European and Asian Business Expansion Drives U.S. Demand for Trade Finance

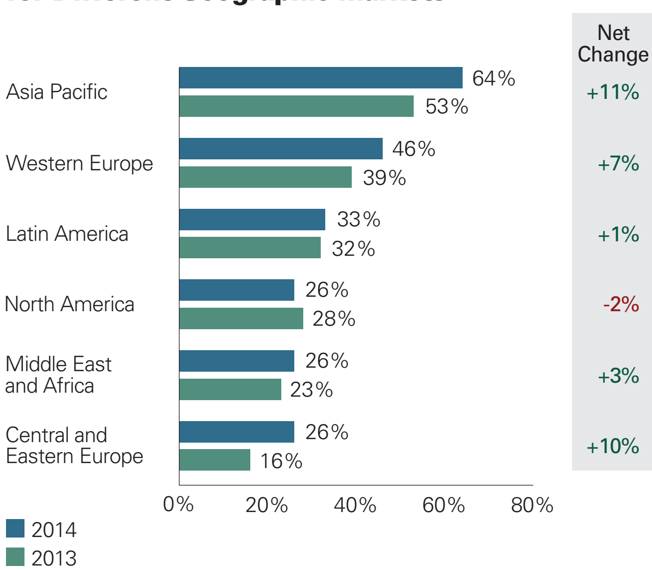
Recent trends in trade finance show that large U.S. companies are stepping up their activity in fast-growing Asian markets. Nearly two-thirds of large U.S. companies used trade finance for transactions based in Asia in 2014. That share is up 11 percentage points over the past 12 months.

In fact, companies' usage of trade finance has increased in every major foreign market, suggesting that big companies here are putting international expansion plans into motion. The share of large U.S. companies using trade finance in Western Europe increased to 46% in 2014 from 39% the prior year, and for Central and Eastern Europe usage increased 10 percentage points to 26%.

"Those are meaningful gains that reflect real increases in commerce and business activity between U.S. companies and counterparties in these international markets," says Greenwich Associates consultant Andrew Grant.

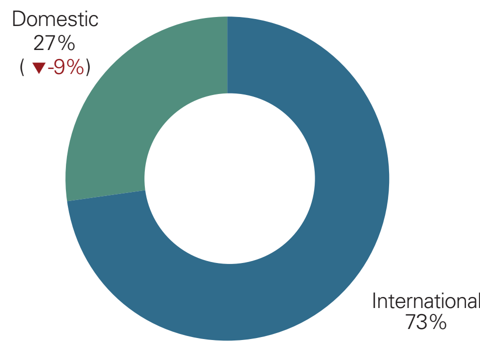
Companies' increased focus in international business is evident in trade finance spending patterns. Over the past year, the share of U.S. companies' overall trade finance fees connected to international transactions increased to 73% from 64%, with a corresponding decrease in spending on domestic trade.

Share of U.S. Companies Using Trade Finance for Different Geographic Markets



Note: Based on 132 respondents in 2013 and 168 in 2014.
Source: Greenwich Associates 2014 U.S. Large Corporate Trade Finance Study

Share of Fees Paid by U.S. Corporates for Domestic and International Trade Finance



