

Find your competitive advantage in today's trade finance sector

Banks can increase their relevance by upping their digital game

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Executive summary:

Banks should hone their digital edge in a changing trade finance sector

The value of global trade reached a record \$28.5 trillion in 2021, with the world's 10 largest transaction banks posting a combined revenue of \$6.3 billion from trade finance in that year.¹ Demand for trade finance is booming, yet banks are leaving key opportunities in this market untouched.

Today, open account trade comprises approximately 80% of all international trade transactions, with banks playing a minimal role beyond clearing payments.² This indicates that there is still plenty of white space for banks to penetrate, provided they come to market with appropriate solutions for companies that are navigating a turbulent economy.

However, many banks are struggling to meet clients' changing requirements in a time of higher inflation and rising interest rates. This unfolds as fintech competitors target banks' trade finance clients with innovative solutions. To understand how the market is evolving, we interviewed experts at banks and fintechs that provide trade financing to clients in multiple territories.

We also surveyed 675 trade finance executives—including importers, exporters, distributors, wholesalers and manufacturers—in 15 countries to understand which trade finance partners they are working with, the finance challenges they are grappling with, their experiences with their trade finance partners, and what they are looking for in a trade finance partner.

The research shows the trade finance market is ripe with opportunity for banks and fintechs alike. However, with the needs of commercial clients growing in complexity, competition heating up, and clients ready to explore new partners and products, players will need to up their digital game to remain relevant and expand market share.



Key findings at a glance

Macroeconomic conditions are proving challenging for companies worldwide:

Two-thirds of trade borrowers are significantly impacted by rising interest rates.

Borrowers are ready to explore new finance partners and products:

Some 67% are planning to change their roster of partners in the next 12 months; 76% said they will change the number of partners they will work with. Nine out of 10 businesses are willing to receive new trade finance products and services at this time.

There is a gap between trade finance products from banks and what clients want:

There is an underserved and growing need for products such as higher pre-shipment finance and purchase order financing, particularly among small-to-medium companies.

The complexity of trade finance confounds clients:

Trade finance clients single out the complexity of trade finance and the resulting manual work as their greatest pain point.

Banks need to adapt to a changing tech landscape:

Borrowers are investing in emerging technologies such as application programming interfaces (APIs) and artificial intelligence.

Fintechs are ready to supplement or displace banks where they are not meeting client needs:

Companies are looking to fintechs to help them reduce their credit risk, forecast cash flow, allocate working capital, and explore a broader customer and supply base.

Soaring interest rates put companies to the test

The demand for trade finance is booming and banks are thriving as rising interest rates fuel profitability. Yet this environment also creates opportunities for disruption, with many commercial clients seeking cheaper, more flexible access to trade finance as well as innovative products to fill the gaps overlooked by traditional banks.



Two-thirds of the borrowers in our global survey agreed that they are significantly impacted by rising interest rates, with more than 80% of the largest companies reporting that they are being hurt by interest rate increases. Two out of three respondents said the cost of credit from their trade banks has increased over the past 12 months.

Two-thirds expect their company's trade flows to change over the next 12 months and as many expect their company's use of trade financing to change. The products and providers they use, as well as the qualities they seek in a trade financing company, are all morphing—and there are considerable gaps between their needs and what is on offer from the banks.

How significant is the impact of increasing interest rates on your business?

