B2B PAYMENTS

Taking A Pragmatic Approach To Trade Finance Disruption

ByPYMNTS

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Trade finance is in serious need of a tech overhaul. It's true that FinTech innovators and alternative lending companies have targeted trade finance to improve access to financing, especially for smaller companies. But for larger corporates, the reality is that trade finance processes between themselves and their financial institutions remain manual, slow and clunky, largely due to the onslaught of paperwork that comes with a cross-border transaction.

But there is demand for greater access to trade finance. According to the **latest data from Coalition** released last week, global transaction banking revenues jumped 4 percent year-over-year, hitting a new high. The bad news? Revenues from trade finance slumped by $2.8 billion, a seven-year low for this area of banking.

Separate news data also released this month found a $1.5 trillion gap in trade finance availability around the globe.

Jacob Katsman, CEO of **GlobalTrade Corporation** – a company that provides enterprise software for banks to conduct and streamline trade finance transactions – says the industry can, and should, do better.

"Depending on who banks are, they have different levels of resources to devote to their technology," Katsman told PYMNTS in a recent interview. "Some banks have chosen to work with vendors, some have chosen to develop solutions in-house. But the ones who chose to develop things in-house realize it's **becoming very difficult** and expensive to continue to innovate and upgrade, and keep up with the latest changes in standards, as opposed to working with a vendor solution."

In trade finance involving large corporates, there are three main secure payment instruments involved: documentary credits, standby letters of credit (also known as bank guarantees) and documentary collections. "There is handling of these transactions with the treasury in the enterprise, and within the treasury in the financial institution," said Katsman. "That communication is predominately manual, paper-based and email-based communication."

This is beneficial to both banks and corporates, as traditional treasury management systems don't typically offer capabilities beyond payments and cash management. For this reason, GlobalTrade **recently partnered** with treasury management platform Kyriba to integrate its trade finance capabilities into corporates' treasury management systems.

Digitizing these processes and documents is one key step in improving trade finance. But Katsman also said that everything must be consolidated onto a single platform, too. Streamlining the information means "having transparency, better monitoring of outstanding transactions and streamlined communication with financial institutions," he noted, adding that combining all of these processes into one interface means shifting from one-to-one communication to standardized communication across all parties.

"If you have to do payments with three or five different banks, and you have tokens and need to log into three or five different bank portals, it's difficult," he said. "You have to use different portals, different passwords. It's not consolidated. It's the same thing with trade – if you're dealing trade with multiple financial institutions, it becomes very difficult to digitize if you don't have a multi-bank portal. You have to log into different proprietary systems."

Katsman explained that companies often have to log into different bank portals, manually extract information and input it into an Excel spreadsheet, then try to piece together the puzzle from there. Digitizing these processes and consolidating communication leads to faster transactions, the CEO noted.

Streamlined trade finance may help accelerate the flow of cash and information between trading partners. It's a step in the right direction to not only fill in the trade finance gap, but to help banks improve their processes as they struggle to remain profitable in this area.

FinTech is also boosting innovation in the area, with **blockchain** one of the most commonly discussed potential tools to improve trade finance transactions and processes. But Katsman told PYMNTS that, so far, it's too soon to tell how blockchain would disrupt the industry, if at all.

"'Disrupt' is definitely a strong word," he said. "We are certainly researching this topic actively, and we're involved in several initiatives that are looking at the space. But whether it's something that will come out of the blue and disrupt trade finance tomorrow? I don't see that happening."