Re-evaluating technology to embrace the new trade agenda

Operating in a pandemic environment has accelerated the digitisation of banks, highlighting the need to review core processes and interoperability.

TXF talks to CGI's Rory Kaplan, Senior Offering Manager for Trade and Supply Chain Solutions, Patrick DeVilbiss, Director of Consulting, Trade and Supply Chain Solutions and Colin Zeglen, Product Manager for Trade and Supply Chain Solutions for a reality check on digitisation in challenging times.

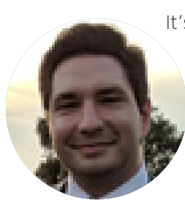
A time of technology acceleration

"Where are we now in terms of technology and trade and has the Covid-19 pandemic led to significant changes? The biggest consequence emerging from the current situation, says Rory Kaplan, Senior Offering Manager for Trade and Supply Chain solutions at CGI, is how quickly it has reshaped agendas. "Banks have had to face up to their need to advance technology at a more rapid pace than before. At CGI, we have seen a lot of proofs of concept (POCs), some limited blockchain-targeted solutions, and intelligent data capture under the umbrella of intelligent process automation (IPA)." The attempts to digitize trade documents has required a longer-term commitment from banks, and while it has been a slow process, there is certainly more urgency for banks to make it work, Kaplan says.

Where have Fintechs been in this? Various solutions have been promoted by Fintech companies – and certainly some interesting ones have been moving ahead at pace. Actually, gauging the progress of Fintechs, and how satisfied banks are interacting with them, led to a survey by CGI in association with the Bankers Association of Finance and Trade (BAFT). The initial results of the survey show a balanced reaction to interaction between banks and Fintechs.

Impact study: Sudden digitisation

"What has come to light in the current situation is the need and importance of a true global solution that provides flexibility to leverage the power of a global workforce. The IT industry has been working remotely for years," Kaplan notes, and a lot of IT professionals are very used to it. "But it's been a significant, and sudden, impact on the banks which have had to quickly set up people for remote working, retraining teams and instituting new processes such as viewing documents on their PCs." With that has come the realisation that certain core banking systems are not conducive to remote working. "A system like CGI Trade360 allows secure remote access, so our bank clients haven't missed a beat while pivoting to working remotely." Kaplan asserts.



It's certainly been an interesting time, adds Patrick DeVilbiss, CGI's Director of Consulting, Trade and Supply Chain Solutions. "With the technology landscape changing as rapidly as it did, combined with the Covid-19 pandemic, which nobody could have prepared for, it has necessitated solutions that are much more oriented to straight through processing," he says. "The more manual interventions you have in your operations, the more it's going to slow you down, especially when you don't have people on the ground."

There are 'bells and whistle' technologies that can be added and banks can work with proliferating new networks or platforms, but core operations need to be capable of interoperability to interact and be able to take full advantage of them. "You really need a platform that at its core is fundamentally interoperable with a variety of different elements whether that be blockchain-backed platforms where companies are putting some or all of their supply chain business or using electronic bills of lading (eBls) or interesting technologies like e-signatures," DeVilbiss says.

More pressing issues at the core

The need to combine those elements to create a seamless workflow is becoming more urgent. "Banks need to look at their core platforms and ask whether they have a system built for the next generation. If core banking systems are not capable of streamlined automated workflow processes, the bank runs the risk of falling behind," DeVilbiss says.

Does that mean, in the current crisis, that some of the more hyped technologies have been put on the backburner or moved down the agenda? Not necessarily. Indeed, DeVilbiss adds that the foundational technologies enable banks to take advantage of the newer technologies. "When I talk about bells and whistles not being a focus, they aren't fading away and they aren't unimportant. You can connect to new blockchains and drive a certain amount of business through that, and hopefully in the future that will pick up. However, when a bank is spending millions getting those projects off the ground and something like Covid-19 hits and the organization doesn't have the physical capacity to handle documents digitally or a good process to deal with them, it has exposed those immediate challenges in the industry."