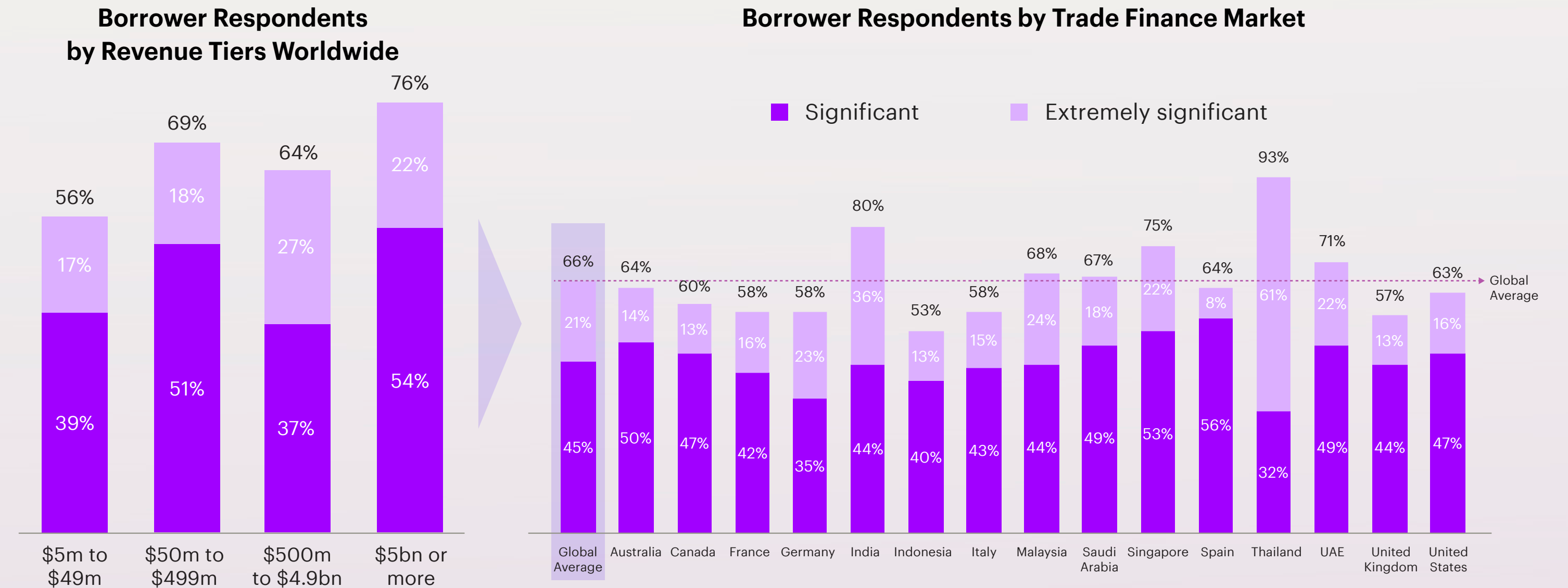


Figure 1: In descending order, borrowers in the following markets are affected most severely by rising rates: Thailand, India, Singapore and the United Arab Emirates (UAE).

Source: Accenture Research

Mismatch between trade finance offerings and client needs

Trade finance clients in our survey said that locating available working capital is their most important product consideration in 2022, with 34% identifying it as their number-one priority above all other finance products. Companies of all sizes were interested in this product offering, especially distributors and manufacturers and respondents in Canada and Thailand. This indicates that trade finance clients would have great interest in solutions that help them optimize working capital and enhance cash conversion by extending days payable outstanding, reducing days inventory outstanding and days sales outstanding, and driving strategic growth. They would also value offerings that help them enhance transparency, reduce disputes, streamline cross-border payments and expedite execution throughout the transaction life cycle.

Survey respondents identified inventory financing as an immediate need and the product that is next most important to them right now. This is no surprise, given that many buyers currently need to support higher inventory levels to weather supply disruptions. Longer shipments are causing payment delays and larger incoming orders as customers try to stockpile inventory. Companies in Indonesia, Canada and the United Kingdom are particularly interested in this type of financing, as are distributors and importers worldwide.

Which of the following products are the most important right now? (Based on a single response)

