The higher regulatory capital requirements of Basel III have made it more expensive for banks to specialize in lines of business they see as offering insufficient return on capital. Accordingly, some institutions may choose to withdraw from the capital-intensive businesses of cash management and trade finance (“cash & trade”).

Yet cash & trade will continue to be a key consideration in the choice of banking partners for international and global companies, especially those doing business in regions where letters of credit are still the primary way – and possibly the only way – to guarantee payment. Banks that withdraw from cash & trade will forego these dynamic growth opportunities.

For the banks that remain, it won’t be easy to capture the cash & trade business of high-growth corporate clients. Already, we’ve seen companies begin to concentrate their banking relationships to global and regional providers who can provide adequate support for cross-border activities. In addition, companies of all sizes are seeking stronger linkages between financial and logistical supply chains, raising the bar further for banks seeking to expand their cash & trade businesses.

Below, we’ve identified five key technology-driven competencies that we believe represent the future of cash & trade.

1. **On-demand liquidity:** To keep customer funds invested even when idle, banks need a seamless integration layer that works across account management, transaction processing and treasury systems. The services enabled through integration include sweeping and pooling of domestic liquidity; complex liquidity management pools; and sophisticated working capital solutions that scale from mid-size businesses up to global corporates. At the high end, we expect to see global cash management across multiple markets, with cross-border cash sweeps and pools, global position-keeping, and global billing based on intra-day positions.
2. **Predictive analytics**: By analyzing the extensive data about the trade transactions of their corporate clients, banks can provide information on underlying trends; detect trade document discrepancies to reduce delays; and identify opportunities to increase the speed of payments while lowering the cost of carrying goods. For international clients, analytics can support “what-if” analyses based on cash flows and expected volatility in foreign exchange, helping corporate treasurers to make informed hedging decisions. Cash flow analysis also supports smarter deployment of free cash into investment accounts, providing an opportunity for financial institutions to reduce reserve requirements on customer deposits while increasing investment revenues.

3. **SWIFT messaging**: Cash & trade providers should be prepared to support the emerging model of bank-to-corporate messaging, by which corporate clients send cash & trade messages to their banks through the SWIFT network. Previously, corporates used SWIFT, if at all, just for payment messages. The adoption of SWIFT as a bank-agnostic messaging network eliminates the need for corporates to maintain dedicated connectivity solutions for each of their banking relationships. Also, SWIFT and its member banks are working towards making available a real-time balance reporting facility, which would help large corporate clients to communicate with their banks without having to struggle with multiple interfaces, formats and channels. This in turn will streamline connectivity and reduce the costs of infrastructure and maintenance.

4. **Convergence of cash & trade and cash optimization**: Traditionally, cash & trade has been largely focused on risk mitigation, ensuring the safe handling of the financial components of trade transactions. Now, cash & trade have started to integrate with end-customer processes, such that a bank will be able to make instantaneous payments to a trade customer. The increased velocity of transactions enables both better risk mitigation for trade and better cash optimization. In addition, the convergence makes it possible for the rise of digital exchanges for trade instruments, such that clients will be able to tap into arbitrage opportunities and better manage cross-currency movements.

5. **Mobile transactions**: With the emergence of high-bandwidth wireless networks and the rapid adoption of tablets, iPads and smartphones, financial executives increasingly expect that bank apps support transactional capabilities, rather than just the delivery of information. For example, remote managers should be able to review a trade approval, initiate a payment, or transfer funds between accounts. Banks have a tremendous opportunity to strengthen customer relationships and engagement by offering mobile capabilities in payments and authorization, with extensive reporting on disbursements, returns and intraday positions. In turn, customers will benefit from increased collaboration along with the possibility to put into place a distributed workforce.

Companies of all sizes are seeking stronger linkages between financial and logistical supply chains.