

ICC Trade Register 2022

Update at GCD Conference

London, 07 November 2022





Agenda

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What is the ICC Trade Register?

2

Why is it important and what has it achieved?

3

What are the findings of the 2022 ICC Trade Register?

4

Why should my bank join the Trade Register?

5

What next for the ICC Trade Register?

ICC Trade Register is the global authoritative source on credit risk in trade finance



Industry's flagship report on global trade and trade finance, and global authoritative source on credit risk in trade, supply chain, and export finance



Used to support trade banks, investors, insurers, corporates, governments and regulators better understand the trade finance market and its risk dynamics



Contains detailed credit risk analysis covering c. 25% of the global trade finance market (10% global flows), with metrics including default rate, loss given default, and expect loss – all aligned to Basel Methodology



Leverages ICC's proprietary Trade Register database that includes data from 21 member banks, \$21T exposures, and 36m transactions – supplemented by Global Credit Data's broader credit risk database



Includes strategic commentary of the trade finance market, including detailed trade flows and trade finance revenue pool forecasts from Boston Consulting Group (BCG)

21
Member banks



\$21T
exposures



36M
transactions



25%
share of
trade finance



10%
of global trade flows



Trade Register has been of substantial value in advocacy efforts with industry regulators



Credit Risk

Credit Risk measurement (Standardised/IRB)

- 20 % Credit Conversion Factor (CCF) for Performance Guarantees in the European Union
- Maturity Floor Waiver (MFW)



Leverage

- Leverage Ratio waiver for Letters of Credit and Guarantees
- Favourable treatment of Trade Finance within the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)



Accounting

- Empirical data used for calculation of Expected Credit Loss (ECL) under International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Practices (GAAP), potentially lowering ECL charge

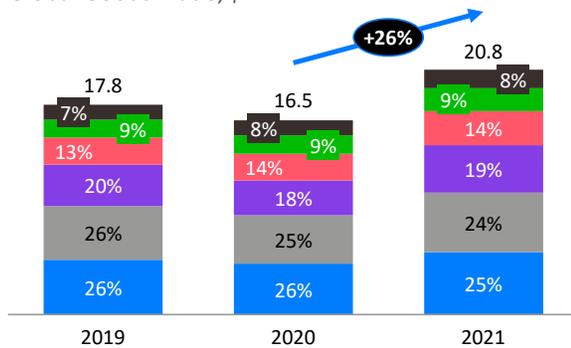
ICC has continued to build on the Trade Register over time to **increase value to member banks and trade finance community**



Trade showed strong recovery in 2021 coming out of the pandemic, albeit growth somewhat “capped” by supply-side constraints

Goods trade rebounded strongly in 2021 as the impacts of COVID-19 eased, growing over 25% and exceeding 2019 levels

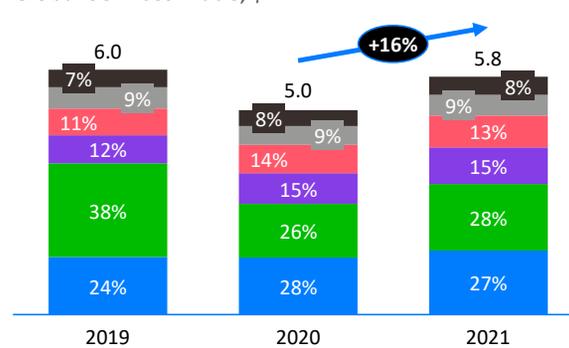
Global Goods Trade, \$T



- Consumer Durables and Electronics (+12%)
- Packaged Food & Agribusiness (+12%)
- Chemicals & Biopharma (+13%)
- Energy, Mining & Metals (+7%)
- Aerospace, Automotive & Machinery (+5%)
- Other (+7%)

Services trade showed similar recovery, albeit with sectors such as travel significantly down vs. pre-pandemic

Global Services Trade, \$T



- Royalty-IP (+2%)
- Others (-1%)
- Financial Services (+9%)
- Computer and IT services (+14%)
- Travel and Transportation (-16%)
- Business Services (+5%)

Despite growth, trade in 2021 was limited by a number of ongoing supply-side constraints posing longer-term challenges



Shipping disruptions delayed movement of goods, including:

