

# ABN AMRO D&JC

BANKING ON A SUSTAINABLE  
DIAMOND INDUSTRY





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*Diamonds are forever, as they say, and it's a fact that they will always be desirable but the international diamond trade is not immune from economic volatility: we spoke to Erik A. Jens, CEO of Diamond and Jewellery Clients at ABN AMRO and one of the most influential financiers to the business*



**I**t will only ever be half true that diamonds are just another commodity. They have been among the world's most sought after natural resources since antiquity and still define individual aspirations all over the world. It's well enough known that the low countries have been the centre of the diamond trade, with Antwerp in Belgium guarding the title of the world's diamond capital for craftsmanship and Antwerp and Mumbai its financial powerhouses. While both having its share of the essential cutting and polishing phase.

The World Diamond Council (WDC) estimates that \$13 billion worth of rough diamonds are produced every year. The diamond industry employs approximately ten million people around the world, both directly and indirectly, across a wide spectrum of roles from mining to retail. Global diamond jewellery sales continue to grow, increasing three-fold in the past 25 years, and are currently worth in excess of \$72 billion every year. It's a massive industry supported by the world's major financial institutions. However one of the most respected financial players, in which resides unrivalled specialist knowledge, is Amsterdam-based ABN AMRO. The bank has been owned by the Dutch government since 2008, and its Diamond & Jewellery Clients unit (D&JC) can claim to be the world's oldest dedicated banking partner to the diamond sector with well over a century of experience

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of supporting its leading companies through commercial banking services.

Erik A. Jens has led D&JC as its CEO since February 2012. Jens, who has been with ABN AMRO for more than 20 years has held various senior executive and leadership positions particularly in private banking and finance, and has also led its hedge fund operation Fortis Prime Fund Solutions. After nearly three years he is of the opinion that the mid-stream businesses (everything between mining and the jeweller's shop), though squeezed over recent years between the rising cost of rough diamonds and pressures on margins imposed by retailers, is still in good heart: “There are signs that competitive pressures are forcing these businesses to become more efficient, encouraging an altogether more sustainable and transparent industry.”

The group he heads up is itself operating in increasingly competitive and change-driven banking world, but that only sets a premium on D&JC's experience and networking. “One of the major facts of life we face is globalisation,” he says. “It's a far cry from the days when we could claim to dominate this market, which is now far too complex and dispersed for that. China is rapidly gaining on America as the largest consumer of diamonds and other gemstones. But we do have a global network, with people on the ground in markets like Dubai, Hong Kong, New York and Mumbai and of course



Antwerp, but indirectly also in established centres like Singapore and London.”

Its local focus and presence is, he adds, one essential differentiator for D&JC as a partner for the mid-stream diamond cutters, polishers and manufacturers. However there’s now another seismic move in the industry as diamond producing countries seek to own a greater proportion of the value chain than they have commanded so far. Mining is an important employer in southern Africa, where the lion’s share of stones originate. In fact diamonds contribute more than 25 percent to GDP in Botswana, and more than 75 percent of total exports. Nevertheless the number of jobs available is static whereas in the midstream employment is growing as it and its neighbours Namibia and South Africa. Africa is at last developing its own jewellery industry.

Jens believes that the growth of businesses in non-traditional regions will result in pressure being put on some less desirable traditional practices. The clusters of family businesses that have dominated this sector tend to keep their cards close to their chests and will have to adopt more transparent ways of doing business. In other words, he is looking for standards of governance and financial reporting that will bring the industry into the modern era. Lending a little less will, ironically, involve the bank more closely in the client’s business. There’s nothing new about banks demanding security for sums advanced, guarantees as to the sustainability of the

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business and the like - but these balances have been neglected where diamonds are concerned, to nobody’s benefit. Banks have been expected to take the same kind of risks that they take when investing in businesses, without the collateral of equity, and that is not sustainable.

Already the major banks, ABN AMRO included, were cutting the amount they will offer to clients amid fears that gem prices are rising too fast. “The entire sector has relied too heavily on the banks,” he says. This is a highly leveraged industry where purchasers of rough stones have become used to funding 100 percent of their rough stones purchases through bank credit: now they are happy to achieve 70 percent. “The clients themselves need to have more skin in the game,” he says. This will bring much needed rigour to the way

**Did you know?**



the industry is run, at a time when sightholders are paying more for rough stones and facing more aggressive deals from the design and retail end.

Despite this he remains very optimistic about the ability of the midstream to survive. “It is certainly competitive, and it is going to get more competitive, but there are plenty of strategies that our clients can adopt to survive and grow.” Survival and sustainability are interdependent, and can be ensured by the

willingness to meet challenges by adopting dynamic and flexible business plans, investing in technology, and diversification, he says. Those firms that are able to add significant value in the diamond cutting and polishing process are more likely to be successful, and today those highly innovative firms are as likely to be found around the globe.





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So how does D&JC now assist its clients to maintain the smooth flow of acquisition through beneficiation to bracelet, as it were? “As with any other investment we look at the business plans, accounting best practices and at the transparency with which they manage their inventory.” In the banking context, he explains, transparency includes identifying the ultimate ownership of a company and all intermediate corporate structures, producing complete and auditable accounts and thorough stock reporting, which needs to reveal the entire value chain. The best deals are available to the clients with the highest standards of fiscal management and compliance - and if they are prepared to commit their own money alongside the bank’s. For its part the bank will help clients to develop their internal structures. The industry will be healthier if debt can be more evenly spread across the value chain. “There is a clear lack of understanding by significant elements of the industry about the undue weight being placed upon the banking community,” he concludes, And there needs to be much more communication and education throughout the supply chain about that.” **BE**

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