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Financing trade in an age of uncertainty

I think we have all been left dizzy by the twists and turns of global politics over the past few months: from the Brexit saga to a new character in the White House, from Italy’s referendum to recent elections in the Netherlands. We now watch closely as France and Germany, too, go to the polls.

It is unclear where the political dust will eventually settle. The question for us, of course, is how will trade fare in this environment of uncertainty? In his interview, our own Ruediger Geis warns of the risk of political sentiment translating into protectionist policies. He notes, too, that new political uncertainties have come just as global commerce faces existing challenges – with growth in global trade volumes having been on a downward course in recent years.

For Commerzbank, however, among all this change and turbulence one constant remains: the need to be a proactive, committed and reliable partner for those engaged in international trade. In practice, this means navigating a range of markets worldwide, offering credit lines and strategic support to our FI clients, and providing close support – in terms of trade finance, cash management and targeted local expertise – to our corporate customers wherever they need us.

This may be in the emerging economies of Central and Eastern Europe or Central Asia, working in close partnership with local banks and global development institutions such as the EBRD. This may be in East Asia – where, as Agnes Vargas describes in this issue, Myanmar and Vietnam...
continue to make great progress in their economic development.

Looking ahead, therefore, I remain positive. Just looking at all the accolades Commerzbank has earned for its cash and trade services over the past months assures me that we are on the right track.

I’m also confident that our proactivity will enable us to remain “future-proof” as a trade bank in the modern age. As Angela Koll explains, we are taking the lead in exploring the options for the industry’s digitalisation, while in the areas of cybersecurity or sustainable trade – subjects no financial institution cannot afford to ignore – we are committed to meeting the challenges of the future head-on.

I hope that you enjoy the issue.

Dr. Bernd Laber
Divisional Board Member, Commerzbank, Trade Finance & Cash Management
What’s hot in trade?

**FI.News** asks Ruediger Geis for his take on the key issues affecting the trade finance industry today

What’s at the top of the agenda for trade financiers at the moment?

Ruediger Geis: Financial inclusion seems to be at the forefront of everyone’s mind – and rightly so. No doubt this is in response to the de-risking trend of the past few years in emerging economies, which has cut off many local banks from access to trade finance.

I can’t overstate the importance of this issue. Under increased regulatory burdens, smaller banks – and especially those in emerging markets – which lack the scale, geographical scope or due diligence resources of larger banks may struggle to do international business.

If this limits the pool of operational banks in any given country, companies will suffer. Enough credit lines simply won’t be available, as banks usually have a cap for a single risk or corporate in place. These caps can be triggered by local laws or internal guidelines. Companies in developing countries, meanwhile, are looking for different ways of financing their trade. They may try to channel funds through neighbouring countries, or explore adapting their trade instruments. Demanding cash in advance is one option for instance, removing the issue of counterparty credit risk.

Is the financial sector coming together to address these issues?

Ruediger Geis: There is certainly recognition that if we are to support world trade, developing countries need dependable global partners in the financial sector.

The IMF and the Basel Committee are working with international and multilateral lenders to find out how we can reintegrate less-developed markets in the global money system. One potential solution could be doing business through one local bank in a country, or at head office level, in order to maintain adequate due diligence controls. This would create a “chain of trust” accounting for all counterparties when it comes to complying with KYC regulation.

Another way the trade community is coming together is through addressing the idea of a KYC registry for corporates. We already have SWIFT’s KYC registry for banks, which gives us a standardised, shared data platform with up-to-date, reliable information that we can then check. Now we’re asking whether a similar sort of thing might be doable for companies.

We’re also looking to form a group that can build a data-based platform offering prices for high-value exported goods. We know what raw commodities are worth – it is easy to find out the oil price at any given time, for instance – but we’re exploring a way to offer insights into the value of manufactures such as cars and machinery.

What’s clear, though, is that such things depend on taking a collaborative approach.

What other challenges are there to trade?

Ruediger Geis: We’re already dealing with sluggish global trade volumes; we’ve had a lower rate of annual trade growth for five consecutive years now. The World Trade Organization tells us that in 2016 the rate was at just 1.7%. Not only is this the worst figure since the financial crisis, but it’s also the first time in fifteen years that global trade growth has been below GDP growth.

