Information Paper

Digital Trade and Trade Financing

Embracing and Shaping the Transformation

SWIFT & OPUS Advisory Services International Inc.

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Digitisation: The State of Play

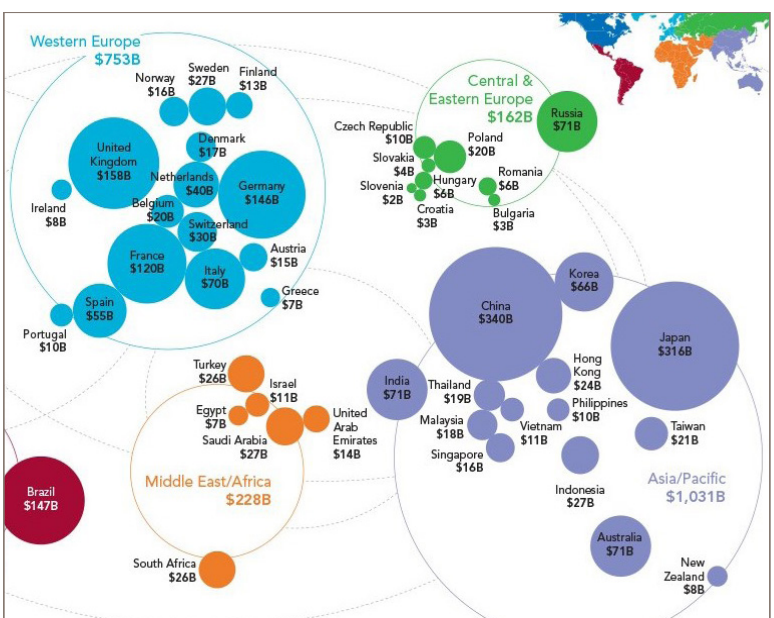
The digitisation of international trade and trade financing is now well underway, the inevitable result of a convergence of technological capability, commercial drivers and market adoption. Service providers, including trade finance banks, must make a strategic decision: commit to the development of digitised channels and propositions, or prepare to cede market share to a new generation of providers that have already seized the imperative to respond to market evolution in international commerce.

The primary objective of this paper is to provide a view of the state of digitisation in the financing of international trade, and to propose that there are significant opportunities for clients and finance providers to take a strategic posture and to actively shape the evolution of this critical dimension of international commerce.

Introduction

The pursuit of opportunities in international markets, including the search for compelling opportunities to engage in cross-border trade, has been part of the fabric of commerce for thousands of years. Even relatively modern mechanisms aimed at enabling the flow of trade, including financing and risk mitigation instruments like Documentary Letters of Credit, have a history that dates back hundreds of years. Trade is enabled through well-established practices and mechanisms, some very paper and process-intensive, and often displaying a striking longevity of usage and acceptance.

The conduct of trade and the provision of trade financing are underpinned by trusted processes and familiar propositions, rarely displaying a sense of urgency around the need to innovate or to propose new business models for market adoption. Banks around the world that had long been the primary providers of trade-related financing and risk mitigation solutions, have faced a significant threat of disintermediation as commercial clients shifted away from traditional instruments to trade on open account terms. Banks have also worked for the last decade to counter this threat and to try to ensure the long term viability of their trade finance franchises. More recently, the application of increasingly effective, technology-enabled solutions to trade and trade financing present the latest challenge – or opportunity – to the trade banking sector worldwide.



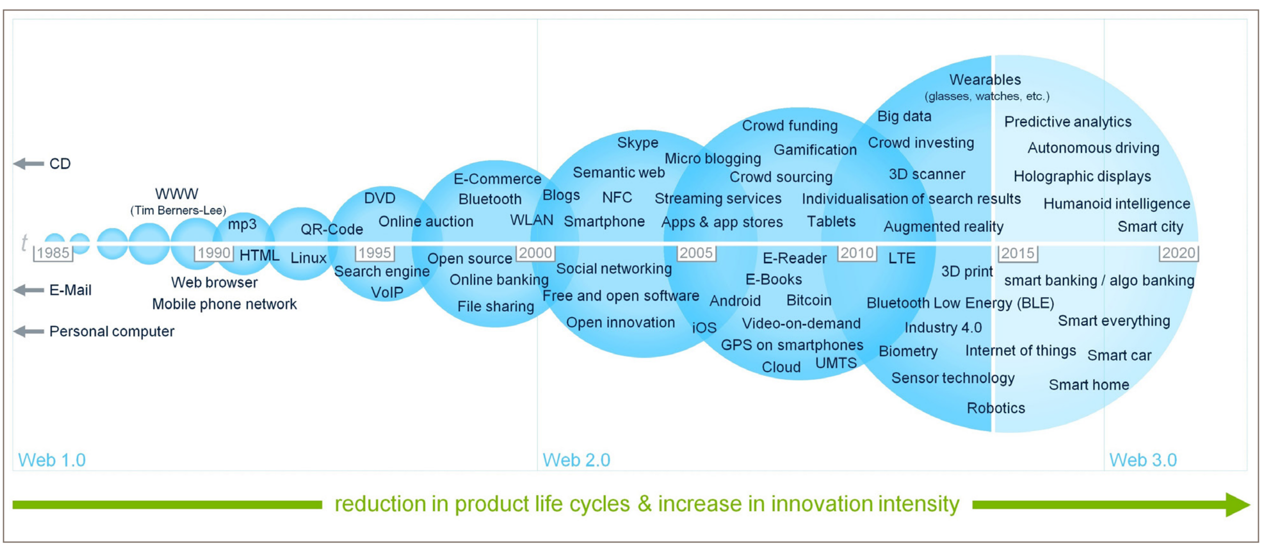
Global ICT: Engine of Growth, ICT Spending 2012
Source: BSA, The Software Alliance

