ROUNDTABLE: CHALLENGES AND OPPORTUNITIES IN MENA By Eleonore Wragg, GTR

The ITFA Middle East Regional Committee hosted a roundtable event to discuss the opportunities for growth in the region against the current geopolitical backdrop, and how insurers, fintech companies and banks can work together to keep the wheels of trade turning.

Roundtable participants:

Semih Ozkan, chair of the Middle East Regional Committee, ITFA
Maninder Bhandari, director, Derby Group (chair)
Vineet Gupta, head of treasury, KBBO Group
Nazan Nobakht, group chartering and logistics director, Petrochem Middle East DMCC
Asim Sufi, regional capital leader, Philips Capital
Mritunjay Singh, head of product management, trade finance, Abu Dhabi Commercial Bank
Harriet Smith, senior executive officer, BPL Global DIFC
Sinan Ozcan, senior executive officer, Maersk Trade Finance DIFC
Amit Garg, head of banking, Anglo-Gulf Trade Bank

Bhandari: Given the current operating environment, where is the growth that our institutions are demanding going to come from, and how do we mitigate the incremental risks that are going to occur, because the largest markets are where the risks are higher?

Ozkan: The World Trade Organization has twice revised its growth expectations forecast. For 2019, it's less than 1%, down from 2.6% previously – a significant drop. In 2020, it's the same story, from 3% down to 2.4, 2.6%, with further revisions possible depending on how the trade tensions develop. Looking at the insights, the expected growth is negative in the developed markets, but when you look at the developing markets, they are expecting growth.

For the Middle East, which has very established infrastructure for transportation, the changing trade flows bring further benefits.

From the bank side, when you look at the opportunity, it is very difficult to pre-empt what those changing flows could be. Whether it is re-exporting into Africa or the Middle East, there are lots of opportunities coming in to capture either existing clients or prospective clients, or different commodities. But the risk profile of the Middle East is also increasing. Meanwhile, the region has recognised that diversification is a must, and investments are continuing. Lots of sectors are receiving these benefits.

For banks, we are seeing too much regulatory compliance and capital-related cost against technological advancements. Therefore, there is significant inefficiency in the banking sector. And that inefficiency means that other players are coming out to bridge the gap.

In a recent conversation we had, one of the key aspects was that banks were telling the corporates that they would like to give them the best technological solution, while the corporates were asking for them to just do the basics first.

Bhandari: Who leads in terms of growth? Is it corporates or institutions?

Ozkan: Through the International Trade Network, banks will be sharing a lot more data to enable them to go back to regulators and lobby as to default rates et cetera to see if credit factors can be changed with regards to capital allocation. More important are compliance and fraud-related issues, which still make banks afraid of certain types of transaction. If you get that visibility for, say, duplicate financing, banks may be more willing to come into the picture.

In my opinion, if corporate and corporate treasurers demand, based on their needs and challenges, the market will respond. Other types of solutions like the bank payment obligation (BPO), which came from the financial institution side, did not necessarily work out.

Garg: Corporates typically set the trend in terms of demand for what products and services they need. Going back to the point about trade tensions, while this overall has led to a significant reduction in projected growth rates, it also means there will be some realignment of trade corridors. There will be new avenues which will open up in terms of geographic opportunities, the development of infrastructure in those markets, and the development of capabilities, which have been to a large extent overshadowed by some large economies.

Going back to the second point, corporates then will come back and say, these are the markets where we want to do more business. This is where we see the opportunities; this is where we want banks to come in as our partners to provide the right instruments, support and credit capacity for us to be able to develop that entire value chain.

Nobakht: As a corporate I can say that nowadays, we sometimes follow our trade based on the facilities that we get from the banks. When we know that we will have the capacity and the finance, we will go and look for the opportunities.

Smith: When the corporate is restricted by what the bank is offering and doesn't go into a particular market, insurance can sometimes offer a solution. There are examples of where a corporate's bank won't allow them to operate in particular geographical areas, or where there is a limit restriction, or the pricing doesn't fit into the bank's matrix. The insurance market can provide an alternative way to move into markets where perhaps the financial institutions are restricted.

Sufi: It's not mutually exclusive. Corporates will lead the economic activity because that's what corporates are in business for. But the banks play a critical role in enabling corporates to do that. For example, corporates could see incremental opportunities in a market like Iraq but may see issues around managing country risk and resultant challenges. If banks step up here and support with risk distribution, then corporates may be able to convert these opportunities and drive more business. Corporates will always be eager to do more business – provided it is economically and financially feasible. The question is how long it takes banks to respond to corporate needs because opportunity conversion is time-restrained.

