What's driving digital trade finance?

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- Duncan Lodge, Global Head of Traditional Trade
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Lesley: 00:00 Welcome to the Treasury Insights Podcast series. Today, we will be focusing on trade digitalization and recent developments that are helping accelerate the shift away from a reliance on paper. To kick this off, let me introduce the panel that you'll be hearing from. My name is Lesley McNamara. I'm the Global Head of Trade Strategy here at Bank of America based out of New York. I will be the moderator of today's session. I'm honored to introduce Duncan Lodge, the Global Head of Traditional Trade based out of London and Peter Jameson, the Head of Trade and Supply Chain Finance for Asia Pacific based out of Hong Kong. Given the truly global reach of this panel, I'm looking forward to a very interesting and insightful discussion. Today, our focus is on driving paper from the trade business through digitalization. It's no secret that trade finance is traditionally very paper intensive; from regulatory requirements for wet signatures or original bills of lading to paper-based processes designed to navigate back-office platform challenges. Making trade paperless has seemed an insurmountable task. In recent years at Bank of America, we've undertaken efforts designed to help tackle this paper challenge with a focus on environmental sustainability, business continuity, business scalability, and operational efficiency. While we've made progress, there's much more to do. Given the recent and ongoing impacts of COVID-19, the industry is ripe for change now. Standards and processes have been relaxed and digitalization across the entire suite of trade products is becoming industry conversation. The ICC 2020 global survey, which gathered responses from 346 banks in 85 countries, highlights respondent's ambitions to increase their digital offering with 77% of respondents acknowledging that they're considering the transition to digital for their trade finance models. Let's start with you Duncan. What's the impact of technology on trade? Can we be fully digitalized?

Duncan: 02:00 Well, thanks, Lesley. It's a great question. As you've just mentioned, even today, a significant proportion of global trade is undertaken using physical documentation. This makes processing of most trade transactions, manual and operation intensive for really all the parties involved in the supply chain and technology of course brings with it the ability to simplify and streamline trade transactions. Certainly there are elements of trade and indeed trade finance that are already relatively streamlined today, but technology is not the only ingredient required. It's important to mention that the industry has been trying to digitalize trade for many years now, and technology has not necessarily been the limiting factor. Lesley you've touched on some of the challenges that make digitalization of trade difficult. The sheer number of counter-parties involved, where everyone has to come together to agree to go digital, the current gaps from a rule of law and global framework perspective, particularly with regards to documents of title, and also the siloed approach to technology development that has, until fairly recently, dominated the industry. The really good news is that some of the key ingredients for making trade fully digitalized are starting to come together. First, we have the recent announcement from the G7, where agreement was reached to develop a framework for the use of electronic transferable records. This is really quite momentous and paves the way for digitalization of documents of title, for example, ocean bills of lading. It's probably the most important ingredients since it creates a consistency of approach and also market impetus. As an example, exporters have been told they have 18 months to be ready or they risk being left behind. Once you have key trade corridors truly digitized, it should then be a natural progression for other countries to seek, to adopt the same framework. The second ingredient is really a change in the way technology development is being approached, and that changes the move towards ecosystems, where numerous counter-parties come together to focus on specific issues associated with trade and trade finance. We've seen a number of consortiums and ecosystems created that are focused on the digitalization of trade, like the Marco Polo Network. With many of these ecosystems, we are now seeing real world digital transactions taking place. What often goes hand in hand with these ecosystems is Blockchain. Blockchain itself has played an important role in making the digitalization of trade more tangible, as it provides a highly secure way of transferring title, which is really what trade is often all about. In the case of trade, that means the secure transfer of digital versions of documents like the bill of lading in a very automated way. In summary technology plays a critical role in completely digitalizing trade, but what I think has been lacking until fairly recently is a coordinated approach at both the government and the industry level. We now have that. Therefore to your question, can trade be fully digitalized? The answer is absolutely. Yes, it can.

Lesley: 04:47 Thank you, Duncan. Let's keep going. Peter. The APAC region is at the heart of the global trade flows and where digitalization would really have a significant impact. To what extent has the pandemic accelerated a move towards digitalization and what other factors are at play?