- Shortages in labour and containers
- Suez Canal obstruction in March 2021



Electronic supply chain shortages, driven by surge in demand, geographic concentration of manufacturing, and bottlenecks related to the pandemic



Regional disparities in easing pandemic restrictions



Sudden increased consumerism and demand for goods and services due to higher savings rates amongst middle classes

Source: UN Comtrade, Oxford Economics, IHS, WTO, BCG Global Trade Model 2022, BCG Analysis

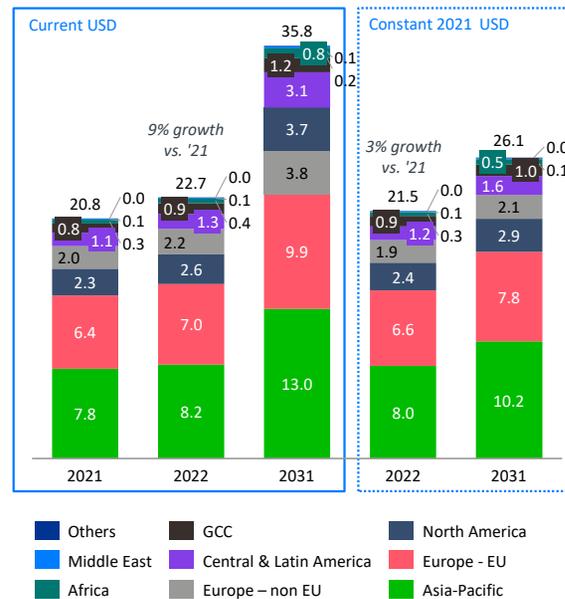
Already clear that 2022 brings a very different picture, as COVID is displaced by new set of geopolitical and economic challenges

2022 brings new geopolitical and economic challenges to trade ...

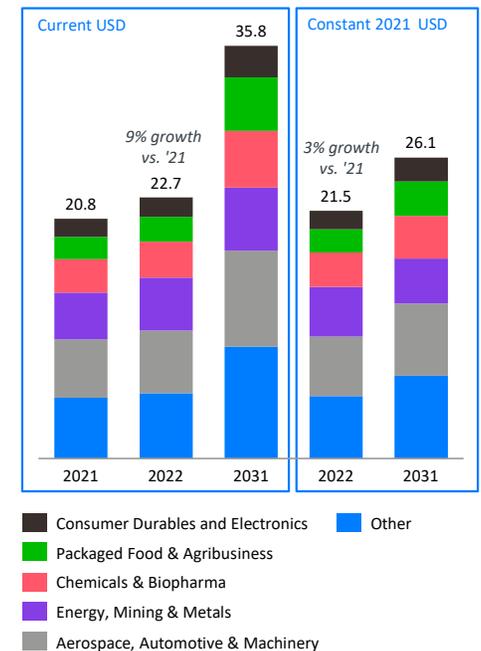
-  Russia-Ukraine war triggering disruptions to supply chains, dislocations in energy flows and sanctions
-  Energy price changes driving input cost variations in many goods and services
-  Surge in inflation accompanying rise in interest rates
-  Rising cost of living across markets
-  Other geopolitical developments, particularly trade between China and the West
-  Increasing global awareness of climate change and prioritisation of sustainability goals

... with inflation driving a large disparity between real and nominal growth, and shifting trade patterns

