2023

Summary Version

ICC Trade Register Summary Report

Global risks in trade finance

Market Trends
Analysis of Trade Finance Products
Analysis of Supply Chain Finance
Analysis of Export Finance Products

ICC

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Please note that any absolute data points are only available in the full Trade Register report, which is available for public purchase or to participating banks. Please contact Tomasch Kubiak, ICC Policy Manager here for more information.

1. About the International Chamber of Commerce

International Chamber of Commerce (ICC) is the institutional representative of more than 45 million companies in over 170 countries. ICC's core mission is to make business work for everyone, every day, everywhere. Through a unique mix of advocacy, solutions and standard setting, we promote international trade, responsible business conduct and a global approach to regulation, in addition to providing market-leading dispute resolution services. Our members include many of the world's leading companies, SMEs, business associations and local chambers of commerce.

For more information please visit: www.iccwbo.org

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2. Acknowledgements

This International Chamber of Commerce (ICC) Trade Register Report would not have been possible without the path-finding work done during the Global Financial Crisis (GFC) of 2007–2009 by the World Trade Organization (WTO), the Asian Development Bank (ADB), the ICC Banking Commission, and various partners and policy makers. We would like to acknowledge Steven Beck of the ADB and former WTO Director General Pascal Lamy for providing the initial impetus and the ADB for the all-important seed funding to create a consolidated trade finance database hosted by ICC.

The ICC Banking Commission is the largest commission of ICC. It is the authoritative voice for the trade finance industry, setting the standards and benchmarks for industry practices. The Commission is delighted to continue working with its two Trade Register Project partners: Boston Consulting Group (BCG) and Global Credit Data (GCD).

As always, the ICC Banking Commission extends special thanks to our 22 member banks:

- ANZ
- Bank of America Merrill Lynch
- Bank of China
- Barclays
- BMO Financial Group
- BNP Paribas
- Crédit Agricole CIB
- Deutsche Bank
- DZ Bank
- HSBC
- ING
- J.P. Morgan Chase
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- Rand Merchant Bank
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- Standard Bank
- Standard Chartered Bank
- Sumitomo Mitsui Banking Corp
- UniCredit Australia
- UniCredit Germany
- UniCredit Italy
- Wells Fargo

The findings of this report are based on our member banks' underlying data sets, and financial and resource contributions. Their continued financial support, investment of time and resources, and uncommon focus on the bigger picture, allow us to collect increasingly robust and meaningful data to produce this report each year.

The authors would like to thank SWIFT for their contribution in providing 'Trade Traffic' data to help validate product-level and regional-level trends in global trade (governed by a SWIFT BI partnership framework). Data relating to SWIFT messaging flows are published with the permission of S.W.I.F.T. SC. SWIFT © 2023. All rights reserved. Because financial institutions have multiple means to exchange information about their financial transactions, SWIFT statistics on financial flows do not represent complete market or industry statistics. SWIFT disclaims all liability for any decisions based, in full or in part, on SWIFT statistics, and for their consequences.

Finally, the ICC Banking Commission would like to thank all those who have been instrumental in the design and execution of the 2023 Trade Register report.

Global Credit Data
by banks for banks

2.1 Our Partners

2.1.1 Global Credit Data

Since 2004, the Global Credit Data Consortium (GCD), owned by 50+ member banks, has collected, pooled, and distributed back anonymised internal credit risk data from contributing banks' loan books, to support modelling of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) in compliance with prudential regulatory requirement. GCD also provides these credit data collection, analysis, and research to ICC members, contributing to a better and data-driven understanding of credit risk in trade finance, supply chain finance and export finance instruments and allowing ICC to focus on core strategic and advocacy activities.

Members include prominent banks from Europe, North America, South Africa and Asia Pacific, which have exclusive access to the GCD databases to support their IRB Advanced accreditation applications.

The PD database covers 22 years of quarterly rating migration, default rates and PDs calibration. The LGD/EAD database now totals more than 300,000 CIB defaulted bank loans from around the world and more than 155,000 borrowers covering 11 Basel asset classes. The robustness of GCD's data collection and quality infrastructure helps to make GCD's databases the global standard for credit risk data pooling (https://globalcreditdata.org/interactive-dashboard/).

GCD members are owners of the association and its data. They have a prominent role in steering the GCD's strategic direction to keep activities member-centric and drive the "by Banks for Banks" credo.

Beyond the data itself, Members also have access to a deep network of highly experienced credit risk professionals in a variety of forums, workshops, webinars, surveys and conferences: for exchanges in key strategic modelling areas including PD calibration, LGD modelling, Stress testing, Comprehensive Capital Analysis and Review (CCAR) and International Financial Reporting Standards 9 (IFRS9).

BOSTON CONSULTING GROUP

2.1.2 Boston Consulting Group

Boston Consulting Group (BCG) plays a central role in the Trade Register Report by supporting the day-to-day project and the development of the report, and by contributing a strategic, value-focused perspective to the core topics.

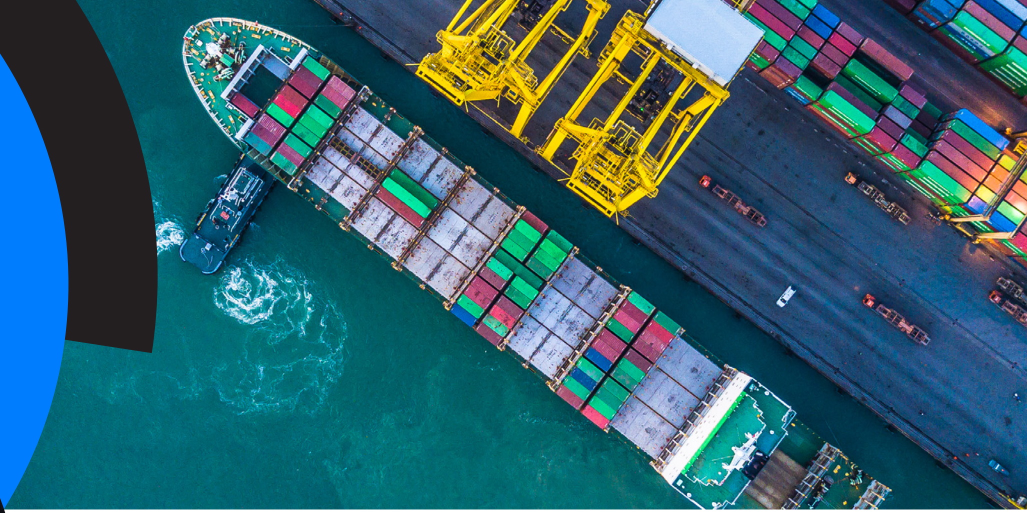
BCG is a global management consulting firm and the world's leading advisor on business strategy. BCG partners with clients from the private, public and not-for-profit sectors in all regions to identify their highest-value opportunities, address their most critical challenges, and transform their enterprises.

BCG's expertise in the financial institutions sector spans all major topic areas to give global, regional and local banks detailed insight, knowledge and analysis across markets. Trade finance is an established and growing topic area for BCG's wholesale and transaction banking practices. BCG has worked on more than 40 recent trade finance-related projects globally on industry questions and challenges such as market entry and growth, pricing, cost reduction, operations and digital change and transformation. In addition, BCG's Global Trade Model, which analyses and forecasts global trade flows and trade finance revenues, and includes services trade as well as goods trade, is in its eighth year.

By partnering with the ICC Trade Register Project, BCG aims to bring additional strategic insight, and commercial and technical industry perspectives, to the reader base.

Beyond the ICC Trade Register, BCG continues to actively support the trade finance community with thought leadership, including recent and a pipeline of future publications covering topics such as the digital, regulation, geopolitics and increasingly importantly sustainability in trade.

