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Digitizing to Support Global Trade–Through the Pandemic and Beyond

Banks operating in global trade have had to adapt quickly to the current "business unusual" conditions. As part of this effort, digitalization within trade finance has seen a timely surge. Joon Kim, Global Head of Trade Finance Product and Portfolio Management, BNY Mellon Treasury Services, explains.

As a result of the global lock-down, almost every aspect of trade—from value chains and logistics networks, to spending and production—has faced a series of profound challenges. With the grip of the situation still being felt the world over, what is being done to optimize the flow of trade finance transactions?

At the start of the crisis, banks quickly set in motion their business continuity plans (BCPs) to help mitigate disruption to trade. And they have been continuously evaluating and adapting them to the changing conditions ever since to ensure they are best-positioned to provide the tools their clients need.

There has been a sea change shift in attitudes towards the digitalization of trade finance. As a traditionally physical, paper-intensive business, trade finance, performed from a "working from home" environment, encountered a number of challenges. And, as it became clear that lockdowns would remain in place for the foreseeable future, the industry reacted swiftly—coming together to adopt a series of digital initiatives.

ADAPTING TO THE NEW LANDSCAPE

Priorities and considerations within trade have shifted. The increased chance of companies being given ratings downgrades and the potential for economic downturns to occur, have provided a favourable environment for fraud and a riskier landscape than that prior to the pandemic. Additional due diligence became necessary.

For most banks, the appetite for risk has changed in line with the current circumstances. Rather than looking to onboard a number of new clients, many banks are focusing primarily on servicing their core clients. Doing business with the right counterparty, such as those with which banks have a longstanding relationship, is now more important than ever.

ACCELERATING DIGITAL CHANGE

Volumes of international trade have fallen significantly. The World Trade Organization predicts that global trade will decrease by between 13% and 32% in 2020[1]. But the shorter-term challenges currently being faced could be somewhat offset by the long-term benefits of an increasingly digital landscape.

Trade finance is a particularly paper-intensive business—a fact that has been complicated by the temporary shift away from physical interactions. Whether due to reduced airport capacity, couriers shutting down or offices closing, the fundamental changes to the way banks work has created numerous logistical difficulties when it comes to moving physical trade documents around the world.

Fortunately, the industry is coming together to find new, digital means to ensure that the flow of trade can continue—with considerable progress having already been made. For example, export receivables collection documentation was typically sent from multiple branches and delivered via a courier to the partner bank. As employees are currently not in the office to receive the delivery, banks have created digitalized cover letters to allow trade to continue seamlessly. Elsewhere, the use of e-signatures in trade finance distribution transactions—instead of the traditional pen-to-paper method—has seen a surge in recent months.

That said, there remain instances where physical documents have to be presented and sent to an issuing bank. In such scenarios, banks are maintaining an active dialogue to ensure that paper documents can be received and, where complications arise, alternative arrangements—such as digital formats—are being facilitated. This communication throughout the chain—not just between banks but also with clients—is crucial to ensure both old and new procedures can be carried out effectively.

LOOKING TO THE FUTURE OF TRADE

With digital processes coming to the fore to address current challenges, it has become evident that the current situation is helping accelerate trade's digital journey, although efforts to leverage technological innovation had already been underway.

Among these initiatives is Marco Polo, a blockchain-based initiative that is enabling efficiency in the open account space. Its platform, which is powered by distributed ledger technology, enables the safe and seamless exchange of data and trade assets. This removes the need for participants to manually enter details into their own enterprise resource planning (ERP) systems or spreadsheets—helping to remove manual efforts and reduce paper-based processes.

Elsewhere, banks are applying optical character recognition (OCR) technology to internal operations to improve efficiencies and streamline transactions. OCR enables images of typed or handwritten text to be digitally converted into machine-encoded text. This removes the need to manually re-enter a client's trade instructions, helping to reduce the risk of errors while improving speed and accuracy.

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[1] https://www.wto.org/english/news_e/pres20_e/pr855_e.htm

In combination, the immediate changes being made and the longer-term projects being worked on are helping to lay the foundation for the digital future of trade. And while some areas of trade, such as Letters of Credit, remain harder to digitalize than others, the industry is on the path toward profound change—one that will lead to changing attitudes, increased collaboration and greater adoption.

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This article first appeared in TRF News.

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