EDITORIAL WELCOME

Forward together

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Forward together

A year ago, we travelled to Sibos in Toronto asking a crucial question in these editorial pages: how will the banking industry adapt to the proposed changes posed by evolving client demand, technology change and regulation? As we head to Sydney this year, I believe we have made significant progress towards finding practical solutions. As this issue of FI.News highlights, we at Commerzbank are working alongside our industry partners to ensure that new technologies will bring material benefits to our clients.

This approach, we believe, takes many forms. For instance, we are committed to working with the R3-powered consortium, the Marco Polo initiative, for which we completed the project’s first proof of concept. Through the Batavia blockchain platform, another collaborative project, we eased the cross-border export of cars for a European corporate client.

As for cash services, we share in SWIFT’s vision for common messaging standards in cross-border payments. Ingrid Weisskopf’s contribution to this edition analyses how SWIFT’s upcoming Standards Release will improve payment traceability in more cases by involving non-gpi-enabled banks more closely.

In addition to industry initiatives, we must also further our understanding of new technologies’ ability to reshape the ways that our clients operate. And, of course, in a digitally-intensive world we cannot afford to lag behind. That’s why in this issue we consider two areas of enormous potential for technological advancement.

Kerem Tomak focuses on uses of big data in the financial industry – and our efforts to drive a deeper understanding of our clients’ needs, all thanks to the interpretation and use of data insights. Second, Enno-Burghard Weitzel describes how Commerzbank, helped by a fintech partner, aims to automate selected compliance relevant pre-checks for trade finance. These two exercises will have transformative effects. In a similar vein, Rob Scott also features in this issue to discuss how data-driven processes and automation are modernising post-trade services.

Throughout all this progress, safeguarding against potential threats remains critical. When it comes to maintaining confidence in the financial community’s cybersecurity prevention strategies, Mr. Wolf explains how banks must work together, and with anti-crime agencies. Ruediger Geis, meanwhile, considers how the trade finance sector is striving to safeguard against
climate change, which poses an unprecedented threat to the movement of goods as well as to social and environmental health.

We don’t only engage with partners to produce seamless and state-of-the-art technologies; we are also pursuing collaboration to help build vital infrastructure projects as part of the ambitious Belt and Road Initiative (BRI). **Agnes Vargas** discusses the opportunities that lie ahead for financial institutions and corporates along the Belt and Road. Commerzbank recently signed a memorandum of understanding (MOU) with the Industrial and Commercial Bank of China (ICBC). Through this, we are aiming for a business volume of US$5 billion for BRI-related financing over the next five years. For more information on this topic, you can read our whitepaper: “The Belt & Road Initiative - Changing the behaviour and perceptions of corporate China”.

Further to the global trends of Chinese investment, sustainability and enhancing digital offerings, there are significant developments taking place in other regions. In this edition, **Thomas Krieger** and **Hans Krohn** provide a region- and country-specific focus on Latin America and Russia, respectively. Latin America is undergoing significant change, with two-thirds of the region’s population going to the ballot boxes this year. Meanwhile, Russia is traversing a challenging environment due to sanction uncertainty.

Committed to our clients, we offer a service that is both digital and personal - one that combines years of on-the-ground experience with forward-thinking technological knowledge. We hope that you enjoy reading this issue and, for those of you who are travelling to Sibos in Sydney, we invite you to discuss the issues we raise. You can find us at our booth, B19.

**Nikolaus Giesbert**
Divisional Board Member, Fixed Income, Currencies & Commodities, Trade Finance & Cash Management
Could trade finance ever become fully digitalised?

Given the direction in which trade finance is heading, the digitalisation of trade documents may seem a foregone conclusion. Yet the standardisation and electronification of processes remain sticking points. FI.News seeks guidance from Ludger Janssen about the task at hand.

Fl.NEWS Ludger, what would be the result of digitalising trade finance documents?

Ludger Janssen The advent of digitalisation fundamentally alters the processes surrounding trade. At present, a single transaction requires approximately 100 pages of documentation from as many as 30 parties. Processing so many documents involves a very high number of work hours and thus represents a significant bottleneck to the trading process.

To make trade finance a more efficient business, we must therefore look to decrease the time, and indeed the costs, involved in this process. It isn’t only about efficiency, however; transparency across the transaction chain can also improve thanks to digitalisation. Many industry participants, for instance, are mooting blockchain as a means to safely track and trace transactions, and to decrease risk.

Given the clear benefits, what are the barriers?

LJ The short answer is that it’s easier said than done. The trade ecosystem is incredibly complex – involving a multitude of documents, banks, companies, business habits, authorities and regions. In fact, it is estimated that over 4 billion paper trading documents are in circulation at any given time – revealing the sheer scale of the global trading process.

A clear challenge in this respect is the lack of standardisation. Many crucial documents – such as bills of lading, certificates of origin, invoices and customs clearance documents – have never been “really” standardised. Instead, participants in different countries and jurisdictions have their own versions, practices and regulations. Notably, the situation for documents issued by public authorities, customs or chambers of commerce is even more diverse and challenging. As a result, standardisation – a prerequisite for digitalised success – is a monumental task in its own right.

And this is only one piece of a much larger puzzle. Consider that many countries are at differing stages of digitalisation and the challenge becomes even more acute. Yet, to realise the full benefits of digitalisation, the adoption of any improvements must be near-universal. This means all documents in the chain becoming digitalised, and all users having access to the necessary processing technology, which is a major headache.

Are efforts to standardise trade documents materialising?

LJ They are certainly improving but remain some way off. Of course, cooperation is necessary; but isolated efforts to digitalise trade documents will have little impact. Were Commerzbank to develop its own digital system – without any cross-industry integration – the bank would find itself on what is often referred to as
a “digital island”. And if other financial institutions did the same, many of the time and cost benefits of digitalisation would likely be lost among the myriad systems and interfaces. What is needed, then, is interoperability between solutions and systems. This would create a “digital Pangea”, rather than a series of “digital islands”.

Q Where would the industry see the most instant success, in your view?

