International Trade
and Forfaiting Association

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The International Trade & Forfaiting Association (known as "ITFA") held its second trade finance distribution forum in the Middle East with a COVID-19 perspective

On May 18, 2020, the ITFA Middle East Regional Committee, currently chaired by **Mr Semih Ozkan**, Director, Structured Trade Finance Head, Middle East, Sumitomo Mitsui Banking Corporation, organized the second trade finance distribution forum in the region. The ITFA hosted the forum in a webinar format reflecting the new realities of the COVID 19 environment.

With the "trade as investible asset class" theme, the forum, attended by over 65 participants, broadly assessed trade distribution as a form of risk mitigation especially in the COVID 19 environment, while provided an overview of regulatory requirements, the different tools including emerging Fintech solutions, international standards for risk participation and the role of the insurance sector as a natural partner to the banking market.

Mr Maninder Bhandary, GTR MENA, who moderated the second trade finance distribution forum, started the forum with the key note speech by **Dr Rebecca Harding**, Economist & Chief Executive Officer, Coriolis Technologies, followed by **Mr Vipin Vashishtha**, Global Head of Trade Asset Sales & Syndication, Standard Chartered Bank.

Dr Harding provided a quick overview of trade finance in the fallout of the COVID 19 especially from the Middle East lenses. **Dr Harding** continued highlighting that trade will never be the same in the COVID 19 and beyond – particularly underpinning the accelerating the adoption of technology in trade and trade finance sooner than later. Furthermore, **Dr Harding** highlighted that the protectionism driven by the immediate responses by the governments to the COVID 19's fallout will have a lasting impact on economies in the word but especially those of the Middle East, which is built on the successful flow of goods, capital and people. Additionally, **Dr Harding** stressed that the Middle East trade flows, which are closely associated with the oil price, will face a double-whammy effect in the region. **Dr Harding** furthermore indicated that the current environment will nevertheless provide opportunities along with its challenges but outcome will depend on risk appetite, credit insurance and technology adoption particularly. Additionally, **Dr Harding** added that the multilaterals have a critical role to ensure the flows of supply chains in various levels since the individual economies are reacting in a more protectionist way.

While **Mr Vashishtha** provided the participants with a practical overview of the recent developments in the global trade finance & distribution and underlined the trade distribution is a lot more critical in this COVID 19 environment for capital, credit and liquidity reasons. **Mr Vashishtha** highlighted that the world economy had started 2020 with a challenging outlook driven by trade rhetoric, oil price drop, yet the COVID 19 fallout disproportionately destabilized the market. **Mr Vashishtha** added that while the immediate outlook is uncertain, the trade finance committee across financial institutions, development finance institutions and export finance agencies are all coming together to put a series of programs to respond to the economic fallout of the COVID 19 to ensure trade flows along with that trade finance continue effectively, hence, it is really through collaboration, wider acceptance of trade as an investable asset class and implementation of smart technologies, the value of global trade will be fully recover.

Mr Bhandary, GTR MENA, who moderated the webinar forum, continued the Forum, first by focusing on the underpinning of trade finance distribution – regulatory changes and implications in the region with **Mr Rafiq Jaffer**, Partner, Al Tamimi & Co. **Mr Jaffer** summarized that the governments in the region, especially the KSA and the UAE, have been enacting laws such as UAE secured transaction law or KSA commercial pledge law to strengthen the countries' financial infrastructure, which in essence proved quite essential in such a challenging credit environment. Coupled with the recent measures the government have been putting in place in response to the economic fallout of the COVID 19, the financial infrastructure enable corporates, regardless of size and sector, to work with banks on structured solutions that may not have been available before. **Mr Jaffer** also clarified one of the highly discussed topic of ‘Force Majeure’ following the COVID 19 related disruptions in the supply chains. Force Majeure, or act of God, is a matter of law rather than simple contractual agreement and requires the performance of the contractual obligation to be impossible rather than hard or difficult to perform in an environment.

Later **Mr Bhandary** discussed the current trade finance market challenges & opportunities with **Mr Motasim Iqbal**, Regional Head Transaction Sales, Global Banking, Standard Chartered Bank and **Mr Louis Robinson**, Regional Sales Had, Global Transaction Banking, Gulf International Bank. **Mr Iqbal** responded particularly to the question on the immediate changes in the clients’ needs following the COVID 19’s impact on the business and highlighted that there were two parts, first, the sudden shift to the new operating model both on clients and banks side, during which the markets operations also visibly dislocated in terms of credit as well as liquidity perspective. Second, the adjustment period where, both clients and banks started to realize the situation and assessed the needs in terms of working capital, liquidity lines, etc. For example, it was reported that approximately USD 240bn of RCF lines were drawn in the US alone in the first quarter 2020 to prepare for the economic fallout of the COVID 19. Along with that, the supply chains are really tested especially for those sectors not necessarily affected but in fact benefited from the COVID 19 impact – retail groceries, online stores, etc which required sustainable working capital channels to support their supply chains on an ongoing basis. To add further, **Mr Robinson** highlighted that the region’s economic activity is driven by the oil and oil price, which also affects the working capital performance. To this end, lower oil price is blessing in disguise for the region since it drives more effective cash and cost culture at companies, regardless of size and sector. During this period, the corporates are clearly optimizing their capex as well as opex to preserve cash but also reviewing various options to accelerate cash flow particularly from working capital, which is more sustainable. However, the current environment especially substantial drawdown on committed lines pressured the banks’ uncommitted lines in terms of availability as well as cost since the markets especially in March 2020 dislocated but everyone in the panel indicated that they see the markets returning to the new normal.