It is important to note that banks are also corporates at the end of the day and are similarly driven by economic and feasibility considerations. This is where governments and regulators need to play their part in taking steps to mitigate the legitimate concerns banks may have vis-à-vis transparency, legal frameworks, enforceability and regulatory support, which restrict their appetite in a specific market, jurisdiction or region.

Bhandari: Where are the opportunities going to come from in the Middle East and Africa region?

Singh: Taking a wider view, the strategic journey towards moving away from oil-based economy continues to remain as focal point, while North African countries are net importers of goods and services in their path for economic prosperity. The opportunities therefore for UAE are in the development of the services sector, health and education. Other opportunities include being the partner of choice for export flows in and out of Africa.

Within Africa, we see a lot of potential in countries in close proximity to UAE like Kenya, Egypt and Ethiopia, and towards Nigeria and Ghana where we are seeing a lot of UAE business interest. A number of entities that have set up offices in Jebel Ali are predominantly there to help facilitate that trade. Government projects are attracting lot of corporate interest and with that there is a need for banks to step in and support the risk and funding needs.

Gupta: We are importing mostly from Europe and India and Pakistan, but we are starting to think about having backward integration for our retail business, such as contract farming in Africa. I think Africa is the place now where corporates are moving. I know of a company which has taken 5,000 hectares of farmland in Mozambique, and they are producing sugarcane for export to Europe and the US. They actually store it in the US and Europe and they provide it to their customers just in time. However, when it comes to financing this whole thing, there is a challenge around how to collateralise it, as the volume is small. For all these places in Africa, you start small, but then the bank doesn't have the appetite, or the local banks might be too expensive.

Bhandari: Have things turned out as you planned over the past few years, or have you been disappointed either by the markets, whether African or otherwise, or by the support that you got?

Gupta: Support always comes with a lag. You start something, people say it won't work, and then ultimately, after a prolonged period, you start getting support because of government involvement. So, the initiative always comes first, and then if the persistence is there, then you get the support.

Bhandari: Are you seeing changes in the availability and type of trade finance available?

Gupta: Previously, it used to be the banks, traditionally, and now there are additional funds who provide you with specific trade financing facilities. I have met two or three funds which will provide inventory financing. Things are changing. Trade finance is becoming an area not only handled by banks, but also by non-banking financing institutions. People still look up to banks first, and if they do not get anywhere, then they start looking for alternatives. However, this is changing because of technology.

Garg: These solutions are beginning to address some of the challenges that banks have struggled with. If you look at the KYC challenges that a bank has to go through to onboard a small SME supplier who may be supplying to a large corporate, the effectiveness of that solution is compromised because of the time it takes. That has created an open space for some of these non-bank, perhaps non-regulated entities to come in and take the credit risk. They don't have to jump through 20 hoops to be able to onboard an entity, and can therefore provide a much faster, much more efficient and much more connected solution which is available in a much shorter time span compared to what a bank can do.

Bhandari: That being the case, have we seen non-bank and fintech companies grow as quickly in this market as expected?

Ozcan: For us individually we have seen exponential growth, but globally the uptake of fintechs has not necessarily been as it was claimed to be. In 2020, I think there will be more and more investment coming in.

Bhandari: Will fintech improve the availability of financing, increase efficiency or increase the number of markets or industries you are operating in? What will it do for you, and are you a fan of fintech?

Gupta: Fintech is the technology and technology is an enabler. I don't know if the availability of financing will increase because of it, but it could definitely increase the reach, and also it will make it more efficient, more accurate and easier to manage.

The risk-taking appetite will still depend on the financier, so even if you have the technology it will be the bank who decides whether or not to take that risk. Banks always take a conservative view and corporates always take an optimistic view hence marrying the two becomes problematic sometimes. If you can cover the whole supply chain, everybody will be comfortable with the underlying transaction. Fintech can increase the appetite of the financier, because it can allow them to see the whole transaction and see that they will be paid at the end of the cycle.

Nobakht: I think that it depends on what product you are talking about and what industry it is. In the industry I come from, crude is our raw material, and then chemicals are made based on that. Nowadays, the supply points are getting closer to the demand areas. Before, you had to bring a cargo from the US; now you can import it from Saudi. Before, Saudi was an importer; today they are a huge exporter. This means that there is a shorter transit time, the freight is lower, and you need a smaller scale of finance than you would if you were buying from the US. The US didn't have oil. Next year they are going to have their own oil.