The World Bank points to policy uncertainty as the culprit, what with elections and referenda...
in Europe and America. I do see protectionism on the rise – just look at the collapse of the Transatlantic Trade and Investment Treaty (TTIP) and the Trans-Pacific Partnership (TPP). It may be up to the Regional Comprehensive Economic Partnership (RCEP) – the proposed agreement between the ten ASEAN members and Australia, China, India, Japan, South Korea and New Zealand – to spur a renaissance in free trade.

On the other hand, the impact on developed markets in Europe is likely to be more limited. This is because most trade here is settled by open account business: it is characterised by more familiar counterparties and lower risk premiums.

It will definitely be interesting to see what happens at this year’s G20 Summit, held in Hamburg in July. Trade will no doubt be high on the agenda.

**How will this protectionism affect trade finance?**

**RG:** I don’t have my crystal ball with me, but it may have several effects. On the one hand, emerging markets, which depend on traditional trade instruments such as letters of credit, could find themselves doing more business with Europe and less with America – although reduced dollar supplies may result in liquidity issues for banks, leading to a further contraction in trade.

**Ruediger Geis**

Head Product Management Trade, Commerzbank
PARTNERSHIP FOCUS

Keeping the wheels of trade moving with the TFP

Partnerships between local, international and development banks can support emerging economies’ all-important trade flows. Commerzbank’s close work with the EBRD’s Trade Facilitation Programme does just that.

Through trade finance, emerging economies can prosper and better integrate their markets into the global financial system.

For nearly two decades, the European Bank for Reconstruction and Development (EBRD) has supported such progress through its successful Trade Facilitation Programme (TFP) - mitigating risk in trade transactions, and ensuring credit lines are available. Together with close international partners such as Commerzbank, the TFP can help emerging economies continue on their growth path.

The TFP: a vital tool for trade and development

If the world’s emerging economies are to develop their industry, support employment, and better engage with the rest of the world, importers and exporters need to be able to secure financing for their trade business. As Hans Krohn, Regional Head Financial Institutions Russia, CIS & Mongolia, Commerzbank, argues, “Trade finance is one of the most effective ways to promote free markets and to integrate emerging economies into global trade flows.”

The EBRD’s TFP plays a significant role, relieving confirming banks of the political and commercial risk of non-payment by issuing banks in over 23 emerging economies – from Central and Eastern Europe to Central Asia, and from the Baltic states to North Africa (see map).

According to Rudolf Putz, Head of the EBRD’s TFP, “Since its inception in 1999, the Programme has brought together more than 100 issuing banks and 800 confirming banks to complete more than €15 billion worth of transactions.”

The TFP provides cover for a broad range of trade instruments: namely documentary letters of credit, performance bonds, payment guarantees, bills of exchange and promissory notes, and short-term loans. These help channel the export of commodities, textiles and consumer goods, factory machinery and capital goods across borders.

A “win-win” situation

The TFP is particularly well-suited to Commerzbank, a confirming bank under the Programme for 16 years. “We maintain a long-standing commitment to the TFP, because it helps us to widen our trade financing scope and offer more credit lines to emerging economies,” says Krohn. “It directly supports our own import/export business, as our corporate customers and SME clients can access promising new markets. The guarantee of the EBRD, in fact, is the best possible collateral you can have to get trade deals done.”

The EBRD and the TFP’s issuing banks, in turn, benefit from Commerzbank’s support. Putz notes: “With the continued dedication of confirming banks such as Commerzbank to the TFP, the EBRD...”
can continue its vital work of unlocking trading opportunities and supporting economic growth.”

Krohn adds: “It is a win-win situation for all involved. We help the EBRD to fulfil its trade finance mandate, while the issuing banks enjoy a cost-effective way of doing business they might otherwise struggle to complete. Our strategic networks of partner institutions, local representative offices and dedicated relationship managers provide the ‘on-the-ground expertise’ that counterparties working under the TFP require.”

Since 2004, Commerzbank has consistently been recognised as top of the league when it comes to confirming the most letters of credit and guarantees. Commerzbank’s FI clients in Central Asia, the Transcaucasian Region, and Central and Eastern Europe, for example, are the TFP’s most active counterparties.