Trade, and trade financing in particular, have lagged behind other areas of commercial activity in the development and adoption of digitisation as natural evolution of business processes. Cash management, by contrast, is now widely digitised, even when it is applied on a cross-border basis. Retail experiences and expectations are even more advanced in terms of digital capability and digital adoption. As a result, personal/retail experiences are becoming increasingly influential in shaping the expectations of commercial and corporate clients around what is possible through the judicious application of technology and the creative design and deployment of new business models.

"Internet firms throwing down the gauntlet to the banking world. In sections of the financial industry there are many web- and data-based financial products and services that customers cannot obtain from either their bank or a similar provider. This gives rise to a new competitive environment. Non-bank, primarily technology-driven providers are entering the markets for simple financial services. Regulatory differences of course are a major factor."

Source: Fintech – the Digital (r) evolution in the financial sector. Deutsche Bank Research, November 2014

At the macro level, globally, it is clear that ICT spending is significant in many markets and on a growth trajectory when viewed over the long term. The application of technology, including automation and digitisation, has created an attractive niche in financial services. This sector is seen to offer profitable, sustainable opportunities for disruptive business models targeting staid, perhaps complacent incumbents, in some cases it demonstrates a striking ability to create multiples of economic value with fractions of the staffing and fixed costs of established financial sector firms.



Milestones in the Digital Age
Source: Fintech – the Digital (r) evolution in the financial sector
DB Research November 2014

"Companies work with a range of banks to execute their trade transactions, often using several bank-based systems. But they can now use the MT 798 message type to exchange information with all their banks from one platform. This has been made possible through the Corporate Access Programme run by the Society for Worldwide Interbank Financial Telecommunication (SWIFT).

When transacting with other banks, over 10,000 financial organisations in more than 200 countries and territories use SWIFT's standard trade messages. Banks leading in this area are now extending the use of MT 798 to their corporate clients. Many vendors have also adopted the standard, making communication across all participants easier and quicker."

Source: Transforming Trade with MT798, RBS, 2014

Technological change has been an important phenomenon across the financial services industry in recent years. The adoption of new technology and the digitisation of trade finance has been slower to develop, however.

For several hundred years at least, the paper and process-intensive Documentary Credit was the preferred product/solution provided by banks as a means of mitigating risk, offering financing and ensuring secure and timely payment across borders. Early efforts at automation and dematerialisation of documentation, dating back to the mid-nineteen nineties, showed promise but limited market adoption and limited commercial promise and sustainability.

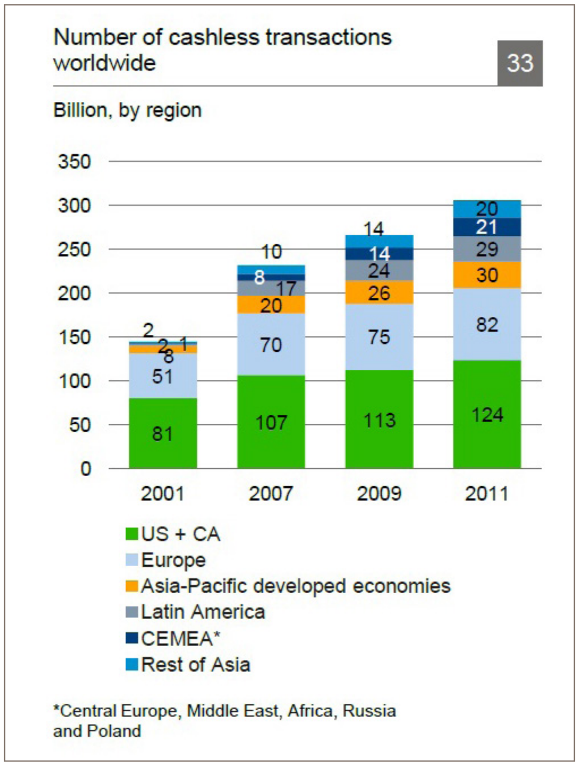
More recently however, a confluence of dynamics has contributed to the creation of a discernible momentum around the digitisation and transformation of both trade and trade financing. These factors include the evolution of technical capabilities, a near-global shift to trade on Open Account terms, as well as retail and commercial market acceptance of IT-enabled solutions.

Corporate clients' increasing demand for multi-bank solutions and for efficient connectivity and interoperability underpin a rising level of interest in the SWIFT MT 798. The MT 798 offers a multi-bank standard for corporate-to-bank documentary trade flows, including Letters of Credit and demand guarantees.

In addition to the MT 798 and developments around enabling multi-bank interaction and interoperability of systems, the design and development of a framework called the Bank Payment Obligation (BPO) presents a transformational proposition to providers and clients alike. The BPO is a new trade settlement and financing solution that offers buyers and suppliers (irrespective of size, geography and industry) a framework to secure and finance their trade transactions. The first live transaction was announced in 2010. Since then, SWIFT and the International Chamber of Commerce (ICC) have been collaborating, including in the development and publication of the Uniform Rules for Bank Payment Obligations.