That is the key point for today's volatile market. This market is not something that you can say is A to B to C to D. It is something that is unpredictable and unexpected. You go to sleep at night, you get up in the morning, and something has happened, a new regulation has popped up, and you will have to adjust to it.

Bhandari: Is the world so dependent on the dollar and euro as a currency that we can't step away from the trade tensions between the major powers?

Sufi: Whilst we cannot ignore the influence of dollar or euro on the global economy, I believe trade relations are more a function of trade dependencies. You talked about driving growth. In this region specifically,

everybody is setting their sights on China's Belt and Road Initiative, because it is bound to create opportunities. That can continue, independent of the trade tensions between the US and China, or Brexit.
However, the US and European markets collectively represent a significant portion of global GDP. If their economies slow down or they go into recession, the impact will be felt globally. There is talk about the US going into recession in 2020. It's ominous, and it is already impacting corporates' decisions and plans in the short to medium term. In the midst of all of this, there will continue to be trade wherever there is a natural dependency. The flow of commodities from Africa outwards, or from India into Africa and so on will continue to happen, but that is not going to drive the global economy.

Nobakht: If the geopolitical situation smoothes, this region has a lot of potential due to its economic strength. If the market opens up and sanctions are removed and investment is allowed to flow, the Middle East will be where the opportunity is.

Bhandari: Is the environment feeling a little claustrophobic now, given sanctions and regulations?

Garg: The regulatory environment has tightened over the last few years, both for compliance reasons and other geopolitical reasons as well. However, we are beginning to see a little bit of a fightback from the institutions. I say this because now when we deal with some of the more progressive regulators, especially in the banking world, you see that they are encouraging new players to come in and they are open to new ideas about how certain problems can be solved. You can see that across the board with the FCA in the UK, MAS in Singapore, and HKMA in Hong Kong. These are some of the leading regulators who are working to encourage and create sandbox environments for new ideas to be tested and built in a safe environment before they are rolled out to scale.

So, yes, there is a little bit of a fightback happening. There needs to be more of that. More regulators need to join hands and create an environment which is globally enforceable but also standardised to some extent so that there is more certainty for institutions.

The amount of regulatory fines and sanctions that have come in have really held back progress to a large extent. It is important for regulators to recognise that the industry needs to develop. The institutions need to support the industry, and they need to create the framework and the environment to make that possible.

Sufi: It is just a natural evolution. Tight regulations came as a direct reaction to the financial crisis. The challenge really is for the regulators to be logical, and for the banks to be supportive and transparent. One of the leading causes of the financial crisis was that the banks were not acting in good faith. So, banks also need to step up. They need to stop chasing the dollar all the time and try to figure out how to keep a sustainable economic system surviving for a long period of time.

Nobakht: For corporates, regulations stifle progress because the banks come in as a gateway every time, asking for the bill of entry, the bill of lading, the commercial invoice, the packing list, and this just impedes our work as it slows our access to trade finance at a moment that it could be a big help for us.
Bhandari: Would greater transparency via fintech take care of these problems?

Garg: I think the answer is yes. There is no way out. These technologies are now available which give that underlying platform the capability for people to trust in it. Yes, it has started off as a proof of concept and a few pilot transactions here and there, but I think the technology is beginning to gain acceptance across the corporate world, and people are now getting comfortable that the risk factors are being addressed.

Singh: The need for transparency is paramount, but so is the speed of execution. Traditional trade instruments have lagged when it comes to providing independent checks and balances to new age problems on sanctions and compliance, while goods are often moved a lot faster than the documents, which leads to funding gaps.

The issues are created not just in the technology itself, but in the acceptance of that technology downstream. We have various different partners. We have the shippers, we have the regulators, we have the shipping companies, we have the port authorities. Unless you have a framework which is conducive to that kind of environment, it will not work. Yes, there are good things happening with MAS in Singapore for example, but I am sceptical as to whether this will reach critical mass in the next decade. More needs to be done across geographies to digitise trade.

Bhandari: From an insurance perspective, the common theme that goes around when going into a new market is dissipation of risk. Are fintechs going to help? How will you make more risk cover available?

Smith: I don't necessarily believe that fintechs will increase risk appetite or make more risk cover available. It comes down to the logic and creditworthiness of the underlying deal. From the insurer's perspective, they tend to want to follow the insured. And if the bank or indeed the corporate, whoever it is that is seeking the insurance in a particular jurisdiction or on a particular entity, has made a viable case as to why they want to go and do that deal then an insurer will give it due consideration. Insurance can't make a bad deal good or a bad country good, and neither can fintech.

Bhandari: What would it take to increase the appetite of the insurance industry?