This achievement is supported by Commerzbank’s long-standing offering of training seminars to bankers from its correspondent partners abroad. These have ensured that counterparties are well-versed in foreign trade, and built strong connections in regions under the EBRD’s mandate.

“I’m pleased to say that, having facilitated so many deals under the TFP, our collaboration with the EBRD runs like clockwork,” comments Ivica Langauer, Regional Head CEE & Turkey, Financial Institutions, Commerzbank. “We can be safe in the knowledge that all the processes needed to facilitate trade – the interaction between our relationship managers and the local issuing banks, the checking of documents, and the forming of the guarantee – all function smoothly. We have always maintained very close contact and open communication channels with the EBRD in London; it is a relationship based on trust, which leads, ultimately, to commercial success.”

In focus: The European Bank for Reconstruction and Development

- As a multilateral developmental investment bank, the EBRD’s mission is to foster growth and innovation, and help to develop open and sustainable market economies in countries committed to, and applying, democratic principles
- The EBRD provides trade and project financing for banks, industries and businesses – both new ventures and investments in existing companies – as well as offering business advisory services
- Since its establishment in 1991, the bank has invested over €110 billion in 4,500 projects across Europe, Central Asia, the Middle East and North Africa. It invested €9.4 billion in 2016 alone
- The EBRD serves the interests of all its shareholders: 65 countries from five continents, plus the European Union and the European Investment Bank
“No bank wants to fall behind in the technological race with fraudsters and be targeted as the “low-hanging fruit”.

How to beat the fraudsters in the cybersecurity race

Cybercrime is a growing risk for banks and their corporate clients. So what tricks should banks be on the lookout for? And, more importantly, what can they do about them? Ronny Wolf digs deeper

Who said that crime doesn’t pay? Cybercrime is expected to line fraudsters’ pockets by over $2 trillion by 2019 – up by a factor of three from recent years, according to the World Economic Forum. In the fight against crime, knowing is half the battle.

What threats are out there?
Banks have identified a range of common risks – which are more to do with business processing than cybersecurity:

- **CEO fraud**
  Also known as the “fake president” scam, a criminal impersonates a company’s CEO, CFO or other senior member of staff over email followed by other external contacts. Gleaning sensitive financial information from the Internet, trade registers, and the company’s website, they finally use “social engineering” (confidence tricks) on employees, calling them with simple questions about a non-existent invoice. The target is the one responsible employee capable of initiating seemingly legal money transfers of huge sums.

  **Case study:**
  An employee thinks he recognises the voice of his company’s CFO, who asks for a credit transfer to Asia. Calling after European midday, the fraudster asks for a same-day commitment before the end of Asian business hours. The audit department confirms a similarity in voices.

- **The man in the middle**
  In this case, fraudsters intercept email correspondence, sending messages from visually similar (but, crucially, different) email domains. Communication between well-established business partners is particularly easy to intercept, as messages are predictable.

  **Case study:**
  A German importer receives notification, supposedly from its Chinese supplier, to divert payment to a new bank account. This is sent just after the German company has received a genuine invoice. The fraudster has tailored the email exactly to the stationery and fonts used by the company’s own bank, and has copied publicly available signatures.

- **Mandate fraud**

- **Computer system attacks via Remote Access**
  One form of computer-based attack involves a scammer contacting employees and posing as an IT specialist from a bank or clearing system. Explaining that they need to provide technical assistance, the fraudster installs a “remote access tool”, which enables the criminal to access internal systems, steal information and initiate fraudulent payments. Surprisingly, disabling administrative rights is no protection against remote access tools.
Another threat facing financial institutions is “ransomware” – a program that halts all systems until payment of a ransom denominated in an untraceable crypto-currency. This could be unwittingly downloaded in an email; should it spread across an entire computer network, a bank could be forced to revert to paper-based payments until it rectifies the problem.

How can banks stay on their guard?
A bank, just like any other company, must take a vigilant approach to everyday behaviour. This involves educating employees on preventative measures – including limiting the scope of personal information made available on social media, and being cautious of online contacts. Staff must be reminded to identify potential threats and weak spots, flag up any unusual or suspicious communication, such as misspelt emails and invoices, and ensure IT security is up to scratch. No bank wants to fall behind in the technological race with fraudsters and be targeted as the “low-hanging fruit”.

