequently banks in EBRD's countries of operation were affected by the financial crises of 2008/2009. During this period, the EBRD's TFP was confronted with two claims under the program from confirming banks for guarantees which covered trade from issuing banks in Kazakhstan and Ukraine. Both claims were settled immediately, and the EBRD is in the process of restructuring and recovering outstanding amounts.

Regulatory impact on scale and scope of business activity

In addition to the decreasing appetite of banks for trade finance due to the Euro crises and its subsequent limited risk-taking capacities, the attractiveness of trade finance to banks may also be negatively affected by the changes in the Basel rules currently under discussion. Under Basel II, short-term off-balance-sheet products such as letters of credit and shipping guarantees are subject to a 20% credit conversion factor used in risk-weighted assets calculations, while over-one-year L/Cs and some other trade products are subject to a 50% factor. Under Basel III, these conversion factors may be increased to 100%. This general rule was designed to curb creative use of off-balance-sheet exposures, but it may end up having the unintended consequence of sharply raising capital costs for providing trade finance. However, much progress has been made in recent times regarding the dialogue with the regulators in terms of implementing the regulations in a trade supporting manner.

Trade outlook for the future

The EBRD's TFP will continue in 2014 to assist partner banks and exporters and importers in their trade finance activities. With the exception of Russia and especially Ukraine, which are expected to experience a recession in 2014, regional growth is projected to accelerate modestly in 2014, in line with slightly improved external environment.

However, taking into account that many foreign commercial banks and their subsidiaries in Eastern Europe and the CIS will have to further increase their capital or reduce their lending also in the light of new Basel III regulations, it is expected that the overall volume of available trade finance facilities will not increase significantly in 2014 as the cost of trade finance continues to increase.

Clearly, the important role played by the EBRD in supporting trade in its countries of operation will continue to expand and increase due to the ongoing challenging environment.

Regional growth is projected to accelerate modestly in 2014, in line with slightly improved external environment.

In total, IFC initiatives supported over US$22 billion in trade in 2013.

International Finance Corporation (IFC)

Trade finance supports play a greater role in fragile economies

Support for trade in fragile and frontier countries, sustainable value chains, and commodities critical for economic development have been the focal points of recent expansions of IFC's trade and supply chain programmes, which continue to experience remarkable growth as emerging markets play an ever larger role in global trade. Last year proved to be another banner year, as demand for the flagship Global Trade Finance Programme (GTFP) reached a fresh record, support for emerging market suppliers and agricultural producers grew dramatically, and structured trade facilities in sub-Saharan Africa stabilized the region's refined fuel supply. In total, IFC initiatives supported over US$22 billion in trade in 2013.

Under the GTFP, which provides up to 100% cover on country and counterparty risk for transactions in 96 emerging markets, banks received US$7 billion of guarantees, up 17% from 2012. Sub-Saharan Africa reemerged as the most active GTFP region, receiving US$1.7 billion in support, followed closely by Latin America and the Caribbean with US$1.6 billion. The additions of banks in Iraq, Myanmar and Thailand widened the programme's country coverage, while new enrollments in Cote d'Ivoire and Kyrgyz Republic bolstered its footprint in frontier and fragile countries. Nearly 280 emerging market issuing banks are now members of the GTFP network. Technical assistance to member and non-member banks reached 285 institutions across 32 countries with training on global best practices in trade operations, risk management, and business development.

A new US$500 million risk-sharing facility completed in 2013 with Standard Chartered Bank marks IFC's first foray into Renminbi trade finance.

Leveraging the ability of GTFP to help banks bolster their correspondent networks, over a dozen global banks have partnered with IFC on portfolio-based approaches to emerging market trade facilitation. Together, the Global Trade Liquidity Programme and Critical Commodities Finance Programme financed over US$11 billion in trade last year and enabled IFC to play a larger role in trade denominated in local currencies. A RMB 3 billion (US$500 million equivalent) risk-sharing facility concluded in December with Standard Chartered Bank to increasing access to trade finance for smaller, unbanked firms across Asia marks IFC's first foray into renminbi trade finance. For markets in which traders need US$ liquidity, direct short-term loans to banks in Armenia, Bangladesh, Ghana, Nepal, Russia and Vietnam are keeping foreign exchange available for their small and medium enterprise clients.

Summary of activity

To combat climate change and promote the adoption of clean energy and energy-efficient technology in emerging markets, Climate Smart Trade launched in March 2013 to provide special incentives for GTFP guarantees on qualifying goods. Since inception, the programme has helped emerging market importers and exporters working through issuing banks in countries in every region, from Bangladesh to Brazil, Nigeria, Pakistan, Russia and Vietnam, finance over US$600 million in climate-change-related goods. In Russia, IFC supported the installation of latest-generation energy-efficient equipment at a petrochemical plant with a two-year US$19 million letter of credit with post-import financing. In Nigeria, a three-year EUR4.3 million guarantee is helping finance the construction, testing, commissioning, and supervision of the Kashimbila hydroelectric dam.

Innovations in international trade and finance

Building on the successful model of Climate Smart Trade, IFC and the Banking Environment Initiative, an industry group, have developed the Sustainable Shipment Letter of Credit, a new financing solution to expand the trade of sustainably sourced commodities and encourage the growth of sustainable global supply chains. This new instrument allows for preferential treatment for trade in agricultural goods that meet internationally-recognized sustainability standards. Palm oil with an RSPO (Roundtable on Sustainable Palm Oil) certificate is the first commodity eligible for this programme, and more commodities are expected to be included in the coming months.

Other value chains in which IFC has been able to provide banks with capital relief and mobilize additional financing are agriculture and refined fuels – commodities critical for economic development in the world's poorest countries. Since 2012, risk mitigation products have given relief to banks for their exposures to corporates through targeted supplier finance, warehouse finance, and structured commodity finance programmes. Farmers and agricultural processors, and traders in Egypt, Mali, Paraguay, Senegal, and Tanzania are benefitting from over US$500 million in warehouse finance lines to unlock the value of their produce and better manage their cash flows. IFC has also built its expertise in structured commodity finance with projects in Ethiopia and Mauritania, culminating in a landmark two-year, US$300 million revolving facility to fully secure the import of crude oil to Cote d'Ivoire by refiner Societe Ivoirienne de Raffinage.

Default or Claims Experience

There have been no defaults since the IFC's program's inception in 2005.

Trade outlook for the future

Tighter credit and rising costs represent serious challenges to the availability of emerging market trade finance, especially for SME companies, as many of the smallest and most fragile markets face the threat of becoming unbanked. Global financial conditions will be tighter over the next five years, implying weaker financial flows, higher capital costs, and potential banking-sector stresses in economies that have seen large expansions in credit over past five years. Developing countries in particular remain largely vulnerable, as little progress has been made to strengthen the buffers that were depleted in the post-crisis period or to push forward with structural reforms.

IFC and the Banking Environment Initiative, an industry group, have developed the Sustainable Shipment Letter of Credit, a new financing solution to expand the trade of sustainably sourced commodities and encourage the growth of sustainable global supply chains.

0

defaults since the IFC's program's inception in 2005.

Tighter credit and rising costs represent serious challenges to the availability of emerging market trade finance, especially for SME companies.

70%

of member banks have experienced rising compliance costs over the past three years, and nearly two thirds of banks expect these costs to continue to grow in the next six months.

Meanwhile, the costs of regulatory compliance efforts are growing in importance as a driver of correspondent banking business. A market survey of GTFP participants performed in March 2014 revealed that 70 percent of member confirming banks have experienced rising compliance costs over the past three years, and nearly two thirds of banks expect these costs to continue to grow in the next six months. As requirements increase, added layers of costs are pressuring banks to exit correspondent relationships where income from a line is not sufficient to adequately cover expenses and deliver returns.

By listening to the needs and concerns of the market, IFC can help make a case for emerging market banks before regulators, policymakers, and global bodies like the G-20 and, alongside clients and partners, pursue innovative solutions to maintain and expand financing for trade. In May, the Medium-Term GTFP will begin guaranteeing the trade-related payment obligations of selected issuing banks for up to five years. Over the coming year, other new initiatives will support corporates' emerging market distribution chains; finance bid bonds, performance guarantees, and imports for emerging market infrastructure projects; promote cross-regional banking partnerships to boost South-South trade; and use capital markets to expand liquidity for trade and develop trade receivables as an asset class.

The Inter-American Development Bank (IDB)

2013 was a historic year for trade finance at the IDB

The IDB Trade Finance Facilitation Program (TFFP) was created in 2005 to support Latin America and the Caribbean (LAC) banks' access to international trade finance markets. As a part of the beyondBanking strategy, the TFFP supports its customers through technical cooperation, knowledge creation and the access2Markets financial product line.

The access2Markets product line provides financial products that allow banks and funds to access new capital sources and to grow their foreign trade portfolio, while encouraging an efficient exchange of goods and services. Such financial products include (i) TFFP trade guarantees and loans to LAC financial intermediaries, and (ii) loans to trade finance funds, which mobilize equity investors to directly finance LAC importing/exporting companies.

2013 was a historic year for the TFFP. The Program did not only reach its highest volume (US$1.21 billion in transactions closed) since its inception, but also went through significant structural changes thanks to the implementation of a new business strategy. One of the pillars of this new business strategy is the introduction of a new set of legal documents, which are market friendly as they meet the market needs and increase our processing efficiency. This allows the TFFP to increment its transaction volumes which in turn, benefits all participating banks and their importing and exporting clients.

TFFP trade loans to LAC financial intermediaries are gaining relative importance within this new business strategy. TFFP trade loans are portfolio-based loans to finance eligible trade transactions allowing greater transaction tenors (up to three years) and a greater mobilization of funding resources available for LAC banks and their importing and exporting clients through co-financing and syndicated structures. In addition to providing liquidity, these loans cover the gap in the market for medium-term trade financing that currently is not attended by Multilateral Development Bank (MDBs) or commercial banks.

Market Trends in countries of operation

Some of the main trends that could be observed during 2013 within the TFFP are the following:

General LAC trade trends: In 2013, exports from LAC were practically stagnant. Purchases from the region by the EU had a poor performance, and the recovery of the activity in the US continued without a clear reflection on its imports from LAC. Only Chinese imports from LAC have shown a solid recovery. When looking individually at each LAC country we operate in, the greatest increases in demand for our TFFP trade finance products came from Chile, Honduras and Paraguay.

South-South: The TFFP has mirrored the general global increase in south-south trade activity: during 2013, TFFP underlying export transactions from LAC to China totaled US$136.3 million, compared to US$4.8 million in 2012 and US$19.2 million in 2011. This trend has been consistent throughout East Asia as TFFP underlying export transactions to this region in 2013 amounted to US$293.2 million, compared to US$31.5 million and US$34.5 million in 2012 and 2011, respectively.

Role of European and American banks: Although the Euro Zone registered positive growth in the second and third quarter of 2013, the recovery has been irregular and still weak. The participation of European banks as Global Financial Intermediaries under the TFFP in 2013 portrayed this situation. The amount disbursed by European Global Financial Intermediaries in 2013 reached US$117.1 million, a small increase from 2012 volumes (US$112.9 million) but almost half of the activity seen in 2011 (US$206.9 million). Likewise, US Global Financial Intermediaries had a lower level of activity under the TFFP. Amount disbursed by US banks in 2013 was US$211.1 million, compared to US$356 million in 2012 and US$556.2 million in 2011.

New game players: The weak demand from the traditional Global Financial Intermediaries led the TFFP to seek out new intraregional partners that showed strong performance during 2013 thanks to the high levels of US$ liquidity in their local markets. For example, Ecuadorian banks' participation amounted to US$151.9 million in 2013 and US$221.8 million in 2012. Similarly, Uruguayan banks, that have never been active participants under the TFFP before, represented US$50.7 million in 2013.

1.21
US$ BILLION

– 2013 was a historic year for the IDB program with the highest volume of transactions recorded since its inception.

Although the Euro Zone registered positive growth in the second and third quarter of 2013, the recovery has been irregular and still weak.

Developing countries are fueling the recovery in trade since the financial crisis.

Summary of Activity (Volumes & Values 2013)

In 2013, the TFFP included 98 Latin American and Caribbean Financial Intermediaries with approved lines of over US$2.57 billion, and a network of 297 Global Financial Intermediaries present in 63 countries. Last year, a total of 210 guarantees were issued and 19 loans were disbursed under the program, for a total IDB accumulated volume of US$1.21 billion.

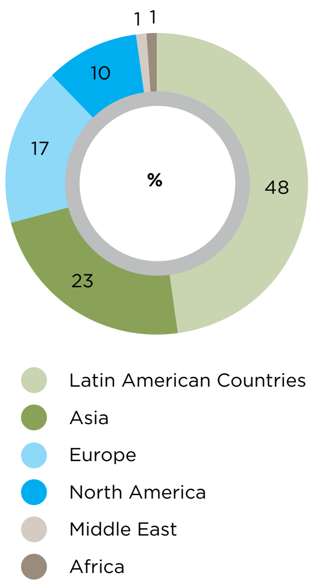
Figure 63: 2013 Volumes: IDB TFFP at a glance

No. of Credit Guarantee Issued	210
No. of Loan Disbursements	19
No. of Individual Trade Transactions Supported	1,374
Latin American and Financial Intermediaries Enrolled	98
Global Financial Intermediaries Enrolled	297
Total Approved Line of Effective Banks	US$2.57 billion

Although the number of instruments issued decreased from 315 to 229 in the same period, the number of underlying trade transactions increased from 1,128 in 2012 to 1,374. This result proves our commitment to support small and vulnerable economies which usually generate individual trade transactions of smaller amounts.

Destination of goods of underlying export and import transactions funded or guaranteed by under the TFFP during 2013 can be seen on Figure 64.

Figure 64: 2013 Destination of goods of IDB TFFP individual trade transactions



Summary of Developmental Impact

IDB views access to inclusive and sustainable trade finance as a critical component of its overall beyondBanking strategy. beyondBanking encourages financial intermediaries to go beyond their traditional role as lender and risk manager and to promote sustainable environmental, social and corporate governance practices; a business model that balances financial and social returns, fostering an inclusive, environmentally-friendly, transparent and commercially-viable financial sector. beyondBanking recognizes financial intermediaries as cost-effective channels to reach end-borrowers, particularly SMEs who operate in high impact sectors, such as trade.

In this regard, in 2007 the IDB launched its Small Banks Initiative, aimed at integrating into the TFFP a group of smaller financial intermediaries, predominantly focused on Micro, Small, and Medium Enterprises (MSMEs), to effectively increase their access to trade finance. Together with the integration component, the initiative also envisages a capacity building component, offering technical assistance to these smaller financial intermediaries to improve their international trade departments ensuring their active participation as members of the TFFP network.

Specifically to the TFFP, our commitment to developmental impact is proven by: (i) the percentage of individual trade transactions supported from small and vulnerable economies (48% since the program's inception), (ii) the number of individual trade transactions for amounts under US$500 thousand (61% of the total since the program's inception), and (iii) the volume of "south-to-south" trade supported (23% of the total TFFP trade volume for 2013).

Default or Claims Experience

There have been no defaults since the IDB program's inception in 2005.

