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Editorial welcome

Never standing still

Nikolaus Giesbert
Divisional Board Member,
Trade Finance & Cash Management

While Commerzbank takes pride in its history, we are not a bank content to stand still. Having financed trade since 1870, we are accustomed to change. And today, technology, regulation and changing client preferences stand to fundamentally alter transaction banking, bringing new services, business models and competition. It’s a dynamic we are embracing.

So rather than take a short-sighted view and focus simply on the automation of processes, we have invested resources and energy into digital transformation. This means:

- Moving towards end-to-end, front-to-back, digital solutions;
- Being at the forefront of exploring how emerging technologies can transform the landscape for trade finance and cash management, and;
- Recognising permanent changes in the banking sector and understanding the possibilities.

Of course, extensive transformation must be underpinned by pragmatism. The scale of this...
task isn’t to be underestimated. Across trade finance, for example, further innovation relies not just on interoperable technology and platforms but also on connected thinking – not only between banks but also with industries bodies all the way up to governments and supranational organisations.

As you can glean from the contributions, success in this endeavour will rely on two factors: developing the technological capabilities, of course, but equally crucial is establishing universal standards and protocols. Strides forward, therefore, must be taken together. For this reason, we at Commerzbank place particular emphasis on collaboration and actively seek-out strategic partnerships, industry-wide initiatives or deeper engagement with governmental and industry bodies.

This brings us to the broader macroeconomic picture, which is also shifting – underpinned by growing trade wars and punitive tariffs in some corridors, but also tremendous growth and greater economic integration in others.

Undoubtedly, such transformation breeds opportunity for financial institutions to lend support. So, in this edition, we consider: how the Belt and Road Initiative (BRI) is channelling investment westward; the growing interest in emerging economies in northeast Africa; and the short-term investment opportunities coming to light in central America.

I hope you enjoy our insights.
FI.News speaks to Ludger Janssen and Ruediger Geis about the importance of digital standards to ensure interoperability between different technology platforms in order that we don’t end up with disparate digital “islands”.

**Q** We hear lots about digitalisation of trade finance, but what can be done today to move from paper to digital data formats?

**Ludger Janssen**: We need to start by understanding that the practice of taking a paper document, scanning it, and sending by email is not digitalisation – that is at best electronification. Instead, we must start with the goal of moving towards the sharing of digital information, where paper is completely removed from the chain. We recently ran a workshop involving many trade participants from the corporate, bank, fintech and insurance world, and the conclusion was that, for this to happen, we need standards, established rules and more significant involvement from governmental and political bodies.

**Q** Let’s start with standards – why are they important?

**Ruediger Geis**: The multitude of documents and players – from banks and corporates, to customs authorities, shippers, and insurers – involved in trade finance transactions already make speedy digitalisation a challenge. But we currently have a situation where there are many different trade finance consortia, industry initiatives and platform developments underway, with many tackling similar problems. We therefore risk having solutions that each exist on their own digital islands – unable to connect with each other without significant integration costs.

**LJ**: The different systems and interfaces will be interoperable only if we define a common language for how they talk to each other. Corporates are already starting to demand this: they want to view an invoice on their enterprise resource planning (ERP) system that their banking partner can then extract for financing – all without any paperwork changing hands. Similarly, imagine a world in which a digital Bill of Lading can be easily exchanged between customs, banks and logistic service providers, or where a Certificate of Origin is easily traceable since all systems can interact using the same standards. This is what we are working towards.
How do we achieve this standardisation?

LJ: We need a neutral, global institution to define a valid obligatory standard with minimum requirements, that can be used by all trade parties involved in a supply chain, from the biggest to the smallest.

RG: At Commerzbank, we are working with some of the largest trade finance banks, industry bodies and fintech firms on a major project, called the Universal Trade Network (or UTN, see box for more information). The aim is to first build bridges between the growing number of detached blockchain networks or platforms in trade finance and subsequently to drive standards that can be used irrespective of the technology. It’s akin to being able to send an email to a recipient who can read it - with no interruption - even if he or she uses a different email service provider.

What else is required for progression on digitalisation?

RG: As well as standards, we need rules that are compatible with digital trade financing methods. In April, the International Chamber of Commerce (ICC) decided to launch the revised e-rules for the presentation of electronic documents under Letters of Credit (the so-called eUCPs) as well as established for the first time some e-rules for collections, both to come into effect from summer 2019 onwards, which will be a significant step forward. ICC also started a group working on rules for digital trade. These rules will give guidance to the various trade consortia how to establish and execute financial obligations within their own processes and technology constructs.

