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Fostering Smarter Trade Finance Operations

Digital Engagement in Trade Finance

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INTRODUCTION

Trade is a fundamental element of the global economic and financial system. A recent research by the Boston Consulting Group predicts that global trade flows are estimated to hit a record US$ 24 trillion by 2026. Trade finance is a critical component of global trade. According to the World Trade Organization, 80 to 90 % of world trade relies on trade finance (trade credit and bank financed trade). However, access to finance for trade activities is still a significant concern and a whopping 45% of trade finance requests are rejected.

The ongoing economic downturn has affected global trade, and consequently, trade finance. Emerging technologies, agile competitors, supply chain disruptions, and a low interest rate environment are mounting further challenges on the banking and corporate sectors.

These challenges have brought into focus the significance of digitization and end-to-end connectivity for banks and their corporate customers. Banks need to take steps to re-assess their operating environment and transform themselves for efficiently meeting the growing trade finance demands of corporates.

Now, more than ever, banks need a better understanding of corporate customer needs and a willingness to recognize, embrace, and become a catalyst for change.. However, due to the global business environment, a gradual process of evolution has suddenly transformed into a business imperative.

THE PROBLEMS WITH LEGACY TECHNOLOGY

Today, the entire trade lifecycle is bogged down by labour-intensive and paper-based processes, especially when corporates operate their business from multiple locations and the application has to go through multiple verifications, amendments, and approvals. This not only results in high costs and revenue loss for both corporates and banks but also causes severe time lags throughout the trade finance lifecycle. Banks are further constrained with stringent compliance mandates, KYC checks, and Anti Money Laundering (AML) requirements for processing the trade finance requests.

Most trade finance processes still require some manual intervention and data input from various individuals and sources. Here are some of the challenges that businesses might face daily:

CHALLENGES	DESCRIPTION	OPERATIONAL IMPACT
Manual, paper-based processes	• Flow of physical paper documents like Purchase Orders, Invoices, Bill of Lading (BOL) etc. across borders throughout the transaction cycle	• Increase in transaction turnaround time • High handling and storage costs • Risk of losing or tampering important documents
Labor-intensive processes	• Authenticity of paper documents like BOL, signatures, address is verified manually • Manual handoffs across fragmented operational processes and IT systems	• Manual checking is subjective and error prone • Lack of standardization across geographies makes it difficult to scale operations • Staff development is critical, which may take as many as 6 months to 7 years

Limited collaboration	• Fragmented and outdated legacy systems are integrated manually by the staff in an ad-hoc manner	• Lack of transparency and real-time information availability • Slow adoption of operationally efficient technological innovations such as Bank Payment Obligation (BPOs)
Poor user experience	• Limited self-service capabilities	• Failure to meet customer service needs across channels

Source: Deloitte Report

It's becoming increasingly clear that legacy trade finance operations are unable to address the expected and unanticipated challenges of today's markets and customers. The following areas are particularly in need of digital transformation:

- **Trade contract creation and review**: The current process of contract creation is very tedious wherein a paper format of the trade contract document is drafted and sent back and forth multiple times by the parties involved until they arrive at a consensus. This is followed by amendments and reviews, which are carried out by the parties involved. Trade finance processes with voluminous paper copies such as bills of lading, purchase orders, invoices, etc. across multiple parties and across borders can create an operational chaos.
- **Documentation verification and checks**: Checking and approval of contract documents in paper format is a very tedious process and has to be carried out by multiple stakeholders. There are high risks of the documents being misplaced in the process, which, in turn, can cause severe delays in the shipment of goods. The painstaking limit checks and verifications with AML agencies and credit bureaus can lead to delays in the payment process.
- **Reconciliation**: Banks should ensure that their account report should not have errors during the matching process. A huge disadvantage with manual bank reconciliation is that it is prone to human error and is also a very costly process. Such reconciliation errors can increase the risks of revenue loss and frauds.
- **International trade transactions**: As corporates venture into global markets to expand their business, it becomes increasingly critical for banks to help themselves and their corporate clients have clear visibility of their trade finance transactions and their credit position. Banks use multiple systems to handle the different stages of the trade lifecycle and these systems are not always compatible with each other. This can cause a disconnect in the flow of critical trade data such as letter of credit value, dates, payment terms, and contract amendments, which can increase the risk of trade finance fraud and regulatory non-compliance.
- **Counterparty communication**: Banks often encounter problems in collaborating with their counterparties to process the trade finance applications efficiently. Lack of collaboration can result in a vicious cycle wherein the trade document moves back and forth to the same parties during drafting, amendments, verification, approval, etc.