Regulatory Impact on Scale and Scope of Business Activity

Trade finance has become an important concern for banks due to the new Basel III regulations. Off-balance sheet transactions, including trade finance, will have to be incorporated into the calculation of the leverage factor, thus assigning a 100% credit conversion factor. Trade Finance is considered to be short-term, low risk, and when compared to other business lines smaller in margin; however due to this new regulations capital costs will increase significantly and banks will have to redefine the way they do trade finance, they will probably have to decide where to best allocate their capital, probably reducing their exposure to trade finance or passing some of the costs on to the businesses mainly small and medium sized enterprises which depend on trade finance. The need to develop new financing products, so that trade finance continues to be an attractive business line and global trade does not get harmed is the challenge. Capital markets transactions, such as securitizing trade finance portfolios could be a starting point solution to incentivize banks to continue growing the trade finance

28%

trade through the IDB program classified as South-to-South in 2013.

business without growing their balance sheet and a way to manage their liquidity needs.

Innovations in International Trade and Finance
In parallel to the TFFP, the IDB is also looking to expand the scope of its support to LAC trade thorough a number of innovative products and transactions:

- Trade finance funds

The IDB supports trade finance funds which include third-party equity and long-term funding provided directly to LAC exporting companies. IDB helps trade finance funds achieve critical mass and reach a wider universe of exporters that have inadequate or insufficient financing from traditional sources (banks, suppliers, etc.) by implementing structured trade finance techniques, conceived to complement traditional trade finance banking services and improve the competitiveness of financing choices for exporters and importers in the region.

As of December 31, 2013 the IDB had supported two finance funds, one managed by Crecera and the other one by the International Investment Group (IIG). As of today, the IDB is designing a project to finance the first SEC registered impact fund that will mobilize institutional and retail investors to support trade finance in the region. With this effort, IDB, alongside the fund, is becoming a pioneer in the mainstreaming of trade finance impact investing in LAC.

- Medium and long-term credit to banks

In its constant search of new ways to support LAC development through internationalization and trade, the IDB is also supporting innovative projects that can contribute to reducing the trade finance gap, promoting foreign investment, and improving access to finance for LAC businesses.

One of such projects is the Small and Medium-Sized Enterprises (SME) Internationalization Financing Partnership signed in 2013 with BAC International Bank (Panama) and its subsidiaries in Nicaragua, Honduras, El Salvador and Guatemala. In the form of 5 senior unsecured A loans for a combined amount of up to US$120 million, the partnership aims to expand credit financing to SMEs in their respective countries, with up to half of the proceeds directed at supporting the internationalization of SMEs.

The IDB is also supporting innovative projects that can contribute to reducing the trade finance gap.

- Capital markets operations

The IDB is also looking to expand its product offering in the capital markets arena, by providing financial intermediaries with financing structures that fulfil their needs, while supporting LAC companies, and delivering a high developmental impact.

Recently, the IDB granted Banco Industrial in Guatemala (BI) a US$150 million long-term financing through a Diversified Payment Rights Program (DPR) to increase access to financing to MSMEs in Guatemala. IDB financing is secured by US$-

denominated payment obligations in favor of BI arising from commercial transactions, remittances and foreign currency transactions. Trade related transactions represent 83% of the total flows. The DPR Program structure provides strong risk enhancements, thus allowing longer tenor financing (up to 12 years) and better pricing.

Additionally, the IDB, jointly with other partners, is developing new products which aim at enhancing LAC banks' ability to support global and intraregional trade flows, as well as trade finance portfolios. The main idea is to issue notes backed by corporate and trade finance loans originated by LAC banks. This type of structure will be very attractive for international players who are looking for well rated asset classes, as well as for LAC banks who want to tap international or local capital markets and are looking for ways to approach the many challenges that the financial systems in LAC are facing like capital requirements, liquidity management and credit constraints due to Basel II and III.

ConnectAmericas: To further close gaps in trade finance knowledge in the region, the IDB launched ConnectAmericas in March 2014. This bank-wide project offers SMEs a single, user-friendly platform to establish business links with clients, suppliers, and investors worldwide, and to obtain information and training tools to expand their market through trade and/or investment growth. ConnectAmericas supports SME internationalization by tackling three fundamental barriers to trade and foreign direct investment – access to information, finance and networks.

Knowledge creation and training: The IDB participates actively in the creation of knowledge on trade-related topics. In February 2014, an online course on trade finance was launched to the general public. This course is an excellent tool for both banks' staff and clients as it will help them understand the instruments of payment and financing for imports and exports. The course is available at the TFFP's website and will soon be available at the ConnectAmericas' platform. Also in 2014, the IDB will run several on-site courses on trade finance, including a workshop on structured trade and commodity finance. This workshop aims to improve the know-how of domestic banks and its importing and exporting clients in the region to compete more actively in the commodity finance market, normally controlled by large international banks.

Trade outlook for the future

Trade finance availability (and therefore costs) will be greatly affected as new capital requirements force banks to move into higher return generating instruments and longer tenor assets while trying to shrink their balance sheets. Differences in the way different countries are adopting the new regulations rising additional concerns of an unleveled playing field for global trade finance providers. Fear of a reduced bank support to trade finance persist even after more favorable provisions were introduced recently. If this is the case, additional liquidity will need to be provided by alternative funding sources to meet

IDB, jointly with other partners, is developing new products which aim at enhancing LAC banks' ability to support global and intraregional trade flows, as well as trade finance portfolios. The main idea is to issue notes backed by corporate and trade finance loans originated by LAC banks.

Due to the dissimilarities in Basel III regulation adoption, fear of reduced bank support to trade finance would mean additional liquidity will need to be provided by alternative funding.

the increasing demand for trade finance, possibly via capital markets transactions. Some see in this an opportunity for new investor classes, such as investment funds, to tap into trade finance, an asset class that traditionally has not been available for them.

In this sense, the IDB believes that the MDBs' coverage should include alternative financial intermediaries other than banks, like trade funds, which are a proven, cost efficient mechanism to directly support importers and exporters. Developing innovative structured trade finance transactions possible in the capital markets arena to go beyond the traditional balance-sheet-backed, on-lending through banks, with alternative funding structures that ensure cost-efficient solutions to final beneficiaries, especially those who have limited access to traditional banking sources. Both solutions are mechanisms that the IDB is working on in parallel to the TFFP program.

Furthermore, the IDB considers that the MDB's role as liquidity facilitators and providers will continue to be key since the shortage of financing for international trade is still a major challenge for economic recovery and development. The TFFP hopes to repeat the success achieved in 2013 by continuing to provide extra liquidity to LAC financial intermediaries through its trade finance direct loans.

Asian Development Bank (ADB)

ADB - Background and markets

The ADB's Trade Finance Program (TFP) fills market gaps for trade finance by providing guarantees and loans through over 200 banks. Of the 18 countries where ADB's TFP operates, it's most active markets in 2013 were Bangladesh, Pakistan, Sri Lanka, Uzbekistan and Viet Nam. TFP does not assume risk in China, India, Malaysia, Thailand and other relatively developed financial markets, focusing instead on markets where the private sector's capacity to provide trade finance is proportionally the smallest, leaving the largest market gap. The ADB's Trade Finance Program is expanding to Myanmar.

ADB – Volumes and values 2013

Trade volumes and values are accelerating as the ADB's Trade Finance Program supported 2,120 transactions in 2013 valued at US$4.03 billion. To help manage volumes, to leverage resources and limits, and to 'crowd in' the private sector as well as other participants, TFP shares risk with distribution partners. In 2013, the Government of Singapore entered a risk sharing scheme with TFP and Swiss Re insurance. This partnership is added to TFP's risk distribution arrangements with Australia's export credit agency (EFIC), OFID (OPEC Fund for International Development), and FMO (a private sector-oriented development agency in the Netherlands).

Over 50% of TFP's activities in 2013 involved co-financing and risk-sharing with private sector entities.

ADB – Summary of development Impact

The ADB's TFP fills market gaps for trade finance by providing guarantees and loans, but more importantly by mobilizing private sector resources to fill the gaps. Over 50% of TFP's activities in 2013 involved co-financing and risk-sharing with private sector entities. Crowding-in the private sector has substantial development impact. By providing (partial) guarantees to private sector banks in developed markets, TFP helps the private sector move into 'frontier markets.' As such, TFP is working to shrink the market gap in trade finance in the most challenging markets, both through its direct support and by mobilizing private resources into challenging markets. This helps create long-term relationships (credit lines) between banks in developed and developing countries. With these new relationships come greater financial links to support trade, job creation and more prosperity in emerging Asia.

The ADB's Trade Finance Program supports the development of the banking sector in its developing countries of operations. Its rigorous due diligence and on-going risk monitoring processes – and related feedback to banks – instill an appreciation for best practices in bank management.

Disseminating information about TFP's countries of operation and partner banks has created tangible development impact. The Trade Finance Program has regular discussions with banks and insurance companies, including their risk management departments, to provide valuable information that helps these institutions move into frontier markets or maintain and enhance limits to support trade. The TFP's comprehensive due diligence and risk monitoring processes, along with its regular presence in its countries of operation; underpin its ability to provide valuable information.

ADB's Trade Finance Program also provides training and seminars on trade finance and banking. ADB conducted two training seminars in Myanmar in 2013 which were filled to full capacity.

The ADB's TFP supported over 1,806 small- and medium-sized enterprises (SMEs) in 2013. This figure is particularly important to ADB, as SMEs are known to be a major source of job creation and keeping the economic wheels turning at grass roots level.

ADB – Default or Claims Experience

Once more, there have been no defaults since the ADB program's inception in 2004.

ADB – Regulatory impact on scale and scope of business

Increasing levels of regulatory requirements for trade finance have increased the trade finance gap in developing countries, and therefore have increased the demand for multilateral development banks to fill the gap.

The Asian Development Bank has proposed the creation of a default and loss data base, in conjunction with the International Chamber of Commerce, the ICC-ADB Trade Finance Default Register, to prove empirically that trade finance carries relatively low risk to financial institutions. The statistics created from this research are available on ICC's website. This information was presented to regulators in an effort to ensure regulatory requirements reflect the relatively low-risk profile

ADB's Trade Finance Program supported 2,120 transactions in 2013 valued at US$4.03 billion.

The ADB's TFP supported over 1,806 small- and medium-sized enterprises (SMEs) in 2013.

Looking ahead, the ADB is in the process of implementing a Supply Chain Finance Program (SCFP) to complement the Trade Finance Program.

The zero figure in losses experienced under these trade finance programs is a lesson in itself, given that the MDB's supports are targeted at what are generally considered high risk emerging markets.

of trade finance. Some progress has been made to treat trade finance appropriately for regulatory purposes, but more work remains to be done, both on the statistical side by the industry, and in discussions with regulators.

In addition to establishing the Register, The Asian Development Bank's TFP released a study in 2013 quantifying market gaps for trade finance and their impact on growth and jobs. These studies, among other things, seek to emphasize the importance of the link between trade finance and economic growth and to underscore the importance of removing regulatory and other impediments that restrict the financing of trade. ADB will be releasing another 'gap study' in 2014, one that should be deeper and more granular than the first. ADB's TFP is enlisting the ICC and other organizations to help with this new study.

ADB – Trade outlook for the future

The ADB's TFP is poised to continue supporting trade in emerging Asia and the demand remains robust and increasing.

Looking ahead, the ADB is in the process of implementing a Supply Chain Finance Program (SCFP) to complement the Trade Finance Program. The new SCFP will enable ADB to broaden its support for trade in developing Asia, especially among SMEs operating on an 'open account' basis.

Despite the challenges, the TFP's drive to expand in Myanmar is an exciting prospect and we look forward to becoming operational in the country in 2014.

The ADB TFP's 'knowledge products' have had a positive impact in our countries of operation to date and, combined with the tremendous demand from our partners for more information about developing Asia, TFP is placing even more focus on developing and delivering its knowledge products which will enhance trade finance knowledge and help develop a network of international trade finance qualified bankers.

Conclusion – MDB's and Trade Facilitation

Multilateral development banks (MDBs) have played their part to strengthen financial sector development for trade finance during 2013. The work of the MDB's must be commended and encouraged. Lessons can be learned from the innovative trade finance models that have emerged which provide trade risk coverage and access to finance which even penetrates down to SME trade activity.

The zero figure in losses experienced under these trade finance programs is a lesson in itself, given that the MDB's supports are targeted at what are generally considered high risk emerging markets.

For the ICC Banking Commission, it is important to build on the already strong relationships with the development banks and the ICC is committed to dedicate the vast resources of technical expertise and knowledge within the commission in our joint commitment to support and advance trade, which remains the primary driver of economic development and poverty reduction.

INTERVIEW

Trade Facilitation Showcase – The EBRD TFP

Dr Rudolf Putz
Deputy Director, Trade Finance Programme,
European Bank for Reconstruction and Development (EBRD)

With the ICC's strong focus on supporting trade with emerging markets to foster economic development, Vincent O'Brien is delighted to have had the opportunity to talk with Dr, Rudolf Putz, Deputy Director and Head of the Trade Finance Programme at the European Bank for Construction and Development (EBRD).

At our recent ICC Banking Commission Meeting in Dubai, from 27 to 30 April 2014, many of the stakeholders with an interest in expanding trade pointed to the fact that while international trade is continuing to grow, even though at a slower pace the focus for trade facilitation support must be directed towards SMEs particularly in emerging or developing countries. Would you agree with this contention?
Without doubt, the global trade finance landscape has changed dramatically but a clear focus on emerging markets and SMEs has long been part of EBRD's trade facilitation strategy. We have always understood and it has been part of our core strategy to focus our supports towards what are considered high risk emerging markets that need help and it goes without saying that international trade in these markets is driven by SMEs.

You mention that the 'core focus on SMEs has long been part of the EBRD TFP strategy – can I push you to give me some real-life examples?
The facts speak for themselves. For example, in 2013 the EBRD supported trade to a value of EUR1.2 billion which was an increase from 2012. The average size of transactions covered during 2013 was at EUR600,000. These trade transactions fit within the realm of SME trade activities and are predominantly driven by SMEs importing equipment and semi-capital goods gearing up for local production.

It has been argued on occasion that the role of Development Banks is artificial and competes with commercial banking activity in trade finance. Does this contention sit well with you?
It must be acknowledged that on the surface this contention is quite logical. In fact, during the evolution of the TFP within the EBRD going back to 1999 this question has at times been seriously debated within the bank. However, with the onset of the financial crisis, the important role of development bank programmes was tested and, I must say, more than passed the test. For many of our partner banks, both during and after the financial crisis, we were the only avenue for trade finance risk coverage and short-term trade

finance facilities. Time and again we saw trade transactions which would not have otherwise been concluded without the EBRD support. I have no doubt that the other development banks have had similar experiences.

Our objective is to get local issuing banks started in trade finance, help them advance the business, develop their own direct correspondent trade finance credit lines and frankly we consider our TFP programme truly successful when on occasion our issuing banks have graduated and no longer need EBRD support.

Simply put, our model is a partnership model. We are there for our partners when they need our support, when we are not needed we do not disappear and our partner issuing banks are welcome to return to us during challenging times, as is the case in the current environment.

If I may push you on that theme a little – can you provide current examples of how you are keeping trade lines open when other avenues are not available?
Absolutely, it is no secret the Belarus is not the flavour of the month with international banks for trade finance business. However, there is still good business to be done which has positive development impact provided you work with the right partners. To give you an example Belarusky Narodny Bank, one of our partner banks in Belarus, is focused on supporting private SMEs, which is the business community sector we see as a priority to support.

Such banks have difficulty in developing and expanding trade finance with correspondent banks. Since BNB joined the TFP in 2011, they have seen the volumes of their trade finance business quadruple. International trade needs international connections and since joining the TFP, BNB has new international correspondents in Western and Eastern Europe, CIS countries and even in Asia.

