# Global head interview – Citi

Jonathan Bell talks with John Ahearn, global head of trade at Citi.

**John Ahearn, global head of trade at Citi.**

***TXF: What are your views on where the trade finance market is at the present time, and what do you think are the biggest challenges that the industry faces?***

The trade industry is at an inflection point – liquidity matters. We must adapt, reinvent our business and collaborate to remain relevant.

The current market pricing is unrealistic. Capital costs have risen significantly and are not reflected in current market prices. There is massive liquidity still being injected into the market by central banks. In many markets, current pricing levels do not meet required hurdles.

We are observing that Basel III is making the industry rethink how it uses balance sheets. There are new requirements such as the supplemental leverage ratio 'backstop', which can curb asset growth. Finally, compliance, sovereign and credit risk can be challenging.

***TXF: How is the bank responding and dealing with the ever-increasing demands of regulators – both nationally and internationally? Is Citi completely provisioned for Basel III?***

Citi is highly focused on allocation of resources and capital returns in order to exceed Basel's new capital ratios including Tier I, common ratios, liquidity coverage ratio (LCR) and supplemental leverage ratio. Citi is prepared for Basel III.

***TXF: Has the, or will the, cost of providing trade finance increased due to the greater pressure and requirements from regulators and those related to compliance?***

Basel III introduces radical changes in capital rules, new liquidity and leverage ratios as well as additional rules for global systemically important banks. It increases the quality and quantity of bank capital. This undoubtedly has implications for pricing across all products, client sectors and regions, especially for: ECA financing, emerging markets, FIs, SME and non-investment grade clients.

There are also new measures for liquidity (liquidity coverage ratio – LCR, and net stable funding

The trade industry is at an inflection point – liquidity matters. We must adapt, reinvent our business and collaborate to remain relevant.

ration – NSFR) that will impact deposit pricing, depending on the sources of deposits.

Additionally, compliance is becoming increasingly complex with continued strengthening of KYC, AML and other regulatory requirements, all of which cumulatively increase the costs associated with trade finance.

***TXF: What position is the bank taking in regard to servicing new clients as well as SMEs?***

Trade finance is playing an increasingly important role in the SME market as a significant portion of SMEs are part of large corporates' supply chain. Citi is committed to leverage its unparalleled global network and trade capabilities to help SMEs optimise the financing of their working capital cycle. In addition to providing traditional trade import and export services to our SME clients globally, Citi has helped provide access to lower cost financing to SMEs across the world through its award winning supplier finance solutions. Citi supports over 38,000 SME suppliers through its supplier finance programmes.

***TXF: What do you see your clients asking for now that is different from the past? Do you see a different attitude from corporates?***

The major difference centres on the fundamental transformation of how trade has evolved at Citi. Before 2004, discussions centered on various forms of letters of credit (LC's) and collections and tended to be very specific in scope with a narrower buying center within the corporate customer. Today, trade has taken on a much more holistic

**John Ahearn, global head of trade at Citi**

nature with our corporate clients, and our dialogue is much broader covering a large spectrum, including export agency finance, sales and distributor finance, supplier finance, account receivables finance, document outsourcing etc. In addition, we have repositioned our traditional LC offerings as part of a streamlined and digitised interaction with the bank to support our clients' continuum of procurement, work in progress and sales activities.

Given all the disruptions in markets over the recent years, there has been a greater recognition of the importance of trade from our corporate customers, as they think much more carefully about the structure of their balance sheets, as well as the funding strategies and strengths of the balance sheets of their trading partners. This in turn has created much stronger engagement and knowledge around trade in all its forms.

***TXF: Is the use of insurance sector (credit and PRI) by the bank greater or less now than in the recent past?***

In specific geographies insurance has been vital. The private market is a very large and diverse insurance market place with a number of new players entering the arena, creating a competitive platform for clients.

Banks are now the biggest buyers of non-payment insurance in the private insurance market. The insurance market has been flexible in its ability to work with banks and cater for their requirements, for example, amending wordings so they are Basel II/III compliant (depending on individual banks' approach to the regulations).

There are many reasons why banks might buy political risk and trade credit insurance including:

- Relieving pressure on regulatory capital: under Basel II/III, most FIs recognise CCI as a regulatory capital risk mitigant
- Reducing risk weighted assets
- Managing credit portfolios
- Improving the return on individual transactions
- Relieving country aggregation limits
- Relieving counterparty aggregation limits.

***TXF: Given increasing supply chain complexities, with an ever increasing number of participants in global supply chains, what are you doing now that may be different from the past to assess corporate/counterparty risk factors?***

Citi continuously looks to improve on its risk management best practices, which evolve constantly across geographies and products.

A key focus of Citi trade is making sure that we apply the latest guidelines and stay ahead of counterparty risk, which is an inherent part of our business model globally. While the assessment of counterparty risk is an ongoing process that looks to capture all aspects of the relationship with the customer, Citi trade is particularly focused on the electronic validation of trade data.