Global goods trade by region, T\$

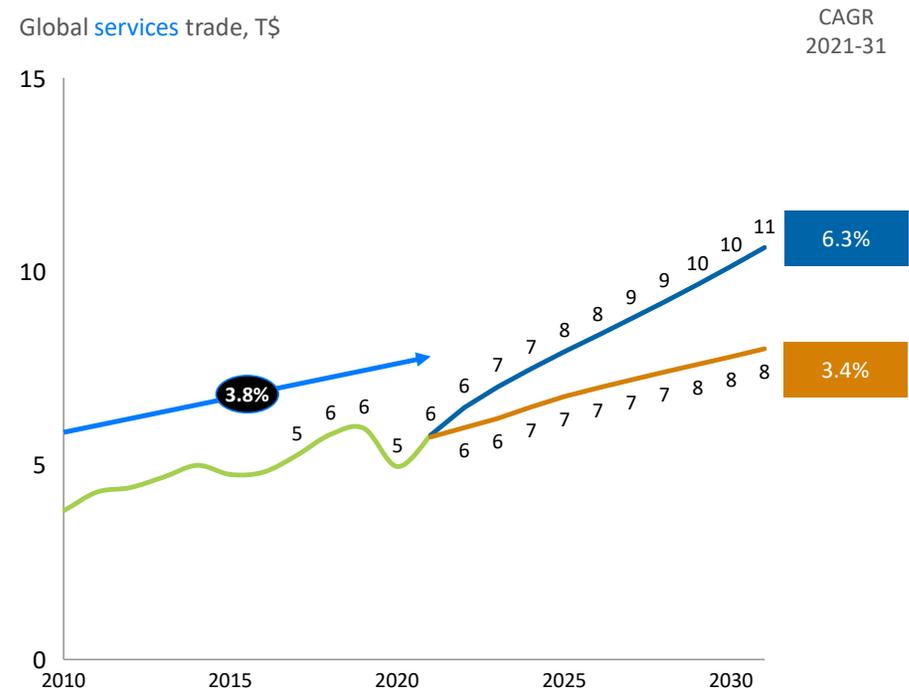
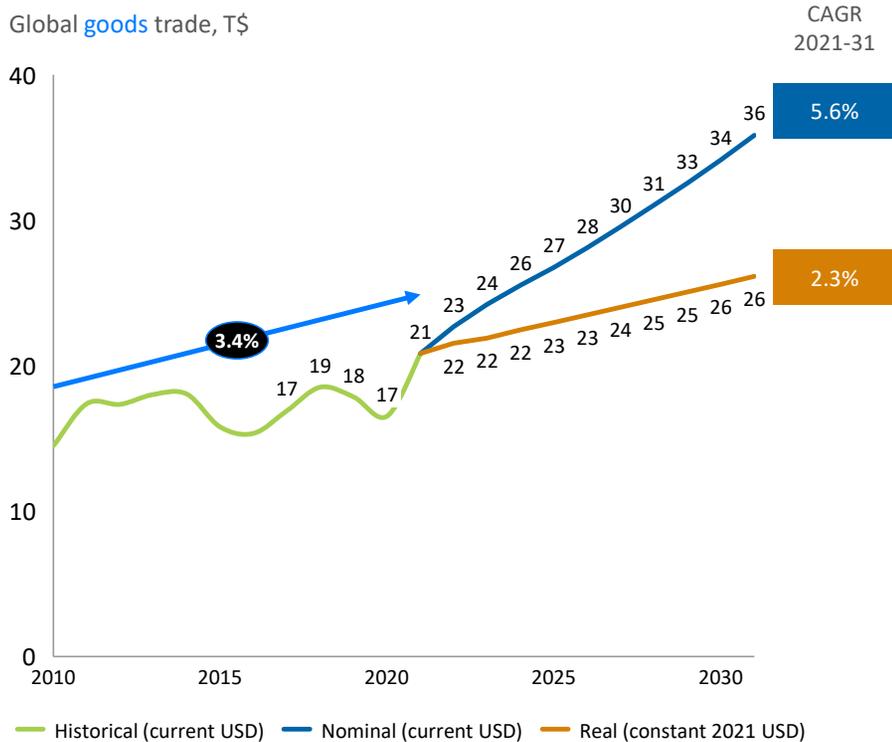


Global goods trade by commodity, T\$



Source: UN Comtrade, Oxford Economics, IHS, WTO, BCG Global Trade Model 2022, BCG Analysis