So, in a nutshell, the EBRD TFP not only provides trade finance supports to partner banks but provides a gateway to developing international connections to the broader international trade finance banking markets.

Another very current example is the evolving worrying and uncertain developments in Ukraine. Within the EBRD it is currently anticipated that the economy of Ukraine will contract by 7% this year which is quite staggering given that the EBRD forecast Ukraine to grow 1.5% as recently as January this year. For Russia – the region's biggest economy – it is believed that the best

achievable outcome would be a year of stagnation, compared with the 2.5% expansion projected earlier in January. We are living through challenging and fragile times and in such situations our role in keeping supply chains moving as best we can is paramount.

Within the TFP all our current commitments on Ukraine remain irrevocable and we are continuing to support trade transactions where others have completely left the market. The situation is also impacting Russia and we are seeing partner banks in Russia, which had not required or needed EBRD facilities returning for EBRD trade finance supports.

Can you provide some insights into the importance of technical cooperation and trade training activities of the EBRD in terms of facilitating international trade.
This is a good question. We see technical cooperation and training initiatives with our partner banks as equal in importance to, and on occasion more important than, the operational trade finance facilitation supports.

Within the EBRD we have a unique blended learning focus. There are three core elements to our blended learning. The first is the delivery of traditional trade finance workshop at best practice by EBRD consultant specialists. This is complimented by structured electronic learning that is focused on core operational skills and international rules for international trade finance. The third element is the provision of consultancy advisory services to banks which enable them to implement and advance their trade finance business.

Do you have figures that benchmark the success of this blended learning approach?
Yes, and I am very happy to share them with you.

The EBRD has trained more than 1000 bankers through traditional trade finance workshops in about 30 countries. This has been complimented with over 1,300 students enrolled in our Trade Finance e-Learning Programme. The traditional trade finance workshops have been delivered by acknowledged trade finance experts who as it happens are most often members of the ICC Banking Commission. On the e-learning side the core modules have evolved through partnership with the ICC Banking Commission.

However, we have expanded our reach in terms of capability within the EBRD itself and in response to the needs of our partner banks we developed our own in-house e-learning modules covering:

- Introduction to Trade finance
- Environmental and Social Issues in Trade

Both of these new modules are not only beneficial to bankers new to trade finance but are receiving exceptionally positive feedback from members of the SME trade community.

Finally, clearly the partnership between the EBRD and the ICC Banking Commission has been a 'win-win' outcome in terms of facilitating trade and in particular in enhancing capability and expertise but can I ask you where this cooperation should move next – what do you see as the next steps?
I agree that much has been done but more needs to be achieved.

The EBRD has clearly seen the benefit of creating a network of trade finance professionals across our countries of operation. The ICC has played its part and we appreciate that. However, for far greater development impact I believe we need a global network of trade professionals and I cannot see any institution better placed to provide this global network than the ICC Banking Commission. It is my hope that the planned ICC Banking Commission Academy achieves this result.

It was also clear to me after attending the recent ICC Banking Commission meeting in Dubai that the establishment of the MENA Regional Banking Commission as a network platform has been successful in reaching out to professionals in emerging regional markets. I would suggest that this model be replicated and the lessons learned applied in other regions of the world.

Thank you for your insights, your views and expectations. On behalf of the ICC Banking Commission I want to thank you and the EBRD for being our partner in the ICC Banking Commission, Market Intelligence Group and I congratulate you receiving the award as Best Development Bank in Trade 2014 by Global Trade Review.
You are most welcome – all my colleagues in the EBRD TFP team look forward to continuing and expanding our partnership with the common goal of facilitating international trade and development.

ANALYSIS OF GLOBAL TRADE FINANCE GAPS

Trade finance underpins the global trading system. The recent spotlight on trade facilitation has raised the profile of access issues even in non-crisis periods. For developing countries with low country ratings and weak banking systems, high priced or unavailable trade finance can limit the ability of domestic firms, especially SMEs, to access the potential benefits of global trade.

Questions relating to trade finance access in the 2014 ICC Global Survey were introduced by Asian Development Bank (ADB). These questions are part of ADB's ongoing efforts to quantify and address trade finance gaps. The first ADB study on trade finance gaps and their impact on growth and jobs was released in March 2013. The 2014 survey adds questions on financial crimes compliance and expands the surveyed population to include insurance, forfaiting, and factoring companies. The data described here represents the banking component of the 2014 survey. ADB's full study, compromising all component parts, is expected in December 2014.

The 2014 survey (which covers 2013 data) revealed three important characteristics of bank finance for trade. In comparison to the previous survey, there is a more positive outlook for availability.

However a gap between supply and demand remains. In addition, respondents continue to cite many of the same impediments to supply. Responses to questions about financial crimes such as anti-money laundering (AML) and Know Your Customer processes (KYC); compliance requirements revealed that these requirements put negative pressure on both transactions and client relationships.

Trade finance availability

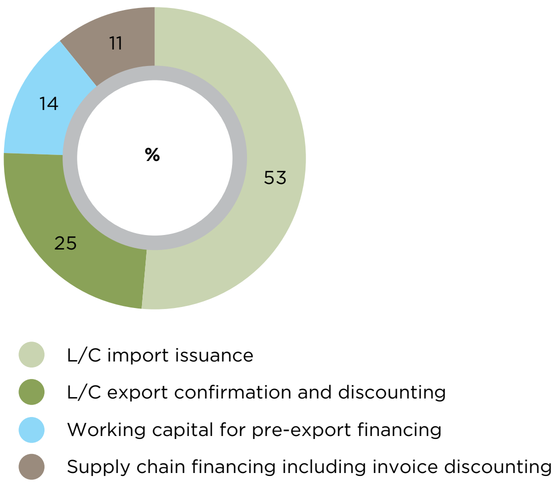
Of surveyed banks, 45% reported that they perceive a shortfall of trade finance globally (See Figure 67). In quantitative terms, of the US$1.6 billion worth of proposed trade finance transactions – for a detailed look at these transactions, see Figure 65. All in all, the surveyed banks reported a 20.9% rejection rate for 2013, more information on the types of rejected transactions found on Figure 66.

Key findings

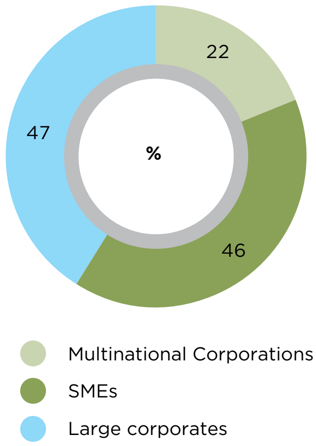
- 45% reported that they perceive a shortfall of trade finance globally.
- More than 80% of respondents report having maintained or increased the number of credit lines offered in 2013.
- Surveyed banks have reported a 20.9% rejection rate on the US$1.6 billion worth of proposed trade finance transactions in 2013.
- The three top issues that were cited as "significant" impediments were all characteristics of issuing banks and included "AML/KYC requirements" (69%), "issuing bank's low credit ratings" (59%), and "previous dispute or unsatisfactory performance of issuing banks".
- 70% of the respondents cited the cost of compliance compounded by a lack of harmonization between jurisdictions as a problem.

Figure 65: Total Value of proposed trade finance transactions received in 2013 amounted to US$1.6 billion

1.1: Transaction types for total proposed transactions



1.3: Total proposed transactions versus organization type



1.2: Total proposed transactions requested by region

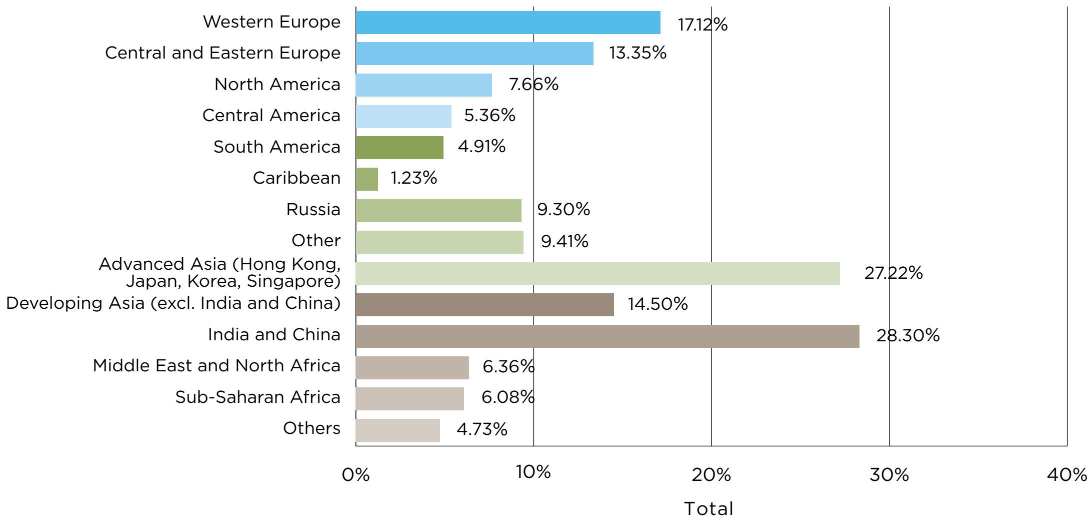
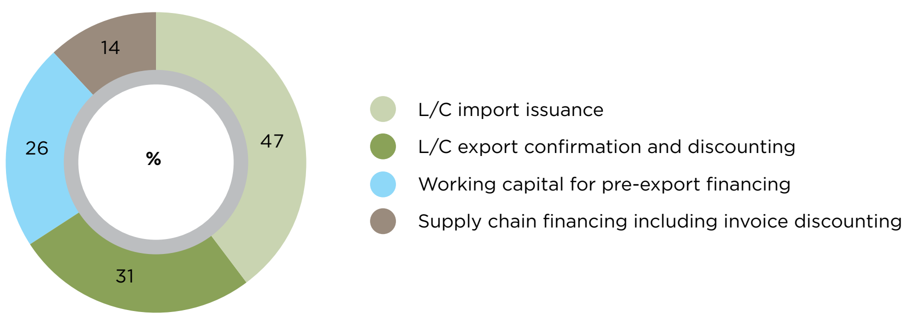


Figure 66: Types of rejected trade finance transactions in 2013



Trade finance availability (continued)

This gap persists even as more than 80% of respondents report having maintained or increased the number of credit lines offered in 2013 (See Figure 68). Credit lines increased to both corporate clients and in bank-to-bank relationships. The vast majority (more than 80%) of increased credit lines were on the level of 1-25% with 13% of banks reporting more substantial increases of between 25-50% (See Figure 69).

These counterbalancing responses – on the one hand respondents perceive a shortfall and are terminating relationships due to financial crimes (KYC/AML) compliance, while on the other hand they report issuing a higher number of credit lines to banks and corporates – may imply that trade finance constraints are becoming more pronounced and concentrated in emerging markets.

Figure 67: Do you believe that there is a shortfall of trade finance globally?

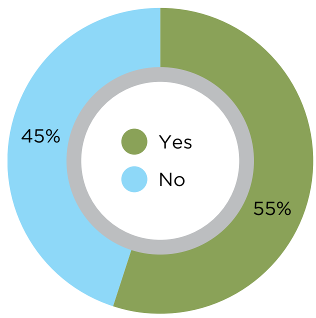


Figure 68: Status of Credit lines in 2013 compared to 2012

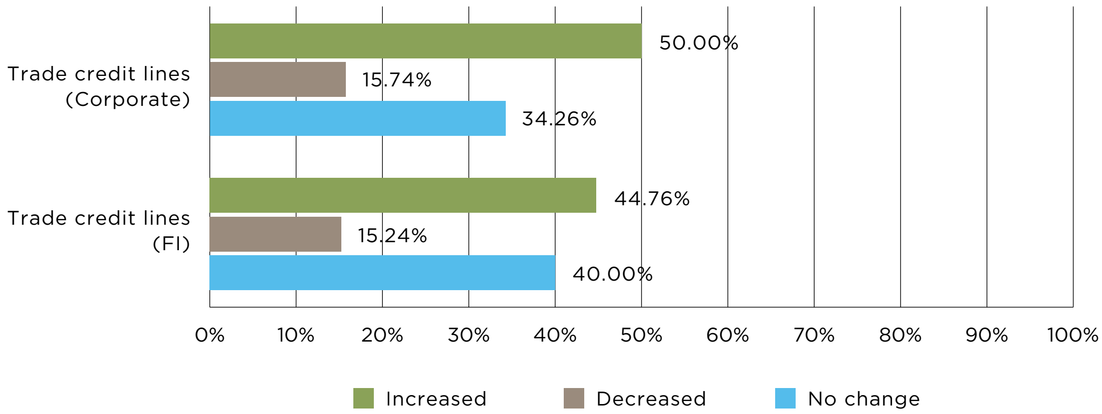
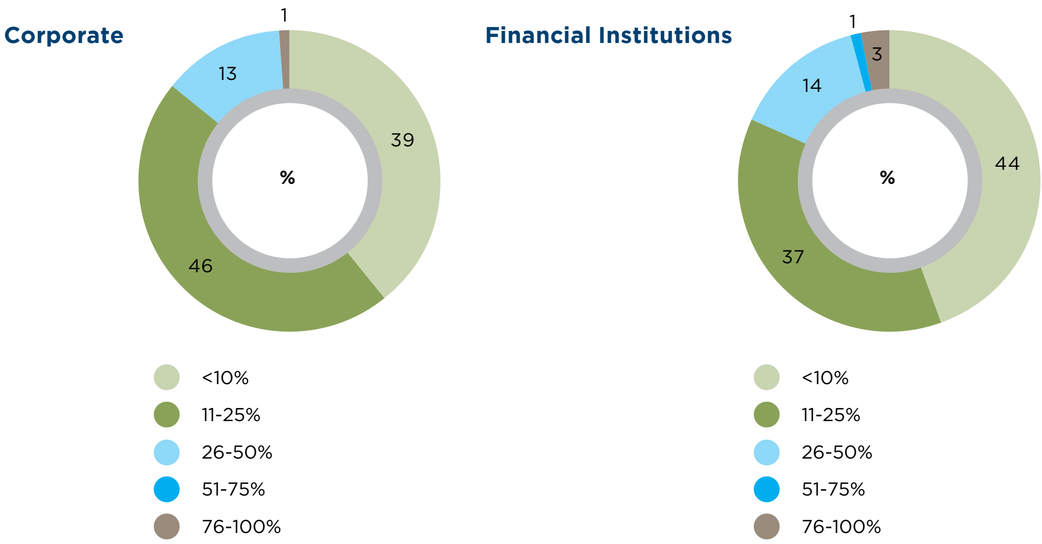