How can banks protect their customers?
Banks must introduce technology that can track customers’ payment and behaviour patterns to flag potential risks. Logging onto an online banking portal from across the world will sound alarm bells if activity is then noted locally only an hour later.

Banks should also urge their customers to scrutinise the security of common practices. Allowing staff to authorise transactions with a single signature, or to make an unlimited number of authorisations can be risky – as can allowing managers whose signatures are well known to sign off transactions. They should double-check that important information like bank account details or delivery addresses is secure and up-to-date.

Emails should always be treated with caution. If a senior member of staff is requesting unfamiliar transfer of funds or an email informs the change of bank details, a simple phone call or face-to-face check can help to confirm identities.

While communication forms part of the threat, it also forms the solution. The longer a fraudulent transaction goes unreported, the more difficult it becomes to trace – meaning that efficient communication between banks, and their customers, can help to identify threats at an early stage. Banks can blacklist accounts and warn peers of fraudulent transactions, as well as liaise with relevant national authorities and police if fraud strikes.

There is no excuse to take shortcuts with business and cybersecurity risks. Only awareness of the risks and a diligent approach to everyday practices can help clamp down on fraud.

Ronny Wolf
Cybercrime Specialist, Commerzbank Transaction Services and Financial Institutions
Commerzbank acts as a book runner on Climate Awareness Bonds for the EIB

Commerzbank helps facilitate a green transaction for the EIB

Commerzbank acted as a joint book runner on a EUR 400m tap of the European Investment Bank’s (EIB) outstanding EUR 1.5bn “Climate Awareness Bond” (CAB). The CAB matures in 2023 and pays an annual coupon of 0.5%. The increase was priced at a spread below Mid-swap of 29 basis points.

Most recently, Commerzbank acted as a joint book runner on a further tap of a CAB from the EIB. The recent transaction increased an outstanding EUR 500m 0.5% due in 2037 CAB by EUR 500m. The EIB uses the proceeds of its CABs to finance environmentally friendly investments worldwide, such as renewable energy and energy efficiency projects.

Another year of success in the Global Finance awards

Commerzbank is recognised for its leading cash and trade services

Commerzbank has been recognised as the “Best trade finance provider in Germany” and – for the second year running – “Best global bank for export finance” in Global Finance’s list of the “World’s Best Trade Finance Providers 2017”.

The bank has also taken the titles of “Best Overall Bank for Cash Management in Central & Eastern Europe” and “Best Treasury & Cash Management Provider in Germany” in the magazine’s rundown of the “World’s Best Treasury & Cash Management Banks and Providers 2017”.

Commenting on the awards, Petra Burckhardt, Head Product Management Trade Services, says: “We’re honoured to have been included – once again – among the world leaders of trade and export finance. The awards reflect our determination to be the best partner for our clients, our unwavering dedication to international commerce, and our close, strategic and expertise-led support of more than one million corporate customers worldwide.”

Klaus-Josef Mueller, Head of Product Management Cash Services, adds: “Not only do these awards acknowledge our commitment to our corporate customers in two of Commerzbank’s key markets, but they also prove that, in the digital age, continued development of innovative technology is of vital importance to companies’ efficient cash and treasury management.”

Global Finance’s annual awards identify those banks surpassing the expectations of their customers worldwide.
Commerzbank builds trade finance knowledge with the EBRD

Banks meet in Minsk to discuss the EBRD’s e-learning resource

Commerzbank’s trade finance experts travelled to Minsk in March for the European Bank for Reconstruction and Development’s (EBRD) Trade Finance e-Learning Programme.

Hans Krohn, Regional Head Financial Institutions Russia, CIS & Mongolia, states: “We are always pleased to collaborate with the EBRD in order to further the flow of knowledge in the trade finance industry. Since 2010, the successful students have won prizes and gained seats at Commerzbank’s coveted client-training seminars. Thus, we form the close and deep relationships that are crucial in the trade industry.”

