Growth of Non-bank Trade Finance

Satinder Bhatia¹*

¹Indian Institute of Foreign Trade, New Delhi, India.

Author’s contribution

The sole author designed, analyzed and interpreted and prepared the manuscript.

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(1) Sorin Gabriel Anton, Department of Finance, Alexandru Ioan Cuza University of Iasi, Romania.
(2) Simone Domenico Scagnelli, Department of Management, University of Torino, Italy.

Reviewers:
(1) G. Y. Sheu, Chang-Jung Christian University, Taiwan.
(2) Ali Jude, Federal University of Agriculture, Nigeria.

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ABSTRACT

The rise of non-bank trade finance has been especially noticeable in the last decade. Many commodity and e-commerce companies are rapidly entering this arena as sovereign guarantees and collaterals take a backseat making it harder for banks to apply traditional models while lending to businesses. Non-banks which are more nimble occupy space vacated by banks. Increasingly, though, banks have begun to collaborate with non-banks, particularly fintech companies for rapid processing of transactions. Besides, trade finance field is itself developing its own specialised areas such as commodity finance, power generation and financial services. Growth in each field depends on the extent of specialised knowledge, developments in capital markets, innovations by technological service providers permitting new collaborations and a dynamic regulatory framework including self-regulation for assessing and disclosing emerging risks.

Keywords: Non-bank trade financiers; financial supply chains; SME financing; peer-to-peer lending; trade finance risk assessment and disclosure.

*Corresponding author: E-mail: satinderbhatia@iift.edu;
1. INTRODUCTION

The landscape of trade financing has altered rapidly with non-bank institutions and even open account dealings between trading firms coming to the fore since the turn of the century. Earlier, with instruments such as Letters of Credit or Bank Discounting of trade receivables, much of the commercial risks were handled by the banking sector. Today, there are institutions, chiefly dealing with supply chain finance which understands specific factors affecting value realizations at each stage of supply chain that put them in a position to provide such working capital finance due to advancements in digitization that enable risk-sharing and risk transfer much more easily.

2. THE RISE OF FINANCIAL SUPPLY CHAINS

Although digitization has helped the growth of financial supply chains, the key element has been the growth of specialized institutions that understand specific businesses and pricing factors thereof [1,2]. Commodity finance, for example, has become the forte of trading companies such as Sumitomo Mitsui which have set up their own banking corporations that have at least three verticals – agriculture, metals & mining and energy [3]. As against simply pre-shipment and post-shipment finance, specific stage financing may, in addition, be inventory finance or receivable finance that may include warehouse receipt finance. Since commodity prices may be highly volatile, institutions may insist on over-collateralization or increased pricing due to their own need to hedge for risks. The default rates, though, are lower as credit lines are backed by underlying commodity flows. In all supply chain finance, after the invoices are accepted, they are put up on the digital platform and there will be financiers ready to finance such invoices without even discounting them. Such digitization, thereby, helps the supplier to receive early finance on easier terms as risk is divided into several components. The client is similarly able to extend credit terms without any impact on credit pricing. E-commerce giants such as Alibaba have also entered the fray providing supplier finance to Chinese companies and buyer finance to, for example, British companies purchasing goods from Chinese manufacturers [4]. ICICI Bank in India in 2015 partnered with Alibaba for the launch of the online trade facilitation centre to provide easier finance in terms of rates and discounts to the small and medium enterprises in India who are members of Alibaba.com. Internet giant, Baidu, often referred to as China’s Google, has partnered with Citic Bank to launch an online bank and take on its rivals – Alibaba and Tencent. Hence, in China, we have online banks such as Baixin Bank, WeBank and MyBank by Baidu, Tencent and Alibaba respectively. Leveraging with other banks gives them the advantage of their reach in terms of geography as well as number of customers. In a short space of time, these online banks have moved into cloud computing and data services apart from online payments. This also shows that supply chain finance is successful only when suppliers do not otherwise have ready access to liquidity. Even before the supplier can seek invoice financing, the ordering company arranges supplier finance from either a bank or a non-bank institution.

