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# How will Covid-19 change trade finance

18 May, 2020 Ouida Taaffe

**Globalisation has been the dominant economic story of the past three decades. But with the pressures of Covid-19, the world is changing. Ouida Taaffe asks industry experts how this pandemic might change trade finance.**

“The world is not going to be deglobalised by the coronavirus crisis,” says Jean-Francois Lambert, an industry consultant.

“But it will be more polarised amid a



more challenging geopolitical backdrop. For example, there will be a greater disconnect between the US and Europe and between China and the rest of the world, as countries will increasingly endeavour to re-onshore some of their activities to reduce their geopolitical risk. That will reshape supply chains.”

Lambert believes that companies will shorten their international supply chains and that banks will refocus on their core markets.



“That trend is already underway and will only be accelerated by what is happening now,” he says.

## Shorter supply chains

One of the main reasons for having a shorter supply chain is to avoid being caught out by a crisis like Covid-19, which has been a hard test for operational resilience.

“There will likely be increased protectionism after the Covid-19 crisis, but I believe the focus will be on supply chain resilience,” says Michael Vrontamitis, Head of Trade, Europe and Americas, at Standard Chartered Bank.

“Business contingency will have to support everything being done digitally, for example.”

Like Lambert, Vrontamitis believes that supply chains could shorten. “Governments will likely reassess priority sectors post-crisis,” he says.

“We might, for example, see the onshoring of the production of some medical equipment. The whole pandemic has accelerated the fourth industrial revolution. And the more you automate, the more you can place production closer to demand.”

**Could banks exit trade finance because of**

# Could banks exit trade finance because of the crisis?

“Trade finance is related to the shipment of essential goods such as oil, food and medicines. Given that strict nexus with the real economy, it is more resilient than other businesses.” says Gianluca Romeo, Director, Banks–EMEA at Fitch Ratings.

“We will see a fall in business volumes, but the fall is likely to be sharper for businesses like factoring, forfaiting and wealth management that will be affected by disruption in the capital markets.”

He adds that because it is a scale business, trade finance margins are thin.

“A bank that focused solely on traditional trade finance would probably not have a sustainable business model over time. But banks typically use their network relationships to offer additional services that have higher margins, such as forfaiting and factoring.”

Trade finance banks are less equipped to do smart working than other commercial banks, for two reasons:

- the complexity of the underlying trades and

- some tasks, like making payments or processing documentation from home, may be less secure and stable.

## Will trade finance go digital?

“I think business models will remain largely unchanged because of the complexity of trades,” says Romeo. “Also trade finance banks typically could not have the scale, or the profitability, to make large-scale investments in IT.”

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