

FINASTRA

# Trade Finance in the Digital Age

Why modern technologies have the potential to reshape banks' trade finance operations for good





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## Introduction

### The trade finance gap is growing, and could restrict businesses from reaching their full potential

According to the Asian Development Bank (ADB) the world faces a widening trade finance gap of \$2.5 trillion due to market shocks, document inefficiencies, and compliance issues.

The gap represents a massive brake on individuals and businesses' ability to trade goods and services. The World Bank<sup>1</sup> says that about half of SMEs in particular do not have access to formal credit and have to rely on internal funds, or cash from friends and family, to launch and initially run their business.

It's fair to say that the trade finance gap does not affect all geographic areas equally. Businesses from some regions are often refused trade finance because of the economic maturity of the country in which they operate, or because not enough data is available about an emerging sector.

"Reasons for rejection included factors such as perceptions of high country risk, lack of collateral, poorly presented documentation, and issues related to know-your-customer (KYC) compliance," states ADB<sup>2</sup>.

Trade finance enables those businesses to de-risk trading activities by working with established banks to ensure payments are made by all players in the supply chain.

However, trade finance can be a cumbersome process based on well-established but often inefficient workflows. Experts with knowledge of how trade finance works are also in short supply.

There is a real opportunity for banks to help bridge the trade finance gap using smart, modern technologies that enable interoperability, while complying with a wide set of regulations.

However, technology will also enable banks to bring the benefits of better working capital finance to regional economies, fueling societal growth and helping people reach their full potential.

1. <https://openknowledge.worldbank.org/server/api/core/bitstreams/d157af2e-ad06-558f-8e1b-5bf52841d34a/content>

2. <https://www.adb.org/sites/default/files/publication/906596/adb-brief-256-2023-trade-finance-gaps-growth-jobs-survey.pdf>





## Regulation, and technology, will have the biggest impact on trade finance

There has been a resurgence of regulatory standards that bridge the gap between digitalization and trade finance processes. This is driven by a recognition that trade finance processes need to be modernized and streamlined for banks, partners and businesses.

The International Chamber of Commerce (ICC) explains<sup>3</sup> that: "The digital trading system currently operates on antiquated systems and laws, in some cases dating back centuries. A typical trade transaction involves up to 27 documents, 9 of which relate to the transfer of possession, can cost \$80,000 per transaction and take up to 2-3 months to process."

Working with established standard-setting bodies and international organizations, the ICC Digital Standards Initiative will drive greater adoption of existing standards and create new frameworks to unify digital trade processes.

The publication of the G7 Trade Ministers' Digital Trade Principles<sup>4</sup> in October 2021 supported the objective to simplify and modernize trade finance, saying: "To cut red tape and enable more businesses to trade, governments and industry should drive forward the digitization of trade-related documents. This includes through means of addressing legal, technical, and commercial barriers to the digitization of paper processes."

Meanwhile, the ICC is championing the Digital Standards Initiative (DSI)<sup>5</sup>, which it says is "committed to promoting policy coherence and harmonising digital trading standards for the benefit of businesses, governments, and people everywhere."

As well as developing the DSI, the ICC has advocated strongly for the Model Law on Electronic Transferable Records (MLETR) from the United Nations' Commission on International Trade Law (UNCITRAL).

MLETR provides a workable framework to facilitate the use of digital original documents as negotiable instruments. Transferable documents or instruments typically include bills of lading, bills of exchange, promissory notes and warehouse receipts.

Finally, there is a move by third parties such as the TFD Initiative<sup>6</sup> mission to convert trade finance into a liquid asset class. This can then be traded globally with transaction-level automation and standardization, enabling huge cost efficiencies along with real-time processing.

The common threads between all of these initiatives and frameworks are interoperability and standardization, which will help organizations developing the technologies underpinning the modernization of trade finance to see a direction of travel.

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The International Chamber of Commerce (ICC)

3. <https://www.tradefinanceglobal.com/posts/digitalisation-could-add-9tn-to-g7-trade-by-2026-says-new-icc-report/>

4. <https://www.gov.uk/government/news/g7-trade-ministers-digital-trade-principles>

5. <https://www.dsi.iccwbo.org/>

6. <https://www.tradefinancedistribution.com/>



## Which technologies will play a role in automating the trade finance ecosystem?

As well as standardized documents and agreed processes, the modernization of trade finance cannot be delivered without the adoption of new technologies.

Technologies such as cloud, AI, and blockchain can enhance trade finance by enabling automation, digitalization, data insights, and knowledge management.

**Cloud technology** supports the delivery of on-demand software as a service (SaaS). This allows banks and their customers to access applications, storage and servers over the internet without installing or maintaining systems on their own platforms.

As well as supporting SaaS, cloud provides scalability, flexibility, security, and reliability for trade finance solutions, as well as support for apps and micro services within a trusted ecosystem.

Instead of building systems to support processes in-house, organizations can implement 'plug-in' functionality in order to secure return on investment much more quickly than if they were building them from scratch.

**Artificial Intelligence (AI)** encompasses technologies such as natural language processing (NLP), machine learning (ML), optical character recognition, and other techniques to perform tasks that normally require manual human intervention.

It can help automate processes such as fraud detection, document checking, risk assessment, compliance screening and many other functions in trade finance. AI bots or agents can be trained to check whether all of the correct documents are in place before a transaction is agreed, or that anti-money laundering sanction lists are checked.

**Blockchain technology** enables the use of distributed ledgers, which are systems of records and smart contracts that are shared among multiple parties in a network.