The e-Learning Programme helps issuing banks involved in the EBRD’s Trade Facilitation Programme (TFP) to attain best international practice in trade finance, through building a firm understanding of the International Chamber of Commerce’s (ICC) trade rules. Written by the world’s leading experts in trade finance, the e-Learning Programme was launched jointly with the ICC in May 2010.

Hans Krohn, Hoda Abd El Hammeed Ezzat El Shimi, the e-learning prize winner from QNB Alahli Bank, Egypt, and Rudolf Putz
Russia coming in from the cold

Russia has had its fair share of economic challenges in recent years

Russia has struggled under foreign sanctions and a collapse in commodity prices. To spur a recovery, the government has planned ambitious import substitution and investment programmes, and trade flows have adjusted to the new environment.

Twin economic challenges

The Russian economy faced two major trials in 2014. First was the collapse in global commodity prices. Highly dependent on crude oil and natural gas exports – which account for around half of federal revenues – as well as metals, agricultural products and chemicals, Russia was hit hard.

Second was the array of US and EU sanctions imposed following the developments in Ukraine in 2014: these include asset freezes for leading political and business figures, the exclusion of Russian state banks from raising long-term loans, as well as embargoes on companies in key economic sectors like arms, oil and gas, energy and finance.

The uncertain economic outlook led to loss of confidence in the rouble: between March and July 2014, it lost over half its value (although it has made a strong recovery since).

Hans Krohn, Regional Head Financial Institutions Russia, CIS & Mongolia, explains: “Decisive, even-handed measures by the Central Bank of the Russian Federation ended days of panic in Moscow, when people started buying goods like crazy, preferring to buy cars or TV sets, fearing higher prices because of the rouble’s fall. Devaluation also made it harder for companies to service debt denominated in hard currency; we saw demand for credits in Russia shrink because companies started to postpone investment decisions.”

Given reduced revenues, Russia’s economy contracted by 3.7% in 2015, and 0.2% last year – its worst performance since the global financial crisis. According to Krohn, “The severity of the ‘double hit’ of sanctions and the commodity price decrease means this crisis cannot be compared to any other.”

An ambitious governmental response

To balance the books, the government has plans for import substitution – urging Russia to become less reliant on foreign imports, and develop its own advanced industrial base, with a focus on pharmaceuticals, computer systems, and biotechnology.

“In times of crisis, import substitution sounds like a very good idea,” says Krohn. “Yet, historically, when oil prices are high, and the economy’s awash with money, it is tempting to import. Developing advanced sectors will take time; the substitution process will likely require machinery and technology from abroad. With reduced oil and gas income, the government’s challenge will be to prepare the ground for more foreign investment flows.”
New trade realities
Just as Russia seeks to woo global investors, it is also looking abroad for new trading opportunities – a necessity given that, since 2014, US and EU sanctions have led to a decline of almost 50% in its foreign trade.

The focus is on China, Russia’s major trade partner. Krohn observes: “With sanctions constraining European trade, and exchange rates making European goods more expensive, China is gaining market share as Russia looks to expand its technological base.”

This is at the expense of traditional partners in the West. While all 28 EU members states still hold a share of around 50% of Russia’s foreign trade, Germany, Russia’s second-largest export partner, has seen bilateral trade volumes fall by as much as 45% since 2014.

Compliance commitment
In such a challenging political and economic environment, it is perhaps no wonder that many foreign banks have been cautious. As sanctions closed off certain business avenues and remaining transactions required greater effort to ensure compliance, many European banks decided that remaining in Russia was too complicated.

This means that, for Commerzbank, investing in compliance is key. Krohn states: “Constantly upgrading our due diligence controls, we run background checks on all parties and scrutinise the flow of goods for each transaction. Our correspondent partners in Russia are keen to comply, and stay clear of business that might violate sanctions – so it’s a productive, collaborative approach.”

The past few years have been tough for Russia. Sound economic policy and strong compliance controls from its banking partners can help build much-needed resilience. ■

Hans Krohn
Regional Head Financial Institutions Russia, CIS & Mongolia, Commerzbank
Open for business: Southeast Asian trade set to boom

Southeast Asia is an area with huge growth potential. Agnes Vargas offers her insights into how two of the region’s economies, Vietnam and Myanmar, can continue developing – despite their exposure to slowing Chinese growth.

