Background:

Trade finance is an umbrella term used to describe many financial instruments, which are used by banks, companies, and other lending institutions to facilitate international trade. The purpose of trade finance is to introduce a third-party (ex. bank) to the transactions in order to remove payment risk and supply risk for their client. Depending on the nature of the transaction, trade finance provides importers and exporters with receivables/payment or extends credit to fulfill a trade order.

Trade financing differs from conventional financing, or credit issuance. Conventional financing is used to manage solvency or liquidity, but trade financing may not necessarily indicate a buyer's lack of funds or liquidity. Instead, trade finance may be used to protect against international trade's unique inherent risks, such as currency fluctuations, political instability, issues of non-payment, or the credit worthiness of one of the parties involved.

Trade finance has a long and rich history of supporting commerce. To date, the vast majority of trade finance investment is done by banks with little to no participation of institutional investors. However, regulatory capital requirements for bank related trade finance is much higher today under Basel-III than previously. The change in regulations requires banks to hold higher amounts of capital, which reduces the volume capital banks can deploy to support their trade finance operations.

According to the World Trade Organization, the deleveraging of bank-intermediated trade finance has led to a slowdown in the rate of growth of global trade. This should, in theory, provide non-bank investors with an opportunity to play a greater role in trade finance related investment. This has not been the case. Non-bank investors have shown little interest in investing into this sector. Lack of participation of institutional investors is due to complexity, lack of data, absence in standardization of terminology, and the general esoteric nature of international trade transactions.

Solution:

Large banks are partnering with FinTech companies in order to tackle these challenges. The hope is to create transparency and streamline the trade process. Tradeteq is one of a growing number of companies attempting to provide solutions in international trade. Tradeteq has partnered with more than a dozen international banks by providing them with their technology platform. Tradeteq leverages a number of different technologies and methods such as bigdata, machine learning, artificial intelligence, natural language processing, and predictive analytics. These tools and resources are used for document analysis, credit risk analysis, and data standardization in order to create transparent trade finance data.

Tradeteq’s distribution platform should enable investors to understand, access, and execute trade finance investments, and in the future, possibly bring trade finance to the global capital markets in the form of a new asset class. What form that may take is still in consideration but most believe it will take the form of a bond. Critics of creating trade as an asset class argue the asset class is poorly understood by the end investors. Also, trade in general is not a transparent asset class, given the limited information on Bloomberg, and there is no exchange. Funds that have invested in trade finance have shown scalability is limited, and expertise relating to custody, settlement, and documentation create high barriers of entry when developing the product. In sum, critics are highly skeptical of turning trade finance into a packageable and digestible product for investors.

Tradeteq and its technology platform is one of many Fintech companies partnering with global banks who together are attempting to refine international trade and trade finance. These partnerships along with the rapid growth in technological development will make significant inroads in trade finance in the near future.

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