MENA finds fast route to change

As the business of trade finance seeks its post-crisis equilibrium, technology remains a key aspect of service delivery. MENA presents challenges and opportunities in the trade technology space but the lack of complex legacy systems proves a key advantage. ***Alexander Malaket*** explores current trade technology developments in the MENA region.

While the economic crisis has motivated greater attention to traditional products and processes, the evolution of supply chain finance, which had redefined the trade finance landscape in most markets across the globe, has also been in evidence, particularly in leading economies in the MENA region. Technology is an important dimension in maintaining a trade finance delivery capability.

Some suggest that the pace of development of the supply chain finance value proposition, and the delivery capabilities in the MENA area, have lagged those in the most advanced markets. The rate of adoption of new technologies by local and regional organisations – both corporates and banks – has been conservative, though there were clear signs in the pre-crisis period that the region was ramping up both discussion and action in these areas.

Technology in crisis

Despite the global crisis, or, perhaps because of it, the dialogue around supply chain finance has progressed and matured across many markets, and banks continue to be very interested in, and receptive to, the role of technology in enabling traditional and emerging business models in trade finance.

While technology can be complex and expensive, and it would be natural to expect a significant downturn in trade finance technology developments or implementations, the reality appears to be that key decision makers are looking beyond the crisis, and continuing to entertain the notion of technology investment.

Murray Freemen, marketing manager for Surecomp, observes: "In many respects, particularly with a global view, it is business as usual for us. We are seeing volumes of RFIs and RFPs that are on par with past years, and our discussions with customers and prospects continue to be energetic and forward-looking, and this is also true among leading banks in the MENA region. While we are seeing greater interest in traditional products – a 'back to basics' view – there is interest in factoring and receivables finance among banks in the region. In recognition of the desire to continue to innovate, our conversations with bankers always involve a review of wish-list items – some of which are net-new, and others which can be developed based upon our global experience over the last two decades."

The technology space in trade finance has generally been fairly competitive, with relatively few providers offering comprehensive solution suites across various technical platforms, with global client bases. Other providers generally have been innovators in the global trade management (GTM) space, niche providers with a specific focus, or generalists offering ERP-linked solutions.

SAP is active in the MENA region, reporting year-over-year growth in excess of 49%, in a region where technology spending is growing at a rate of 7% according to technology industry observer IDC. SAP reports a consistent desire among leading MENA-based organisations, to adopt best practices in a wide range of areas, from financial compliance to supply chain management.

Kevin Scott, vice-president, industry business solutions, at SAP in Dubai, notes: "Organisations are increasingly looking to next generation supply chains based on SAP's advanced planning and optimisation to generate a step change in operational efficiencies, and thereby increasing competitive advantage in the new economic reality."

More recently, with the increasing focus on open account transactions and supply chain finance, technology providers with a payments and settlement orientation have offered up solutions to the trade finance market.

Lastly, financial institutions possessing both the resources and inclination to undertake in-house development, have always been a reality in the trade technology landscape, in the MENA region and globally. On the client side, many corporates favour off-the-shelf solutions, while some larger players have also devised in-house solutions tailored to their own unique business requirements.

A region without legacy

Business needs ought to drive technology development. So says the textbook, and yet, some of the most groundbreaking business models developed in the trade space were very significantly influenced by evolving technical capabilities, driving innovation into business models despite the passive resistance of business stakeholders.

The evolution of supply chain finance is probably fairly characterised as being the result of iterative development – with the twist that business and technological considerations continue to take turns in shaping the nature of the solutions offered to importers and exporters across the globe.

Trade financiers in the MENA region possess an advantage that proved valuable in parts of Asia and elsewhere some years ago: the absence of complex legacy systems and infrastructure. This lack of legacy technology has, and will, enable rapid, cost-effective progress to the latest capabilities and business models, when the market is ready to adopt such enablers.

Kurt Cavano, CEO of New York-based TradeCard, observes: "Building the technology infrastructure required for a trade finance initiative does not have to be a major investment. Just like cell phones allowed whole portions of the world to leapfrog the land line phase of telephony, hosted software-as-service applications are enabling companies in MENA and other parts of the world to skip the expensive mega software projects and get instant return on investment. Hosted solutions require just an internet browser for suppliers, buyers and banks to connect. Easy to deploy solutions such as these present a significant opportunity to connect multiple parties in the MENA region without facing opposition that sometimes comes with massive IT projects."

Specialists in trade finance and supply chain technology seem to agree: the global crisis has engendered an increased focus on traditional products and solutions, but it has not (perhaps surprisingly) halted discussion in terms of evolving value propositions and their supporting technologies – including supply chain finance.

The debate that is heard somewhat mutedly among some business stakeholders – that the traditional trade finance mechanisms remain perfectly viable, and need only be enhanced through technology and process redesign, finds an echoing voice among a group of technology specialists. At the other extreme, financial institutions committed to a holistic, encompassing value proposition around supply chain finance, can also find enthusiastic support among leading providers of trade finance technology.

"The global crisis has been challenging, it has contributed directly to the maturing around trade finance."