3. KEY TRADE FINANCIERS

League tables put out by www.tradefinanceanalytics.com show the following key trade financiers by deal size in the first quarter of the year 2016. Alibaba is right at the top with a deal size of $4 billion. Other key non-bank trade finance deals include commodity, shipping and leasing companies. Interestingly, the Omani government and the Panama government have been the other key trade finance borrowers.

As is seen from the list of commercial lenders in Table 1, it is seen that while Sumitomo Mitsui Financial Group is the top commercial lender globally, its reach is highest in the Asia-Pacific and the Middle East regions. Deutsche Bank, HSBC and Credit Agricole are the top lenders in Africa. Bank of China, on the other hand, has emerged as the top lender in Europe followed by UniCredit, Societe Generale and ING Group. TD Bank, Bank of America Merrill Lynch and Scotiabank are the most prominent lenders in North America and JP Morgan Chase & Co is at the top spot in South America.

As is seen in Table 2, all trade financiers have a specialized field of expertise as all financing requires specialised understanding of the market of the product/service. Thus, while the top lender Sumitomo Mitsui Financial Group focuses on energy, HSBC focuses on manufacturing and power generation and ING Group has metals
financing as its main division. Mizuho, another big actor in trade finance focuses on financial services sector and Deutsche Bank on power generation. The importance to understanding the specifics of each market is, thus, the key to selecting the area of trade finance. The table also shows that non-bank entities like Sumitomo Mitsui Financial Group, Mizuho Financial Group and JPMorgan Chase & Co have emerged as major trade financiers.

4. NON-BANK TRADE FINANCIERS AND SMEs

Access to bank finance has been somewhat of a challenge for small and medium firms, particularly for those that are unable to provide the requisite collateral. As per the WTO report on ‘Trade Finance and SMEs’ published in 2016 [5], over half of trade finance requests globally made by SMEs are rejected against just 7 per cent for multinational companies. Further, as per the Bank for International Settlements, reduced trade finance could have accounted for as much as two-fifths of the fall in export volumes between the 2008 financial crash and 2014 [6]. In developing countries, as per the WTO report, the challenge is even bigger with the gap in developing Asia estimated at US$ 700 billion and in Africa at US$ 120 billion which is approximately one-third of the continent’s trade finance market. A number of steps including training of bank officials, monitoring of trade finance provisions and maintaining dialogue with the authorities to ensure that trade and development remain top priorities have been suggested by this report. Nonetheless, SMEs are now turning to non-bank institutions which are more agile and have developed solutions to meet the needs of SMEs. Companies such as General Electric Ltd had floated their own finance subsidiaries which specialised in providing finance to their suppliers and customers. Of course, institutions that were using leveraged funds for trade finance began experiencing difficulties post the 2008 crisis and some such as GE Capital Ltd had to be closed down. Earlier, in Tables 1 and 2, it was seen that Mitsubishi and Mizuho Financial Groups are top commercial lenders. Several hedge funds, too, have entered the fray viewing trade finance as a profitable venture for increasing shareholder wealth. Although margins in trade finance are shrinking rapidly, hedge funds have a size and diversity of business advantage due to which they have been able to structure low-cost solutions for SMEs. Others like UPS Capital also make use of their network around the world to provide finance to buyers of US goods and services. The latest player in this field that lends to individuals and SMEs, including start-ups, is Incred which is backed by Deutsche Bank’s former co-CEO Anshu Jain. As per a survey commissioned by ACI Worldwide and conducted by IDC Financial Insights in 2015 [7], online payment services are accounting for 72.4% of total payments in Asia Pacific, followed by smartphone wallets (32.8%) and mobile money (13.3%) – Digital News Asia, September 29, 2015. As per the survey, the top reason consumers use online payment services is to enjoy faster and more efficient payments (47%), followed by trust in online payments (21%), and better rates compared with other methods of payment (15%). The Shared Economy, which is built around the sharing of resources, is a major market driver in Asia Pacific. The top three ‘shared economy’ services across the region are taxi services, aggregated meal delivery and accommodations. Digital methods of payments are set to grow in tandem with shared economy services in Asia Pacific, especially for transactions where convenience, speed and seamlessness are valued. Examples of these transactions include taxi hire and car sharing services where 10% of respondents in the region are already paying for them via smartphone wallets. The region is rapidly moving toward real-time or immediate payments, driven by customers’ demand for faster and more efficient payments. Non-financial services are adding to the dynamic competition, extending payments from online and mobile ecosystems into peer-to-peer payments within social apps such as WeChat and Line.