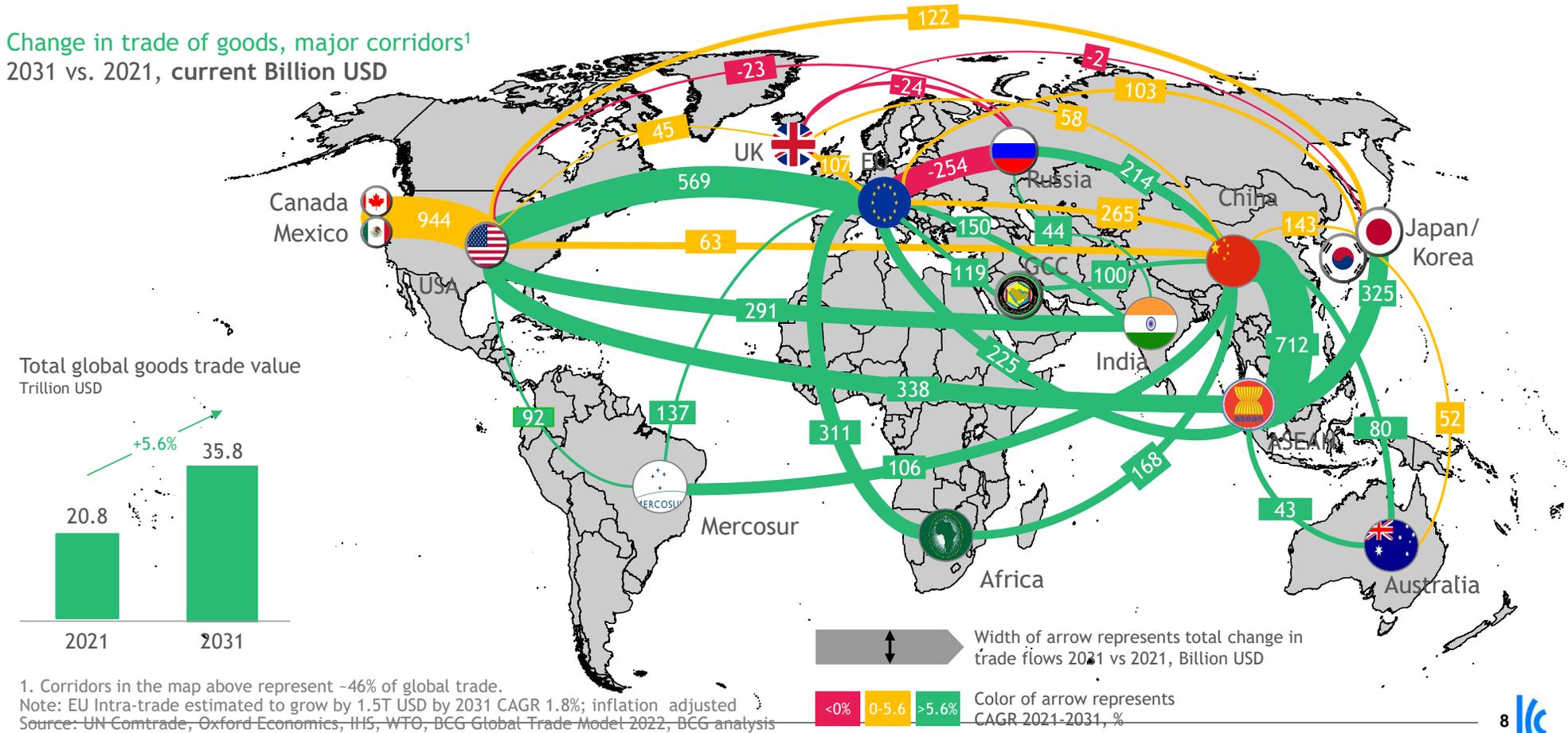
Looking further ahead, we expect trade growth to continue amidst these challenges, although again largely driven by inflation ...



Source: UN Comtrade, Oxford Economics, IHS, WTO, BCG Global Trade Model 2022, BCG Analysis

Bringing together all these trends, expect a very different global map of trade by the turn of next decade

Change in trade of goods, major corridors¹
2031 vs. 2021, current Billion USD



1. Corridors in the map above represent ~46% of global trade.
Note: EU Intra-trade estimated to grow by 1.5T USD by 2031 CAGR 1.8%; inflation adjusted
Source: UN Comtrade, Oxford-Economics, IHS, WTO, BCG Global Trade Model 2022, BCG analysis

Trade finance revenues expected to grow largely in line with underlying trade growth, driven primarily by open account, especially in outer years

In the longer term, expect a continued decline in documentary trade share vs. open account. Trend slightly softened over next 2-3 years given need for risk mitigation amid macroeconomic environment

2020 decline was most pronounced in documentary trade, reflecting especially steep declines in trade in sectors reliant on documentary trade (e.g., oil)

Global trade finance revenues, B\$



1. Other open account includes working capital finance revenues for cross-border trade
 Source: UN Comtrade, Oxford Economics, IHS, WTO, SWIFT, BCG Global Trade Model 2022, BCG Analysis