LJ I believe that digitalising bills of lading would feature highly among the industry’s priorities: of those 4 billion trade documents in circulation, the bill of lading is perhaps the most common. Corporates pay vast sums each year for demurrage – either because the bill has been lost, is still in transit or because the bank is still processing the documentation. A real-time digital document would go some way to eliminating these delays in the supply chain. The particular challenge here is the legal status of the document, which has yet to be clarified.

Q What progress towards digitalisation has Commerzbank made?

LJ Commerzbank is involved in various cross-industry initiatives looking at applications of distributed ledger technology (DLT). In February 2018, Commerzbank joined the Marco Polo initiative, supported by R3 and TradeIX. The project could help revolutionise the handling of international trade transactions by providing risk mitigation and financing along the supply chains of trading clients.

We have also transacted via the IBM-supported Batavia platform, helping our client, Audi, to export cars from Germany to Spain. Through these initiatives, we have gained crucial insight into how the trade finance ecosystem can continue its transformation. We continue to keep our finger on the pulse and to find ways to help bring trade finance into the digital era.
NEWSFLASH: Commerzbank announces strategic partnership for payments processing with equensWorldline

- In July, Commerzbank embarked on a 10-year partnership with equensWorldline – subsidiary of Worldline, an Atos company. Through the partnership’s course, equensWorldline will process on Commerzbank’s behalf all Single Euro Payments Area, instant, multi-currency, and domestic payments – approximately 4 billion payment transactions every year.

- Commerzbank is also outsourcing its SWIFT financial messaging infrastructure to equensWorldline. By forging this partnership, Commerzbank distinguishes itself as a tier-one, global bank – and frees up its team to innovate its payments offering.

- Christian Rhino, Divisional Board Member, Group Banking Operations, Commerzbank, says: “Through the purchase of ‘payment as a service’ from equensWorldline, we have gained a reliable strategic partner for our company, allowing us to fully concentrate on our digitalisation and the strategic restructuring of Commerzbank 4.0.”

Moving swiftly on...

When it comes to improving payment experiences, the financial community never stands still. Further, thanks to SWIFT’s guidance and the move towards open banking, it’s a catalytic time for payments. FI.News asks Ingrid Weisskopf about these latest happenings

FI. NEWS Ingrid, what developments in payments do you consider the most interesting, at present?

Ingrid Weisskopf For the international landscape, the most crucial remains SWIFT’s global payments innovation (SWIFT gpi). SWIFT’s primary and unique asset is that it already boasts a standardised network, which connects every bank in the world, meaning that the initiative has the potential to bring unparalleled speed and transparency to a great number of payments.

This alone isn’t enough, however. Two things are clear to us: first, we must look to digitalise the space further and, second, we must convince more banks to join. Though SWIFT gpi’s progress has been impressive – take, for instance, the fact that in most cases we can allow payments to be credited within a few minutes – there’s always more to be done.

Q What upcoming developments can be expected?

IW As always, the industry isn’t standing still and it’s pleasing to see that more change is afoot. For instance, the Standards Release 2018, which comes into effect from November 2018, represents a catalytic development for SWIFT gpi.

It will mean that every intermediary bank – SWIFT-gpi-capable or not – will be required to transmit the unique end-to-end transaction reference (UETR) assigned to every payment along the payment chain to the next intermediary/beneficiary. Before, interruptions to the payment cycle could still occur: non-gpi-enabled intermediaries were not required to pass on the reference, which in turn meant that visibility of the payment’s status would be lost. With this change, the true transparency benefits of SWIFT gpi will be realised.

Q Is a fast global adoption of SWIFT gpi looking likely?

IW Absolutely. SWIFT is aiming for global adoption by 2020. To do this, it needs to onboard two target groups: corporates and regional banks. SWIFT recently launched a pilot aiming to establish standards for multi-banked corporates, which could go some way to satisfying even highest demands. At the same time smaller, regional banks must be convinced to become gpi-capable to make sure that gpi functionalities are covered throughout the payment chain.

“As always, the industry isn’t standing still and it’s pleasing to see that more change is afoot.”
We are already on a good path, and in our view it is only a matter of time before banks worldwide become broadly connected via gpi. Once banks have got to grips with the SWIFT’s 2018 Standards Release, there’s no denying that we are one step closer to global adoption.

Q: It seems that digitalisation and collaboration are key trends for the industry. How else is Commerzbank embracing this change?

IW: We are exploring the opportunities that open banking creates. For instance, the second Payment Services Directive (PSD2), which came into effect in January 2018 with further provisions to come, is already diversifying the payment environment by enabling third-party providers to access customer account information.

There are of course different ways to deal with such developments. At Commerzbank, we think creatively about new technologies and disruptors. Open-mindedness towards collaboration instead of protectionism allow us to be flexible and to offer exciting services and products in cooperation with others. Not to mention the fact that we, in our position as trusted custodians for both money and data, do this with a careful eye on cybersecurity, too.

Another example of new thinking, specifically for payment processing, is our strategic partnership with equensWorldline, which frees up Commerzbank to divert energies to creative thinking and innovating on behalf of our clients.

We operate in an environment where regulators and clients are pushing for faster payment services. Thankfully, financial institutions are equal to the challenge. Commerzbank, through its commitment to SWIFT gpi and to finding solutions that support our clients, is no exception.
“From our perspective, the process of making sense of the data available to us is part science and part art.”

**Big data, enormous potential?**

*FI.News* asks Kerem Tomak how Commerzbank is rising to the challenge of meeting client expectations thanks to data insights

> Kerem, “big data” is a remarkably broad term. How has its definition evolved?

**Kerem Tomak** It’s true that the definition of “big data” has become fluid, but for good reason. Big data is rapidly changing on three fronts: volume, richness and speed.

From a volume perspective, what was considered “big” in the 1980s can now fit comfortably onto a pocket-sized USB drive. Back then, 30 megabytes (MB) would be considered big data – the equivalent of three minutes of high quality video footage by today’s standards. Today, every smartphone user is a data creator, meaning that we have considerably more data to handle, analyse and use.

