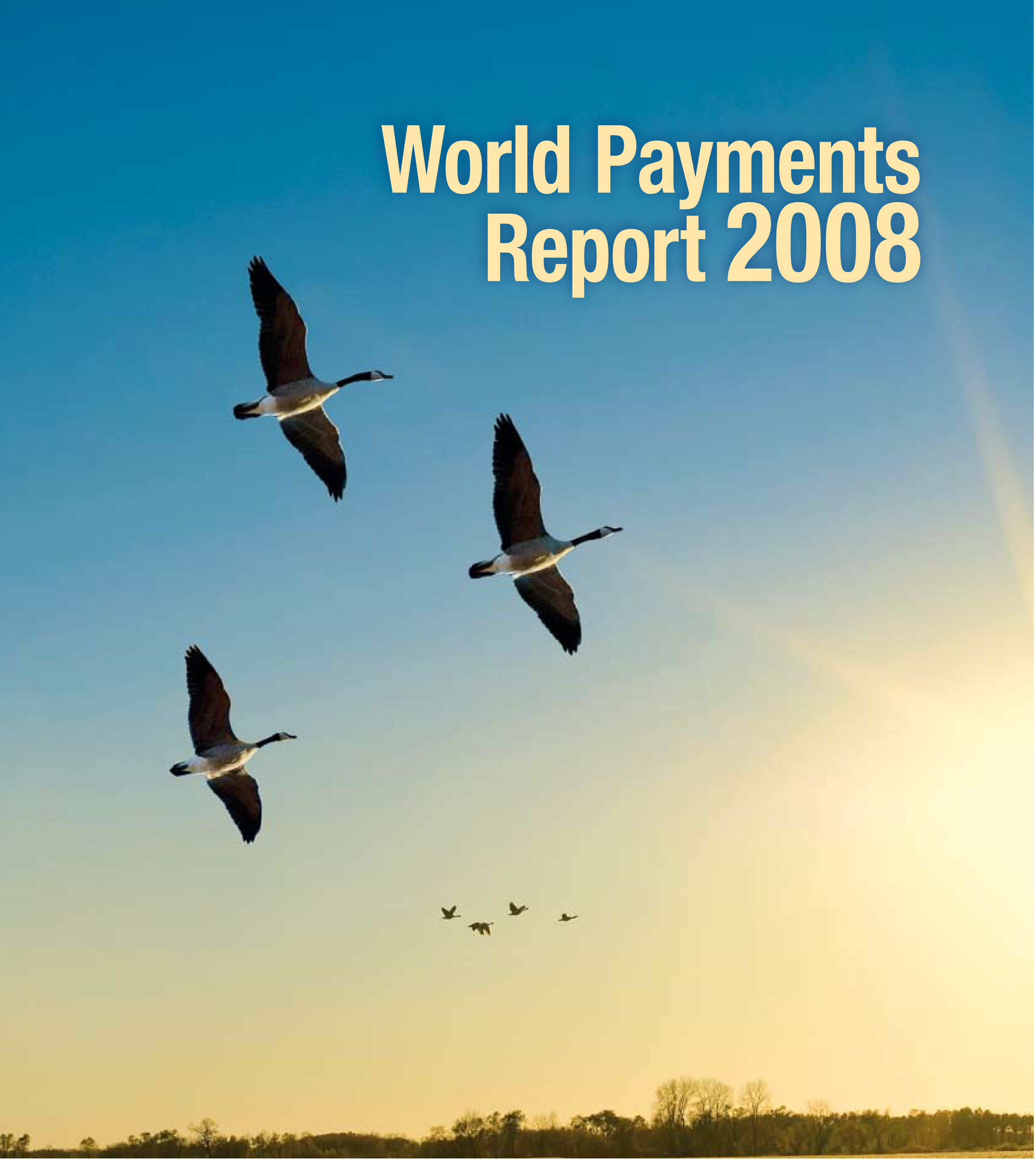
World Payments Report 2008



Capgemini
CONSULTING.TECHNOLOGY.OUTSOURCING

RBS
The Royal Bank of Scotland

EFMA

Trade Finance

IN A GLOBAL ECONOMY, TRADE FINANCE IS IMPORTANT TO CORPORATE RELATIONSHIPS

Trade finance has long been an essential offering for banks to support their relationships with international corporate customers, but traditional products have failed to evolve with the changing face of global trade.

As a result, while international trade has grown at a sustained and rapid rate—6% a year in 1990–2005, and twice as fast as consolidated global GDP (see graph)—the use of letters of credit and documentary collection has dropped, covering only 20% of cross-border trade volume in 2005.

Amid the forces of globalisation and the integration of national economies, corporates know their customers and suppliers better than they once did, and they have greater access to reliable credit information about foreign trade partners. Accordingly, they are less willing to pay the fees associated with traditional trade finance services and have moved to open account trade terms. This has increased the demand on banks to provide cross-border trade finance solutions able to leverage the different relationships throughout the supply chain.