LJ: Global legal alignment relating to the validity and value of digital data and documents is another prerequisite. There is lots

**Building the bridge: Universal Trade Network (UTN)**

**What is the UTN?**

The UTN is an industry initiative focused on facilitating interoperability between trading parties and their networks, creating and promoting the adoption of open standards and protocols, and enabling the creation of a global “network of networks” for trade.

**Who is involved?**

The UTN was initiated by blockchain companies TradeIX and R3 together with the banks involved in the Marco Polo blockchain project: Anglo-Gulf Trade Bank, Bangkok Bank, BNP Paribas, Commerzbank, Danske Bank, DNB, ING, Natixis, Natwest, OP Financial Group, SMBC and Standard Chartered. Members of Voltron, another trade finance platform involving HSBC and NatWest, have since also joined the project. The UTN is now seeking to attract more members, particularly corporates, logistics providers, insurers and fintechs.

**Will it only focus on blockchain?**

No. Ultimately, the aim is to make the UTN technology-agnostic, with a focus on interoperability with not only other blockchain networks, but also those based on different technologies altogether.

**What is the governance structure?**

An independent governing body is being established – the Universal Trade Network Organisation (UTNO) – which will be responsible for developing and upholding protocols, standards and frameworks. The UTNO will operate as a separate legal entity in Singapore, with a board, working groups and membership structure.
of work to do and I expect we will therefore see a transition period, where both paper and digital documents co-exist. In the medium-term, it is therefore vital that we have systems that can accept and match both types.

**Q** Are governments showing interest in trade finance digitalisation?

**RG:** Trade finance digitalisation is not at the top of governmental agendas. We need to start by informing them of its importance and making it clear how they can help. At a recent conference it was fascinating to hear one corporate say that it spent more than €5 million each year on demurrage costs, as its cargo sat in terminals while it waited for banks to process documents. Digitalisation could reduce this significantly. For big exporters like Germany, this would be a shot in the arm for the international competitiveness of its economy and companies. It is this line of argument that will make politicians sit up and take notice.

**LJ:** Certainly, a clear and immediate action point from our workshop is the writing of a letter from all participants - representing a large part of German trade community - to governments and policymakers to explain our issues and the potential way forward.

**RG:** I’m hopeful that the ICC’s roadmap for digital trade will work as a useful communication tool for reaching out to national governments, inter-governmental institutions and regulators. As banks, we are making significant progress in tandem with corporates and fintechs but - if we are to realise our ambitious goals - next we must include the political sphere.
Supply chain finance (SCF) has obvious benefits, but how can banks best unlock this potential for their end-clients? FI.News asks Alexander Pawellek what the future of SCF looks like.

Q: Alexander, what’s your view of how the SCF market has progressed?

Alexander Pawellek: What’s undeniable is the market’s growth. By some estimates, this has been anywhere up to 40% year-on-year for some time, though the market is maturing and thus is likely to see lower growth levels from 2020. And it’s no surprise, given their more plentiful resources, that larger multinationals have led the way in implementing SCF programmes on both the payables and receivables sides.

Despite entering the maturity phase, we certainly expect the SCF market to continue to grow at a relatively fast rate given the clear benefits: SCF helps buyers lower the investments trapped in their working capital, while also supporting suppliers with faster payment of invoices.

By far the most material development, however, is the increasing size of SCF programmes and the associated shift towards multi-bank solutions. To date, most financial institutions have had their own SCF offering, so-called single-bank solutions, often delivered via their own proprietary technology platform. This approach holds some merit, of course, since it leverages the trust built between banking partner and corporate thanks to their established relationship. But this approach is changing. Increasingly, corporates are using multi-bank platforms for their SCF needs – and many banks are already embracing this.

Q: What do these multi-bank platforms entail?

AP: As the name suggests, the platforms give the parties involved access to financing from more than one financial institution. Not only does this allow greater funding and risk diversification, but it also means the client can access a broader range of expertise.

There are wider benefits, too. Take supplier onboarding, for instance: while the responsibility for know-your-customer (KYC) screening remains with the bank, technology platforms can ease the document exchange process for suppliers. Simplicity of onboarding is the best way to increase uptake of the tool and to ensure that the industry is on hand to facilitate – and, crucially, not disrupt – the supply chain.

Perhaps unsurprisingly, some financial institutions are erring on the side of caution because this opens their client roster to alternative providers. But we at Commerzbank do not wish to shy away from the sea-change that’s already sweeping the market.
Since 2017, we have partnered with PrimeRevenue, a leading fintech provider specialising in working capital solutions, to deliver SCF solutions to our clients.

Q: This must necessitate a culture shift for banks, surely?

