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## Transforming the landscape

Visitors to Geneva cannot miss the trademark Jet d'Eau, one of the tallest fountains in the world. Viewed from almost anywhere in the city, the 140-metre burst of water transforms the tranquil environment.

With the 38th SIBOS event taking place in Geneva, the title of this year's conference is – aptly – “Transforming the landscape”. To a certain extent, the financial landscape has already been changed: regulatory and market pressures have caused a seismic shift over recent years, while a potential Brexit threatens to send further tremors across the globe, as Alexander Rost and Agnes Vargas describe in this edition of *FI.News*.

Yet, as a bank, we continue to be proactive in our response to these changes – developing our strategy, focus and service to shape the landscape for the benefit of our clients, rather than passively reacting to the new situation.

As part of this approach, we intend to concentrate on fewer – but even more strategic – partnerships with financial institutions across the globe, focusing on those banks that best support Commerzbank's business.

The aim is to form deeper ties with these correspondent banks and, ultimately, to conduct more productive business. Our dedication to continue supporting international trade has recently led us to open a new subsidiary in Sao Paulo. Indeed, in this issue, Thomas Krieger outlines our long-term perspective on trade with Brazil – the tenth-largest trade partner of the EU, which buys one fifth of the country's exports.

Thanks to this realignment of strategy, our position in correspondent banking business is stable and sustainable. It means that not only are we able to meet the requirements of tomorrow, but above all, we can also increase future growth.

Without doubt, the key to facilitating international trade remains a comprehensive and on-the-ground understanding of the risks in local markets. We remain committed to having a worldwide network of correspondent banks that allows us to handle our clients' global foreign-trade transactions. Certainly, partnerships between global banks such as Commerzbank and local banks – such as Chile's Banco BICE, featured in this newsletter – provide a crucial bridge between Europe and the rest of the world.

We are also proactively looking at how to shape the future of trade finance, cash management and international payments. This edition of *FI.News* looks at how we are exploring cutting-edge distributed ledger technology, or blockchain, as a part of our trade and supply chain finance offering. It also assesses how the payments industry is reacting to the ECB's call to action for a real-time payments solution. The landscape is evolving, but we remain one step ahead.

I hope that you enjoy this issue of *FI.News*, and please come to find us at booth number F 34 at SIBOS! ■



**Dr. Bernd Laber**  
Divisional Board Member,  
Commerzbank Transaction  
Services and Financial Institutions

## Meet Commerzbank at...

### SIBOS 2016 ...

Visit FI City - where partnership meets expertise in Geneva. Our relationship managers and product specialists look forward to meeting you at our SIBOS booth, number F34. Join our experts at the conference and share their insights on a number of current topics.

| Event   | Speaker  | Location                | Date and time                |
|---|--|-------------------------|------------------------------|
| Making real time successful in Eurozone banking           |  Christian Rhino, Divisional Board Member, Group Banking Operations | Conference Room 1 - CR1 | 26th September 09:00 - 10:00 |
| Learning from FinTech - can we fail fast, and learn fast? |  Rob Scott, Head of Market Services                                | Conference Room 1 - CR1 | 29th September 09:00 - 10:00 |
| Trade digitalisation: Where are we now?                   |  Ruediger Geis, Head, Product Management Trade                    | Conference Room 2 - CR2 | 29th September 10:15 - 11:15 |

### ... and beyond

| Event  | Where            | Date                       |
|--|------------------|----------------------------|
| Trade and Finance Conference for African Banks             | Frankfurt        | 19th - 23rd September 2016 |
| Annual International Monetary Fund and World Bank Meetings | Washington, D.C. | 7th - 9th October 2016     |
| BAFT Trade Conference                                      | Chicago          | 26th - 28th October 2016   |
| FELABAN Annual Assembly                                    | Buenos Aires     | 5th - 8th November 2016    |
| GTR Egypt Trade & Export Finance Conference                | Cairo            | 15th November 2016         |

# Cooperation is key to expanding the frontiers of digitalisation

**The digitalisation of corporate transaction banking is going from strength to strength. Rainer Wolff, Vice President, Product Management Cash Services, explains that cooperation with new emerging players is essential to remaining competitive.**

As companies seek greater flexibility, efficiency, and ease of access in their banking experience, the need for digitalisation – particularly in payments – will only grow. If banks are to remain competitive and fully grasp new opportunities, cooperation with innovative, emerging players will be key.

## **New digital demands, new digital developments**

Digitalisation has found its way into all areas of finance. Companies' demand for user-friendly interfaces has led us to overhaul our online Corporate Banking portal, with improved user navigation. Increased use of mobile infrastructure requires solutions such as our Cash Management App which offers balances and transactions of 15 domestic and foreign Commerzbank and third-party accounts – crucial for 'multi-banked' corporates. A new update will allow approval of payment orders with our 'photoTAN' scanning app – for maximum digital security – while push notifications mitigate missed order deadlines.

Demand for transaction efficiency has set 'instant payments' as the industry's new goal. This would optimise cash flow, speed up invoicing and mitigate payment risk. The European Central Bank (ECB) is calling for pan-European instant payments infrastructure by November 2017.

## **Harnessing disruptive technology**

The ECB's target will be a challenge. But Commerzbank is well placed to meet any emerging challenges.

By combining FinTechs' innovation with our market experience, financial insights and solid corporate relationships, we provide our own customers with exciting new services – boosting their future competitiveness.

In this respect, our subsidiary, main incubator in Frankfurt, identifies promising start-ups, providing them with venture capital, infrastructure and access to our private and corporate client networks. It gave a start to OptioPay, for instance. The online payment platform allows companies' customers and employees to convert payments into higher-value gift cards. Using OptioPay, a customer could, for instance, increase a €100 pay-out by 10%, simply by choosing a €60 gift card and transferring the remaining €50 into their bank account. main incubator also helped billing platform, Bilendo. It tackles outstanding balances by automating invoice mailings, receivables management and receipt of payment. Compatible with every accounting system, it is multi-bankable across Germany and Austria.

Our corporate venture capital fund *CommerzVentures* is set to spur digitalisation further. Since 2014, the fund has targeted innovative entrepreneurs, investing between €2 million-10 million in strategic companies across the globe.

