



Q&A: ITFIE RAMPS UP EFFORTS TO ATTRACT INVESTORS TO TRADE, October 2024

By **Rebecca Spong**, *Editorial Consultant*

The ITFA Trade Finance Investment Ecosystem (ITFIE) is leading efforts to develop trade as an asset class and persuade more institutional investors to invest in the trade finance market, with plans afoot for more events, conferences and publications.

ITFIE co-chair – NLN Swaroop – who also was appointed to the ITFA Board in June – speaks to *editorial consultant Rebecca Spong* – about the latest ITFIE publications released in September, as well as group’s goals and plans for the coming months.

Q: For those less familiar with ITFIE, could you explain why it was set up and what it hopes to achieve?

A: The Trade Finance Investment Ecosystem (ITFIE) working group is focussed on bringing various players in the trade finance ecosystem together to channel institutional capital into this space. Trade finance has historically been dominated by banks, but there is space for non-bank investors from the asset management community, family offices and others to enter the market and invest in this asset class alongside banks.

This is a real opportunity to make a difference to society by attracting more non-bank capital to trade finance and really support the growth of global trade and commerce. It is also an attractive investment opportunity for investors who are looking for diversification and alternate growth avenues.

Q: ITFIE released three publications from its three workstreams in September. Could you summarise what these papers covered and what you hope to achieve with them?

A: The [first paper](#) – Voice of the Institutional Investors – examines what institutional investors are looking for when considering investing in trade finance. The most typical questions I hear is “Why is trade even attractive to investors given that it is not a high yield asset class in general”? Investors could get better returns from other assets, many argue.

This paper puts forward why trade could be appealing – for example it is low risk and could help investors diversify their risks and be used as a natural hedge in portfolios. It also looks at obstacles to investing from the perspective of the institutional investor. This paper was put together by Suresh Hegde of Goldman Sachs Asset Management and Guy Brooks of Pemberton Asset Management who are currently investing in trade finance.

The [second paper](#) called “Rules of the Game” is really looking at how to standardise and cut through some of the jargon we regularly use in the trade finance market. Terminology is often used differently in different markets. As an asset manager who is not a trade finance professional – you don’t have the familiarity with all the various definitions/terminology. So, we are trying to standardise as much as possible and demystify terminology. Obviously, this paper requires a lot of legal input and we had Geoff Wynne from Sullivan & Worcester helping us as a legal expert, as well as ITFA board member Paul Coles from Orbian. Both of them have a lot of experience putting together frameworks and guidelines for trade via the Market Practice Committee.



The [final paper](#) looks at technology and how we can make investing in trade easier from an operational perspective. Trade finance is not fully digitalised, and trade distribution remains a fairly manual process still. However, there are pockets of innovation. There is a lot of technology being developed to support securitisation-type structures. There are also a number of tech platforms supporting digitised trade distribution, but as yet these are not scaled. As an example, this paper has looked at how securitisation structures can be delivered and what role technology and data have to play. This sub-stream was led by Matt Wreford of Demica and André Casterman Advisory.

Q: What's next? How will these papers support ITFIE's next steps?

A: They are the building blocks on which we will base our future engagement with investors. We will use these papers to promote and explain to institutional investors what trade finance is and how we are going to help them invest more easily in this asset class.

The ITFIE group is set to meet in late October to discuss our plans for engagement in 2024 and into next year. We will be aiming to host our 3rd flagship event – the [Trade & Investment Forum](#) – in the second quarter of next year.

We will put together a calendar of events attended by asset managers and alternative lenders, and aim to raise ITFA's profile at such events and start conversations around trade finance as an asset class. Once we've created more awareness around trade, we hope to bring asset managers into ITFA's working groups and connect them to banks.

There's a lot to do! It takes a lot of effort to teach something new and convince them to look at trade.

We plan to work more closely with the insurance market – not only as investors into trade finance but also to see how the use of insurance as a risk mitigant could help make trade assets a more attractive proposition to investors. With that in mind, Petra Bockmayer from Marsh joined ITFIE to provide that insurance perspective.

Q: There have been previous attempts to encourage institutional investors into trade – but they have had limited traction. Do you see potential for a more significant and sustainable interest in trade finance assets in today's market?

A: Trade finance investment is not a panacea for all investors' ills – it definitely isn't for everyone. However, the understanding of the asset class is of value to many.

With the lessons from Covid and wider economy instability, investors are looking for something with a consistent yield to invest in. Trade may be low yielding - but it is stable. There is also a need for diversification in today's volatile markets.

Trade finance is also expanding, with new structures of trade finance emerging. The perimeter for trade and working capital solutions is expanding, and structures are becoming more sophisticated. Better structured and higher yielding finance structures will be easier to place with investors, especially with greater use and availability of data

And finally, the continued digitalisation of trade will help ensure investor interest in trade remains strong. There is definitely developing interest from asset managers – with some of the asset managers getting involved in originating deals rather than just buying deals.



Q: What does ITFA hope to achieve with this initiative by this time next year?

A: We intend to publish phase two of the workstream papers next year – aiming to produce another one on technology and something on different trade finance structures.

We definitely hope to promote and publish more content and we will host our flagship event next year, which we hope will be even bigger with more institutional investors involved.

If we could get to a position this time next year where we could say we have a greater number of new asset managers joining ITFA or attending ITFA's annual conference – that would be a good achievement.

Q: How can ITFA members support ITFIE's work?

A: We have kept our group quite small for the moment so we can be agile and make quick decisions. But as we grow, we hope to encourage more member participation, and in particular I would like ITFIE to talk more with ITFA's regional chapters.

Each market in Asia or the Middle East, for example, has their own nuances and different investor base. It would be good to gain a greater understanding of regional differences to help work with institutional investors in those markets.