

Trade Finance innovation – are Financial Institutions driving it and what does it mean for Corporates?



ACT MENA

Dubai, 24 October 2016

Agenda

- 1 Global Trade & Working Capital landscape
- 2 FinTech and trade – Blockchain – will it really deliver in trade finance?
- 3 Export credit agency financing – an alternative to traditional bank covered risk?
- 4 Navigating the new ecosystem – what do corporates need to know to decide between traditional and new solutions?

Trade & Working Capital landscape

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Market Activity

- In 2015, the value of goods that crossed international borders last year fell 13% in dollar terms, the first contraction since 2009
- G20 trade restrictions
- Trade agreements in negotiation

Technology / Innovation

- Partnership with several leading technology firms on a number of market-leading initiatives



Market Challenges

- Slow growth and depressed commodity prices have reduced export activity across EMs
- Significant EM trade financing gap
- Currency depreciation and USD liquidity constraints have resulted in payment delays in some countries

Brexit

- Post the EU referendum, UK markets have experienced turmoil
- Weaker outlooks

Blockchain distributed ledger technology will dramatically change the way we do business

- What is Blockchain? - software enabling data sharing across a network of individual computers. It describes computers transferring blocks of records in a chronological chain. AKA “distributed ledger technology”
- How does Blockchain work? - users agree a protocol describing the rules for the type, quality and transferability of data as well as the rules for authorisation, verification and permutation
- What does Blockchain do? - Enhances security, Automates/Speeds up processes; Creates visibility; Creates consensus; Reduces fraud
- Uses? - Transfer of value; Reconciliation, Audit; Tokenisation; Operation of smart contracts; Asset registry; Data Management

Internet of Things “IoT”

- Container tracking linked to smart contracts
- Machine Learning/AI
 - AML/Fraud
 - Sanctions screening

Blockchain in Trade

- Paperless Trade
- Invoice Finance
- Asset Registry
- Supply Chain Transparency
- Reviewing

Blockchain in ME

- Blockchain ‘Integral to Mid-East Digital Economy’ benefits that technology can bring to governments, transport, healthcare, finance and startups in the Middle East
- Dubai Government rolls out Blockchain plan by 2020

Barclays success!

What?

Barclays executes live Letter of Credit transaction using distributed ledger technology – finextra 16/09/07

Barclays and fintech start-up Wave pioneer blockchain trade finance transaction - bankingtechnology 16/09/07

Barclays says conducts first blockchain-based trade-finance deal – Reuters 16/09/07

First live blockchain trade transaction conducted– Global Trade Review GTR 16/09/08

Video



Benefits

- **Safer** – the risk of forgery or loss of documents will be reduced as ownership will be proved cryptographically and tracked using the Blockchain
- **Faster** – our pilot deal took just **3 hours and 45 minutes**, where usually it can take up to **10 days**
- **Cheaper** – Trade finance reduces operational, logistics, channels and processing cycle

*6th September 2016. Barclays Making History!
World's first ever live Trade Finance transaction via Blockchain*

Export Credit Agency financing – overview (ECAs)³

What?

- ECAs are government or quasi-government financial institutions which facilitate international trade and export transactions by providing guarantees, direct lending or insurance products to lenders or buyers

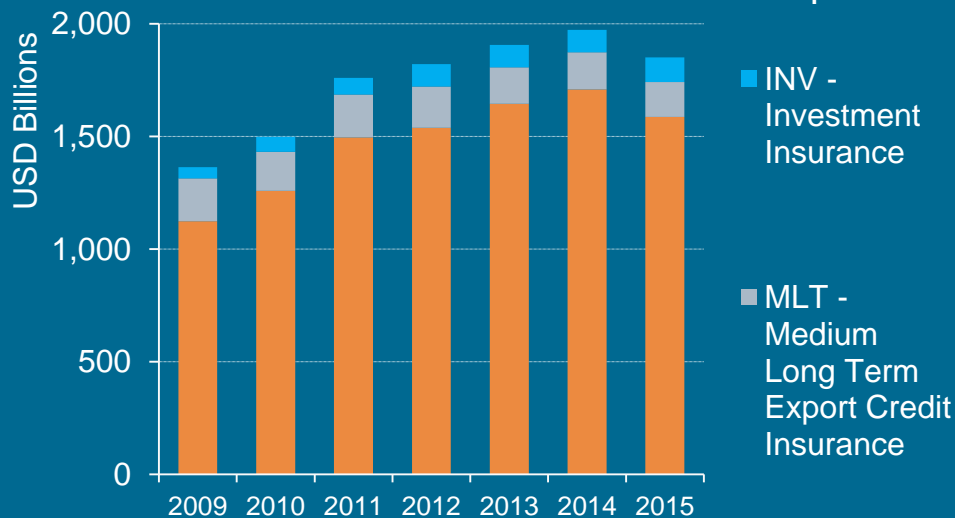
When?

- Since the 2008 Financial Crisis, some commercial banks have retrenched from certain areas of trade finance, leaving many gaps to be filled from a financing perspective

Why

- Export Credit industry stepped up and took a more proactive approach to keep global trade flows on track

Berne Union Members' Global Export Credit - New Business each year



Source: Berne Union Statistics

- Significant year-on-year increase of global export credit volume since the financial crisis
- In 2014, total volumes of export credit reported by members of the Berne Union increased by 4% to reach a total amount of nearly USD 2 trillion
- Medium and long-term (MLT) cover provided by official ECAs amounted to just over USD 166 billion in 2014
- In 2015, volumes declined slightly following the continued market volatilities, weakening energy and commodity price levels and increasing geo-political risks

How does ECA financing work?

- ECA Financing can take several forms depending on the mandate that ECA has been awarded by its government but may range from direct financial support through to pure cover
- Comparing to vanilla un-covered structures, ECA Financing will typically seek to maximise tenor and optimise pricing whilst having limited impact on liquidity in bank and bond markets (i.e. it will not impinge on commercial bank or bond market appetite for the borrower). ECA Financing can therefore be read as seeking to maximise liquidity for the borrower
- Typical product offerings

Short-term Export Credit

Guarantee to banks issuing bonds linked to export contracts

Guarantee to banks providing exporters with working capital facilities linked to specific export contracts

Guarantee to confirming banks up to an agreed % value of the issuing letter of credit

Medium to long-term Export Credit

Buyer's Credit Facility

Direct Lending

Debt Capital Markets Solution

Trade Finance Syndications:

How can syndication/distribution help clients?

Syndicated Facility

- Single Facility Agreement
- Participants are fully disclosed
- Pricing transparency
- Documentation can be complex and costly

Risk Participation

- Bilateral arrangement between the lead bank and each participant
- Participation may be either disclosed or undisclosed
- Simple documentation, lower legal costs

Insurance

- Undisclosed
- No impact on facility documentation
- Banks can insure individual transactions or whole portfolios

Syndication provides effective solutions where bilateral arrangements are out of scope

The Syndication process provides fully-informed market reads and liquidity analysis as required

Harmonisation of pricing and terms & conditions

Syndications

Opportunity for clients to broaden their investor base, if they wish

Provides a one stop large-scale financing solution

Technology innovations will continue to make the market more efficient

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