Yet another difference is the type of data available. It isn’t all characters, zeros and ones in rows and columns; it’s also video and audio. And, finally: speed. The speed at which we can process and use data today is mind-boggling, with much of it happening in near to real time. Take real-time traffic alerts that can divert your route on a smartphone’s map application, as just one example. And I have no doubt that our perception of what constitutes big data – particularly from a volume perspective – will have changed once again in a few years or so.

We are also seeing change in terms of awareness: corporations, including banks, are increasingly looking to big data to tackle the big questions.

> Can you outline why and how banks use big data?

**KT** Given that our clients’ needs are continually evolving, we must strive to deepen our understanding of their pain points – which itself requires data collection and analytics – in order to develop solutions that will have a tangible impact on their business.

So, then we move onto how to do this. From our perspective, the process of making sense of the data available to us is part science and part art. It begins with gathering the data in a big data storage solution. Modern storage solutions, such as Hadoop, are purpose built to bring together various datasets and to store them on scale in one place, no matter the data type. They also serve to increase the speed at which users can access, manipulate and clean data compared to traditional systems. At Commerzbank, we have already connected approximately 70 different data systems held within the bank in this way with scope for future additions.

The next step is to build either visualisations or advanced algorithms based upon the data – what we call “data insights”. In effect, this means building a layer over the data that can help us to interpret a scenario facing our client in a new way. This process can thus help us to understand how we can better support our client; to spot fraudulent activity, to reduce risk, to suggest new products and so forth.

> How does data analysis performed in the banking industry compare against other industries?

**KT** The applications of big data in banking are not different from applications elsewhere, such as in retail. Of course, in the retail environment many companies have almost perfected this science: take the example of e-commerce websites developing suggested product lists based on a user’s browser history. This is a process born from investing in user technology to create a deeper understanding of your clients.

The process is no different in the financial sector: banks need to intelligently use the available data to ascertain what kinds of services and products clients require. Commerzbank recently developed a data-driven product in the manufacturing sector for this purpose. Using an Internet of Things approach to access data, we have created a “pay-per-use” loan that means the repayment schedule is calculated based on machine usage – helping our client to adjust its liquidity according to its output.
Which other industry advancements do you think could complement big data solutions?

KT First, I see potential development in fusing big data and blockchain solutions. Distributed ledger technology (DLT) will likely ease the secure flow of transactions across the supply chain – making transactions faster and more transparent while also helping to prevent fraud.

Artificial intelligence (AI) – or, more specifically, machine learning and rules-based automation – will also be increasingly important in the analysis of big data. AI has already been used for fraud detection for some time, but I see its use being extended to tailoring products according to a specific client’s needs.

Interestingly, I believe that augmented reality will become a greater part of everyday life – and banking will likely be no exception. Banks have an opportunity to interact more closely with their clients. Also pressing is the need for more cloud-based solutions, which will enable users to work in a more efficient and secure way – at any time and in any place.

Beyond strategic partnerships, how is Commerzbank establishing the necessary internal expertise to keep pace?

KT We have created a Big Data & Advanced Analytics (BDAA) team, which highlights how strategically important big data analytics is to our digitalisation strategy.

The team now has 70 people, though this will grow to 100 by the end of 2018. Beyond this, it’s expected to double in size every year until at least 2020. Our role is to challenge ourselves to react more quickly to what’s happening within and outside Commerzbank by using data. We are organised to focus on issues facing our clients: for instance, we have teams dedicated to fraud detection and prevention and enhancing risk management solutions.

Our objective is to remain agile and to preserve our “start-up” ethos. Our biggest challenge is to always be curious and ask ourselves: “Is there a better way of doing this?” and “How can new technologies make the bank work better for everybody?” This requires a continuous hunger to learn and to be on the industry’s cutting edge.
Towards a new era for trade finance processing?

Enno-Burghard Weitzel outlines how Commerzbank is automating selected compliance relevant pre-checks for trade finance transactions with the help of fintech partner, Conpend

When it comes to trade finance, banks face a dilemma: how do we reconcile ever-growing compliance requirements and anti-money laundering (AML) checks with our clients’ expectations for things to be fast, efficient and with the same high levels of service? In a paper-intensive business, this has been a challenge echoing through the decades.

But is this soon set to change? As part of its digitalisation strategy, Commerzbank plans to automate around 80% of the selected compliance relevant checks of the bank’s trade finance processes by 2020. The bank has started a pilot phase to automate the anti-money laundering processes which are an essential part of any trade finance transaction review. After evaluation of the pilot phase, it is planned to roll out a further stage with the sanctions checks and client communication in trade finance in the course of 2019.

By embarking on this long-term plan, we are leading the change towards a new era for trade finance processing. Why are we doing this? In its simplest terms, trade processing consists of three steps: risk controls; document checking; and client communication. And within risk controls, there are multiple components: financial crime checks; compliance checks; as well as credit and reputational risk controls. As such, the processing of trade finance transactions is becoming
more complex and prone to higher risks, as manual processes struggle to keep pace with the increasing regulatory and market trends.

**Solutions through collaboration**

It sounds good in theory. So how are we doing this? Commerzbank has now started a partnership with Conpend, a fintech company focused on solutions for trade finance operations. Conpend uniquely uses optical character recognition (OCR) and progressive machine learning to extract data from physical documents, recognise patterns and flag deviations.

The machine learning component means that the software will constantly improve the identification of potentially non-compliant transactions as it is being used. It will use application programming interfaces (APIs) to connect to Commerzbank’s existing trade finance processing infrastructure and create a complete and detailed audit trail for the bank to front-run the increasing expectations of regulators with respect to reporting requirements.

The planned automation of selected and relevant compliance pre-check and sanctions check processes in trade finance refers to business operations only – the so-called “first line of defence”. It does not affect any downstream internal oversight, compliance and audit processes of the bank. The new business processes will improve efficiency and further optimise risk control procedures. Any compliance risks identified will be reported, monitored and examined according to the established risk management, control and governance processes.

In theory, this exercise may seem as a daunting step. In practice, however, it’s a matter of taking proven techniques of rule-based decision making and applying them to a new field. Financial institutions already make credit decisions and transfer funds all thanks to automated processes.