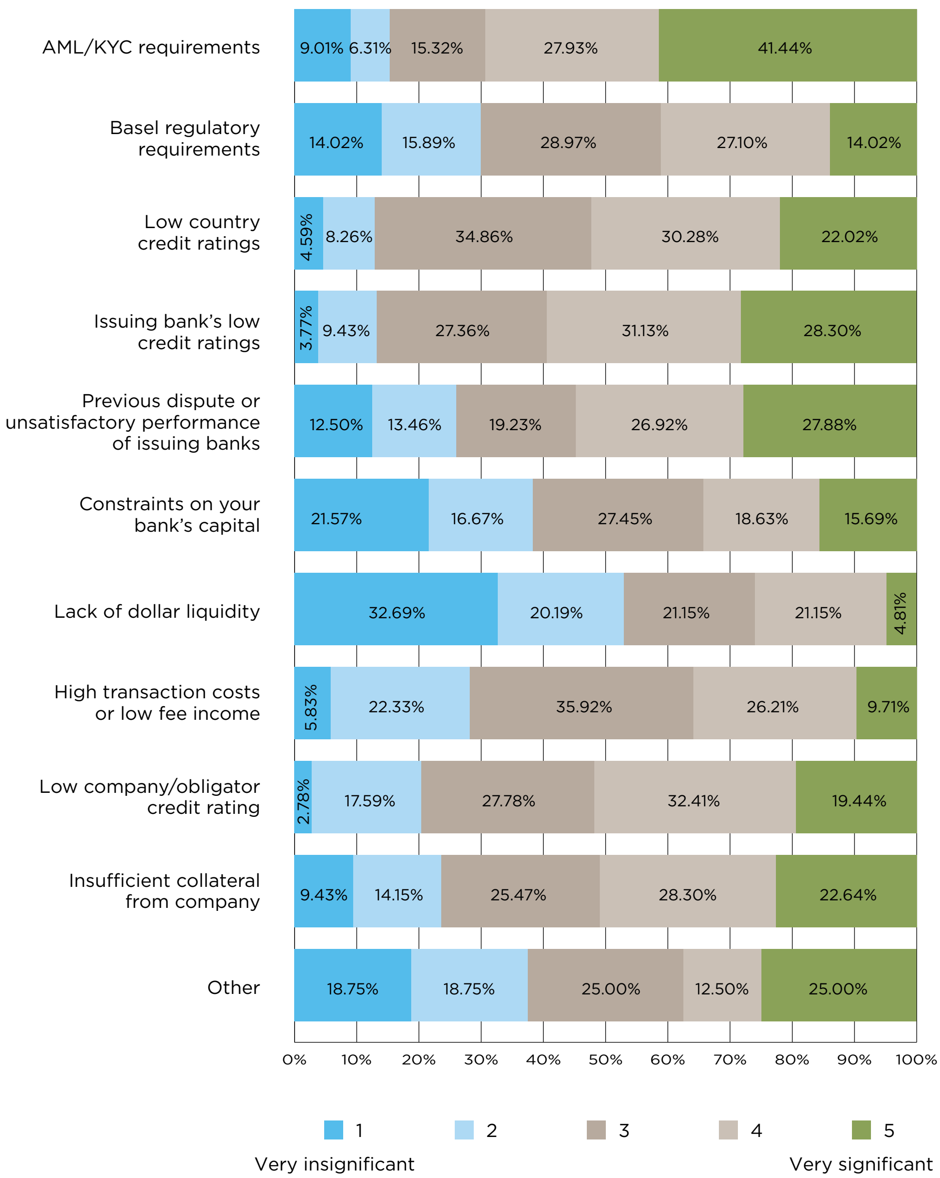
Figure 69: Trade Credit Lines – Increased by how much?



Impediments to trade finance

The supply of trade finance continues to be constrained by many of the same issues reported in the previous ADB survey (See Figure 70). The three top issues that were cited as "significant" impediments were all characteristics of issuing banks. These included "AML/KYC requirements" (69%), "issuing bank's low credit ratings" (59%), and "previous dispute or unsatisfactory performance of issuing banks" (55%). The continued mention of these issues suggests that markets alone are not meeting demand and there is a role to be played by development banks and others to help improve the standing of local banks.

Figure 70: Impediments to trade finance



Financial crimes (AML/KYC) compliance requirements affect SMEs and Africa disproportionately

AML/KYC requirements stood out as the major limiter to trade finance. They are reported to have led to declined transactions in 68% of banks (See Figure 71). Globally, Africa was the region that was most negatively impacted by these requirements (See Figure 72). Among firm types, SMEs were the most negatively impacted (See Figure 74). While onerous AML/KYC requirements led banks to decline individual transactions, they also resulted in complete relationship termination in 31% of respondent banks (See Figure 73).

Compliance with these requirements is important – banks do not want to be used for criminal purposes. However, the compliance is resource intensive and appears to be impacting access to trade finance, especially among SMEs and companies in developing countries. The cost of compliance for one counterparty has been cited as high as $75,000. This cost is compounded by a lack of harmonization between jurisdictions, which was cited by 70% of respondents as a problem (See Figure 75). This suggests that there are some measures regulators could take to reduce unintended consequences of compliance that contribute to trade finance gaps that lower growth and job creation.

Figure 71: Did you have to decline transactions due to KYC/AML issues?

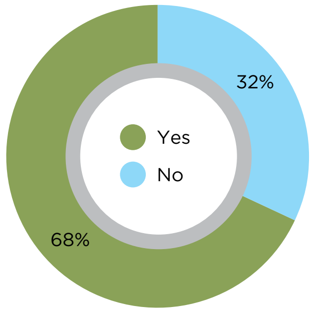


Figure 73: Did your bank terminate correspondent relationships in 2013 due to the increasing cost of compliance (including more stringent AML and KYC)?

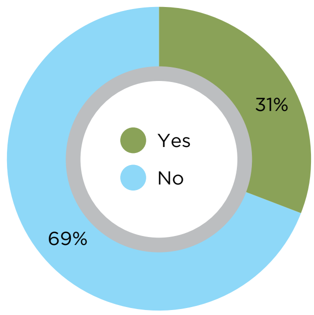


Figure 72: To what extent are the following regions affected by more stringent Compliance (AML and KYC) requirements?

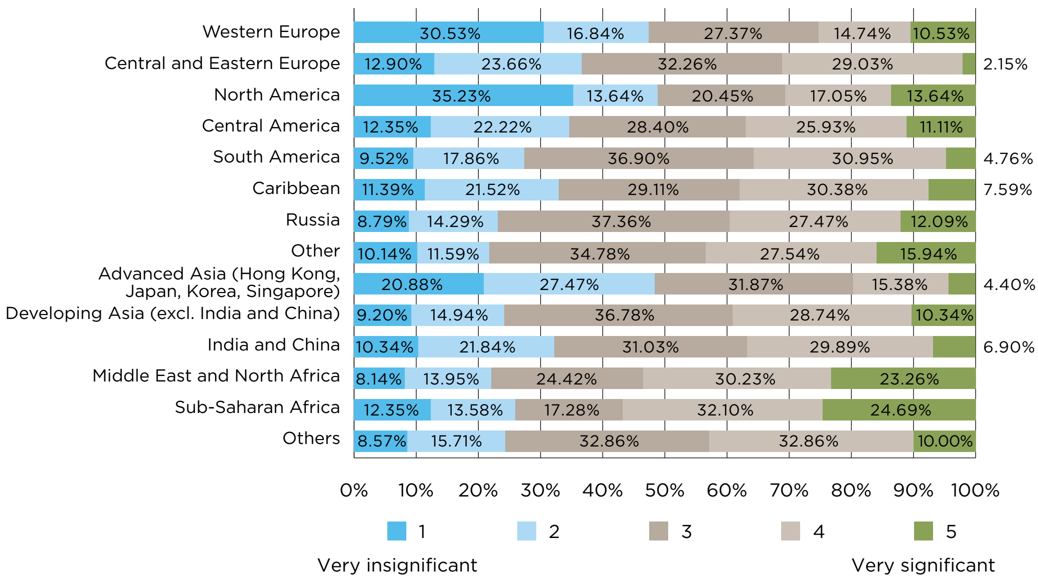


Figure 74: Which customers do you consider most impacted by your more stringent Compliance (AML and KYC) requirements?
(More than one choice is allowed per respondent)

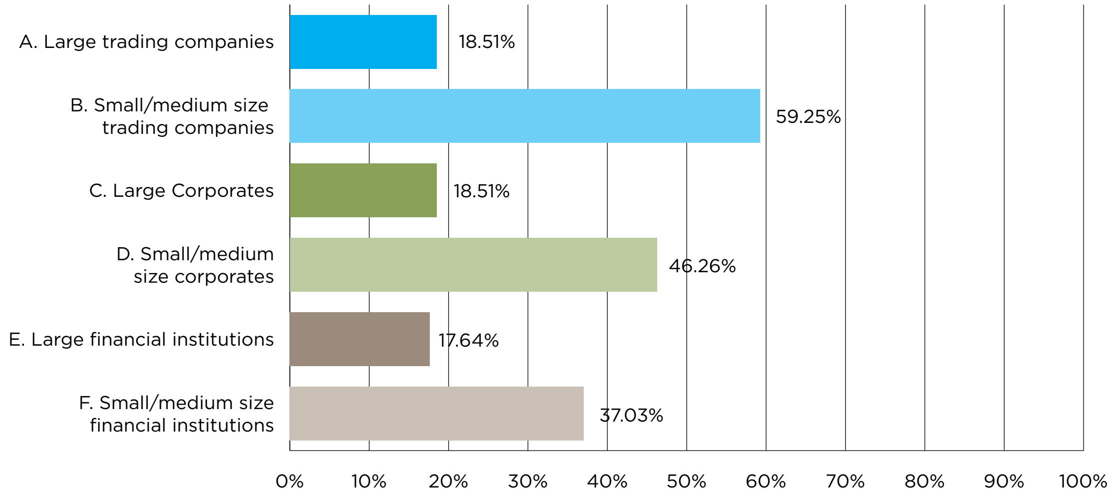
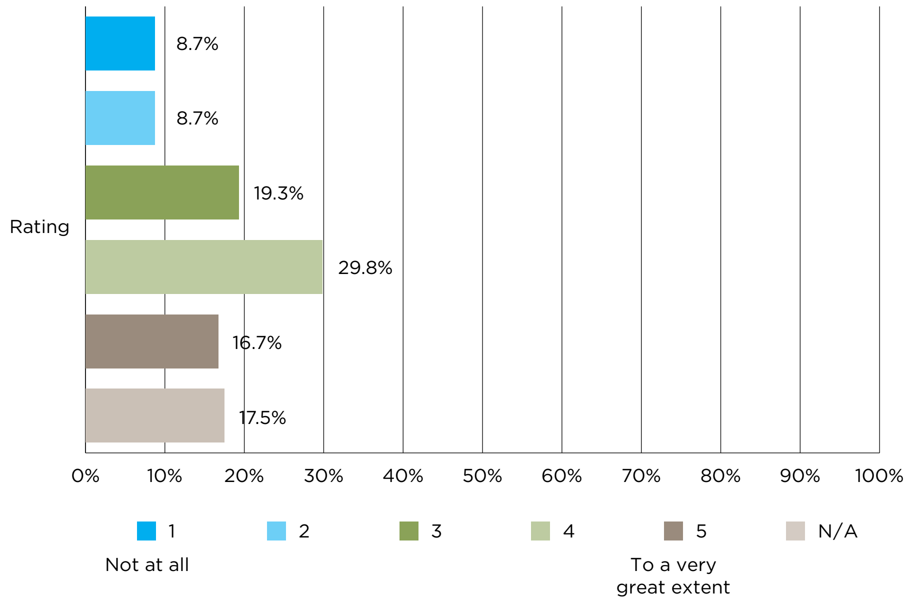


Figure 75: To what extent is a lack of harmonization or compliance requirements between jurisdictions a problem?



HIGHLIGHT:

FACILITATING SME ACCESS TO FINANCE FOR TRADE

Constraints remain despite efforts by International Financial Institutions (IFIs)

The International Trade Centre (ITC) and the International Finance Corporation (IFC) have been gathering statistics over the years and found that the small to medium-sized businesses' financing gap in developing countries totaled at $2 trillion. The IFC Report called "Closing the Credit Gap for Formal, Informal, Micro, Small and Medium Enterprises", shows over 200 million formal and informal SMEs in developing countries do not have a loan or overdraft, or have a loan or overdraft but still find access to finance a constraint. A sizeable number of exporters or potential exporters fall into this category. On the other hand, on average, about two thirds of full time jobs in developing economies are provided by small firms, therefore urgent action is essential in meeting their financial needs, supporting their growth. Tremendous work has been done by our development partners (IFC, EBRD, AfDB and ADB) in providing enhanced liquidity to enable businesses gain access to financing. But the challenge remains that all these provisions still do not reach SMEs as they cannot meet the bank underwriting conditions to access finance. In other words, in many cases banks have the possibility to lend but they can't find qualified borrowers.

ITC Activities in Access to Finance for SMEs

For ITC, the support of job creating SMEs, their growth and their entry in the multi-lateral trading system is paramount. Today, thanks to the progress in Information Communication Technology, trading across borders is only a matter of will for qualified SMEs. Through internet, an African SME can contact a client in Northern Europe using the same steps as it contacts a client next door in Africa itself. Distances have shrunk and the opportunity of trading internationally needs to be made available to all SMEs which produce quality products. However, much capacity building is needed on how to conduct an international transaction and how to protect both transacting sides' commercial interests, utilizing trade finance and trade facilitation tools. The bigger picture of course is that the marketplace is much larger for SMEs today, including the international markets. To enhance overall economic development, State actors as well as international technical assistance organizations ought to partner with policy makers, trade support institutions and business coalitions to unleash this potential.

With regards to access to finance, rare are occasions where banks go to SMEs to give them financing. However, as a matter of public interest and because SMEs are job creating entities, policy makers should have a deliberate approach in fostering inclusive SME growth according to their countries' development priorities. Accordingly, ways and means need to be mobilized by policy makers to reach this objective and get the banks to reach out to SMEs. But which ways and means work and which ones do not?

To support developing country policy makers, ITC studied the approaches of Canada, France, Germany and UK during the last two decades to draw lessons on what works in injecting liquidities into SMEs through banks and other entities. Most policy driven programmes were plotted to ensure they create new economic activity in the geographic areas and economic sectors which are priority for the State. In other cases, to support innovation, special provisions for Research and Development and innovation were enacted into laws.

What are some State driven best practices facilitating Access to finance for SMEs?

- Venture Capital Financing
- Bridging the Skill Gap programmes
- Drawing SMEs into service Networks (Finance, Trade Facilitation, Legal advice)
- Special equity Funds for High tech start-ups
- Risk sharing with partner institutions (Enterprise Europe Network-Access to Finance)
- Early stage financing (German 'SartGeld' Programme)
- Green initiative (support for energy efficiency projects)
- Growth Accelerators, including access to finance and investors and Management advice and Start-up loan programmes
- Seed Enterprise Investment Scheme. The programme helps small early stage companies raise equity financing.
- State support to SMEs through non-financial entities (State owned companies, Regions, Governorates)
- State support through banks to SMEs
- Plant and Equipment leasing programmes

COMPANY A | **BANKS** | **SMEs**

Sells moveable or fixed asset | Buy the asset and then rent it | Rent the asset with the purpose to buy at the end

- Guarantee Programmes (France): The success of the Credit Guarantee Fund is due to many factors, including:

  a. A strong regulatory and supervisory system;

  b. An intensive publicity and promotional campaign launched by the government to explain the utility of the programme. Additionally, training programmes were provided to commercial banks to acclimate them with the Guarantee fund and its policies

- Research and Development Tax Credits
- TEB SME Academy (Turkey)

ITC has studied these programmes and is adapting them on a case by case basis in various developing countries, responding to those States' SME growth and support objectives.