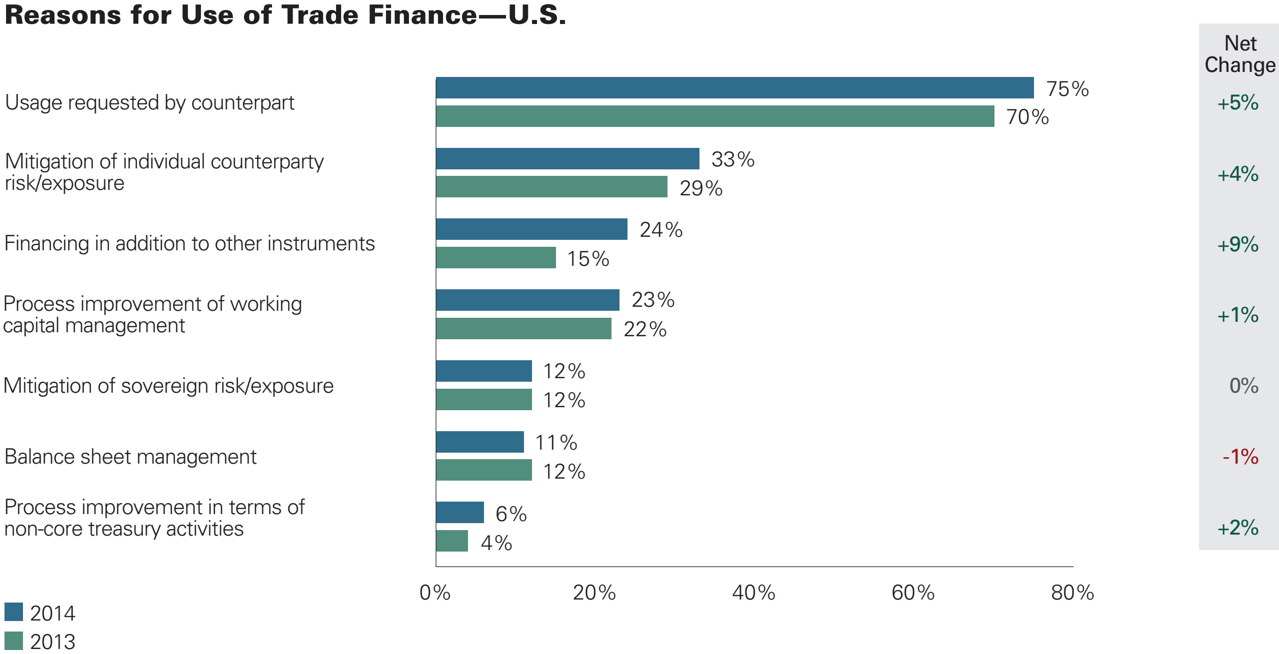
Note: Based on 151 respondents in 2014.
Source: Greenwich Associates 2014 U.S. Large Corporate Trade Finance Study

Most U.S. companies use trade finance for a simple reason: Their counterparty in a transaction requests it. Over the past 12 months, the share of U.S. companies reporting that their counterparties in transactions are requesting the use of trade finance increased 5 percentage points to 75%.

Trade Finance: Risk Mitigation Tool and a Source of Funding

When they do employ trade finance of their own initiative, large U.S. companies generally do so to mitigate risks and exposures associated with a counterparty. However, the results of Greenwich Associates 2014 research reveal an interesting trend. In Asia, trade finance is employed by large companies most often not as a risk mitigation, but rather as a source of funding that supplements other financing instruments. Since Europe's sovereign bond crisis, growing numbers of companies have started using trade finance in this manner—especially in the southern 'periphery' countries whose economies and credit markets were hit hardest by the crisis. Over the past 12 months, the share of U.S. companies

Reasons for Use of Trade Finance—U.S.



Note: Based on 132 respondents in 2013 and 168 in 2014. Source: Greenwich Associates 2014 U.S. Large Corporate Trade Finance Study

citing "financing in addition to other instruments" as a key reason for using trade finance increased nine percentage points to 24%.

"This increase occurred entirely among companies with less than $10 billion in annual revenues," says Greenwich Associates consultant Robert Statius-Muller. "While companies larger than that size have been inundated with cheap capital from bank credit and debt capital markets, mid-sized and smaller companies are apparently on the lookout for new sources of credit at favorable terms."

A challenging business environment and uncertain economy have prompted many U.S. companies to seek ways to unlock value by enhancing their cash management processes. Nearly one-quarter of large U.S. companies say they use trade finance as part of process improvement of working capital management.

Companies looking for ways to improve working capital management should take advantage of the fierce competition among banks for the business of high-quality corporate clients. "Companies that provide significant amounts of business to their banks across a range of products should use that leverage to demand that their banks provide advice and assistance about how to achieve process improvements in working capital management," says Greenwich Associates consultant Donald Raftery.