And as the first major German bank to offer a digital peer-to-peer lending platform – Main Funders, launched in June 2016 – we help corporate and SME clients find the considerable investment required to adapt to 'Industry 4.0'. Innovation is progressing rapidly, and banks must stay ahead of the curve if they are to remain relevant and competitive. Clearly, digital collaboration can work to the benefit of all. ■

“Commerzbank is well placed to meet any emerging challenges.”



**Rainer Wolff**  
Vice President, Product Management Cash Services, Commerzbank Innovation Lab

ASK THE EXPERTS

# Solving the Brexit puzzle: How will Asia react?

How will Asian banks and corporates react to the UK's decision to leave the EU?  
*FI.News* asks the experts.

**Do you see Brexit having a significant impact in Asia?**

**Alexander Rost** Asia will be keeping a close eye on what Brexit means for the UK's involvement in the European single market. This will depend on two years of complex negotiations. More immediately, Asia may be affected by the devaluation of the pound, which could have a cross-currency effect across the region. Overall our banking clients in Asia do not seem concerned with Brexit – we've received few enquiries regarding the UK's position, and the key concern is likely to be the impact on the EU trading bloc as a whole.

**Agnes Vargas** For China, it's a case of 'business as usual'. The EU is an important trading partner, accounting for around 13% of Chinese exports. The UK, accounting for 2%, is less of a concern. At the moment, China is focused on the general decline of trade business, seeing drops of up to 70-80% in specific sectors. This includes the EU, but is not related to the UK specifically.

**AR** We could see former Commonwealth connections making a difference to Asia-UK trade flows. Commonwealth countries with a high dependence on textile exports – including Pakistan, Bangladesh and India – enjoy preferential treatment under the EU GSP Plus Agreements, with load duties for textile imports or exports. Once the UK is no longer an EU member, such privileges will not apply and we may see a drop in these exports to the UK.

**Are there any other potential impacts?**

**AR** Roughly 1.7 million Pakistani people live in the UK and send back remittances, which form a large block of GDP. If that is reduced due to the UK economy's sluggish performance and the pound's depreciation, we could see a negative effect. Some temporary and limited relief, however, could be seen in an increase in foreign direct investment, as people leave the UK's faltering economy and return home to invest there. In addition, the UK economy's downturn could dry up aid flows to Asia. Nepal, for one, receives significant UK aid and will suffer from Brexit.

**AV** Countries like Korea and Thailand have significant UK portfolio investments. Only 1.4% of Korean exports go to the UK, but there is the threat of a liquidity crunch and turbulence in the foreign exchange market after Brexit.



Alexander Rost, Regional Head, Indian Sub-Continent & ASEAN, and Agnes Vargas, Regional Head for Greater China & ASEAN

**What does Brexit mean for Asian banks?**

**AR** It will be more or less the same for most banks. The only issue is with the foreign invested banks which have subsidiaries in the UK. For example, Indian banks, which have a UK plc, need to refocus attention. After formal Brexit they will not have the possibility to easily branch out across Europe.

**What about in relation to the UK?**

**AV** Chinese banks have big hubs in Luxembourg, where all their branches in Europe report to. If Brexit means that London is no longer an entry point to Europe, Chinese banks will simply go through Luxembourg. Chinese business already established in the UK should remain. The UK government is interested in trade agreements with China: it may take time, but we are optimistic.

**Do you think Brexit will deter new investment?**

**AV** It is likely that some projects will be put on hold until after the relationship between the UK and Europe is clearer, and trade negotiations are confirmed – something, it seems, everyone is waiting for.

“The key concern is likely to be the impact on the EU trading bloc as a whole.”

## Banco BICE: Adapting to Chile's new normal

**Chilean banks have had to accept the 'new normal' of slow growth, increasing reliance on China and fierce competition, especially for trade finance business. *FI.News* looks at leading financial institution Banco BICE and how it is navigating the challenges and opportunities posed by the new environment.**

Chile's economy is built on foreign trade, as Robert von Oldershausen explores in more depth on page 8. Key to facilitating this commerce, the country's banks are adapting to changes in global trade flows, as these shift from Europe and America to Asia, and particularly China.

Yet Chilean banks are also finding more competition for trade finance business, as demand for the country's exports – particularly from China – remains lacklustre.

Partnerships, such as Commerzbank's cooperation with Chile's Banco BICE, are vital in navigating this 'new normal'. Built on common objectives, they provide Chilean banks with the global reach they need to properly serve corporates, and a crucial edge necessary to stay ahead of the competition.

### Navigating Chile's new international trade patterns

While traditionally oriented towards Europe and America, Chile's import and export trade partners are increasingly to be found in Asia.

As Carlos Klapp, Head of Financial Institutions at the country's Banco BICE, explains: "Banco BICE is committed to following our customers' trade. More and more, this is going to Asia – now Chile's top trade partner by far. So while we used to issue many letters of credit to Europe and the US, today our main challenge lies instead in building and maintaining networks with Chinese, Indian and Korean banks."

Thus, the ability to partner with a global bank that can make, or already has, these connections in

"Partnership helps banks to increase their share of trade in a highly competitive environment."



China and elsewhere in Asia is vital. As Klapp puts it: “Commerzbank gives BICE the global reach it needs to support its 1,500 corporate customers.”

### Weathering the storm of slow trade growth

Of course, due to sluggish growth in the global economy – and especially the slowdown in Chinese demand for exports – Chilean banks are now faced with slackening trade.

Klapp comments: “We have noticed the impact of China’s slow growth on Chile’s trade. Banks are competing fiercely for trade business – mostly for exports of raw materials, food and wine – and having to deal with tight margins as a result. Indeed, we are likely to see such an impact in emerging markets across Latin America.”

Here, partnership again helps banks, enabling them to increase their share of trade in a highly competitive environment. Klapp continues: “BICE can better support its customers with their Chinese trade, for instance, where Commerzbank has the Renminbi accounts and on-the-ground relationships with local banks essential for guarantees and letters of credit.”

### Partnerships built on a common ethos and common objectives

Such banking partnerships doubtless benefit from banks having a similar ethos. Indeed, Banco BICE’s priorities align with those of Commerzbank in several key respects.

Firstly, both banks have a long history of supporting international trade, with a particular commitment to medium-sized businesses.