Despite global challenges, growth in Southeast Asia continues unabated. The OECD measured ASEAN economic growth at 4.8% in 2016 – and predicts 5.1% between 2017 and 2021.

Leading the way is Vietnam. Government statistics show that the economy grew by over 6% last year, driven by its burgeoning manufacturing base and rising domestic consumption.

Myanmar could well be the next Vietnam, as it opens up its economy to trade and investment after decades of military rule. The Asian Development Bank predicts GDP growth to reach 8.3% in 2017. Beyond that, growth in the region of 10% is not out of the question.

The changing landscape of Vietnam
A decade ago, Vietnam was dominated by local and Chinese business, whereas now a western influence is quite evident. Growing links with Europe are no surprise given Vietnam’s reputation as a frontier economy. That said, Vietnam’s development still has a way to go. This is evidenced by its banking industry, where investment margins continue to contract, though not in line with the still-high market risk.

Despite this risk, we’ve maintained strategic, non-exclusive, partnership agreements with local banks in order to offer our corporate clients all the services they might need. At Commerzbank, we deal in both short-term trade business, such as hedging export risk, and longer-term financing and re-financing for intra-Asian business.

A new era for Myanmar: the next Vietnam?
Myanmar’s economy also shows huge promise, although its development is a step-by-step process. As a bank with a large footprint in the area – having built relationships here since 2013 – Commerzbank has witnessed this development up close.

Since the lifting of sanctions in 2016, all business can now be US dollar-based, which is key for attracting foreign investment. We are starting to see an increase in demand from German exporters, with German car manufacturers already setting up factories in the country. There is certainly significant construction going on, mainly relating to essential infrastructure such as water pipelines and telecommunications.

Such development is key if Myanmar is to be able to widen its export base, which is dominated by petroleum gas, precious stones and agricultural products – the majority of which flow to China.
Solving the China conundrum

This brings us on to a wider problem: East Asia’s dependence on China as a buyer. ASEAN trade with China has increased – from around 11% in 2010 to over 15% – while intra-Asian trade and trade with the EU have dropped off slightly. With China’s double-digit GDP growth a thing of the past, countries such as Vietnam and Myanmar have to account for a tightening Chinese belt.

So what should the banks and companies operating in ASEAN do? For a start, we should accept that the region is closely tied to Chinese growth; this will not change in the near future. As such, remaining abreast of the country’s latest trends is vital.

Looking further ahead, there have been talks about creating an “ASEAN Economic Community”, with a plan to implement by 2025. This Community would act as a regional single market, with the free flow of goods, services, labour, investment and capital.

This trading network has the potential to connect 600 million people and reduce dependence on the Chinese economy – something that we will be keeping a close eye on.

China Watchbox:
Key trends to watch out for over the next year

- One-Belt, One-Road initiative: This is China’s ambitious plan to revive the ancient “Silk Road” trade routes and increase both land-based and maritime trade throughout Asia, Europe and Africa. The year ahead will likely see more investment in energy and transport infrastructure.

- Renminbi as a global reserve: In October 2016, the IMF included the yuan in its “Special Drawing Rights” (SDR) currency basket. This is likely to increase appetite among central banks for holding renminbi-denominated reserves.

- Regional Comprehensive Economic Partnership (RCEP): China is likely to continue negotiations for this proposed free-trade agreement with Australia, India, Japan, South Korea, New Zealand, and the ASEAN members.

- Second phase of the Cross-Border International Payment System (CIPS): This new system is intended to build a bridge between Chinese and western payment systems. Benefits include speed and efficiency, as well as encouraging offshore usage of the renminbi clearing hubs.

- Political reform influences: In the Chinese government’s reshuffle in November 2017, seven of the nine people in the closed committee are to be replaced. The replacements, and their relationships with Mr. Xi Jinping, will be important for the future of the political and economic landscape in both China and the wider ASEAN region.

- Geopolitical situation: Look out for further developments regarding the South China Sea, North Korea, and the implications of rising FED rates.

