



Covid-19: The impact on the market, member needs and ITFA's response

The Covid-19 pandemic constitutes an unprecedented challenge for global trade and the trade finance community. During this difficult period, ITFA is committed to keeping its members updated on the current and emerging changes, difficulties and opportunities, and to that end has been hosting regular webinars on topical issues affecting the trade finance industry.

Sean Edwards, ITFA's Chair, and Lorna Pillow, Deputy Chair, share their views on the impact that the Covid-19 crisis is having on their members' business, and what supportive measures ITFA is undertaking.

Q: What are your thoughts on how the current health crisis is affecting trade and trade finance?

Edwards: What we are seeing is that there is certainly a retrenchment generally in the availability of trade finance – but that not all customers are struggling. So while second tier suppliers, for example, are battling to access the finance they need, at the other end of the spectrum, those who have continued to benefit are the larger commodity traders – especially around oil, because they are all hedged. An interesting story that has emerged is that all of this hedging does actually work. And so traders have had billions of dollars coming in from hedging contracts; they remain very positive and continue to be robust in their demands. The banks are playing along with that.

This is reflective of the wider phenomenon – that you don't necessarily know which of your customers are most vulnerable. So you have the commodity traders which are weathering it very well and maybe even profiting from it. But then as you go down the supply chain, you've got suppliers and buyers of variable strength. Look at the car manufacturers, for example: they're being hit incredibly hard. Ordinarily they are a very strong credit. But they're suffering because of the need to furlough staff, because people won't buy their product, and because they can't ship a lot of it. In the UK most car factories have actually closed – sales are down as much as 40%. This is going to have a knock-on effect on the very long and intricate supply chains within those sectors. Banks are starting to reconsider lines to these kinds of customers, and are being very selective.

The government support programmes that are around haven't yet had an enormous impact. The government is essentially becoming the employer of last resort now in the UK, by paying 80% of salaries of furloughed staff. The support for individuals has been incredible. But help for the wider supply chains has been bitty: there are moves, but they're not very joined up and they don't work very well. ITFA members will have seen that the theme of our webinar last week was about targeting the supply chains more efficiently using technology that we've developed through the Trade Finance Distribution Initiative, for example.

Pillow: It's certainly not all doom and gloom for financiers that remain open to selective risks. There are still some opportunities, as always happens in times of crisis. So we're seeing alternative financiers and funds stepping in to pick up assets and finance both small and larger corporates as some of the banks close their lines and pricing starts going up. It's a bit like what happened in 2008.

Q: What are you hearing from ITFA members in terms of where they are looking to focus their attention?

Edwards: We had a lot of enquiries in the first couple of weeks around e-signatures, with issues around operational feasibility or efficiency being front and centre of those deals that can be done. We have since published our [guidance on digital signatures](#), which people have found very helpful.

But, of course, you only need to sign a deal when you have a deal. So if there are no deals, there is nothing to sign. Now the focus has turned to how do you decide who you will support, and how you access government schemes.



We're also starting to look at the laws around debtor protection. There are quite a few deferrals coming through and there have been some requests to lengthen payment terms under both supplier and buyer programmes, so for receivables purchasing, forfaiting and payables programmes. There's also been a lot of change in the law – particularly in Europe – to bring in payment moratoria and insolvency protection of some sort.

What you're seeing at the moment is that we're in a bit of a holding pattern. I think governments are trying to support that on the assumption that it only lasts for another couple of months, and then we can restart the economy fairly quickly. If it goes on for much longer, it's going to be a very different proposition. The problem with a lot of banks is that they don't know how long it will go on for. So they're probably OK to extend for a month, but they can't do that indefinitely.

One phenomenon that is obvious to everybody now is the acceleration of interest in technology. Previously you may have had to prove the business case and why you should move from existing legacy systems that cost a lot of money. Now it's being shown that because of their lack of efficiency and inability to function at a time like this, legacy systems are actually losing money. Forget about your sunk investments – they are actually costing you even more now. So, when we get back to normal, progress on the technology front is going to race ahead, and tech companies will need to prove that they're better than their rivals.

Q: What is ITFA doing to support its members during this period?

Pillar: We've already hosted a number of webinars – free of charge for members – and plan to do more on a regular basis.

Digitalisation has been an important topic, not only for trade documents, such as letters of credit, but also for practical day-to-day operations, with people now working from home. So, as Sean has said, there has been a lot of interest in what to do in these circumstances, how to use and validate e-signatures, and what the legal consequences are.

Another area where people have asked us to focus our attention is insurance. Members are interested in knowing the status of the insurance market given that some banks have closed their lines and are evaluating their portfolios. So we're planning a webinar that will look specifically at that. Further our advocacy efforts are continuing: ITFA has lead another [industry wide initiative](#) to draw the attention of governments and regulators to the importance of the continuous support of all the different insurance tools in times of crisis.

We've recently launched training for our committees on how to create and run effective webinars on Zoom, and are encouraging all our committees to hold virtual events for our members.

The ITFA board continues to meet regularly for our board meetings – virtually, of course. And our planned work on market practice initiatives, which don't require a physical presence, is ongoing.

As always, we welcome any feedback from members on areas where they are facing difficulties so that we can continue to provide guidance and produce content and webinars that can be of help to them.