



EACT Briefing

Trade Finance Innovation



THE
EUROPEAN
ASSOCIATION
OF
CORPORATE
TREASURERS

DRIVERS

TRADE FINANCE INNOVATION

“Documentary credits and guarantees are still highly decentralized and paper-based. Both are ideal topics to be further centralized, but also an opportunity to bring more substance to Central Group Treasury.”

Didier Lang - MOOG

“Trade Finance could be compared to a sleeping giant, albeit it presents a huge potential of digitization. We should wake it up.”

Benoît Scholtissem - APERAM

“International finance is a dynamic ecosystem with tons of new fintech players offering innovative technologies like DLT* and blockchain. They will be the catalyst for innovation and changes.”

Benoît Hamar - EUROFOIL

“Trade Finance is based on a complex ecosystem with multiple stakeholders, a large number of data flows, that we should better monitor, assess and use. We ideally need standardized data and file formats, security protocols and interoperability.”

Benjamin Defays - KOCH CHEMICAL

“Players work with country specific jurisdictions and increasing complex regulatory requirements and challenges, including sanctions, embargos and KYC.”

François Masquelier - RTL GROUP



INTRODUCTION



Jean-Marc Servat,
Chairman EACT

“Trade Finance Innovation is a key topic for Corporate Treasurers. It remains a priority area where, we must confess, developments have been (too) modest in comparison to other sectors, despite importance in facilitating international business. There are issues of modern life which have not shown radical changes and transformations over the last decades. The way we deal, we shop, we hedge, we lend, or we pay, for example, have changed significantly. Why couldn't Trade Finance also deliver its full potential of transformation? The Global Financial Crisis perfectly illustrates the value of Trade Finance to increase predictability of cash-flows, release working capital from supply chain and most importantly to manage related risks of this chain”.

“All companies, from MNC's to SME's, stand to benefit considerably from digital technology and innovations. Corporate treasurers' members of EACT could certainly play an important role in driving adoption. However, for this to happen, I believe banks should make solutions readily available to corporates and treasurers should work with them to develop new and compelling business cases. We as treasurers should drive this digital revolution. These new emerging solutions and highly expected standardization could help mitigating risks and creating competitive advantage to our members through Trade Finance innovations. Let's be part of this evolution and develop solutions to help corporates to maximize efficiency, reduce risks of fraud and minimize costs”.

François Masquelier,
Vice-Chairman EACT



* DLT, Distributed Ledger Technology is a decentralized database and relies on similar principles of consensus to blockchain.

DRIVERS

EXPLAINED

Here is how the fast-moving environment is pushing Trade Finance to innovate.



“The key to achieving tangible results will be the involvement and collaboration of all players.”

JEAN-FRANÇOIS DENIS

Looking into the future

How do you see the evolution of Trade Finance in the next 10 years?

JEAN-FRANÇOIS DENIS,
Global Head of Trade Solutions and Network Management at BNP Paribas, shares his vision of the evolution of Trade Finance.

“Trade Finance is about Global Risk mitigation and Funding availability for global transactions. It’s highly influenced by geopolitical events, compliance and regulations.

So it is hard to predict what the landscape will be in ten years, but it will evolve very significantly towards more digitalization and new alternatives to cover the needs of corporates.

We are convinced that there are two parallel ways to explore.

The first is disruptive, looking to offer alternative solutions - technological and functional - able to solve concrete problems of corporates. Some are blockchain-based, but not only. Examples include new offers to manage risks between counterparties and new ways to digitally transmit information between stakeholders in a faster and more secure way.

The second way is to improve the existing and it shouldn’t be neglected. For instance, we can provide better ways to track and trace information on transactions - even on the existing solutions. Take Letters of Credit, which are (very) old instruments, but have the huge advantage of being ruled by international regulations and practices. We can improve them in a similar way as has been done with SWIFT gpi for payments*.

In the years to come, I think we will observe large volumes of trade that will continue to be processed through conventional channels while benefiting from smart innovations able to answer some current pain points. These will co-exist with more disruptive (technology-enabled) options.

We will live in a “hybrid” world for some time. Take another example: there are initiatives trying to digitize Letters of Credits, such as Voltron. It will take years to conquer the whole world. Not

only do all actors in the vast trade ecosystem need to be ready to embrace these new technologies and solutions, but the legal and regulatory environment also has to be adapted.

On the other hand, there are some evolutions that require the involvement of fewer players and they can be implemented more quickly. That is the case with Marco Polo that focusses on Supply Chain management or with some digitalisation initiatives on the front of Bank guarantees.

