INSIGHTS

Accelerating trade digitisation in a post-COVID world

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Trade and trade finance were already going through a digital transformation prior to the COVID-19 crisis. As companies quickly shifted to remote working, digitisation of trade flows became essential to the continuity of the business. These experiences should not be forgotten. Instead, the crisis could be a catalyst to reshape the industry more quickly and profoundly than could ever have been anticipated, with implications for entire trading ecosystems.

Initial crisis response

As the crisis struck, all aspects of the trade process were affected, with over 60% of ICC survey respondents anticipating that their trade flows would decline by at least 20%[1]. As this report notes, three key obstacles emerged, namely: lack of staff; inability to print, and delays in or inability to deliver. To overcome these challenges, companies rapidly focused on digitisation and building resilience into their supply chains.

Digitisation

With all trade participants moving quickly to homeworking, digitisation of key activities, such as digital signatures, was an immediate priority, not only for corporations and their banks, but governments too. Some governments have led the shift from paper to digital, such as India, Peru and Oman. In Peru, the government gave companies 180 days to move from paper to digital trade processes. As a result, vendors of digital trade platforms reported a significant increase in adoption, with one digital certificate of origin platform reporting 60 chambers of commerce from around the world signing up in only three months, equivalent to around 6 years of new adoption under normal conditions. This digital acceleration has been apparent across the trade cycle. For example, even for bills of lading, which take time to digitise due to the legal changes required, 25% of the 123 steel merchants in China on one digital platform joined in only three months.

1 https://iccwbo.org/content/uploads/sites/3/2020/04/2020-icc-covid-response-banks-3-best-digital-practice.pdf

Supporting supply chains
Building resilience into supply chains fast became a priority, whilst also optimising working capital. Consequently, clients have expanded supply chain finance and receivables financing programmes to an unprecedented degree as a means of managing working capital while unlocking access to liquidity across the supply chain.

Adapting to the new normal

While homeworking and remote access was initially a business continuity state, it has become the new 'business as usual'. For many companies and countries, it is not yet clear to what extent, and for how long, these working practices will become the future state. As a result, the nature of client discussions has shifted, from efficiency and data analytics to business continuity and resilience.

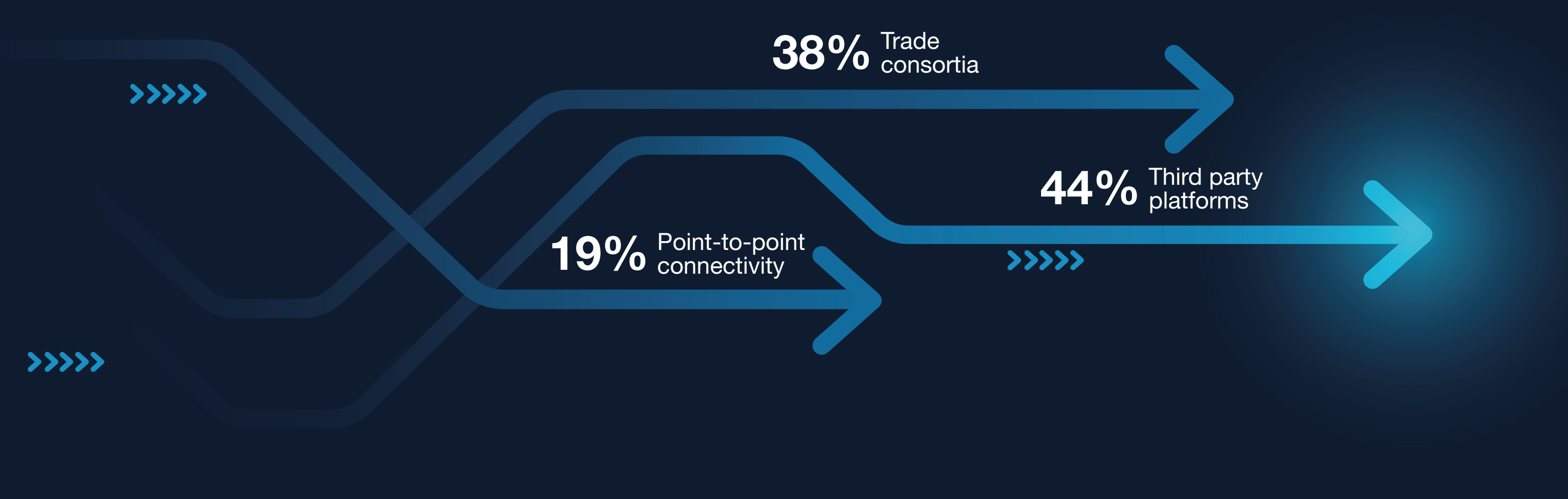
Having addressed their initial digital needs, some clients have reflected that they have taken advantage of lower transaction volumes during the initial stages of the crisis to look at digital capabilities that will allow them to streamline connectivity with their trading partners, and prepare for a new normal with digitisation at its core. As a recent Standard Chartered poll illustrated, **87% of clients surveyed believed that the pace of digitisation in trade and trade finance will accelerate as a result of the crisis**, with digitisation no longer considered optional but essential. As companies refine their digital plans, we therefore expect to see a strong and prolonged second wave of digital adoption.