Peter: 05:04 Thanks, Lesley. The pandemic has probably achieved more for digitalization in the last 18 months than we as an industry have achieved in the last decade. That's particularly acute in Asia, which accounts for around 40% of the world's imports and exports. It's important to remember that digitalization of trade isn't new, whilst there has been considerable focus over the past four to five years on new technologies; the industry has been working to digitalize trade finance for the last 25 to 30 years or more using available tools and technology. What has changed as a result of the pandemic since 2020? First, the digital trade agenda has moved from being solely a question of efficiency to being an operational risk imperative for our clients. Prior to 2020, going digital was mainly regarded as a cost reduction tool. During the pandemic, as organizations rushed to adopt, to remote working many encountered difficulties in handling paper-based transactions. They realized how critical it was to their business to be able to transact digitally. In Asia Pacific, clients encountered several challenges, such as the submission of physical documents, dependency on courier services, the need to apply wet signature to legal and transactional documents. The requirement in many markets in Asia to apply a physical company stamp and also the inability to digitally onboard themselves to new services with their bank. Although these are long-standing practices, the pandemic shone a light on the importance of being able to run your trade finance activities remotely and electronically. In a recent survey, 38% of banks in Asia have launched new digital solutions specifically in response to the pandemic, and 40% of companies plan to digitalize their supply chains for the same reason. Secondly, the importance of digitalizing trade has risen up the list of government and regulatory priorities. They now recognize that historical practices underpinned by local laws could pose a risk to maintaining economic activity, such as during the COVID-19 pandemic. Initiatives are emerging that will evolve the legal and regulatory landscape towards facilitating greater digitalization of trade without eroding the protection of the counter-parties. Two simple, but contrasting examples in Asia, Singapore recently adopted United Nations recommendations on electronic records into their national law, giving electronic trade documents, such as E bills of lading, equal legal standing with their paper equivalents, and in Japan where the physical Hanko stamp is a paper-based requirement used in approximately 15,000 different scenarios and has existed for over 2000 years, the government is not actively seeking to replace it with a digital alternative. In summary, the pandemic has fueled a renewed drive by banks and companies to adopt digital tools for trade finance, with the goal of improving resilience and reducing risk. In parallel, the legal and regulatory barriers are being eroded, as governments engage more actively in driving the changes that are needed to facilitate efficient digital trade. While challenges remain, I'm confident that we will look back at the COVID-19 pandemic and recognize its importance as a capitalist in the move towards truly global digital trade.

Lesley: 08:18 Thank you, Peter. It is clear that trade digitalization is the new frontier and at Bank of America, we're taking a multi-pronged approach to getting there. First, we're examining our existing procedures and processes to determine where digitalization can drive efficiencies and reduce our reliance on paper. That's the easy part because changing that is solely in our control. Second, we focus on how our clients are engaging with us. For example, are our clients sending us paper documentation where digital documents are acceptable? Are we sending our clients paper statements or paper advices where digital alternatives exist? This is often seen as more challenging to influence as it requires changes to existing client engagement and could create disruption. Finally, we're looking at our product suite and identifying the truly paper-based products and the Genesis of the manual processing. To digitize here requires changing current industry rules and document requirements. It won't be simple, but we're in a much better place to influence change now than we were pre-COVID. COVID-19 was a reminder to the industry that trade finance must become more digitally driven and quickly. Digitalization makes the value chain more efficient and ensures that significant limitations, long transaction turnaround time's, high handling and storage costs, lack of transparency and a lack of process standardization can all be overcome. To realize the true potential of digitalization, the entire trade finance ecosystem needs to unite to help bring different players; from the seller, the buyer, the financing party, government bodies, and others, all digital. Collaboration between banks, corporates, Fintechs, and other industry players will therefore be crucial in helping digitalization reach critical mass. In an industry that is traditionally so paper intensive, due in large part to COVID-19, the time is right to drive change, to make things more digital, more automated to challenge industry norms and to challenge traditional bank processes. With that, I want to thank my panelists, Peter Jameson and Duncan Lodge for joining me today and sharing their insights. I'm Lesley McNamara. Thank you for listening to the Treasury Insights podcast series.