**A forward vision**

As we move towards such transformative measures, we look for support from the wider financial community. We believe that regulators, banks and, above all, our clients will need to come with us on the journey. This process does not change the core principles of trade finance – a product designed to establish trust between trading partners. In our view, automation goes some way to furthering that trust. We hope you’re along for the ride.

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**A spotlight on Conpend: Marc Smith, Founder, Managing Director**

**Q What makes Conpend special?**

**MS** First, we have developed an AI framework capable of progressive learning and applied this to data capture and decision support. Second, our background is in operations management and trade finance. As such, we have created a complete solution not only capable of handling the massive variation typical to trade, but also able to solve many practical operational challenges.

**Q What interests you about the collaboration with Commerzbank?**

**MS** I believe that we share the same vision on the way trade finance will be processed in the future and how this can be applied to the here-and-now. We have established a collaborative team working closely together to modernise the traditional elements of trade finance processing in an agile manner. Commerzbank is exciting to partner and we are firmly on the same page.

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**Enno-Burghard Weitzel**  
Head of Product  
Management Trade Finance
Staying ahead of cyber-criminals

It takes one mistake to hand over a company’s digital – and financial – assets to rogue actors. FI.News asks Cybercrime Specialist, Mr. Wolf, how banks are confronting the challenge

According to recent estimates, cybercrime of all shades costs the global economy 0.8% of GDP. As fraudsters become increasingly capable at social engineering attempts, banks must ramp up efforts to keep their customers safe. This is easier said than done: human errors, whether it’s by opening a rogue attachment or by transferring funds on the merit of a well-crafted email, make easy work for opportunists. For this reason, banks and corporates must work closely together.

Mr. Wolf The most troubling development comes from ransomware, which has evolved in terms of method of attack. In the past, fraudsters may have infected many users with the same ransomware program, and requested from users a small ransom in return.

Now fraudsters individualise attacks. They focus on one potential victim and, once successful, will block access to the user’s telephone, website, email, and even the business operations – often leaving a corporate with no choice but to cease operating until the matter is resolved. The repercussions of such interference in mind, ransoms are no longer in the three figures; they’re well into the six figure territory.

W As one might expect, preparation for every eventuality is crucial. This even extends to having access to bitcoin, which is almost always used for ransom payments. This creates its own challenges, such as who should own the bitcoin wallet: in certain jurisdictions owners must be individuals, not corporates. Then there are KYC complications, too. Furthermore, because cryptocurrencies operate in a similar way to the securities market, it’s not always possible to buy the required amount at short notice.

Our advice is always that corporates must address the cause: human error and poor process. This can only be done by extensive training and by building understanding of what phishing attempts look like. Only making payments accompanied by an invoice and a contract is yet another way of eliminating mistakes; so too is following up any request for immediate payments or a change of bank details. Such instances should be double checked via an alternative means of communication – whether it be telephone call, email or in person.

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W What about banks?

W We play our role, too. At Commerzbank, we stop around 99% of all attacks on our clients. We manage risks by investing in our high performance fraud system, which checks up to 8 million payments per hour.

Though it is not a legal requirement, Commerzbank recently introduced payment reference matching. This means that we match every payment reference to the corresponding account to better protect against CEO and mandate fraud.

W Do differing levels of cybersecurity provide a competitive edge between banks?

W No, this isn’t the case. Ensuring the safest possible payment environment is paramount for global commerce – without it, confidence is lost. Banks can only achieve this by working closely together: with national authorities, police, and anti-crime agencies. Also among our priorities is reachability. Other financial institutions can contact us regarding potential instances of fraud at any time.

Staying ahead of the criminals is no easy task. But by focussing on ways to shore up both human and technological aspects of cybercrime, we ensure we are in the best possible position.

EXPERT VIEW

It takes one mistake to hand over a company’s digital – and financial – assets to rogue actors. FI.News asks Cybercrime Specialist, Mr. Wolf, how banks are confronting the challenge

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Sustainable trade: the next steps
Ruediger Geis discusses how the trade finance sector can best safeguard social and environmental health, while maintaining economic growth

Financing sustainable trade matters – to people, the planet and profit. Market participants are increasingly understanding how to manage greater environmental and social risks and recognising the need for holistic and transparent stewardship across the supply chain. As such, the market is coming to understand two inalienable truths. First, climate change poses an unprecedented threat to trade – endangering not only the origin but also the movement of goods. Second, the importance of human capital for economic value is unmatched.

It is clear, then, that taking positive action to offset environmental and social risks makes practical, business sense. Such action will comprise industry wide changes – including proper standards, coherent guidelines, and securing stakeholder support – and will likely take time, patience and perseverance. Yet we believe such changes will soon be a key driver of economic growth, meaning that the option of ignoring climate change risk, or the needs of a workforce, is no longer viable.

Banks in the driving seat
It is vital that banks lead by example. Choosing to finance green projects, undertaking due environmental, social and governance (ESG) diligence on trade finance transactions, and educating client bases are just some ways to achieve this. Certainly, the growth of banks’ green bond issuance is one positive trend. In 2017, banks were accountable for 22% of the total green bond market – compared with just 3% in 2014. And, of the €108 billion in green bonds issued in 2017, Commerzbank assisted with the issuance of €5.5 billion – showing our strong position in this asset class.

Commerzbank also works across our diverse network of counterparties to track ESG risk in its many forms – checking more than 5,000 transactions each year. Trying to ensure that commodities are sustainably sourced is the first port of call. Thereafter, good governance on each part of the supply chain not only serves to protect the environment but also to secure fairer labour conditions.

Therefore, rather than retrenching from trade because of unsavoury practices, Commerzbank seeks to embrace new, innovative technologies – from sustainability assessment tools to new trade financing instruments that enable sustainable practices. We predict that the growth in “track and trace” solutions, for example, could have significant implications. Their ability to reliably identify the origin, position, and the condition of goods across supply chains can be actively applied to – both current and incoming – definitions of sustainable trade.

Moving forward
For sustainable trade to be successful, Commerzbank believes that collaboration is crucial. In May 2017, Commerzbank signed the Frankfurt Declaration: a cross-industry agreement to bring operations in line with wider ESG initiatives. Collaborative initiatives such as this – between banks, corporations, universities and non-governmental organisations – are instrumental to ensure the widespread and transparent growth of sustainable trade.