AP: This is true to some extent because you need to become more open to external IT solutions, as well as potentially increased competition. But since many fintechs are producing sleek and simple working capital solutions, in many cases partnership can be the most cost-efficient option which, importantly, delivers the best results for the end-client.

Let’s not forget it’s a win-win scenario, too, for the fintech provider. The banks provide a unique wealth of product, legal and compliance capabilities built over decades. So, really, what each party brings to the table is often complementary. This is precisely why we evaluate very carefully which SCF providers to partner with, in order to build a fruitful relationship.

Q: So, what other possibilities are out there to grow SCF programmes?

AP: While multi-bank platforms are seeing increased market adoption, there are also many corporates that have embarked upon single-bank SCF programmes and will, of course, want to grow those as well. In these cases, we at Commerzbank offer a product that allows any bank we have a pre-existing relationship with in order to approach us to provide capital for an existing SCF transaction.

Lastly, what do you think will be the industry’s next objectives?

AP: Wider adoption of SCF programmes – not only among the multinationals but the Mittelstand and small-and-medium-sized enterprises (SMEs). In Germany, for instance, I believe it’s only a matter of time before every DAX and MDAX company has its own programme in place. And greater buy-in among larger corporates should grant multi-bank platforms even greater scope for expansion – particularly in terms of further building the market’s trust and, crucially, reducing their fixed costs to the end-buyers and suppliers. The subsequent ramifications cannot go understated. What we could see as a result is a trickle-down effect, as the Mittelstand, which today is more reluctant to engage with such programmes than their larger counterparts, should be more able to participate.

For the SCF market to keep building momentum, financial institutions must play their part in continually finding ways to make SCF more inclusive, simpler and less expensive. The best way to deliver this future, we believe, is to pursue mutually beneficial initiatives with trusted technology partners.

What is payables finance?

Payables finance is provided via a buyer-led programme. Sellers within the buyer’s supply chain can access finance by means of Receivables Purchase, which offers the seller the option to receive a discounted value of receivables (represented by outstanding invoices) prior to their actual due date and typically at a financing cost aligned with the credit risk of the buyer. The payable continues to be due by the buyer until its due date.

What is receivables finance?

Receivables finance, or factoring, is a form of Receivables Purchase. It allows the seller to sell their receivables (represented by outstanding invoices) at a discount to a finance provider (commonly known as the “factor”). In this form of financing, the finance provider becomes responsible for managing the debtor portfolio and collecting the payment of the underlying receivables.
For the over-the-counter (OTC) derivatives market, regulatory updates are in full flow. FI.News talks to Benjamin Melzer about what’s coming for financial institution clients and, importantly, how they stand to benefit.

**Benjamin Melzer**: Regulation has been fundamentally changing how we operate. As you might recall, the OTC interest rate derivative market was one of the epicentres of the financial crisis and the fall out of Lehman Brothers provided for severe propagation of counterparty risk among market participants in the OTC derivatives markets.

With the goal of increasing transparency and financial stability in the OTC derivatives markets, regulation was put in place around reporting and execution, as well as clearing through central counterparty clearing houses (CCPs). Further, mandatory collateralisation of bilateral derivatives (initial and variation margin) for non-clearable transactions was introduced.

Another important development is market participants’ focus on the cost side. Since every new interest rate swap (IRS) transaction usually represents a change in the bilateral risk profile and leads to valuation changes, credit, funding or margin effects (often referred to as an X-value adjustment, or XVA) must be taken into account in pricing. The same goes for initial margin effects with CCPs of cleared transactions.

In addition to regulation, notably around best-price execution, the availability of new technologies is moving an ever-increasing share of OTC flow execution onto electronic platforms these days.

**Q** So, have there been many regulatory exercises to complete?

**BM**: By and large, we have arrived in the new environment. Lifecycle costs of IRS, in particular for cleared transactions, are low and predictable. Correspondingly, transaction costs for clients are tighter than ever and we see a steady increase in transaction volumes.

Of course, taking what were previously bilateral transactions into the “cleared world” is complex from a regulatory perspective. For that reason, the regulator first rolled out the obligations for clearing or bilateral collateralisation to larger financial institutions – after all, they are most relevant from a systemic risk contagion perspective and have the resources to tackle the implementation costs, the IT upgrades and navigating the accompanying legal frameworks.

From June 2019, the clearing obligation for European clients will also be applied to institutions below €8 billion of derivatives notional outstanding. This means that many of our clients – asset managers, insurers, hedge funds and fellow banks – are in scope. But
this exercise is not only about remaining compliant; it offers every institution the opportunity to enjoy lower transaction costs, more transparency and greater assurances that the market is limiting risk as much as possible.

