

Trade finance made to measure

(16 September 2009 – Australia) The financing needs of trading businesses vary considerably according to businesses size, calling for tailored trade finance services.

In particular, small trading businesses are heavily reliant on letters of credit to fund their trade activities, while larger businesses have continued to shift their trade business to open account terms.

These findings come from East & Partners' Australian Trade Finance Markets research program. The latest report is based on direct interviews with 1,800 trading businesses turning over more than A\$5 million per year.

Speaking about the August 2009 Trade Finance report, East & Partners' financial markets analyst Zoran Knezevic said business size is an important determinant of the way businesses fund their trade activities.

"For SME businesses turning over between A\$5 and 20 million, as much as 63.1 percent of trade is financed using letters of credit," Mr Knezevic said.

"Letters of credit are a well established method of obtaining trade finance and there is generally a high degree of comfort in using this as a means of finance."

"But letters of credit can also be document intensive and are sometimes seen as a less efficient method of funding trade transactions," he added.

This is partly confirmed by the continued migration of larger businesses away from letters of credit and to more direct open account terms.

"Our data shows that as almost three quarters of the Top 500 trading businesses conduct their trade on open account terms, while less than 20 percent of trade is done using letters of credit," Mr Knezevic said.

"This appears to be a reflection of the relatively more established relationships these businesses have with their international trading partners but also their greater commitment to streamlining the trade process using latest transaction tracking and documentation technology," he added.

"In other words, the pursuit of supply chain efficiencies among larger businesses is an important factor in encouraging their preference for open account trading."

"Ultimately, these results suggest that trade finance should be flexible and that financiers will benefit by adapting product and service offerings to the needs of customers in different segments," he concluded.

East & Partners Pty Ltd

Level 39, 2 Park St Sydney NSW 2000 Australia

p: +61 2 9004 7848 f: +61 2 9004 7070

www.east.com.au

ABN: 76 072 374 406

About East & Partners' Australian Trade Finance Markets Program

Australian Trade Finance Markets is East's ongoing six-monthly research service focusing on the Top 500 institutions and a structured sample of the Corporate businesses with annual turnover between A\$20 and 340 million. From August 2008, the program has also included full coverage of the SME (\$A5 to 20 million annual turnover) market segment.

Each analysis report covers a range of metrics including market share, share of wallet, product penetration, export/import regions, supplier share of mind and customer satisfaction with service performance.

For more information, please contact:

Brett Williamson
Chief Operating Officer
East & Partners
t: 02-9004 7848
m: 0403 499 844
e: brett.w@east.com.au