BCG was founded in 1963. It is a private company with more than 100 offices in over 50 countries. For more information, please visit www.bcg.com.



3. Introduction to the ICC Trade Register Report

The full ICC Trade Register draws on data from 26 trade finance and export finance banks (including submissions from today's 22 member banks) – including more than 47 million global trade finance and export finance transactions with exposures in excess of $23 trillion. The ICC Trade Register presents a global view of the credit risk profiles of trade finance, supply chain finance and export finance transactions. The full report uses a rich and granular data set to examine default rates, observed average maturities and expected losses for these products at global, regional and national levels. The report also supplements the extensive data analysis and charts with detailed analytical commentary.

Overall, the full ICC Trade Register Report demonstrates the low risk nature of the transactions that enable global trade, and provides deep insight into the trillions of dollars in economic value that flow from these commercial activities. The insight offered by the analysis within the Trade Register solidifies its position as the authoritative report on trade, supply chain and export finance. The methodologies implemented in the report dynamically evolve to provide greater nuance and detail each year, and participation by new member banks is strongly encouraged.

This summary paper provides BCG's extensive 'Trade Finance: State of the Market' analysis and brief introductions to the analysis offered in the full report. **Note that any absolute data points are only available in the full Trade Register report, which is available for public purchase or to participating banks. Please contact Tomasch Kubiak, ICC Policy Manager here for more information.**

This year, the ICC Trade Register has continued to evolve and build upon its methodology in relation to LGD analysis through the usage of GCD's global data pool and a more detailed approach for calculating CCFs for contingent trade finance products. Future reports will continue to seek new ways to enhance the methodology. For example, we aim to incorporate legal entity identifiers where data protection regulations allow, enabling the removal of duplicate data across banks.

Starting from this year, the Trade Register also presents the first results of sustainability tagging for export finance products. This is a first step towards a fuller understanding of the sustainability of global trade transactions, as well as clarifying whether more sustainable transactions demonstrate favourable risk characteristics. As the sustainability tagging data continues to improve over time, ICC expects to build on this sustainability analysis in future Trade Register reports. ICC is conducting a separate project, the Sustainable Trade Framework (STF), which aims to standardise sustainability assessments across trade and trade Finance. Aligning the definition of sustainability will improve the ease and accuracy of sustainability tagging.

Looking forward, the ICC Trade Register will always continue to seek ways to improve and innovate across all aspects of the report, beyond just analysing the risk characteristics of trade finance products. One area of exploration will

1 22 Member Banks contributed to the report in 2023, but the ICC Trade Register contains data from 26 banks in total across all years.

be the widening product coverage, particularly around receivables finance. An important part of the innovation will be implementing SME tagging alongside banks to determine the risk characteristics of SME trade in particular. Increasing the representativeness of the data pool also remains a key priority, and attracting new member banks is a crucial aim.

These will all be further enhancements to a report that is already very highly regarded. Due to the combination of its robust existing methodologies and the data entirely provided by the 22 member banks, the ICC Trade Register remains the only authoritative source of data on credit risk and default in trade, supply chain and export finance. With the continued support of the member banks and renewed efforts to enhance the data and methodology, the ICC Trade Register aims to become the leading publication on global trade.

3.1 Overview of the Full Trade Register Report

The ICC Trade Register data set covers import letters of credit, export letters of credit, performance guarantees and supply chain finance exposures, amounting to approximately 23% of global traditional trade finance flows and 7% of all global trade flows in 2022 (Figure 1). The report draws on a representative data set from 26 trade finance and export finance banks (including submissions from today's 22 member banks) of more than 47 million global trade finance and export finance transactions and over $23 trillion in exposures.

Figure 1

Estimated coverage of the full ICC Trade Register in 2022 (products grouped to enable like-for-like comparison)

Product	2022 exposures in Trade Register ($T)	Est. share of 2022 trade finance, by product (%)	Est. share of 2022 total global trade flows (%) [2]
Documentary trade	0.55	22%	2%
Open account trade and SCF payables finance	1.44	23%	5%
Total	**2.00**	**23%**	**7%**

The data is analysed by GCD, BCG, member bank specialists and the ICC Banking Commission project team and advisors. The methodology used is largely consistent with the approach used in past years. Over time, the Trade Register has evolved to align increasingly closely with the Basel framework, while also providing a practitioner's view of credit risks within trade finance and export finance.

This year's report continues to reflect the finding from past years: trade finance and export finance represent a low-risk asset class even at times of market uncertainty. It should be noted that an increasing number of investors are using the Trade Register and its data for making investment decisions. Given the data limitations outlined below, ICC recommends – and strongly encourages – the use of the report's data and information for research purposes only and not to inform investment decisions.

2 Based on BCG's Global Trade Model

4. Trade Finance: State of the Market

4.1 Market Trends in Trade and Trade Finance

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Charlotte Grace, Senior Associate, Boston Consulting Group
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Introduction

Please note, figures shared in this analysis represent the clearest possible view at the time of writing. Given the evolving macroeconomic and geopolitical environment, please reach out to your ICC or BCG contacts should you wish to receive the latest iteration of any forecasts.

Prior to the COVID-19 pandemic, we were accustomed to strong growth in global trade, which typically exceeded the rate of GDP growth. Even at the height of the pandemic, trade remained relatively resilient, and we saw a powerful rebound in 2021 as the global economy reopened and economic activity picked up. Since 2022, we have been following a different trajectory, with slower trade growth due to the disruption to supply chains in, for example, the energy and agricultural sectors as a result of the Russia-Ukraine war, and due to broader geopolitical tensions, elevated global inflation and high interest rates, among other causes.

Despite these shifts, the role of trade, as well as trade and supply chain finance products, is more important than ever. As the geopolitical and economic environment becomes more challenging, access to liquidity and risk mitigation is increasingly valued. In addition, the desire – and need – to digitise has accelerated innovation in the trade and supply chain finance space. Customer needs are evolving in areas such as sustainability, and there is now much stronger recognition that sustainable supply chains are a critical contributor to the net-zero transition. As such, the 2023 ICC Trade Register aims to explore:

- The evolution of global trade in 2022
- A forecast for 2023 and beyond
- Implications for trade and supply chain finance, specifically looking at:
  - Market evolution in terms of revenues, margins, and product trends
  - Regulatory changes and their likely impact
  - Ongoing digitisation and the future of platform-based trade

- Growing interest in asset distribution in trade and supply chain
- Increased importance of sustainable trade

4.1.1 Global trade in 2022: Slowing down after a winning streak

The year 2022 started on a cautious note, as 2021 ended with warning signs in China's property market as the huge real-estate developer Evergrande filed for a $200 billion default, and new Covid variants emerged. In early 2022, global inflation was already rising rapidly due to both demand-side and supply-side factors.

- On the demand side, consumption slowed from the post-pandemic bounce, but remained strong. Households continued to spend the savings they had accumulated during the pandemic, while government spending continued apace, for example in relation to the USA Inflation Reduction Act (IRA).
- On the supply side, while the shipping constraints of 2021 abated, supply chains remained disrupted, partly due to new trade policies across many countries.

Russia's invasion of Ukraine in February 2022 and the associated sanctions exacerbated these supply chain disruptions, especially in the energy and food sectors. This has led to an exceptional spike in commodity prices, raising production costs for businesses and resulting in costs which passed through to prices of both goods and services. These macroeconomic and geopolitical developments have led to higher inflation than predicted.

International goods trade flows reached $23.8 trillion in 2022, up 10.7% from 2021 and slightly above the forecast in last year's Trade Register of $23.3 trillion. This was a softening in trade growth relative to the 25.5% jump in 2021, as the post-pandemic recovery eased in 2022. Growth in 2022 was primarily driven by inflation rather than an increase in volume, as commodity prices jumped: in real, or inflation-adjusted, terms, goods trade flows grew only 3% in 2022 versus 2021.

