Have the technology promises for trade been delivered, at last?

Technology and trade finance. Not the most effective partnership ever developed, with one side of the equation (IT) re-inventing itself every eighteen months or less, and the other side (trade) still very much linked to processes first created hundreds of years ago. Yet there is change in the air: some say this is the most exciting time for trade finance – and its enabling technology – in more than thirty years. Alexander R. Malaket explores some of the key developments and evolving trends.

Technology and trade

Global trade is being enabled and reshaped globally, through technology. Certain markets, such as Korea, New Zealand, Mexico and others, have taken a holistic, integrated and strategic view of this trend – sometimes within specific industries, sometimes more broadly and as a matter of national competitiveness. In Asia, the proximity of commercial giants China and India defines the dynamic. It tends to motivate innovation and drive the leveraging of technology for purposes of competition – indeed, survival – among economies that have a distinct impression of being under threat, and react accordingly.

Gilles Morin, vice president, IT business services at Export Development Canada notes: "People and businesses in certain parts of the world are appreciating that developments in global supply chain management will fundamentally redefine traditional business models. Thought-leaders acknowledge that technology is now strategic, that businesses need a supply chain strategy – not a policy – and that C-level engagement is necessary. Those less clear about the implications – be they commercial enterprises, financial institutions, or governments, are involved in a reactive, defensive mode only. There needs to be a greater sense of urgency, even an awakening, about the potential – and the consequences of inaction."

Trade finance: progress in spite of ourselves

The business of trade finance, particularly at the operational/transactional level, has been dragged, kicking and screaming, into the twentieth century. To say that our industry has 'caught up' and is operating in leading-edge, twenty-first century mode, would be a bit of an exaggeration, but overall, trade finance has taken some quite significant steps forward.

A major driver behind that progress has been technology: its promise, its increasingly value-added application to trade finance, and the now-common acknowledgement of that value in the market. Our business is finally seeing an element of the transformational force of technology – moving beyond timid incremental steps forward, to substantively reshape the nature of trade banking and international trade finance.

Technology is one of the major costs of maintaining a trade processing capability within banks, and is a key factor in one of the industry-shaping decisions of our day: to outsource, or to insource: that is the question. And for many banks, technology is the answer: either as an enabler, or as a driver (based on costs and ongoing investment) to outsource processing to another institution.

Aside these fundamental, but very familiar questions, technology is increasingly applied to trade finance to develop new business solutions and➤

➤service offerings – from capabilities that significantly improve operational effectiveness and management, to IT-intensive solutions around supply chain finance, open account, and the increasingly integrated worlds of trade, payments and cash management. Additionally, the increased focus on the 'Information Supply Chain' (now that we have internalized both the 'physical' and the 'financial' supply chains) leads inevitably to considerations of technology.

The landscape

The range and scope of activity in the trade finance and trade technology markets has been characterized as impressive, based on the budgets being committed by trade banks and others as well as based upon the broader range of clients – including corporates – and the expanding pool of collaborators from across numerous industries: banking, transportation and logistics, customs brokers, insurers and others. Competitors are increasingly difficult to categorize and identify, as they enter the trade space from many directions.

For some, the trade business is being absorbed by typically much larger payments businesses; others point to a shift in the internal power balance between trade and cash management, noting that trade finance is gaining profile within several major financial institutions.

Leading technology providers have expressed the view that technical capabilities have evolved to the point that IT specialists are being asked to provide advisory and consulting support in designing business models, based on emerging technologies and the models they can support.

Olivier Berthier, head of product management, trade services, at Misys, notes: "We have been able to leverage our expertise and holistic approach to traditional trade products, to quickly offer solutions for emerging areas of interest, such open account business and international factoring. Misys can assist financial institution and corporate clients in managing the full spectrum of trade transactions; and we are seeing greater interest in partnership-based technology initiatives across our markets."

There is a view that certain banks are shifting from back office-driven investments to front-end solutions with value added solutions aimed at corporate clients. These include vendor finance solutions and 'reverse factoring' offerings, which link right in to the broad area of supply chain finance.

The trade technology market is, indeed, hotter than it has been in decades.

Cookie-cutter trade technology

The idea that trade-related technology involves marginally different flavours of the same basic capability is slowly losing ground to differentiation and responsiveness. IT providers express the view that it is increasingly critical to listen closely to clients – financial institutions as well as corporates – in designing and developing the next generation of trade finance technology solutions.

That reality drives several global trade finance providers to develop in-house, or to work with external IT specialists to develop tailored solutions for those financial institutions and their clients. At Misys, that reality drives the development of their view of a 'multi-bank' system, which offers, together with a shared element, the option to maintain a proprietary channel for high-value added solutioning.

Even long-familiar products and processes have seen benefits from advances in technology, and those advantages continue to evolve. Kitt Carswell, product manager and executive consultant with CGI's Trade Finance Group observes:

"The trade technology story – related to traditional trade finance – has allowed banks with the right technology to drive down costs, increase efficiency and quickly establish a presence in new markets. The choice of technology and its deployment model can be transformational for a bank by accelerating time to market for new competitive capabilities and boosting productivity by a factor of three or four. That gap will increase over time, especially in the managed services arena, where 'consolidation by integration' amongst trade and supply chain providers will continue to drive efficiency and broaden offerings in the trade technology space."

