Transcript of *flow* Podcast interview with David Meynell and Russell Brown

Janet Du Chenne: Hello, and welcome to the sixth episode of Deutsche Bank's flow podcast series, featuring news and insights from the world of corporate and transaction banking. In this episode, we catch up with David Meynell, Senior Technical Advisor at the ICC Banking Commission and co-owner of tradefinance.training and Russell Brown, Global Head of Trade Finance Financial Institutions at Deutsche Bank, ahead of Sibos 2020, about managing trade risk.

David and Russell, great to have you with us today and thanks for taking part in the flow podcast. A bit of background on you both first, and perhaps Russell you could start, because I know your paths have crossed, and you've worked together before.

Russell Brown: Yes, indeed. I've been at Deutsche Bank for 34 years – for the first three or four years, I was fortunate to have a kind of apprenticeship there and did a rotation around the bank and did some studies and then ended up in what was then the foreign department, now known as trade finance. I have worked within trade finance ever since.

I think like many of the senior trade finance practitioners in the market, I've worked through the ranks, spending many years in trade operations, forming a trade sales team, heading up a region, and now as Global Head. But it was actually during my trade operations that I worked for Dave Meynell, as my boss for many years. Dave headed up trade operations in Deutsche Bank in the 1990s, so it's good to be with Dave today. I learned a hell of a lot from Dave – it was the early part of my career, so I gained a lot of experience and a lot of the fundamentals of trade finance – so many thanks for that Dave, it's put me in good stead for the rest of my career. So, good to be with you today and look we have some good times, as well as fond memories of that times.

David Meynell: Thanks, Russ. Yes, we worked [together for] I think for about 11 years. I worked for Deutsche Bank for many, many years – probably around 33, 34, the same as Russell actually. I then decided I wanted to try something independent and moved into a consultancy and training role. I also work with the ICC Banking Commission as their Senior Technical Adviser, as Janet mentioned earlier. I have maintained regular contact with Deutsche Bank through my private work and my ICC work, so quite happy to still bump into a lot of old faces, including Russell Brown today.

Covid-19

Janet Du Chenne: Wonderful, thank you very much for these great introductions. So, perhaps a good way to start is with a first question on Covid-19. With more than six months of the Covid-19 pandemic behind us, and many economists saying that the new normal will be different, but never as it was pre-Covid. How do you see this shaping the supply and demand of trade finance?

Russell Brown: Let me pick this one up first, and maybe from an overall high-level business perspective of what we've seen at Deutsche Bank, which I think is a good reflection of what we see in the market. So, we've all seen the disturbing figures that expected a drop of anything between 13% and above 30% of trade flows in 2020. I can certainly say that from the trade finance volumes we've seen so far this year, that it is somewhere in between that.

This has been primarily due to the lockdowns that we've seen globally, so that's affected the underlying trade flows. I would say, in fact, there's probably been a triple whammy in many ways: because we've seen the trade wars, to begin with, especially with China; we've seen the disruption in the commodity sector, and especially with the oil price, very depressed; And then on top of that obviously we've had Covid – which is unprecedented – well definitely in my lifetime, anyway.

But I think we really should put that into perspective though, because since the turn of the century trade flows have trebled. Globally in 2019 it was around US$19trn.. This included the crisis that we saw from 2008 – admittedly it is nothing like the crisis we're seeing today – but I still expect trade flows to continue to steadily increase again over time. And I think trade finance will play an important role, probably more than ever, to drive and support this post-Covid recovery, especially as we're related to the real economy

I think, undoubtedly during the following months, maybe years, there's going to be more financial stress on counterparts. But risk mitigation is what trade finance provides. So I think it will be key and come to the fore. I think a different question is, how we operate trade finance, and that's the way I feel that it's reshaping, but that has been and will continue and I think probably be accelerated to a certain degree due to this crisis.

Janet Du Chenne: Thank you, Russell. And David, what are your thoughts?