Similarly, in the UK and other places, ‘peer-to-peer’ lending has picked up whereby firms, instead of lending themselves, create market places to enable the coming together of borrowers and lenders (savers). Some market places may be for purely debt, others for both debt and equity, particularly in start-ups and others may just enable the purchase and sale of receivables. MarketInvoice, Zopa, Prosper etc. were among the first few firms to get into this space and enabled large volumes of transactions on their sites. Unlike USA where banks fund not more than 25%-30% of credit requirements, in Europe and other places, the picture is reverse; hence, the fear has been that even with non-bank finance companies coming in, the gap may just be too wide to be filled by them. Capital markets are another source of funding and banks are only too happy advising on and arranging the
raising of capital. However, for smaller firms, the minimum volumes and the transaction costs of entering the capital markets may be too high. Securitisation markets are an answer to this problem wherein the receivables of a group of firms are pooled and securities issued against them to investors. During the financial crisis years, securitisation markets were seen as part of the problem and hence this non-bank money had stopped flowing to the SMEs [8,9,10]. Though large firms find it relatively easy to enter capital markets, infrastructure companies though have a problem as their funding needs stretch over multiple decades for which bond investors have very little appetite. Pension funds and insurance companies may be the only savours for infrastructure companies but their investment in non-corporate or private debt may be restricted. Besides, their expertise in dealing with less credit-worthy investors may have been dwarfed by bank dominance. In India, non-bank finance companies (NBFCs) have scripted a very successful story under the guidelines framed by the central bank. However, their foray into international trade finance is still limited.

Chinese e-commerce companies have moved very fast to occupy prime positions in the international trade finance arena. Such companies are also getting the required support from the government which has the goal of boosting consumption through digital finance. Below is a graph showing the top e-commerce companies in the business of moving money in China (Fig. 1).

China is said to be moving faster than the mobile phone companies such as Apple, Samsung and Android. A survey released by the Federal Reserve in March 2016 (Consumers and Mobile Financial Services) revealed that only about 25% of smartphone users in the US had used their device to make payments in 2015 [11].

Similarly, PayPal Holdings Ltd, a US company holds more customer money than many leading banks in the US. Such money does not earn any interest and is not insured. It is ready-to-spend money and PayPal has tied up with several retailers where customers can shop without any cash payment or use of any debit/credit card. Money gets directly transferred from PayPal account to the retailer’s account. And PayPal has also partnered with lenders to offer services such as remittance transfer, small business loans and debit/credit cards. The Xoom international transfer service which it acquired in 2015 permits bill payments to flow directly from the consumer to utilities or mobile-phone operators. This has further brought convergence between banking and fintech. Table 4 shows US demand deposits with major banks and nonbanks.

5. BANKING COLLABORATIONS WITH FINTECH COMPANIES

These developments show that banks, for their own survival, may have to tie up with non-bank finance companies or fintech companies. Private sector banks such as RBL Bank, IndusInd Bank and Yes Bank in India have started giving fintech start-ups access to their Application Programme Interface (APIs) so that their systems could be directly integrated with the systems in the banks ensuring rapid and smooth sharing of data. Historically, banks have not opened up their APIs to other entities but this opening up now enables more retail solutions for the customer as all transactions, particularly relating to money transfer and pre-paid card business are processed on behalf of banks by fintech companies. Many banks admit that such tie-ups have facilitated the efficient handling of transactions but are also aware that it exposes the bank’s platform to malware which could harm the bank’s database. Security, therefore, is an important issue for banks opting to tie up with fintech companies. Often, this is handled through ensuring that the data is encrypted and obfuscated and also through private secured channel and mutual authentication techniques to establish a right connect with third parties.