Klapp comments: “We see important growth in supporting our corporate clients in Chile’s middle market, building on our online platform for international payments.” Clearly, this is familiar territory for the Mittelstandsbank.

A second foundation to the partnership is a common dedication to development.

“Like Commerzbank, BICE has worked closely with the Inter-American Development Bank,” says Klapp.



### Banco BICE: a snapshot

- Established in 1979, Banco BICE is based in Santiago and maintains branches across Chile.
- BICE’s corporate banking arm offers comprehensive products for import and export trade.
- Corporate trade products include open accounts, letters of credit, structured finance, factoring, cash management and payments and collections.
- Its corporate banking portal, BICECOMEX, enables foreign trade over the internet.
- Rated BBB+ by S&P Global Ratings and Fitch.

BANCO BICE

“For example, we see great importance in financing key infrastructure, having channelled \$500 million to renewable energy projects – such as hydropower, wind, solar and biomass – which will meet Chile’s growing demand for power.”

Last, and by no means least, both banks stress the value of maintaining such partnerships.

Klapp comments: “Commerzbank understands the business of close, long-term relationships with correspondent banks – essential for a niche bank like BICE focused on trade finance.”

Helping to meet the challenges of global trade and support Chile’s continued development, such partnerships will certainly serve the country, its corporates and its banking sector well in the future. ■

# Chile: Can it awaken from its slump?

**Chile has seen its economic growth slide significantly. Yet Robert von Oldershausen, Commerzbank's Senior Relationship Manager for FI Latin America, argues that the country has the stable foundations to see it through uncertainty, and stands to make good progress in trade.**

Expensive reforms, high corporate tax, and a decline in Chinese demand for copper exports have all taken their toll on the Chilean economy. GDP growth slowed to 2.1% last year. For an economy used to averaging 5% GDP growth since the 1980s, such a downturn is particularly unsettling.

Encouragingly, Chile can rest on sturdy economic foundations, underpinned by sound fiscal planning implemented decades ago. As such, continued diversification of the economy and a solid financial sector should help awaken the Chilean economy from its slump.

**Short-term performance not up to scratch**  
Chile's economy has experienced a slowdown: GDP growth fell to just 1.9% in 2014, with only a slight improvement to 2.1% in 2015 (see chart). Growth of just 2.4% is expected this year, signifying the economy's worst performance since the financial crisis.

High corporate taxes imposed by President Michelle Bachelet's government have hardly helped, constraining

business activity and disincentivising investment. Inflation has risen and the Chilean peso has depreciated.

To add to this economic uncertainty, Chilean exports contracted last year by 6.5%, the greatest degree since the global financial crisis. Furthermore, copper exports – the mainstay of Chile's industrial output, providing around 20% of government revenues and crucial supplies of foreign exchange – have diminished by 9% since last year, suffering from the global decline in commodity prices. This is largely due to weakened demand from Chile's main export partner, China.

### Stable foundations and diversification

That said, Chile can rely on stable economic foundations that should help see it through the current economic uncertainty.

Firstly, Chile should weather current low commodity prices. Its sovereign wealth fund, the Economic and Social Stabilisation Fund, can provide relief in the event of a drop in copper prices and reduced export revenues. Secondly, the Chilean financial sector remains resilient, benefitting from strict regulation and conservative fiscal policies – meaning it remains able to support trade and attract foreign direct investment (FDI) to the country.

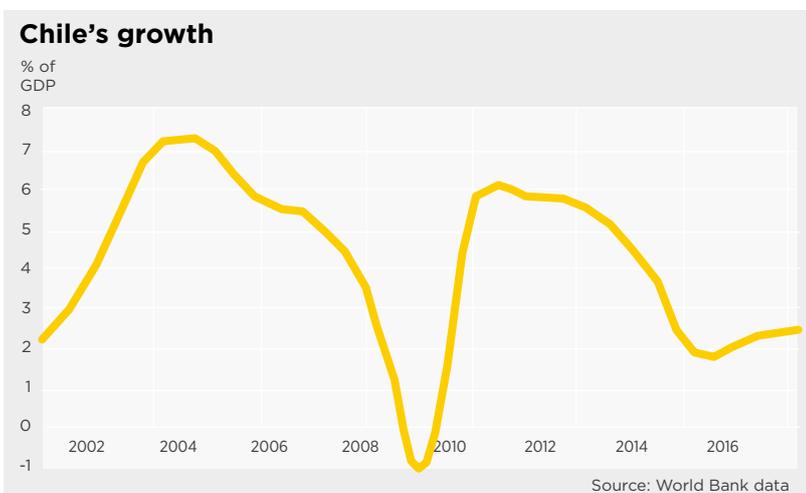
This investment will be vital if Chile is to diversify away from a reliance on copper and its volatile international prices. Looking at Europe, Chile has traditionally exported copper and wine, and, in return, imported cars and capital goods for energy infrastructure – especially from Germany, one of its key European trading partners. But investment can spur higher-value value exports.

Attracting FDI to key infrastructure, such as hotels and airports, can also support the growing tourism, airline, retail and banking industries. In this respect, the country has already made great leaps forward. In the last ten years, investment in tourism reached US\$528 million, with spending by tourists having risen by 17%.

Renewable energy is also a growth industry for the country – and will further reinforce both its economic, and energy, security. There are significant prospects for boosting the country's wind, solar and geothermal



**Robert von Oldershausen**  
Senior Relationship Manager  
for Financial Institutions Latin  
America, Commerzbank





“Copper exports have suffered from the global decline in commodity prices.”

energy capacity, for instance. This is incredibly important given that Chile’s demand for electricity is expected to increase by 5% a year until 2020.

#### Securing future trade opportunities

Of course, trade will be vital for Chile to emerge from its economic slump. Fortunately, the country has options for increasing the breadth and depth of its trade corridors.

Given the slowdown in trade with China, Chile could look to boost commerce nearer home, strengthening trade relations with its Latin American neighbours. Indeed, economies such as Peru, Colombia and Argentina offer significant growth opportunities, and can supplement existing partnerships that include China, Taiwan, Hong Kong, and Europe.