The growth was not distributed evenly across sectors. Consumer durables and electronics fell by 6.3% in 2022, driven by lower exports from China (-10.9%) and Hong Kong (-31.7%), due to supply chain disruptions and higher cost of living. In contrast, the energy, metals and mining sector experienced significant growth of 26.3%, primarily due to much higher commodity and wholesale prices. For example, wholesale electricity prices in the EU were twice as high in 2022 as they were in 2021, partly due to divestment in Russian gas and a pivot to LNG. Despite these higher prices, world electricity demand remained fairly resilient in 2022, growing by 2% in nominal terms compared with the 2.4% average growth rate seen over the period 2015-19, due to economic slowdown and higher generation costs. Indeed, while the majority of the nominal growth in the sector was driven by inflation, volume growth was also strong. Real, or inflation-adjusted, trade growth in the energy, metals and mining sector was 12.4% in 2022.

On a regional basis, we saw a shift in trade corridors, as businesses rebalanced their own supply chains to diversify and reduce concentration risk. Goods trade between the USA and China grew by 1.2% whereas growth between the EU and China grew by 2.9% and between ASEAN and China by 15.8%. Among the largest corridors, notably high growth rates for 2021-22 were reported between the EU and the USA (20.0%) having been bolstered by biopharma trade, between the USA and Canada & Mexico (18.0%) after being uplifted by energy trade, and between Australia and Japan & Korea (37.8%) supported by mining trade.

Services trade tells a different story. Trade in services reached $6.8 trillion in 2022, up 14% from 2021, driven by strong growth across all regions in a continued post-pandemic recovery. Europe continues to be the regional leader, with a 53% share of global services exports in 2022. Services trade grew at a faster rate than goods trade in 2022, the opposite of what we saw in 2021 (where services trade grew at 19% vs. 26% for goods trade). This was due to a more sustained post-pandemic recovery for services than for goods.

On a sectoral basis, the travel and transportation sector saw the fastest trade growth among sectors, amounting to 41% in 2022. This exceptional growth was driven by strong pent-up demand as travel restrictions eased, while prices remained high due to excess demand. International tourism grew 50% in real terms between 2021 and 2022. North America grew by 63%, led by the USA whose Travel & Transport

services exports grew to $228 billion in 2022. There is still room for further growth. In 2022, international tourism recovered to only 66% of pre-pandemic levels, but is expected to return to 80-95%.

Computer and Telecoms services grew in line with its previous trend, at a pace of 6% in 2022. This growth was led by Asia-Pacific (10% growth in 2022), with India reaching around $100 billion of exports in the sector. Nonetheless, services growth was not strong across all sectors. Financial services and royalty-intellectual property (IP) trade both declined by 3% in 2022, partly on the back of a strong USA dollar.

4.1.2 Forecast for 2023 and beyond: Growth, but slower growth

The geopolitical and macroeconomic challenges of 2022 have continued, and have even intensified, in some cases.

Weak global growth, elevated inflation, and high interest rates

While inflation has come down from its record 2022 high, especially in commodities, which have experienced deflation (for example, the Bloomberg Commodity Spot Index fell 20% from June to December 2022) the global rate of inflation is expected to remain elevated, at least in the short term. This inflation trend is accompanied by weak global growth, both of which lower trade flows. Higher financing costs for businesses, resulting from global monetary tightening through higher interest rates, also soften growth.

Supply chain reorientation

Companies are reshaping their supply chains, including nearshoring and diversifying away from China, especially towards the ASEAN region. While some of this will cause a reorientation across trade corridors, offsetting the decline in trade, it also may increase costs and cause disruptions. Moreover, companies started the year with relatively large inventories, as the shipping and production constraints in 2021 led companies to stockpile in 2022. This excess inventory could lead to a reduction in factory orders and their size in 2023, as well as a resulting reduction in overall demand for financing.

The Russia-Ukraine war

The war in Ukraine has continued to disrupt and reshape global supply chains. While commodity prices have fallen back from their 2022 highs, sanctions imposed on Russia by the USA, EU and other nations continue to drive down the volume of trade with Russia. For example, in 2022, goods exports from the USA to Russia fell by 73%, and imports by 51%, whereas Russia-China trade reached a record high of $190 billion in 2022, an increase of 50%. As businesses reorientated their supply chains, we saw an increase in volumes to alternative export markets, for example, with India and wider Africa. Some of the largest changes in supply chains have been seen in the oil and gas market, as Western countries have divested from Russian sources.

Economic slowdown in China

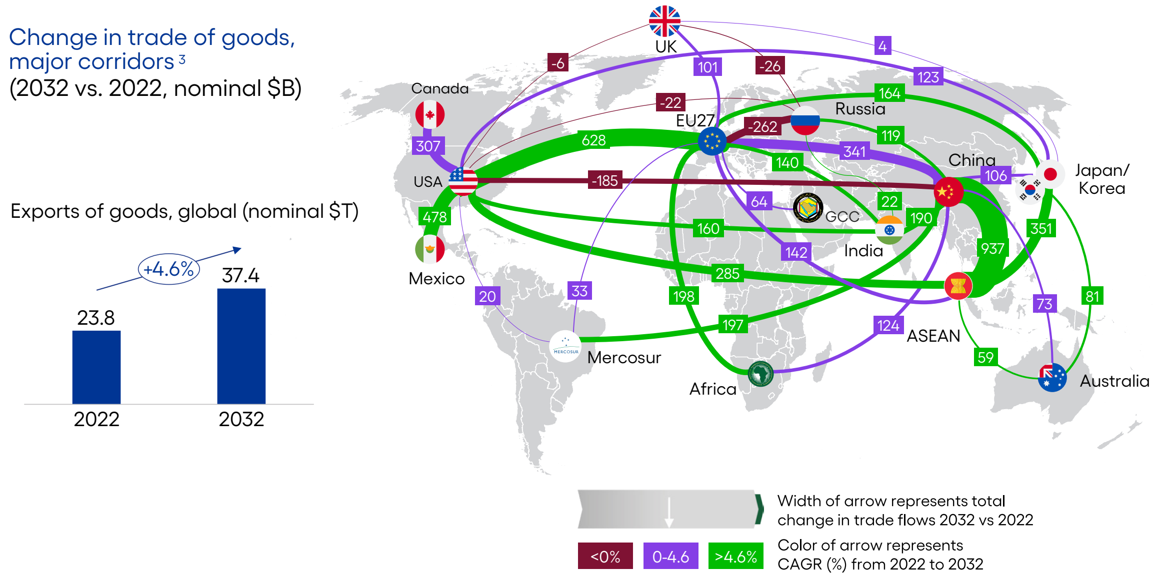
China's economic slowdown will impact global trade growth, as China is the largest exporter (15.1% of world in 2022) and the second largest importer (8.9%). The effect is likely to be felt most strongly in Asian economies, where China is a large importer of goods. Early estimates of trade flows already point to decline. For example, in August 2023, South Korean exports to China declined by 20% on a year-on-year basis.

However, there are some reasons for optimism. For example, ASEAN trade growth will continue to grow apace as the ASEAN region becomes a key destination for "China plus one", the strategy in which companies diversify their businesses to alternative destinations. Some estimates suggest that the ASEAN region will experience a growth rate approximately double the world average.