As noted earlier, a slew of startups in the fintech space are disrupting the financial services and banking industry. These firms are developing innovations that include peer-to-peer lending platforms that match borrowers and savers. They are helping banks to detect fraud and money laundering using artificial intelligence and machine learning. Platforms like Paytm and BankBazaar.com are developing apps that quickly transfer money and provide a wide range of financial products to the consumers. Paytm has also opened a payments bank in May 2017 in India and issue debit cards to its account holders. Rather than lose the game, some banks are, therefore, forming collaborations with payments banks. E-commerce companies, too, have tied up with payments banks to facilitate payments and refunds. And Paytm is itself an e-commerce player backed by Alibaba which has a
25% stake in it. Trade finance is acquiring a truly different dimension.

6. Regulation of Trade Finance

Trade finance has historically been used as a risk management tool ensuring that cross-border business is not affected by late payments or deliveries, geopolitical instability, currency fluctuations and other known and unknown risk factors. Trade finance providers today not only need to manage operational and market risks but also risks related with money-laundering activities and terrorism. Trade finance providers, therefore, now need to do behavioural profiling of clients and check minutely all transactions subject to sanctions using complex algorithms as well as verify trading partners’ banks as part of KYC (Know Your Customer) regulations. Compliance with regulations of different jurisdictions means that business processes must be continually aligned to changes in a bid to mitigate financial crime. But such compliances also means that there is a realization that banks alone may not be able to finance growing trade volumes. Besides, additional capital requirements under Basel III for trade-finance assets, including off-balance-sheet assets has made securitization of trade finance assets a huge possibility. Commodity trade finance by traditional lenders has seen a big decline, but the space has quickly been occupied by banks from many emerging economies including Middle-East countries who have tended to partner with an expert commodity bank. Syndicated lending by European banks, in particular, are becoming common with such lending directed to mainly regional banks of developing countries wishing to get into commodity finance. A number of deals backed by export credit agencies are also coming into the capital markets. Alternative financiers or non-bank trade financiers have, therefore, become the new phenomenon in the market. Although these non-banks do not have to comply with Basel III or liquidity requirements, they, in their own interest, are finding it prudent to comply with anti-money laundering and counter-terrorism regulations. But the industry is still afraid of what one may call ‘de-globalisation of regulations’ with regulations varying from jurisdiction to jurisdiction creating an un-level playing field and minimizing risk mitigation opportunities on some deals. In the meanwhile, non-banks or alternate trade financiers are discovering the merits of the individuality of trade finance asset class and reaping its benefits [12,13,14].

Thus, non-bank institutions have flourished despite the onset of stricter regulatory frameworks. In India, additional Tier I capital requirements rising to Rs 2 crore in March 2017 and reduced ability to take public deposits to 1.5 times their minimum capital from 4 times that prevailed earlier are unlikely to dent their onward march. This is despite the fact that many of them with deep linkages to the capital markets have been categorised as systemically important financial institutions (SIFIs) and are being watched very closely by the regulator for any risks arising due to counter-party failure or funding and asset concentrations affecting liquidity and solvency. Apart from their nimbleness, new technological innovations such as cloud-computing has also served to bring down costs of offering trade finance and increase capacities due to the use of third-party computing capability infrastructure which is also continually monitored by them. Smaller players are leveraging on applications like software as a service (SaaS) to host their entire trade finance systems on cloud resources. Other applications line infrastructure as a service (IaaS) typically encompassing on-demand memory management, computational power and secondary storage and platform as a service (PaaS) whereby customer portals, trade transactional processing solutions and trade reporting systems can be developed in any programming platform are also increasingly been used to build new capabilities and enter new territories. Of course, quality of service delivery and data protection, therefore, now assume a lot of significance. Cloud suppliers must consciously upgrade their capacity to handle technological platforms and exhibit a great sense of responsibility to address critical business issues while providing services such as application hosting, data centre management, virtual databases, virtual server processing capabilities and storage and business support. Further growth in non-bank trade finance will, thus, depend as much on ethical handling of data as the nimbleness of the operating entities [15,16,17].

