



## **Advice you can bank on**

**Is it the case that one of the most important – albeit perhaps underutilised – resources when it comes to assessing and managing the financial risks and trade finance options associated with exporting is your bank? Domini Stuart reports.**

A report released earlier this year by East & Partners suggests that banks in Australia are struggling to deliver high quality trade finance services to SMEs. As a result, they are undermining their ability to carve out a greater share of a market forecast to be worth more than A\$155 million in 2005.

East's latest six monthly research into Australia's trade finance markets reveals that SMEs - defined as companies turning over between A\$5 and 20 million per annum – are reporting deteriorating levels of service from their banks. Customer satisfaction ratings have dropped in Knowledge of Customer's Industry, Value for Money, Professional Competence, Innovative Solutions, General Trade Advice and e-Trade Solutions.

“Although uptake of trade finance services among SMEs is still relatively low compared to corporate and commercial companies, there is a huge opportunity here if providers can lift their service game,” says East & Partners principal analyst Paul Dowling. “We estimate the market for SME Trade Finance to be worth about 15 per cent of Australia's total 2005 trade finance market. It's a segment that is set to grow at a faster rate than the market at large and one that offers deeper margins to banks than those available in the middle or corporate markets.”

Not surprisingly given the poor customer satisfaction experience, there has been a decrease in uptake of trade finance overall, and also in banks' individual market share. The report reveals that 15.5 per cent of banks' transaction customers are using their trade finance services compared with 15.6 per cent six months earlier.

“Although most banks have refocused on small to medium businesses over the past 12 months, and indeed on trade finance, somehow there's a disconnect between the two, and SMEs are less than impressed with what banks have been delivering,” says Dowling. “As a result, the number of SMEs saying they will ‘very likely’ switch their trade finance banks over the next 12 months is edging towards 20 per cent.

Historically, almost half of this number will, in fact churn their banks, so there are customers out there to be won by service providers with a compelling proposition.”

### **Know what you want**

Are banks really failing to hit the mark when it comes to exporting SMEs? Or are they an easy target – in reality, an over-maligned and under-used resource?

Paul Cooper, a divisional counsellor with CPA Australia, believes that the problem lies more with lack of education than lack of available services.

"Smaller, regional banks may not have the resources, but all of the larger banks have effective trade divisions," he says. "The difference between them tends to be in the packaging – though some are certainly better than others. I've seen some packages which have missed the target completely, but I've also seen some really innovative things put together by cluey managers.”

Cooper argues that your best chance of **finding the right bank** is to know exactly what you're looking for. "For instance, you should know where your funding crisis is likely to be," he says. "**The cash flow crunch could be at the manufacturing and raw materials stage, or could be later in the cycle with funds tied up in off-shore inventory holdings or receivables. When your bank knows what is needed, they can line up a flexible solution.**”

In Queensland, to help SMEs ask the right questions, the Trade and International Operations Division (T&IO) recently joined with leading professional business service representative bodies including the CPA to form the Smart Exporting Queensland (SEQ) network. Collectively, the SEQ represents over 30,000 business advisors, and offers a wealth of international business expertise, networks and contacts in Australia and overseas.

"SEQ is like a coaching service for would-be exporters," says Cooper. "It's a great way to assess your readiness to export and to acquire the skills you need when you're ready to go ahead. It also provides opportunities for the banks to come along to seminars and talks and see for themselves how they can best do business with SMEs."

### **More complex needs**

Westpac's Head of International Business, John Kerr, believes that banks are finally taking more notice of SMEs. "They're starting to realise that their needs aren't necessarily as vanilla as you might think," he says. "Even a small business can have complex needs.”

He also agrees with Cooper's take on education.

"It's true that most major banks can offer all of the services an SME exporter would need, but the business owner may not know to ask about them," he says. "That's why Westpac is working very closely with a number of private and public institutions including Austrade, the Institute of Export and Australian Business Limited. We are

committed to helping SMEs establish when they are export ready, and then to understand both what they need and what's available to them."

Westpac is also the development bank for a new export finance product designed to help SME exporters with working capital. The project involves an alliance with Australia's export credit agency, Export Finance and Insurance Corporation (EFIC) – a move welcomed by Minister for Trade, Mark Vaile.

