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Navigating the digital trade world

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Once slow to change, the trade finance sector is now under pressure to react rapidly to the shifting digital landscape, write *Rory Kaplan*, Senior Offering Manager for Trade and Supply Chain Solutions, *Patrick DeVilbiss*, Director of Consulting and *Colin Zeglen*, Product Manager for Trade and Supply Chain Solutions at CGI.

Increasingly, each trade bank's future appears to be dependent on the use of innovative technologies. Customer expectations have evolved based on their interactions in social media, consumer banking and other industries focused on delivering cutting-edge user experiences.

To meet these expectations, trade banks face the challenge of providing digitally sophisticated and interconnected services. Success also requires leveraging the rapidly emerging ecosystem of bank networks, trade finance consortia and fintech companies. With this in mind, identification and evaluation of emerging technologies, as well as partners who can deliver them, have become crucially important to trade banks. Given resource constraints, these new technologies and partners can help extend a bank's strategic reach, provide an improved customer experience, decrease costs and increase revenue.

Competitive forces reshaping trade banking

Let's consider some of the leading competitive forces reshaping trade banking today. Digital interoperability and an enhanced user experience will be key to addressing these competitive forces, as well planning for and leveraging the market transformation now well underway.

An important concern among many trade banks today is rapidly growing competition. According to CB Insights, trade finance represents between US$5 and US$10tn of the US$17tn international trade market. The firm also believes that there is another US$1.5tn in unmet demand for trade financing.[1] Unquestionably, the sheer size of the trade finance sector is drawing many new market entrants, which are often non-banks offering bank-related services.

Another concern is that non-banks and other entities, including fintechs, often perceive trade banks as slow moving and paper intensive and, consequently, ripe for disruption. These competitive newcomers may have greater marketing savvy than established banks and – at least for the time being – fewer regulatory obstacles to overcome. They also could potentially add value by providing additional services for corporate customers that banks on their own will not provide.

Because of the substantial capital resources required to provide the full spectrum of trade finance services to large corporations, fintechs seem unlikely to displace international banks now or anytime soon. For banks seeking to expand their services to their corporate clients, third-party partners and providers can offer an even greater array of services as an expansion of the bank's trade offerings.

Banking networks and consortia specifically developed to serve the unique needs of the trade finance marketplace are another important source of competitive pressure. Voltron, for instance, is an open industry utility seeking to create an end-to-end documentary trade solution. The Marco Polo Network is working to facilitate trade and working capital between banks and corporate clients. In addition, the Trade Information Network, using CGI as the technology provider, enables financing earlier in the supply chain through the exchange of secure and complete trade information between corporates and their banks.

Driving innovation in the digital age

What seems like an experimental capability today is the must-have capability tomorrow. Remaining relevant in the digital age means banks seeking to retain or increase their trade commerce market share cannot afford to simply sit on the sidelines as these innovative, transformative interoperability initiatives develop. Yet for many banks, deciding which trade finance network to join or fintech to partner with can be a daunting task.

Narrowing the field based on the solution provider's technology expertise is a great way to start. From a trade finance perspective, three areas of innovation appear to be the most promising:

- Intelligent process automation (IPA) is in use today for document examination, early compliance checking and anti-money laundering reviews. In the near future, IPA will enable banks to make greater use of advanced technologies such as straight through processing (for operational efficiency and effectiveness) and data analytics (for valuable insights that help in areas like increasing sales or mitigating risk).
- Application program interfaces (APIs) provide the interoperability needed for information sharing and integration across networks and platforms. While trading partners certainly have the option of developing proprietary interface standards, such standards may limit interconnection possibilities with third parties, including buyers, sellers and other banks, and, as a result, may limit new business opportunities. To be competitive, trade banks should consider identifying, evaluating and meeting the API protocols most important to their business.
- Blockchain and distributed ledger technology (DLT) use advances in encryption and database technology to facilitate trusted network interactions between parties, whether companies, banks, fintechs, or other providers. Innovations in this area are bringing new levels of efficiency, transparency and security to trade banking.

Emerging technology challenges

Fintechs and network consortia have built proof-of-concept (POC) demonstrations and early stage technology products in these and other areas critical to the ongoing transformation of trade finance. Unfortunately, such developments, while intriguing, come without a crystal ball for assuring the banking community the new technologies will scale up, achieve significant commercial acceptance or become sustainable over the long term.

Adding these technologies to legacy systems or joining a network consortium does therefore involve risk. For instance, the vendor selection process can be time consuming or detract from pursuing other important projects and priorities. Trusted relationships with third-party solution providers can be difficult to establish and require constant vigilance to maintain.

In addition, the new technologies themselves may be immature, and the interoperability standards they implement may never achieve widespread use. Further, POC demonstrations developed in what are essentially controlled settings may never prove their commercial viability, and the value proposition for technology investments can be difficult to establish. Finally, new technology adoption may conflict with or even cannibalise the bank's internal development efforts.

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Evaluating new technologies

With these challenges in mind, a trade bank that adopts a reasonable due diligence process for evaluating new technologies and partners can achieve the strategic upside while mitigating the downside risks. Rather than an approach that attempts to "boil the ocean" with the introduction of multiple vendors and technologies, a careful parsing of the possibilities is recommended. Trade banks should consider a process that both limits the number of companies and consortia to be evaluated at any point in time, while allowing for the thoughtful analysis of new offerings, capabilities and technology providers. Important questions to ask once reviews are underway include:

- Do the new trade finance networks or technologies have reasonable market acceptance?
- Do the new capabilities reduce transaction time and costs while providing a seamless customer experience?
- Does trade bank participation meet the expectations of buyers, sellers and other critical stakeholders?
- Do the new capabilities correspond with future trends and strategic directions?
- Will the solution save time and effort and allow bank employees to concentrate on more value-added tasks?
- Will "smart workers" emerge (i.e., bank personnel working with artificial intelligence)?
- Will the bank itself gain competitive advantage, become more tech savvy, and be more likely to attract technologically sophisticated employees?

Such questions have helped to guide CGI's own initiatives in the trade finance arena. For instance, CGI, a 2019 recipient of the **GTR** Leader in Trade Award for best trade finance software, worked with multiple banks and a fintech solution provider on a POC for an innovative intelligent automation solution. The solution reduces the time spent on paper-intensive manual activities, while delivering data critical to business process transformation. Simply put, faster transactions mean faster service to customers.

In another innovative pilot program with the National Bank of Canada and blockchain product developer Skuchain, CGI is working to improve the process for negotiating standby letters of credit and guarantees, using blockchain technology to replace otherwise delay- and error-prone email communications. The goal of this end-to-end, blockchain-enabled process is to speed up processing times, reduce risks and strengthen the bank's customer relationships.

Conclusion

POC demonstrations and pilot programs like these are by their very nature experimental. Trade banks should enter new relationships understanding that while not every initiative will pay immediate returns – and some may never pan out – the way ahead in trade finance is clear. To be profitable, banks must be competitive. To be competitive, banks must be sufficiently agile to be part of the larger and rapidly evolving trade finance landscape. A bank's ability to interconnect and interoperate within an expanding trade ecosystem of customers, platforms, networks and fintech solution providers will be key to its success.

The new digital world requires seeking technology providers and networks that are both exciting enough and mature enough to have a meaningful impact on customers and operations. Cutting-edge technology will not always succeed initially. However, some setbacks must not stop the pursuit and progress toward advancing trade digitally. Adopting new technologies like IPA and blockchain will transform trade banking, which in the new digital world is an absolute necessity.

1. https://www.cbinsights.com/research/banks-regulators-trade-finance-blockchain/