

Australia's Trade Finance Markets

Trade offers the next newest yet oldest market opportunity

Trade Finance is back on the agenda for most commercial banks after several years of moribund attention and stop-start market entry by international banks into the Australian domestic scene. Estimating the current value of these markets is challenging as few customers have an accurate understanding of what their trade finance services cost them and indeed how much they are spending. Nonetheless, it is sizeable. East & Partners' estimated 2005 market size based on demand side analytics drawn from the firm's six-monthly trade markets research service in terms of fees and charges but excluding interest income is:

- Commercial Markets.....A\$570.5 million
- Top 500 Corporates.....A\$316.7 million
- SME Markets.....A\$155.8 million
- Total 2005 Market..... A\$1,043.0 million

And based on customer expectations for the 2005/06 year, total market value is set to grow around 7.9 percent to A\$1125.4 million.

Re-Engineering Underway

Domestic service providers have rediscovered trade and are actively re-engineering both their product platforms and go to market propositions, much of which is centred on enhanced e-Trade solutions. At the same time, reinvigorated interest from international banks in Australian originated trade business is clearly happening. Regional banks are also adopting an "own-the-customer but outsource" transaction execution through white labelling agreements. These forces are causing further segmentation of the market as these models interact differently with different sets of customers.

Where is Trade Best Housed in a Commercial Bank?

A key debate that is also taking place as service providers are moving through this restructuring process is: where best to locate trade services within the bank? The general conclusion has been within wider transaction banking. But in trying to both differentiate market positioning and capture downstream business, other service providers are structuring trade within treasury/FX departments, or are keeping their trade business units relatively standalone. Just which one works is clearly a function of an individual institution's other product strengths and ability to leverage cross sell.

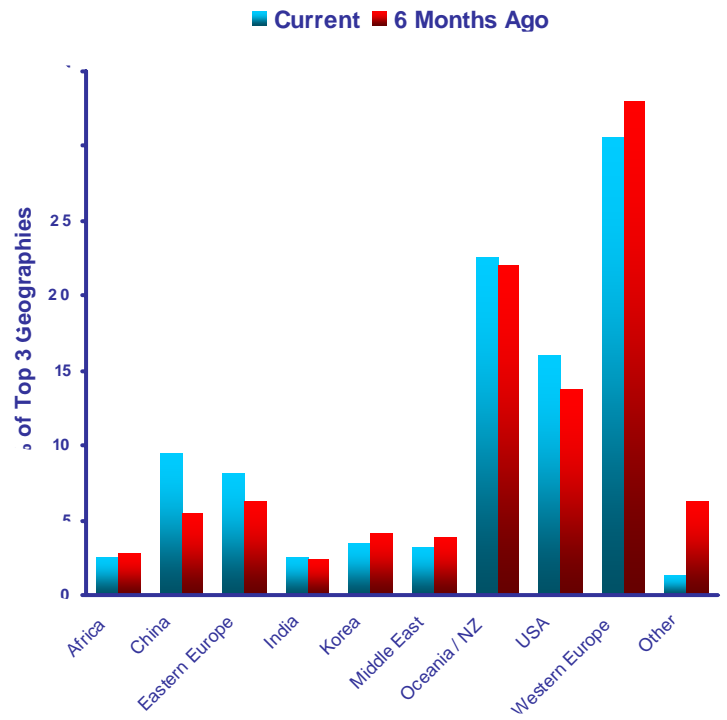
Figure 1
Key Drivers of Trade Finance Needs for Corporate Customers

	% of Corporate Customers	
	Current	6 Months Ago
Growth in Underlying Trading Business	22.8	24.4
Need for Liquidity Support	19.2	20.9
Supply Chain Management Initiatives	20.2	19.1
Speed of Payments / Receivables	10.0	10.7
Currency Trading Support	9.0	8.4
Security of Payments / Receivables	5.1	3.1
Other	13.7	13.4
TOTAL	100.0	100.0

Source: East & Partners Trade Finance Markets Program

Trade as a Key Originator of Other Business

Service providers have recognised that trade increasingly originates other business so integrating trade with the part of the business that will generate the most opportunity for trade "derivatives" is key to being successful in the space. In the words of one banker: "If we're not playing with products that help companies bring their products in, then we're going to miss out participating in these other spaces as well."



Foreign exchange services are a classic example of a naturally associated product space to trade that several banks have refocused on over the past few months. Trade is also providing a market entry window for non-trade providers looking to expand their FX and risk management business.

Trade related risk management and risk advisory services represent the second big product theme increasingly associated with core trade financing. While credit dependant importers typically look to their banks to provide advice on transaction facilitation, execute fast document processing and deliver competitive FX rates, exporters want their service providers to be able to consider and accept a variety of credit risks.

The nature of these risks vary widely but are providing a growing source of fee income in the top end of the corporate export markets, independent of trade transactions.

Service providers possessing a strong international network are seen as well positioned to capitalise on customer appetite for such advisory help and are increasingly using such propositions to drive new relationship gains and retain large export customers.

Much of Australian businesses are naturally traders and for bankers, trade service and product excellence can deliver large upside to their overall customer proposition and act as a substantial originator of associated business. In an increasingly competitive vanilla business lending market, trade finance has become increasingly central to institutional growth.