Likewise, the mandatory initial margin requirement for bilateral IRS is being implemented and will be applicable, subject to scope of individual IRS activity of the client, for all financial institution counterparties by September 2020 at the latest.

Q \textbf{What challenges and opportunities has this created?}

\textbf{BM:} Without doubt, the IRS world has become more complex and market makers like Commerzbank have been dedicating significant resources to adopting regulation, driving technological innovation and constantly optimising IRS portfolios.

This brings some positives, however: we can assist our clients that have to navigate the same challenges. Internal services like OTC clearing or collateral solutions have been successfully opened up for clients. Since 2001, we’ve been a member of LCH, the largest CCP in Europe, meaning we can share our wealth of house clearing experience.

Another example is supporting clients in executing risk reduction measures like bilateral or multilateral IRS compression. Such compression reduces costs by shrinking notional amounts outstanding, while leaving net exposures unchanged. Back in 2001, Commerzbank was among the first financial institutions to execute multilateral IRS portfolio compression with Tri-Optima, a technology solutions provider for the OTC derivatives market.

\textbf{Q} Amid these significant changes, what role can Commerzbank play?

\textbf{BM:} It is true that the changes, while welcome, do create additional workload for clients and us. We, however, are here to share the burden and leverage our expertise.

We can assist financial institutions through these regulatory developments and help them to exploit the opportunities that they create.

Commerzbank is an established key liquidity provider in the IRS markets and a leading IRS clearing bank in Europe. We offer our corporate and institutional clients reliable and competitive two-way pricing on G10 IRS including cross currency swaps with a particular strength in EUR IRS and EUR/USD cross currency swaps. Through our German customer base we credibly distinguish ourselves as strong market maker in Eurex cleared swaps. Commerzbank is a founding partner of the Eurex Clearing partnership program and holds a seat on the Eurex Clearing supervisory board.

We are well-organised to support clients with a Frankfurt-centred approach to the IRS business, ranging from trading and sales, XVA desk, middle and back office support as well as legal specialists, collateral management and OTC clearing resources to provide seamless services.

So, for OTC derivatives needs, our clients need to look no further.
In conversation with FI News, Agnes Vargas and Hans Krohn assess how the Belt and Road Initiative’s (BRI) westward development could spur growth and trade opportunities across Eurasia.

**Q** Is the increasing interest in the BRI – and column inches devoted to it in the press – translating into material opportunities for financial institutions and corporates?

**Agnes Vargas:** Despite the attention it receives, the BRI hasn’t yet reached the small- and medium-sized enterprises across central Europe, nor in Germany. One of the largest barriers is the lack of information filtering through. As an example, take Germany’s Mittelstand: owing to the country’s engineering expertise, they are certainly well-positioned to participate in many of the medium and large-scale infrastructure projects. And while some are already involved, the truth is that gaining access to BRI projects is easier said than done. We remain positive, however. With greater transparency around the bidding process, more opportunities will arise in what could be called the “second phase” of BRI.

**Q** What does that “second phase” entail?

**Hans Krohn:** The first phase, which remains ongoing, is characterised by large-scale infrastructure projects – ports, bridges, railways, for example. The next phase will take advantage of this connectivity, namely the increased ease of trading. By sea, Chinese cargo can take up to 30 days to reach central Europe; but with high-speed rail, transit times can be halved.

**AV:** And this could really encourage activity across Eurasia. For central and eastern Europe, situated at the epicentre of the BRI, the opportunities won’t only arise in the east, either: greater connectivity will spur activity and cooperation with western Europe, too. In practice, this means that financial institutions must prepare their customers to become more open to business in what hitherto may have been untapped regions.

**Q** Do some countries stand to benefit more than others in each stage?

**HK:** To what extent the new infrastructure created by the BRI will deepen regional trade remains to be seen. For the time being, it is all about faster transit routes, less about enhancing regional or local trade.

**AV:** Moreover, huge infrastructure investments will go hand-in-hand with increased growth, at least in the longer term.

**HK:** I would say so. One of the major beneficiaries will be Kazakhstan. The Khorgos Gateway, a rail hub and town in the Kazakh desert, has sprung up in the past few years. Similarly, Uzbekistan is benefitting from the Chinese-led construction of the country’s first railway tunnel, a 19-kilometre passage through the Qurama Mountains – central Asia’s longest mountain range.
As for the second phase of development, one obvious winner is Belarus. The country is not only a hub for Europe-bound trains from China, but also a centre for enterprise. The Chinese and Belarusian governments are partnering to develop the Great Stone Industrial Park, an economic zone close to Minsk, Belarus’ capital, which aims to attract foreign and domestic investors, particularly from the IT and technology sectors – two of the country’s booming industries. The park – with an area of more than 100 square kilometres – will also become home to employees, and is being built with sustainability principles in mind.