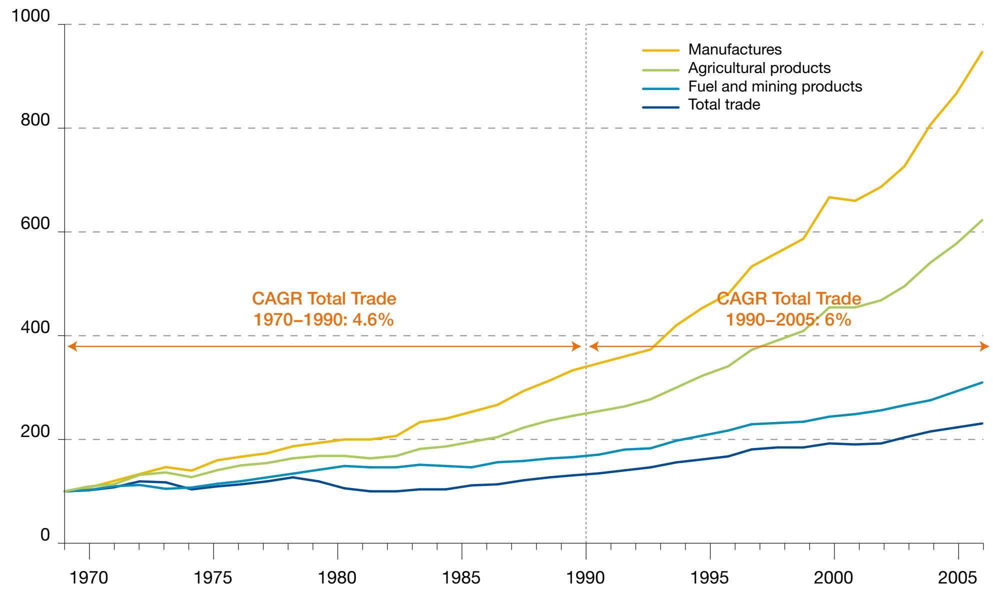
Nevertheless, corporates spent about €12 billion on trade finance services in 2005 (equivalent to 0.5% of the processed trade value).

International trade is expected to keep expanding, particularly in the Asia-Pacific region, according to international institutions such as the World Trade Organization (WTO). Corporates have typically sought more assurances in trading with emerging markets, but even those counterparties are perceived to be safer than they were. While there will always be a need for trade finance facilities to secure trade deals with emerging markets, currently just above 20% of world trade transactions are materialised through traditional trade finance products, the other 80% being managed through open accounts trade relationships.

For banks, the economics of traditional trade finance business are challenging. Increasing costs and scarce well-trained resources in a tightened compliance/regulatory environment are just some of the issues that make customer service a tough proposition. Many existing services are inefficient and costly for banks to provide, because many processes have yet to be automated so are labour-intensive, and much of the supporting documentation is paper-based. Error rates are also high because of manual processing, with more than 65% of documents reportedly containing mistakes. Most of these problems are solved through less invasive trade finance solutions that allow corporates to keep their current operating process unchanged while providing security and financing throughout their supply chain.

While in the Open Account Financing market just a handful of global and regional banks are able to provide these larger cross border solutions in an efficient way, the market for traditional trade finance is already concentrated. The top 20 banks account for 55% of trade finance volume, and the remaining 45% is spread among more than 400 banks. Given the challenges, it is quite likely that market consolidation will continue, leaving just a few banks able to provide the full range of services profitably.

International Trade Volume (Indexed), 1970–2005



Sources: World Trade Organization (WTO), United Nations (UN), EU, Coface, French Ministry of Foreign Affairs, Company data, Capgemini research and analysis, 2008.

TO BE COMPETITIVE, BANKS NEED A LOW-COST, EFFICIENT, AND QUALITY OFFERING

For banks to offer quality traditional trade finance at a low cost, and still generate profits, they must overcome three main challenges:

- Providing a wider range of services, from traditional letters of credit and documentary credit to value-added services supported by new technologies.
- Developing geographic coverage to encompass the continual expansion of global trade.
- Coping with the continuous squeeze on margins.

The first imperative, then, is to cut operating costs and improve efficiencies. For example, banks can:

- Migrate to a common, fully integrated global trade platform to replace outdated systems. (But this kind of infrastructure change can be prohibitively expensive and complex to implement.) In recent years, many have turned to outsourcing of the trade finance business. Key providers, typically big players in transaction banking, are now offering the low-cost operational and technology infrastructure required to continue operating in the trade arena.
- Lower operating unit costs by in-sourcing volumes from small or regional banks that cannot afford to implement expensive new systems.

To overcome the limitations of traditional trade products the main of players in the trade finance arena are already migrating to a value-added services business model. This change in their business model is allowing them to provide products that link more deeply into corporate supply chain management, such as open account and other innovative structured trade finance forms of supply chain financing. Beyond that it would also be advantageous for banks to identify services whose fixed costs can be amortised across a high volume of commodity services.

Visit

www.wpr08.com

www.capgemini.com/wpr08

www.rbs.com

www.efma.com

For more information, please contact:

Capgemini	payments@capgemini.com
RBS	wpr2008@rbs.com
Efma	patrick@efma.com

For press inquiries, please contact:

Nishma Shah	nshah@gciuk.com
Karen Cohen	karen.cohen@capgemini.com
Shamira Alidina	shamira.alidina@rbs.co.uk