We can reasonably expect that in ten years from now several of those will be fully operational and bring the full benefit of their technologies. Indeed, the players seldom use only one, but combine multiple technologies such as: OCR, AI, blockchain, API etc. And we can expect the evolution of some of these technologies to further accelerate. Also, let’s not forget that increased security, transparency and better access to data should allow better risk control and help improve the fight against fraud.

Lastly, we can expect the whole ecosystem to embrace the issue of sustainability. Banks such as BNP Paribas are very careful in limiting their investments to sectors that are CSR compliant and we are engaged in some Trade Finance initiatives to make it more sustainable. Trado for instance is a project that helps trace the sustainable origin of tea leafs production.

The key to achieving tangible results will be the involvement and collaboration of all players - shipping and logistic companies, banks, corporates, organizations with an open mind to innovation and with a clear and coordinated vision.”

(*) SWIFT gpi allows banks and corporates to execute international payments with more transparency, track and trace capabilities etc, based on traditional Swift messages.

INTERVIEW

REVERSING THE TIDES OF TRADE FINANCE

In the past, Trade Finance transactions were awash in a sea of paper, lagging other bank activities in becoming digitalized. The Trade Finance industry is charting a new course, driven by the winds of innovation and competition, to reach financing and data destinations via greater efficiency and added value.

ALAIN VERSCHUEREN,
Head of Innovation & Distributed
Ledger Technology

MARIE-LAURENCE FAURE LEPETIT,
Head of Digital Trade

BRUNO LECHEVALIER,
Head of Supply Chain Management



BNP PARIBAS

What are the main challenges that need to be overcome?

Supply chain digitalization is accelerating as clients weigh up solutions and platforms created by new players, banks and fintechs. All these innovations challenge the traditional, slow, paper-based Trade Finance offer. A bank like ours needs to be able to connect easily to the digital channels selected by our clients. That's not as easy as it sounds with the rise of security/KYC as well as constraints generated by legal and regulatory frameworks, but it creates opportunities for those who can keep up with the pace of change. This is where partnerships and collaboration with fintechs, peers, logistics and corporates make a difference. These will create greater counterparty visibility, reduce operational, credit risks as well as costs.

How are banks like yours embracing the current digital transformation?

Investment in interconnecting technologies such as DLT, AI, Cloud, IOT and API is key. They are being combined in new powerful solutions and market initiatives. BNP Paribas takes an active part in several consortia and co-designs solutions with clients. We test many innovations taking advantage of the opportunities created by the moving boundaries between collaborative and competitive spaces. Multi-bank, open architecture is needed to achieve the end to end digitalization expected by the market. Also, one of the benefits of new technologies is to support the achievement of sustainability goals by tracking the origin of goods.

What technological developments will shape your bank over the next decade?

In ten years, requesting a trade transaction, retrieving results from BNP Paribas with a timeline or securing access to real-time trade data will only require a few clicks. Digitalization has the potential to replace millions of paper-based documents. Innovative solutions are emerging, enabling all stakeholders to be more efficient, have more visibility and help financing earlier in the supply chain. A decade from now our legacy of global reach, combined with being a data source will provide an advisory portal for our clients who will find fully-digitalized, value added Trade Finance solutions.

TAKE AWAYS

Context

Trade Finance is the financing of international trade flows. It exists to mitigate, or reduce, the risks involved in an international trade transaction. The way to operate has been fixed and defined for ages, without many innovations and improvements. To enhance it, stakeholders must solve challenges: e.g. absence of full standardization and interoperability; lack of scalability to reach critical mass and real-time processing; local and multiple regulations; risks around security, fraud and control access to data; etc.

Globalization means that trade transactions are seldom simple exchange of goods between a buyer and a seller. The continuing global economic uncertainty adds another layer of difficulty. Change in the banking landscape is driven by different factors not least: margin erosion, new regulations and competition from new entrants.

Huge potential to be unleashed

Another obstacle to the development and adoption of these new solutions is the legal framework and standards that needs to be agreed. Trade Finance should be reshaped and reinvented to simplify life of all stakeholders. Digitization of Trade Finance will bring huge enhancements of the way treasurers work. Like "SWIFT gpi" for cross-border payments, we have a fantastic opportunity to co-create solutions with dynamic bank partners to reduce costs, fasten exchange of goods, increase transparency and sustainability, enhance efficiency and enable traceability.

Potential game-changer

Many of the digital initiatives publicized over the past years have implied DLT or Blockchain, but not only. These technologies, together with revamping of current "conservative" processes, should improve financial supply chain and international finance. Overcoming the obstacles to digitalizing these international transactions will require different approaches run in parallel and more proactivity from treasurers to be part of this transformation.



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EACT head office

3 rue d'Edimbourg
CS 40011
F-75008 Paris
Email: secretary@eact.eu
Telephone: +33 1 42 81 53 98

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www.eact.eu