"Finland as a market is often characterised by a dynamic that can be described as *"First Mover, Fast Followers"*. We have decided to move in committed fashion to digitised trade and trade financing, starting with implementation of the MT 798 which enables the use of a global standard in a multibank environment. The rest of the corporate world, including the finance function related to other areas, is advancing, but trade is lagging behind, it is imperative for the banks to innovate and adopt early in this space. We are engaging our core banks in this process, and find them receptive and responsive. It is important however, for corporates becoming invited and actively involved in the process of conceiving new models and solutions for trade. Such engagement would be helpful to advance both the MT 798 and other digitised solutions as the Bank Payment Obligation, as it will ensure alignment of industry propositions with client needs and expectations."

- Jari Hanninen, Head of Structured Finance, Credit Products, Nokia Networks, Finland



Milestones in the Digital Age
Source: Fintech – the Digital (r) evolution in the financial sector

The BPO is a technology-enabled, data-based mechanism that can be applied to a variety of trade transactions. The BPO provides greater security than a pure open account transaction, it also offers greater efficiency than a Documentary Credit, as it eliminates paper flow and replaces human intervention (and subjective judgment) with data matching and automated decisioning.

"There is some discussion in the market today about the BPO and its position relative to Letters of Credit and Open Account. This may have been helpful initially, but now it is time to set aside the comparisons and simply see that the BPO is one alternative among several, that can apply in numerous contexts. It is necessary to drive adoption, and perhaps one way to do so, instead of being concerned about whether banks or corporates should lead the process, is to agree to enter into substantive, open discussions on collaboration, fully acknowledging that no one has all the answers at this moment. This is nothing more than basic change management: we need senior level buy-in at the banks and among corporates, a group of initial leaders and some clients to move forward with together. SWIFT is the right global platform for us to move forward on, and adding capabilities such as complementing the BPO with export credit agency (ECA) or private insurance cover will make the proposition even more interesting and attractive."

- Urban Ljungblom, Industry and Public Affairs, Nordea, Sweden

The financial sector is clearly aware of the inevitability of technology enablement and digitisation, and trade, while a relative laggard, has in recent years shown progress in understanding evolving client needs and expectations and in devising viable propositions that nevertheless have not yet reached a critical mass of adoption. An ongoing debate about the reasons for relatively conservative adoption rates relates to the nature of the underlying market forces and the issue of whether banks and providers should lead clients to adopt new models, or whether clients ought to drive market evolution through shifting expectations and clear demand for the available solutions, or variations of those solutions.

"Deutsche Bank is committed to investing, on a global basis, in the evolution of trade and its related support technology. We see digitisation as the natural evolution of trade and trade finance, but recognise the process can only advance with the alignment with financial institutions and their clients. Cash Management is now largely digital, and trade finance, including alternative non-Letter of Credit solutions, will follow suit. We are well positioned to support our clients in advancing the industry towards this goal. MT 798 is generating a great deal of interest, particularly with complementary integrated, multibank solutions that will deliver benefits right across the trade value chain."

- Daniel Schmand, Head of Trade Finance and Cash Management Corporates EMEA Global Transaction Banking, Deutsche Bank, Germany

Regional impact

Region	GDP impact (US$ billions)	Number of jobs created
Africa	8.3	618,699
Commonwealth of Independent States	11.8	340,820
East Asia and the Pacific	55.8	2,370,241
Eastern Europe	7.0	159,015
Latin America and the Caribbean	27.0	636,737
Middle East and North Africa	16.5	377,772
North America	25.3	167,650
South Asia	9.4	1,117,753
Western Europe	31.5	213,578
Total	192.6	6,002,266

Digitisation: Impact on GDP and Jobs
Source: WEF Global Information Technology Report 2013, Booz & Co. Analysis

Market and Commercial Drivers

The underlying commercial and market drivers in favour of automation, application of technology and digitisation could not be clearer. Perhaps more specifically, the urgency in seeking solutions that fundamentally transform the practices enabling trade and trade financing – rather than simply entrench existing business models – is being brought sharply into focus by a redefinition of the “universe of the possible”. Personal experiences and retail capabilities have clearly shaped expectations about what ought to be feasible, and therefore should be considered baseline capability, in areas such as payments and cash management. Such transforming expectations are now being felt in the financing of international trade and supply chains, and the BPO is a leading digitisation-based framework that aims to respond to those evolving market needs.

