



As global trade continues to recover from the drop in world merchandise trade occasioned by the COVID-19 pandemic, supply chains are becoming more international, drawing on many parties from around the world. This appears to be good news for banks providing Trade Finance services, however, as trade volumes are increasing, other forces are reducing banks' margins.

Transactions continue to shift away from documentary trade, typically involving letters of credit issued by banks with attendant high operating costs and slow transaction delivery time. This is partly a consequence of increased regulatory burdens, but it is also a result of failure to digitize and automate trade operations.

Trade Finance remains a largely paper-based and laborious business. A single transaction could require the interaction of more than 20 entities and involves about 20 paper documents and 5,000 data field exchanges. This reality of high costs and failure to automate processes has led to opportunities for established practitioners and new entrants to fulfill the unmet demand of trade more efficiently with the digitalization of the trade finance market.

Digitalization of Trade, according to EY, has been identified as a key pillar of change which banks must invest in to continue to play their dominant and competitive role in facilitating and financing trade. Other pillars include effective capital management, next generation compliance, data and insights, all which must be layered on a robust trade transformation agenda.

Digital Trade Finance strategies are typically hinged on the following:

1. Leveraging connectivity tools to connect and collaborate with partners (financial and regulatory) in the Trade Finance ecosystem to create product offerings that provide end-to-end value-added digital solutions.
2. A laser-eyed focus on the needs of clientele providing multiple benefits for them based on their individual business models.
3. Focus on the digitalization of key elements and processes which add the greatest value to the clients and also increases processing efficiency for banks.
4. Developing a network which involves having a holistic view of the entire Trade Finance ecosystem. This creates new opportunities, markets, and commercial models that incorporate digital solutions connecting all participants. It also helps optimise end-to-end processes to achieve cost and capital efficiencies.

Any organisation intending to take advantage of this new shift must at the minimum, strategise based on the above principles.

Pain Points in Modern Trade Finance

Trade finance volumes in the global market are slightly above 20 trillion dollars and this is projected to grow to at least 25 trillion dollars in 2027 according to the Boston Consulting Group (BCG). An important part of the projection to note is that over 45% of the stated volume will be coming from developing markets. Banks in Nigeria and Africa as a whole have a vital role to play to ensure that these transactions are executed as efficiently as possible. Although the supply of trade finance is readily available for investment-grade multi-nationals and large corporates, it is currently less accessible for sub-investment grade medium-sized companies and SMEs, especially those in developing economies.

Medium-sized companies and SMEs in developing economies represent a huge portion of the market in their local economies and as they expand their domestic and cross-border commercial activities, the demand for trade finance will increase. This increased demand for trade finance solutions, combined with a perceived shortfall in capacity from the traditional banking sector has resulted in an opportunity for non-bank trade finance providers to explore trade finance as a new asset class and invest in new processes, partnerships, and emerging technologies to fill the trade finance supply gap and to do it more efficiently. The readiness of these Corporates and SMEs to shift to new products has also presented both opportunities and pressure for banks and non-banks to innovate in the trade finance space.

In other financial services spheres, it is clear that fintechs have made significant strides to capture a significant share of the market through their flexibility and speed in offering customised client solutions to corporates. These fintechs who have caused significant disruptions to consumer banking are now taking advantage of the supply gap in trade finance to grow the asset side of their balance sheet.

Currently, there is hype around new technologies, such as smart contracts, AI, and Distributed Ledger Technology (DLT), which are transforming trade finance into a hotbed of innovation and attracting sustained investment in digital trade ecosystems. The Distributed Ledger Technology which is used to access, validate, and record trade transactions in multiple locations for instance has created a buzz amongst banks and financial technology firms that aim to digitalize trade finance and increase efficiency of the processes involved. In more advanced environments, DLT has moved banks to find a way of collaborating with fintech companies. However, it also brings with it the challenge of connecting the right parties and finding the right use cases.

Currently, trade finance in Nigeria, while improving in sophistication with stronger relationships with foreign counterparties, is not advancing as much in the digital trade innovation space. While corporates rank complex processes, slow turnaround times, lack of "one-stop" solutions, highly manual documentation and limited connectivity amongst parties to be their major pain points, complexity of compliance/KYC and limited digitalization across ecosystem players are also significant challenges for most banks.

Learn more about the role of digital in the advancement of Trade at our upcoming webinar on Monday, September 27, 2021.

We will be hosting Mr Francis Anatogu, Secretary, National Action Committee on the African Continental Free Trade Area; Mr Komi Tsowou, Economic Affairs Officer, African Trade Policy Center, Regional Integration and Trade Division, United Nations Economic Commission for Africa, and several other leading experts at the September edition of our Interactive Session themed "AFCTA - The Road Ahead".

Join our expert speakers as they share insights on the macroeconomic trade environment, the role of digital as a critical driver for global trade, alternative funding options for international trade and the Africanization of global trade.

To register for the event, scan the barcode above or visit www.coronationmb.com/event-registration/

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