

## The next generation of trade finance innovators

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With the banks struggling to bridge the trade finance gap that has opened up since tighter regulations were introduced post-crisis, a global shortage of funding is forcing a wave of innovation in the trade finance market. We see alternative private credit providers moving in to the space, fintech solutions now emerging and blockchain platforms taking off, all creating huge opportunities for innovators and entrepreneurs.

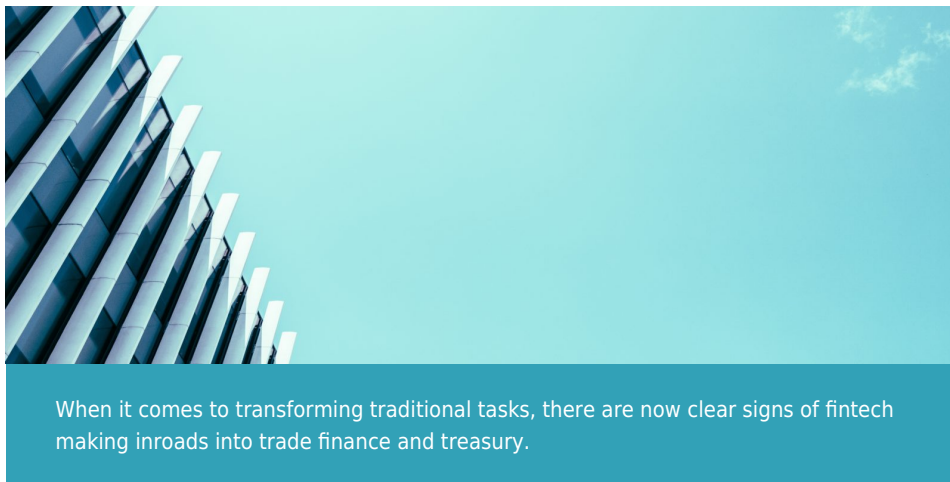
For the most part, the current drive for innovation falls into three categories: efforts to bring in new lenders and investors to the commodity financing space; moves to transform traditional tasks; and, advances aimed at enhancing transparency, traceability and collaboration.

In the first camp we see the emergence of private debt funds, seeking to bridge the gap between borrowers and institutional investors. Nick Makin, chief of staff of Audentia Global – an alternative credit manager – says, “our direct private lending activities create sources of capital which optimize transactions beyond current trade finance banks’ capabilities and ultimately facilitate funding between investors and physical producers.” But there are also initiatives coming out of the big trading firms in this part of the market, with one industry source pointing out that Trafigura launched an innovative funding programme at the end of 2017, for example, and not all innovation relates to technology. That US\$470 million non-recourse funding programme combined receivables finance, structured commodity finance, asset finance, supply chain finance and securitisation for commodity inventories and will offer Trafigura greater liquidity, through a scalable product that will be more flexible than a straightforward borrowing base or line of credit.

When it comes to transforming traditional tasks, there are now clear signs of fintech making inroads into trade finance and treasury. Some of the most recent innovations are in online platforms such as Trade Finance Market, which can provide standard services such as receivables financing, supply chain finance and trading lines through an electronic marketplace for global non-bank SME trade finance, with a focus on

emerging markets.

“The aim is to provide as much efficiency and simplicity as possible to transactions,” says the COO of an Independent Oil & Gas company. “The platform seeks to enable the applicant to provide the information to enable transparency. The cost is still high on an operational basis, but might cancel the horrendous commitment fee many trade finance funds and now banks are asking from their clients.”



Blockchain clearly also has a role to play in addressing some of the big issues in trade finance, bringing benefits through its ability to reduce processing time, eliminate the use of paper and save money, while at the same time boosting transparency, security and trust. Many bankers see trade finance as the area most likely to benefit from blockchain technology, and platforms such as TradelX and Komgo promise to deliver efficiencies, simplifying the work of traders and banks and thereby reducing response times and smoothing the operational process.

Suleïma Baddi, CEO of Komgo, says: “For the first time, the industry has decided to move forward together to solve ancient-age problems, and for the first time a technology answers to its needs in terms of privacy, security and efficiency, while supporting its decentralised way of operating. To be successful, this change has to be driven by businesspeople coming from the industry that have been facing its pain points on an everyday basis, backed by UX/UI talent and the full range of IT skills.”

Firms operating in all three of these areas are vying for experienced trade finance talent, looking for the key skillsets of a deep knowledge of commodity finance and derivatives, a genuine understanding of physical commodities, and a track record. Makin says, “we built our team at Audentia around a specific skill set and expertise. Our investment committee has extensive practical experience in physical commodities trading, derivatives and risk management, and commodity financing.” To

ensure a robust risk management process and an ability to accomplish an outsized targeted return profile, each transaction needs to be looked at from the eyes of a financier who also brings an understanding of the physical risks and nuances of the logistics involved in a particular transaction. Deep IT and technical skills are also - obviously - in high demand.

Finding such a combination of skills is rare, not least because the historic structure of the market has meant financing skills rested with bankers and the understanding of the physical outlook with traders. At the moment, most of the talent moving into these entrepreneurial businesses on the sidelines of the industry is coming out of traditional trade finance banks and the investment banks, with those working at traders tending to be more reluctant to make such a leap. But the trading firms are sitting on huge pools of talent that they will need to work hard to retain, perhaps by encouraging more innovation within their own businesses.



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At the same time, there is a huge challenge for the commodity finance market to attract tech talent into the industry, where new ideas and a fresh outlook are clearly required to keep the asset class alive. Tech skills are already in high demand across the vast majority of industries and asset classes, and wooing the best innovators into trade finance will not be easy. There are, however, attractions around the intersection between the real economy and the financial services industry that the sector represents, the opportunity to deal with strategic products that underpin the real economy, and the potential to have a direct impact on a wide range of communities and people.

The finance function in a trading firm has to deal with continuously expanding parameters and a fast-evolving landscape. What is clear is that the funding gap in the trade finance area needs addressing, and only by wooing the brightest and best talent to the industry can innovation truly take hold in the coming years.

# Contact Us

Daniel Cordell

*EMEA*

+44 20 7392 7734

dcordell@humancapital.global

David Baranowski

*Americas*

+1 713 388 6291

dbaranowski@humancapital.global

Patrick Bullard

*EMEA*

+44 20 7392 7730

pbullard@humancapital.global

Brendon Booth

*APAC*

+65 3158 7411

bbooth@humancapital.global



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