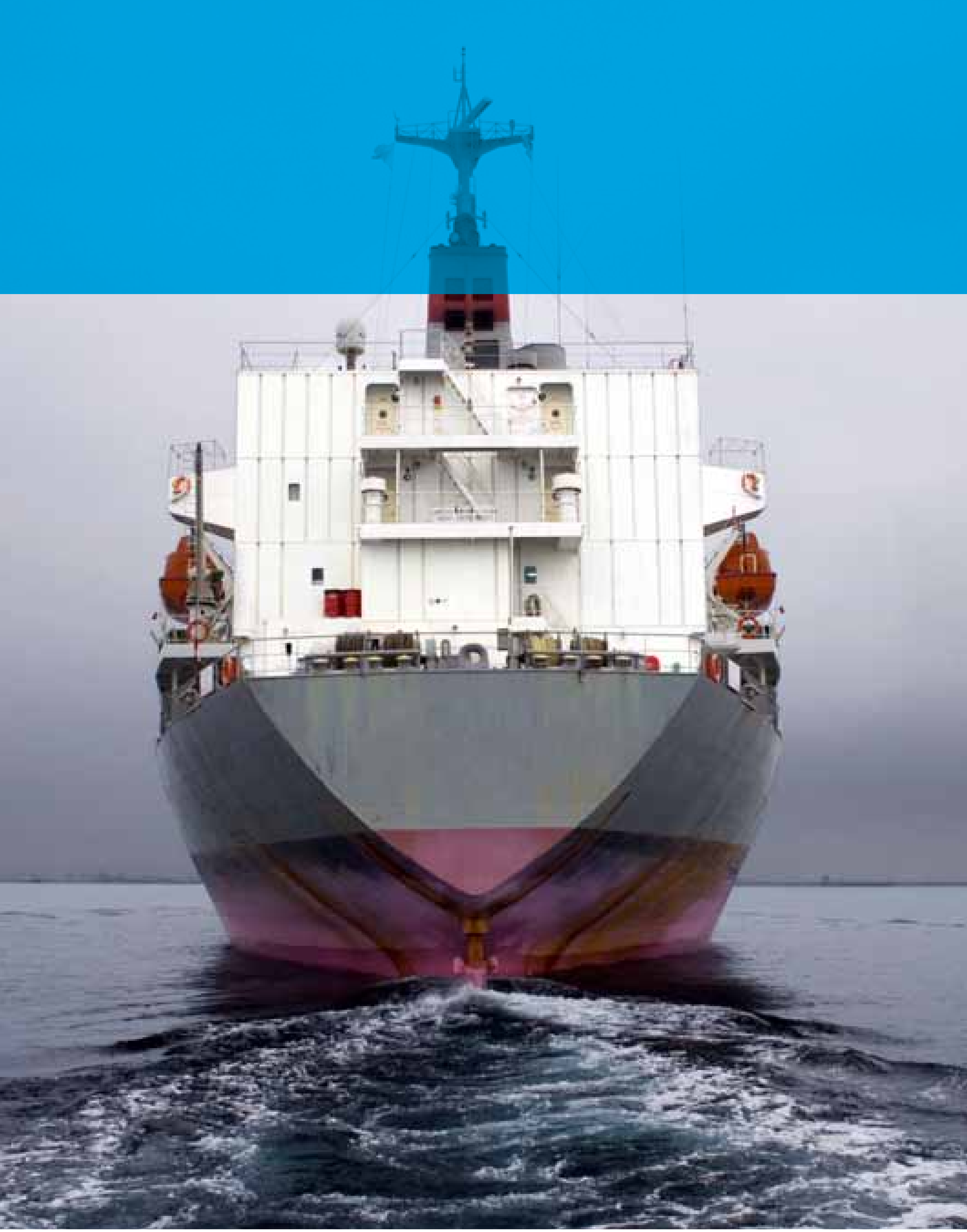
ITC Partnering with Trade Support Institutions, Banks and SMEs to produce bankable business plans

ITC has started to focus on building capacity of entrepreneurs on preparing better business plans as banks in developing countries indicate they would welcome support in identifying qualified long-term borrowers with robust business strategies. Banks also indicate they have a preference in dealing with clients and entrepreneurs who have a better understanding of credit products. ITC steps in to prepare the potential borrowers to access bank credit, leasing as well as the specialized insurance products which support trade. Better prepared SMEs can then be matched with banks which have a better knowledge of their business, and the entire export value chain opportunities.

Through these trainings, ITC is building the managerial capacities of SMEs to maximise their chances of obtaining not only working capital and export financing but also successfully managing these credit instruments. This knowledge allows them to present to potential lenders, crisp, realistic and bankable growth road maps for their businesses, standing on clear and achievable milestones. In other words, ITC is working on strengthening the project formulation expertise of these managers.

This programme is also intended to help SMEs access finance from non-banking sources. For example, currently in many developing countries, especially in Africa the so-called ‘angel’ investors have come in to fund young entrepreneurs’ projects. These angel investors are looking for good projects. ITC is stepping in to build capacity of potential young entrepreneurs to present financing plans to sources other than banks. Furthermore, the ‘angel’ investors also need technical support to evaluate financing requests. In fact the two go hand in hand and ITC Access to Finance programme provides a framework of understanding between SMEs and financiers (Be it banks or angel investors), under which projects can be evaluated for their strengths and weaknesses paving the way for increased access to finance for well-run small and medium sized businesses.

Without access to trade finance the growth potential for SME is severely limited and this is now clearly central stage as a priority issue with the stakeholders in advancing trade finance. This topic will be energetically debated at the forthcoming ICC Banking Commission meeting scheduled from 3 to 6 November 2014 in Istanbul which has been appropriately themed “Trade Finance: Growth Engine for SMEs”.



LOOKING AHEAD

A panel of industry experts share their views on the drivers and solutions to a more robust and resilient market, with a few retrospective observations on the Survey and a call to take part in the next edition.

THE INTERVIEWS

The ICC Banking Commission also asked eight industry experts to comment on the future shape of trade finance markets.

GEORGINA BAKER

Director of Trade and Supply Chain,
International Finance Corporation (IFC)

As Director of Trade and Supply Chain for the International Finance Corporation (IFC), Georgina Baker expanded IFC's short-term finance offerings, which garnered several awards for their role as rapid responders to the recent global financial crisis. In Baker's more than two decades at IFC, she has managed manufacturing and financial investments in many of the world's growing regions from Eastern Europe to South Asia. Georgina serves on the Advisory Board of ICC's Banking Commission.

DANIEL COTTI

Global Trade & Loan Products Executive,
JP Morgan Corporate & Investment Bank

Daniel Cotti is in charge of strategy and daily management of JP Morgan's global trade, supply chain, and export finance portfolio. He has a wealth of experience in global trade, cash management, and financial services spanning more than 30 years, previously leading the global trade and supply chain activities for ABN AMRO.

JAMES EMMETT

Global Head of Trade & Receivables Finance, HSBC

James Emmett heads HSBC in Turkey as newly appointed Chief Executive Officer. As former Global Head of Trade & Receivables Finance, James has been responsible for global trade and receivables finance at banking and financial services company HSBC, providing customers from small to very large with financing and risk mitigation for domestic and international trade encompassing the entire supply chain. James serves on the Advisory Board of ICC's Banking Commission.

CHENG JUN

Global Head of Trade Services, General Manager of Corporate Banking, Bank of China Group

Cheng Jun is in charge of strategic planning and development of trade finance at the Bank of China, where he accumulated over 20 years of experience in the sector. Jun is the former Director of the International Forfaiting Association and has authored many articles on trade finance, and served on many regional committees on banking and trade financing. Cheng serves on the Advisory Board of ICC's Banking Commission.

ROBERT NIJHOUT

Executive Director, International Credit Insurance & Surety Association (ICISA)

Robert Nijhout has had 20 years of experience in the international trade credit insurance industry, before joining ICISA. As executive director of ICISA Robert Nijhout has been a guest speaker at international conferences were he shares his views on current and future developments within the industry and regulatory and supervisory issues affecting the industry.

STEVEN BECK

Head of Trade Finance, Asian Development Bank

Steven Beck has been with Asian Development Bank (ADB) for many years, where he is Head of Trade Finance. Steven started his career in international finance as a Special Assistant to the Canadian Minister for International Trade, Michael Wilson, where he focused on matters pertaining to Canada's export credit agency, Export Development Canada. Steven serves on the Advisory Board of ICC's Banking Commission.

KAH CHYE TAN

Managing Director and Global Head of Trade Finance Securitization, JP Morgan

Kah Chye Tan is the Chair of the ICC's Banking Commission and the Managing Director and Global Head of Trade Finance Securitization at JP Morgan. Tan has extensive experience in banking and trade finance, having worked for 20 years in corporate trade and cash roles at Barclays, Standard Chartered Bank, JP Morgan Chase, Deutsche, and Citibank. He is a member of The Trade Expert Committee of the WTO.

PETER MULROY

Secretary General, Factors Chain International (FCI)

Peter Mulroy is Secretary General of FCI, the world's largest network of factoring companies, with its headquarters in Amsterdam, Netherlands. Prior to joining FCI, Peter was previously Senior Vice President, Head of Global cross-border factoring operations, with CIT's Trade Finance unit in the US, a US$40+ billion financial services company and one of FCI's original founding members. Peter also served on the Management Committee of CIT, supporting the global growth strategy of the company.

QUESTION 1:

In your opinion, what are the prevailing market trends in trade finance today? Do you see any sign of recovery on a global and regional basis?

JAMES EMMETT: Thanks in part to rising growth in the US and the UK; we expect global growth to pick up in 2014. While there may be some short-term financial turbulence as markets adjust to US monetary policy developments, the fundamental drivers underpinning the longer-term growth story for emerging markets remain intact. Over a longer horizon, emerging markets are therefore expected to be the key drivers of growth in global trade.

With a global recovery underway, albeit slowly, confidence is gradually returning to the market. This has led to a renewed interest by companies in using Open Account, a longer-term industry trend which has been 'on-hold' during the crisis. This interest is driven by a reduction in perceived levels of risk and nascent recovery in developed markets, notably Europe, combined with increased pressure on companies to optimize working capital to create greater competitive advantage.

This does not mean we predict the demise of traditional trade instruments such as Documentary Credits. On the contrary, we are seeing a resurgence of interest in these tools as 'risk mitigators' – bridging the trust gap between new buyers and suppliers, especially as new markets open up. In some markets, documentary credits are being used to secure financing further down the supply chain as credit is secured against the existence of a DC.

KAH CHYE TAN: The market conditions today are best characterized as one with many different competing forces. Interest rate is at an all-time low which means that it is the best time for businesses to borrow but many banks are suffering from low margin due to excess liquidity.

> "We have veered from the financial crisis to liquidity problems to political and economic problems."
>
> **DANIEL COTTI**

"World trade and global activity picked up in the second half of 2013 and the growth is expected to accelerate in 2014 and 2015."

CHENG JUN

GEORGINA BAKER: As the euro zone crisis abates, European banks are returning to markets, albeit with a different perspective. Some of the largest traditional players are more selective about their engagements and relationships, reflecting a fundamental and long-term shift in cross-border banking – a shift IFC anticipated as the financial crisis emerged. Facing increasing constraints on their capital in the aftermath of the crisis, these banks have become more careful in their investment choices and more conservative about extending risk to manage their costs. Now, when considering deals, banks are driven by a need for increased profitability to maximize returns on limited capital allocated to trade finance. Every decision includes an assessment of whether these assets should remain on their books. For medium and large deals, this translates into increased demand and lower margins as more banks compete for the business. The entrance of new regional players is putting further downward pressure on pricing. Meanwhile, smaller deals are not getting as much attention.

Joining the newly limited European banks, we see new players engaging to address part of the post-crisis gap in smaller markets. Japanese banks are shifting from a regional focus to a global focus and growing, driven in part by a domestic slowdown. Korean banks are also interested in becoming more involved in global transactions. Chinese banks are growing their operations in Africa. In the Middle East, four to five regional players are each snapping up 10 percent to 15 percent of recent syndication deals. IFC is looking to work with these banks in markets where we can share our global expertise and, together, contribute to those markets' or companies' development. In the past year, we have signed a risk-sharing facility with BTMU, and the Korea Development Bank has participated in our new RMB-denominated trade finance facility.

Recent trade figures show great promise: South-South trade makes up an ever-growing share of the global economy, increasing 17 percent since 2001. South-South exports now represent 46 percent of global exports, up from 35 percent in 2001. The expectation among many in the industry is that Africa and the Middle East are on the verge of rapid development, and many banks are adapting their business to gain a foothold in these regions. Despite rapid rises in trade, key markets like Brazil, Russia, South Africa and Turkey have seen trade finance pricing go up in the short term as most attention and capital is directed at China, India, and the developed world.

DANI COTTI: Banks are fiercely protective of their relationships and will go to great lengths to retain their trade finance business, which had – in some cases – driven pricing beneath competitive levels. Furthermore, excess liquidity in the market, the result of low interest rates and loose monetary policy, is expected to prevail throughout 2014 and this will continue to suppress spreads. However, we expect the return of rationality to the market over time. We estimate that pricing could go up 30bps in the next 12-18 months and potentially up 60bps in the longer term as the full impact of regulatory capital changes takes hold. Though major stock markets are relatively buoyant, many of the underlying economies are not showing a correspondingly strong foundation, and we face possible credit bubbles in various sectors around the globe as a result. We expect that the market will normalize over the next 3 years and trade finance will evolve toward common global standards and more transparent pricing, driven by a consolidated group of global banks that service a global client's base. Meanwhile, niche regional and non-bank players will gain market share at the expense of non-core players that are unwilling – or unable – to make the investments necessary to remain competitive.

> **"Excess liquidity in the market, the result of low interest rates and loose monetary policy, is expected to prevail throughout 2014."**
>
> DANI COTTI

> **"The fundamental drivers underpinning the longer-term growth story for emerging markets remain intact. Over a longer horizon, emerging markets are therefore expected to be the key drivers of growth in global trade."**
>
> JAMES EMMETT

"Recent trade figures show great promise: South-South trade makes up an ever-growing share of the global economy, increasing 17 percent since 2001. South-South exports now represent 46 percent of global exports, up from 35 percent in 2001."

GEORGINA BAKER

"Thanks in part to rising growth in the US and the UK; we expect global growth to pick up in 2014. "

JAMES EMMETT

CHENG JUN: World trade and global activity picked up in the second half of 2013 and the growth is expected to accelerate in 2014 and 2015. With all closely intertwined in globalization, economies are now paying more attention to prevent and reduce the negative spillover effects when giving impetus to their individual economies. More coordination between policies of economies was observed and synergies are growing as well as overall trade opportunities. Trade finance continues to serve as an engine for global economic recovery and, unsurprisingly, to bridge the trust gap and increase the availability of credit domestically and internationally.

The field is uneven in different parts of world for the sector. With auspicious omens such as the announcement of quantitative-easing-stepping-out and the intensified expectation of interest-raising for the next spring in USA, major developed economies are on their intermittent recovery, although far from resolving structural problems. Despite the lack of effective global demand, the potential of the emerging markets is still growing. India, Russia Brazil and China are facing up to challenges, accumulating momentum and injecting new impetus by implementing restructuring and readjustment. In 2013, China's trade volume still enjoyed a two-digit growth rate and outpaced that of the GDP.

STEVEN BECK: Recovery, although anemic and low in job creation, seems to have taken hold in most mature economies. This provides both opportunities and challenges in emerging markets. Managing associated increases in US interest rates – especially a concern for markets with current account deficits – and a shift of investment back to mature economies may pose challenges to emerging markets. In terms of opportunities, renewed demand from the US and Europe, albeit slow to return, will provide increased opportunities to rekindle strong exports, hopefully not at the expense of any 'rebalancing' and intra-regional trade that has started to take hold in Asia.