Another development that may have some impact on the growth of non-bank trade finance is the introduction of international financial reporting standards (IFRS) on financial transactions. IFRS 9, applicable from January
2018, requires recognition of anticipated losses over the next one year and over the lifetime for all financial assets and not just incurred losses as at present. This may result in reduced capital affecting capital adequacy ratios. Besides additional investments are necessary in risk assessment and evaluation of qualitative data as significant changes in credit risk are to be assessed throughout the lifetime of the financial asset. Besides, all assets and liabilities have to be initially recognised at fair value and after that amortised values may be allowed only if the intention to hold the financial instrument to maturity is proven. Fair value, which has the potential to bring in a lot of volatility in income statements, will thus be dominant in financial reporting for both banks and non-banks providing trade finance. All this also requires huge disclosure on capital management strategies, significance of financial instruments and the risks attached. The growth in trade finance assets, thus, depends on establishing a dynamic regulatory framework and the ability of banks and non-banks to invest in new capabilities and incur the necessary costs [18,19].

Moving Money
Number of retail customers in 2014, in millions

| e-commerce company                     |   |
|----------------------------------------|---|
| WeChat (Tencent social media app)      | 549|
| ICBC                                   | 465|
| Agricultural Bank of China             | 456|
| China Construction Bank                | 314|
| Alipay                                 | 270|
| Yu'e Bao                               | 149|
| Bank of Communications                 | 63 |
| China Merchants Bank                   | 56 |
| China CITIC Bank                       | 45 |

Source: Citigroup

Fig. 1. Number of retail customers in e-commerce companies in 2014, in millions
Table 1. All lenders – quarter 1, 2016

| Transaction name                                      | Borrower                     | Date reported | Transaction country | Transaction region |
|-------------------------------------------------------|------------------------------|---------------|---------------------|--------------------|
| Alibaba/$4 billion/0316                               | Alibaba Group                | 16/03/2016    | China               | Asia & Pacific     |
| Oman government/$2 billion/9416                       | Oman Government              | 27/04/2016    | Oman                | Africa & Middle East|
| CMDT/XOF32.92 million/0416                            | Compagnie malie.....         | 27/04/2016    | Mali                | Africa & Middle East|
| Telefonica Movies/Chile/€2.5 billion                  | Telefonica Movies            | 26/04/2016    | Chile               | Americas           |
| Navig8 Product Tankers/$130.3 million/0416            | Navig8 Product Tankers       | 26/04/2016    | United Kingdom      | Europe             |
| Antofagasta/$500 million/0416                         | Antofagasta                  | 26/04/2016    | Chile               | Americas           |
| Waypoint Leasing/ $100 million/0416                   | Waypoint Leasing             | 25/04/2016    | United Kingdom      | Europe             |
| Subsea 7/$750 million/0416                            | Subsea 7                     | 25/04/2016    | United Kingdom      | Europe             |
| CSSC (Hong Kong) Shipping Company/$24 million         | CSSC (Hong Kong) Shipping Company | 26/04/2016 | Hong Kong           | Asia & Pacific     |
| Aeia Energia/ $400 million/0416                       | Aeia Energia                 | 25/04/2016    | Chile               | Americas           |
| Panama Government/ $2.6 billion/0416                  | Panama Government            | 22/04/2016    | Panama              | Americas           |
| Olam/$175 million/0416                                | OLAM Group                   | 21/04/2016    | India, Nigeria      | Africa & Middle East|
| Molino Caneulos/$80 million/0416                      | Molino Caneulos              | 21/04/2016    | Argentina           | Americas           |
| Alkane Resources/ $600 million/0416                   | Alkane Resources             | 21/04/2016    | Australia           | Asia & Pacific     |
| Central Africa Building Society/$25 million/0416      | Central Africa Building      | 26/04/2016    | Zimbabwe            | Africa & Middle East|
| Zesco/$122 million/0416                                | Zesco                        | 20/04/2016    | Zambia              | Africa & Middle East|
| Chorus/NZ$675 million/0416                            | Chorus                       | 20/04/2016    | New Zealand         | Asia & Pacific     |
| Russian Copper Company/$100 million/0416              | Russian Copper               | 25/04/2016    | Russia              | Europe             |
| Yokoyama Kogyo/ THB100 million/0416                   | Yokoyama Kogyo               | 18/04/2016    | Thailand            | Asia & Pacific     |
| Sembcorp&MMID Utilities/ $250 million/0416            | Sembcorp Industries          | 15/04/2016    | Myanmar             | Asia & Pacific     |
| Rosewood Shipping/ $190 million/0416                  | Rosewood Shipping            | 15/04/2016    | Singapore           | Asia & Pacific     |
| Ocean Yield/$202.5 million/0416                       | Ocean Yield                  | 14/04/2016    | Norway              | Europe             |