Meanwhile, the country’s important international trade agreements will stand it in good stead. For example, the Trans-Pacific Partnership (TPP) stands to help Chile better engage in trade, including with the USA. The free trade agreement with Europe, meanwhile – the EU-Chile Association Agreement – has already helped more than double bilateral trade since 2003. Last but not least,

participation in the ‘Pacific Alliance’ with Peru, Colombia and Mexico is just another example of Chile’s dynamic foreign trade policy.

And where Chilean trade goes, Commerzbank will follow. In the country, Commerzbank works with 13 local Chilean banks, offering cash and trade finance services – particularly letter of credits and guarantees – to provide a bridge from Chilean business to Europe and the rest of the world. Particularly, Commerzbank has a significant market share of the 20% of Chilean trade that relies on the Euro.

Indeed, European corporates can rely on Commerzbank for mitigating counterparty risk – offering vital outlooks on the local banking landscape and reliable partners on the ground.

Chile’s economy may have fallen into a slump in recent years. But by building on stable foundations and focusing on boosting its trade, it could once again take its place as a bastion of Latin American growth. ■

## Where next for Brazil and India?

**In 2001, Goldman Sachs' Chief Economist identified four emerging powers increasingly significant to the global economy: Brazil, Russia, India and China. With the addition of South Africa, the so-called 'BRICS' group was born. Yet, 15 years on, how relevant is the BRICS concept today?**



### What is the current economic outlook for the BRICS?

**Thomas Krieger:** The picture is rather mixed. South Africa's finances are, according to its ministers, in 'crisis', while even China is undergoing its worst period of growth in 25 years. Meanwhile, in its second year of recession, Brazil is dealing with political instability and reduced investment flows, while under the shadow of a corruption scandal.

**Alexander Rost:** The Indian outlook is more positive, with its stable stock markets and resilient growth rates of around 7%. Yet, digging deeper, we can see the country has its own challenges ahead: it must reduce bureaucratic hurdles to foreign investment, and build a stronger manufacturing base to support its international exports.



### Given such a range of fortunes, has the 'BRICS' acronym had its day?

**AR:** The BRICS idea has certainly helped fuel loose political collaboration among these large economies, in multilateral organisations such as the G20. Indeed, these powers could use their considerable influence to provide a voice for other developing countries. However,

despite efforts to form a co-operative framework – take the launch of the Asian Infrastructure Investment Bank (AIIB), for instance – there has been a lack of tangible achievement. Certainly, they have not taken the opportunity to integrate economically, through trade. We must recognise that the BRICS concept is not a trading model.

**TK:** Absolutely. While the BRICS concept was useful to identify these key emerging global powers, the idea has not translated into much beyond that. I cannot see the BRICS countries themselves forming an effective, cohesive economic unit like the EU, or a collection of trading partners under an agreement like NAFTA.



### So why have the BRICS as a group not taken the opportunity to integrate further?

**TK:** If you look at India and Brazil, not only are they geographically far apart, their import and export profiles do not 'match' in terms of supply and demand. That is, the goods they each require and produce are simply too similar for much bilateral trade. Both countries lack a broad industrial base, and instead rely on the production of less sophisticated goods for sale in emerging markets.



Only in some areas, such as IT (in India) or regional aircraft (like Embraer from Brazil), can they compete on a global level.

**AR:** And this lack of trading integration is reflected in the statistics. Looking at the list of India's top trade partners, though China is number one, South Africa lies way down at number 22 - while Russia and Brazil do not even feature. Competing with Chinese trade, the other BRICS countries must each plot their own, individual course in world trade.

 **Given this, what must India and Brazil each do to improve their prospects?**

**TK:** I think that the solution lies in developing trade with their neighbours. Certainly, Brazil could increase trade with Latin America, reviving the potential of Mercosur - the trade bloc that never really took off. It could also capitalise on its developmental head-start on nearby nations: this can give it a crucial edge when it comes to producing higher-value exports, such as the car industry that it has attracted over the years.

**AR:** India is in a similar position. With nearly a quarter of India's GDP reliant on exports, the country must ensure that it builds a strong manufacturing base. It is well-

placed to export manufactured goods to the developing economies of South East Asia, such as Bangladesh and Vietnam. Of course, this will mean competing for trade with China and Japan, but Prime Minister Modi's drive to promote India as a manufacturing hub will be crucial to establishing a foothold in these key markets.

 **And how does Commerzbank fit into the picture?**

**AR:** Building on a network of over 50 correspondent relationships in India, Commerzbank handles established trade flows with China and the ASEAN countries. We see this as our 'bread and butter' business. Commerzbank also absorbs the risk of suppliers that export the machinery and capital goods from Europe that India needs to build its industrial foundations.

**TK:** Despite Brazil's current challenges, Commerzbank takes a long-term perspective - which is why we're opening a new subsidiary in Sao Paulo. With some 1,600 German industrial companies working in the country, Brazil remains a market with significant potential. And while European and Asian trade still dominate, if Brazil is to explore more local trade, it could take advantage of Commerzbank's banking connections across Latin America. ■



**Alexander Rost**  
Regional Head, Indian Subcontinent & ASEAN, Commerzbank



**Thomas Krieger**  
Regional Head, Latin America, Commerzbank

“With nearly a quarter of India's GDP reliant on exports, the country must ensure that it builds a strong manufacturing base.”

“Brazil could increase trade with Latin America, reviving the potential of Mercosur.”

## New Brazilian subsidiary opens in Sao Paulo

**Commerzbank's office will support European corporates' trade in Brazil, and help Latin American companies explore opportunities across the Atlantic.**

“About 1,600 German companies are active in Brazil, of which about 900 are located in the Sao Paulo area.”

This year sees the opening of Commerzbank's new Brazilian subsidiary. The office will further the bank's global reach, serving as a strategic partner for both European corporates operating in Brazil, and for Latin American companies seeking to access European markets and investors.



seventh largest economy, and one fifth of its exports are directed to the EU. Clearly, the country is an increasingly important trading partner of our core European markets.”

The opening of the new office also underlines Commerzbank's significant involvement in Brazilian-

With approximately 50 employees - including relationship managers, local experts and trade specialists - the Sao Paulo subsidiary will offer its customers access to a wide range of products, from structured export trade finance and currency investments, to cash and treasury management solutions, along with targeted local insights on strategy and risk.