**Q** Let’s discuss the issue of the BRI’s sustainability, which has, for some, been contentious. Are attitudes changing?

**AV:** There are positive developments. In December 2018, the Green Finance Initiative, together with China’s Green Finance Committee, published green finance guidelines for the BRI. Many financial institutions, including Commerzbank, have recently committed to this voluntary code of practice.

**HK:** A challenge in this context is reporting and taxonomy: it’s difficult to track the sustainable attributes of a project because first you need to establish a definition and a lexicon around what “sustainability” truly means – and how it is benchmarked. One solution could be the introduction of a points system. Standardisation is vital to make the concept itself sustainable. And we still have some distance to cover in this regard.

**Q** When it comes to benefitting from the BRI, what must financial institutions across Eurasia consider?

**AV:** I think financial institutions must be patient. The opportunities are there for everybody, but it isn’t quite the right time – yet. It’s the task of the financial community to empower smaller businesses to work more internationally and to become more active looking for partners in the respective countries. It could also be advisable to look for Chinese partners to jointly offer local solutions.

**HK:** This is where Commerzbank can help. The memorandum of understanding (MOU) signed with the Industrial and Commercial Bank of China (ICBC) last July shows our intention to finance some US$5 billion worth of BRI-related projects over the next four-to-five years.

**AV:** And our “helping hand” extends beyond financing: we have both local market knowledge and a global reach, to ensure that our clients can take full advantage of the sweeping changes the BRI induces both in Asia and in Europe.
Eye on the industry

Delivering on new expectations in post-trade

Rob Scott argues that the evolving focus of financial institution clients requires a change of tact by correspondent banking partners.

The post-trade business is markedly different compared to years gone by. While it still necessitates that banks maintain regulatory robustness and become increasingly cost-efficient, there’s greater demand for more personable client relationships, supplemented with state-of-the art technologies.

Delivering in this new environment is no easy feat: it requires new thinking and approaches to how we as banks govern our client interactions. In this new and increasingly complex environment digital services, though critical, is only one part of the equation; after all, banking remains a business founded on human relationships. So, what exactly has changed?

Changing business

It’s simple: banking is no longer product-driven. Gone are the days when an FI client has a dozen contacts at their correspondent banking partner – each offering an individual service or product with no joined-up thinking. Banks are instead favouring relationships that can better guarantee the exchange of expertise and more integrated thinking. For instance, financial institution clients are not looking for singular custody or clearing products, rather they require a more rounded, strategic dialogue to solve business challenges. We, as a strategic partner, strive to gain a holistic insight to a client’s operations through one point of contact. This consideration is addressed by our dedicated relationship managers, able to align business objectives whatever they may be: from ensuring regulatory processes are watertight, reducing costs, to service client needs, or to expand a regional client’s international presence.

Strategic partnerships

This holistic approach also enforces collaboration with third-parties. How does this work, in practice? Let’s say, for example, that a client executes via another bank’s trading desk but wishes for us to handle all post-trade activities. Thanks to
Open Banking principles, our technological capabilities can allow that to happen seamlessly via a single portal.

"Banking today is a markedly different game - one where careful collaboration is likely to breed the winners."

In securities services, for example, Commerzbank recently entered a strategic partnership with HSBC Transaction Services GmbH through which our securities settlement business processes are now transferred to a joint venture, with operations scheduled to begin early next year. The partnership, which allows us to leverage our expertise and HSBC’s state-of-the-art securities platform, complements our wider commitment to simplify and improve processes, while also reducing costs.

The new way isn’t only underpinned by collaboration with fellow banks. Robotic Process Automation (RPA) is allowing us to devote more human capacity to our clients, thanks to the help of technology providers. We are engaged in a pilot scheme using artificial intelligence (AI) solutions to automate mundane and predictable data processes, thus leading to time efficiencies. The end result is that our energies are redirected to providing meaningful client interaction – at the beginning of the working day. Again, this ensures that we are better connected to our clients.

Banking today is a markedly different game – one where careful collaboration is likely to breed the winners. But even if the industry’s modus operandi for client service has changed, our dedication to meeting the client’s needs and delivering results is unwavering. With expectations in post-trade changing, we will continue to deliver.
Regional spotlight

Are trade opportunities in Africa shifting south?

Christian Toben
Regional Head,
Financial Institutions
Africa

After good progress in the north of the world’s largest continent, the next wave of development could come in sub-Saharan Africa’s emerging economies. Christian Toben explains why.