David Meynell: Risk is not new to trade finance and Russ was quite right – risk mitigation, it never changes as a core essential for the business. It was even mentioned in the recent Deutsche Bank Guide to Trade Finance that you put out, that the key to fulfilling a successful trade transaction is to understand and mitigate the associated risks. Risk and trust in global trade perhaps go all the way back to medieval times, when the modern bill of lading came into use. Prior to that, merchants used to travel with the merchandise, and no such document was really required.

Moving on to the, I guess the 18th/19th centuries, the bill of lading transformed into a real mitigator of risk, by adding functionality as a document of title. In fact, a court case in the late 19th century described bills of lading as keys to the warehouse. Now obviously many more tools are available these days, but the essence has never changed in that there is a need to understand the deal, assess the risk, decide upon the most appropriate mitigation or mitigators, ensure the documentation is right and be aware of fraud. I do believe that requires skills these days that are far more focused, quite correctly, on compliance, KYC, red flags etc. as well as pure risk mitigation. My final role at Deutsche Bank was working on the product management side, and there was one dictum I heard at the time that is still very relevant these days, which is: In the 21st century, the illiterate is not one who cannot read or write, but one who is unwilling to learn, unlearn and relearn. And I think during the last six months, that has never been so relevant.

Janet Du Chenne: Indeed. Thank you, Dave, and thank you for the history there. It's good to know that the fundamentals haven't changed. If I can steer us back towards Covid-19, do you think this has actually raised the demand, or awareness of trade finance or not?

David Meynell: Shakespeare wrote that adversity brings out the best in man, and that may well be the case here. It was mentioned in the joint statement released earlier this year by the ICC and the World Health Organisation relating to COVID that, as an immediate priority, businesses should be developing or updating, readying or implementing business continuity plans. But they've always been there, when I was at Deutsche Bank, we had very robust ones. But I know every organisation, due to this pandemic, has had to change things. But what Covid has done has been to bring forward fully into the open something we have always known. One of the big problems with trade is paper. So, accordingly, financial institutions have been forced to focus on how they can continue to provide trade finance in a digital world. This was already happening, but I think it could be argued that the last six months have seen an advancement that normally would have taken three years. So in actual fact the pandemic has actually acted as a catalyst.

Russell Brown: I think from my perspective Janet, I would say in answer to your question of raised awareness of trade finance, even before Covid, trade finance has probably taken a more prominent role in the global banks and I think there's a few reasons for this. I think transaction banking has come to the fore in recent years, and trade finance plays a big part of transaction banking. I think especially with the focus on supply chain and working capital finance as a part of trade finance, I think this has led to trade finance having a more prominent role.

But if we look at the ICC Global Survey 2020, and it's interesting to see that there was a high number of respondents that cited they're expanding their product offering, and market participation within trade finance. So, I think there is a reflection from the market on this – that there is a raised awareness of trade finance. But I think what the crisis has done though, and I think Dave's alluded to this. I think, one, as with any crisis be it political or, as I said a pandemic which is pretty unprecedented, but it always means that trade finance will come to the fore. So, I see again more awareness of trade finance, and I think secondly, it's accelerated the way we operate within trade finance and consequently the actual efficiencies of it which I think is a good thing as well.

Technology and digitalisation

Janet Du Chenne: Thank you both. Now, technology – it's made working from home much more effective than it would have been even 10 years ago. But trade is an eyeball to eyeball business isn't it. So, surely, something is lost some way?

Russell Brown I think the first thing to say, Janet, is the positive from working from home is that digitalisation has had to accelerate. If I look at my own bank which is very similar to other banks, we successfully mobilised and relocated 65,000 staff to work from home. It then became essential that we had the digital solutions to cover the here-and-now demand. So, big steps were taken in a relatively short amount of time.

If we take document checking under letters of credit for example, solutions had to be found – how we could be doing this electronically, they just had to be done in view of the situation. Fortunately, solutions were found, and importantly this was supported by the industry bodies such as the ICC Banking Commission, but we need to build on this momentum.