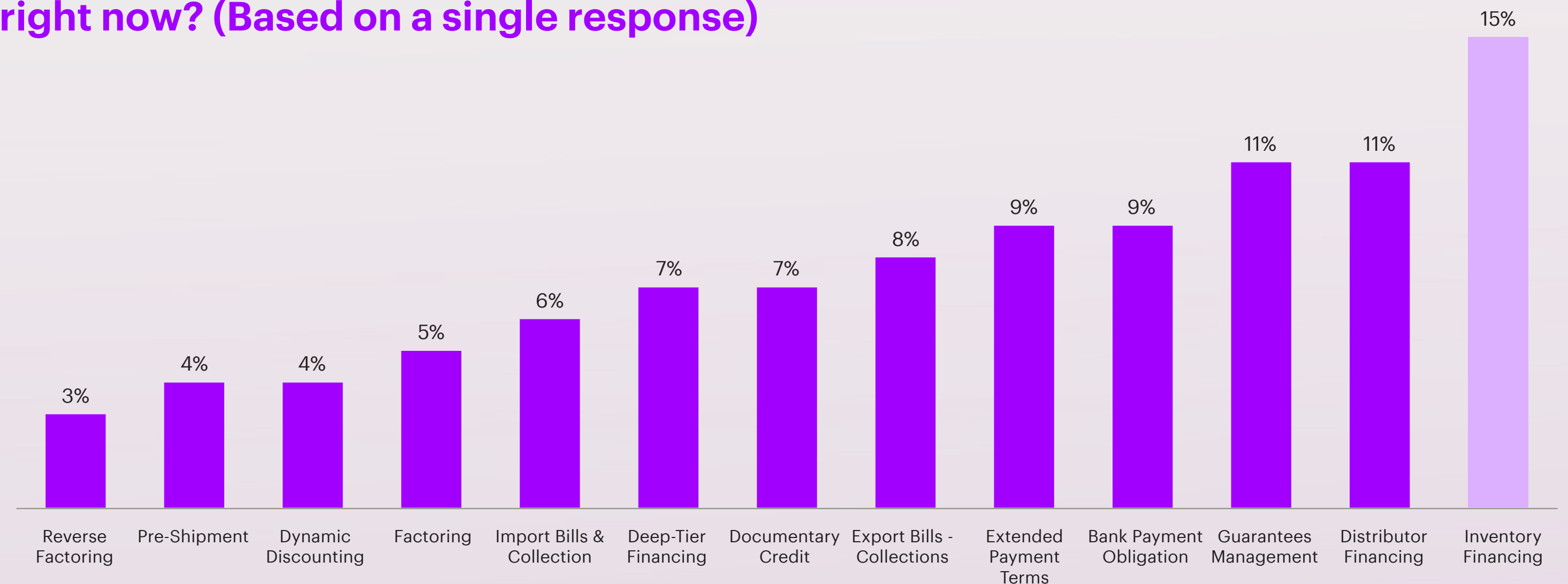


Figure 2: Products that are most important to borrowers right now.

Source: Accenture Research

Clients are looking to shake up trade finance partners

Trade finance clients reported relatively high levels of satisfaction with their finance partners. Only 18% of companies were dissatisfied with their overall dealings with their banks, while 54% said their expectations are being met and 28% said their expectations are being exceeded. A third of borrowers in Italy said they were not satisfied with their overall corporate banking dealings—the highest level of dissatisfaction by far in any of the markets we surveyed.

Nonetheless, due in part to gaps in banks' product portfolios, the majority are looking to shake up which and how many trade finance partners they work with. Two-thirds (67%) of borrowers said they are planning to change their roster of partners in the next 12 months and 76% said they will change the number of partners they will work with.

62%



of respondents have five or more trade partners.

Nine out of 10 businesses are willing to consider new trade finance products and services at this time. Our respondents indicated that they are looking for efficiency and faster turnaround times, more competitive pricing, easier access to credit facilities, smarter and broader product and market offerings, and better access to international markets from their providers.

84%



of companies in the UAE and 82% in Saudi Arabia plan to change their roster of trade finance providers.

Among respondents:

92% in Malaysia

88% in Thailand

87% in Indonesia

85% in the US

plan to increase their number of trade finance partners.

These findings indicate that traditional finance players cannot afford to rest on their laurels.

Seeking partners to address the pain of paperwork

With only 16% of companies in our survey—most of them larger corporates—reporting that they are fully digital, paper-based processes are a major pain point in trade finance. As borrowers and fintechs invest in emerging technologies to resolve these issues, banks face the challenge of keeping up with the accelerating pace of digitalization.

Longstanding trade finance challenges—exacerbated by the COVID-19 pandemic, rising inflation and the Russia/Ukraine war—along with emerging requirements such as sustainable financing are catalyzing opportunities for trade finance companies to differentiate themselves.



In particular, trade finance clients singled out manual work as one of their greatest pain points.