Innovation and digitization are continuing to shape the future of trade finance



Open account going from strength to strength

- Open Account products expected to represent c. **70% of Trade Finance revenue by 2031**, vs. c. 60% today
- As trading partners become more established, **speed, ease and cost-effectiveness** of Open Account Trade outweighs risk mitigation properties of Documentary Trade
- Expect **more product innovation** going forwards



Increased supply and demand for asset distribution

- Trade assets have historically been **below fair share of asset distribution** due to high costs and tech challenges
- **Increasing appetite for trade finance assets** as interest rates increase and investors seek to diversify
- The **“case to distribute”** is becoming stronger for banks



Future of trade: platforms and ecosystems

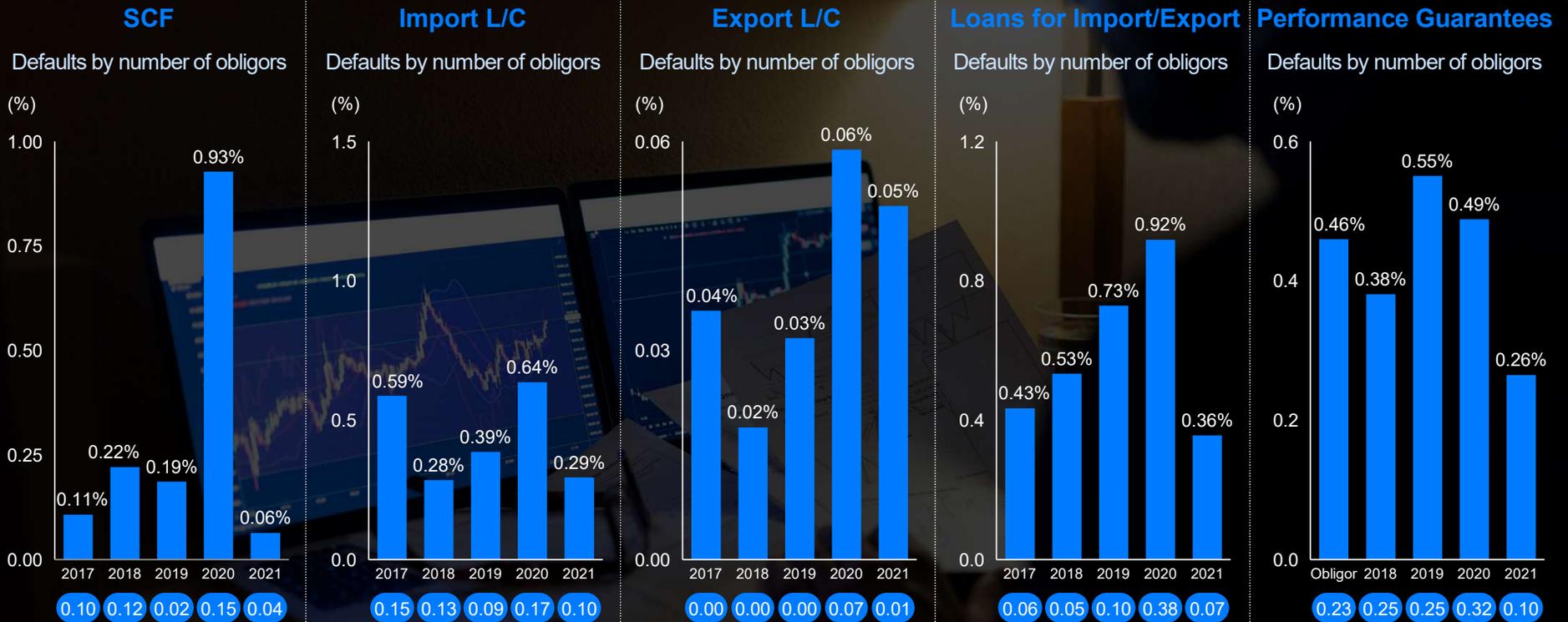
- **Rapid growth** in platforms and ecosystems focused on trade
- Platforms and ecosystems allow corporates and SMEs to **originate financial products at scale**, in a digitally native way, **transforming trade and supply chain finance** business models
- Reduced cost-to-serve and digitally-native acquisition could **open-up access help bring down the “trade finance gap”**



Unlocking sustainable supply chains

- Achieving sustainable supply chains is a **significant lever** in reaching Paris Agreement and SDGs
- Key opportunity for **trade and supply chain finance to support more sustainable supply chains**, esp. decarbonization
- Important to design **sustainability-focused propositions to support corporates and SMEs**