To take full advantage of the opportunities, the international financial community needs to support companies in emerging markets, and not just the large corporates in the BRIC countries. Albeit slower than in previous years, the trend for robust growth in Asia, and other non-traditional markets, is evident. Increased demand to support trade in growing new and frontier markets – where credit information may be lacking and country ratings are low – may be increasing trade finance gaps. Partnerships between public and private financial institutions to share information and risk are required to manage the tremendous opportunities and challenges these new markets offer.

Global growth has surpassed growth in global trade for the second year running since the early 1980s. How much of this relatively low growth in international trade has to do with market gaps for trade finance is uncertain, but it would appear to be a factor, even if a relatively minor one. By closing the trade finance gap, we can increase trade, growth and job creation.

> **"In 2013, China's trade volume still enjoyed a two-digit growth rate and outpaced that of the GDP."**
>
> **CHENG JUN**

> **"The ongoing economic and political conditions in parts of the world negatively influenced the trade credit insurers' new business growth in 2013."**
>
> **ROBERT NIJHOUT**

> "Global growth has surpassed growth in global trade for the second year running since the early 1980s."
>
> **STEVEN BECK**

PETER MULROY: It appears that 2013 on average witnessed a mild slowdown in the growth of the global factoring industry, in line with the small increase in traditional trade finance that same year. For the first 6 months, we were receiving data that the industry was retracting, as our own internal figures were negative in the single digits for the first time since the start of the financial crisis in the 2008-2009 period. However, we experienced a very strong second half of 2013, resulting in a nearly 10% increase in global factoring volume in US Dollar terms, and a slightly smaller increase of 5% in EURO terms. That surge in the second half of last year has continued into 2014, as FCI's internal figures show that correspondent cross-border factoring is up over 30% in the first quarter of 2014 compared to the same period in 2013.

ROBERT NIJHOUT: The ongoing economic and political conditions in parts of the world negatively influenced the trade credit insurers' new business growth in 2013. The claims picture in terms of average claims size and frequency of claims and the trend in insolvency differs per region and country. The International Credit Insurance & Surety Association's (ICISA) outlook for 2014/2015 is in general positive with increase in sales in spite of a fragile recovery. Growth in premium is expected for 2014 on the back of increasing sales and exports. Growth is expected primarily in Asia, NAFTA, Southern, Central and Eastern Europe, and Latin America. The availability of trade finance is influenced by these uncertain market conditions. Criteria are stricter, although more financiers recognize the value of the added security offered by credit insured receivables.

QUESTION 2:

What are the main ‘Driving Forces’ at play behind trade finance in coming years (Political, Economic, Regulatory, Technological, and Environmental)?

JAMES EMMETT: Overall, we remain optimistic about the longer-term prospects of the emerging markets and anticipate material expansion in south-south trade and capital flows. In the short term, it is important to stress the need to differentiate within, and between, individual countries within the generic category of emerging markets.

The rise of the Renminbi (RMB) will continue to be a driving force in global trade. Today 18% of China’s trade is settled in RMB, and the currency has become the second largest for documentary trade finance flows. HSBC anticipates that 50% of China to emerging market trade will be settled in RMB by 2015, making it the third largest trade currency. This will be supported by the full convertibility of the RMB, which we forecast will happen in the next two to three years.

GEORGINA BAKER: Economic: In 100 years, historians will look back at the early 21st century and describe this era as China’s rise. China is a driver of world economic growth, representing one-fifth of the world’s labor market and a global source of goods that leave few value chains untouched. Expected population growth in China over the next 20 to 30 years creates a need to meet rapidly increasing domestic demand in many sectors. The rise of the middle class is creating a huge new market. In commodities, global prices are affected by China’s demand for raw materials to ensure supplies for new construction and food security, creating long-term upward pressure. However, many wonder how sustainable this trajectory is. The last decade has seen dramatic investment growth, but most of the country’s small and medium enterprises remain unbanked by the formal banking sector. IFC has engaged to address this gap, partnering with Standard Chartered in our first RMB-denominated trade finance facility. As public sector reform in China moves towards greater financial sector transparency, it is also taking a tougher stance on underperforming banks, exercising selectivity in its bailouts.

KAH CHYE TAN: I believe regulatory framework would pose the greatest challenge. I believe we have made huge progress with Basel even though it is still not quite at the right place yet. We have more work to do in this area. I think the greater regulatory challenge going forward is in the space of KYC, AML, sanctions, and so on. I believe the policy makers around the globe would achieve more with fewer regulations if they

> **“Technology will have to play a leading role in assisting in the development of a repository of much-needed AML/KYC information on banks, especially those in emerging markets.”**
>
> GEORGINA BAKER

“The rise of the Renminbi (RMB) will continue to be a driving force in global trade.”

JAMES EMMETT

are more coordinated. There is a need to address and quantify unintended consequences coming out from these regulations as I fear that the real emerging markets, the banks in these real emerging markets and the SMEs will find much harder to engage in cross-border trade.

I also believe that over time, the overall trade finance market, banks and non-banks, will be sufficiently resilient to the challenges. The market will innovate to address regulatory imbalances and the regulators will respond to market feedback.

JAMES EMMETT: Post-crisis we have seen a shift in the regulatory agenda. Trade finance providers have a key role to play in maintaining the stability and security of the financial system and to guard against financial crime. The challenge is implementing effective regulation without constraining the growth of trade finance, which is traditionally lower risk (typically short-term and self-liquidating), and essential to economic growth. We welcome the decision by the Basel Committee to lower the capital requirements for trade finance. The next step is to continue discussions with policy makers globally to ensure regulatory coherence.

Shifts in demographics will continue to shape global trade flows. Emerging economies tend to have better demographic outlook, with a lower median age. This is important because individuals tend to consume most in their lifetime between the age of 16 and 40 – the period when income levels rise, homes and families are being built, and before consumers really begin saving for retirement. Countries such as the Philippines, India, Pakistan, Egypt and Saudi Arabia all have populations today with a median age of 25 or under.

Wider environmental issues could also start to impact global trade. For instance, water is a fundamental driver of all socio-economic growth, but as a resource it is under strain from population growth and climate change. Over a quarter of China’s total agricultural output comes from the North China Plain, but this region is water scarce and polluted. Incoming pollution control regulations could slow the ‘more fertilizer, more yield’ model, as the food supply-demand dynamics change. To ensure food safety and security China may have to import more food – which would affect global trade.

“Economic growth patterns are more scattered and more difficult to interpret.”

DANIEL COTTI

Given the different regulations within each country, HSBC believes it is of critical importance that there is a coordinated approach to trade agreements as the world becomes more interconnected and a new generation of FTA agreements are concluded. This coordination, amongst regulators and negotiators, is critical to help ensure the

most equitable outcome for all countries involved in these new trade agreements.

The OECD estimates that a comprehensive implementation of all trade facilitation measures currently under negotiation (including TTIP, TPP, TISA etc) would cut trade costs by 10% in advanced economies and by as much as 15% in developing countries. However, while the development of bilateral and plurilateral trade agreements will have a potentially positive impact, they should be designed with the possibility of future multilateral-level agreements in mind.

For this reason, we welcomed the conclusion of the WTO talks in Bali in 2013, which effectively brought about the first global trade deal agreed for a generation. According to the ICC, the deal could lower the cost of doing trade by up to 10-15% and add US$1 trillion to global output. While ratification will take time, the commitment by 159 countries to greater trade cooperation is cause for optimism.

GEORGINA BAKER: Technology will have to play a leading role in assisting in the development of a repository of much-needed AML/KYC information on banks, especially those in emerging markets. Beyond KYC reform, mobile data and instant flows of information have already drastically altered the landscape. Banks and companies are increasingly using their IT infrastructure not just to communicate but also to process larger and larger amounts of data and implement IT solutions that allow bankers to see the specific data – often on their mobile phones – that they need to make decisions quickly.

We see positive strides made recently in the consideration of environmental issues in business decision making. Banks are adopting more environmental and social responsibility standards. A decade ago, less than half of bankers were thinking about the environment when making financing decisions. Now, this has increased to more than 80 percent of business decision makers. There are increased environmental sensitivities in financing products beyond project finance: trade and supply chain finance are now examined carefully, considering potential issues upstream, beyond the immediate client. IFC has been a leader in bringing environmental and social issues to the forefront via our flagship Global Trade Finance Program. IFC has partnered with the Banking Environment Initiative on an industry-driven effort to

"The OECD estimates that a comprehensive implementation of all trade facilitation measures currently under negotiation would cut trade costs by 10% in advanced economies and by as much as 15% in developing countries."

JAMES EMMETT

encourage the growth of sustainable global supply chains and expand trade of sustainably sourced commodities. The new Sustainable Shipment LC designation gives preferential treatment for trade in agricultural goods that meet internationally-recognized sustainability standards. The sustainable LC is based on the successful and industry-recognized model of IFC Climate Smart Trade, launched last year, which supports trade in renewable energy, energy-efficient goods, and replacement equipment and machinery that enable firms to reduce their carbon footprint.

DANI COTTI: Trade continues to outgrow GDP. With growth of the global economy more or less flat at around 3%, we expect trade – and the demand for trade finance – to continue to grow. However, the recent introduction of stringent conduct and financial regulatory rules on banks have seen large banks refocusing on core products, clients and processes, de-risking their portfolios and revaluating what they may consider to be niche products. In coming years, we expect that trade finance products will be more formalized with regulated standards to which they adhere. Whilst this would go some distance to ensure a fair playing field, if standards are imposed on banks alone, non-bank players will remain unsupervised and outside of the global regulatory framework.

The regulators should also be mindful of the unintended consequences of imposing such stringent rules on Banks that would limit emerging market and SME growth, limiting cross-border trading capability. Politics will also be a driving force as rising nationalism in emerging and developed markets alike continues to give rise to protectionism, creating a disjointed global trade and trade finance framework. Finally, technology – supported by a deeper understanding of regulatory requirements and increasing market standardization – will encourage both banks and non-banks to innovate to address imbalances.

STEVEN BECK: Political and economic forces always drive trade finance. They're a big part of what makes this business so interesting, always changing. There are territorial and other disputes that could seriously destabilize the international political situation as well as a number of key elections on the horizon. These elements, in combination with rising inequality and lackluster job creation, can make for unpredictable political situations. Political risk has risen over the past year and is likely to continue rising.

On the regulatory front, the international trade finance community's combined effort – namely through the ICC Trade Register – to reduce the adverse impact of Basel on trade has made a real difference. Setting new goals on Basel is important. But most important at this juncture is to consolidate and harmonize financial crimes (such as anti-money laundering) compliance requirements. Gains on the financial crimes (KYC/AML) compliance front are import to closing market gaps.

New virtual currencies and the opportunities and challenges they pose in trade could be game changers on the technology front. I'm not saying they will be in the immediate future, but at some

> **"Trade continues to outgrow GDP. With growth of the global economy more or less flat at around 3%, we expect trade – and the demand for trade finance – to continue to grow."**
>
> DANI COTTI

point – given how easy, quick and inexpensive it is to settle international transactions through this kind of medium – it is hard to imagine this kind of technology not having an impact. We should think of how to get ahead of the curve on this; perhaps think about establishing some rules, guidelines, risk mitigating products. This area could be a big boost to international trade, and we would not want to hinder its potential or get left behind. Better to be prepared and lead. How to monitor the millions of transactions taking place, ensuring that the industry isn't supporting 'unethical' business, is a huge challenge. Ideas around 'safeguards certification' need to be advanced. Design and implementation for mass certification in trade are huge challenges perhaps best tackled one industry at a time, and in conjunction with industry associations.

CHENG JUN: A healthy, sustainable and robust recovery of the world economy that generates further more trade opportunities will be the most solid base for trade finance in the next few years. It will facilitate the rebound of both trade activities and the global demand for the related financing.

Better compliance and risk management will be another boost of confidence within the industry, emphasizing the sustainability and health of the sector. Positive effects will result from enforcing those stricter but reasonable regulatory requirements, while resources allocation and performance assessment mechanisms will be improved continually along with the implementation of the New Basel Capital Accord and by employing quantitative and delicate measures among many other comprehensive methodologies. At the meantime, more frequent applied or new approaches for risk mitigation, such as credit information services, credit insurances, will help banks to enhance their capabilities to fend off or alleviate risks to a larger extent.

Supply chain finance will be a huge market to be deeply tapped next. Increased penetration to some extent might revolutionize the whole industry as cost, efficiency, client base and more will be redefined profoundly. To achieve this, banks will customize solutions for each cluster of clients to meet the differentiated demands by booting their product toolkits, exploiting a variety of channels, with the help of advanced technology supports.

PETER MULROY: With the exception of the first half of 2013, we have seen an overall positive growth story for factoring in the past five years. Since the start of the financial crisis in 2009, factoring has been growing at a CAGR rate of 15% from 2009-2013, and cross-border factoring has been growing even faster, at a rate of 25%. The driving force behind this growth story is threefold:

Firstly, the elevation of global risk after the financial crisis as banks pulled back from lending, especially to SMEs directly or indirectly and factoring filled this gap. In addition to this, the introduction of Basel III shaped the positive view of factoring as a very safe and secure form of financing, and many banks

"HSBC anticipates that 50% of China to emerging market trade will be settled in RMB by 2015."

JAMES EMMETT

"The receivables finance industry in general is growing in the developing countries."

PETER MULROY

"As for all industries, credit insurance will be impacted by technological developments; smartphones and tablets change the way business partners engage with each other, taking the electronic communication out of the office and making it available on the spot."

ROBERT NIJHOUT

"Better compliance and risk management will be another boost of confidence within the industry, emphasizing the sustainability and health of the sector."

CHENG JUN

have directed their receivables finance units to increase their portfolios, and transfer existing overdraft facilities to factoring facilities. It is viewed that factoring will receive a better treatment under Basel III compared to traditional bank loans, and ultimately a lower capital requirement, reducing costs for the financial services industry,

Lastly, the receivables finance industry in general is growing in the developing countries. Factoring in particular has taken off in the BRIC countries alone. If you look at China and Russia individually, their respective 5-year CAGR from 2009-2013 was 54% and 48% respectively.

› **ROBERT NIJHOUT:** Global trade growth will be increasingly attributable to the growth of emerging economies and may lead to new trade corridors, as these economies will also be trading among themselves. This presents growth opportunities for the existing credit insurers, but also new regional or local players may enter the market.

Shorter business cycles compared to the 'traditional' 10-year cycles are expected, leading to shrinking of available credit and increasing payment delays and defaults. For credit insurers this means increased risk perception and awareness and demand for credit insurance as protection for trade receivables, but also an increase in claims and volatility in business results.

As for all industries, credit insurance will be impacted by technological developments; smartphones and tablets change the way business partners engage with each other, taking the electronic communication out of the office and making it available on the spot. Social media creates a new environment to build business relationships and will provide fresh potential for credit insurers to offer and deliver their products and services efficiently and almost instantaneously.

Steps that have been taken to increase control over financial institutions, including regulations regarding capital requirements, have had a large impact on trade finance. The implementation of these measures requires a huge effort from the financial sector. The positive side is that this may drive banks and credit insurers closer together to develop trade finance solutions for businesses. Apart from this, the recent crisis saw interventions by various governments in the realm of the private sector credit insurers in the form of state-backed trade credit insurance facilities. We expect there to be an increased willingness from governments to intervene in future crises.

QUESTION 3:

According to you, what are the main uncertainties in the sector and how do you rank them in order of importance for potentially disrupting the existing business model?

