Bin your spreadsheets!

New trade finance risk management tool supports sophisticated transactions.

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Jean-Luc Spinardi, banking consultant, MIT

Swiss trade finance software firm MIT has launched a new product, Trade Risk Active Control (TRAC), that aims to help trade commodity finance relationship managers and credit risk managers to track and monitor risks appropriately. MIT hopes TRAC will replace the Excel spreadsheets that are still widely used in the trade commodity finance sector.

"Banks specialising in transactional and structured financing need to monitor this activity efficiently. They need to monitor more precisely the financing limits set for each customer, the level and type of commitments, the evaluation of its collaterals, and first and foremost a good comprehension of the different types of risks involved," says Jean-Luc Spinardi, banking consultant at MIT.

According to Spinardi, the three most comment approaches to trade finance and commodities financing are balance sheet-based financing, transaction-based financing and structured trade finance.

Balance sheet-based financing is mainly used for companies that have a stable and solid financial background, but which require working capital to finance their core business. This usually requires relatively little control once the bank has decided to finance the company, and is based on the corporate's capacity to reimburse based on a balance sheet analysis.

Transaction-based financing is based on the goods financed. This is more practical for international trading companies with relatively low capitalisation. For this approach, banks need to monitor the physical flow of goods since these represent their main collateral. Transaction-based financing requires a thorough evaluation of risks and an accurate follow-up of transactions financed.

Structured trade finance mixes the first two financing methods and includes balance sheet analysis to allow a bank to back its risks both via sources of collateral and a financed company's balance sheet, allowing more complex and 'structured' financing.

"The growing complexity of the financing structures and the increasing demands of the supply chain forces the banking community to design more complex financing schemes more adapted to customers' specific requests; the risks are higher but so are the prospective revenues for the bank," says Spinardi.

Spinardi adds that although it has flexibility, a spreadsheet is not sufficiently secure in reliably presenting data. Given that this information is used to support significant financing decisions, other systems should be used, he argues.

"There is increasing market demand for innovative dashboard tools easily integrated in a bank's IT infrastructure. This should be capable of automating the extraction of data coming from various systems in order synthetise it in a tool capable of presenting a reliable view of a customer's global economic position in real time," he says.

The TRAC platform provides the user with a range of data needed from vessel information and control, to commodity information with dashboard displays per category of risk, and can be integrated with a bank's own IT infraastructure or hosted externally.