Even with clients' and trade finance providers' growing participation in digital ecosystems, processes across the industry remain manual in many markets because port and customs authorities, shipping companies, other ecosystem players and—to a lesser degree—regulators, still rely mostly on paper.

Paper-based models heighten fraud risks—27% of respondents said they have been impacted by fraud since the beginning of the pandemic. The high levels of manual red tape also create inefficiencies and higher costs for banks, their clients and all other players across the ecosystem.

Borrowers worldwide are concurrently managing a number of pain points, led by the complexity of trade finance transactions.

Please rank your company's greatest pain points

01. Complexity of trade finance transactions which cause significant manual work.

02. Difficulty in finding new clients and revenue sources.

03. Regulations that differ across jurisdictions.

04. Lack of access to overseas markets.

05. Access to liquidity given the lack of necessary collateral.

06. Inability to meet the risk assessment criteria for leveraging trade finance services.

07. Lack of appropriate fraud-related solutions and processes.

08. Lack of standardized APIs employed for trade finance.

09. Inability to provide banks with the appropriate enterprise-related historical data to receive credit.

Figure 3: Trade finance borrowers' major pain points

Response level-based on the top 3 survey response choices




Ending the paper chase

This highlights the opportunities banks and other trade finance companies have to capture trade finance business by helping clients to end the paper chase. Blockchain could offer one solution, although unlocking its full potential will require an ecosystem-wide approach.

Embedded finance will be key to the value propositions of the future. Clients will be delighted with solutions that transform financing into a step in their digital workflow for procurement and invoicing with instant financing decisions. Fintechs are defining their solutions in this direction, often in cooperation with ERP software vendors.

Our research indicates that clients are eager to embrace technologies that address inefficiencies and mitigate risk. More than a third have already adopted alternative payment channels including cryptocurrencies; respondents also reported high interest in emerging tech such as (in ranked order) APIs, the metaverse/Web3, optical character recognition and natural language processing.

Receptiveness to using APIs in the trade finance process was highest among borrowers in Spain, Australia and Malaysia, and among manufacturers and exporters. When it comes to the metaverse, interest was highest in Thailand, followed by Italy. Manufacturers were also interested in the metaverse.

A photograph showing two people in a professional setting. One person, wearing a blue long-sleeved shirt, is holding a tablet computer. Another person, wearing a purple top, is looking at the tablet. The background is a bright, out-of-focus office environment with a window showing greenery outside.

Navigating the new trade finance landscape: a playbook for banks

Trade finance experts we interviewed for this research highlighted growing competition as one of the major challenges banks need to square up to. In some territories, fintechs have grown their market share in trade finance from around 5% in 2015 to 20-25% today. Their strengths? End-to-end digitalization of transactions and technology-driven due diligence.

The growing demand for financing and rising interest rates are generally positive developments for banks. However, experts we spoke to identified a range of headwinds in this market—including a complex regulatory landscape, sanctions, counterparty and sovereign risks, inefficient paper-based processes and legacy technology.

Borrowers share many of these challenges, which may explain why nearly two-thirds (63%) worldwide are considering whether to shift their supply chain closer to their home market. This is particularly true of companies based in the US (where 76% are considering this move), Malaysia, the UK and Thailand.

The prospect of disintermediation by fintechs and other new players at a time of changing customer demands ranked high on borrowers' list of concerns.

Fintechs are disrupting markets by opening multiple competitive fronts, even in complex products such as commodity and payables financing.

In some instances, they are opening avenues for alternative funding providers such as family offices, pension funds and retail investors to enter the trade finance market. In other cases, they are distancing banks from their clients by taking the lead in the trade finance relationship.

Fintechs are not the only non-traditional competitors eyeing the market. Software companies such as ERP firms and e-commerce platforms are also well positioned to embed trade finance solutions into clients' workflows. The former are in a strong position to target large corporates, while the latter may take aim at small and mid-sized clients.

Clients will increasingly look to banks and other trade finance partners to improve their technology to compete with the superior tech that ERP firms and fintechs are bringing to market. To grow market share and improve competitiveness in a rapidly changing trade finance market, banks will need to sharpen their digital edge.