Since emerging from severe droughts, conflicts and partially important foreign exchange shortages two years ago, sub-Saharan Africa has shown a promising recovery. Today the region has entered a new phase of development; one of steadying growth and relative quiet. The World Bank forecasts that growth in sub-Saharan Africa should reach 3.7% by 2020 – a healthy uptick from GDP growth of 1.5% in 2016.

And as the “low-hanging fruit” of opportunities in Egypt and Morocco – the continent’s performance outliers – is increasingly picked, trade and investment is starting to flow south. As such, a recalibration by financial institutions towards sub-Saharan Africa could soon follow.

Expanding connectivity, building on prudence

But, before this can happen, African nations have some way to go to improve physical connectivity and, above all, economic prudence. There have been some positive developments. Since last January, a China-based company has been operating the 759 kilometre-long railway route linking landlocked Ethiopia with Djibouti, which rests on the Horn of Africa. This should ease the flow of goods from the Port of Djibouti to inland destinations. Nonetheless, other areas require attention. For instance, Africa’s road network – the key to the region’s interconnectivity – remains largely underdeveloped.

Then comes economic prudence. Of grave concern, mostly across western and central Africa, are weak external positions with dwindling foreign currency reserves. The latter will be essential to ease imports: improved infrastructure and state-of-the-art factories are vital, of course, but if a producer’s success relies on the import of raw materials, then healthy reserves and import cover is equally crucial. In its absence, production can grind to a halt. Countries are responding. Five African economies (Djibouti, Togo, Kenya, Côte d’Ivoire and Rwanda) rank among the top 10 improvers in terms of ease of doing business, creating preconditions for more direct investment and a better external position. Central banks seem more prudent and conservative in approach. The next longer-term issue, however, will be addressing rising debt levels and mitigating refinancing risk. While it’s probable that African countries can successfully refinance their debts, less predictable are the associated costs already biting into state budgets. By our estimates, African countries with higher leverages have – give or take – another four years to restructure their positions before refinancing may become more troublesome.

Morocco and Egypt: the north stars

There are performance outliers, nonetheless. Since opening up to foreign investment, Morocco has fared well for the best part of a decade. Tax relief policies
have drawn foreign capital and expertise, mainly from Europe and China. Meanwhile, thanks to political stability and a monarch, King Muhammad VI, keen to strengthen ties to sub-Saharan Africa, domestic companies have performed well by looking south. All this has encouraged domestic development in the form of high-speed railway links, roads, deep-sea projects and ports, as well as energy projects (mostly photovoltaic plants).

Egypt has similarly garnered substantial capital inflows in recent years, not only from other countries but from multilateral organisations, too. With help from an International Monetary Fund (IMF) program and several other DFIs, the country has recovered from economic (and political) turmoil in impressive fashion. Annual growth today is around 5.5%; a return to times of old.

“**African nations seem ready to open up to the world.**”

**Growth opportunities rising in the south**

While Morocco and Egypt remain of interest, many foreign companies have already established there, or are in the process of doing so. Prospects for expansion, then, lie further south.

Over the next few years, we see scope for growth in emerging markets like Ethiopia and Kenya. The former has ably weathered the continent’s previous economic storms and, today, it boasts a domestic market comprising some 105 million consumers and annual average growth north of 10%, making it Africa’s fastest growing economy in the past decade. Ethiopia is targeting higher volumes of foreign direct investment (FDI), too: during the 2017/18 fiscal year, the country attracted more than US$3.7 billion. In the current fiscal year, which began in July 2018, the government has set its sights on US$5.1 billion-worth of FDI.

Much like Egypt, the country has an administration willing to open the economy over time. To help meet its lofty FDI targets, it is expected that the government will commission six Chinese-built industrial parks by July 2019, aimed at boosting Ethiopia’s export-orientated manufacturing sector.

Also the important investments in the energy sector will as to our many observer support exports and reduce imports. Here, we expect progress to take two-to-three years, at least. Of course, a short-to-medium-term concern will be to surmount the foreign reserves challenges. But, in the medium and longer term, we consider Ethiopia a market that could become more open to the world.

Undeniably, among the key drivers of development in the south, will be China’s Belt and Road Initiative (BRI). Already the continent’s biggest lender, China is likely to deepen economic cooperation in the years ahead, particularly in the form of Chinese-financed, Chinese-built, Chinese-operated infrastructure projects like the Nairobi-Mombasa railway route. After Egypt and South Africa, Nigeria last year signed a currency swap deal with China in order to promote increased trade flows between the countries. It also has helped to further improve Nigeria’s foreign currency availability. Following these three swaps, discussions of similar deals with China may eventually come to pass.