And, crucially, the industry must reach consensus about what “sustainable” really means. The green bond market faced similar demands several years ago. At its inception, there was no definition of what constituted the “green” or “green bond” label. As such, the terminology became somewhat sullied by corporations wishing to take advantage – otherwise known as “greenwashing”.

So, with some disagreement about what makes trade practices “sustainable”, a similar tightening of definitions and guidelines is required. The ICC Banking Commission’s Working Group on Sustainable Trade – of which Commerzbank is a member – is the collaborative, industry initiative trying to make this happen. The Working Group’s primary objective is to advocate higher levels of industry-wide disclosure from the banks financing trade and their counterparties.

Technologies shaping the future
For trade to become truly sustainable, banks should embrace new, innovative technologies – from sustainability assessment tools to new trade financing instruments that enable sustainable practices. We predict that the growth in “track and trace” solutions, for example, could have significant implications. Their ability to reliably identify the origin, position, and the condition of goods across supply chains can be actively applied to – both current and incoming – definitions of sustainable trade.

Blockchain could also be a potential solution. Its applications for increasing transparency could further reinforce the Working Group’s goals. For instance, distributed ledger technology (DLT) can facilitate the transfer and approval of certificates across the supply chain. Indeed, the enhanced transparency provided by blockchain can protect counterparties against reputational risk while ensuring the development of sustainable practices.

The development of sustainable trade will draw on myriad technologies, encompassing all market participants. However, it will the banks – with huge financing and risk taking capabilities, extensive trade expertise and strong market influence – that will act as the fundamental driving force for a truly sustainable trade finance market.
Belt and Road – a China for everybody?

With its Belt and Road initiative, China sets its sights on building economic prosperity. This presents opportunities for financial institutions and corporates elsewhere, too. Agnes Vargas explains

China’s economic transformation began three decades ago. Since former leader Deng Xiaoping orchestrated the country’s economic reform, GDP per capita has increased thirty-fold. In a relatively short period of time, Chinese corporates have become leaders in many fields, from telecoms and railways to eCommerce and electric vehicles.

The Belt and Road Initiative (BRI), some argue, is the story’s next chapter. China has already invested some US$87 billion under the strategy – with foreign direct investment (FDI) responsible for US$60 billion, reckons China’s Ministry of Commerce. The aim is to promote economic cooperation with Eurasian countries through broadening trade links – a 21st century renaissance of the ancient Silk Road.

Nevertheless, this story isn’t without twists and turns. Despite infrastructure projects emerging along multiple land corridors and outward merger and acquisition (M&A) activity into Western Europe growing, challenges abound. While funding so far has primarily come from Chinese financial institutions (FIs), such is the scale of the BRI that China cannot finance its commitments alone. Further, China must change perceptions in other countries about what the BRI means for safeguarding jobs and technology.

BRI as a shared vision
This is slowly happening: China is opening up the BRI to everybody. Forging working relationships with FIs overseas to share in BRI-related opportunities is part of the solution. So, as the central government slows its BRI spend, the opportunities for FIs and corporates in other regions might increasingly become apparent. FIs must then ask themselves: “How can we help our corporate clients to participate?” Though BRI is garnering international headlines, it isn’t yet clear how SMEs, including Germany’s Mittelstand, can become involved.

One possible route is through M&A activity. Commerzbank predicts that there were some 450 Chinese acquisitions into western Europe in 2016 and 2017. In our view, such activity will likely increase over the coming years. This is because America is an increasingly challenging market for Chinese corporates; Europe’s geographic location on the BRI route makes it a plausible alternative.

Notably, Germany is a priority market for Chinese corporates, thanks to its technological expertise and not to mention the appeal of the “Made in Germany” label, as an international indicator of high quality. German assets are in demand, too, because they have a suitable risk profile. In fact, deals are already materialising. And they’re not only big ticket transactions, such as Midea-Kuka and Geely-Daimler. They also include many lower profile mid-market transactions into the Mittelstand, in sectors including healthcare, technology and infrastructure.

So, while this suggests that outbound activity is picking up, hurdles remain. For instance, many Europe-based enterprises, including Mittelstand companies, hold strong familial values. Anecdotal evidence suggests that China’s state-owned enterprises (SOEs) – when investing in family-owned businesses that have a strong role in their local community – might require a cultural shift.

At the same time, we see that Chinese corporates are fast adapting to this environment; approaches to target companies are much more adept and becoming more acknowledging of diverse philosophies, which goes some way to providing comfort for international parties.
Another challenge is how China, the world’s largest emitter of greenhouse gases, will dovetail the BRI with its environmental targets – namely, China’s stated nationally-determined contributions (NDCs) to meeting climate goals outlined in the Paris Agreement. Are the aims of the BRI and China’s NDCs mutually exclusive or complementary? The country aims to ensure the latter. Corporate China has already developed many clean technologies, such as an ultra-high voltage direct current (UHV DC) power transmission system, to address domestic pollution issues. On the other hand, the country has been involved in 240 coal-fired power projects across 25 of the 65 Belt and Road countries.

**Commerzbank’s vision for BRI**

Despite these challenges, we are committed to participating in China’s grand project. Since it appears that the BRI is opening up to the world, Commerzbank’s message to financial institutions and corporates alike is clear: “Don’t wait for the opportunities; seize them.” Commerzbank is doing just that: via a memorandum of understanding with the Industrial and Commercial Bank of China (ICBC), we aim for a business volume of US$5 billion to BRI-related projects over the next five years.

As the BRI comes to maturity, the surrounding rhetoric may differ from that originally established in “Made in China 2025,” the decade-long strategy to move manufacturing output towards high-tech products – another ambitious China-led initiative. Instead, there’s an opportunity to share the fruits of China’s development with the rest of the world. Belt and Road is thus about the journey; not only the destination.

**Agnes Vargas**

Regional Head, Financial Institutions Asia
Will Russia turn east?