Clear winners of China's slowdown are likely to be the EU, Mexico, Taiwan and Vietnam, across sectors such as machinery, automobiles and transport and electrical equipment. For example, Mexico became the USA's top trading partner at the beginning of 2023, and its manufacturing exports, in particular, are forecast to increase. Taiwan is also likely to benefit from resilient export demand for its technology and electronics, such as semiconductors. More broadly, commodity prices have fallen back from their 2022 highs, reducing the cost pressures on businesses globally. And if inflation eases more broadly in the medium term, the cost-of-living squeeze should abate, boosting consumption.

Figure 2

BCG forecast of 2022 vs. 2032 trade volumes and patterns



Notes: Does not include trade of services; FX rates are floating for the entire period
Source: BCG Global Trade Model 2023, UN Comtrade, Oxford Economics, IHS, WTO, BCG analysis

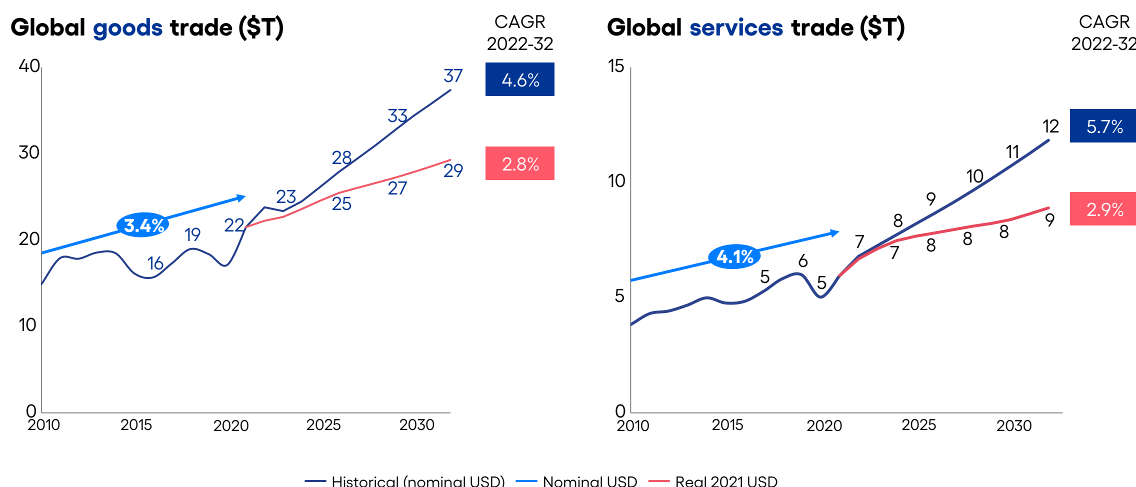
Given these developments, BCG forecasts nominal goods trade to decline by 1.9% from 2022 to 2023, as the reduction in commodity prices causes prices for traded goods to fall. Nonetheless, because the nominal negative growth is mainly driven by the fall in commodity prices, it means that real or inflation-adjusted growth is expected to be positive but small, at 2.2% from 2022 to 2023.

For 2023, a partial reorientation of global trade flows is likely. It is not possible to predict the outcome of ongoing political tensions and wars, so BCG's forecasts should be viewed as its best attempt given the information available at the time of writing. On this basis, real two-way trade flows between Russia and Western countries are expected to continue to decline (by 32% with the UK, by 44% with the USA, and by 35% with the EU), while flows between Russia and other countries are expected to increase (38% with India, 16% with China).

On a sectoral basis, energy, metals and mining is expected to see the largest decline in nominal terms, with a 4.9% decrease from 2022 to 2023, driven by the reduction in commodity prices. However, the sector is expected to grow in real, or inflation-adjusted, terms by 2.6%, as demand remains resilient. Trade in all other sectors is expected to decline by up to 2% in nominal terms, as the decline in commodity prices affects traded goods prices more broadly. BCG forecasts resilient growth in real terms in these sectors of around 5%.

3 Corridors in the map above represent ~45% of global trade in 2022.

Figure 3
BCG forecast of nominal and real trade growth, 2010 – 2032



Notes: Real values are in base 2021 = 100, FX rates are floating for the entire period
Source: BCG Global Trade Model 2023, UN Comtrade, Oxford Economics, IHS, WTO, BCG analysis

In the coming decade, BCG expects nominal goods trade flows to continue to grow at a fair pace of 4.6% in the period 2022-2032. Since last year's Trade Register, this forecast has been revised downwards (from 5.6% for 2021-2031) given the challenging geopolitical and macroeconomic environment. Despite the fall in commodity prices in 2022, causing prices of traded goods to fall, BCG forecasts that inflation is likely to remain a key driver of nominal trade growth. In real terms, goods trade is expected to grow at a rate of 2.8% per annum.

A significant reduction in real trade flows between the USA and China (-3.9% in the period 2022-2032) is also expected, as businesses reshape their supply chains and governments broaden their trade policies, such as export controls, which restrict trade in goods and services with specific regions or countries.

In conjunction with this decline in USA-China goods trade, goods trade is expected to strengthen along bilateral corridors, and these can be seen as substitutes. In the 2022-2032 period, for example, BCG forecasts a 3.3% increase in USA-EU trade, as the EU redirects its trade away from Russia. India is expected to see strong growth in bilateral trade (6.7% with the USA, 5.2% with the EU, but also 12.0% with Russia). The ASEAN region will also enjoy growth, as China strengthens trade relations and Western companies pursue a "China plus one" strategy of establishing manufacturing bases in the region (a growth of 6.0% with China, and 4.5% with the USA). For services trade, growth is expected to be stronger than for goods trade in both nominal terms (5.7% per annum for 2022-2032) and real terms (2.9%).

4.1.3 What this means for trade and supply chain finance

Market outlook for trade and supply chain finance

Following the sharp increase in trade finance revenues by 28.2% in 2021 relative to 2020, BCG estimates that nominal trade and supply chain finance revenues grew at a pace of 6.3% in 2021 to 2022, reaching a total of $63 billion. The slowdown was due to softening of both volume growth and product penetration, as some businesses chose to go without trade and supply chain finance products to avoid the higher costs (a trend confirmed by ICC member banks and corroborated by market research). A narrowing of margins also played a role in squeezing revenue growth in 2022.

The year 2023 is turning out to be a more challenging year for trade finance. BCG forecasts nominal trade and supply chain finance revenues to fall by 7.4% in 2022 to 2023. This will be mainly driven by a decline in volumes as margins have so far remained resilient. Both a slowdown in trade flows and a further decline in product penetration are driving the lower volumes, as businesses

prefer to go without financing products and rather than pay the higher costs.

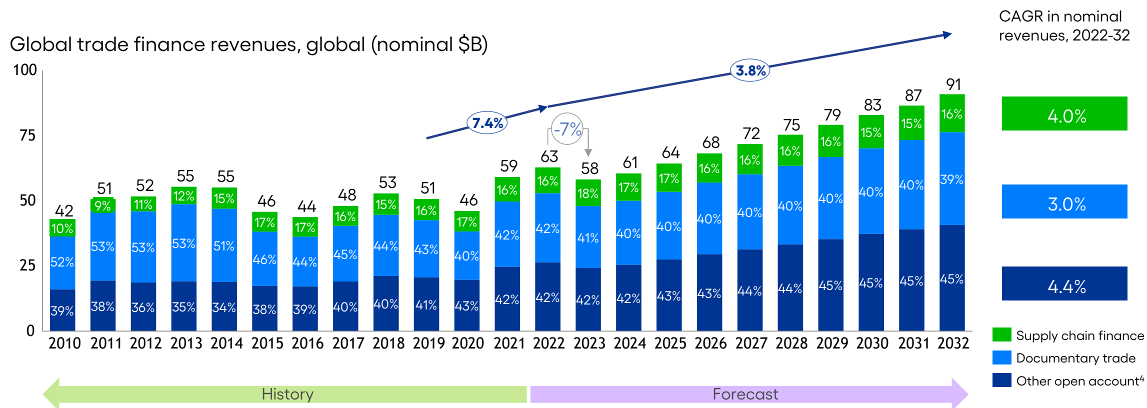
The decline in revenues will vary across regions. For example, market participants have reported an increased preference for non-USD currencies for funding as the cost of dollar funding has risen, especially in markets such as China and relating to Russian exports. In principle, this can permit local banks, who may prefer longer dated asset financing in local currencies, to capture market share. However, it is too early to say whether such attempts to move away from USD in emerging markets will be material.

