CYPRUS 2024: LEADING VOICES IN TRADE HIGHLIGHT TOP MARKET TRENDS

Written by ***Rebecca Spong, Editorial Consultant, September 2024***

Some of the most influential voices in the trade finance market identified key trends and some unexpected challenges of the past year during a panel discussion at this year's ITFA conference.
Here are the highlights taken from their discussions in Cyprus in September 2024. The panel was chaired by Charlie O'Mulloy, analyst – Trade Facilitation Programme, European Bank for Reconstruction and Development (EBRD)

1) The 'rollercoaster' impact of Basel III

Basel III regulations – due to come into force next year – continue to loom over the market causing some concern and confusion, according to panellists.

"The biggest unexpected trend I saw was around Basel – which surprised me as I thought we knew what was going on," said Marilyn Blattner-Hoyle, global head of trade finance, trade credit and working capital solutions at Swiss Re Corporate Solutions.

She explained that upon her return from maternity leave earlier this year, her team had warned her of budget problems due to the impact of some banks already implementing Basel and, as a result, using insurance products less. She then spoke to many banks and found that other financial institutions were using insurance even more than before – and, in fact, business would be up 10% on expectations.

"It has been a rollercoaster and will continue to be one – with capital wins and losses," she said. "I still don't know what the answers will be and what to budget for," she concluded.

2) Lack of expected engagement in tech advances

Panellists had expected greater engagement with new technology in trade over the past year, particularly after the Electronic Trade Documents Act (ETDA) came into force last September in the UK. There has been similar legislation introduced in other jurisdictions in recent years.

While the technology for using electronic documents had already been available, the ETDA provided the legislative framework and legal recognition for those using such documents under English law.

Surath Sengupta, head of innovation and transformation at Lloyds Bank, told the audience that the use of electronic trade documents since September has "not scaled as much as we anticipated".

Lloyds has been at the forefront of testing digital trade transactions, and Sengupta explained how, earlier this year, it completed a digital document collection using electronic bills of lading and digital promissory notes – enabling the transaction to be completed within 24 hours as opposed to the typical two weeks or more.

"This is a significant impact – but how do we scale that," he said, explaining how banks need to more effectively translate the benefits of tech to their clients. We need to "speak their language" and explain to corporates how the digitisation of trade might have a positive impact on their working capital management, for example, said Sengupta.

There was a clear call to action among all the panellists to audience members to inform corporate clients of the benefits of digital solutions as well as to encourage more financial institutions to experiment with new technology.

Peter Kern, vice-president at CargoX, explained how through a combination of different technologies from cloud computing, machine learning and blockchain, industry participants can now create a “trustworthy set of analytics and data which supports risk assessment and speeds up decision making”.

“We would like to see higher engagement with this from the industry. We would like to see more people trying out these kinds of technology and, through this engagement, provide feedback to solution providers – which would be very useful,” he said.

Blattner-Hoyle added that Swiss Re is making technological advancements, most recently with the rollout of Microsoft Co-Pilot – a form of an AI assistant – which has been a “serious game changer”, helping to summarise meetings for those not in attendance and saving her team time to work on more important tasks.
She says the company is also looking at the potential use of AI-augmented credit analysis – provisionally planned for implementation in 2026 – that will hopefully speed up insurance provision.

On the open account side of trade, Sengupta also noted how technology is becoming increasingly “open-source” in that banks can connect to a platform via an API but not have to join a platform or become a consortium member. “That is where the market is going,” he said.

He also added that the bank has recently partnered with the AI platform Cleareye.ai to improve the processing and checking of trade finance documentation.

Alberto Amo, global head of private debt mobilisation global transaction banking & global distribution channels at Santander Corporate & Investment Banking, said new technological offerings are affecting who banks employ. “It is changing the profile of people we are hiring – it is not traditional trade anymore. We are in the earlier stages of a much greater change.”

3) Managing the complexities of ESG and trade

All the panellists recognised the growing importance of considering environmental, social and governance (ESG) issues within their business. “It is Swiss Re’s guiding light to make the world more resilient,” said Blattner-Hoyle. “And transition financing is central to that,” she added.

However, she noted that supporting sustainable transactions that meet high ESG standards brings with it a whole host of complexities when discussing transactions with the compliance team. “The E, the S and G often conflict,” she explained, citing an example of a transaction where a bank requests insurance cover for a client’s purchase of drones intended for fighting wildfires.

Putting out wildfires would obviously fulfil an environmental target, she noted. However, the drones could potentially be used by countries involved in conflict for military purposes, making many compliance teams wary of supporting such a transaction. Such a transaction could risk contradicting their social and governance policies. “It is not an easy decision,” she said.

Sengupta noted that many banks have created sustainability-linked supply chain finance products – but that pick-up of such products has not been as high as hoped. “It is more than three years ago – but still not happening at the level it should be,” he said.

However, he said that due to consumers and new regulations driving demand for more transparency on supply chains, banks are increasingly equipped with far better data than they had in the past, which is enabling them to provide sustainability-linked finance to companies beyond tier-one corporates and far deeper into the supply chain.

4) **Supporting the next generation of talent**

The expectations of the next generation of young talent entering the market are changing, the panellists agreed.

Blattner-Hoyle noted that the next generation wants more "empowerment from day one", which has seen her give her younger team members more responsibility quicker than in the past.

She also noted that in a post-Covid era, there was a need to focus on improving mental resilience among some of the younger peers. "People are not always ready for tough feedback, a client saying no or a massive loss. Failure at some point is inevitable," she said.

However, there is also a responsibility for the current generation to ensure that the trade finance market is an attractive market to join.

Kern argued that young people may quickly abandon an industry that remains too heavily paper-based in its approach, and that it was important for their work environment to mirror their non-work environments, which tend to be dependent on technology. "If we want to attract young talent, we need to change and adopt technology faster and more efficiently," he said.

Sengupta echoed Kern's sentiments, adding: "If we don't digitise fast enough, we will fail the future generation. No one wants to come into a paper-based industry. That has to be critical."

5) Opportunities for new financing techniques

Panellists agreed there was a need for new financing techniques to support the changing nature of business today.

Sengupta reported a shift from "ownership-based sales" to more subscription-based models. "Traditional ways of financing trades with a reliance on who is the owner of the document are not going to be relevant. We need to change and offer different financing models," he said.

The aftermath of Covid, coupled with various conflicts around the world has also resulted in a "complete reconfiguration of supply chains," he said.
There is a move to nearshore supply chains again, he said, as businesses shift from a "just-in-time" to a "just-in-case" inventory management system, which requires companies to have sufficient stock near to their manufacturing operations. This creates a need for different financing techniques, such as more inventory financing solutions.

In conclusion, this year's panellists agreed that today's world offers many opportunities to create new and innovative financing solutions – supported by improving technology. Equally, there are opportunities to use trade finance to support the global transition to a low-carbon sustainable future. However, they emphasised that there is no room for complacency in terms of adapting to new regulation, communicating effectively with corporate clients about the benefits of tech, and building a better future for the next generation of talent.