I think on your question of face-to-face being lost. Again, I think there's two aspects to that. I think there's one, technology provides an opportunity to enhance the checks. For example, if we take normal financial crime controls to protect the banks, which is very prevalent at the moment within the industry. I think technology helps us to do that, so sort of mitigates that face-to-face to a certain degree. But I feel on the other hand, if you look at the trade finance network, which is a very close-knit community, I think t experience can count for a lot when you're assessing transactions or situations so we need to ensure that we don't lose that.

David Meynell: Yes, indeed. I mean, peer connectivity is important. There's no doubt about that. But the ability to participate remotely in events and meetings has actually allowed more staff to be more involved, I believe. Previously, cost considerations could limit numbers, but with virtual meetings, which are still continuing, it's a lot easier for more people to be involved. I think we've probably been quite surprised how effective it has been to communicate in various online meetings. A lot has got done. I think the real changes in the industry – I noted this earlier – will be developed from re-engineering the business processes. It's now been proved it's possible to go digital, but more needs to be done. In particular, this is not just the operational side or internal side, it's the regulatory and government guidance that's required in order to update and align laws and legal frameworks.

The banks – and I know Deutsche Bank is doing this – must be strong advocates, pressing for the change. It's worth mentioning that earlier this year, the ICC released a collection of rapid-response measures by trade finance banks to keep trade finance and trade flowing in the face of Covid-19, and these actually have relevance beyond the pandemic. The risks are known, and banks have already been very innovative in overcoming them. And it's never been more important to move from an analogue world to a digital one.

And, fortunately, access to information is more available than ever. This helps all countries and all participants to be equal in terms of knowledge, which naturally improve skills globally. By sharing data and ICC guidance papers, as well as the Deutsche Bank trade finance guide mentioned earlier and other materials that weren't previously widely available, the cloud has changed everything.

Digitalisation of trade has obvious benefits. It reduces costs, it improves transaction times, it aids with monitoring compliance, sanctions and financial crime, it provides transparency, brings you the ability to track and trace shipments of goods. Basically, it improves efficiency and effectiveness. But as Russell mentioned, one of the biggest pain points within the bank's trade team is the handling of paper documents under documentary credits. Automated document checking, which is already underway, will provide immense changes to this process.

Learning on the job has always been key, but online training is now widespread and important. It's more a philosophy of anytime, anywhere. Many organisations are looking at how they can bring together new entrants to the business, and an increasing amount of this will be online. And to be honest, that's not the problem for the younger generations that it was for previous generations. Being online is a natural part of their lives. And the final point on this: I guess the organisations such as the ICC and BAFT are very aware of the potential staffing gap and they are actively addressing this with their membership base.

The US$1.5trn trade finance gap

Janet Du Chenne: That's great.Thank you very much, David, for those insights and examples of what the ICC is doing. Last but not least, the trade finance gap seems stuck at a stubborn US$1.5tn. While we have seen some admirable initiatives from banks, working with governments to support SMEs during the Covid-19 crisis, not many want to take the risk without a government guarantee. So, what can be done about this?

Russell Brown: First, I think, governments have been criticised through this pandemic for the way they've reacted. But I think one thing that they can't be criticised for is the way they've stepped up to support the economy financially. And I think that banks – and not only Deutsche Bank, but not all banks in various countries – have supported clients working with the German government. I mean, we did that with our Mittelstand in Germany working with KfW, which is government-backed, to support our clients.

And to me, I think that's one of the main points is that the banks, want to support clients through this. I think, especially now during this crisis, banks have become even more client-focused. And I think there is that willingness to support them. Let's remember that trade finance is a very low-risk product. I think that needs to be taken into account – the real economy and the underlying flows there. So I hear what you're saying, and I think there is that gap there, but I think there is also that willingness to actually lower that gap through trade finance. And I think, as you said, I think it should be noted that the development agencies such as the EBRD, IFC, and ADB, to name but a few, they've really stepped up as well on this angle and we banks work closely with them. So to me, I still think there is a lot of willingness to support these SMEs and to close that gap, especially as we go forward.