Source: Tradefinanceanalytics.com
Table 2. Global commercial lenders by region and rank

| Rank | Global                        | Europe           | Africa            | APAC                         | N. America         | S. America                | Middle East                  |
|------|-------------------------------|------------------|-------------------|------------------------------|--------------------|--------------------------|------------------------------|
| 1    | Sumitomo Mitsui Financial Group | Bank of China    | Deutsche Bank     | Sumitomo Mitsui Financial Group | TD Bank            | JPMorgan Chase & Co       | Citigroup                    |
| 2    | Mitsubishi UFJ Financial Group | UniCredit        | HSBC              | Mizuho Financial Group       | Bank of America    | Natixis                  | Mitsubishi UFJ Financial Group |
| 3    | HSBC                          | Societe Generale | Credit Agricole   | Mitsubishi UFJ Financial Group | Scotiabank         | BBVA                     | Sumitomo Mitsui Financial Group |
| 4    | Mizuho Financial Group        | ING Group        | BNP Paribas       | Citigroup                    | BMO Financial Group | Societe Generale          | AlAhli Bank                  |
| 5    | Deutsche Bank                 | Lloyds           | Cassa Depositi e Prestiti | Standard Chartered Group | Mitsubishi UFJ Financial Group | Itau Unibanco | BNP Paribas |
| 6    | UniCredit                     | Rabobank         | Mizuho Financial Group | BNP Paribas | Royal Bank of Canada | Deutsche Bank | BNP Paribas |
| 7    | BNP Paribas                   | Royal Bank of Scotland | Nedbank | HSBC | Mizuho Financial Group | Citigroup | Sompo Japan |
| 8    | Societe Generale              | JBIC             | Societe Generale | Axis Bank | Wells Fargo | Sumitomo Mitsui Financial Group | Natixis |
| 9    | Citigroup                     | Mizuho Financial Group | DZ Bank | JPMorgan Chase & Co | HSBC | Banco Bradesco | ING Group |
| 10   | ING Group                     | Bank of America Merrill Lynch | Sumitomo Mitsui Financial Group | Mega Bank | Canadian Imperial Bank of Commerce | Mizuho Financial Group | Emirates |

Source: Compilation from tradefinanceanalytics.com
Table 3. Global commercial lenders by sector

| Rank | Energy          | Finance           | Mfg               | Power gen         | Soft               | Metals         | Infra          |
|------|-----------------|-------------------|-------------------|-------------------|--------------------|----------------|----------------|
| 1    | Sumitomo Mitsui | Mizuho Financial  | JPMorgan Chase &  | Deutsche Bank     | Mitsubishi UFJ     | ING Group      | Mitsubishi UFJ |
|      | Financial Group | Group             | Co                | Financial Group   | Financial Group    | Group          | Group          |
| 2    | Societe Generale| Bank of America   | HSBC              | HSBC              | Sumitomo Mitsui    | UniCredit      | Royal Bank of  |
|      |                 | Merrill Lynch     |                   |                   | Financial Group    |                | Canada         |
| 3    | Mizuho Financial| UniCredit         | Societe Generale  | Mitsuho Financial | Royal Bank of      | Royal Bank of  |
|      | Group           |                   | Group             | Group             | Canada             | Scotland       |
| 4    | Mitsubishi UFJ  | Standard Chartered| Credit Agricole   | Mizuho Financial  | Royal Bank of      | Societe Generale|
|      | Financial Group |                   |                   | Group             | Canada             |                |                |
| 5    | ING Group       | Citigroup         | ING Group         | Mitsubishi UFJ    | Scotiabank         |                | Citigroup      |
| 6    | UniCredit       | JPMorgan Chase &  | UniCredit         | AIAlhi Bank       | Morgan Stanley     | Lloyds          | Mizuho Financial|
|      |                 | Co                |                   |                   |                   |                | Group          |
| 7    | Citigroup       | Mitsubishi UFJ    | Sumitomo Mitsui   | Alinma Bank       | Bank of America    | BNP Paribas    | Sumitomo Mitsui|
|      | Financial Group | Financial Group   | Finance Group     |                   | Merril Lynch       |                | Financial Group|
| 8    | Lloyds          | Goldman Sachs     | Bank of America   | Banque Saudi      | BMO Financial Group| Natixis        | HSBC           |
|      |                 |                   | Merril Lynch      | Fransi            |                   |                |                |
| 9    | Rabobank        | BNP Paribas       | Mitsubishi UFJ    | Samba Financial    | Canadian IMPerial   | Citigroup      | Credit Suisse  |
|      |                 |                   | Financial Group   | Group             | Bank of Commerce   |                |                |
| 10   | Royal Bank of   | Wells Fargo       | BNP Paribas       | Sumitomo Mitsui   | Rabobank           | Abu Dhabi      | Barclays       |
|      | Scotland        |                   |                   | Trust Holdings    |                   | Commercial Bank|                |

