European Trade Finance: The Dawn of Digitization

2019 Greenwich Leaders: European Large Corporate Trade Finance

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Companies and banks in the Nordics and the Netherlands could be leading the way toward a new and increasingly digital future for the European trade finance industry.

"Digitization" is a trend that always seems to be just over the horizon for European trade finance. All sides of the market agree that, eventually, most aspects of the business will be electronic. It just makes sense: Many of the frustrating and time-consuming headaches associated with the business can be minimized or even eliminated entirely through digitization.

That's why it's especially frustrating to see the slow pace of progress on digitization to date. Of course, banks like Citi, winner of the 2019 Greenwich Excellence Award for European Trade Finance Digital Platform, are making sizable investments to build out a digital infrastructure. And some companies are making use of these electronic platforms for a portion of their business. But these digital systems have yet to usurp traditional methods of conducting business by phone, fax, email, and in person.

Rather than focusing on shifting their trade finance transactions to electronic platforms, companies are concentrating on things that have an immediate, practical impact on their businesses—like pricing and the breadth and quality of banks' international networks. Although they might realize that digitization will someday make the entire process easier, more transparent and efficient, companies also understand that potential is a long way from being realized. In today's market, a trade finance transaction can often only be as sophisticated as the least sophisticated counterparty, and digitization can only work if there's some way to standardize all aspects of the process across all counterparties and jurisdictions. Knowing how far the market is from that scenario, most large companies are simply going about their business using the old standbys. In fact, when large European companies rank the criteria they use in selecting a trade finance provider, "quality of E-banking and digital platform" barely makes the list.

Leading the Way on Digitization

But there are signs of change. In the Nordics and the Netherlands, companies report a sizable decline in the usage of phone and fax in trade finance transactions and increased use of digital platforms. Across Europe, the majority of trade finance business is conducted manually, via phone, fax, in person, or by email—which in this case, generally means sending written documents as email attachments. Only about 42% of trade finance business is initiated and managed electronically. In the Nordic countries, companies initiate and manage nearly two-thirds of their business on electronic platforms, with just 11% conducted by phone, fax or in person and the remaining 25% done via email. The trend is similar in the Netherlands, where companies conduct an impressive 58% of their trade finance business digitally.

It's hardly a surprise that companies in the Nordics and the Netherlands are leading the way. These countries have been early adopters of digital technology in consumer and retail markets, as well as in cash management and other corporate functions. Now, growing numbers of companies in these countries are using electronic tools to address common trade finance pain points—like the manual effort and paperwork required for contract creation, annoying communication and processing errors, and delays caused by anti-money-laundering procedures. Greenwich Associates expects companies in the rest of Europe to follow suit—sooner rather than later.

TRADE WARS AND BREXIT

Among large European companies, demand for outbound trade finance services declined from 2018 to 2019 across all the major regions of the Middle East and Africa, Asia Pacific, North America, and Latin America. The falloff in demand was most pronounced among companies from Germany, where demand for outbound trade finance to Asia Pacific, North America, Latin America, and even other Western European countries all dropped by more than 10 percentage points.

Falling demand for international trade finance services likely reflects the broader slowdown in global trade triggered in part by the U.S. trade war with China and by new U.S. tariffs on European steel and aluminum. European trade flows could take an additional hit if President Trump follows through on threats to impose an additional $4 billion in tariffs on goods such as Irish and Scotch whiskies, olives, pasta, coffee, pork sausages, and cheese.

The United Kingdom was one of the few European countries to buck the trend of falling demand. Amid the contentious Brexit debate, outbound international trade finance increased among U.K. companies last year for all regions except the United States. The biggest increases: +4 percentage points in demand for trade finance into Western European countries, +6 percentage points into Asia Pacific and +7 percentage points into Central Europe. It will be interesting to monitor whether we will see a reverse of this trend in the U.K. as the Brexit debate turns into Brexit execution.

Competitive Dynamics

For banks, competitive pricing has become table stakes in trade finance. Aggressive pricing is virtually the only way to get a seat at the table, but because everyone else is pricing just as aggressively, it won't gain you any real advantage. This is true even for the biggest and most well-resourced banks. Global providers struggle to charge a premium for robust advisory capabilities or other "value-added" services; they must compete on price along with everyone else.