DeVilbiss issues a call to action to banks, even if their service level agreements (SLAs) are getting hurt by Covid-19. "Banks should not panic and should be realistic rather than waiting to build some perfect platform in 10 years' time. They should look at their core foundation today to prepare for a future state," he says.

Feasible objectives and cutting through hype

One of the more practical things that is being done now is implementation of e-signatures for trade instruments. Kaplan points out that in the current crisis a significant part of the focus has been on automation, straight through processing and a driver to cut costs. Return on investment (ROI) is a very real focus for banks whose loan books are under pressure and banks are finding that if they can automate and digitise, it has been a plus.

The CGI-BAFT survey also looked at actual bank cooperation with Fintechs and how much is hype versus actual progress. Kaplan points to what's happening regarding interoperability. "The architecture of interoperable APIs is a key component of CGI Trade360 integration with every Fintech we've partnered with."

Nonetheless, some blockchain-driven trade initiatives have received less focus amid Covid-19-driven desire to improve ROI and improve credit. "Banks' investment decisions are driven by ROI and unless they have specific corporates with guaranteed volumes [of receivables] they may not be looking at new business via Fintechs as opposed to shoring up existing business," adds Colin Zeglen, Product Manager for Trade and Supply Chain Solutions at CGI. Zeglen points out that the CGI-BAFT survey shows that banks tend to be more comfortable with longer established Fintechs rather than the proliferation of newer ones born in the boom that have not been through a down cycle before. He underlines that Fintechs with interoperability and longevity are the ones that have more of a stronghold.

The survey also revealed that one of the biggest hindrances to growth and change for banks has been the proliferation of regulation and compliance. "It fascinates me that the challenge is still out there. Regulation and compliance need to be resolved – for instance through intelligent process automation – and it cannot be glossed over," Zeglen says. It is a balancing act with ROI as compliance needs are pressing too. Indeed, the challenging commodity finance situation which has emerged amid, for instance, the costly oil trader frauds such as Hin Leong in Singapore, means that compliance and networks are getting more attention. "Increased interest in these issues has resulted in a push towards centralized platforms," says Kaplan. At the same time, banks are under pressure to reduce headcount in compliance departments which means automated compliance processes are getting more attention. Basel regulation also continues to complicate bank financing of trade as the capital allocation requirement distorts the relative low risk that trade finance actually has. Trade is a steady business and is critical for the real economy.

The bigger picture for corporate credit

Some of the fundamentals of what is happening to bank lending in the pandemic are worth noting. Corporates, particularly larger multi-nationals with strong track records and creditworthiness, have reached out to banks as the pandemic rolled in and have drawn down credit lines. As DeVilbiss says: "Getting additional credit is a difficult proposition. For banks, the ROI of supply chain finance versus other products is an interesting scenario and we at CGI have heard mixed feedback. Getting capital allocation for certain trade products can be a challenge when other lines of credit are being drawn down rapidly." There are differences between banks themselves. Some have more emphasis on SCF as suppliers need it to extend payment terms and get access, others have different ROIs and may find themselves fighting internally for capital. "Banks making sure they have as efficient as possible technology for SCF behind the business is important, and it's what CGI is good at," DeVilbiss asserts.

Driving a brighter future while addressing long-time challenges in trade

Are banks willing to adapt? That's one of the big questions still outstanding, Kaplan says. Certain banks are increasing their volumes and others are seeing them fall. One of the interesting aspects emerging from the disruptions of Covid-19 has been the acceleration of bank digitisation against the negatives of supply chain dislocation and the potential for corporate defaults amid tight liquidity.

Global acceptance of standards for digitisation of trade instruments, such as e-bills of lading, remains important for digitising trade and many players, such as the ICC, are advocating for that. Progress is being made digitising documents out of ERP systems, improving IoT capabilities, but it is a slow process and standards still remain an issue.

"One thing that jumped out from the CGI-BAFT survey is the strength of traditional trade, and how strong it will continue to be," says Kaplan. "We shouldn't be surprised that in troubled times, trade platforms remain an important tool in running a bank's global trade business."

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