Turning to products, the ongoing trend of an industry pivot from documentary trade to open account products has softened somewhat. A few reasons explain this softening. Documentary trade has been buoyed by a counter-cyclical increased appetite for risk mitigation. In comparison, supply chain finance growth has softened due to changes to reporting standards, which reduce the appeal of SCF payables finance. The impact of this adjustment has been larger than expected in last year's Trade Register, as corporates have reported being more concerned than initially expected.

Looking further ahead, trade and supply chain finance revenues are forecast to grow modestly in the year 2023 to 2024 before picking up and growing by 3.8% per annum from 2022 to 2032, reaching $91 billion by 2032 on a nominal basis. This is a slightly slower rate than underlying growth in goods trade, as interest rates fall back from their current highs and squeeze margins, while volume growth remains soft relative to the post-pandemic jump.

Figure 4

BCG forecast of supply chain finance revenues, 2010 - 2032



Note: FX rates are floating for the entire period
Sources: BCG Global Trade Model 2023, UN Comtrade, Oxford Economics, IHS, WTO, SWIFT, BCG analysis

4 Other open account includes working capital finance revenues for cross-border trade

Regulation is shaping the shift to open account

Growth in open account products is slowing but is expected to remain strong as its speed, ease and cost effectiveness outweigh the risk mitigation properties of documentary trade. The ease of digitisation of open account also works in its favour.

Two key pieces of regulation are shaping its trajectory.

First, we are seeing some trepidation in the supply chain finance market due to the new reporting requirements from the Financial Accounting Standards Board (FASB), which were discussed in last year's Trade Register. The standards should make supplier finance programmes less opaque, and companies can continue to classify supply chain finance obligations on their balance sheets as trade payables. However, they require companies to disclose supply chain finance on their financial statements. We are starting to see some shift away from supply chain finance, partly due to uncertainty in the market about the detail of the regulations. Nonetheless, it is possible that banks have already priced this in, so we would not see a further reduction in appetite. In conjunction, new product types are emerging across the procure-to-pay value chain, potentially as customers consider alternatives that are better suited to their needs. For example, inventory, distributor and pre-shipment finance are experiencing continued growth, albeit from a small base, fuelled by improved and better-connected technology platforms (e.g. common platforms and ecosystems connecting buyers and their global network of suppliers).

Second, performance guarantees may become less attractive under the implementation of Basel 3.1, which would increase the 'credit conversion factor' (CCF) for performance guarantees from 20% to 50%. In many countries, the interpretation of these rules is still to be determined. For example, the EU had originally proposed raising the CCF to 50%, but the European Council, Commission and Parliament have all made moves to keep it at 20%. ICC and GCD's own assessment[5] of the empirical level of CCFs for performance guarantees, using a globally representative study of 16 banks over a 20-year historical period, justified keeping a CCF no higher than 20%. Basel 3.1 may also have other effects on trade, especially in the case of SMEs, but the extent to which the Basel 3.1 rules dampen demand or change the economics for such products is yet to be seen.

Incremental progress is also evident in regulation to support growth in trade and supply chain finance, especially in digitisation. For example, the Electronic Trade Documents Act recently implemented in the UK removes requirements for the majority of paper trade documentation. Varying degrees of progress are being made towards implementation in the remaining G7 countries, with each taking unique approaches to amend and introduce legislation. The Model Law on Electronic Transferable Records (MLETR) has already been in use since 2018 in a range of emerging markets, such as the UAE and Bahrain. The digitisation of trade finance documents has the capability to improve efficiency, reduce costs, enhance security and diminish the extensive carbon footprint of paper documentation. More broadly, progress is being made to remove legal barriers to trade in many countries, such as France, Germany the USA and the UK.

Ongoing digitisation and the future of platform-based trade

Digitisation is going from strength to strength, with the majority of players investing heavily in their trade and supply chain infrastructure in order to:

- Modernise the customer experience
- Provide new product functionalities across the full procure-to-pay value chain (e.g. pre-shipment finance, distributor finance, etc.)
- Enable greater platform and ecosystem connectivity in order to originate transactions where customers do business (rather than customers coming direct to the bank)
- Enable greater modernisation to reduce cost and improve processing times

5 Update to ICC/GCD Performance Guarantees Paper, 2023, https://iccwbo.uk/products/update-to-icc-gcd-performance-guarantees-paper.

- Improve data and reporting
- Enable balance sheet velocity through asset distribution

While digitisation has been a priority for many players for some time, activity is now picking up as banks replatform their technology. This is likely to continue as legacy IT reaches the end of its natural lifespan.

This digitisation has been enabled by growth in platform-based trade, where fintechs and challengers are innovating on new ways to capture market share and scale. Many banks are now participating in digital trade platforms, e.g., for e-invoicing, payables automation, supply chain financing and working capital management. These platforms vary by geographic reach, product and client focus and underlying technology, but the market has been somewhat bifurcated.

Procure-to-pay platforms have demonstrated their commercial viability by building on a first-mover advantage that was established through cloud-driven disruption. For example, Taulia, the leading global working capital management platform, and Tradeshift, the leading supply chain finance platform, both have cumulative transaction values in excess of $1 trillion. On the other hand, DLT-based trade platforms have struggled to reach commercial scale. For example, three operations – MarcoPolo, TradeLens and we.trade – have collapsed in the face of challenges in achieving market fit and customer acquisition, as well as a clear path to revenue generation. While some DLT-based platforms, especially those that have a specific niche, may be more successful, those in the procure-to-pay space have a natural edge as onboarding one corporate can give access to thousands of their suppliers. As more and more transactions become digitised, even in part, we expect platform-based trade and embedded finance in this space to continue healthy growth.

While digitisation supports the shift to open account through the development of new products, it also improves the efficiency and security of documentary trade, underpinning its continued importance in the product mix. Moreover, digitisation not only facilitates broad industry growth but also supports inclusive growth. It is seen as key to reducing the "trade finance gap" for SMEs, which has widened recently due to higher interest rates.[6]

Growing interest in asset distribution in trade and supply chain

Securitised trade assets have historically been below their fair share of asset distribution in the market. This is mainly the result of high costs to package and distribute, and due to low yields compared with many other securities, especially at present where investors can receive relatively higher returns from low-risk investments such as money market funds. Challenges with technology have also played a role.

However, momentum is growing. From the investor side, there is an increasing and healthy appetite for trade finance assets (a trend confirmed by member banks), as interest rates increase and investors seek to diversify. From the banks' perspective, selling trade assets to third parties is becoming more attractive, as banks face higher capital requirements and aim to free up capital for their high-value corporate customers. It also enables banks to generate more financing for supply chains.

Asset distribution is expected to grow as legacy systems are replaced or upgraded and data becomes more widely available. Digitisation of trade also supports this growth, as it can improve returns by increasing the capacity and velocity of documentary trade.

Increased importance of sustainable trade

The climate crisis is now clearly on the radar of business leaders and governments. Many countries are now committed to net zero emissions by 2050. Global supply chains account for as much as 30% of the world's total carbon emissions[7], so they will need to decarbonise to deliver net zero outcomes, as recognised in the Paris Agreement on Climate Change and the UN's Sustainable Development Goals.