So what differentiates banks that clear the pricing hurdle? Increasingly it's their international networks. The quality and breadth of banks' international networks is the top criterion considered by companies choosing a provider (pricing aside), and it is the only factor to have increased in importance over the past three years.

On the surface, companies' emphasis on international networks would seem to be a major advantage for the biggest global banks. However, while globalized U.S. banks have made major inroads in the European market in corporate banking and cash management, the 2019 list of Greenwich Share Leaders℠ in European Large Corporate Trade Finance remains a strictly European affair, with BNP Paribas in the top spot, followed by UniCredit and then a tie between HSBC and Deutsche Bank. At the country/regional level, local and domestic providers dominate the lists of 2019 Share Leaders, with Commerzbank sharing the top spot with UniCredit in Germany, BBVA leading the field in Iberia, Intesa Sanpaolo securing top honors in Italy, and Nordea claiming the first place ranking in the Nordics.

Greenwich Share and Quality Leaders — 2019

Overall

European Large Corporate Trade Finance

Bank	Market Penetration	Statistical Rank
BNP Paribas	39%	1
UniCredit	33%	2
HSBC	28%	3T
Deutsche Bank	27%	3T

European Large Corporate Trade Finance Quality

Bank
UniCredit

Note: Based on 592 total respondents. Market penetration refers to the proportion of companies interviewed that consider each bank one of their trade finance providers. Share Leaders are based on top 3 leading banks, including ties.
Source: Greenwich Associates 2019 European Large Corporate Trade Finance Study

The localized nature of the business also comes through in quality evaluations. Across Europe, UniCredit has secured the tile of 2019 Greenwich Quality Leader℠ in European Trade Finance. And at the country level, domestic banks usually take top honors, such as BNP Paribas in France, SEB in the Nordics, and Credit Suisse and UBS in Switzerland.

The continued strong performance of local competitors shows that unlike the case in cash management, it's possible for even smaller banks to deliver the types of high-quality international networks companies are demanding in trade finance—provided they stick mainly to the plain vanilla transactions that make up the bulk of this business. Of course, international network is not the only thing companies are looking for from their trade finance provider. Companies are also seeking readily available credit, quick turnaround and flexibility on terms, and expertise and advisory capabilities. Over the past two years, corporate demand has also been on the rise for more complex and capital-intensive services in commodities and structured trade finance.

Banks have a strong incentive to excel across all of these areas because trade finance is increasingly becoming a winner-take-all game. Currently, companies' No. 1 trade finance provider is capturing an average of 53% of the trade finance wallet. Despite that fact, companies continue to add new providers, bringing the average number of banks used up to 5.2 in 2019 from 4.7 in 2016. That means, on average, that four or more banks are competing for a share of the 47% of wallet not captured by the lead trade finance provider.

MONEY IN MOTION

Just five years ago, strategic retrenchments by some of Europe's biggest banks caused turmoil in the trade finance market. For a two-year span starting in 2015, more than half of European companies said they were shifting trade finance business to a new provider—a striking proportion in any corporate or institutional market. The banking industry has stabilized since then, as has the trade finance market. But even now, a healthy 39% of large European companies say they are looking to move at least of portion of their trade finance business among providers, maintaining a steady flow of opportunities for banks to win—or lose—business.

Greenwich Leaders and Excellence Awards

The following tables present the regional list of 2019 Greenwich Share and Quality Leaders in European Trade Finance, and the winners of the 2019 Greenwich Excellence Awards in five important categories.

Greenwich Share Leaders — 2019

By Region

European Large Corporate Trade Finance — Belgium/Luxembourg

Bank	Market Penetration	Statistical Rank
BNP Paribas-Fortis	83%	1
ING Bank	57%	2T
KBC Bank	51%	2T

European Large Corporate Trade Finance — France

Bank	Market Penetration	Statistical Rank
BNP Paribas	86%	1
Société Générale	65%	2
CA-CIB	55%	3T
HSBC	51%	3T

European Large Corporate Trade Finance — Germany

Bank	Market Penetration	Statistical Rank
Commerzbank	73%	1T
UniCredit	71%	1T
Deutsche Bank	68%	3

European Large Corporate Trade Finance — Iberia

Bank	Market Penetration	Statistical Rank
BBVA	80%	1
Santander	76%	2
CaixaBank	63%	3

