

Open Account Trade Financing all the Rage

(16 September 2011 – Australia) East & Partners' latest Australian Trade Finance Markets report has revealed stark differences between open account financing and letter of credit use across the different market segments of Institutional, Corporate and SME importers and exporters.

Among both Institutional and Corporate trade customers the use of open account financing has risen over the past three years, 3.7 percent and 9.3 percent respectively. With this increase in open account financing there has also been a decrease reported by both these segments in the use of letters of credit (LCs). The Corporate segment has seen a drop off of 1.9 percent while Institutional trade customers reduced their demand for LCs by 1.8 percent.

In contrast, SME trade customers are reporting exactly the opposite trend with use of open account financing decreasing and LCs increasing. Over the last three years open account financing in this space has diminished by 9.8 percent while letters of credit have risen by 11.1 percent.

Paul Dowling, East & Partners' Principal Analyst commented, "Reducing SME engagement of open account trade financing is clearly influenced by financier behaviour and appetite for this kind of lending. There is a very interesting contrary position being adopted by some bankers, however, toward more "holistic" working capital solutions where true trade financing is being wrapped into downstream financing solutions covering inventory and end receivables. This supply chain approach resonates with SME trade customers, most of whom actually finance their trade requirements currently through other types of lending solutions such as Overdrafts and Term Facilities"

"Institutional and Corporate trade customers are showing less and declining appetite for traditional trade financing solutions such as LCs and are increasingly concerned with end to end supply chain management enhancements" Mr Dowling added.

Customer Import/Export Ratios August 2011

	% of Trade Customers		
	Institutional (N: 364)	Corporate (N: 689)	SME (798)
Importing only	27.2	69.4	82.8
Exporting only	19.2	7.0	13.0
Both importing and exporting	53.0	23.7	4.1

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About East & Partners' Australian Trade Finance Markets program

Six monthly research sweep across the Top 500 Institutional (annual turnover A\$530+ million), Corporate (A\$20-530 million annual turnover) and SME (A\$5 to 20 million annual turnover) markets using a naturally structured national sample of 1,851 interviewed enterprises.

Market analytics reported in the Australian Finance Markets program include market share, share of wallet, product penetration, export/import regions, supplier share of mind and life of service relationship metrics, customer analytics including bank-by-bank satisfaction performance on key TF related factors, buying and churn behaviour.

Market Segments:

- Institutional – A\$530 million plus
- Corporate – A\$20-530 million
- SME – A\$1-20 million

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