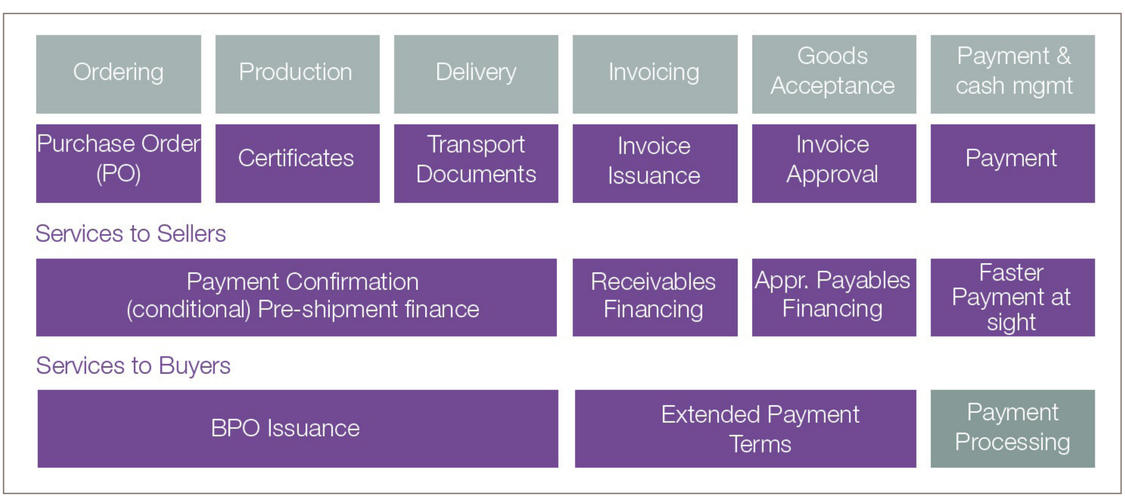
At the most basic level, commercial and corporate clients are looking for risk mitigation, financing and settlement solutions that can keep up with the accelerating pace of the conduct of international business, both in the decisioning dimensions and in the transaction execution dimensions of the overall propositions.

“Transitions from the old to the new are seldom painless in business – and the BPO is a case in point. Yet it is up to us, as an industry, to give this product the success it deserves. Certainly, digitalisation is the way forward for banking products. Banks must find a way of offering their unique advantages in a format that is convenient for their clients. The BPO succeeds in offering clients key bank strengths – in the form of financing options and risk mitigation. But we must do even more to meet their needs and expectations in terms of convenience.

Clients are seeking to interact and collaborate with other companies in the network – meaning banks must connect all firms, at all hours, and through all media. Products and services that don’t meet this standard will inevitably fall by the wayside. For a long time now, treasurers and CFOs have based their corporate banking expectations on their personal experience as consumers in the retail sector. We, as banks, must therefore work to translate our strengths into equivalent formats – flexible, seamless, and instant.”

- Alfredo Bresciani, Head of Trade Finance International Sales, UniCredit Group, Germany

Numerous global corporates have expressed the clear desire, and in some cases, formal objective, of removing excessive paper flows and human intervention from their conduct of trade activity. Despite these explicit expectations – perhaps due to an absence of workable alternatives – the operationalisation of these objectives in a practical manner is just beginning. Process efficiency gains from the application of technology and optimised processes are clear and demonstrable, as are cost reductions for trade banks providing these services, and accelerated access to purchased goods for importers, as a direct result of faster overall processing.



Source: A New Start for Supply Chain Finance White Paper, SWIFT

What is more recent however, is the translation of efficiency and transaction processing acceleration to financial benefits, including improvements to liquidity positions and working capital. In extreme cases, where trading markets lack even the most basic logistical infrastructure to facilitate efficient transport, or the customs and regulatory processes to ensure timely clearance. There are also cases where the situation is exacerbated by limitations in financial sector offerings in support of trade, the cumulative impact can be commercially disastrous: 100+ days to deliver cargo to the final destination market, perhaps an additional 90 days for the financial transaction to be fully settled, and one can quickly appreciate how even a marginal improvement through technology and digitisation can be extremely beneficial.

Even in the context of trade relationships involving expert traders and advanced mechanisms and infrastructure, the financial implications can add up, for example when the calculations involve a high-volume exporter.

“Multi-lateral development banks aim to support local banks as well as the SME market. The new BPO trade settlement instrument is an efficient way to extend export financing to SMEs in Asia and we trust this new mechanism will contribute to increasing support to this vital segment of the economy.”

- Steven Beck, Head of Trade Finance, Asian Development Bank, Philippines

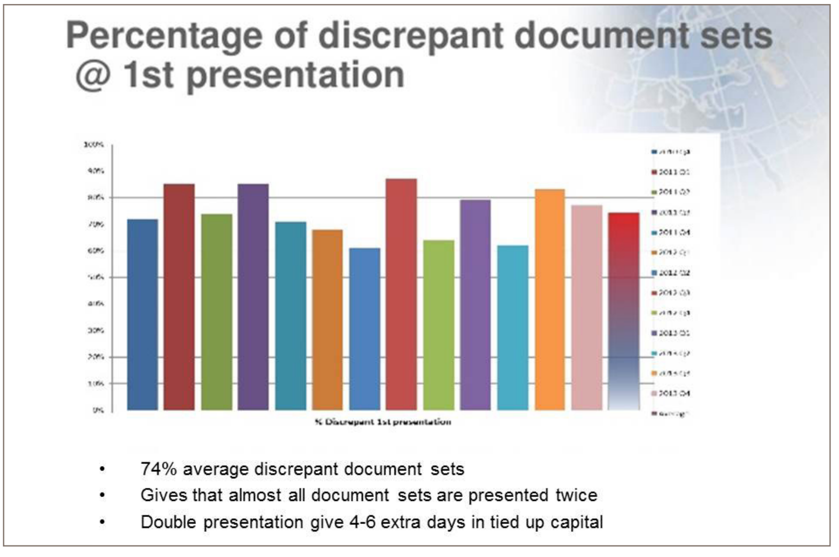
Companies trading on the basis of Documentary Letters of Credit are well aware of the impact of documentary discrepancies, including cases of non-compliance by the exporter against the terms and conditions of the Letters of Credit. Some of these cases cannot be corrected, but even when they can, this usually involves material delay, which leads directly to the incurring of financial cost.