German trade - built on a 60-year presence in the country. Krieger adds: “About 1,600 German companies are active in Brazil, of which about 900 are located in the Sao Paulo area; most are already clients of Commerzbank in Germany. Especially in times of market volatility, these companies need a banking partner that closely understands their business strategy and operations.”

Thomas Krieger, Commerzbank's Regional Head of Latin America, comments: “This is an important step in our internationalisation strategy. Brazil is the world's

Commerzbank has been present in Brazil for 60 years, with a representative office in Sao Paulo.

## Commerzbank wins ‘Best Trade Bank in Germany’ in TFR’s Awards



**Leading specialist commerce magazine, Trade & Forfeiting Review, has identified Commerzbank in its Excellence in Trade Awards 2016.**

On receiving the award, Ruediger Geis, Commerzbank's Head, Product Management Trade, comments: “This builds on a strong history of success in these awards over the years. But we feel particularly privileged to be recognised as number one in Germany, our key home market. We are proud

to be able to offer our German clients insights on regional risks, while helping them to access new markets, seize innovative opportunities and improve their negotiating positions.”

Geis adds: “One of the keys to our success is our global network of correspondent banks, as well as our close cooperation with our corporate customers. In this challenging trade environment, with the euro looking strong but crucial Chinese demand remaining slack, our dedicated relationship managers, together with our trade specialists, act as a ‘first point of call’, able to offer crucial

strategy and financing advice, and to navigate these networks with an international bank's expertise.”

Financing around a third of Germany's international commerce, Commerzbank's network of some 1,050 branches form one of the densest in the country.

Votes from the publication's readership, analysis and research and testimonials from trade finance professionals decides which banks stand out in the annual Excellence in Trade awards.

## Success for Commerzbank's CEE region in *The Banker's* awards

The specialist banking magazine of the *Financial Times*, *The Banker*, has named Commerzbank the 'Best Bank in Central & Eastern Europe' in its annual transaction banking awards.



"We are delighted to be recognised by such a prestigious publication," notes Ivica Langauer, Commerzbank's Regional Head CEE/Turkey. "This award is testament to our long-standing commitment to working with local banks to ensure the steady flow

of trade in and out of the region - which is essential to its continuing development. Our strong network of partner institutions and local representative offices provides us with on-the-ground expertise to drive trade. We will remain committed to our work in the CEE region: providing trade finance, settling payments and mitigating risks for our clients."

Hans Krohn, Regional Head, Russia and Belarus, adds: "We are witnessing challenging economic and political

developments in a number of countries. It is in these times that a strong and committed partner for trade finance is needed most. Commerzbank strives to be this partner for our customers - corporates and financial institutions alike. We have recently upgraded our trade processing capabilities significantly and continue to explore new ways to improve efficiency, transparency and customer satisfaction in the trade finance and cash management franchise."

"Trade finance is part of our DNA and correspondent banking is crucial to facilitating international trade in regions such as CEE," concludes Axel N. Bommersheim, Regional Head CIS Countries/Mongolia. "

*The Banker* magazine provides economic and business intelligence to the financial sector. Coverage of its 2016 Transaction Banking Awards can be found in the September issue of the magazine.

"Trade finance is part of our DNA..."

## First BPO live transaction in the UK

Commerzbank London and UniCredit successfully processed the first UK Bank Payment Obligation (BPO) live transaction.

The transaction covers the export of chemicals from Ireland to Italy. Commerzbank London's customer, the supplier, is chemicals company, Heraeus Metal Processing Ltd. The buyer, UniCredit's customer, is automotive parts producer Ecocat Italia Srl.

With the particular backing of the ICC Banking Commission and SWIFT, there has been growing demand for, and an increasing number of, BPO transactions, as a proven digital settlement tool. It consists of the irrevocable undertaking of the buyer's bank towards the seller's bank to effect the relevant payment as the invoice falls due. Payment undertaking

is made based on the electronic matching of trade data between participating banks on the SWIFT Trade Services Utility platform. While the BPO is a new instrument in Trade Finance, it is also an enabling framework for Supply Chain Finance, following the requirements of the market for providing liquidity and mitigating risk along the supply chain. Petra Burckhardt, Commerzbank's Global Head Product Management Trade Services, says: "The benefits of the BPO for our clients and their increasing demand are the drivers behind our decision to expand our BPO activities in Europe and overseas."

## New kid on the Block

**Hype surrounding distributed ledger technology – more commonly referred to as Blockchain – has been remarkable. But, realistically, what are the likely applications for the trade finance industry? Petra Burckhardt, Global Head Product Management Trade Services, CTS and FI, looks at potential use cases to map a way forward for the technology's development.**

It is almost impossible to open a financial newspaper without reading something about blockchain, the distributed ledger technology that underpins bitcoin, and its potential to disrupt financial services.

Yet potential remains the key word. Some of the commentary around blockchain has led to unrealistic expectations about what it could achieve, certainly in the short-to-medium term. In trade finance, for instance, some have predicted that it will signal the end of the letter of credit as we know it.

That scenario is unlikely. However, blockchain is not without promise for trade finance. In the short-term, the financial services industry should focus on using blockchain for specific elements of the value chain, with the aim of improving liquidity and working capital, and

mitigating risk for corporate clients. And, in this respect, it is crucial that we move from theory to practice – looking at specific use cases for the technology and realistically assessing the potential benefits on offer.

### How do we apply blockchain to trade finance?

Trade brings together different parties: buyer, seller, banks, shipping companies, forwarders, customs offices and regulatory bodies. So, a decentralised ledger of data – which can be accessed and authenticated by all – aligns perfectly with the industry's needs. Indeed, it opens up the possibility of having a verified trail of data, from the purchase order through to production, inventory, delivery and payment.

This provides banks with a holistic, transparent and real-time view of trade flows along a supply chain – enabling far quicker identification of trigger points for financing, liquidity or risk mitigation. Banks can save time and resources by eliminating the need for some of the manual processing and data matching, allowing funds to be released quicker. Ultimately, this should strengthen supply chains by reducing the risk of non-payment.

Another key use-case relates to fraud prevention, which could be significantly helped by a ledger which is more-or-less tamper-proof. A key risk for banks is the risk of double-financing, i.e. the possibility that an invoice presented may already have been sold to another bank or represent collateral in another transaction. Using blockchain would make such fraudulent activity far harder. Indeed, Standard Chartered and DBS began trialling a blockchain-based system focused on this specific use-case last year; so far, the results seem to have been positive.