"Exporters frequently cite insufficient working capital as an obstacle to growing their export business," he says. "While EFIC has assisted SMEs since 1991 via its Export Working Capital Guarantee facility, I am pleased that the Corporation is working with Westpac so it can better support exporters in the current banking environment".

The intention is for EFIC to enhance the ability of Australian banks to provide export finance by combining EFIC's mandate with the banks' resources, particularly their extensive distribution systems. Using the banks' documentation, administration and established systems will also streamline processing.

The pilot was launched for market testing in June this year, with plans to release the product nationally before the end of the year if it proves a success. Kerr is optimistic. "So far, the project is on track and going well," he says.

### **Simple and efficient**

Philip Gentry, head of International Trade Finance at ANZ, concedes that there's some truth in the East & Partners report .

"I'd say the broad sentiments are not too far off the mark on average," he says. "There are serious opportunities in the SME space because banks have tended to focus on the bigger end of town. This is where ANZ has led the way — historically we have had an underweight market position in the SME segment compared to our natural market share in other business segments. Now we're working hard to change that."

Gentry believes that lack of time is one of the major inhibitors for anyone with a small to medium business who is considering exporting, and that it's an issue banks need to take seriously.

"These are very busy people," he says. "Often they're working single-handed, struggling to manage every aspect of the business. When it comes to trade finance, they need something simple, efficient and smooth. That's why we developed our new 'Easy To Do Business With' approach - easy phone access to trade finance expertise, but with a 'human touch'.

"You can now speak to a real person with the skills to help you with everything you need," continues Gentry. "If you're arranging a letter of credit for example, you can deal with the foreign exchange and overseas payments at the same time. You can also have direct access to dealers for foreign exchange rates. Traditionally, these areas have been in different parts of the bank. Bringing them together makes the whole process as easy as possible."

ANZ also has trade finance specialists in each State to provide expertise when trade dealings are more complex. "And, if something should go wrong, we have on-the-ground trade specialists in over 20 countries," says Gentry. "That means we're at both ends of the trade flow, which makes things a lot easier to manage than if you are dealing with an unrelated foreign bank."

### **Reactive to proactive**

Long considered the exclusive province of major corporations, international banks are also awakening to the potential profits to be made by courting SME exporters.

"Many of our customers are high net worth individuals, so our customer base includes a large number of SMEs. If they've needed trade services we've provided them – but, in the past, we haven't proactively sought their trade business. Now that's all changing."

Evans believes that international banks can provide a unique proposition for anyone wanting to trade outside of Australia.

"Trade is why banks like HSBC came into being," he says. "With over 9,800 offices in 77 countries and territories all over the world we're truly an international bank – truly a trade bank – with serious credentials all over the world. In China, for instance – flavour-of-the-month with Australian would-be exporters – we have branches and offices in 12 major cities. We also own 20 per cent of the Bank of Communications, China's fifth-largest bank."

HSBC is also in a position to spend heavily on advanced information technology, investing US\$3.8 billion annually. Last year alone, HSBC web sites around the world attracted 900 million visits.

"We exist to help people trade," he continues, "and now we're taking our services to the whole market."

### **Learn from other people's mistakes**

So how can you be sure you're getting the service you need?

John Kerr believes it's vital to make the time to talk to your bank – and to treat that as a serious investment. "If you talk to your bank early enough, you have a chance to learn from other people's mistakes rather than your own," he says. "There's an awful lot of experience out there for you to draw on – from institutions like Austrade and the Australian Institute of Export as well as your bank. You might as well make the most of it."

He also reiterates the need to be sure of the services you need. Only then can you take a cold, hard look at your current provider and decide whether you should be looking elsewhere.

Philip Gentry is in favour of testing what is on offer, with the understanding that you should be thinking about value rather than discounted prices. However, Mark Evans can only see value in comparing banks if there is something to compare.

“I don't think there's any point in looking at two of the major Australian banks, for instance,” he says. “They are going to offer pretty much the same thing. Go to one Australian bank and one international bank and you'll have a much better idea of the range of options available to you.”