A major European corporate has estimated that a single day of improvement in document-handling can translate to financial benefits in the range of 20-40 million. Noting further that the correction of cases of non-compliance can add 4 to 6 days to processing time and therefore working capital impact, as the company waits to be paid for goods that have already been shipped, and are perhaps already at the port of destination.

This is not an isolated case, nor an exceptional scenario: traditional mechanisms of trade settlement, risk mitigation and financing involve significant intervention, sometimes inconsistent application of global guidelines and rules and all too frequently, layers of processing complexity and delay that are unwelcome from the perspective of end-clients.

“We see real potential in the digitisation of trade and trade financing; the banks have generally been somewhat hesitant to adopt and to drive adoption in the market, as it appears many have not seen the value proposition or a business case beyond process efficiency. Market leaders see a first mover advantage, including the opportunity to capture new business. The reality is that we will get there in terms of digitisation, and we all know it is coming, and I wish that the banks can feel encouraged to better understand the business benefits for clients (and for themselves), and decide to commit to these new models.”

- Per Norman, Head of Treasury and Risk Management, BillerudKorsnäs AB, Sweden



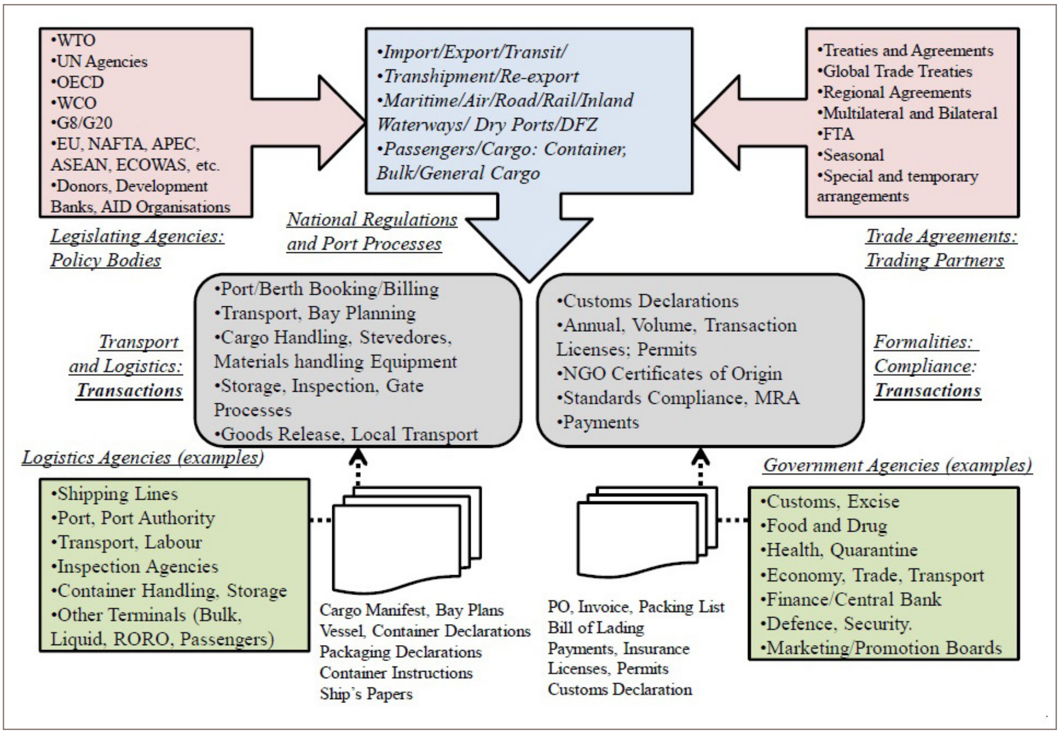
Source: Major European Corporate – Actual Data

Digitisation in Supply Chain Ecosystems

The application of technology and the pursuit of digitisation solutions extend to various areas in international business, trade and investment, including in the context of supply chain management and optimisation and in the context of so-called "Single Window" market access programs. These latter programs, often undertaken as part of trade facilitation policies, aim to make the pursuit of trade opportunities more efficient and cost effective by developing technology-enabled portals that allow for easy and prompt customs clearance, logistics management and related activities that must be completed, to allow a product to enter its destination market.

"essDOCS has been driving the digitisation of bills of lading through its CargoDocs electronic Bills of Lading solution, working with the carriers and freight forwarders that issue them. Because CargoDocs electronic bills of lading are legally and functionally equivalent to paper bills of lading, they are ideally suited for faster and automated handling by bank systems. Our corporate users want to ensure trade flows are processed as digitally as possible in order to avoid long manual processing time required to exchange and process paper-based information. The new BPO trade settlement instrument is an efficient way to involve banks in our electronic documentation hub for risk and financing services."

- Alexander Goulandris, CEO, essDOCS, UK



Source: Trade Facilitation and the Single Window, UNESCWA, 2011

Digitisation and the use of electronic documentation is gaining traction in various areas of trade and trade facilitation, as well as across various elements of supply chain activity.

In addition to the ramifications of international trade treaties, there are local regulatory impacts which need to be reflected in national trade-related legislation, and in legislating the technologies that enable international trade transactions to be automated. This is not limited to customs law and associated decrees. For example, it needs to include an electronic transactions law, electronic commerce laws, electronic banking laws, electronic (digital) signature laws, consumer protection, privacy and security laws and many other technology policy-related pieces of legislation. Once these are enacted, then individual ministry regulations need to be changed to enable ministerial and agency processes to be integrated into changed enabling regulations.