Smith: It tends to be when an entity comes to the insurance market and says, 'I've had a very good payment history with that particular obligor', or 'I've had a long relationship with whoever it might be', or, 'we have been operating in northern Iraq since the 1970s and we have worked our way through particular issues, we have had some claims, but we have managed to recover them'. You can quite comprehensively put together good reasoning and good logic to the underwriter as to why that deal should be supported. And often, where I see a poor response from underwriters is when an entity comes to us and says, 'go and get me insurance in Kazakhstan', and I say, 'Excellent, but can I have the details of what it is you are doing?' and that information isn't forthcoming. The underwriters will immediately ask why they should support that.
Insurers will rely heavily on an insured's ability to put together good reasoning as to why they want to go ahead into a particular jurisdiction. With regards to how the fintech movement might change it, there has been a number of questions as to whether insurance companies can sit behind fintech, and we have looked at it extensively. There are ways of it working, but in exactly the same way you are saying, the insurance tech side of it is still in its infancy. Insurers are being led by how quickly the banks are leading on it, rather than the other way round.

Bhandari: That being the case as far as risk is concerned, will you always be contained as to the amount of business you can do?

Garg: Yes, but I think therein lies the solution to at least part of the challenge of how we provide the data, that visibility, and that granularity around what is happening with that particular country or with that particular counterparty. Again, a lot of this transactional information is today not captured in a meaningful way with the existing platforms and systems that banks use. This is one of the areas where we think a better technology solution can capture that data meaningfully, analyse it, and provide that information to whoever is coming into the transaction.

Smith: The reason why there has been a slow uptake of the technology aspect within the credit and political risk insurance market, as opposed to the short-term whole-turnover market, is that a lot of the deals that we do are very complex in structured trade finance. When it comes to longer tenor big loans for huge infrastructure projects, putting them onto a tech platform simply doesn't work. And you cannot remove the logic element of a discussion with an underwriter between the financial institution or the corporate. That is absolutely paramount for a large complex risk to be properly underwritten.

Garg: Some of the interesting innovations around using technology in the insurance space are the single invoice finance solutions which are now promising close to real-time decisions. So, if there is a trade between two counterparties, it is no longer necessary under that model for insurers to have pre-vetted the buyer and the counterparty they are taking the risk on. The ability to process that information in a real-time environment and come up with a credit decision on the back of that is a huge step forward.

Ozcan: Many supply chain finance initiatives have turned out to be unsuccessful, not because of the pricing or the risk, but because of the complexity. There are many stakeholders involved, and bringing them all on board is not really that simple. Maersk started TradeLens in partnership with IBM, and then the two other largest carriers after Maersk, MSC and CMA CGM, have also come on board. With Maersk, CMA CGM, MSC and other carriers committed to the platform, data for more half of the world's ocean container cargo will be available on TradeLens.

Singh: Earlier, we were discussing who adopts this first, the financial institutions, or the corporates. I don't think it is either. It has to be the underlying users. The reason why the bill of lading is a respected instrument is because the shipping industry uses it. If that industry starts using blockchain, the banks and the corporates will automatically do so.

Bhandari: We see a lot of banks and shipping companies coming together to look for possible solutions which would assist the market. Why aren't corporates coming together to come up with solutions instead?

Ozkan: Henry Ford once said that if he had asked the customer at the time what they wanted, they would have said faster horses. Unless banks come in with 'cars' and change the overall playing field, we will only see incremental changes.

Sufi: It is possible for the corporates to drive industry-standardised solutions where influence is concentrated within a few key players. For example, consider the shipping industry where you have a few large players. If they decide that going forward only electronic bills of lading will be the norm then the ecosystem will automatically evolve and adoption will follow. But where there is fragmentation, you will have a problem getting it together and the regulators will probably play a larger role in driving change.

Coming back to the adoption of fintech, I think that everybody recognises that fintech has a part to play in the evolution of both the monitoring and the financial delivery side of it. The question is, when will the projected benefits of fintech start to materialise?

Ozcan: In our case, keeping simplicity for our customer at the heart of our endeavours, our aim is to transform the supply chain industry and provide value to all players, from freight forwarders, to ports and terminal operators and inland transportation providers, to customs and other governmental agencies. And that is what TradeLens does.

Singh: ADCB propagated the need for a receivables marketplace at the Abu Dhabi Global Markets event in order to address SME financing needs. We shared best practices of having technology solve problems, in this case trade receivables exchange in India, Mexico and newer initiatives in Italy, Singapore, Hong Kong and other geographies where SMEs are able to discount their receivables at the best possible rates in a common marketplace where different financial institutions bid for the same asset, therefore driving costs down for SMEs.