ACCELERATING DIGITAL TRANSFORMATION OF LEGACY SYSTEMS

Banks can manage the trade finance lifecycle and overcome operational challenges by digital restructuring of their trade finance operations. Digital transformation—encompassing automation, speed, and collaboration —can help banks improve the effectiveness of their trade finance operations to respond to market needs and customer expectations.

- **Reduction of paper-based processes**: Technologies such as e-documentation can replace paper-based processes and enable real-time transaction tracking. Adopting such technologies will help banks increase trade visibility, prevent duplication of effort, reduce paper footprint, and manage compliance.
  Banks can use optical character recognition (OCR), machine learning (ML), and natural language processing (NLP) to convert documents into e-documents without any human intervention. Banks have also started utilizing automated templates to reduce the time taken for trade documentation creation and ensure document consistency across the entire trade finance lifecycle.
- **Better collaboration and reduction in manual effort with technology**: Banks need to collaborate with their corporate clients and other counterparties for real-time visibility and quicker processing of their trade finance services using technological advances such as e-documentation and e-bill of lading. Such technology-based collaboration will empower banks and other trade entities to make quicker decisions and complete trade finance services in a shorter time.
  Banks should also digitize their reconciliation process to minimize their staff's efforts spent in managing and matching exceptions manually. Digitization of the reconciliation process reduces the risk of transaction errors and the possibility of fraud. Lastly, seamless customer experiences in trade finance with intuitive customer interfaces empower frictionless collaboration between banks and other trade counterparties.

- **Automation of bills of lading**: Trade finance instruments such as e-bills of lading facilitate faster transfer of shipping documents between entities, shortening the payment cycle. It also helps optimize the working capital of exporters. E-bills of lading are gaining popularity because they are digitally processed, saving time and money and providing real-time end-to-end transaction visibility and security.

WHY BUSINESSES NEED DIGITAL TRANSFORMATION

FUNCTIONALITIES	BENEFITS
Automated workflows	Automated process workflows improve task management and increase productivity • Reduction in operational cost with straight-through processing • Optimal automation and faster fulfillment • Real-time visibility through timely notifications
Seamless experience across multiple channels	A seamless multi-channel experience removes all channel barriers impacting customer satisfaction, ensuring: • A consistent experience across touchpoints • Seamless transition between different access points, allowing users to begin a transaction on one channel and conclude on another
Centralized trade finance operations	Centralized operations enable the reuse of customer data & application services, enabling: • 360-degree view of customer relationship • One-time data capture • Faster turnaround • Complete reuse of customer information such as customer, trade, and import licenses and preferences such as currency, branch, and tenor • Reuse of application services for fulfillment of different trade finance processes
Paperless processing	Enhances operational efficiency and reduces manual errors • Enables faster processing • Provides greater convenience • Reduces cost and improves the speed of communication
Seamless third-party integration	Seamless third-party integration for quicker turnaround and collaboration between parties: • Ensures that the stringent and dynamic regulatory requirements are managed • Enables parallel processing • Enables integration with external vendors and credit bureaus to perform customer identification, AML, and KYC checks • Eliminates manual transfer of data between stakeholders • Enables integration with participating banks (issuing bank, advising bank, etc.), importer, exporter, and service providers
Dashboards	Increase the productivity of front-line relationship managers • Enable fast and fair decisions • Ensure shorter processing time

CONCLUSION

Banks need to have a stronghold in the trade space to bridge the global trade finance gap. This can be achieved when banks start digitization and automation of their trade finance operations to serve their customer better in this connected real-time world. Leveraging solutions that have workflow automation for managing the trade finance lifecycle in real-time will empower banks to carry out trade finance operations seamlessly in a shorter time, thereby delivering a superior customer experience.

With the global trade flows showing a rapid growth, trade finance is proving to be a highly profitable business entity for banks. Banks need to play a critical role in facilitating trade finance operations end-to-end such as financing, payment processing and risk management through different trade finance instruments. Banks need strive to deliver a seamless trade finance experience by leveraging technologies such as Machine learning, Artificial intelligence, Optical character recognisation (OCR), e-documentation and e-bill of lading and advancements in customer interfaces.

Digitization is the driver for trade finance and the onus lies on the banks to provide innovative trade finance solutions to their clients. Banks have to pull their socks understanding that the trade finance landscape is changing drastically and most of the trade interaction between banks, corporates and other counterparties is happening through digital channels. Banks have to deliver digital trade finance services to eliminate heavy paper flows operations, provide rapid processing, enable real-time transaction visibility and enhance collaboration.

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