P.R.I.M.E. Finance

Panel of Recognized International Market Experts in Finance

Credit Panel - Change in the Works?

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Changing Financing Conditions

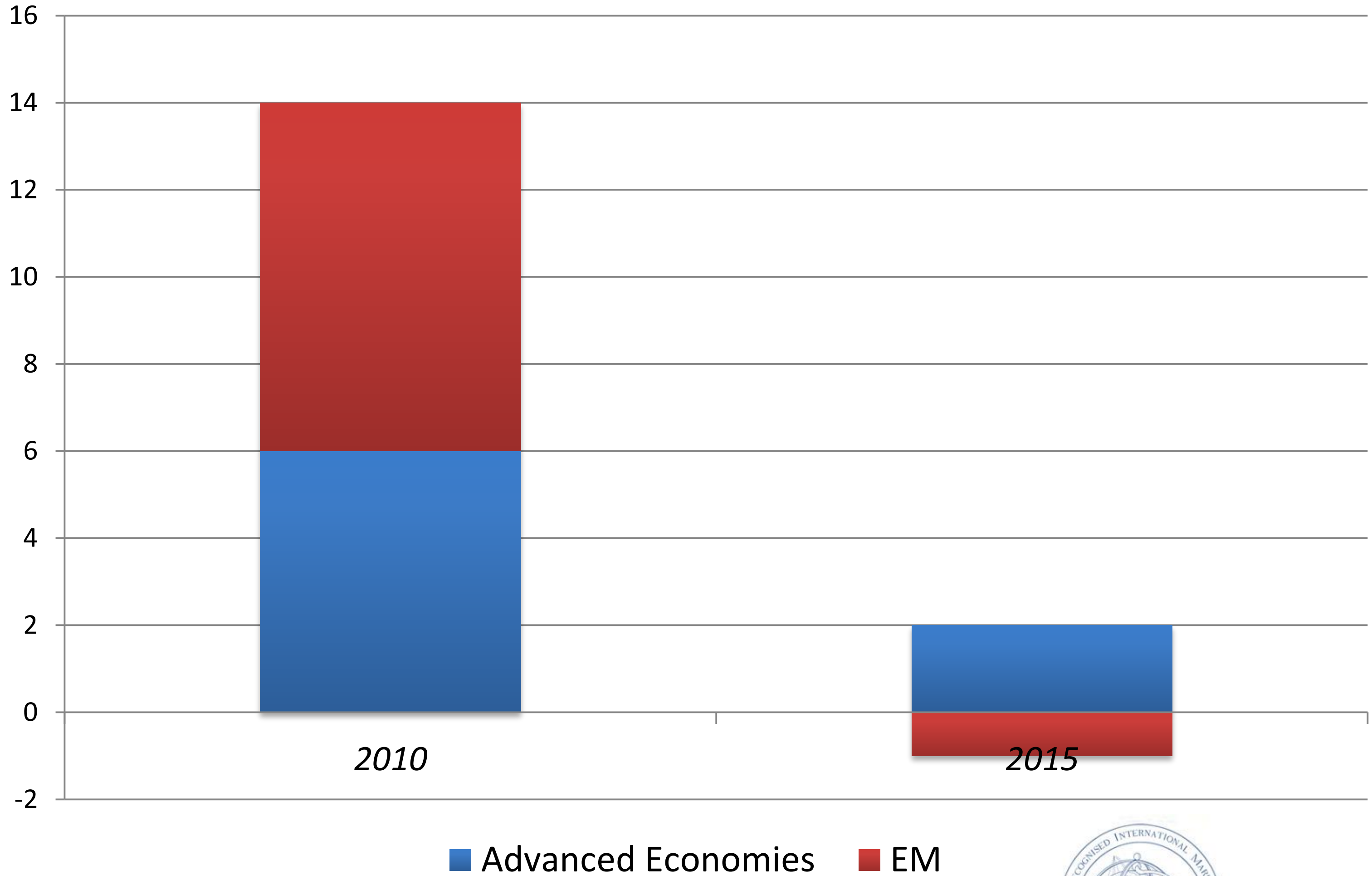
I. Global trade volumes are under pressure in selective markets

II. A trade financing gap has emerged since the financing crisis, although reduced demand also may be occurring

III. New financing practices are now emerging to partially address this gap

IV. This material identifies the emergence of alternative financing approaches for P.R.I.M.E. to monitor over time, given its role in educating judicial systems and providing dispute resolution in promoting functioning markets

Global Trade Volumes Under Pressure[1]



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[1] International Chamber of Commerce. 2016 Rethinking Trade & Finance. Available at: www.iccwbo.org

The Trade Finance Gap

I. The trade finance gap appears to be continuing. Some 61% of recent ICC survey participants indicated that they believed such a gap has increasing during 2015 from earlier periods. Financial institutions, corporates and SMEs appear affected[1]

II. The size of the trade finance gap is estimated to be $1.6 trillion[2]

III. Tightening risk appetite, and line constraints, growing KYC and compliance costs, and commodity and FX volatility, all may contribute to this gap (ICC, 2016; IFC, 2016). Bank capital requirements are expected to grow by 36% under Basel III and pricing for trade finance credit products may rise by 60% to 100% (BAFT, 2016)

IV. These trends combined with de-risking by global banks suggest there may be a growing unmet demand for credit,

V. This presents an opportunity for non-bank players to introduce new innovations to address, in part, this gap, notably in emerging markets

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1 International Chamber of Commerce. 2016 Rethinking Trade & Finance. Available at: www.iccwbo.org
2 Berne Union Report, 2016.

The Emergence of New Financing Practices

I. The provision of financing need not be limited to commercial banks, although some banks do provide completely unique services not easily replicated (payments, account banks, correspondent and clearing, etc.)

II. Non-bank player can obtain risk exposures via outright securitizations, synthetic securitizations, and direct sale of loans and participations to non-bank investors[1]

III. Also, investment managers are increasingly issuing fund linked products

IV. MDBs are also active. As a principal, they can facilitate trade finance (i.e., EBRD, IFC, AfDB, Crown Agent's Bank, and others). But as a financial catalyst, they also provide capital to introduce specialized investment platforms to generate a significant impact in local markets (i.e., FrontClear)[2]

V. All this innovation, required to in part address a funding gap, may represent opportunities for P.R.I.M.E. which be monitored and discussed over time

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1. Basel. (2014). Trade Finance Developments and Issues. Available at www.bis.org
2. See http://www.cnbcafrica.com/video/?bctid=5106255894001