David Meynell: Yes, I do agree with that there is more focus on SMEs these days than there used to be. It's still not enough. We know that is definitely paramount these days, and the trade finance gap is still very wide. But the focus is there and that's where it should grow. I see that, according to the 2019 Asian Development Bank report, 45% of trade finance applications by surveyed SMEs are rejected. That compares with 39% for mid- and large-sized firms, and only 17% for multinationals. So this really is a problem that needs to be to be addressed.

There is a need to provide training for a new generation of trade finance practitioners – we spoke about this already – including raising awareness of the issues that are being faced and improving market intelligence by pooling information. I know that the World Trade Organisation is looking to reduce this knowledge gap regarding trade finance products by encouraging their partners to increase their training programmes.

And this, of course, should open even more dialogue with trade finance regulators, which is essential to bring down the cost of KYC and AML regulations. I know, even when I was at Deutsche Bank seven eight years ago, that these were increasing bank costs and, from what I hear from bankers, these days it is even higher than it was.

Blockchain, artificial intelligence, Internet of Things, smart contracts, all this stuff – it's all going to help, but they're not panaceas on their own. The key will be common rules and standards, and it's great to see so many organisations actually working together to achieve this. Banks are being far more co-operative these days than they used to be. And I would add that a major benefit would be global adoption of the UNCITRAL model laws on e-commerce, electronic transfer records and electronic signatures. These global adoptions for all are an equal playing field – and that will also help SMEs.

Road ahead

Janet Du Chenne: Great. Thank you, and good to see this collaboration moving things forward. So, to close then, how do you see the next 12 months in trade finance?

David Meynell: For me, I think the biggest change will not actually be in the staff. I think it will be the institutions themselves. We see this moving forward: it's no longer a bank; it's a platform. And this suits the attitudes and skills of younger people. Collaboration between FinTechs and banks is going to intensify. I read with great interest a recent remark from Stefan Hoops, the Head of the Corporate Bank within Deutsche Bank, who highlighted in social media that banks should recognise the appeal of FinTechs – which are more innovative, more client-focused, quicker to market, and use modern technology – and should focus on catching up, adapting to client needs for convenient, speedy solutions, while ensuring a controlled and regulatorily compliant delivery, which is there at the moment.

Russell Brown: Yeah, thanks Dave. I think that the way I see in the next 12 months and beyond that is that I think we all will agree that trade finance will remain a focus. It has been around for centuries and it will continue And I think with support, and I think the banks *will* support their clients coming out of this crisis over the next two years – I do truly believe that – I think, as Dave said, the way we operate, is changing. And I think this will be accelerated. I think digitalisation and technology will obviously play a part in making processes and maybe the regulatory requirements more efficient.

And maybe if I just touch on that because if I look at KYC transaction monitoring, this is a headache for banks and corporates, but we need to take a step back and this is still a relatively immature process. This has only come into play for the last five maybe 10 years. It has already improved in the short term, and I think technology plays its part in that. While an inhibitor at the moment, I do see an improvement, and it will become the norm.

I think on the people side, I totally agree with Dave. I really hope we can attract young talent into trade finance and, as Dave quite rightly pointed out, I think the actual ways that we can operate through online training and the data that is out there is very normal for the younger generation. But I think two other points I would like to make: I still think the international flavour of trade finance is attractive. And one thing that we haven't mentioned, which is a hot topic, is ESG, where trade finance plays a very important part. This is very close to the young generation in my opinion, so I think there's a lot of positives there to keep attracting that young talent, and I'm still seeing within the bank itself a lot of the graduates that come in and really like trade finance and want to work within trade finance. So I'm hopeful on that side as well.