More and more, African nations seem ready to open up to the world. Foreign partners shouldn’t only look to the usual destinations, but to the rising stars, too.
With demand for financing slowing in parts of Latin America, Thomas Krieger makes the case for why financial institutions could look specifically to central America for short-term opportunities.

Tremendous change is being bestowed upon Latin America: by November 2019, 14 of the region’s countries will have undergone a presidential election in the past two years. For Brazil, the region’s largest market, Jair Bolsonaro’s rise to power was met with enthusiasm – which, from a market perspective, has maintained highly-liquid credit lines to the country. However, since credit lines are more-than-ample given current demand, lenders are experiencing greater competition and, thus, tighter margins.

In turn, while the dominant market remains Brazil, financial institutions are seeking opportunities elsewhere to seek higher yields in a smaller portion of their books. For instance, attention in recent years briefly turned to Paraguay and Bolivia – two economies that enjoyed growth of 5.2% and 4.2% in 2017, and 3.6% and 4.2%, in 2018, respectively.

Though this shift has proven productive, it could only ever represent a short-term tactic: there is only a limited volume of financing needs in these smaller markets – and we have about reached saturation point. Financial institutions, then, may do well to roll out a similar strategy elsewhere.
Herein we see prospects for central America, specifically the countries situated in the Northern Triangle – that is, Guatemala, Honduras and El Salvador – as well as Panama and Costa Rica.

The principal driver is current uptick in economic performance in the U.S. Given that central America already enjoys close trading relationships with the U.S., the region’s exports could stand to benefit from its neighbour’s improved performance. Since the region’s top exports are woven and knit apparel and soft commodities, we anticipate a need for short-term finance, notably pre-export financing and letters of credit.

Of course, since U.S. growth is geared towards meeting short-term objectives, it’s not yet clear how long heightened U.S. demand will last. But while the opportunities are present, financial institutions should be on-hand to help facilitate this trade corridor. And with growth projections for central America (weighted by population) of 3.4%, this is a sound basis for expanding our business in the region.

As wait-and-see sentiment washes across Latin America, there’s an opening for central America. The onus is on the region’s financial intuitions to help businesses to take advantage while it’s there.

That said, we recommend that we don’t embark on the opportunity alone: financial institutions should draw upon the expertise of multiple correspondent banks. This is not only to diversify financing risk but to take advantage of respective regional expertise and, of course, to best handle your business across multiple time zones. Banks with a truly international presence, as well as the on-the-ground knowledge – such as Commerzbank – are logical, first-choice partners, in this respect.

Commerzbank participates in pioneering blockchain pilot via Marco Polo network

In March 2019, Commerzbank and Landesbank Baden-Württemberg (LBBW) announced that they had completed the necessary data transfer on behalf of Voith and KSB SE using the trade finance network Marco Polo, via R3’s Corda blockchain platform.

The transactions mark a milestone in the digitisation of commercial transactions based on distributed ledger technology (DLT): it is the first time ever that two commercial transactions between the international technology group Voith and the leading pump and valve manufacturer KSB SE were mapped using blockchain technology. One transaction involved the delivery of special hydraulic couplings from Germany to China and the other the delivery of pumps within Germany.

For the two transactions, both companies agreed order and delivery details via the Marco Polo network and the payment term was secured by a conditional payment commitment from the buyer’s bank. After delivery, the corresponding delivery details were entered into the network and automatically matched with previously agreed data. This triggered an irrevocable payment obligation on the part of the buyer’s bank. The overall flow of information was mapped by R3’s Corda blockchain platform.

Following the successful pilot project, the next step will focus on the complete execution of transactions via the Marco Polo network with a direct connection to customers’ management systems (ERP integration) to offer a seamless process. In future, the network is planned to be expanded by further banks and participants in the transportation and insurance sectors so that the entire value chain for foreign trade transactions is represented digitally with data.

“We are very pleased to have successfully conducted the first trade finance pilot at Marco Polo,” said Nikolaus Giesbert, divisional board member for Trade Finance & Cash Management, Commerzbank. “We place particular emphasis on collaboration with experienced and interested corporate clients such as KSB and Voith as well as banks such as LBBW. We see a valuable opportunity here to work together to develop and bring to the market innovative trade finance solutions.”

Three’s a magic number: Accolades flood in from Global Finance

Commerzbank has received “best in class” recognition from Global Finance in three categories. In February, the Bank was awarded the best trade finance provider in Western Europe. According to the publication, the winners are “those banks and providers that best serve the specialized needs of corporations as they engage in cross-border trade”.