Sufi: That would be a very good proof point of how fintechs can come together and create access to financing for SMEs. If you are distributing risk to an exchange, pricing will also go down.

Singh: Suppliers upload their invoices on the platform for a buyer to approve. The transaction is then available to all participants. Each participant based on its own risk underwriting criteria will evaluate the buyer's payment risk and bid for the asset at fair value. Aspects of ensuring there is no double financing and fraud are addressed via the platform checks while the buyer's acceptance addresses the supplier's performance risk. The supplier then receives potentially multiple offers from banks to discount the invoice and has the option to choose the best offer available, thereby driving the cost of credit sales down.

At present each financial institution assesses the risk considering different parameters, and prices the risk differently. Lack of transparency and fraud risks add to costs borne by SMEs.
Bhandari: How successful has it been so far?

Singh: It has been hugely successful in India for example in providing much-needed liquidity to SMEs. Double financing and other issues have been addressed through internal system-based checks such as duplicate invoice numbers, checks on goods prices against market prices, checks with other platforms for double financing and additional checks with VAT and goods movement registers to establish authenticity.

Bhandari: If you could wish for one thing to be made available to you, be that in trade opportunities and markets, fintech and the trade finance environment, or alternative methods of finance, what would that be?

Ozkan: My wish list would be to have the ability to create a completely new bank with no framework banking or mainframe systems, with connectivity across the ecosystem partners. The current banking system is too patchy. You have multiple systems across multiple countries. You can't connect 800 systems at different banks, because of historic reasons of development. You need to have one system that can talk to the customer systems, the insurers, the ecosystem on the shipping side, it will not happen with the current mainframe banking model, and I don't know if we will get there or not.

Garg: We strongly believe that we are heading in that direction. Yes, we would like it to happen faster and we would like to get the critical mass as quickly as possible, because then that forces the rest of the players in the ecosystem to get into alignment, and the regulatory and legal environment will start responding to that much faster than it does today. So, we are very confident and positive that that is the trend.

My wish list is to make sure that we can achieve a certain level of universal standardisation and acceptability on some of these issues, like a bill of lading being acceptable to all counterparties. Similarly, the enforceability of digital contracts will be a big step forward.

Gupta: Mine would be to let corporates carry out their core activity rather than fulfilling all the KYC requirements. Even governments are pushing for a central repository where you can access those KYC details rather than asking every time for repeated documents. This would make my life easier.

The second thing is that in terms of the digitisation piece, the technology should cover the full life cycle of any trade transaction, from the origin to the completion until cash collection. Only then will it add true value to world trade.

Nobakht: I also believe that it should be the whole way through. It cannot be only the corporate or the shipping line. It should be a complete participation through the whole chain, because you will get stuck at a certain point unless all industries and all stakeholders get into it.

Smith: Mine would be for more positivity and regional knowledge of what the private insurance market has to offer. Despite the slightly doom and gloom outlook currently, I think there are certainly opportunities out there. The Lloyd's insurance market has tended to have a greater risk appetite than some of the ECAs have had in

the past and are very good at supporting transactions which are considered unbankable. For the right deals, you can get a very good price from the insurance market. It is definitely a buyers' market. They, too, are looking for new flows of income, and to that end they do probably follow the corporates and the banks into certain jurisdictions. Their ability to support certainly hasn't floundered.

Singh: My wish is around standardisation of at least the most commonly used documents like invoices and bills of lading. Each entity uses its own format and each transaction is different. Some standards therefore will help. I don't think so much that there is a technology problem here. We have the technology which supports the interoperability of systems and connects different entities together. To us, the challenge is about regulations and how the particular instrument is perceived. Therefore, certain things work well in certain jurisdictions, but in other places it is not there altogether, and therefore this breaks the chain.

Sufi: If I could just click a button and get access to the credit information of my customers, it would make my life a lot simpler, especially in this market. It does not need to be detailed financials but at least, to some extent, a reliable credit score or payment record would greatly help.

I also want to highlight that the discussion around disruptive solutions tends to focus more on the innovative or adoptive side. But an equally important driver to support adoption is the surrounding legal and regulatory landscape. I think all participants, be they corporates, banks or fintech companies, need to have comfort from the legal and regulatory perspective that whatever they are engaging in, they have their rights protected and there is a clear-cut enforceability option in the event of recourse. For example, I have received differing opinions from law firms on the legal framework around assignment of receivables in UAE. This ambiguity is prohibitive.