2021 validates that trade finance is a 'low risk' product, with sharp decline from higher 2020 values



Source: ICC Trade Register 2021

xxx = Exposure-weighted default rate (%)

We can more representatively estimate LGD values because of enhanced approach for 2022 – demonstrating low LGD values for trade products

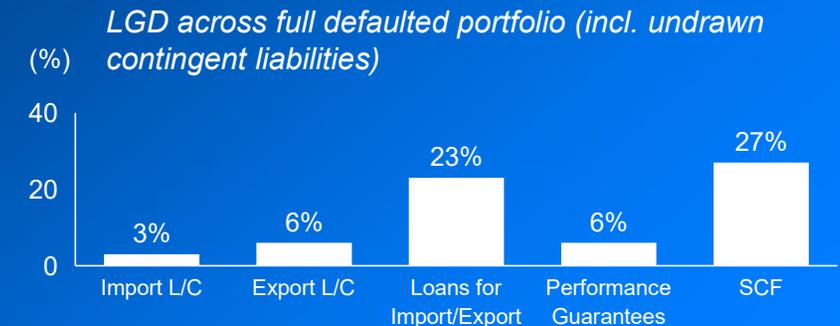
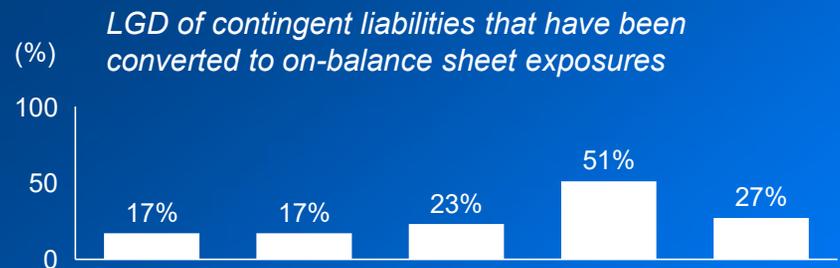
LGD analysis has typically been challenging for the Trade Register given a limited size data pool, and the reliance on bank-derived calculations
From this year onwards, the Trade Register has opted to use GCD's larger and substantially more granular data pool for LGD

This brings several key advantages:

-  Larger and more representative data pool
-  Longer time and more representative series, covering full impact of GFC
-  Higher granularity of data, enabling more consistent GCD-driven calculations
-  Ability to exclude undrawn or off-balance sheet liabilities, enabling a reliable calculation of EAD

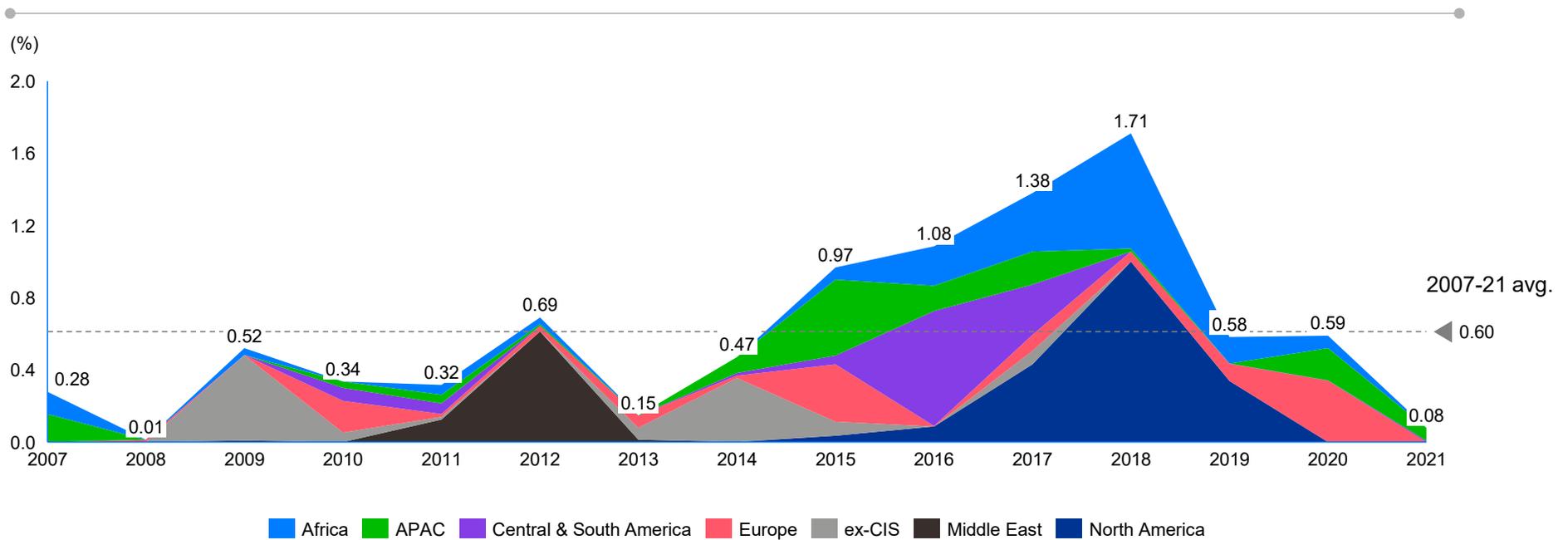
1. Accounts for 2.3% observed "claim rate" 2. 2020 data excluded from LGD analysis
Note: $LGD = (1 - \text{recovery rate}) + \text{discount on recoveries} (\%) + \text{costs} (\%)$
Source: ICC Trade Register 2020