Amid international sanctions on Russia, uncertainty abounds for trade conditions in neighbouring countries. FI.News asks Hans Krohn what may lie ahead

HK One only needs to look at the GDP of neighbouring countries to see that there is no direct substitute for the Russian market. That said, some economies have tried to decouple from Russian woes.

A true success story among CIS countries is Uzbekistan: recent political and economic reforms have prompted an economic boom, large investments (both foreign and domestic) and a strong increase in foreign trade. As a matter of fact, demand for trade finance credit is increasing at a pace almost quicker than foreign financial institutions can keep up with. Growth in Uzbekistan has been well-managed, so there’s a good chance that the pace of modernisation and innovation will continue for the foreseeable future. The country is also seeing an uptick in BRI-related investments, along with Kyrgyzstan and, to a lesser extent, Kazakhstan.

HK

How are financial institutions in CIS and CEE evolving?

HK Unsurprisingly, we see one major trend: the move towards digitalisation. Many banks in these markets aren’t grappling with cumbersome legacy systems to the same extent as financial institutions in the West. This allows local banks to innovate and to offer a wide range of digital services, often outpacing their western counterparts.

However, the next step for banks – both in CEE and in the west - will be determining how to turn innovative digital experiments into practical solutions that truly benefit the customer and help banks to protect their market share against the “digital natives”, such as the tech giants. It’s easy to envisage such companies eventually establishing their own one-stop-shop financial services platforms. Most likely these will focus on retail business at first. Trade finance, on the other hand, often requires tailor-made solutions.

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Notwithstanding the ongoing efforts around the bank payment obligation (BPO) and the creation of electronic documents, trade finance might not be considered the primary target for digitalisation efforts, at present.

To sum it up: financial institutions in CEE and CIS continue to operate in a challenging, fast changing economic environment that requires them to constantly adjust and optimise their business strategy. For that, they need reliable partners abroad. Over the last four decades, Commerzbank has worked tirelessly to become just that, offering a wide range of sophisticated services in the areas of trade finance and cash management.

HK
Decision time for Latin America

Cautious times for investors in Latin America: two-thirds of region’s citizens go to the ballot boxes this year. Thomas Krieger explains the implications for trade

Observers might one day remember 2018 as a year of transition and uncertainty for three of Latin America’s largest economies. In June and July respectively, Colombia and Mexico elected new presidents. Brazil, meanwhile, went to the polls in October. In all three countries the prospect of political change coupled with economic instability, are causing concern for investors.

Starting with Brazil: having recently emerged from recession Latin America’s largest economy is forecast by the International Monetary Fund (IMF) to grow by 2.3% in 2018. Such forecasts are not helped by the fact many pundits’ initial favourite for the presidency, former president Lula da Silva, was sentenced to 12 years in jail on corruption charges. The ongoing judicial proceedings against many politicians involved in corruption further increase to the continuous uncertainty.

In the wake of various scandals involving other candidates, Jair Bolsonaro, who seems to favour large style privatisations and increasingly is supported by the private economy, emerged as one of the front runners. That said, at the time of writing, his prospects are unclear following a violent attack during the campaign trail. Unfortunately, with the electoral outcome so uncertain, our hopes for a more optimistic 2019 are muted.

In Mexico, where president-elect Andrés Manuel López Obrador awaits his inauguration on December 1st, forecasts are equally unpredictable. During the election attempts to factor in Obrador’s policies – notably his pledge to boost social spending – led to a degree of investor nervousness. However, Obrador was conciliatory in his post-election speech - with many now placing him as a centrist committed to fiscal responsibility. The two sides of the coin make his position unpredictable.

Trump’s presidency spells uncertainty

Political events abroad, as well as at home, have added to Latin America’s uncertain outlook. The presidency of Donald Trump in the U.S. has a significant impact – most acutely in Mexico. Though building a wall on the Mexico-U.S. border may now be considered electoral rhetoric, it signaled the intention for policy change. In June, and partly in the name of national security, Trump incited a trade war by placing a 25% tariff on steel imports and a 10% tariff on aluminium imports from Mexico, Canada and the European Union (EU).

His actions have further prompted uncertainty over the future of the North America Free Trade Agreement (NAFTA), with potentially damaging ramifications for the Mexican economy. Around a third of Mexico’s economy depends on exports, with more than 80% going to the U.S. In response, Mexico along with other Latin American countries, are looking to broaden their trading relationships – with China perhaps becoming a primary benefactor from an uncertain U.S trade policy.

China: a substitute market?

As Latin America seeks to diversify its trade, it is unclear how easily its products will transfer to new markets, namely China. Certainly, it won’t be a case of simply diverting ships from California or New York towards Beijing or Shanghai. Instead, any shifts in trade will take time and will most certainly be product dependent. For instance, it will be far easier for commodities to be integrated into a new supply chain than it will be for intermediate, consumer or capital goods. For countries like Brazil – where commodities currently constitute 45% of their exports – we see an obvious benefit of strengthening ties with the resource-hungry China. Yet, in Mexico, the prospects for Chinese trade are more limited as commodity exports currently constitute a mere 10% of the total – making negotiations over the free flow of goods to the U.S. crucial.

Latin America is far from homogenous in this respect. Ecuador is a strong case in point: the country’s penetration of the Chinese market comes almost entirely following considerable Chinese investment in this small equatorial republic. Indeed, China has issued granted billions of dollars in commodities-backed loans to Ecuador. This investment driven trade has also been seen in Peru and Chile, while a decrease in investment away from the most unstable countries, such as Venezuela, has also been prevalent in recent years.

This low-growth, high-uncertainty environment makes it all the more important for Commerzbank to remain committed to its customers – both those located in and those exploring the Latin American market. With a network of almost 200 banking correspondents in the region, we can cover risk including import and export needs in all directions. This was also one of the primary drivers behind opening our first operative unit in São Paulo, Brazil, back in 2015. Outside Germany, São Paulo represents one of the largest German industrial bases globally. As the Brazilian banking market consolidates, those looking for a strategic financial partner, with close relationships to German and European companies, need look no further than Commerzbank Brasil S.A.

