



## Trade Finance Can Grow International Business

business customers international

**Summary:** The WTO forecasts trade volumes will increase by 7.2% in 2021, bringing back robust global commerce. With that, community financial institutions will want to support their international business customers and trade finance is one way to do that. Not only does this help your customer, but your institution benefits as well with good returns, resilient assets, low defaults, and more.

According to a SurveyMonkey survey, around 80% of Americans drink coffee, with 69% drinking it for its taste, and 62% drinking it for the extra burst of energy. So, when you are drawn to your next cup of coffee, you know you are in good company.

Another area that is drawing people in these days is trade finance. A growing number of funds and institutional investors are drawn to the returns offered by trade finance. The reasons they like this asset class are largely the same reasons that community financial institutions (CFIs) can also benefit by offering trade financing to commercial clients.

### What is trade finance?

In international trade, there is an exporter and an importer. When one of these parties wants an advance payment, they can turn to a financial institution (FI). The FI buys the invoice at a discount in exchange for the advanced payment. This trade finance receivable is now an asset for the FI.

### Background

Large banks used to be the main US players in trade finance, but Basel III capital reserve rules and other regulations have nudged them out of the market for import/export loans, letters of credit, supply chain finance, and performance guarantees.

In their place are between 15 to 20 financial funds that specialize in trade finance. Some of the first of such funds began after the subprime debt crisis, and their number has grown as investors look for investment vehicles that offer high yields, low volatility, and no correlation with the equity and debt markets. The stage is open for new players.

### Benefits

**Return.** Trade finance can mean good returns for investors, which indicates an opportunity for CFIs with their international business customers. According to a 2019 report from Insight Investment, a global asset management firm, investors might expect to earn yields substantially over LIBOR.

**Resilience.** Despite ongoing trading tensions between the US and China, trade finance has bobbed along nicely, showing more resilience than many other investments. Trade finance funds provided a return of 5.34% in 2019 and increased 0.82% through May of 2020. While overall trade finance revenue dropped in 2020 from 2019, industry experts expect it to get back to pre-COVID levels as early as mid-2021.

**Low defaults.** That wouldn't be a glittering performance from an equity portfolio, but it is a solid return for relatively low risk. Defaults in trade finance are historically low at around 0.08%. While this may have risen somewhat due to the economic impacts of the pandemic, the WTO forecasts trade volumes will increase by 7.2% in 2021 which indicates overall healthier global trade and normalized defaults.

**Selling trade finance assets.** CFIs starting or expanding their trade finance business may also be encouraged to know that other financial entities are interested in buying trade finance assets from FIs, or in partnering with originating institutions. Investors with extra liquidity and a desire to diversify their portfolios could be highly motivated to purchase these assets. One investor notes his criteria for these deals, *"I want to do deals banks are willing to hold on their own books,"* says Ihab Salib, a senior portfolio manager at Federated Investors Inc. *"Someone else needs to have skin in the game."*

If your institution is interested, talk to other institutions that are doing it. They can give you the ins and outs of it. Then, make sure that you build a strong trade financing team for your business customers to lean on. You can also contact the [EXIM Bank](#) with questions. For all other [international services](#), we are your partner. Together, we can support the needs of your international customers.

## ATTRACT NEW CUSTOMERS WITH INTERNATIONAL SERVICES

Help new customers with their cross-border commerce using seamless international services from PCBB. It is like having your own international department on call. [Learn more today.](#)

*Copyright 2021 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.*