6 2023 Trade Finance Gaps, Growth, and Jobs Survey | Asian Development Bank (adb.org)

7 World Trade Report 2022: Climate change and international trade

This, in turn, requires sustainable trade finance. ICC defines sustainable trade finance as any such product that facilitates a combination of:

- transfer of goods or services with a sustainable use of proceeds
- transfer from a sustainable and socially responsible supplier
- transfer to a sustainable and socially responsible buyer
- transfer by means of sustainable and socially responsible transportation

To understand the sustainability of transactions in the Trade Register's data pool, this year's report presents the first results of sustainability tagging for export finance products, as reported by member banks. For the precise measure of sustainability used, please refer to Box 1 in Section 9.

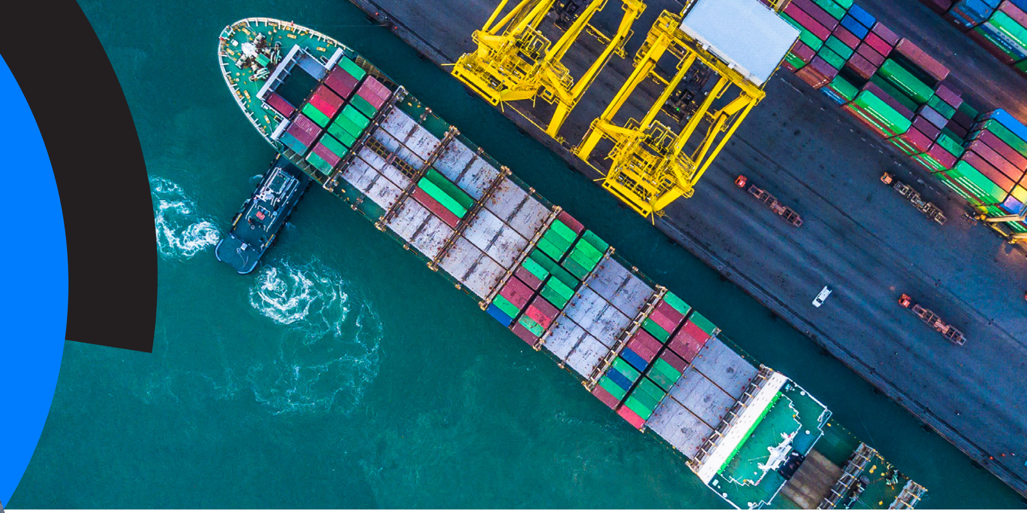
Financial institutions can help corporates and SMEs finance decarbonisation and make other sustainable changes to their products, processes and supply chains. To do so, they must be more aware of what they are financing, and for what purpose. Moreover, they must act on this knowledge to incentivise sustainable trade through attractive terms.

But the role of financial institutions in driving sustainable supply chains is not limited to financing alone. Banks can also act as a central source of knowledge to advise their client on how to decarbonise their supply chains and become more sustainable – especially SME and corporate clients in less advanced markets who lack ready access to relevant expertise – perhaps providing them with tools that help track the sustainability and provenance of goods.

Trade, supply chain and export finance are well positioned to be a driving force for sustainable supply chains, but multiple actors working together within and across supply chains is needed. Governments and policymakers, industry bodies and NGOs, corporates and their thousands of SME suppliers, as well as banks and other financial institutions, must all play a role.

Banks can lead the collective effort in the following three key ways:

1. Agree on common definitions of sustainable trade and sustainable trade finance, leveraging ICC's ongoing work on the Standards for Sustainable Trade and Sustainable Trade Finance (STFD) programme
2. Partner with clients to help them identify and grow sustainable trade
3. Offer products and services to facilitate and encourage sustainable trade e.g. with sustainable supply chain finance programmes through supplier accreditation, by providing attractive terms to encourage adoption, and by providing training and tooling.



5. Analysis of Trade, Supply Chain and Export Finance

5.1 Trends in Trade Finance Default Rates

Trade Register data for 2022 reveals that default rates across all four trade finance products increased in 2022 relative to 2021 on almost all measures. However, default rates remain below the levels reported for 2020, for almost every product and every measure – the exceptions being the exposure-weighted default rate for import L/Cs and the transaction-weighted default rate for export L/Cs. Default rates also remained in line with the pre-pandemic historical trends seen in the Trade Register. This year's data therefore continues to support the view that the immediate aftermath of the COVID-19 pandemic has not seen a significant increase in defaults of trade finance transactions.

Import L/Cs

Global exposure-weighted default rates for import L/Cs almost doubled from 2021 to 2022, and whilst this is the highest value since 2009, it is largely in line with prior years. Default rates also increased marginally on an obligor-weighted basis, although the rates remained lower than levels seen in 2018 and 2020 respectively, whereas default rates declined modestly in 2022 compared to 2021 on a transaction-weighted basis. These trends suggest that default rates in 2022 were likely to result from a small number of high-value defaults relative to historical trends. In addition, defaults were largely geographically concentrated, with the vast majority on an exposure-weighted basis in APAC (particularly China) and Central & South America.

Export L/Cs

Default rates for export L/Cs continue to remain significantly lower than for other trade finance products. The default rates on all measures doubled in 2022 relative to 2021. On an exposure-weighted basis the default rate more than doubled in 2022, but remained far below the peak observed in 2020. In contrast, the obligor-weighted default rate in 2022 rose back to the 2020 level. On a transaction-weighted basis, the default rates doubled. This suggests that approximately the same share of obligors defaulted in 2022 relative to 2020, but the obligors defaulting in 2022 were smaller in value terms. Similarly to Import L/Cs, defaults were largely regionally concentrated – and in this case almost exclusively attributatable to Russian bank exposures.

Loans for Import/Export

Default rates for loans for import/export also increased in 2022 relative to 2021 on all measures but again remained below the 2020 peaks. On an exposure-weighted basis, default rates increased twofold from 2021 to 2022, but this remained much lower than the peak in 2020 at the start of the COVID-19 pandemic. A similar trend is seen on a transaction-weighted basis, where the default rate increased by more than double from 2021 to to 2022. A smaller relative increase occurred on an obligor-weighted basis, this also remained much lower than the 2020 peak. The uptick in defaults probably reflects the heightened macroeconomic uncertainty in 2022 relative to 2021, such as higher inflation and disruptions in the energy supply. The

winding down of government pandemic-related support in 2022 might have also played a role.

Performance Guarantees

Default rates for performance guarantees (including standby L/Cs) also increased in 2022 relative to 2021 on all three measures. However, across all three measures, default rates remained below not only those seen at the start of the COVID-19 pandemic in 2020, but also those from before the pandemic, in 2019.

5.2 Analysis of Supply Chain Finance

Since 2017, the ICC Trade Register has collected data on supply chain finance (SCF), focusing specifically on payables finance. As of 2022, we now have six years' data to demonstrate the risk characteristics of the product over the medium term, including during the COVID-19 pandemic. Indeed, the Trade Register's data set now captures c. $750 billion in SCF payables finance exposures, including c. $170 billion in 2022 representing c. 23% of the market. In addition, using the revised methodology introduced in last year's Trade Register, we are able to analyse Loss Given Default (LGD) and Expected Loss (EL) for SCF payables finance.

After a peak in 2020 – probably due to the direct and indirect impact of the COVID-19 pandemic – global default rates for SCF payables finance have continued the trend seen in 2021 of falling back towards pre-pandemic levels in 2022. On a transaction-weighted basis, default rates have also fallen from a peak in 2021, however, the 2022 default rate remains higher than pre-pandemic levels. In contrast, on an obligor-weighted basis, defaults for SCF payables finance in 2022 have risen considerably from 2021, closing approximately half the gap between a 2020 peak and a 2021 trough. These trends suggest a small rise in defaults among smaller mid corps. It is possible that this was related to a weakening credit environment, as financing costs rose.