Loss Given Default (2000-2020)



Export finance default rates have also decreased in 2021, and are expected to stabilise towards longer-term average

Default rate by exposure



Note: Regions and countries reflect those of obligor
Source: ICC Trade Register 2021

In summary: Conclusions from this year's ICC Trade Register

1

Trade Finance volumes have largely recovered in 2021 to pre-pandemic levels, despite geopolitical, economic, and social “constraints” capping growth

2

Looking forward, 2022 and beyond bring a number of additional headwinds; while we expect trade to continue growth, this will be largely driven by inflation (5.6% nominal 2021-2031 growth vs. 2.3% real – based on goods trade)

3

Trade and supply chain finance market will continue to grow on both a nominal and real basis, largely ahead of underlying trade growth as banks capture increased margin in higher interest rate environments and better price-in risk

4

From a credit risk perspective, following a rise in 2020, trade, supply chain, and export finance default rates have declined in 2021 across almost all measures, products, and geographies. This is likely driven by a smooth “return to normal” in many jurisdictions, combined with the retention of some government stimuli

5

ICC Trade Register has enhanced its methodology to overcome its prior challenges with LGD and EL analysis by using GCD’s more granular and representative data pool; this has enabled ICC to make more realistic and less conservative assumptions, enabling a substantial reduction in LGD and EL

6

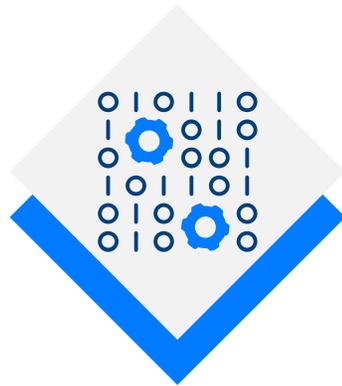
Bringing this together, 2021 Trade Register demonstrates once again that trade, supply chain, and export finance are low risk, resilient asset classes – which should be recognized by banks, investors, and regulators

Why should your bank join the Trade Register?



Bigger is better.

We need as many banks as possible to join the project, to better understand the risk dynamics of the market, and support further advocacy with investors and regulators.



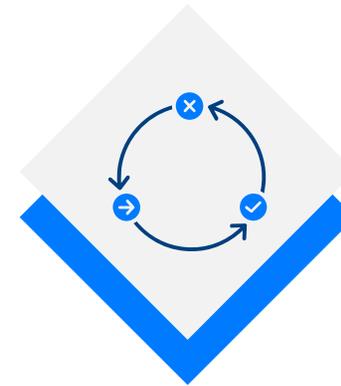
Nobody has better data to help you drive value.

ICC Trade Register is the leading, definitive authority on credit risk in trade. Supports risk modelling for economic benefit, as well as strategic decision-making.



Attractive commercial terms.

We recognise the value that member banks bring. We now have differentiated pricing and plan to invest fees to drive down costs for you.



Continual improvement.