Thomas Krieger
Regional Head, Financial Institutions
Latin America
Custody and clearing: in good hands

Rob Scott provides an update on industry efforts to modernise post-trade services

New, data-driven and cost-effective products and services are lighting up the post-trade sector. Importantly, these developments are serving to digitalise the industry.

This, we believe, is wholly necessary. As client appetites change, so too should outdated, inefficient banking systems. And, by developing application programming interfaces (APIs), artificial intelligence (AI) and blockchain solutions, Commerzbank aims to forge ahead in this new, digital age.

iClient

What’s driving the change? Corporate clients are seeking access to information like never before. The advent of advanced, instant, and all-encompassing technologies in our personal lives is beginning to be mimicked in the corporate sphere. The difference between the slick, quick, and pleasing interfaces enjoyed outside work and the convoluted, slow, and disappointing interfaces used at work, is stark. Nowadays, clients demand consolidated real-time access to all their information and activities, from settlement status to transaction processing.

In response, Commerzbank is using standardised API technology to ease clients’ connectivity to services. In years gone by, a bank might have had a system comprising thousands of ad-hoc interfaces. Navigating these systems was cumbersome, while completely overhauling them was costly. Using API technology, however, banks can, in effect, replace a system without having to replicate the same environment thousands of times with countless flavours and twists for every client – saving time and money.

Big data, big business

The introduction of a new legislative framework for the European financial sector – known as MiFID ii and MiFIR – has prompted banks to think more intelligently about client data and its uses. The regulations, which came into effect January of this year, require banks to process a much greater volume of information and to improve transparency of their data usage. While a positive step for the industry, the transition – given its scope – had the potential to cause disruption. Despite this, Commerzbank has seamlessly navigated itself, and its clients, through the 2018 changes.

Yet the focus on data and advanced analytics should go well beyond statutory requirements: the ability of banks to understand all elements of data can transform the ways that products and services are conceived and delivered. Traditionally, data from across a bank’s various client interactions would exist in silos – isolated in the respective departments. This would be like a supermarket failing to use data from their customers’ loyalty cards to inform product selection or to tailor customer offers.

As a result, banks, like supermarkets, have begun to see the benefits of internal collaboration in fostering more meaningful client relations. This is why Commerzbank’s post-trading area is working closely with the Big Data and Advanced Analytics (BDAA) team. By leveraging their talent and expertise, post trade has been able to establish pilots that integrate data from across all systems. The self-service tools in development will soon provide our clients with superior products and services – those tailored to specific requirements, circumstances and geographies.

The digital ascendency

A digital transformation continues to dominate financial services as a whole. For banks, the need to replace legacy environments with new, digitalised products and services is fast becoming a prerequisite for success. Simply put, the old structures – and their inherent inefficiencies – are no longer sustainable. In line with Commerzbank’s 4.0 strategy, this new
focus should speed up the rate of change throughout our organisation. What's more, this digital catalyst has proven particularly successful for our post-trade operations. Commerzbank’s collateral management department – in conjunction with the Bank’s Robotic Process Automation (RPA) area – is currently engaged in a pilot scheme that uses AI to automate mundane, repetitive and predictable data processes. It is thought that this could enhance information extraction and increase timeliness within the operations team, thus creating efficiencies.

Trading solutions
What’s clear, then, is the market is starting to move towards digital offerings. Notably, we have increased activity and growth in FX Live Trader and Commander – our electronic trading platforms. Our cooperative efforts on blockchain solutions are rapidly advancing, too. For example, we recently replicated a foreign exchange (FX) forward transaction by our client thyssenkrupp via blockchain. Using the technology in this way eliminates the need for a manual reconciliation between the client and the bank, which drastically reduces operational risks in FX transactions.

Whether it be via API technology, AI, or blockchain, Commerzbank is committed to finding applications for emerging technologies. This places us – and, indeed, our clients – in a stronger position when it comes to adapting to evolving market conditions. And this is precisely why we remain at the forefront of industry’s digital revolution.

Watch: Commerzbank is at your side for securities services
Commerzbank scoops The Banker award

Commerzbank has won the “Best bank in western Europe” at The Banker’s Transaction Banking Awards 2018

The judging panel noted that Commerzbank has “stepped up to the plate” in an increasingly complex banking environment where digital services are expected to be the standard, not a luxury. The bank’s efforts to seek out the best possible technology partners, as well as its work with the R3 blockchain consortium, Marco Polo, were highlighted as factors behind the success.

The panel were also impressed by Commerzbank’s mobile cash management app, Global Payments Plus, which gives treasurers an overview of domestic and foreign transactions up to 15 accounts, and foreign exchange solution FX Live Trader, which allows clients to consolidate trades with single-click trading for foreign exchange spot, swaps and non-deliverable forwards.

On receiving the award, Nikolaus Giesbert, Divisional Board Member, Fixed Income, Currencies & Commodities and Trade Finance & Cash Management, Commerzbank, said: “Digitalisation is set to transform banking. And we are confident that Commerzbank 4.0 – our strategic programme – will offer us the right propulsion to perform in the digital age. To become a truly digital enterprise, we are investing some €700 million each year into digitalisation and IT services.”

Global Finance recognises Commerzbank as “best in Germany” in three categories for 2018

Global Finance has awarded Commerzbank the title of “Best sub-custodian bank in Germany”.

Earlier this year Commerzbank received the accolades of “best German bank for trade finance” and “best treasury and cash management provider in Germany”.

Commerzbank is the EBRD’s top confirming bank for the 14th consecutive year

Commerzbank is again number one for the facilitation of trade finance under the European Bank for Reconstruction and Development’s (EBRD) Trade Facilitation Programme (TFP). At the EBRD’s Annual Meeting in Jordan on 10th May 2018, Commerzbank was awarded the title of “Most active confirming bank” in 2017 under the TFP.

The TFP mitigates risk in trade transactions and increases the ability of importer’s banks to provide trade finance solutions for their customers and to help emerging economies – in Europe, the Middle East, North Africa and Central Asia – remain on their growth path. No other bank has processed so many letters of credit or guarantees through the TFP since 2004.
First transactions executed on Batavia’s global trade finance platform

Batavia, the blockchain-based global trade finance platform that has been jointly developed by a consortium consisting of Bank of Montreal (BMO), CaixaBank, Commerzbank, Erste Group, IBM and UBS, has successfully completed its first live pilot transactions with corporate clients.