Source: Trade Facilitation and the Single Window, UNESCWA, 2011

Digitisation initiatives in the context of trade financing now cover a full spectrum of critical documents, including various transport documents, documents of title and those required for customs clearance and regulatory purposes. Additionally, decision engines and analytics capabilities are increasingly sophisticated, in some contexts robust enough to serve as a basis for credit and risk adjudication. Even at the most basic level of enabling efficient communication between trading partners, the value – and market uptake – around digitisation in trade and trade financing is underway.

"At Citi, we see real potential in the MT 798, which we believe will enable easier, faster and more cost-effective adoption of digitisation-based solutions for trade financing. The MT 798 allows corporates to efficiently and affordably access the global SWIFT network, and presents a useful step ahead in the evolution of trade and trade financing. There are challenges however, in that the wider context of international commerce, including customs clearance and logistics, is still heavily paper-driven. The demand from the corporate side for advanced technology-enabled models has also not reached a tipping point yet, partly because of legacy practices and partly because the market does not have full visibility on the economics of such a transition."

- John Ahearn, Global Head of Trade, Citi, USA

As noted earlier, the rate of evolution and adoption of digitisation varies significantly even within the relatively narrow scope of activity encompassed in global transaction banking units, of which trade financing is often a part. While payments and cash management activity are showing increasing degrees of digitisation at an accelerating pace, it is possible nonetheless to identify the contributions of well-established, 'traditional' players and the more transformational and potentially disruptive propositions of a new group of service providers. Their areas of focus will doubtless help shape the next wave of evolution of trade financing provided by banks and non-banks alike.

"ANZ is a keen supporter of the MT 798 service as we believe it makes easier for our corporate clients to communicate with their banking partners using one standard. We are keen to see MT 798 take-up improve as it additionally helps improve STP end-to-end across both clients and banks,"

- Vivek Gupta, Global Head of Trade & Supply Chain and Working Capital Product, ANZ, Hong Kong

Bank and Provider Readiness

Three things are immediately clear and discernible as relates to digitisation – trade and trade financing:

1. Digitisation is underway and its progress is now irreversible
2. Clients have recognised both the value and the evolution of technology-enabled, even digitisation-based solutions, and numerous corporates are embracing this development
3. Banks, at the institutional level, have likewise recognised the state of play, and are broadly aware of evolving expectations and the existential threat presented by disruptive competitors

It is notable however, that the degree of readiness – even the level to which senior executives in trade banking are convinced about a clear way forward varies significantly across financial institutions. The importance of a valid business case is difficult to overstate in a time of constrained capital and capacity and stiff internal competition for resources and investment in what is commonly an obscure and undervalued line of business.

"For now, banks have a choice on how proactively to push MT 798, BPO or electronic Bills of Lading but, at the minimum, they should build the plumbing to open the tap and turn these on when client demands change."

- Sukand Ramachandran, Partner and Managing Director, Boston Consulting Group, UK

The debate about whether to lead clients or follow them to a world of digitised trade and trade financing is reflective of the challenges faced by trade bankers in advocating for their businesses, but may also be rooted in a potentially dangerous perception that importers and exporters have little in the way of serious non-bank alternatives as providers of significant trade-related risk mitigation and financing. If the latter factor is in part influencing the thinking of traditional providers of trade financing, it will be necessary for trade bankers to urgently appreciate that trade flows will continue to take place, and that importers and exporters will actively seek alternatives, if their evolving expectations – and their changing views about what is possible in this domain – are not adequately acknowledged and built in to new value propositions.

"Adoption of digitised models of trade and trade financing amounts to a balancing act between corporates, bankers and suppliers. We see excellent potential for the BPO in the context of high-growth Open Account Trade, but bank adoption needs to move much faster in order to enable this to reach our trading partners through their banks around the world. At the same time, it is necessary for banks to stop trying to only be technology providers and to get back to the basics of providing financing and liquidity, particularly on a non-recourse basis. It does not make sound business sense for one of the largest on-balance sheet assets of a manufacturing company, to be its receivables: digitisation provides a useful opportunity to make trade and trade financing more efficient, however, this will be even a stronger evolution if banks can be counted on to finance. If not, others will step in, as we are seeing already with some smaller financing firms in Europe not as heavy regulated as the banks are."

- Jorgen Holmgren, Director, Corporate Finance, Volvo, Sweden

Just as certain jurisdictions engaged in a 'leapfrogging' process as they developed infrastructure around their trade capabilities and aspirations, quickly deploying world-class models by completely bypassing familiar and established structures, non-traditional providers of risk mitigation and financing solutions will replicate the same mode of evolution. Virtual finance providers will link to online trading platforms to offer liquidity and working capital solutions, as PayPal and others have begun to do, circumventing traditional banking channels and avoiding the complex, regulation-heavy, multi-year licencing processes that would otherwise need to be followed.

In addition to concerns about quality, cost and efficiency of services, end-clients are expressing concern about limitations around international or global delivery capabilities, portfolio-level visibility and consistency of cross-border delivery capabilities. Virtual, technology-based and digitisation-enabled solutions and delivery channels are seen as attractive alternatives, and will be increasingly assessed as competitive to the propositions of trade finance banks.