Perhaps one of the most exciting options in the short term is the possibility of “smart contracts” – contracts that automatically carry out functions once a triggering event has taken place. Smart contracts promise automatic release of funds upon delivery of goods, for instance. Indeed, various banks and technical providers are already looking for use cases and solutions involving smart contracts.

### Taking the technology forward

Implementing blockchain-based solutions for trade



“Implementing blockchain should be a process of evolution rather than revolution.”

finance purposes should be a process of evolution rather than revolution, with the starting point being to identify and test very specific use cases for the technology.

On this journey we can expect to meet both technical and business impediments. Technically, the industry will need to overcome challenges relating to security of data, interfacing of blockchain processes to legacy systems and interoperability of systems. Certainly industry-wide harmonisation of systems will be important; many of the potential benefits will evaporate if there are hundreds of different distributed ledgers created by different banks using different technology.

On the business side, we must focus on drilling down into exactly how the technology will help corporates meet their objectives with respect to liquidity, finance, speed and cost-reduction. The approach should not be to take existing products, such as letters of credit, and simply try to replace them with blockchain solutions, but instead start with a blank sheet of paper and build solutions to solve specific needs.

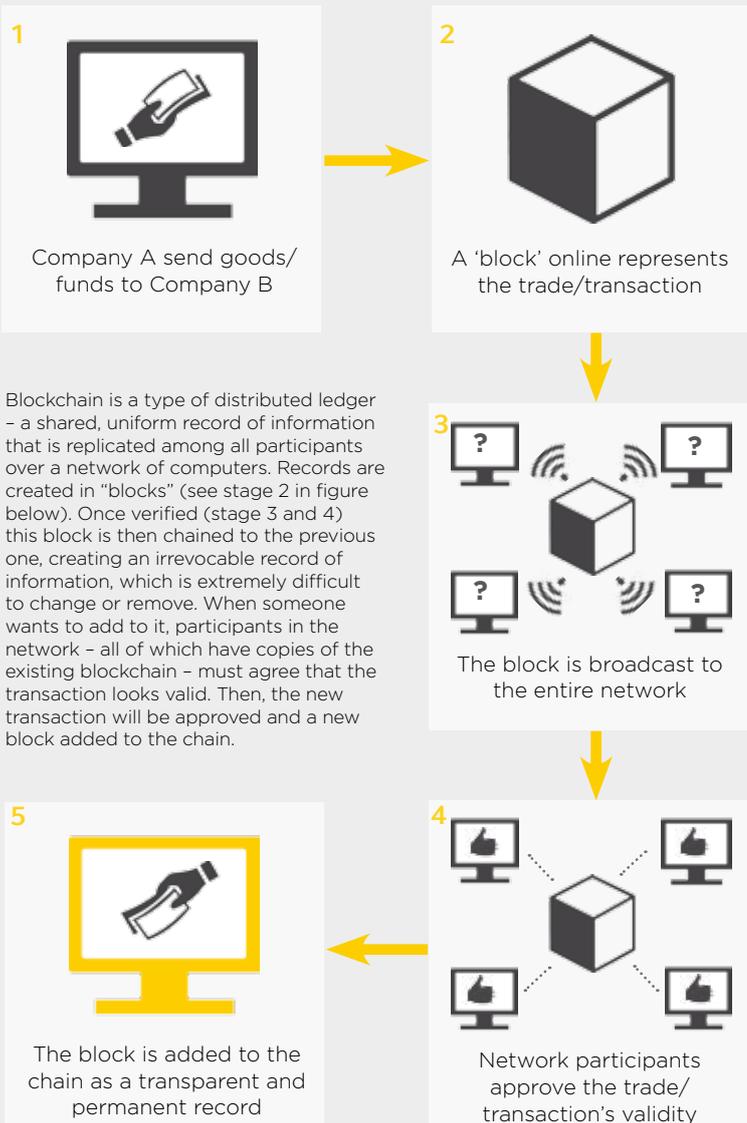
Of course, we can't make this progress alone. Collaboration between banks, other financial institutions and fintechs will be vital. It is for this reason that Commerzbank has taken an active role in R3, a consortium bringing together over 50 financial industry players to exchange blockchain views and experiences, and create different working groups in order to find use cases on a global scale. We are also a member of the EBA Working Group for Cryptotechnology for Trade Finance.

With the Bank Payment Obligation (BPO), we are already implementing the concept of smart contracts for our corporates with our partner banks. Still, innovative solutions need adoption, education and investment. Adoption will take time and we should start by focusing on less-complex blockchain solutions that aim to provide financing, working capital optimisation and risk mitigation for the value chain. In this respect, we are already establishing the building blocks. ■



**Petra Burckhardt,**  
Global Head Product  
Management Trade  
Services, Commerzbank  
Transaction Services and  
Financial Institutions.

### Explaining the blockchain



## Silver linings in Sub-Saharan Africa?

**Sub-Saharan Africa is facing strong economic headwinds, but Christian Toben, Commerzbank's Regional Head, Africa, remains optimistic for the future. Drawing on the bank's new African report, he suggests that, while significant challenges remain, the region's potential for growth relies especially on increasing market transparency and diversification of economies in order to attract foreign trade.**

“If Sub-Saharan Africa is to return to prosperity, it must attract more FDI.”

Having made promising economic progress over the past decade, the countries of Sub-Saharan Africa are now suffering a shift in fortunes. Weak commodity prices as well as weak global trade growth have affected government and export revenues, foreign investment is drying up, and fiscal pressures are mounting.

Clearly, Africa's potential trading partners must remain aware of the challenges. But with the support of internationally active partnership banks, opportunities remain for globally connected exporters.

### On a healthy growth path

Until 2014, countries across Sub-Saharan Africa were looking forward to a new era of prosperity, and the region ranked only just behind the fast-emerging economies of Asia in terms of potential.

As two editions of Commerzbank's report on the region, 'Renaissance in Sub-Saharan Africa', noted in 2012 and

2014, average economic growth rates across the region were at a healthy 5% of GDP per year over the last decade.