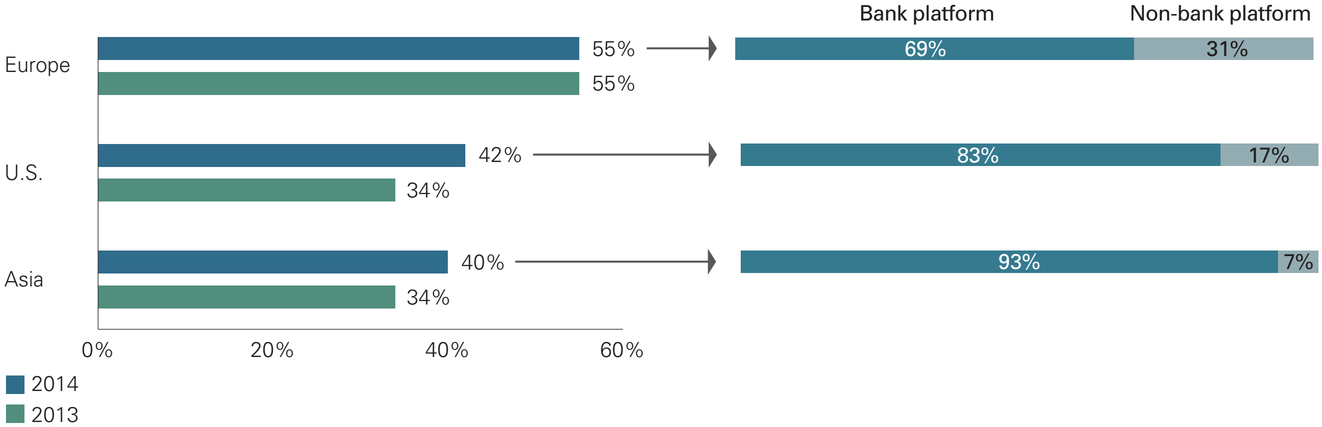
Projections on Pricing

A majority of large U.S. companies expect no further increases to trade finance pricing due to the implementation of new Basel III capital rules on bank providers. Fifty-eight percent of large companies believe pricing on trade finance will remain roughly unchanged in coming months, a finding that suggests companies believe their banks have already priced in or absorbed cost increases associated with new regulation. That said, the fact that a solid 42% of companies expect to see additional price increases linked to the new rules suggests that banks are moving at different speeds and that many companies could still be in store for price hikes.

Trade Finance Goes Electronic

Treasury officials at large U.S. companies should be aware that a growing number of their peers are using electronic platforms to access trade finance and execute transactions. Over the past 12 months, the share of large U.S companies using electronic channels for trade finance increased to 42% from 34%.

Use of Bank and Non-Bank Electronic Platforms



Note: Based on 359 respondents for Asia (excluding Indonesia), 306 for Europe and 132 for the U.S. in 2013; and 400 respondents for Asia (excluding Indonesia), 297 for Europe and 168 for the U.S. in 2014. Source: Greenwich Associates 2014 Global Large Corporate Trade Finance Study

"Although most companies use platforms provided by their banks, a look at the European market, which has led the world in the adoption of electronic channels for trade finance, suggests that third-party platforms will gain additional traction among U.S. companies in the future," says Andrew Grant. ■

Consultants Andrew Grant, Donald Raftery and Robert Statius-Muller specialize in corporate and investment banking in the U.S.

For additional information regarding the 2014 Large Corporate Trade Finance Study in Asia, Europe, the U.S., and/or globally, contact Maribeth Farley at +1 203.625.4314 or Maribeth.Farley@greenwich.com.

Methodology

From April to June of 2014, Greenwich Associates conducted 168 interviews in trade finance with financial officers (e.g., CFOs, finance directors and treasurers) at companies in the U.S. Subjects covered included product demand, quality of coverage, and capabilities in specific product areas.

The data reported in this document reflect solely the views reported to Greenwich Associates by the research participants. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Greenwich Associates compiles the data received, conducts statistical analysis and reviews for presentation purposes in order to produce the final results. Unless otherwise indicated, any opinions or market observations made are strictly our own.

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