March saw the bank receive the title of best bank in Germany at Global Finance’s 26th annual awards recognising the world’s best banks. In January, Commerzbank also won best treasury & cash management provider in Germany. The Bank was recognised as having attended carefully to customers’ needs in difficult markets while laying the foundations for future success.

Global Finance editors select the winners for its awards with input from industry analysts, corporate executives and technology experts, as well as independent research to evaluate objective and subjective performance indicators.
Leading the pack: Recognition from Trade Finance Global

In February, Commerzbank was named best trade financier at Trade Finance Global’s (TFG) 2019 International Trade Finance Awards. TFG identified Commerzbank as one of the market leaders helping to deliver efficiencies in trade finance, while also taking into consideration ethical and sustainable financing practices.

The panel recognised Commerzbank as a “top player in this space”, as well as the bank’s “ambitious goals to use optical character recognition (OCR) and other technology to automate many of its processes to help corporates access trade finance”.

“Although one of the oldest financiers in trade and commodities, we have seen Commerzbank continually driving digitalisation in its trade offering,” said Deepesh Patel, Head of Marketing at TFG.

Commerzbank and Deutsche Börse execute legally binding securities settlement using DLT

Commerzbank and Deutsche Börse have for the first time successfully used distributed ledger technology (DLT) to execute a legally binding settlement of a repo transaction. The prototype transaction based on delivery versus payment was executed as part of a joint proof of concept examining the possible use of blockchain technology in securities settlement.

For the transaction, digital tokens were generated for both commercial bank money (cash tokens) and securities (securities tokens). DLT was then used to execute the simultaneous swap of the tokens as a legally binding transaction. Deutsche Börse acted as the cash provider, Commerzbank as the borrower and main incubator, Commerzbank’s research and development unit, acted as the DLT platform operator.

The successful transaction shows that a legally-binding, efficient and transparent movement of tokenised securities and cash on blockchain based on a “delivery versus payment” principle is feasible. DLT creates an immediate and simultaneous transfer of assets so that the transaction can be settled in real time. The key benefits of this shortened execution time are the reduced counterparty risk and the corresponding reduction of capital costs. The technology also permits the direct and transparent involvement of regulators and oversight authorities.

The repo transaction is based on a €10 million public note of KfW Bank Group, with a seven-day term and negative interest rate of -0.5%. Repos are collateralised money market instruments that banks use to cover short-term liquidity requirements.

Michael F. Spitz, CEO of Main Incubator, the R&D unit at Commerzbank, said: “We are delighted to support the transaction as a platform operator and, together with Deutsche Börse, to have reached such an important milestone in the adaptation of this future technology for the capital market.”
In the press...

"With the development of proper standards, coherent guidelines and stakeholder support, banks can drive forward economic growth motivated by environmental and social action."

Ruediger Geis

Sustainable trade here to stay

As the trade finance sector increasingly recognises their responsibility to safeguard social and environmental health alongside economic growth, Ruediger Geis details how banks can facilitate sustainable trade in an article for International Banker.

Banks must lead by example as the heart of the global economy, writes Geis. In 2018, Commerzbank became one of the first financial institutions involved in the Alliance for Development and Climate Change. The Alliance aims to tackle global climate change while simultaneously promoting local economic and social development by making it easier for companies to raise capital to finance CO2-offset projects across the developing world.

Green financing is also driving sustainable trade, divesting financing from carbon-intensive fuel industries and bolstering renewable-energy projects. Banks’ encouragement of comprehensive sustainable trade practices, tracking social and governance risks as well as environmental risks across transactions and trade relationships, is also vital. At Commerzbank, for instance, over 5,000 transactions a year are examined against environmental, social and governance (ESG) criteria.

Geis also details the importance of continued innovation – new trade-financing instruments, sustainability-assessment tools and information sources should be supported, without hindering current processes. Sustainability must become an integral part of a sleek and efficient trade-finance network to be successful.

Geis writes: “Patience is key: it will likely take time, and more than a couple of test-runs, to get it right. But ultimately, with the development of proper standards, coherent guidelines and stakeholder support, banks can drive forward economic growth motivated by environmental and social action.”

Ruediger Geis, Head of Trade Affairs and a member of the Executive Board of the ICC Banking Commission, writes for International Banker to argue that banks must take the lead when it comes to driving sustainable trade.
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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Contact: Dr. Carolina Plaza-Pust
Commerzbank AG, Corporate Clients, SAM Client Marketing, Kaiserstraße 16, 60311 Frankfurt am Main, Germany
Email: fi.news@commerzbank.com
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