The pilot transactions, which included the trading of cars from Germany to Spain as well as raw materials from Austria to Spain, mark an important step in establishing Batavia as an open ecosystem that is built on the IBM Blockchain Platform. They were conducted with a variety of transportation modes, geographies and trading parties of various sizes, highlighting Batavia’s ability to scale and manage diverse transaction types.

First German bank to offer data-based loans to corporates

Commerzbank has become the first German bank to develop a data-based solution whereby repayments of a corporate client’s investment loan is linked to machine usage.

This innovation has been developed thanks the increased digital networking and automation of machines via the Internet of Things (IoT) in the age of Industry 4.0. The core product, a “pay-per-use loan”, uses machine capacity and production data to calculate the loan repayment based on the actual usage of capital equipment – helping to preserve the user’s liquidity.

The prototype for this new digital loan model was put together by Commerzbank’s Big Data & Analytics experts with machine tool manufacturer EMAG GmbH & Co. KG in Salach (Baden-Württemberg). The networking of the machine tools at EMAG allow for a detailed look at their utilisation patterns, which in turn dictates the calculation of the loan repayment rate.

Commerzbank receives ISS’ highest environmental and social quality score

Institutional Shareholder Services Inc. (ISS), a leading provider of governance and responsible investment solutions to the global financial community, recently assigned to Commerzbank a ‘1’ score for environmental and social (E&S) – the best score available on the 10-category scale.

E&S Quality Score represents a data-driven approach to measuring the quality of corporate disclosures on environmental and social issues, including sustainability governance.

Renminbi acceptance continues

Acceptance of the renminbi among German-speaking corporate customers in Germany, Austria and Switzerland (the DACH region) is developing, finds a Commerzbank study conducted with the market research institute FORSA.

Of the 2,400 small- and medium sized corporate clients with exposure to China surveyed, nearly one-third have already converted their invoicing to renminbi when conducting trade with China.

The survey also reveals that advisory services are needed during the phase of implementing renminbi in internal processes. Nearly two thirds (64 per cent) of the surveyed companies have already sought advice on adjusting their existing business setups to the latest changes in the regulatory and financial landscape.

FX Transaction deal with thyssenkrupp

On 23rd May 2018, thyssenkrupp traded an €500,000 EUR/PLN FX Forward with Commerzbank, which was replicated in a blockchain. Using distributed ledger technology (DLT) eliminated the need for a manual or semi-automated reconciliation between the client and the bank, thereby drastically reducing operational risks in FX transactions.
Blockchain in trade finance: Commerzbank interviewed by The Banker

Nikolaus Giesbert, Divisional Board Member, Fixed Income, Currencies & Commodities, Trade Finance & Cash Management, and Michael Spitz, Head of the Distributed Ledger Technology (DLT) Lab, share experiences on Commerzbank’s role in driving applications of blockchain in trade finance

As blockchain technology proliferates across the industry, Nikolaus Giesbert and Michael Spitz spoke to Joy Macknight, deputy editor of The Banker, for an article detailing the several blockchain-based consortia helping to make trade finance faster and simpler. Commerzbank is involved in Batavia, a blockchain-based trade finance platform initiated by UBS and also including Bank of Montreal, CaixaBank and Erste Group. One of the first transactions was an exchange between Commerzbank and CaixaBank to support Germany-based carmaker Audi’s shipment of cars from Germany to Spain.

On the transaction Michael Spitz, says: “Usually, for a transaction such as this, we would have to find out who the corresponding bank is, who the car dealership is and assess the relationship. But having CaixaBank and the car dealership on the same blockchain system provides transparency and a single source of truth.”

Another initiative that features Commerzbank is Marco Polo, a platform supported by the R3 consortium and TradeIX, and built on Corda. Commerzbank successfully carried out the project’s first proof of concept, which allowed the group to kick off the pilot phase. Despite a swell of banks becoming more interested in ways to apply distributed ledger technology (DLT), many beg the question: “Why blockchain?” For Nikolaus Giesbert, the technology not only serves to increase transparency but can be cost-efficient, too.

Giesbert says: “In conjunction with smart contracts, a participant in the trade can follow – in a regulatory and technology-safe way – a transaction with limited document movement. This will reduce transaction costs.”
In 1993, Commerzbank was one of the first western European banks to found a wholly-owned subsidiary in Hungary. Two years prior to this, it had already been represented there by a local office.

In addition to its headquarters in Budapest, Commerzbank is also active in Kecskemét, Miskolc, and Győr. Serving local and international clients, Commerzbank Zrt. accompanies Hungarian firms doing business in their domestic market, in Germany and around the globe. In addition, the subsidiary provides German and international clients with a gateway to do business in the eastern European country.

On 12th September, 2018, Commerzbank Zrt. celebrated its 25th anniversary in Budapest

On 8th October, 2018, Commerzbank (Eurasija) AO celebrated its 25-year anniversary in Russia

Commerzbank AG was one of the first Western banks to open a representative office in the country. In 1993, Dresdner Bank ZAO, a subsidiary of Dresdner Bank AG, started to work in Saint Petersburg. In 1999, "COMMERZBANK (EURASIIJA)" AO, a 100% subsidiary of Commerzbank AG, acquired a license for banking operations. After the merger of the two banks in Russia in 2010 under Commerzbank trademark, "COMMERZBANK (EURASIIJA)" AO has been operating in Moscow (head office) and Saint-Petersburg (branch).

Decades of experience have allowed Commerzbank to gain a true insight into the Russian market, with all its particularities and rules. This in-depth knowledge, combined with our financial expertise, allows us to provide extensive services to both German companies, with presence in Russia, and international companies with activities in Germany.
**Watch: Commerzbank is at your side for cash services**

Easing the flow of international payments and liquidity management is the lifeblood of global commerce.

Learn how Commerzbank is supporting clients in an ever-evolving global payment landscape, thanks to a digital and personal approach.

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