As a business, we have undertaken a worldwide effort to transition from paper-based processing, still dominant in the letters of credit space for instance, to the electronic transfer of data via pre-formatted file exchange. This transition is a very significant endeavour that will continue in the years to come. We believe that Citi is at the forefront of this effort and is in an ideal position to deliver to its clients the significant benefits resulting from this fundamental transformation.

***TXF: Technology within trade has grown massively over the last few years. What sort of investment has Citi made in this area and what do you still need to do? How do you view the bank's trade technology offering in comparison to other institutions?***

We've made substantial technology investments towards our CitiDirect front end, insourcing capabilities, digitisation of trade documents, globalising our supply chain finance solution and mobile applications; all of which support our underlying corporate and FI customers. Based on our research, we believe Citi invests more in technology annually than many trade banks make in annual revenue.

***TXF: It has been over 18 months since the official launch of the Bank Payment Obligation (BPO) from SWIFT. What is your view of the initiative, what if anything is holding it back, and how important do you think it will be?***

Citi was an early supporter of the BPO, as we saw the steady growth in open account trade flows. We have successfully completed a proof of concept by using the TSU (Trade Service Utility) as the matching engine to compare purchase order/invoice data fields. The biggest challenge for banks will be to enhance existing client portals with required BPO data fields to facilitate full end-to-end automation. The other big challenge is the shortage of legal framework for this instrument. We are paying close attention to both the market adoption and client interest in this capability.

***TXF: Is Citi teaming with other FIs, and if so why and how does this make a difference for your clients?***

As a leader in syndicated facilities, we support clients with large infrastructure deals. Through our distribution desk, or the export credit agencies team, we have facilitated over $50 billion in transactions this year.

***TXF: Citi has had considerable success with its initial trade securitisation programme. What is the next step in this arena for you?***

Trade MAPS has been an immensely valuable defease platform for both Citi and Santander. It has enabled us to offer trade finance assets as a new asset class to a completely new group of investors, who otherwise would not purchase this asset type. We created this new ABS asset class and were able to tap into the traditional ABS investor group.

We are already actively preparing for a second issuance

We've made substantial technology investments towards our CitiDirect front end, insourcing capabilities, digitisation of trade documents, globalising our supply chain finance solution and mobile applications; all of which support our underlying corporate and FI customers.

along with our partner Santander. In addition, we are working with a few global trade banks, as well as a few select regional trade banks, for additional future issuances. Considerable efforts and resources are required for any securitisation issuance, and more so for the first time issuers with whom we are currently working with.

We view the Trade MAPS platform as a viable option for trade banks to effectively manage their growing balance sheet and achieve the host of reliefs/benefits associated with the programme: funding, capital, credit, etc. We created this platform for multi bank use so we will encourage other banks to partner with us on future issuance.

***TXF: Where do you see Citi making a push in trade finance – product and/or region? Do you see the bank as having certain niche strengths?***

Globally, the business is driven by cross border commercial trade and alternative financing options. Citi's strength is financing cross border flows, leveraging our global foot print and customer base. With global trade continuing to move from letters of credit to open account, our receivable based solutions continue to see growth. We are also exploring balance sheet friendly solutions to assist our global clients in expanding sales in rapid growth markets.

***TXF: What do you think the next big thing in trade will be?***

We think there will be acceleration of trade bank consolidation – already the top three banks have gained five points of market share since 2008.

Capital rules make it harder for banks to compete, especially those without operations scale and large global networks. Banks without access to US dollar funding will struggle, and banks who don't consider trade to be core will reinvest their limited capital elsewhere. Regional and local banks will need to create partnerships with leading trade banks to continue to participate in the sector.

We see the emergence of new risk distribution strategies with banks acting as intermediaries between corporates and investors. No longer can we all just 'book and hold'. Originate to distribute will be the new model. This also means increased sale of assets on a funded basis, and decreased use of unfunded sales. We will also see increased sales to nontraditional investors rather than primarily bank to bank risk distribution.

Industry collaboration including Trade MAPS, ICC Register and BAFT's London group: this collaboration will help create industry definitions, solutions for risk distribution and broaden the appeal of trade assets to new types of investors, such as insurance companies and pension funds.

Trade outsourcing solutions for bank partners: this includes various programmes ranging from traditional LC relay/reissuance programmes to full outsourcing of operations and technology. However, this can also include risk distribution solutions to help banks move capital off-balance sheet to investors. Solutions will be structured to allow partner banks to retain customer relationship and credit decisions while leveraging our scale, efficiency, infrastructure, risk distribution and other capabilities to improve their trade economics, despite challenging macro economic and regulatory environment.

***TXF: What, if any, is your favourite football/rugby/baseball team?***

NY Mets because they play in Citi Field. ■

Industry collaboration including Trade MAPS, ICC Register and BAFT's London group: this collaboration will help create industry definitions, solutions for risk distribution and broaden the appeal of trade assets to new types of investors, such as insurance companies and pension funds.