Emerging trends in digital transformation

While digital transformation may be a priority for all trade participants, this is unlikely to take a single pathway, and we are unlikely to see a single, comprehensive digital trade and trade finance platform emerging. Instead, we expect a multi-pronged approach. Currently, trade finance platforms fall into one of three categories:

- **Point-to-point connectivity** that allows one counterparty to interact with another, such as a banking system, to allow digital initiation of trade finance transactions. 19% clients who contributed to a recent Standard Chartered poll expected these solutions to dominate their trade digitisation agenda.
- **Third party platforms** that act as a network to allow multiple participants to interact with each other, such as essDocs. For example, SWIFT for Corporates enables a company to initiate letters of credit and guarantees with all of their banks. 44% expected their trade digitisation strategy to be based on these solutions.
- **Consortia** that bring together multiple investors, and which are now being commercialised. These aim to reinvent the traditional infrastructure and processing of trade finance across an industry-wide platform, as we have seen with the Trade Information Network, Contour and others. 38% expected to leverage these solutions to achieve their trade digitisation strategy.

Trade digitisation strategies



The proliferation of opportunities and investment in trade digitisation is very positive. However, with multiple platforms emerging, which are at different stages of maturity, and often address specific elements of the trade process, interoperability will be critical. As a bank, we are collaborating and advocating for standards creation and implementation, such as the International Chamber of Commerce (ICC) Digital Standards Initiative.

Overcoming obstacles

While the industry as a whole has recognised the importance of trade digitisation, the obstacles that hampered these efforts before the crisis remain. In particular, lack of investment priority, variable levels of digitisation across supply chains, and the pace and degree of government digitisation efforts create challenges.

Investment priority

With a highly uncertain economic outlook, companies are controlling their costs and therefore need to carefully prioritise their investment. This applies both to their investment in internal processes, but also the external investment on which emerging platform providers rely. According to a recent Standard Chartered poll, 64% expected their firm to invest more in digitisation of paper-based trade processes relative to the total investment available; however, 29% expected it to remain at the same level.

Variability in digitisation

Trade digitisation at this stage remains patchy, with differences between governments and trade participants, and the risk of 'digital islands' forming i.e. digitisation of certain processes, but with manual elements in between that limit the value of digitisation across the supply chain. This risk is likely to be exacerbated without a strong industry commitment to standardisation and connectivity.

To overcome this, we are likely to see a hybrid model emerge as part of the transition to fully digital trade. For example, solutions such as Contour, that offers end-to-end electronic letters of credit, enable digital processes wherever possible, but also accommodate paper-based processes. Crucially, data flows from end-to-end, so even if one exchange in the trade process is paper-based, the benefits of digitisation are not lost.

Government digitisation

However digitised other trade participants become, this has to be mirrored by government departments, such as customs. Given the complexity and diversity of stakeholders, trade digitisation takes time, and governments may take years to achieve this.

To accelerate the process, the ICC Trade Standardisation Group, co-chaired by Standard Chartered's Head of Trade for Europe and Americas Michael Vrontamitis, has published a Digital Trade Roadmap[2]. This provides governments, the ICC and wider industry with the steps required to unlock digitisation by updating legal infrastructure, simplifying bureaucracy, and fulfilling trade obligations. For example, this includes requiring trade documentation to be presented digitally, aligned with the UNCITRAL Model Law on Electronic Transferable Records as a global standard.

Governments' trade digitisation initiatives have economic, as well as technology and process considerations. For example, chambers of commerce in some countries generate income from the special paper on which certificates of origin are printed. If this is no longer relevant, they need to generate income in other ways.

The next 90 days

With the pandemic still raging in many parts of the world, and tentative steps towards reopening in others, the priority for many companies continues to be maintaining access to liquidity and survival of the business. Once the speed and direction of recovery becomes clearer, we expect to see digitisation initiatives rebound. However, these need to connect the full range of trade stakeholders, including importers and exporters, banks, shipping companies, and customs.

Initially, digitisation objectives are likely to include 'quick wins', such as digital supply chain and bill of lading documentation solutions. Many trade participants have implemented temporary digital solutions to overcome the immediate demands of the pandemic, so the focus now should be on implementing more robust, longer-term solutions. Consequently, we expect clients to embark on longer term thinking on how their supply chains might change, how best to diversify and increase resilience, and what new business models they should engage. Underpinning all of these decisions will be how to ensure consistency and automation of processes, and avoid additional complexity.

2 https://iccwbo.org/content/uploads/sites/3/2020/05/2020-icc-digital-roadmap.pdf

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