ADDRESS BY MR YANDRADUTH GOOGOOLYE,
THE FIRST DEPUTY GOVERNOR OF THE BANK OF MAURITIUS
AT THE SESSION ON TRADE FINANCE ON 13 SEPTEMBER 2007
AT FICCI-IBA CONFERENCE ON
"GLOBAL BANKING: PARADIGM SHIFT"

Ladies and Gentlemen

Good afternoon

It gives me great pleasure to be in Mumbai for the conference on "Global Banking: Paradigm Shift" jointly organized by the Federation of Indian Chambers of Commerce and Industry (FICCI) and the Indian Banks Association (IBA). I am also very pleased to chair this session on Trade Finance this afternoon at Hilton Towers. I wish to extend my appreciation to the FICCI and IBA for hosting this Conference. I also extend a warm welcome to the distinguished speakers and to all delegates from South Asia, Middle East and Africa.

Before getting into the crux of the subject, may I mention that we are meeting at a very auspicious moment as the people of this state and the Hindu community at large are celebrating Ganesh Chaturthi. May Lord Ganesh bless us all!

Trade finance is a very specialized area requiring a thorough understanding of the mechanics and the linkages among the various participants, and a good grasp of the risks involved in trade finance. In the global economy, trade finance is gaining momentum. Participants, particularly banks, are rethinking the way global transactions are currently being done.

Finance and trade are linked in a number of ways that are not always obvious. Both are important engines of growth in today's economies and the expansion of their share in output shows their growing importance. Indeed trade finance has been a core business for banks for decades. Traditionally, banks have offered to the trading community products that include among others Letters of credits, Factoring, Early Pay or Dynamic Discounting and Asset Based Lending.

Document-intensive letters of credit have indeed proved to be instrumental in the development of international trade finance but it must be recognized that there are a number of problems associated with traditional trade finance, for example the limited connectivity among buyer, supplier and financial institution; limited controls for the supplier and most importantly, the uncertainty of payment. The traditional way of doing business can sometimes prove to be administratively cumbersome and inefficient and the costs involved are high. Moreover, there are a number of risks associated with trade finance that, if not properly managed, can prove to be fatal for the different stakeholders.

In a global economy, efficiency is the order of the day. Players in the international trading arena - banks, suppliers, buyers and shippers are all striving to make the processes easier, faster and cheaper. This is where the physical supply chain and the financial supply chain have come together.

This “marriage” is resulting in a shift from a SINGLE PRODUCT solution to a SUPPLY CHAIN finance solution. Increasingly, banks, buyers, sellers, insurance companies and logistics companies are joining hands to find solutions. On the one hand, banks are setting up operation centres to centralise Letters of Credit, Document Collection, Letters of Guarantee etc with a view to enhancing efficiency and professionalism, and reduce costs and operation risks. They are more and more offering non-traditional services which may include sophisticated imaging technology that can assist with dispute and discrepancy management coupled with data storage, insurance products, document preparation services, cash flow modeling etc. On the other hand, the logistics companies are providing banks with two key elements – firstly the warehousing and transportation of the goods and secondly the visibility into the movement of those goods. This increased visibility into the supply chain encourages banks to extend credit to trading partners instead of issuing letters of credit. The “marriage” of the physical and financial supply chain processes therefore injects additional and more cost-effective liquidity into the system.

At the base of this shift from SINGLE PRODUCT solution to SUPPLY CHAIN finance solution are advance in connectivity - the internet, new IT technology and applications and efficient capital markets. For instance, readily accessible information improves the ability to see where the goods are in the supply chain. If you send goods to Europe, you can log on to DHL and track exactly where the goods are. In the same vein, banks which are extending lines of credit against inventory or deciding when to make payments to sellers on behalf of buyers need to know the whereabouts and the integrity of individual units rather than simply knowing where the large shipments are in transport.

It is clear that banks not only provide finance but need to understand the entire supply chain to give value added to their customers. In the process, there can only be a win-win situation for banks and the other stakeholders.

I believe that collaboration brings benefits to all participants. Buyers are able to negotiate better terms and conditions with the suppliers. Suppliers may have cheaper access to capital and reduced costs. Funds providers may benefit from higher return on corporate risk than on other products, they may have cross sell and increased lending opportunities. The collaboration may also result in reduced risk for the country and the supplier.

However, the financial supply chain needs to be properly managed. There are numerous challenges in embracing financial supply chain management. Invoices and inventory need to be reconciled in a timely manner. If shipping information and payment information cannot be combined, payments can be delayed that may result in increased costs. Managing foreign exchange risk and cash flow liquidity risks may become a challenge. Contrary to banks, the non-bank organizations participating in the financial supply chain may not have systems and processes in place to manage credit risk and operational risk. There may be issues like the legal enforceability of the collateral documents.

As I see it, the way forward to manage the financial supply chain is to fully embrace the use of technology. However, one must keep in mind that systems alone cannot solve all problems. It is people who need to first understand their environment in depth and come up with the necessary solutions for an optimal global chain finance efficiency.

Mauritius is an open economy dependent on trade. Our geographical location may serve as a linkage between Asia and Africa. The new opportunities arising in financial supply chain management are relatively unexplored by our banks. I am confident that the representatives of our commercial banks here today will benefit a lot from the expertise and experience of the other bankers who have started providing financial supply chain solutions.

May I conclude by saying that the future of trade finance is very much dependent upon the collaboration of all stakeholders – the buyer, the seller, the financial institution and the logistics and insurance companies. However, from a regulator's perspective, there are issues that need to be addressed such as the development of common standards and rules, the long-term implications for the financial system of the partnership between banks and non-banks, and the proper management of the legal risks involved.

I now invite the distinguished experts in the field to enlighten us on the prospects and challenges facing trade finance. I am sure that the ensuing discussions on the matter would prove be very constructive.

Introducing the speakers

1. Mr J Chandrasekaran

Mr Chandrasekaran is the Chief General Manager, State Bank of India……

2. Mr Asif Raza

Mr Asif Raza is head of Asia Pacific trade & logistics Management for JPMorgan Treasury Services and based in Singapore. In this capacity, Asif is responsible for origination, structuring, product management, insurance, distribution activities and continue business growth in Asia-Pacific. He leads a team of trade professionals specialized in trade relationship management, risk mitigation strategies, logistic management, structured trade, new trade services and emerging payment channel instruments to provide integrated solutions to financial institutions and corporate clients.

Prior to his current role, Asif was head of Trade Sales for Europe, Middle East and Africa as well as for the firm's global network trade business. He also worked at JPMorgan New York for 7 years and managed various trade teams.

Asif is a regular speaker of trade industry conferences and has written articles on trade & logistics Management. He is also member of Asian Advisory Council of Bankers' Association for Finance and Trade.

3. Mr Subin Subaiah

Mr Subin Subaiah is a Senior Vice President of Bank of America, heading their Global Treasury Services business across the Financial Institutions client space in Asia.

Prior to joining Bank of America in June 2005, Mr Subaiah spent 6 years with Deutsche Bank, Singapore where he held the position of Managing Director in charge of FI Relationship Management and had business line responsibilities for Deutsche's cash and trade business in South/South East Asia and Australia.

Mr Subaiah spent his first twenty years in banking with Bankers Trust Company holding a variety of senior positions in India, Hong Kong and Singapore in their transaction banking and investment banking businesses, covering clients across Asia.

Thank you.