

Future-Proofing Corporates for the Coming Digital Revolution in Trade

KEY TAKEAWAYS

The application of distributed ledger technology (DLT) is bringing the fully-digitized future of trade finance ever closer. But in order to capitalize on this opportunity, corporates must lay the groundwork by deploying the digital solutions that are already available to them today.



Digitize across the entire chain to be future ready

Corporates cannot take advantage of DLT without first digitizing trade documents.



Future data & pilots will direct you

The DLT market is still in the initial stages of determining what solutions are viable and can provide value to a wide range of clients.



Focus on mature digital solutions to deploy

While participating in pilots of new DLT solutions is potentially beneficial, the most valuable action a corporate can take today is to deploy currently-available, mature digital solutions which will have an immediate impact.

The world of trade finance - long a laggard on the digitization front - is abuzz with proofs of concept (POCs) and pilots seeking to leverage digital infrastructure to drive efficiencies. Over 60% of banks surveyed in the International Chamber of Commerce (ICC)'s latest report, Global Trade: Securing Future Growth, said they are now implementing or have already implemented¹ technology solutions to digitize their trade finance operations, and work is underway to digitize paper documents, switch existing business practices to digital formats, and experiment with new technologies and solutions.

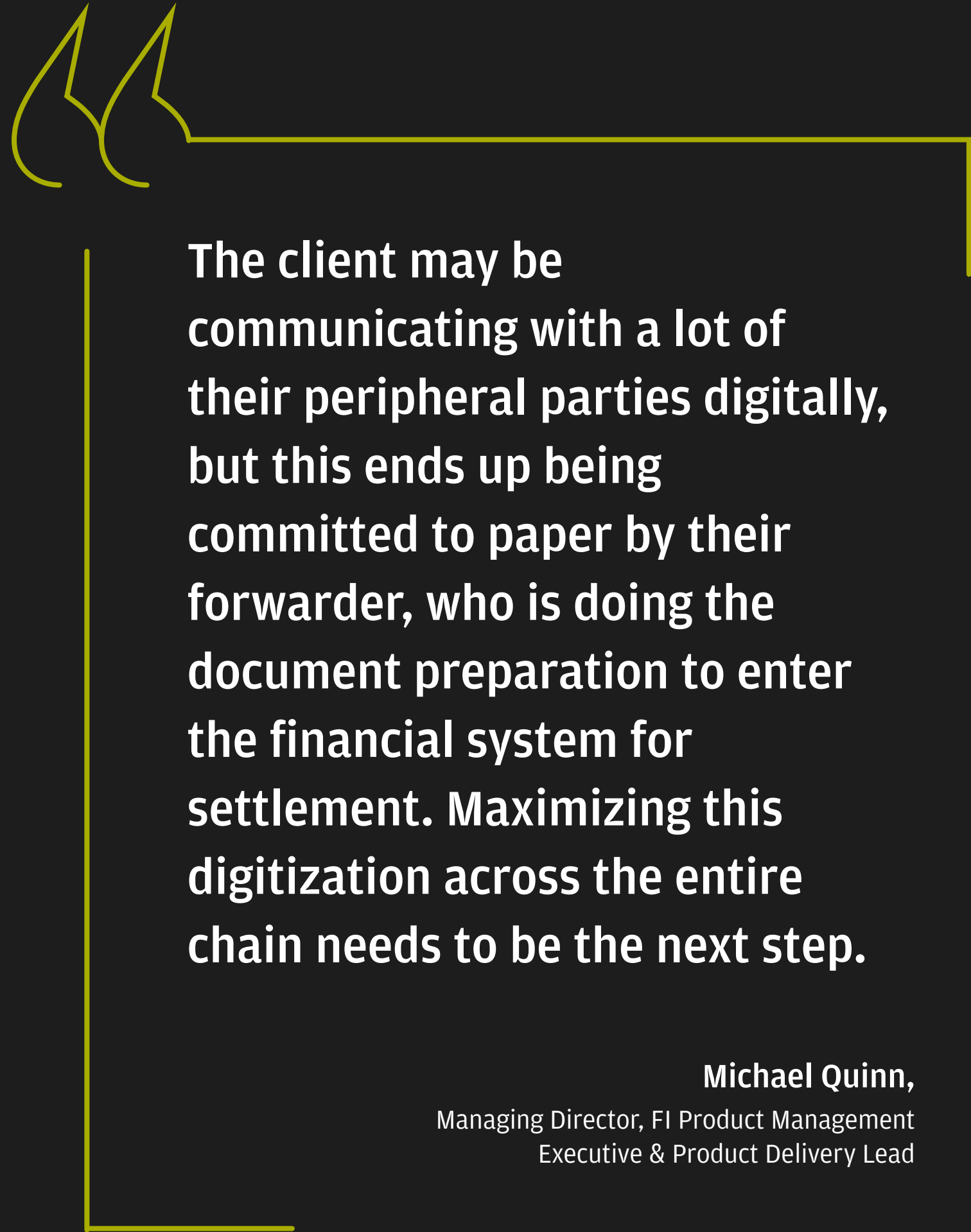
The opportunities for corporates are enormous. Currently, a single trade finance transaction can require over 100 pages of documents, and the World Economic Forum estimates the costs of processing those documents are as much as a fifth of those of shifting goods. Digitizing all of this could cut trade finance costs by up to \$6 billion in three to five years, according to Boston Consulting Group estimates².