In addition to improving participation and data quality, we hope to expand product coverage and data fidelity.



Opportunity to shape the project going forwards.

Being a member gives the opportunity to input to priority areas to improve the Trade Register in future years

Member banks get access to full Trade Register at half the price of Non-Member Banks – and we plan to differentiate this further



As new commercial model becomes more established, ICC hopes to be able to even more sharply differentiate Member vs Non-Member Pricing

Our key priority going forward is to work with banks such as yours to grow participation – plus continually add value year on year



Participation

- Growing trade register membership means greater coverage of the market and more representative figures



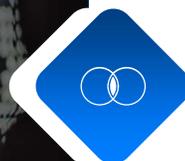
Methodology

- Enhance methodology of the Trade Register to incorporate legal entity identifiers where data protection regulations allow, enabling removal of duplication across banks



Product Coverage

- Work with Member Banks to improve product coverage, particularly around receivables finance
- Explore possibility of forming partnerships with insurers to include trade credit insurance within data pool



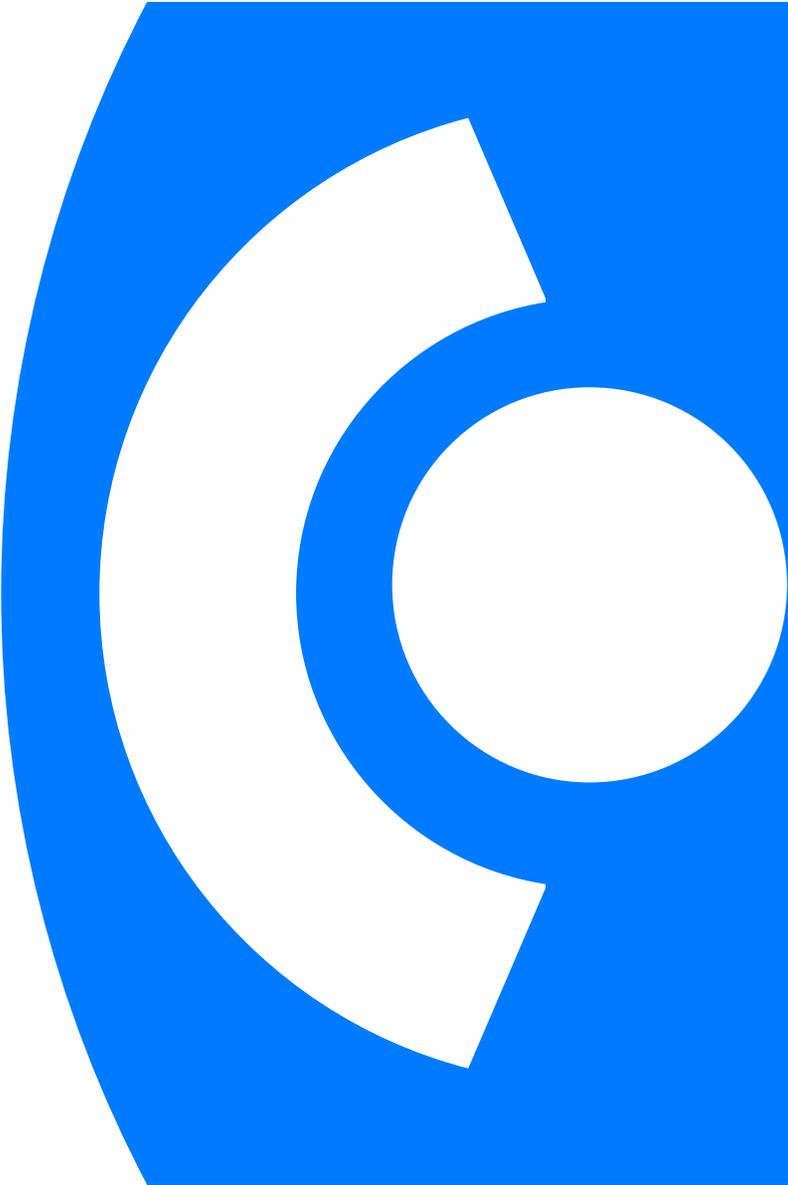
SME Tagging

- Work with banks to “tag” SME transactions to determine risk characteristics for SME trade in particular



Sustainability Tagging

- Work with banks to apply a sustainability or sector lens to analysis



Thank you!