DANI COTTI: In terms of the main uncertainties, financial and conduct regulation ranks first, and the uncertainly about development and interpretation of the regulations themselves is amplified by the differences in the way individual banks act on them. We have already seen that the differing speeds at which banks are implementing regulation-driven change creates short-term distortions in competitiveness.

Non-banks also pose uncertainty as we are yet to see how they might be regulated. It will take time for regulators to address them, which will give the non-bank players time to win some market share as we have recently seen with some niche logistics companies entering the Doc Check arena. Maintaining the ability to react to political instability and unanticipated market events quickly and nimbly, and to have the appropriate internal processes and controls in place to minimize disruption, is increasingly paramount.

CHENG JUN: Downward pressure on economy revealed the top concern in the industry. While there are signs of recovery, the world economy is still in the middle of profound readjustment. There are also problems of fragile foundations, inadequate momentum and uneven speed of growth. Economic fluctuations have brought challenges to the financial markets, capital flow and exchange rate stability, which banks must seek to address and find effective ways of supporting global trade flows.

The regulatory environment is another major topic. Of the new requirements imposed by Basel II and III, the capital adequacy ratio or any solvency standards, local regulatory and compliance requirements, many are still far from quantified, leaving banks with hard-to-predict cost and complexity. Other uncertainties such as resurfaced trade/investment protectionism, the blending of industry and finance, and etc. must not be left unheeded as well.

> "Beyond KYC, increasing regulatory compliance costs stemming from Basel III and related changes in capital requirements cannot be overlooked."
>
> **GEORGINA BAKER**

> **KAH CHYE TAN:** Without any doubt, it would be regulations. We have made some very good progress on the capital front although it is still far from ideal. In the meantime, the industry is faced with mounting compliance regulation and we have reasons to believe that the pendulum has moved too far to one extreme and hurting real businesses – especially the micros, SMEs and the emerging markets.

“Creating a more sound financial system doesn’t necessarily mean more regulation, but it can mean better regulation.”

STEVEN BECK

> **JAMES EMMETT:** With the US Fed likely to press on with ‘tapering’ its asset purchases, potentially driving up global long-term interest rates, emerging markets face potential further pressures in the months ahead. This, combined a regulatory environment designed to rightly strengthen the financial system, but which could impact inter-bank relationships, could have the unintended consequence of reducing facilitation and development of international trade, impacting the global economy. In addition to this, the geopolitical tensions leading to trade disruptions and the economic environment still uncertain with a slow recovery in the West and volatile emerging market growth.

> **GEORGINA BAKER:** It is often stated that the fastest-growing department in banks is the compliance department. Beyond KYC, increasing regulatory compliance costs stemming from Basel III and related changes in capital requirements cannot be overlooked. Industry scandals related to LIBOR fixing and sanctions have compounded the effects and prompting banks to dramatically rethink the way they operate. Regulators are demonstrating that they won’t hesitate to take action. However, as regulatory requirements increase, there is a substantial lag in balancing regulatory requirements across jurisdictions. All of these factors are adding layers of costs that pressure banks to exit correspondent relationships where income from a line is not sufficient to adequately cover costs and deliver the required returns. The ramifications of these rising expenses on emerging markets are a serious concern, as many of the smallest and most fragile markets face the threat of becoming “unbanked.”

STEVEN BECK: Political risk is higher than it has been for some time and has the potential to destabilize international trade in a fundamental way. Business needs to be involved in politics to encourage practical dialogue-based solutions to problems along with open and free trade.

Weak banking systems ultimately enlarge trade finance gaps and contribute to unstable "bubble" markets. Financial sector failures create tremendous hardship, loss of growth, job opportunities, and impede societal development. We need to remain vigilant in creating more robust banking systems while mitigating unintended consequences. Constant open dialogue with regulators is required to ensure we are not throwing out the baby with the bath water, as we are seeing with financial crimes compliance. Creating a more sound financial system doesn't necessarily mean more regulation, but it can mean better regulation.

Expensive, onerous and unharmonized KYC/AML requirements inhibit the financial community from supporting and capitalizing on opportunities in new and frontier markets. This underpins a trend toward larger trade finance gaps and hinders the maximum potential intra-Asian and South-South trade could bring. Pooling KYC/AML information through up-to-date data bases can help reduce cost and labor required to comply, but a call to action by G20 is also necessary: growth and jobs are at stake.

PETER MULROY: There are aspects relating to some of the new prudential risk regulation that concerns the industry. First, we have seen the roll out of the CRD-IV in the EU, as part of the enhancements under Basel III, particularly as it relates to the new liquidity requirements under the Liquidity Coverage Ratio and Net Stable Funding Ratio, which if implemented in its entirety could have an adverse impact on the receivables finance industry. The recent ruling by the Bank of Italy, requiring the factoring industry to implement enhanced due diligence on the client's end buyer/customer, what we refer to as KYCC, could have a very detrimental impact as well.

> **"Following the arrival and severity of the next downturn in the economic cycle, political tensions in parts of the world pose a risk of spilling over."**
>
> **ROBERT NIJHOUT**

“In terms of the main uncertainties, financial and conduct regulation ranks first, and the uncertainly about development and interpretation of the regulations themselves is amplified by the differences in the way individual banks act on them.”

DANI COTTI

“Economic fluctuations have brought challenges to the financial markets, capital flow and exchange rate stability, which banks must seek to address and find effective ways of supporting global trade flows.”

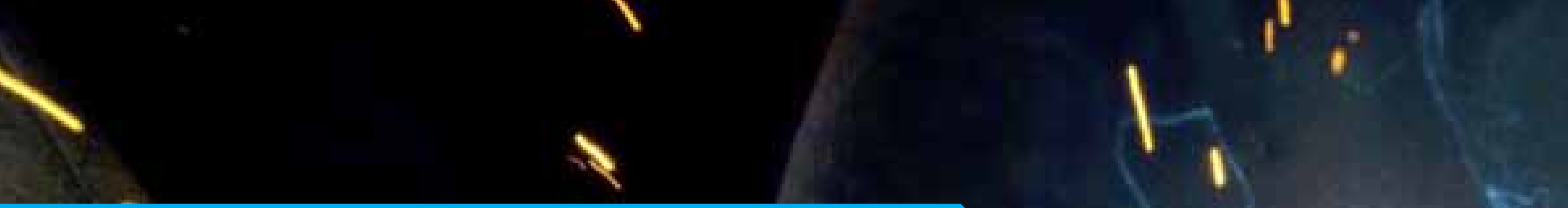
CHENG JUN

GEORGINA BAKER: Another trend to which we’ve been paying close attention is the emergence of securitizations that on-sell trade finance assets to benefit from the transaction fees but clear the books to create room for additional investment. Similar structures to credit card receivables sales and mortgage stripping are now being applied successfully in the trade finance market, as demonstrated last year in BNP Paribas’ Lighthouse Trade Finance Issuer I Ltd. and Trade MAPS, deployed by Citi and Santander.

As value chain financing attracts increasing interest, it grows ever more apparent how difficult commodities flows are to track. Global value chains are quite complex and opaque, and some have links to the shadow banking sector. As more banks expand into this area, we encourage better transparency throughout the value chain.

PETER MULROY: We are also closely watching the developments on shadow banking, which has not yet affected the factoring and receivables finance industry. The attention has been focused primarily on deposit taking institutions, and as you know, most factoring companies are either subsidiaries of commercial banks or non-bank financial institutions, non-deposit taking organizations. FCI, IFG, and the EUF are all actively engaged in these debates and have already had some positive impact through our lobbying efforts but only time will tell.

ROBERT NIJHOUT: A key uncertainty is the impact of new regulatory requirements for risk adjusted capital (Basel and Solvency accords), Customer Due Diligence standards and Compliance issues – be they international or local – on our industry. The consequences of these on trade, trade finance, trade credit insurance and our business model are difficult to forecast. Following the arrival and severity of the next downturn in the economic cycle, political tensions in parts of the world pose a risk of spilling over.



QUESTION 4:

Looking forward, in 2019, how would you flesh out a few plausible scenarios for the industry? What are your best-case and worst-case scenarios?

GEORGINA BAKER: Over the next five years, we'll witness the continued emergence of the BRICs as significant players in global trade, replacing some of the U.S. and European Union trade flows. In the past decade, trade among China, India, and Brazil represent the fastest growing corridors. We have also seen both China and Brazil playing an expanded role in trade with Africa. RMB-denominated trade will continue to grow as well. We expect that by 2050, there will be a different landscape, with China, India, the U.S., Brazil, and Russia in leadership positions for global trade.

As global trade dynamics continue to evolve, it appears that smaller markets, with higher costs of doing business, are at great risk. There could be greater difficulty in attracting financing to support the growth of businesses and the banking sector in frontier states, creating a wider disparity between those countries at the top and those at the bottom. This daunting challenge makes clear that IFC and other multilaterals will become even more necessary in the coming years, particularly for trade finance and working capital.

JAMES EMMETT: In the best case, global trade resumes its historical trend of growing faster than world GDP, driven by trade between emerging markets. The rapid industrialization of China and other Asian economies creates significant opportunities for commodity producers to increase their focus on this rapidly expanding source of demand for agricultural and industrial commodities. And south-south trade receives a further boost with the rapid growth in demand for consumer goods that accompanies the expanding middle class in countries such as China and India. This in turn presents significant opportunities for Western brands that can establish a foothold in these markets, helping developed markets to move out of the economic doldrums.

> "A "worst case" scenario is that changes in regulation will result in the industry rethinking the value in businesses like Trade Finance – which could be very detrimental for global trade."
>
> DANI COTTI

"The increasing access to big data, particularly as it concerns credit, which would close information gaps and reduce cost and risk to provide credit to SMEs."

STEVEN BECK

Worst case scenario: Recent research by the Federal Reserve Bank of New York concluded that "banks play a critical role in facilitating international trade by guaranteeing international payments and thereby reducing the risk of trade transactions." Without a solid and effective network between banks across jurisdictions, the ability of exporters and importers to manage risks and costs by accessing trade finance instruments will be limited. This would disproportionately impact trade finance availability for smaller companies and Lesser Developed Countries (LDCs), slowing global recovery and further economic development.

DANI COTTI: Trade finance will never go away. It will continue to evolve with market requirements and technological progress. It will become more standardized – along with many financial instruments – over the next few years. The popularity of trade finance securitization will have gained momentum. As world trade continues to grow, a more fluid secondary market will enable banks to meet the ever growing requirements of end users, supporting economic development globally. There is already evidence of ample demand amongst institutional investors.

A "worst case" scenario is that changes in regulation will result in the industry rethinking the value in businesses like Trade Finance – which could be very detrimental for global trade. Aligning Trade finance with other lending products and business's however will probably make sense for many large banks, enabling Trade Finance to operate within an overall lending continuum.

PETER MULROY: By 2019, if we continue on the path of growth at 10% in the next five years, the global factoring industry could grow to nearly US$ 5 trillion, a US$2 trillion increase over this five year period. If however some unforeseen circumstances occur or economic growth projections do not pan out, the industry will still grow, possibly by 5% only, which would still yield an increase of nearly US$3 trillion to US$4 trillion by this stage. In either case, the industry has been growing at a very steady rate and I anticipate we will continue to see significant growth during this period.

STEVEN BECK: I anticipate the rise of electronic currency/currencies – such as Bitcoin, or perhaps even a state-sponsored version to fend off the eventuality of an unofficial version taking hold in the market, capable of handling international transactions in a more streamlined, efficient, electronic manner, with less intermediation than the current international payment system. In addition to this, the increasing access to big data, particularly as it concerns credit, which would close information gaps and reduce cost and risk to provide credit to SMEs.

A worst case scenario could involve major political risks being realized. Political and business leaders need to be conscious of this possibility to stem this possible scenario.

CHENG JUN: In a best-case scenario: by 2019, the world economy will fully recover. Developed countries enjoy growth at least at a pre-crisis rate and emerging economies, scopes might be altered through the reshuffling, being the powerhouses. Regional economic and trade cooperation tightens compared with the pre-crisis era, resulting in more cross-border trade activities. China will make more contribution to the world economy and RMB-nominated transactions will increase exponentially. Trade finance, less capital intensive and easy to mobilize, will be well recognized and adopted. Inside the sector, trade finance strongly penetrates the supply chain finance sector.

> **"In a best-case scenario: regional economic and trade cooperations tighten compared with the pre-crisis era, resulting in more cross-border trade activities."**
>
> CHENG JUN

> "In the best case, global trade resumes its historical trend of growing faster than world GDP, driven by trade between emerging markets."
>
> **JAMES EMMETT**

In a worst-case scenario: the world economy faces daunting challenges before achieving full recovery and sound growth. The trend of emerging markets' growing status and their role in the world economic landscape will not change despite of unsatisfactory growth rates. The trade finance industry harmonizes approaches to capital requirement and other constraints, tackles most of the challenges and on the whole is moving forward in a positive direction.

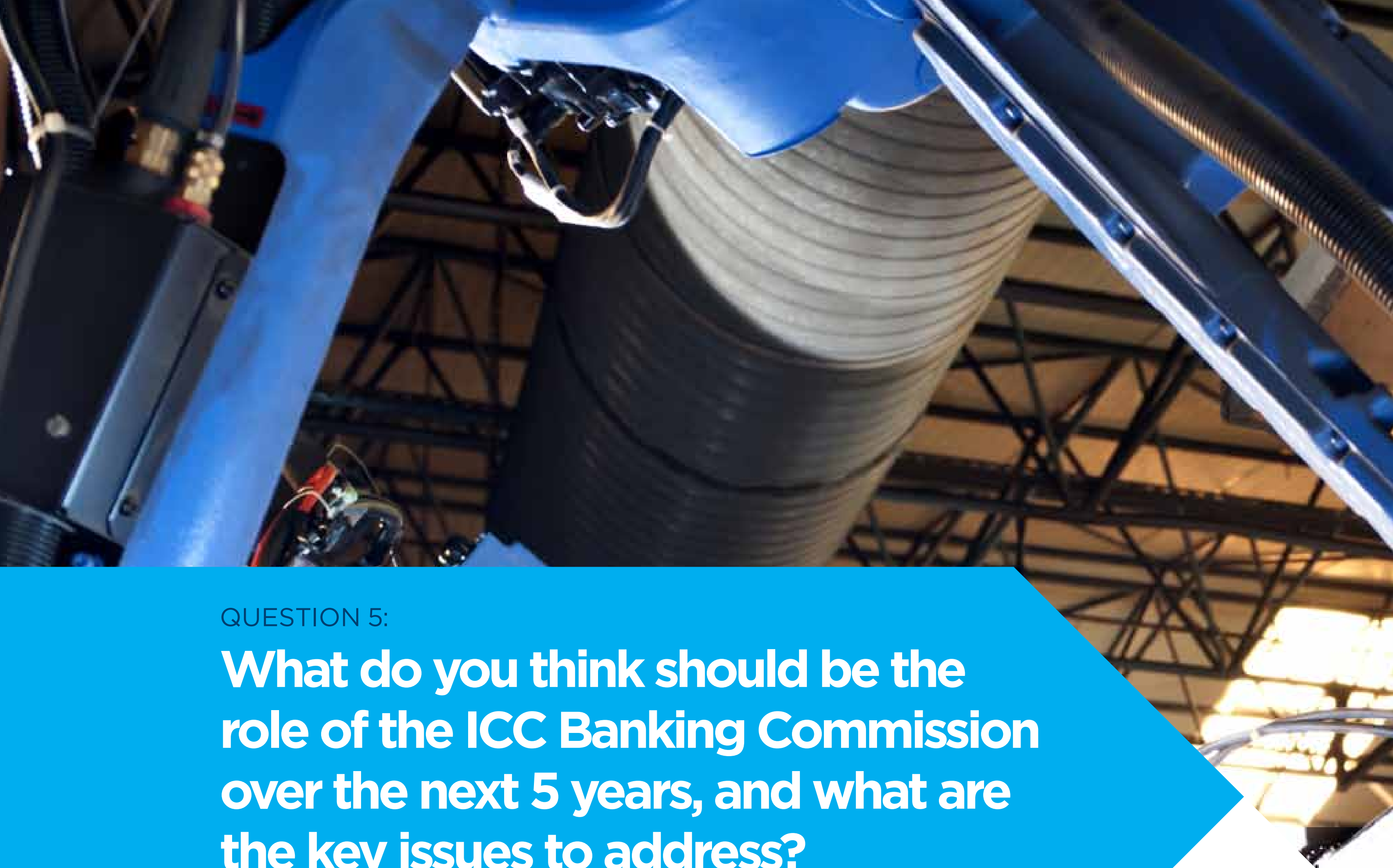
> "In the next 5 years, I would expect larger emerging market banks to gain market share."
>
> **KAH CHYE TAN**

KAH CHYE TAN: Trade Finance has been around for a long time and the business model has evolved over the years. It will continue to evolve and I do not expect wholesale changes in the short to medium term.

