# The Alternative Financer

**Kamel Alzarka** is the force behind Falcon Group. He spoke to Aparna Shivpuri Arya about his company and the world of finance.

Kamel started the discussion by taking us back into time, "When I founded Falcon Group in 1996, it was primarily focused on trade finance, especially for emerging market corporates. However, the global financial crisis threw up opportunities for us to expand our business and our service offering. While banks struggled to provide funding to corporates, Falcon Group thrived – fine-tuning its expertise and growing its client base. And as we proved the value of our solutions, corporates started to recognise the benefits of a more diversified funding portfolio."

Moving on he added that now, Falcon Group provides funding solutions to many types of corporates – not just those seeking trade finance – and it has spread beyond the emerging markets, operating in the UK, Europe and North America, as well as across the Middle East, Asia and Latin America. What's more, they are increasingly collaborating with global banks, combining our flexibility, speed, and ability to structure bespoke funding solutions with the larger balance sheets they have at their disposal.

"Looking forward, our goals focus around further growth and development – working to expand both our client base and global reach. Last year was a record for us, as we almost doubled our profits – an achievement that is not only indicative of the growing appetite for alternative financiers, but also of the particular success of Falcon's solutions. With a rise in gross revenue from approx. USD 1.1 billion to around USD 1.7 billion from 2011-2012, I am confident that our target USD 5 billion gross revenue is in sight," he remarked.

Knowing that the expert he is, we had to ask him to explain us what "alternative financing" is all about. "Alternative financing is, simply, corporate financing solutions that do not come directly from a bank. Mostly, it is financing that comes from non-bank financial institutions, which are often more flexible and quicker to act. Of course, they have smaller balance sheets than global banks, but they also have the resources and expertise to create sophisticated bespoke structures. Crucially, alternative financiers are freer than global banks from stringent regulatory proposals – enhancing their flexibility," Kamel explained.

He further added, "On the whole, therefore, alternative financing is sophisticated financing tailored exactly to the companies' needs. Over the past year, there have been more and more calls to regulate the alternative financing industry. This is a move we welcome at Falcon. Indeed, FalCap Ltd. – the wholly owned Falcon Group subsidiary at Falcon's Dubai headquarters – is regulated by the DFSA."

We then moved on to his take on the financial situation in the US and the EU and its impact on global trade. He was quick to point out that the situation has left a dent on global trade, given that much of this funding comes from global banks.

"The financial situation in the US and the EU has weakened banks' ability to lend. And for those bailed-out by the taxpayer, there is added pressure to favour domestic markets. Yet this means corporates in the emerging markets, where global trade is flourishing – led by countries such as China and India – have observed even tighter constraints on bank lending than those in the US or EU. What's more, the impact of regulatory proposals is such that banks are prioritising core business, meaning trade is often overlooked," he added.

According to him, it does not look like banks are going to regain their former strength or freedom any time soon, and confidence in their security has taken a huge hit. Given this, global trade needs to diversify its funding sources to ensure it is able to access sufficient and sophisticated funding.

So has the financial crisis weakened the position of banks and let other players in? "Prior to the financial crisis, global banks were undoubtedly the largest player in the financial sector. Yet now – given liquidity constraints, restrictions on lending, and declining faith in their security – the power of global banks is waning. Instead, the power in the financial landscape is balancing out between global banks, regional banks and also alternative financiers," replied Kamel.

He also added that having learned from the global financial crisis, corporates are now aware that investing all their faith in a volatile banking industry is unwise. Yet they still require funding for their business sustainability and growth, and this desire has caused corporates to pay more attention to other players in the financial landscape – predominantly regional banks and alternative financiers. And this change has had a positive impact on businesses. The financial landscape now offers corporates many different funding options – often sophisticated and tailored to their needs.

## ABOUT

Kamel Alzarka is the chairman and founder of Falcon Group. At 22, Alzarka completed his term at business school in Paris and established Falcon whilst still based in the city. He soon moved to London and Dubai, exploring less traditional forms of trade finance for a broad range of corproates. Today, the company has a book of just under USD 1.7 billion, and is certainly a major player in the field.

The conversation then moved to the Basel III regulations and its impact on trade finance. Kamel was of the opinion that the global financial crisis exposed the need for tighter regulation, but perhaps the regulators have now gone too far. Kamel explained this further and said, "The Basel III requirement for banks to keep more capital on their balance sheets means there is less capital available to lend to corporates. The impact of Basel III on trade finance is particularly severe. Indeed, trade finance instruments are overly penalised under Basel III and although these proposals have been relaxed in Europe – but, notably, not globally – banks still have less incentive to finance trade, instead choosing to focus on less expensive business."

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Inching closer home, we asked for his opinion about the investment scenario in the GCC countries and he said on an optimistic note that even though they are more focused on lending than on investment, they have seen things pick-up on the investment side – whether in real estate, or private equity. This, according to him, is a good sign for them as it encourages broader activity, and ultimately, further growth of our business.

Talking about the way forward, he said that cross border transactions and international expansion are the way forward. And this is especially true in regions with turbulent economic environments – such as Europe – where most growth will perhaps originate from international demand. He also pointed out that Falcon has been playing its part in promoting investments. "Falcon Group is always trying to develop new solutions and find new ways to help our clients reach their goals. For instance, we have been championing the idea of trying to squeeze dormant liquidity out of the trade cycle."

Interesting concept and I guess to know more about this, we'll have to meet Kamel again. But to conclude, it was a very informative conversation, which made finance actually look simple for once. ■