European Large Corporate Trade Finance — Italy

Bank	Market Penetration	Statistical Rank
Intesa Sanpaolo	96%	1
UniCredit	93%	2
BNP Paribas	66%	3

European Large Corporate Trade Finance — The Netherlands

Bank	Market Penetration	Statistical Rank
ING Bank	50%	1T
Rabobank	46%	1T
ABN Amro	41%	3T
Deutsche Bank	39%	3T

European Large Corporate Trade Finance — The Nordics

Bank	Market Penetration	Statistical Rank
Nordea	63%	1
SEB	53%	2T
Danske	50%	2T

European Large Corporate Trade Finance — Switzerland

Bank	Market Penetration	Statistical Rank
UBS	69%	1
Credit Suisse	59%	2
UniCredit	47%	3

European Large Corporate Trade Finance — United Kingdom

Bank	Market Penetration	Statistical Rank
HSBC	48%	1
Barclays	36%	2T
BNP Paribas	36%	2T
NatWest Markets	33%	2T

Note: Based on 592 total respondents (35 in Belgium/Luxembourg, 49 in France, 78 in Germany, 54 in Iberia, 76 in Italy, 56 in The Netherlands, 104 in the Nordics, 32 in Switzerland, and 67 in the United Kingdom). Market penetration refers to the proportion of companies interviewed that consider each bank one of their trade finance providers. Leaders are based on top 3 leading banks, including ties.
Source: Greenwich Associates 2019 European Large Corporate Trade Finance Study

Greenwich Quality Leaders — 2019
By Region

Greenwich Quality Leader 2019

European Large Corporate Trade Finance Overall Quality — Belgium/Luxembourg

Bank
BNP Paribas-Fortis

European Large Corporate Trade Finance Overall Quality — France

Bank
BNP Paribas

European Large Corporate Trade Finance Overall Quality — Germany

Bank
HSBC
Landesbank Baden-Württemberg
UniCredit

European Large Corporate Trade Finance Overall Quality — Iberia

Bank
Santander

European Large Corporate Trade Finance Overall Quality — Italy

Bank
Intesa Sanpaolo
UniCredit

European Large Corporate Trade Finance Overall Quality — The Netherlands

Bank
Quality evaluations did not yield statistically differentiated banks for this category.

European Large Corporate Trade Finance Overall Quality — Nordics

Bank
SEB

European Large Corporate Trade Finance Overall Quality — Switzerland

Bank
Credit Suisse
UBS

European Large Corporate Trade Finance Overall Quality — United Kingdom

Bank
BNP Paribas

Note: Based on 592 total respondents (35 in Belgium/Luxembourg, 49 in France, 78 in Germany, 54 in Iberia, 76 in Italy, 56 in The Netherlands, 104 in the Nordics, 32 in Switzerland, and 67 in the United Kingdom). Leaders are cited in alphabetical order, including ties.
Source: Greenwich Associates 2019 European Large Corporate Trade Finance Study

GREENWICH EXCELLENCE AWARDS

The 2019 Greenwich Excellence Awards identify the top-ranked banks in a series of product and service categories. Winners are determined by receiving a statistically significant portion of "Excellent" ratings from their large corporate trade finance clients in Europe.

2019 Greenwich Excellence Awards for European Large Corporate Trade Finance

Among More Than 90 Banks Evaluated, 3 Have Distinctive Quality

Greenwich Excellence 2019

Digital Platform
Citi

Speed of Error Correction
UniCredit

Error-Free Execution
*

Effectiveness at Reducing Paperwork
*

International Network Breadth
Citi
HSBC

Quality of Advice
UniCredit

Advisory of Working Capital and Supply Chain Solutions
*

Availability of Financing
*

Ability to Match Products and Services to Customer Needs
UniCredit

Provision of Country and Risk Information
*

Note: Based on interviews with 592 European corporates actively using trade finance.
*Performance evaluations did not yield statistically differentiated providers.

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METHODOLOGY

Between April and June 2019, Greenwich Associates conducted 592 interviews with corporates with annual revenues of €500 million or more across Austria, Belgium, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Nordic countries, Portugal, Spain, and the United Kingdom. Interview topics included product demand, quality of coverage and capabilities in specific product areas.

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