Once you're comfortable with your bank, Paul Cooper recommends staying around long enough to form a relationship.

“That's subject to keeping them honest,” he says. “Make sure you understand your bank's covenant – debt to equity ratio, reporting requirements, inventory days and so on. Monitor everything in real time to make sure you're not in danger of breaching your agreement and, if you can't meet their requirements for any reason, be upfront and tell them. Remember, your bank has the power to call in a loan, or impose higher margins. **You must ensure that bank covenants are met on an ongoing basis through sound management information systems.**”

Forming a relationship doesn't necessarily mean staying in regular contact. In fact, Cooper warns that you can overdo the meetings.

"All businesses have cycles, and you really don't need to tell your bank the bad stories," he says. “Better to wait till you can say ‘yes, we had a poor July, but we got over it’ than to spell out your problems while you're in the thick of them.

“The exception is letting your bank know before you need money,” he continues. “That's the golden rule. Remember there's truth in the saying that a bank will give you an umbrella in the dry, but take it away when it's raining.”

	<b>Westpac</b>	<b>NAB</b>	<b>ANZ</b>	<b>CBA</b>	<b>St.George</b>	<b>HSBC</b>
Export Trade Finance	Yes	Yes	Yes	Yes	Yes	Yes
Export Documentary Credit – Confirmations	Yes	Yes	Yes	<b>Yes</b>	Yes	Yes
Export Documentary Collections	Yes	Yes	Yes	<b>Yes</b>	Yes	Yes
Export Documentary Credit	Yes	Yes	Yes	<b>Yes</b>	Yes	Yes

Onshore Foreign Currency Accounts	Yes	Yes	Yes	<b>Yes</b>	Yes	Yes
Forward Exchange Contract	Yes	Yes	Yes	<b>Yes</b>	Yes	Yes
Online banking	ImpEx	National Online	Online @ANZ Trade Services Plus – Internet based rate and FX payment facility `Web pay`	ecommmcorporate	Business Banking Online	HSBCnet
Export Direct Collection Letters	Offered as part of ImpEx	Available via National Online	Offered as part of Online@ANZ Trade Services		Yes	Yes – via Document Express
Online Export Diagnostic Tools	Provided by Austrade					
Economic Forecast information provided online	Provided through Australian Business Limited (ABL)	<b>Available on NABmarkets website</b>	Yes – provided by direct FX dealer access and via `Web Pay`	Yes – ecommmcorporate	Available by visiting stgeorge.com.au/corporate or by automatic monthly delivery to St George Bank customers	Yes – via HSBCnet
Direct customer registration for Federal Government sponsored Export Market training/advice	Via Westpac distribution network				Advice given through distribution network	
International Trade Advisory Service	Yes	<b>Yes</b>	Yes	Yes	Provided by specialist Trade Finance team	Yes
Specialist International Business Managers	Yes	<b>Yes</b>	Yes	Yes	Yes	Yes
Global/Regional coverage through both direct and partnership arrangements	Yes	<b>Yes</b>	Yes – on the ground in (20+) countries	Yes	Extensive correspondent and partnership network	Yes – HSBC is in 77 countries

## What does it mean?

Export Trade Finance	Short term fixed rate finance used to finance the shipment of goods. It is available in all major currencies.
Export Documentary Credit	A secure form of payment. As long as you meet the terms and conditions set out in the Documentary Credit, your buyers bank will pay you. An "irrevocable" Documentary Credit cannot be amended or cancelled without your agreement.
Export Documentary Collections	Your documents are forwarded to a bank in your destination country and are only released to your buyer when payment terms and conditions are met. This is a more cost effective option than a documentary credit, but carries greater risk as the buyer can refuse payment at any time
Onshore Foreign Currency Accounts	If you import as well as export and your payments and receipts are in the same currency, a foreign currency account could simplify your transactions and reduce the associated costs by removing the need to convert every transaction to Australian dollars.
Forward Exchange Contract	A Forward Exchange Contract locks in the Australian dollar value of your overseas payment so you know exactly how much local currency you'll receive. This is the simplest way of protecting yourself against unfavourable currency movements.