International Operating Model. As treasury functions become more global and centralized, transaction banks have struggled to integrate their service across borders. Treasurers still see banks as ill positioned to support them at a global level and reported that global coordination capabilities have now become more important than even the depth of the product portfolio or the size or creditworthiness of a bank. banks must therefore find a way to scale their service, or risk having their role limited to servicing only domestic or regional businesses.

Source: Corporate Treasury Insights 2015, Boston Consulting Group

Technology providers, including those working closely with banking and trade banking clients, have been promoting and preparing for multi-bank and digitisation solutions for many years, many anxious to deploy development resources against what they saw as the natural evolution of a mature business, but until recently, challenged by an absence of clear requirements articulated by banks or end-clients. Technology providers with offerings in transaction banking are now investing in the development of capabilities and functionality linked to fast-growing supply chain finance, and are working to enable their various systems to handle digitised documentation, as well as the increasing demand for interoperability across platforms, systems and technical channels and infrastructure.

"Our primary focus is in the digitisation of traditional trade, and in this, we view the MT 798 as an important enabler of corporate access to the SWIFT network, and of multibank solutions which more and more corporates today are demanding. We see the business model based on MT 798 implementation as significantly more affordable than alternatives in the market, and rapid deployment options make this even more attractive. We aspire to flawless and quick implementations with corporate clients and are working to facilitate and motivate greater bank adoption of such enablers of digitisation in trade and trade finance, with emphasis on solutions like the MT 798 that run on the familiar, trusted and bank-friendly SWIFT platform."

- Jacob Katsman, CEO, GlobalTrade Corporation, Canada

It must ultimately become clear, compelling and urgent for trade banking executives that the digitisation of trade, and therefore of trade financing, is inexorably underway and will, relatively soon, become the norm and not a topic for debate or excessive analysis. There appears to be a real risk that the traditional trade financing industry will again await imminent threat of disintermediation before reacting decisively and very much in line with the direction that leading global corporates are wishing to take in any event – much as was the case starting around 2005, when a global shift to trade on open account terms became glaringly visible.

The landscape has changed significantly since then however: trade and trade financing have attracted the attention of new providers that have discerned its importance and economic value on a global scale, and determined that current business models are simply no longer fit for purpose. These disruptors – some staffed by experts in trade and trade financing – will inevitably develop compelling solutions in support of international commerce.

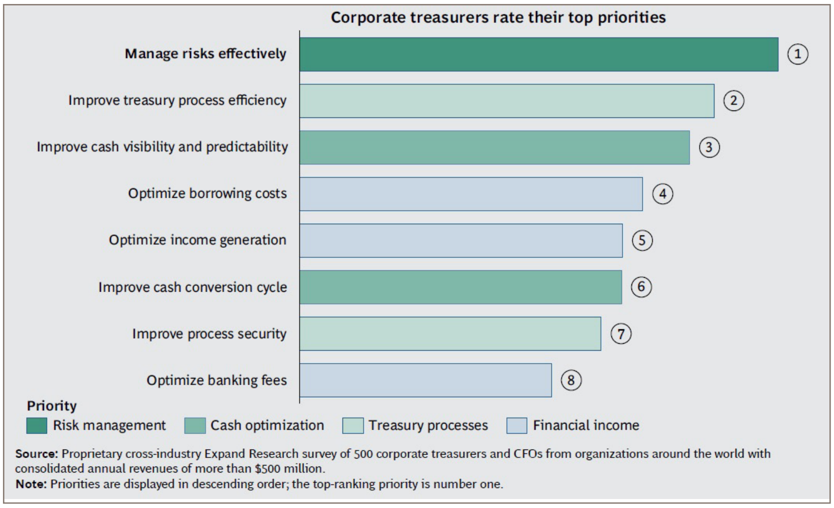
"We are seeing indications that some banks and some large corporates in Japan and in Asia are interested in digitisation of trade and trade financing, including the Bank Payment Obligation. In general, the process is in its early stages, with solutions today being partially digitised but still requiring some manual intervention, and it is clear that the banks in the region must be closely engaged in driving client adoption – first among large corporates and eventually to SME suppliers. One reality to note is that the benefits to the importer must be clarified or strengthened, as a deal may fall through even if the exporter agrees to shift to BPO, if the benefits to the counterparty are not convincing."

- Daisuke Kamai, Head of eTrade Product, Transaction Banking Division, BTMU, Japan

Digitisation and the Future of Trade and Finance

Digitisation is a natural evolution of business and transactional processes related to the conduct and enablement of cross border trade, and also a natural development in the context of relationship ecosystems like the complex global supply chains that can encompass tens of thousands of commercial relationships.

Data visibility, complex analytics and a shift from transaction-based value to information-based value will follow, and the ability to extract, manipulate and benchmark data that would originally have been found only in hardcopy documents will be an important cornerstone of the way business is conducted, risk is mitigated, and commercial transactions are financed on a cost-effective, global and near-real time basis.



Source: Corporate Treasury Insights 2015, Boston Consulting Group

"In the context of digitisation, our focus currently is on the BPO, where we see potential and the opportunity for creative solutions. We have been doing several BPO's so far, in some instances replacing other trade finance products, in other instances allowing our buyer to benefit from working capital optimisation. We complement the BPO with our own SWIFT address and an additional platform we use for our trade transactions, which is partially digitised and partially requires data entry. We may be 'kicking in an open door' by stating this, but transaction lead times in trade are compressing, and traditional L/Cs are often no longer fit for purpose: digitisation is here, and the BPO is a natural channel for digitisation into the world of trade."