The World Trade Organization (WTO)<sup>7</sup> says that "blockchain is a type of sophisticated cryptographic decentralized and distributed ledger architecture, a continuously growing list of records. Transactions or blocks added to the ledger are linked to one another and time-stamped, making the technology inherently resistant to modification of the data."

The development of blockchains has not always been smooth sailing, with some well-publicized false starts along the way. However, there are now some joint ventures and use cases that are helping to create transparent, secure and traceable transactions between multiple parties in trade finance.

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*There are already examples of how blockchain has been used for applications such as document ownership, and how artificial intelligence can be applied to document compliance. You're going to see AI being used much more in terms of knowledge management and support."*

Iain MacLennan  
Head of Trade & Supply Chain Finance  
at Finastra

7. [https://www.wto.org/english/res\\_e/booksp\\_e/wco-wto\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/wco-wto_e.pdf)



## Introducing the trade finance stack from Finastra and Microsoft

First announced in September 2023, the multi-year global agreement between Finastra and Microsoft is focused on trade platform modernization, building on the existing availability of Finastra Trade Innovation in the cloud.

Delivering the full functionality of Trade Innovation via a full microservices architecture using Microsoft Azure will give banks increased agility, flexibility and scalability, enabling them to continue to provide service excellence to customers.

The trade finance stack includes the whole suite of applications and business processes needed to run a trade finance business.

By choosing the stack that Finastra and Microsoft provides, banks and other third parties involved in trade finance no longer need to spend time building their own trade finance systems, and can be confident that the platform will keep up with regulation into the future.

As the expectations of corporate customers evolve, financial institutions need to deliver a seamless transactional experience across their trade finance and supply chain finance operations in support of open finance.

Further extending the APIs available through Trade Innovation and Finastra's open innovation platform, FusionFabric.cloud, will allow customers to leverage a complete digital trade ecosystem, supporting the digitalization of the full transaction lifecycle.

### Benefits of the trade finance stack include:

- ✓ Improved efficiency: automating manual processes, reducing errors, and accelerating transactions
- ✓ Enhanced customer experience: providing seamless access, real-time visibility, and personalized services
- ✓ Increased revenue: expanding product offerings, reaching new markets, and creating new business models
- ✓ Reduced costs: optimizing resources, streamlining operations, and lowering risks
- ✓ Greater sustainability: reducing paper usage, carbon footprints, and environmental impacts





By connecting the services and data that corporate clients need with a solution that aligns the physical and financial supply chain, banks can deliver value-added trade services, drive process automation, and can explore new collaborative business propositions with their clients.

With connectivity to the FusionFabric.cloud platform, Fusion Trade Innovation's core and digital channel APIs are exposed to the developer ecosystem. This has resulted in a range of value-added applications, for example AI tools to improve KYC processes and document checking, and integrations with emerging distributed ledger networks.

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***Banks are facing higher expectations from their corporate customers for better service level agreements when it comes to efficiency and turnaround time. What's needed is a scalable, high-performance, interoperable, easily deployable, extensible and resilient platform."***

**Iain MacLennan**  
Head of Trade & Supply Chain Finance  
at Finastra

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***There's no doubt that there are a lot of technologies, not just blockchain and AI but others such as generative AI for reasoning over large datasets. The question is how it best be applied for operational efficiency, risk reduction and better customer experiences."***

Peter Hazou

Director of Business Development at Microsoft

## The importance of an agile, interoperable trade finance stack for financial institutions

The world continues to face significant turbulence and uncertainty, which make global supply chains difficult to manage and put the brakes on traditional lending.

"In the last three years, the trade finance gap has widened by \$800 billion," says Iain MacLennan, Head of Trade & Supply Chain Finance at Finastra. "It's now \$2.5 trillion. Yet access to working capital is really key, especially to micro and SME businesses that are particularly disadvantaged."

The challenges that the ADP highlights for refused trade credit, such as clear documentation and KYC compliance, could be vastly improved with interoperable digital processes.

By improving transparency and communications in the trade finance process with technology, organizations as well as financial institutions and corporates can reduce risks and unpredictability as much as possible.

"Technology will permit the interoperability between all of the players, whether they are logistics companies, manufacturers or retailers," says Hazou. "This is a cross-industry issue and should no longer be looked upon as just bank trade finance managed with paper documents."

The key to modernization, and the big opportunity for banks, is to start harnessing and using the huge amounts of data that exist across the trade finance ecosystem.

"Trade finance contains so much data that's so valuable to all parties, be they small enterprises to the largest multinationals," explains Hazou. "The insights that are in those documents currently are just being processed as paper, and the whole ecosystem is not yet benefiting from it in the way it could."

The trade finance stack solution provides a way forward for all parties and will help them navigate through ongoing regulatory changes, as well as sociopolitical events and the inevitable as yet unforeseen economic shocks.

As MacLennan concludes, what's really needed is a platform that can bring together the three flows of physical goods, documentation and finance: "What the technology gives us is the opportunity to mesh all three of those components together for the benefit of everyone."



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## Contact us

### About Finastra

Finastra is a global provider of financial software applications and marketplaces, and launched the leading open platform for innovation, FusionFabric.cloud, in 2017. It serves institutions of all sizes, providing award-winning software solutions and services across Lending, Payments, Treasury & Capital Markets and Universal Banking (Retail, Digital and Commercial Banking) for banks to support direct banking relationships and grow through indirect channels, such as embedded finance and Banking as a Service. Its pioneering approach and commitment to open finance and collaboration is why it is trusted by over 8,000 institutions, including 45 of the world's top 50 banks. For more information, [finastra.com](https://finastra.com)

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