At an overall product level for 2022, the results position SCF payables finance as the lowest-risk product in the Trade Register on an exposure-weighted basis, on a par with export L/Cs. While some caution needs to be applied to the relatively small comparative dataset (as a matter of comparison, SCF payables finance exposures are 15% of those for import L/Cs in the 2023 Trade Register), a likely driver is that for an SCF transaction to be in default, the 'buyer' needs to be in default; in most cases, this is a large corporate with an already high credit rating. Without a high credit rating, a corporate would typically either be ineligible for SCF, or have limited business need for SCF. In addition, SCF payables finance by nature is typically skewed to well-established businesses with a high volume of repeat customers, which again typically have relatively low default rates compared to newer, less stable, or rapid-growth businesses.

5.3 Analysis of Export Finance

The findings in this year's report support the longstanding conclusion that export finance presents a low risk for banks. This finding results from its low EL, which derives from a low LGD, combined with a default rate comparable to lower than investment grade project finance and corporate finance assets. Export finance has a particularly low LGD, as most transactions are guaranteed by export credit agencies at up to 100% of their value (and an average of 94% in the Trade Register sample), which grants the banks the capacity to be indemnified by an ECA for up to a specified level of cover.

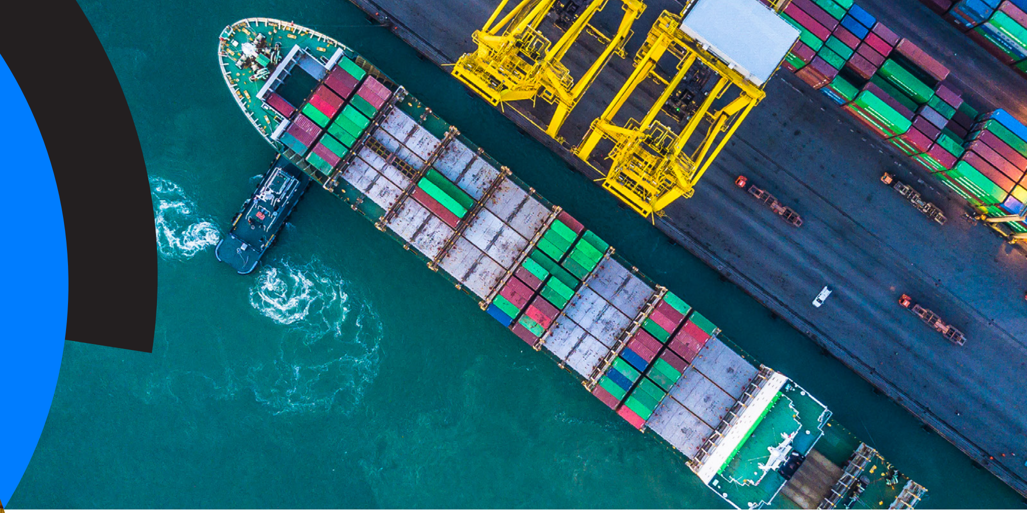
Although it is difficult to draw reliable conclusions for individual years from the data available, export finance default rates have largely increased across regions in 2022, returning to a level just below the historical average, and reversing a trend in declining rates from 2018 to 2021 as reported by the Trade Register.

5.4 Loss Given Default and Expected Loss Analysis

As described in last year's report, the Trade Register has enhanced its approach and underlying data to perform Loss Given Default (LGD) analysis. The LGD analyses are now based on the Global Credit Data (GCD) database, which includes historical data loss for the period 2000-2021.

GCD takes a bottom-up approach to calculating LGD, which uses raw and not aggregated information. It collects all the relevant facts (covering more than 130 different data fields) relating to a default and the cash flows which occurred after default, in a way which reflects the full complexity of the legal relationship between a bank lender and a borrower. This granular approach provides more reliable analysis because it does not rely on banks' own reporting of the LGD level It therefore ensures comparability across banks, homogeneity in the application of the formula, and replicability. The methodology also allows the Trade Register to include LGD analysis for supply chain finance, which was not feasible with the approach used in earlier Trade Register reports.

Given the Trade Register reports LGD and Expected Loss (EL) on a long-term, 20+ year basis,the figures reported in this year's Trade Register are largely unchanged from last year.



6. Future of the Trade Register

The ICC Trade Register project has evolved substantially since its inception over a decade ago, and now covers six trade, supply chain and export finance product groups across more than 200 geographies, with a database representing 7% of the global trade flows and 23% of financed trade flows.

The Trade Register is committed to continuously improving its analysis to increase the understanding and awareness of the risk characteristics of trade and trade finance products for financial institutions, investors and regulators. In order to improve accuracy and expand the product coverage to SCF payables finance, this year's report continues to use the enhanced methodology for its LGD analysis that was introduced in last year's report. This year's report also builds on this progress by introducing a more rigorous methodology for calculating credit conversion factors (CCF) for contingent trade finance products, and this methodology enters into the LGD analysis. In addition, as a first step towards understanding the risk characteristics of sustainable trade, this year's Trade Register reports on the sustainability characteristics of export finance.

The Trade Register is also committed to maintaining an attractive value proposition to reward its member banks and encourage participation from new banks through the commercial model introduced in 2021.

ICC would like to continue to enhance the project in several ways:

- **Participation:** Continue to use the new commercial model to increase participation across member banks, in turn growing the data pool and market coverage. Not only will this improve the reliability of the result, but it will also help advocacy efforts with regulators, which is a critical objective of this work. Improving participation continues to be the single highest priority for the Trade Register.

- **Methodology:** Enhance the methodology of the Trade Register to incorporate legal entity identifiers – where data protection regulations allow – helping to remove duplication across banks.

- **Product Coverage:** Work with member banks to improve product coverage, particularly around receivables finance. Over recent years, receivables finance has grown significantly, and will continue to do so, fuelled by the digital and platform economy. Receivables are particularly important in the SME space, where a greater understanding of risk dynamics can play an influential role in helping to close the 'Trade Finance Gap'. In a similar vein, ICC is also looking into how it can form partnerships with insurers to include trade credit insurance within its data pool, enabling it to gain a more comprehensive view of trade losses.

- **SME Tagging:** A current limitation of the Trade Register is the inability to distinguish between corporate and SME defaults. Working with banks to tag SME transactions will enable the project to determine the risk characteristics for SME trade in particular, and hopefully demonstrate low credit risk comparable to other products. This should improve the regulatory treatment of SME trade, critically encouraging greater financing for SMEs in trade.

Looking forward, the ICC Trade Register aims to broaden its scope beyond risk to become the leading publication on global trade. The progress made so far would not have been possible without the support of our member banks. As ever, we are grateful for their cooperation, without which the Trade Register could not be published. ICC looks forward to further engagement with member banks and broader affiliates to realise the above ambitions, and ensure that the project continues to provide a worthwhile return on investment for the trade finance community.

7. Appendix A: List of figures within the full ICC Trade Register

The list of figures below details the detailed range of data contained within the Full ICC Trade Register. In addition, the full report includes more detailed causal analysis of observed trends, including deeper analysis at a regional- and country-level.