We propose three key actions:

01



Invest in digitization and automation

02



Forge technology partnerships

03



Adopt sustainable financial processes, solutions and advice

01

Invest in digitization and automation

Borrowers are looking to trade finance companies to address their manual, error-prone pain points with digitization and automation.

Today's emerging and mature tools such as cloud, blockchain and artificial intelligence enable banks to scale operations and accelerate transformation. Machine learning tools, for example, allow document checking experts to focus their resources on their value-add investigation and verification of true discrepancies to improve trade risk mitigation.

Citi capitalizes on digital signature adoption

Citi has capitalized on the growing adoption of digital signatures for trade documentation and transactions by offering a complete digital self-servicing module for trade loans. The expansion of its portfolio distributor finance and credit insurance receivables finance across China and India were important developments for its clients in Asia-Pacific. Citi has partnered with digital ecosystems such as Komgo, Contour and Stenn.³





02

Forge technology partnerships

Seamless connectivity is a ticket to play, becoming the norm among trade finance clients that expect high levels of transparency and quicker turnaround times. Banks should consider leveraging the Open Finance opportunity via strategic tie-ups with bigtechs, fintechs, ERP software vendors and other platforms to create the modern, interconnected solutions their clients demand.

J.P. Morgan partners with Cleareye to digitize trade finance operations

J.P. Morgan has partnered with the artificial intelligence and machine learning platform Cleareye.ai to streamline and digitize trade finance transactions. Cleareye will work with the bank's Trade and Working Capital Group, leveraging its ClearTrade solution to simplify the due diligence associated with trade finance transactions. The solution can interpret data and documents, automate letter of credit examinations, identify money laundering and sanctions red flags, and apply rules to supplement existing international regulatory frameworks.⁴

03

Adopt sustainable financial processes, solutions and advice

Our survey reveals that 79% of borrowers have environmental policies in place that apply across their supply chain and 68% believe that sustainable financing is very important to their business. Yet they report that a lack of experience in measuring sustainability is a barrier to incorporating sustainability across their supply chains. New data insights from digitization will enable banks to work with clients to address this challenge.

Walmart partners with HSBC, CDP to launch new greenhouse gas emissions supply chain finance program

HSBC has collaborated with the Walmart Climate Disclosure Project (CDP) to launch a new supply chain finance program designed to issue credit based on greenhouse gas emissions reductions. The supply chain finance program will use a science-based targeting system to issue credit in line with the United Nations' goal of limiting global warming to 1.5°C by 2050. Walmart said the program will be especially useful for small and medium-sized businesses, and will help to upskill and align their operations with transparent sustainability objectives.⁵



Conclusion:

Learning from the fintech market

With a significant trade finance gap that disproportionately affects smaller enterprises, there is untapped growth in the market for banks and fintechs alike. Fintechs are already positioning themselves to address this gap by offering clients flexible access to liquidity as well as digital processes that enable them to trade internationally.

Many fintech firms are able to offer cheaper and better trade finance and other export solutions to start-ups, small businesses and mid-sized businesses. As their due diligence is primarily technology-driven, they are usually less insistent on collateral and more reliant on technology solutions to identify credit-worthy borrowers.

These are all lessons banks can learn from. Greater revenue growth and market share awaits the banks and fintechs that are prepared to navigate risks with prudence (with the necessary controls and insights) and confidence (with the right solutions, partnerships and business models).

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About the Research

Through August into early September 2022, Accenture conducted an online survey with executives at trade finance providers in North America (Canada and the US), Europe (France, Germany, Italy, Spain and the UK), Asia-Pacific (Australia, India, Indonesia, Malaysia, Singapore and Thailand) and the Middle East (Saudi Arabia and the United Arab Emirates).

Respondents included heads of finance, heads of trade finance, CFOs and vice presidents of finance. Distributors, exporters, importers, wholesalers and manufacturers are represented in the sample. Companies that participated range from small businesses with \$5 million in annual revenue to large companies with \$5 billion or more in turnover.

On average, the companies in the survey secured an estimated \$532 million in trade, supply chain and structured trade finance in the past year. We also interviewed eight trade finance experts from trade finance providers in Asia, Europe and North America to get a qualitative perspective on the latest trends in the trade finance market.

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