

Pandemic drives digitisation worldwide: what's next for trade finance?



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Just when it seemed the 2020 supply chain crisis couldn't get any worse, on March 24 the massive container vessel Ever Given wedged itself across the Suez Canal, bringing to a halt all shipping traffic in a waterway carrying 12% of global trade.

The mishap had an immediate impact on everything from consumer products to crude oil prices, and left already-frantic logistics providers and shippers scrambling to calm their customers. When the ship was dislodged six days later, experts speculated the repercussions would be felt globally for at least 60 days,¹ and questioned whether the worldwide just-in-time delivery network would ever be the same.

In the world of trade finance, it brought into sharp focus the need for banks and other financial service providers to adapt – and quickly – to serve an evolving and uncertain market.

During the pandemic, exporters faced increasing difficulty in accessing short-term trade financing in the private market. Exporters in the US reported a 60% increase in rejected applications for trade credit insurance, and the International Chamber of Commerce reported a retreat among banks from “high risk” financial sectors. The result was that many global trade players turned to government financing programmes, which saw a 43% increase in the use of short-term financing products, including a dramatic 112%

increase in working capital guarantees provided by the US Export-Import Bank.²

Although conditions may be improving, in light of recent dynamic conditions, the response from trade banks must be to plan for a more uncertain future and put their customers at the centre of the trade finance experience. To that end, digital transformation has a major role to play.

The road to digitisation

Trade banking has made great strides toward digitisation, and like many industries during the pandemic, the acceptance of new technologies and processes accelerated to meet the challenges of remote work and rising customer expectations.

This acceleration in 2020 finally superseded the industry's traditional reluctance to deploy tools like digital signatures, digital or electronic documents and other capabilities that would enable customer self-service without using physical documents, wet signatures, or brick-and-mortar offices. Today, with the need for digitisation largely unquestioned, the challenge lies in how to engage the market with new tools that are uncomplicated and at low risk of confusing customers.

In other words, the customer journey is key. Keeping customers happy means delivering a seamless experience. Digitisation can enable this experience

while also reducing risk and effort in banking operations.

Indeed, during the pandemic, CGI's trade bank clients were well served by the CGI Trade360 platform which provided end-to-end digitised services for their corporate customers as well as back-office processing. CGI was proudly awarded a **GTR** 'Leader in Trade for Resilience' award in 2021, reflecting existing capabilities to seamlessly operate in a remote and digital manner as well as a commitment to further digitising the business of trade.

Looking forward, several catalysts for trade banking transformation have begun to emerge, including automation, standardisation and a focus on environmental, societal and governance (ESG) values in corporate practices.

More automation, new standards

New standards and products are emerging with the potential to streamline global trade finance while creating more transparency and a richer data set for finance professionals – allowing them to connect invoicing and payment information, easing reconciliation and other accounting processes.

SWIFT message changes for guarantees and standby letters of credit are a recent innovation that should have a significant impact on trade banks. Previously, some SWIFT messaging was unstructured and

without strict standards, with free-format messages composed almost like an email. Standby letters of credit messaging typically had the highest amount of risk, particularly automatic extension clauses and drawings/ payments. They were completely manual and without standardisation. This is one area addressed by the new, dedicated SWIFT messages. The new SWIFT messages will be standardised with tagged fields, creating an approach that creates efficiency and reduces error. Ultimately, it will help create a more seamless, highly automated experience for clients.

Another SWIFT product, called the GPI tracker, now enables banks to provide end-to-end payments tracking to their customers. With the tracker, banks are able to log in to instantly check the status of payments sent, in progress and received. The tracker can be accessed via a graphic user interface and also via application programming interface (API), allowing the service to be embedded in other back-office systems. This added layer of transparency should also become a major selling point to customers.

At a time when new banking technologies seem to come online every day, avoiding customer confusion and competing standards is truly a global industry imperative. Fortunately, progress is being made.

One significant change in banking is ISO 20022, the emerging global and open standard for payments messaging. It creates a common language for payment data across the globe. It provides higher-quality data than other standards and can be used by anyone in the industry on any network.

Launched in 2020, the International Chamber of Commerce's Digital Trade Standards Initiative (DSI) is another effort with the goal of digitising trade. In particular, the DSI takes on the challenge of facilitating technical interoperability among the variety of networks and technology platforms that have proliferated over the past several years.

"Today, there are many excellent trade platforms, but they need standards to help them transition from being digital islands to platforms that can engage in a rich ecosystem of platforms," DSI managing director Oswald Kuyler, told **GTR** in an exclusive interview. "The challenge is connecting these platforms and processes on a technical, schematics, legal and governance level. The DSI is essential as it brings the ICC's scale across 45 million companies and 100 countries and capabilities in setting standards, building

capability and arbitration to the table."³

Globally accepted standards would create the launchpad for a new era of trade finance, but integrating these standards into operations – and translating them into compelling customer offerings – would fall to the banks and their partner vendors.

One thing is for sure: trade banking operations will be asked to do more with less.

The future of APIs

No standard will fulfill its streamlining and efficiency promises without the effective deployment of APIs. APIs are communication tools for software applications, and are leading to key advances as financial institutions collaborate with a growing number of third parties.

They are increasingly the go-to integration tools banks turn to when creating seamless experiences for their customers. APIs can offer an omnichannel approach – a one-stop shop where customers can interact with banks using mobile channels, corporate portals, and consortia or business networks.

For banks, APIs can provide greater visibility for cash management and liquidity, offering a dashboard of information without accessing multiple systems and log-ins. This omnichannel approach can be used to enable mobile device applications and in back-office operations, even providing feedback to enterprise resource planning and other corporate systems.

The rise of APIs is in direct response to the proliferation of new entrants in the trade ecosystem. With various consortia, business-to-business networks and supply chain finance platforms coming online, banks run the risk of navigating a patchwork of systems that could force customers into multiple log-ins to conduct everyday transactions.

Today, banks must work to discern their role in this ecosystem and determine strategies. First and foremost, trade bankers must create value where their customers are transacting. CGI has built its CGI Trade360 platform to address this evolving space, using RESTful APIs to connect banks to their customers whether through new external networks or a bank's central corporate channel. This flexibility in approach will be critical to the future

success of trade banks as the marketplace becomes more complex and the number of customer channels increases.

Trade finance in an era of rapid change

Other changes coming to the market aren't solely about technology. The movement toward ESG policies are driving a widespread reconsideration of corporate practices and customer offerings.

What does this mean for the future of trade? Like the demand for transparency and self-service, it signals another evolution of customer expectations. These expectations may require that trade partners meet certain metrics for sustainability and environmental stewardship, or that a percentage of financing must be provided to suppliers that meet certain ESG scores.

One thing is for sure: trade banking operations will be asked to do more with less. Meeting complex customer ESG and service expectations while meeting turnaround timeframes and growing the business will require greater efficiency and more responsive product suites.

At the same time, the design and deployment of new, standardised trade banking systems must be resilient enough to handle the types of dramatic market fluctuations experienced during the pandemic and the resulting supply chain whiplash.

Today, some of the critical questions about trade resilience have already been asked and answered. In industry forums, executives are discussing ways to decouple the US supply chain from overseas partners, using onshoring to increase the availability of products and supplies, and deploying new technologies to mitigate disruptions.

But how do you anticipate a black swan event like the Ever Given, and how can global trade partners help build resilience for their customers? While there's no silver bullet, the flexibility and fluidity of fully digitised financing solutions are part of the answer if the industry is to help build a future in which efficient trade – on the high seas and across IT networks – can keep vital resources on the move.

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