- Michael van Steenwinkel, Global Credit Manager, BP, Belgium

While the future is nearly here, it remains true that the core competencies of financial institutions – mitigation of risk and provision of liquidity – remain important to the conduct of trade, and will become increasingly critical as trade corridors and flows are redefined, emerging and frontier markets play and increasing role in trade-based economic value creation, and trade growth regains pre-crisis levels.

The fundamental question is, will financial institutions, as traditional providers of trade financing solutions around the world, perceive the shifting tide early enough, react quickly and decisively enough to be seen by clients as having understood, internalised and acted upon the changing needs and expectations of the market?

While certain financial institutions consciously opt to await a clear signal from the market, and perhaps more, the prospect of a clear business case, others perceive a need and an opportunity to drive market adoption of digitisation solutions. Certain market players have determined that client engagement is a critical component to wider adoption, and are thus actively looking to engage with end-clients disposed to digitisation.

Extending the proposition across markets and across client segments to small and medium sized enterprises (often, suppliers in the context of global supply chains) could likewise depend on leading engagement by larger corporates. It has been explicitly noted that the further engagement of technology providers in advancing the evolution – and adoption – of digitisation in trade and trade financing. Leading corporates and businesses are creating networks of value and seeking the option to engage as they choose, in an environment of broad interoperability.

"The challenge of trade-related digitisation adoption is, at its core, a problem of process change, and the 'first mover advantage' will be substantive and critical. Trade is just beginning a process that has been underway in cash management for a decade and in payments for two decades or more. The urgency for treasury and finance executives is that the leading players today have achieved about 80% visibility across their global financial portfolios, with the missing 20% often related to trade business, including Letters of Credit and guarantees.

The MT 798 offers significant potential value; the BPO perhaps less immediately, as corporates need to better understand trade at the group/CFO level, the important role of trade and the BPO will then follow and find its momentum in integrating with business and finance based on new technology. Revisiting and re-inventing the 'business of financing' in light of new and emerging technology is also the objective for the intergration. It is necessary for us to change and evolve, but the market must change: if everyone stands still, nothing will evolve."

- Charles Dubarry, Head of Corporate Innovation and Solutions,Global Payments and Cash Management, HSBC, UK

Some market participants note that the 'on the ground' reality involves significant deployment challenges both technically and in terms of business processes, it sometimes requires long-term dialogue and discussion before moving to substantive action. One major bank noted the difficulty of moving forward with multi-bank propositions "when other banks are simply not ready."

Even with that however, it appears a fair assessment to note that the movement to digitisation in trade and trade financing is inevitable.

"At CIMB, we view the BPO as a key differentiator in trade financing, in the context of increasing and irreversible shift towards digitisation. Market adoption of BPO will accelerate over time, and the speed depends on the efforts from both banks and corporates. More banks need to switch on to BPO and focus on educating their clients. SWIFT also has an important role to play in educating banks and corporates, and encouraging adoption. Corporates have an even more pivotal role in motivating adoption by their counterparties.

This approach requires at least one trading partner to be convinced of the value proposition of BPO, and further requires them to have figured out the economics of such a solution. Perhaps more critically given the nature of these transactions, business partners must be willing to share the benefits of conducting trade on a platform such as the BPO, which is particularly well suited to high-growth open account trade flows across ASEAN."

- Thomas Tan, Group Head, Transaction Banking, CIMB Group, Malaysia

There is still time to make this a strategic priority that the banks can control, rather than a defensive reaction with a path already partially determined by competitors and disruptors. There is time, but not a great deal, and absent the adoption of effective solutions by trade bankers, other market players will happily step forward to fill a gap between users and providers of trade financing.

Trade needs finance. Trade demands effective risk mitigation. If the banking sector does not provide Twenty-First Century versions of these solutions, someone else surely will.

"The market needs new solutions in support of the efficient conduct of international trade.: Tthe BPO is a perfect instrument, as it allows the financial processes to 'catch up' in terms of processing time, to the physical movement of goods and to the ERP-enabled, 24/7 and near-real time communications now possible even across complex international supply chains. Digitisation and solutions like the BPO effectively speed up commercial response, eliminates delays and removes time zone issues when dealing across markets, and needing to quickly line up suppliers in response to a new order from a client. Banks will need to broaden and further develop their digitised offerings in support of trade to remain relevant; while corporate clients and SWIFT are working today to advance market adoption, the expectation in future is that banks should lead and facilitate this process."

- Ural Inal, Finance and Procurement Director, CFO, Temsa Global, Turkey

About Alexander R. Malaket

Alexander R. Malaket, CITP, is President of Canadian consultancy OPUS Advisory Services International Inc., established in 2001, focusing on international business, trade and investment with a specialism in trade finance. Alexander has undertaken a range of consultancy assignments, from operational and tactical to technology, to global strategy, for clients around the world and has developed and delivered training seminars and programs in numerous markets including Toronto, New York, London, Hong Kong, Singapore, Dubai and Taipei among others.

Mr. Malaket is an internationally recognised expert in international business, trade, investment as well as trade finance and supply chain finance, contributing regularly to industry publications like Trade Finance Magazine, Trade & Forfaiting Review, Global Trade Review, Cash & Trade Magazine and Trade and Export Finance. Alexander speaks and chairs panels at top-tier conferences and events around the world, and is the author of “Financing Trade and International Supply Chains”, Gower/Ashgate Publishing, UK 2014.

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