ASP solutions in the trade space are viable and generating a level of interest in the marketplace, offering clients the opportunity to offload the IT-related 'business case' work, analysis and cost, while keeping them engaged to the point of having customers conduct their own User Acceptance Testing.

Consolidation continues to be a reality of business, and technology – the right technology – will be critical in determining which financial institution survives, and which succumbs. This element is so critical that one senior technologist painted a scenario where major financial firms create competitive technical advantages by simply acquiring IT companies with high-value capabilities and solutions – thereby blocking access to that technology by competitor banks.

In addition to shifts in focus from back-office to front-end, providers also point to the increasing emphasis on supply chain solutions, and indicate that effective integration, with banks and their corporate clients, will define success in the trade technology space. The ability to enhance and optimize bank/customer efficiency as well as to maximize straight through processing, are cornerstones of the trade IT value proposition.

Trade IT consolidation

As goes the trade banking market, so goes the trade finance technology business?

An intuitively comfortable proposition, perhaps, but one based on flawed perceptions, according to several leading trade technology providers.

The market, they say, is serviced by a handful of firms with mature product offerings, and with sufficiently differentiated nuances in capabilities, that significant further consolidation on the IT side is unnecessary.

Surecomp, for example, celebrates its twentieth year in the trade finance technology market this year.

In addition to shifts in focus from back-office to front-end, providers also point to the increasing emphasis on supply chain solutions, and indicate that effective integration, with banks and their corporate clients, will define success in the trade technology space. The ability to enhance and optimize bank/customer efficiency as well as to maximize straight through processing, are cornerstones of the trade IT value proposition.

According to Raphael Barisaac, director, customer services at Surecomp, and Murray Freemen, marketing communications manager, the company has "a long track record of stability and innovation – a near-100% client retention rate which we attribute to effective client engagement and a full range of technology and platform options, from Service Oriented Architecture (SOA) mainframe Cobol and DB2 solutions to Java J2EE enabled and compatible technologies".

It is equally true that the field of potential providers now includes several IT organizations historically focused on payments solutions, as well as 'generalists' with global reach, working in partnership with some of the leading trade banks to design custom solutions.

Consolidation may not be a concern to the established players, and there may well be enough flavours and variations around the trade finance value proposition for IT providers to carve out several partly overlapping niches. Nonetheless, if it is true that the trade business is getting interesting, it will follow that IT solutions will evolve from new sources, or at the least, from new 'angles' relative to traditional offerings.

Global trade management: GTM

Large retailers, often identified as the trend-drivers behind several major developments in international commerce and trade finance, including the global shift to open account, and the increasing focus on supply chain finance, are also moving forward with significant investments in procurement, logistics and finance.

Where major financial institutions were at the leading edge of trade technology solutioning, global retailers are demonstrating a desire to invest in holistic, end-to-end, rapid deployment solutions in this area.

Graham Napier, President and CEO of GTM solution provider TradeBeam, observes that: "Even next-generation financial services providers do not cover the full scope of trade and supply chain activities in their solutions. Technologies that originate with trade finance banks or trade IT specialists typically do not cover the full range of banking products and services relevant to trade. TradeBeam takes a holistic and comprehensive view, has extensive solutions in this area, and is ideally positioned to partner with banks that have the vision to see trade as more than merely another way to lend money."

GTM specialists are specialized at 'connecting suppliers for a living', and perceive a differentiating advantage as against banks and financial services providers, suggesting that the logistical challenges of connecting small suppliers across the globe into one supply chain are prohibitive for many (most?) banks. Says one executive, 'cherry-picking' is not an option for retailers and global traders, but many banks do precisely that, in an 80/20 approach to relationship selection: 80% of revenue/profitability from 20% of clients and/or prospects.

...And what of the beloved letter of credit?

Beloved by whom? Apparently, relatively few – including many of the leading trade technology providers, who may owe the niche, quasi-protected nature of their business to the perceived complexities around letters of credit. Despite the lack of nostalgic affection for this enduring and much maligned instrument, there is surprising consensus among the trade technology experts, that the LC remains a reality of international trade finance, and is likely to remain so for the foreseeable future.

Even as solution providers seek to devise new capabilities in response to market needs, established players recognize that their traditional offerings still provide value, and that this is far from fully extracted.

Banks are working hard and in a concerted manner to re-intermediate themselves into the trade business despite the shift to open account, and they are doing so through technology. From providing transparency across global trade relationships, to developing integrated, self-financing supply chains, there are a wide range of opportunities, yet many of the familiar – and fundamental – objectives of a trade business remain vital and core.

As Carlos Voelkl, vice president, Ibero Americas, CSI BankTrade notes: "It remains important to trade banks to reduce operational costs in their traditional trade business, have an automated way to manage globally and locally their business and have the ability to diversify the product and service offering with added value solutions that cover the entire trade supply chain. With our OpenTrade product suite we offer full 'straight through processing' capabilities involving new trends like TSU, Bolero, open account trading, POs, document preparation and ERP integration."

Making inroads

The long-promoted, transformational promise of technology in international trade finance is delivering at last, and doing so on several levels concurrently – from core and traditional product offerings to new and emerging solutions, across the range of banks and well into corporate/commercial customers, then across their global supply chains.

Innovation trumps status quo in trade finance: no small sign of progress! ■