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Role of Digital in the Advancement of Trade

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Continued from last week

Key Expectations for Banks and Corporates

While the pain points stated above can be significantly eased by digital trade ecosystems, some alignment is still required between the expectations of corporate clients and the capacity of banks providing products and services in trade finance.

Corporates are mostly looking ahead to automated digital trade processes that will reduce manual effort while ensuring consistency and reducing error rates. They also seek the increased connectivity that digital ecosystems of various banks, fintechs, and other players in the trade space can provide within the fragmented trade community of importers, exporters, shipping companies, customs agencies, and banks. They are less concerned with gaining access to new, innovative products, improved commercial terms, or greater choice between competing banks. They instead seek the operational benefits of digital ecosystems and the potential to significantly reduce their costs in a more competitive world.

Banks, on the other hand, are in general more optimistic about the value of trade ecosystems for corporates than corporates themselves are. For example, banks are much more enthusiastic about the potential of innovative products. In a BCG survey, more than two-thirds of banks surveyed believed new products and solutions would be highly valued by corporates, while less than half of corporates thought the same. This mismatch presumably indicates the different viewpoints of the two groups. The transformational potential of digital ecosystems excites the insiders in banks and fintechs developing the technology, while SMEs and large corporates just want trade made easier and cheaper. Banks also want trade made easier but are prioritising the ability to streamline trade processes to reduce manual labour, reduction of operating costs involved in the process, and the ability to provide more innovative products to SMEs and Corporates.

What Does the Future for Digitalised Global Trade Ecosystems Have in Store?

According to a 2020 BCG Survey, banks and corporates are generally upbeat about the future of trade ecosystems. Most global banks surveyed either already partnered with one or more trade ecosystems or planned to. More than 75% of banks and corporates surveyed were confident that they would conduct most trade finance via digital ecosystems in three to five years. Despite this rapidly growing interest and investment, trade ecosystems now capture only a tiny fraction of trade flows in part due to the scale of efforts it would take for corporates to adjust to the new technologies and the fragmentation of the trade finance landscape.

While we believe that a block chain-based trade finance solution would allow all the parties in the trade finance value chain transact using a single platform that would enable faster processing of transactions, majority of the ecosystem players within the Nigerian context are not at the right level of maturity yet. This also has to be driven from an industry perspective. However, while the industry strives to attain this maturity level, organisations are expected to equip themselves with key capabilities to:

- Deliver top notch trade finance solutions.
- Integrate seamlessly with third party platforms via the use of standard api platforms.
- Store, process and distribute documents associated with trade processes electronically.
- Co-create a regulatory framework to drive operations of blockchain in Nigeria. Views across the industry, including discussions amongst regulatory bodies, show that the use of blockchain technology and virtual currencies have come to stay in Nigeria and globally, subject to clearly defined standards and policies by the regulators.

For the African trade finance ecosystem, the most widely acclaimed payment platform, SWIFT, can be heavily leveraged to pave the way for adoption of a single networked platform. Banks should be able to leverage the capabilities of such platforms to originate transactions and possibly syndicate loans with other non-bank participating entities under the same digital roof. The effectiveness of such a network which could allow lenders to access insurance products, place orders with brokers and secure logistics providers can, to a reasonable extent, address the perceived gap within the trade space. Transaction time will reduce by eliminating the delays involved in moving documents between trade service providers, banks, government bodies and logistics companies.

In more advanced economies, digital ecosystems are noted to have the potential to promote the sustainability agenda of many participants in international trade. For example,

- BCG has partnered with WWF-Australia to launch OpenSC, a global blockchain platform which enables suppliers and stakeholders track goods, such as sustainable fish, along the supply chain. Consumers can learn more about the sustainability credentials of the products they purchase by simply scanning a QR code.
- Similarly, R3 and Ripe.IO are partnering to bring more trust and transparency to the agricultural food chain through digitization and adoption of blockchain. Similar platforms exist for other e.g.
    - IBM in partnership with Ford on a platform to verify the source of ethically sourced; and eProvenance to monitor and analyze wine shipments,
    - BlockVerify, a solution which focuses on combatting counterfeiting.

To date, there has been more of siloed discussions about how key players within the ecosystem can leverage technology to improve access to trade finance in Africa. While digital tools (see table below) are being adopted by some banks and a few fintechs, most players still operate as digital islands.

Pending when the trade business is approached from a collaborative standpoint, key capabilities are required for ecosystem players to effectively position themselves to advance the course of trade for the future:

Capabilities for the Future of Trade

Cloud
Cloud computing for agility, scalability and to avoid time consuming integration with existing and less agile systems

Interoperability
Systems which provide capability for players to easily collaborate on intiatives to be driven industry wide

Automation
Digitize processes for improved efficiency

Compliance
Definition of clear technology standards to align with regulatory requirements

Trust
Systems layered with adequate controls, security and encryption capabilities to protect transactions

Governance
Development of enabling governance frameworks to drive adoption among ecosystem players.

While the above are put in place, organisations must take strategic decisions that will enable agility and allow them to work collaboratively with a shifting trade agenda and complex ecosystem of participants. This implies the need for heavy leverage on data and collaboration across a trusted network of global trade players, with an understanding of evolving financial regulations guiding the unique jurisdictions of each ecosystem player.

It is very clear that digital has a pivotal role in bridging the trade finance gap. Trade as a key aspect of the African economy contributes significantly to the continent's total GDP per year. There is a huge potential for the continent's trade landscape to develop at scale and drive down costs via digital since its economy is no longer defined by boundaries. A critical success factor is for all parties including government agencies to have a digital-first approach and recognise technology as key driver to this advancement. The pace of advancement however will be facilitated by increased collaboration among the various ecosystem players with overall coordination by regulators.

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