Source: Compilation from tradefinanceanalytics.com
Table 4. US demand deposits as of Q1, 2016  
(billion dollars)

| Bank                                | Deposits   |
|-------------------------------------|------------|
| Bank of America Corp                | 427.19     |
| J.P Morgan Chase & Co               | 383.28     |
| US Bancorp                          | 80.27      |
| Bank of New York Mellon Corp        | 71.09      |
| Wells Fargo & Co                    | 67.81      |
| Citigroup                           | 61.22      |
| HSBC North America Holdings Ltd     | 29.42      |
| Deutsche Bank Trust Corp            | 20.71      |
| CapitalOne Financial Corp           | 15.70      |
| PayPal                              | 13.02      |

Source: Asian Wall Street Journal

7. CONCLUDING OBSERVATIONS

Non-bank players have become prominent for providing solutions for non-standard transactions and this, no doubt, requires specialist credit skills. These players are now able to reach their customers online and are, therefore, not inhibited by the lack of a distribution channel. Besides, Basel III liquidity requirements have made it easier to hold trade finance assets for non-banks. These non-banks have alternative capital structures with equity coming from private sources of funds including hedge funds. Invariably, most of them manage long-term risk through multiple contracts such as appointment of collateral managers, escrow account managers and third party certification agents to verify the quality of shipments. These market trends are opening up the returns that were historically only available to banks and institutional investors are now available to private investors via new fund structures. Transportation risks have traditionally been well-handled through insurance contracts; but political risks including export or import bans, border closures or security disruptions have the potential to lead to re-routing and delays increasing the risk of non-acceptance by buyers and disruptions by collateral, escrow and third party certification service providers. Banks have traditionally focussed on balance sheet financing wherein the general credit of the borrower or the purchaser has been a key input in the financing decision. Trade finance is transaction-based and the stronger the documentation which is now moving online, the easier and quicker will be the financing of the trade transaction. Non-banks clearly have been able to create a niche for themselves in financing of trade transactions including commodity trade which has gradually gone into the hands of private traders and has become riskier due to the absence of government guarantees or state-backed letters of credit. Technology definitely has aided processing of such riskier transactions and collateral managers and escrow account managers, too, have played a significant role by breaking down the trade financing risks. Due to this, unsecured credit has become a possibility and traders are now able to borrow more than what their physical collateral permits. Yet, the need for regulation, even though, different from jurisdiction to jurisdiction in some cases, remains as large contracts pose systemic risk to the economy and small businesses deserve to be protected just like small depositors who get the needed protection. This regulation includes new laws on data security and ethical conduct by technological service providers as well as changing accounting standards meant to give advance information to investors and other users of financial reports. Trade financiers will have to take into account the constantly changing context of trade finance to continue to experience growth in this area.

COMPETING INTERESTS

Author has declared that no competing interests exist.

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