Such progress was driven in large part by strong economic growth abroad, particularly in China. Demand for raw materials such as crude oil, iron ore, copper, bauxite and agricultural products such as cocoa, tea and coffee sustained the growth of resource-rich countries – from Nigeria in the West to Tanzania in the East. This was reflected in a history of robust commodity prices since the turn of the millennium.

### 2014 brings a perfect storm

However, as Commerzbank's new report, 'Tackling the headwinds after the economic turnaround', makes clear, Sub-Saharan Africa has had to endure a string of challenges since mid-2014.

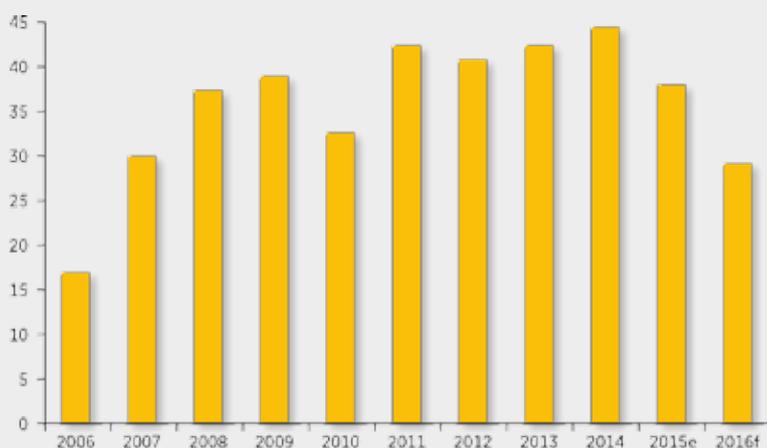
Above all, continued weak global growth – both in developed and other emerging markets – has put Sub-Saharan Africa's own economic fortunes at risk. Slack growth in China – which buys as much as 40% of the region's exports – has had a major impact on trade.

Particularly, Sub-Saharan African countries' dependence on raw material exports has turned from a blessing to a curse. The crash in oil prices to an eleven-year low has hit the region's major crude-exporting nations, Angola and Nigeria, especially hard. Further commodities, from gas and gold to coffee and copper, have also plummeted in price in the past two years.

Given reduced export revenues, average current account deficits in the region have climbed precariously high, to as much as 5.5% in 2015. 6.3% is expected this year. Our report finds that most countries are now “deep in the red”. Public debts are as high as 60-70% in Ethiopia, Ghana and Mozambique; inflation has risen to around 20% in Zambia; and foreign exchange reserves – covering debt and imports, from Ghana to Kenya – are diminishing.

As a result, foreign direct investment (FDI) inflows in 2016 are likely to fall around 30% to 2007 levels (see

**Chart: FDI inflows to Sub-Saharan Africa**



e=estimated, f=forecast

Source: UNCTAD, World Investment Report

bar chart), with international companies in particular fleeing to 'safer haven' markets abroad – particularly in emerging Asia. In this respect, Angola, Ghana, Kenya, Nigeria and Mozambique have suffered considerably.

### Looking for hope on the horizon

Clearly, public and external debt levels should be kept under control. But if Sub-Saharan Africa is to return to pre-2014 levels of prosperity, it must, inter alia, attract more FDI.

For one, FDI is crucial to financing the huge infrastructure projects, with much-needed imports of capital goods essential for the countries to support growing populations and drive economic success. Kenya is a clear example of how infrastructure projects can boost the economy.

FDI is also essential for diversifying into the higher-value economic sectors needed to sustain economic development. For instance, Nigeria, as the region's largest economy, must transition away from its overreliance on oil and gas – perhaps learning from Tanzania, where tourism, mining and telecommunications have maintained growth projections of 6.5% for 2016.

Internationally active companies, for their part, could find huge, promising and unsaturated markets. Young populations are seeking employment and opportunities to improve their professional skills in environments where political stability and democratisation have, on the whole, made great progress.

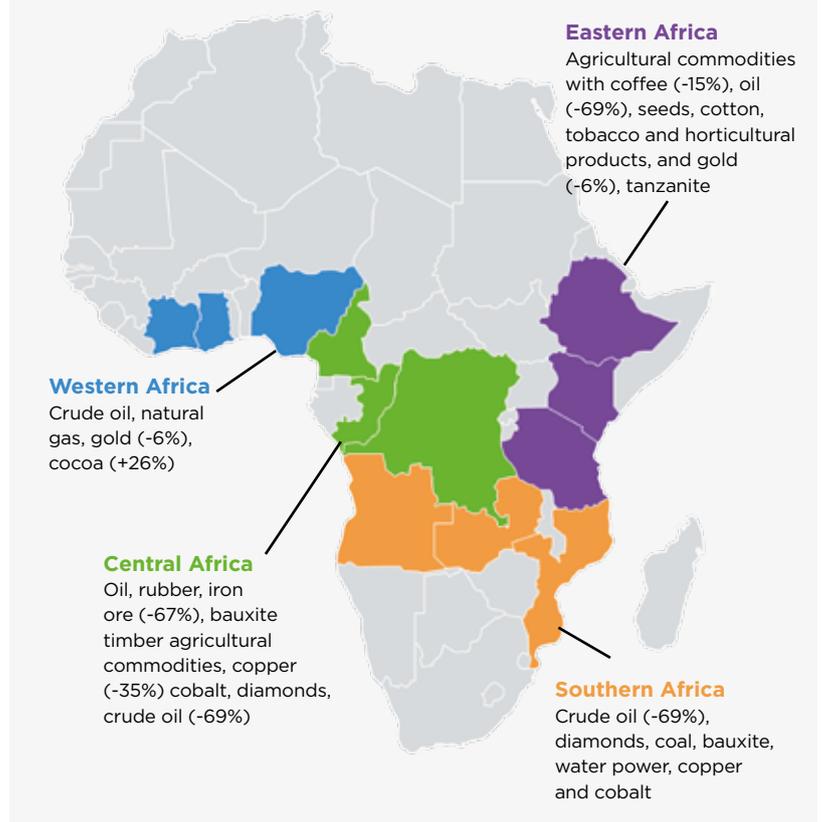
### Building a bridge to Africa

Of course, foreign companies should remain aware of the risks. Stefan Liebing, chairman of the German-African Business Association and a contributor to our report, notes that German companies looking for international expansion – especially SMEs – often explore Asia instead, regarding Sub-Saharan Africa as too risky or unfamiliar.