In the next 5 years, I would expect larger emerging market banks to gain market share while the OECD banks continue to consolidate their trade finance offerings, a wider participation by boutique trade finance house, greater integration between Trade Finance and DCM, and finally, greater global harmonization of regulatory regimes. Of these changes, the item that interests me most is the growth of the emerging market banks. I believe that they will tighten their reign over the SME and mid-market businesses while up-tiering their capabilities to compete with the multinational corporations. The challenge for these emerging market banks is the acquisition and development of talents: talents not just to run their trade finance business but talents to shape global industry agenda.

ROBERT NIJHOUT: A best case scenario could be solid growth in global trade and gross domestic products, with a high profile for credit insurance as a logical, relevant and naturally promoted instrument to enable trade in general and mitigate payment risks in particular, thus having an overall positive impact on the economy and leading to sustainable profits for credit insurance.

For a worst case scenario for a credit insurer we only have to look back at the recent past: severe economic downturn and financial crisis, resulting in minimized trade volumes and quickly rising insolvency rates, leading to massive claims payments and losses for our industry.



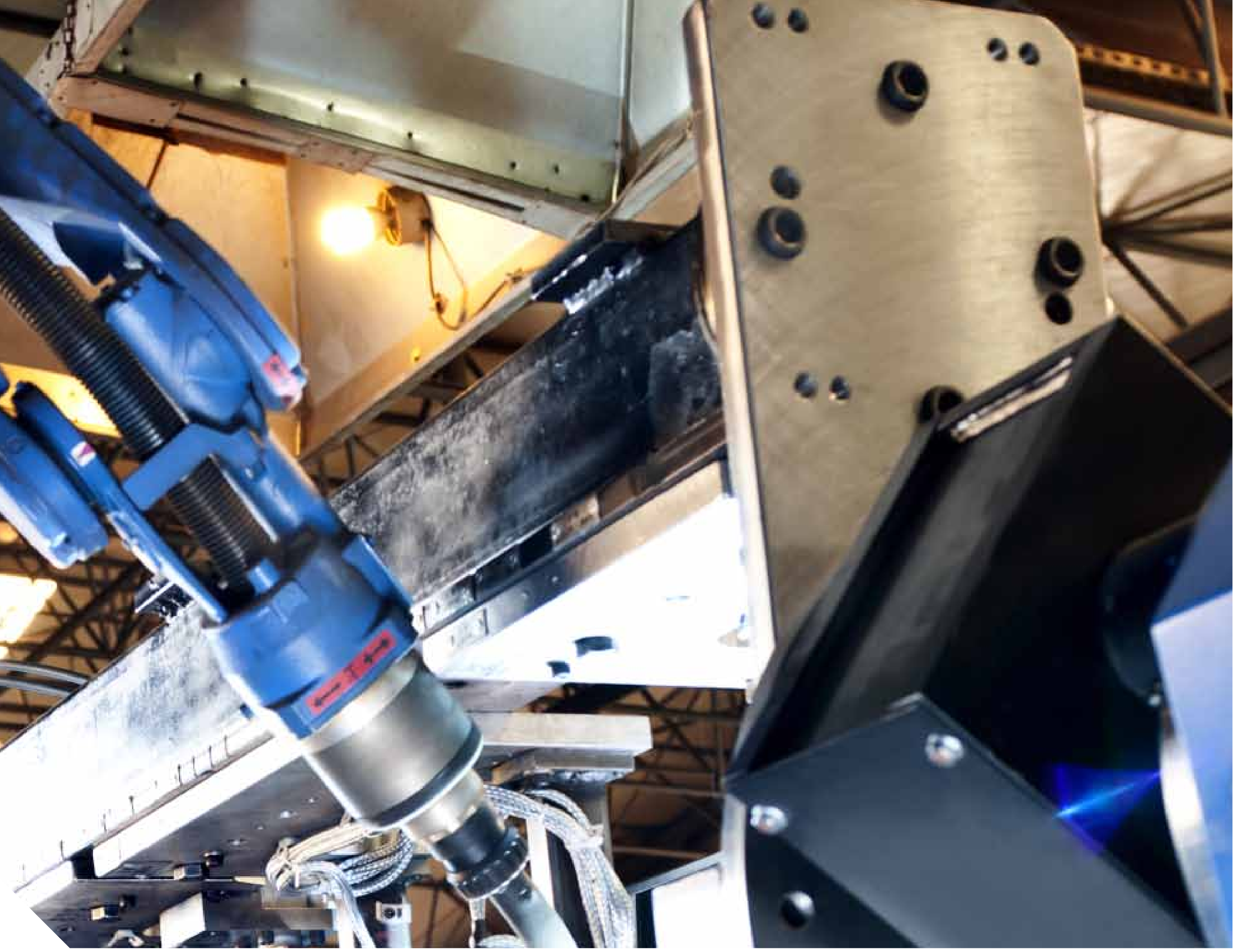
QUESTION 5:

What do you think should be the role of the ICC Banking Commission over the next 5 years, and what are the key issues to address?

KAH CHYE TAN: There is a need for greater cohesion among the various regional and global trade bodies and the Banking Commission will play a key role in the effort. Increasing the pool of liquidity for Trade Finance asset class by non-bank investors is critical as we expect world trade to continue to grow and banks' capital to be more restrictive. Finally, it is key that the ICC Banking Commission continues to take the lead on regulatory matters and being the voice for the businesses to ensure that the industry benefits from the right regulatory framework.

DANI COTTI: The ICC Banking Commission must drive market standardization across Trade Finance Product Definitions, Trade Finance Documentations and Trade Finance settlement rules. We must also embrace all trade finance products with the ICC uniform rules umbrella and act as a facilitator to increase transparency in the Trade Finance market by driving initiatives to create some sort of market index. The ICC Banking Commission should also strengthen the Trade Finance Registry to restrict trade finance asset reporting based on clearly defined asset classes and trade finance purpose description, create AML guidance policies for the industry and lobby for fair financial regulations and rules for the low risk Trade Asset class with regulators, governments and industry bodies.

> "The Commission needs to help to articulate industry standards in managing financial crime risks and engage with regulators to approve and implement these standards."
>
> JAMES EMMETT



JAMES EMMETT: First, the Commission needs to help to articulate industry standards in managing financial crime risks and engage with regulators to approve and implement these standards. This would provide strong guidance to the industry, as well as build a strong regulatory environment, so growth is not affected by a lack of trade finance availability.

Second, it must support further digitalization of the trade finance industry helping exporters and importers conduct transactions quickly and safely. Third, actively participate in global policy discussions making the case for regulatory convergence, which will be critical to the flow of trade finance, and therefore global trade in the future.

STEVEN BECK: The ICC Banking Commission should expand its global reach – but this is easier said than done. Developing a truly global organization, capable of disseminating and collecting information democratically throughout the world, is a challenge. The process of ICC's Banking Commission going global has begun: the first regional banking commission was created; and there is broader geographic participation at ICC meetings.

The Banking Commission should continue branching into new areas that facilitate finance and settlements for trade by leveraging off its expertise in creating rules and information (such as the Trade Register) and applying those to areas in addition to

documentary trade. BPO, supply chain and forfaiting are good examples of how this process has already started. Leading the industry through innovation, including the possibility of looking at rules and services around electronic settlement of trade through virtual currencies, is important to supporting trade and remaining relevant. ICC should, and I believe is, increasingly seeing itself as an umbrella organization, one that harnesses many disparate industry associations with narrower, but related mandates. Working with these groups, endorsing rules and cooperating to create and provide information to facilitate the financing and settlement of trade will be valuable to the international community.

The ICC Banking Commission should enhance its role as a creator and disseminator of knowledge. Aside from making rules this, in my view, is its other core area of expertise, and one that has a huge impact on achieving its core mandate, as we have seen with the Trade Register. Knowledge is power. The creation and dissemination of knowledge in trade settlement and finance has the ability to close gaps, create growth and jobs. Ambitious plans, especially in the form of new products, for the Register and a new training academy are in the works and underscore the ICC Banking Commission's strategic focus to create and disseminate information.

PETER MULROY: Factors Chain International (FCI) is currently in discussion with the ICC on the endorsement of the General Rules of International Factoring (GRIF), promulgated by FCI through its creation of the code on international factoring over its nearly 50 year history. We are in discussions with the ICC in a robust review of these rules, in order to elevate them even further, by ultimately creating a new set of rules called the Uniform Rules on International Factoring (URIF).

"Knowledge is power. The creation and dissemination of knowledge in trade settlement and finance has the ability to close gaps, create growth and jobs."

STEVEN BECK

"Increasing the pool of liquidity for Trade Finance asset class by non-bank investors is critical as we expect world trade to continue to grow and banks' capital to be more restrictive."

KAH CHYE TAN

> “On the regulatory side, it will be necessary to engage with SWIFT and other groups that are taking a hard look at overcoming the barriers to AML/KYC implementation and making the due diligence process less costly.”
>
> **GEORGINA BAKER**

CHENG JUN: Work must continue on the Trade Register, we must forge closer communication links with regulators, and enhance the understanding of the nature, the advantages and the importance of trade finance as to support economic activities especially during the recovery phase.

The Commission must also strengthen cooperation with multinational banks and communications platform society such as SWIFT, to influence the new electronic formats. Make sure while achieving the ideal of standardization, changes are made in a collaborative matter and won’t blunt the efficiency of the ongoing business.

GEORGINA BAKER: The Commission must examine liberalizing the availability of banking data and ensuring that standards are in place to ensure a level playing field in the trade finance space. On the regulatory side, it will be necessary to engage with SWIFT and other groups that are taking a hard look at overcoming the barriers to AML/KYC implementation and making the due diligence process less costly. Emerging market banks in particular require a great deal of training to apply new standards and use the global data to reduce their costs. We must ensure that the smaller players and markets aren’t left out or further penalized as current trends continue to emerge.

CLOSING REMARKS

"Thanks to you, the ICC Global Survey 2014 successfully provides the most comprehensive and insightful look at today's trade finance industry."

THIERRY SENECHAL

The changes and additions to this latest Report expand our scope and take the global conversation to a higher level. This year once again, we have managed to survey this vast market, while bringing on board new partners, such as Trade and Export Finance (TXF).

This report now counts the highest number of banks around the world who provided data and views, allowing us to hold substantive discussions with industry leaders. We believe a deep and wide dialogue on solid market intelligence is fundamental to bringing new ideas to the table and alleviate future risks.

We have heard and adopted many suggestions on where we should focus our efforts in the future, and our team has now laid the groundwork to see these projects through in the coming years. These efforts notwithstanding, we would like to formally invite you to take part in our upcoming ICC Global Survey 2015.

In closing, on behalf of our partners, sponsors, and staff, we would like to express our sincerest appreciation again to all those of you who contributed to the making of this report. Going forward, we trust that we will always be able to count on your commitment to the ICC Banking Commission, as we continue building our reputation as the most authoritative voice on trade finance.

Thank you.

The ICC Banking Commission.

We thank our sponsors

* 2014 ICC Banking Commission Preferred Partner


Over 30 Years
in the Trade Solutions Industry.
CORPORATE ENTERPRISE
Corporate Multi-Bank Portal
(In-house or hosted)
Customer Enterprise
Portal for the Bank's Customers
Eximbills Enterprise
Multi-Entity Back Office for Banks
CS China Systems
SWIFT Certified Application 2014 Supply Chain Finance
SWIFT Certified Application 2013 Trade Finance
SWIFT Certified Application 2013 Trade and Supply Chain Finance
SWIFT Certified Application 2013 Payments
www.chinasystems.com

CONNECT WITH US

ICC WEB
www.iccwbo.org/about-icc/policy-commissions/banking/

LINKEDIN
www.linkedin.com/company/icc-banking-commission

TWITTER
ICCBanking

NEWSLETTER
www.iccwbo.org/about-icc/policy-commissions/banking/online-offerings/

ICC BANKING COMMISSION

The world's essential rule-making body for the banking industry

ICC is the largest, most representative business organization in the world. Its global network comprises over 6 million companies, chambers of commerce and business associations in more than 130 countries, with interests spanning every sector of private enterprise.

With 80 years of experience and more than 600 members, the ICC Banking Commission — the largest Commission of ICC — has rightly gained a reputation as the most authoritative voice in the field of trade finance.

RULES

ICC Banking Commission produces universally accepted rules and guidelines for international banking practice. ICC rules on documentary credits, UCP 600, are the most successful privately drafted rules for trade ever developed, serving as the basis of US$2 trillion trade transactions a year.

POLICYMAKING

ICC Banking Commission is helping policy makers and standard setters to translate their vision into concrete programmes and regulations to enhance business practices throughout the world.

PUBLICATIONS AND MARKET INTELLIGENCE

Used by banking professionals and trade finance experts worldwide, ICC Banking Commission publications and market intelligence is the industry's most reputable and reliable source of guidance to bankers and practitioners in a broad range of fields.

DISPUTE RESOLUTION

ICC Banking Commission and ICC International Centre for Expertise administer the ICC Rules for Documentary Instruments Dispute Resolution Expertise (DOCDEX) to facilitate the rapid settlement of disputes arising in banking.

EDUCATION AND CERTIFICATION

Over ten thousand people in over 100 countries have trained and certified in international trade finance using our suite of ICC approved online training services and certification facilities.

SPECIALIZED TRAINING AND EVENTS

In addition to its bi-annual summit gathering 300+ international delegates every six months, the ICC Banking Commission organizes regular seminars and conferences around the world, in partnerships with ICC National Committees and other sponsors.

STRATEGIC PARTNERSHIPS

Well-established collaboration with leading policy makers and trade association, including WTO (World Trade Organization), ADB (Asian Development Bank), Berne Union, EBRD (European Bank for Reconstruction and Development), IDB (Inter-American Development Bank), IFC (International Finance Corporation), IMF (International Monetary Fund), SWIFT, the World Bank and others.

ICC INTERNATIONAL CHAMBER OF COMMERCE
The world business organization

33-43 AVENUE DU PRÉSIDENT WILSON
75116 PARIS, FRANCE
T : +33 (0)1 49 53 28 28
F : +33 (0)1 49 53 28 59
E : ICC@ICCWBO.ORG

WWW.ICCWBO.ORG