11.1 Full Trade Register Figures

Total obligors and default rate by obligors, by product, 2008 - 2022
Total transactions and default rate by transactions, by product, 2008 - 2022
Comparison of trade finance to other asset classes, 2000 – 2021
Average maturity of trade finance products (days), 2008 - 2022
Summary of default rate trends for trade finance, 2016 – 2022
Import L/Cs default rates by region (weighted), 2016 – 2022
Import L/Cs default rates by region (absolute), 2016 – 2022
Import L/Cs total and defaulted volumes by region, 2016 – 2022
Import L/Cs default rates in APAC (weighted), 2016 – 2022
Import L/Cs default rates in Europe (weighted), 2016 – 2022
Import L/Cs default rates in Central and South America (weighted), 2016 – 2022
Export L/Cs default rates by region (weighted), 2016 – 2022
Export L/Cs default rates by region (absolute), 2016 – 2022
Export L/Cs total and defaulted volumes by region, 2016 – 2022
Export L/Cs default rates in Europe (weighted), 2016 – 2022
Loans for import/export default rates by region (weighted), 2016 – 2022
Loans for import/export default rates by region (absolute), 2016 – 2022
Loans for import/export total and defaulted volumes by region, 2016 – 2022
Loans for import/export default rates in APAC, 2016 – 2022

Loans for import/export default rates in Europe, 2016 – 2022
Performance guarantees default rates by region (weighted), 2016 – 2022
Performance guarantees default rates by region (absolute), 2016 – 2022
Performance guarantees total and defaulted volumes by region, 2016 – 2022
Performance guarantees default rates in APAC, 2016 – 2022
Performance guarantees default rates in Europe, 2016 – 2022
Expected Loss breakdown for trade finance products, exposure-weighted, 2000-2021
Average time to recovery between trade finance and other asset classes, 2000 – 2021
Distribution of recovery rates for trade finance products for whole portfolios (including drawn and non-drawn cases), 2000-2021
Distribution of recovery rates for trade finance products for drawn cases, 2000-2021
Average maturity of SCF payables finance (days), 2017 – 2022
SCF payables finance default rates by region (weighted), 2017 – 2022
SCF payables finance default rates by region (absolute), 2017 – 2022
SCF payables finance total and defaulted volumes by region, 2017 – 2022
SCF payables finance default rates in APAC (weighted), 2017 – 2022
SCF payables finance default rates in Central & South America (weighted), 2017 – 2022
Expected Loss breakdown for SCF payables finance, 2000 – 2021
Comparison of Expected Loss of SCF payables finance with trade finance and other asset classes, 2000-2021
Average ECA insurance coverage rate by asset category and region, 2007–2022
Average maturity by asset class, 2007–2022
Asset class export finance defaults by obligor, exposure, and transaction, 2007 – 2022 (versus 2007 – 2021)
Export finance exposure weighted default rates by region, 2007–2022
Regional export finance defaults by obligor, exposure, and transaction, 2007 – 2022 (versus 2007 – 2021)
Expected Loss calculations for export finance, 2000-2021
Definitions of trade finance products
Definitions of export finance asset categories
Unfiltered data sample for trade finance, 2008–2022
Unfiltered data sample for export finance, 2007–2022
Obligor-weighted default rates by product and region, 2008–2022
Import L/Cs obligor-weighted default rates by region, 2016–2022
Import L/Cs exposure-weighted default rates by region, 2016–2022
Export L/Cs obligor-weighted default rates by region, 2016–2022

Export L/Cs exposure-weighted default rates by region, 2016–2022
Loans for import/export obligor-weighted default rates by region, 2016–2022
Loans for import/export exposure-weighted default rates by region, 2016–2022
Performance guarantee obligor-weighted default rates by region, 2016–2022
Performance guarantee exposure-weighted default rates by region, 2016–2022
Average time to recovery (TTR) in days and years, 2000–2021
Cumulative recoveries and exposure weighted recovery rates, 2000–2021
Exposure weighted recovery rate range across banks, 2000–2021
Transaction weighted recovery rate, 2000-2021, excluding off-balance sheet contingent liabilities
Exposure weighted LGD by product (discount rate sensitivity adjusted), 2000-2021
Expected Loss calculation by product, 2000–2021
Obligor-weighted default rates by asset category, 2007–2022
Transaction-weighted default rates by asset category, 2007–2022
Exposure-weighted default rates by asset category, 2007–2022
Obligor-weighted default rates by region of risk, 2007-2022
Transaction-weighted default rates by region of risk, 2007–2022
Exposure-weighted default rates by region of risk, 2007–2022

8. Appendix B: List Of Acronyms

APAC	Asia-Pacific	**GDP**	Gross Domestic Product
ASEAN	Association of Southeast Asian Nations	**GFC**	Global Financial Crisis
CAGR	Compound Annual Growth Rate	**ICC**	International Chamber of Commerce
CCAR	Comprehensive Capital Analysis and Review	**IRB**	Internal Ratings-Based Approach
CCF	Credit Conversion Factor	**L/C(s)**	Letter(s) of credit
CIS	Commonwealth of Independent States	**LEI(s)**	Legal Entity Identifier(s)
COP28	2022 United Nations Climate Change Conference	**LGD**	Loss Given Default
DLT	Distributed Ledger Technology	**MLETR**	Model Law on Electronic Transferable Records
DPD	Days Past Due	**OECD**	Organisation for Economic Co-operation and Development
EAD	Exposure At Default	**PD**	Probability of Default
EBA	European Banking Authority	**PO**	Purchase Order
ECA	Export Credit Agency	**RWA**	Risk Weighted Assets
EL	Expected Loss	**SA**	Standardised Approach
ERP	Enterprise Resource Planning	**SCF**	Supply Chain Finance
ESG	Environmental, Social and Governance	**SME(s)**	Small and Medium-Sized Enterprise(s)
EU	European Union	**USA-GAAP**	United States of America Generally Accepted Accounting Principles
FASB	Financial Accounting Standards Board	**WTO**	World Trade Organization

ICC BANKING COMMISSION

The world's essential rule-making body for the banking industry

The International Chamber of Commerce (ICC) is the world's largest business organization representing more than 45 million companies in over 100 countries. ICC's core mission is to make business work for everyone, every day, everywhere. Through a unique mix of advocacy, solutions and standard setting, we promote international trade, responsible business conduct and a global approach to regulation, in addition to providing market-leading dispute resolution services. Our members include many of the world's leading companies, SMEs, business associations, and local chambers of commerce.

RULES

The ICC Banking Commission produces universally accepted rules and guidelines for international banking practice. ICC rules on documentary credits, UCP 600, are the most successful privately drafted rules for trade ever developed, serving as the basis of UD 2 trillion trade transactions a year.

POLICYMAKING

The ICC Banking Commission is helping policymakers and standard setters to translate their vision into concrete programs and regulations to enhance business practices throughout the world.

PUBLICATIONS AND MARKET INTELLIGENCE

Used by banking professionals and trade finance experts worldwide, ICC Banking Commission publications and market intelligence are the industry's most reputable and reliable sources of guidance to bankers and practitioners in a broad range of fields.

DISPUTE RESOLUTION

The ICC Banking Commission and ICC International Centre for Expertise administer the ICC Rules for Documentary Instruments Dispute Resolution Expertise (DOCDEX) to facilitate the rapid settlement of disputes arising in banking.

EDUCATION AND CERTIFICATION

The ICC Academy is the world business organization's ground-breaking e-learning platform. Its industry-relevant Global Trade Certificate (GTC) provides an extensive overview of trade finance products and techniques.

SPECIALISED TRAINING AND EVENTS

In addition to its bi-annual summit, gathering over 300 international delegates every six months, the ICC Banking Commission organises regular seminars and conferences around the world, in partnerships with ICC national committees and other sponsors.

STRATEGIC PARTNERSHIPS

Well-established collaboration with leading policymakers and trade association, including WTO (World Trade Organization), ADB (Asian Development Bank), Berne Union, EBRD (European Bank for Reconstruction and Development), IDB (Inter-American Development Bank), IFC (International Finance Corporation), IMF (International Monetary Fund), SWIFT, the World Bank and others.