This is why global banks, which provide regional expertise and market insights, are essential. With 60 years' experience in the region and a research hub in Ivory Coast, Commerzbank is able to increase transparency in these unfamiliar markets so that risks may be understood and, in turn, mitigated.

And with representative offices in Angola, Ethiopia, Ivory Coast and Nigeria, Commerzbank is in the best position to provide this much-needed connectivity to its corporate clients.

### Sub-Saharan Africa: Development of commodity prices



Sub-Saharan Africa has endured challenges in recent years. But its overall long-term progress has been considerable – and the business opportunities should not be forgotten. ■

Download Commerzbank's latest Sub-Saharan Africa report here: [https://www.corporates.commerzbank.com/portal/media/corporatebanking/hauptportal/loesungen-nach-bedarf/pdfs/africa\\_study\\_en.pdf](https://www.corporates.commerzbank.com/portal/media/corporatebanking/hauptportal/loesungen-nach-bedarf/pdfs/africa_study_en.pdf)



**Christian Toben**  
Regional Head, Africa,  
Commerzbank

# The route to sustainability is through finance: Commerzbank's video interview with *The Banker*

**Ruediger Senft, Head of Commerzbank's Corporate Responsibility and Ruediger Geis, Commerzbank's Head Product Management Trade went live with the banking magazine of the *Financial Times***

Ruediger Geis and Ruediger Senft were in London at the *Financial Times* studio, discussing the decisive part financial institutions play in driving sustainability in world trade.

Geis explained in the interview that continued economic growth in world markets relies on international commerce being able to weather the global challenges of dwindling resources, protectionism and short-term economic volatility. Referring to Commerzbank's major report, 'Insights: Scenarios for the Future of Sustainable Trade', he noted that sustainability is the key.

In this regard, Geis stressed that, as the prime financiers of world trade, banks are best placed to ensure that supply chains conform to ethical, social and environmental best practice. He called for banks to promote a "business case" for sustainability, and - like Commerzbank - "adopt it in bottom lines".

Indeed, the issues of corporate responsibility and sustainability are increasingly rising up the agenda. Ruediger Senft agreed that, in the fight for a more sustainable global economy, banks should lead the change. For instance, he noted that banks have the ability to mitigate sustainability-related risks for their corporate clients - which could otherwise have a negative impact on their business. This is why Senft pointed out that Commerzbank's reputational risk management team analyses over 5,000 transactions a year for potential ethical, social and environmental concerns. Clearly, "the Commerzbank approach is to take such measures seriously".

Senft added that both financial institutions and companies have an obligation to "regard sustainability as the norm". He identified transnational regulation as a driver of increased sustainability, which can "bring sustainability to the core of the banking business". He also suggested that there will be a greater demand from the public for transparency on sustainable practices - and that such practices will only continue to grow in importance for big corporates, SMEs and their investors.

*The Banker* magazine provides economic and business intelligence to the financial sector, and is published by the Financial Times.

Read Commerzbank's sustainable trade report here: [https://www.commerzbank.com/en/hauptnavigation/institutions/fi\\_topic/insights/insightssustainabletrade/insightssustainabletrade.html](https://www.commerzbank.com/en/hauptnavigation/institutions/fi_topic/insights/insightssustainabletrade/insightssustainabletrade.html)

"We must make the business case for sustainability."



**Ruediger Geis, Commerzbank's Head Product Management Trade, and Ruediger Senft, Head of Commerzbank's Corporate Responsibility.**

Watch the interview online here: <http://www.thebanker.com/video/v/5026017958001/sustainable-trade>

PEOPLE FOCUS

# People on the Move

**Bashar Barakat** is the new Senior Relationship Manager for FI in Singapore

**Konrad Engber** is now Senior Representative in Addis Ababa

**Christophe Marie** takes up responsibility for the Jakarta Representative Office

**Ana Rozic** is the new Senior Representative in Zagreb



**CLOSE UP:**  
**CHRISTOPHE MARIE**  
SENIOR REPRESENTATIVE,  
JAKARTA



**CLOSE UP:**  
**BASHAR BARAKAT**  
SENIOR RELATIONSHIP  
MANAGER, SINGAPORE

**How long have you worked at Commerzbank?**

I have spent 24 years with Commerzbank, 21 of those focused on the bank's African business. My most recent position was as Senior Representative in the Addis Ababa office, working with the local financial institutions and helping corporates leverage our correspondent network across the region.

**How do you feel about moving to Indonesia?**

Not only is this a great opportunity for me and my family, it is also a good example of what working for financial institutions can offer - I'm eager to learn more about Asia, and keen to experience the large and fast-emerging Indonesian economy first-hand. Moving from the fairly new Ethiopian office to the longer-established Jakarta base will provide a new angle on Commerzbank's work.

**Can you describe your new role?**

Through the development of relationships with Indonesian banks, my role is to support European companies doing business in Indonesia, providing key insights on Asian markets to manage risk. I'm looking forward to generating new business ideas and building on close links with our China and Singapore bases. There is a lot of competition for trade in the Indonesian market, so my new role will be a challenge - but definitely one that I'm looking forward to tackling. ■

**What experience are you bringing?**

Next year will mark 25 years of working in the Commerzbank group. After training in Germany, two years' work in London and positions in credit and project finance, both at Dresdner's head office and in the Gulf, I took over the leadership of Dresdner's Gulf Office in Dubai. Following the 2009 Commerzbank merger, I assisted in navigating the effects of the global financial crisis on our Gulf assets. I spent the last four years heading up Commerzbank's Jakarta representative office.

**Tell us about Singapore and your post.**

Very much a key Asian hub for Commerzbank - host to our largest branch in the region - Singapore has had great success in building investment security and trust. Professionally, I'm looking forward to covering our key relationships between the Philippines, Brunei and Singapore. These networks are important to connecting Asian trade flows with Europe.

**How have you found your latest move?**

After working in an emerging economy for so many years, it's taking time to adjust to being back in a fast-paced, modern city again! I recommend that everyone should try relocating at some point in their life. I believe that travel and experience of different cultures broadens horizons - professionally and personally. ■

**Important information:**

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