Claire Buchanan, Bolero

The MENA region arguably reflects the full spectrum of variations between these extremes: from die-hard supporters of LC business, to cautious explorers of basic supply chain finance models based upon factoring and supplier finance, to the most ambitious champions of full-throttle, comprehensive evolution in supply chain finance models.

Corporate, technology, bank

The global crisis has brought into stark relief the nature of relationships between banks and their customers, and has arguably reshaped that relationship for years to come. Corporates are concerned, as never before, about the viability of their financial service providers. Additionally, bank customers on the trade finance side are actively looking to extract value from existing processes, including financial and treasury management processes – hence the great interest in supply chain finance and its promise of bottom-line value delivery.

Those two areas of concern for businesses, taken together, drive corporates to seek solutions which are sustainable, and some argue, either bank-independent from a platform perspective, or easily portable to a variety of platforms. Several specialists explicitly mention the increased focus on multi-bank capabilities, being sought by corporates across the globe.

Claire Buchanan, SVP at Bolero in London, observes: "The global crisis has been challenging in many respects, and yet, it has contributed directly to the maturing of vision and dialogue around effective trade finance and treasury management. Bolero is unique in its ability to address both the application level and the infrastructure (messaging) level of a multi-bank solution, and equally key in being able to offer a bridge between corporates and their banks – protecting the interests of both.

"Our approach to articulating and delivering the Bolero value proposition is very much global, though the immediate focus in the MENA region is to engage with top-name corporates, to develop further profile and momentum. The low-cost and low-complexity implementation, high adaptability and extremely short payback periods will be attractive to business leaders and bankers alike."

In principle, evolving requirements at the leading edge of international trade could impact the technology and the delivery related to traditional trade finance products, as well as those dimensions related to the launch of sustainable supply chain finance programmes.

> "Islamic banks can automate their *murabaha* transactions with relative ease."
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> **Peter Ware**, Swift

By some accounts, the level of development in information and communication technology (ICT) infrastructure region-wide (with a few notable exceptions) remains a challenge – even a barrier – to the full exploitation of emerging capabilities and technology models in trade finance.

For others however, the state of the technology infrastructure can present a competitive advantage and even a barrier to potential competitors. Web-based solutions and hosted 'software-as-a-service' models may require little more from clients than browser access, and in this respect, the infrastructure in the MENA region is more than adequate.

Even as Islamic finance and its shariah-based principles earn accolades in many markets, and garner interest from non-Islamic financial institutions across the Americas, Europe and Australia among other regions, the rudimentary application of technology in this space presents both a challenge and an opportunity.

The communication between the customer and bank is usually done by fax. Some estimates say that *murabaha* accounts for as much as 60% of all Islamic financial transactions. The industry is therefore in dire need of standardisation and automation.

Swift has been actively working with Islamic scholars and thought-leaders, to address this situation, and hosted a panel session at Sibos 2009, for the first time. Peter Ware, marketing manager for Swift in London, who is heading up its Islamic finance initiative, says existing standards are a good fit for *murabaha*.

"Islamic finance is not so different from conventional banking. We've analysed our member banks *murabaha* flows, and determined that the existing ISO securities transaction messages (typically used for equities and fixed income securities) contain all the required data elements, and cover all the required transaction flows. Therefore, Islamic banks can automate their *murabaha* transactions with relative ease."

Build it and they will come?

Technology will be increasingly central to the evolution of trade and supply chain finance solutions, and the evolution of various service delivery models seems to be toward holistic, integrated solutions – not only within the financing dimension, but also more broadly in the facilitation and conduct of international commerce.

Technology providers are competing energetically to promote and provide a variety of solutions, to banks and to corporates. The MENA region may be well placed to learn from the successes of other regions, and to select the most effective combination of business practices and technology solutions in support of their continued success in international commerce.

The Trade Services Utility (TSU), developed by Swift, perhaps illustrates the relationship between adoption of technology, potential collaboration between local and global banks, and the advantages in not having complex legacy systems to decommission.

David Hennah, senior product manager, supply chain, at Swift in London, observes: "BMCE in Morocco was a relatively early adopter of the TSU. More recently, Commercial Bank of Dubai became the first bank in the Middle East to join the TSU community of banks. Swift continues to work with those banks to advance the value proposition and regulatory framework that will enable all participating banks to take full advantage of the TSU's business benefits. We expect more banks to join as the message becomes more widely known and better understood through usage and participation."

Corporates in the MENA region have a good opportunity to influence the evolution of the trade technology landscape, and will be well-served in understanding their needs, in order to effectively articulate their requirements to an enthusiastic group of technology providers.

While significant customisation tends to be expensive, all technology providers understand the need for flexibility and adaptability, and the best providers build those characteristics into their solutions.

For corporates in the MENA region, the desire to adopt best-in-class business processes and practices, dovetails nicely with the significant level of interest among technology providers, in securing a position of market leadership in the MENA region. To the top corporates in the region, one might say, in reference to trade technology providers: describe it, and they will build. mena