- Growth in green finance: China is facing a pollution crisis due to decades of mass investment in coal-fired energy generation. Recent trends and publicised policy commitments suggest China is turning its attention to renewables and increasing its share of green finance.
The journey to digital trade

As Commerzbank embarks on its “Commerzbank 4.0” programme to become a digital enterprise, FI.News talks to Angela Koll about innovation in the trade industry

What are the driving forces behind digitalisation in the trade industry?

Angela Koll: There are several factors. Most obvious is the chance to boost business and profits by processing more transactions, more quickly. Related to this is the potential to save costs, as automated processes can reduce time-consuming manual workloads.

Another key driver is the need to access and handle more information. Trade lives or dies by the efficiency of its data flows: transactions, payments and due diligence all rely on efficient and transparent communication. So the opportunity to digitise this information and use it in the context of “big data”, for example, is one we should seize.

Then, of course, there is the need to verify this data. For example, we could better meet increasing KYC compliance demands by more efficiently matching data on trading counterparties with collaborative trade registers.

Distributed ledger technology (DLT) may also help us to mitigate risk and clamp down on fraud. A shared ledger of information, accessed and being verified by an authorised party, could ensure that data is correct, that transaction information can’t be changed without the agreement of all parties involved and that receivables aren’t double financed.

The most important driver, however, is banks’ need to meet the growing demands of their corporate customers. They rightly expect more innovative, digital-based offerings. Due to the complex ecosystems of trade with multiple stakeholders and increasing regulations, digitising trade business poses a challenge, but technology and market demands will lead the evolution of change.

What barriers are there to progression?

AK: Digitisation and new technology need investment, not only in IT but also on the business side for development, testing and implementation. It has to be ensured that new processes and technology are compatible with existing frameworks, e.g. front-office platforms, and back-office systems and the IT architecture in general. The success of any innovation and new technology also relies on wide-scale adoption. The Bank Payment Obligation (BPO), for example, requires both corporate and bank buy-in. Despite the range of benefits the BPO offers, if banks do not talk to their customers about it, corporate demand won’t grow, and banks struggle to issue a business case for necessary investment. We must build awareness of the BPO to reach the crucial “tipping point”.

What progress are you seeing in terms of the industry’s digitalisation?

AK: We are making strides forward, but evolution takes time. As said before, trade business is very complex, involving multiple counterparties: one trade
would involve importer, exporter, banks, logistics and shipping companies, insurance company, chamber of industry and commerce, customs office and inspection bureau! All parties must therefore get on board with new solutions, agree to regulatory frameworks and possibly invest in new software.

Fundamentally, the industry remains very much paper-driven. Classic trade business still relies on manually checking documents, e.g. against the conditions of a letter of credit. Instead of replacing existing and established trade instruments with new technology, Industry 4.0 needs to allow new ideas and solutions to step into existing markets and business structures.

**How can Commerzbank drive digitalisation of the trade industry?**

**AK:** We approach digitalisation on three levels: improve, adopt and innovate.

On the first level we look at the improvement of existing solutions and processes, e.g. by offering user-friendly corporate banking portals, customer frontends and trade platforms that not only support the digital experience for our corporates but also allow for optimising internal manual processes.

On the second level we invest in the adoption of those digital solutions that, while already on the market, can enhance trade and supply chain finance.

The BPO is a standout example. At Commerzbank we hold regular talks with BPO advocates in Asia, Europe and America to share experiences, and support other banks and our corporate customers to get “BPO-ready” for the settlement of new BPO business. We’re also in the progress of implementing a BPO frontend solution, providing direct data input by our corporates and interactive communication with the data matching engine SWIFT TSU.

As our corporates increasingly demand digitised issuance and handling of electronic documents, we have started research and analysis of available platforms to move forward in this area, too.

The third level involves exploring disruptive new technologies, such as Blockchain, Smart Contracts or the Internet of Things (IoT), which could potentially transform the landscape. Of course, it may take time before we see a new product on the market based on the blockchain concept, but we will continue to identify business cases for new technologies, and highlight those that can add value to our client base – whether by mitigating risk, improving finance provision to corporate supply chains, or optimising working capital.