Last but not the least, **Mr Bhandary** inquired perspectives of **Mr Andre Casterman**, TFD Initiative and **Mr Sinan Ozcan**, Senior Executive Officer, Maersk Trade Finance around the trade finance digitization. **Mr Casterman** highlighted that digitization is well underway and the COVID 19 answered the corporates’ long-standing question of ‘what’s in it for me?’ in a sudden way. The COVID 19 demonstrated the critical role of digital technologies to business continuity. Trade finance digitalization faces a tipping point amid the COVID 19 lockdowns. A series of technology solutions were adopted in the trade, logistics and banking industry. However, as trade financing still relies on the exchange of paper, original documents and on the need for wet-ink signatures, banks face a series of issues to extend risk mitigation and/ or financing to their clients. Technology has proven its value in trade finance operations since years however policymakers hold the key to maximize benefits from most recent technology solutions. **Mr Casterman** further added that the policy decisions need to evolve to ease the short-term of roll of available technologies especially in the e-signature, digital negotiable instruments, digital bill of lading, cloud-based trade document processing and trade finance as funding channel. To this end, the ITFA has been working with the member banks and their authorities to assess the need for adopting trade-related policies. Within this context, **Mr Ozcan** added that there are already well-developed platforms such as TradeLens, which is bringing together a global supply chain eco-system made up of shippers, freight forwarders, ports and terminals, ocean carriers, intermodal operators, government authorities, customs brokers and financial institutions to lower administrative frictions in trade and expediate decision making processes. Furthermore, **Mr Ozcan** further reflected on the logistics linked alternative finance companies’ views to address the trade finance gap that will be emerging from the fallout of the current COVID 19 environment, where Maersk is no longer requiring bill of lading for its own carried and financed cargoes.

Mr Bhandary continued the discussion with **Mr Harry Doyne-Ditmas**, Political Risk & Structured Credit Leader, Marsh JLT Specialty and **Mr Zishan Iqbal**, Director, Murabaha Solutions, Etihad Credit Insurance, who together underlined that trade credit insurance is one of the keys to address the credit challenges can & will be presented by the current environment and added that the market has substantial potential but that rests on the reliability of data and transparency. **Mr Doyne-Ditmas** further added that the heightened credit risk driven by the current environment necessitated the insurers to review their portfolio and become more selective in terms of sectors and increased the margins against the increasing default ratios across the world. Furthermore, **Mr Doyne-Ditmas** highlighted with an example transaction that there is also increasing shift to digitalization in credit risk insurance and the current environment simply accelerated process. Meantime **Mr Iqbal** highlighted that the ECI as the export credit agency of the UAE has a different role to play vis-à-vis the private sector. The ECI, similar to many other ECAs in the world, put in place measures and new products to support the flow of trade and investments even in this environment.

Mr Rasheed Hinnawi, Head of Portfolio Management & Distribution, Middle East, North Africa & Turkey, HSBC on trade finance landscape in the region while also the advent of the distribution with the emerging technology solutions. **Mr Hinnawi** underlined that the assumption of infinite capital is not necessarily straight forward anymore, hence, the financial institutions need to collaborate across the eco-system to ensure capacity availability. Furthermore, **Mr Hinnawi** added that while the characteristics of trade finance are quite appealing to institutional investors in terms of low credit risk, indefinable cash flows, and sustainable returns, but we need to do our parts to bring institutional investors in by bridging their understanding of the trade finance as an alternative asset class, standardizing and digitalizing the processes around that. Within this context, **Mr Casterman** added that the ITFA along with TFD Initiative are working to define technology based market practices that can help financial institutions to automate the trade finance distribution in mass, which will then accelerate the institution investors' further interest into the market.

Mr Vashishtha furthermore concluded that the trade and trade finance will never be the same in the COVID 19 and beyond but clearly the overriding theme was that the current environment necessitates collaboration more than ever and the forums like this, which help regional trade finance community collaborate and improve knowledge, governance and leadership will add value to fully harness the value of trade finance for the benefit of all.