To ensure growth and to meet future needs of our corporates and the market, all three levels need attention and investment at the same time, to different degrees of emphasis.
United Nations publication features Commerzbank’s position on sustainable trade

Ruediger Senft, Commerzbank’s Head of Corporate Responsibility, explains the bank’s approach to sustainable trade in an article for the latest United Nations Global Compact Yearbook

How can banks help to meet the challenges of growing populations, dwindling resources and climate change? In a feature for the flagship publication of the UN Global Compact – the voluntary pact set up to strengthen commitment to human rights, fair labour conditions, environmental protection and good governance – Commerzbank’s Ruediger Senft suggests the answer lies in sustainable trade.

“Sustainable trade is key to global development,” writes Senft. “Not only does it spur economic growth, but it also raises living standards, helps to fight poverty, and safeguards the environment. As the vital facilitators of global commerce, financial institutions are best placed to identify the dynamics of sustainable trade and help pave the way toward sustainable economic development in the future.”

He adds: “Commerzbank is heavily invested in sustainable trade as a long-term solution. As part of its commitment to sustainability, Commerzbank checks each transaction it receives for environmental, social and ethical risks. Transactions, loans, and business relationships are subject to wide-ranging evaluation. In some cases, this may lead to the rejection of a transaction or the termination of a business relationship.”

Looking ahead, Senft stresses the value of communication. “Sustainability will depend on all key stakeholders collaborating effectively, whether in the financial, political, regulatory, or consumer sectors. This means banks must communicate their work to key audiences. They can lead the way in making the ‘business case’ for sustainability – thus upholding the core principles of the Global Compact.”

Commerzbank has been a member of the UN Global Compact since 2006. The initiative aims to help institutions make headway towards the UN’s Sustainable Development Goals – 17 targets for sustainable development in the economy, the environment and wider society.

The UN Global Compact International Yearbook highlights those companies and institutions promoting corporate responsibility, operating sustainably, and developing innovative and transparent practices in the spirit of the Global Compact’s principles.

Read the article here.

“Commerzbank is heavily invested in sustainable trade as a long-term solution.”
Ruediger Senft
Head of Corporate Responsibility, Commerzbank
Jochen Mueller takes over from Joerg Motel as Head of FI Asia and Latin America

Michael Benner succeeds Michael Gehrmann as Head of FI in Dubai

Stefano Rausch is the new Senior Representative in Johannesburg

CLOSE UP: JOERG MOTEL
COUNTRY CEO ASEAN AND HEAD CORPORATES INTERNATIONAL, SINGAPORE

How long have you worked at Commerzbank?
In 2008, I headed advanced market sales, then had a longer stint with FI Services. The past three years I was head of FI Sales Asia, covering the Indian Subcontinent, Greater China, ASEAN and Korea.

Tell us about your new role in Singapore
My aim is to establish relationships with our corporate clients and increase our footprint in Singapore and ASEAN. Many local companies have European backgrounds or trading relationships, so we can leverage Commerzbank’s strong market position in our core markets. We aim to provide sector expertise, and offer a good product balance. I’m also keen to explore opportunities in the Middle East from Singapore.

What does the move to Asia mean for you?
I’ll miss the climate, relatives and friends in Frankfurt. Having lived in Hong Kong for almost nine years and travelled extensively in Asia, I’m looking forward to new challenges in Singapore. Leaving the FI world – a diverse, enriching experience – I’d like to extend my gratitude to all the people I’ve worked with over the years.

CLOSE UP: JOCHEN MUELLER
HEAD OF FINANCIAL INSTITUTIONS ASIA AND LATIN AMERICA

Tell us about your Commerzbank career
I joined in 2011 and for two years was Head of M&A in Group Development in Frankfurt. For the past three and a half years I’ve held the position of Country Manager UK Corporates, in our Corporates International division in London.

What are your plans for the FI business?
Our Asian and Latam FI business is very important for our global FI franchise, as well as for our corporate client business. I’ll focus on expanding our FI coverage, leveraging our existing footprint and the experience of our great relationship managers, local representative offices and product specialists. Having worked for over 10 years covering FIs for international investment banks, I’m keen to apply this experience to Commerzbank, strengthening our suite of capital markets solutions for our FI clients.

How are you feeling about the move?
While I’ll miss London, I’m excited for this new opportunity in Frankfurt. Asia and Latin America are fascinating, dynamic markets. They have huge growth potential: I’m eager to witness this at first hand.