And yet, when asked about their usage of digital trade finance products in the Euromoney Trade Finance Survey 2018³, very few group treasurers and CFOs said that they were already operational. Swift's MT798 gained the highest response rate, with 28% of respondents saying they use the product. The Bank Payment Obligation (BPO) recorded slightly lower at 23%, and electronic bills of lading saw 20%. DLT recorded the lowest take up of all, with just 6% stating they have used the technology.

ALL ABOARD

One reason for this slow take-up is the sheer number of players along the chain in trade finance, making digitization a more complex task than in other areas such as cash management or retail banking. Even a basic international shipment can go through as many as 200 interactions comprising nearly 30 parties.

“The dots are not yet being connected,” says Michael Quinn, Managing Director, FI Product Management Executive & Product Delivery Lead at J.P. Morgan. “The client may be communicating with a lot of their peripheral parties digitally, but this ends up being committed to paper by their forwarder, who is doing the document preparation to enter the financial system for settlement. Maximizing this digitization across the entire chain needs to be the next step.”



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Michael Quinn,
Managing Director, FI Product Management
Executive & Product Delivery Lead

CUTTING THROUGH THE HYPE

Today, the potential benefits of distributed ledger technology (DLT) for trade have captured the imagination of entrepreneurs, financial professionals, and the media. “There is a future state in trade finance that may well be DLT-enabled. I believe that we will get there, but before then, all of the pilots and proofs of concept that we see will have to go through a natural maturation process,” says Michael McDonough, Managing Director, Corporate Trade and Supply Chain Finance Product Management at J.P. Morgan. “Some of them will disappear. Some of them will be consolidated. Some of them will emerge as very viable solutions. As yet, we cannot say with confidence which those will be.”

Participating in pilots of various digital solutions which meet business needs is one possible avenue for corporates, but this is far from the only way to prepare for the digital future of trade.

“When a pilot makes sense for that client, and it is a good use of time and resource to educate themselves, we think that is very valuable,” says McDonough. However, in reality, an important action corporates can take today is to deploy currently-available, mature digital solutions which can make a real impact on their business. “You do not need to pick a winner. If you are digitally enabled through your financial supply chain, you will be ready for whichever of the DLT models becomes the winner. You will then be the one who can plug into whichever becomes the industry standard,” adds McDonough.

Far from taking a “wait and see” approach, corporates need to look at what can change their business today by leveraging their existing data to digitize their documentary trade settlements.



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Michael McDonough,
Managing Director, Corporate Trade and Supply Chain
Finance Product Management J.P. Morgan

TAKING THE FIRST STEP


There are no silver bullet solutions and each require business process improvements in a corporate's environment, however banks such as J.P. Morgan are carrying out numerous initiatives with clients to start them on their journey to digitization. One example is leveraging J.P. Morgan's Trade Channel, a web-based, trade transaction management platform which allows clients to manage end-to-end export payment cycles. Other existing electronic trade solutions like Direct LC Presentment and Swift for Corporates for Trade (MT798) help streamline clients' day to day business and create greater efficiency in their trade operating cycles. Meanwhile, the utilization of the Bank Payment Obligation (BPO), which provides the benefits of a letter of credit (LC) in a digital multi-bank environment, can lead to accelerated cash flow through the faster collections they make possible, cutting days sales outstanding (DSO) in half.

CASE STUDY

Going digital: Enhancing trade efficiency and accuracy

As the primary trade finance bank in Asia to one of the world's biggest agribusiness and food companies, J.P. Morgan committed to establishing new digital processes to facilitate the client's trades.

Among the first banks to provide the client with: electronic export letter of credit MT 798/MT 700 via SWIFT to Corporate, with J.P. Morgan Singapore as advising bank; export collection transaction via ELCY, with JPMorgan Singapore as remitting bank; import collection transaction via essDOCs, with J.P. Morgan Singapore as collecting bank; and electronic advice of export letter of credit MT 798/MT 710 via SWIFT to Corporate, with J.P. Morgan Singapore as advising bank.

A photograph showing a person from the waist up, wearing a dark blue long-sleeved shirt and brown work boots. They are holding a large bundle of freshly harvested green rice stalks. The background is a bright, sunny outdoor field with a clear blue sky and some distant trees. A portion of a brown umbrella is visible on the right side of the frame.

These steps enabled a consolidated view of the client's trade transactions and greater visibility of its trade finance position at the global, regional and local levels for reporting purposes. In addition, digitization enabled improved cash flow and better control of working capital for the company, increasing the availability of financing liquidity and providing the ability to continue to process transactions regardless of location.

GET READY TO LAUNCH

Although it is difficult to estimate the timeline, the full, end-to-end digitization of trade is inevitable. There will likely be multiple winners in the race to go digital, and the key will be in ensuring interoperability between solutions, as each electronic system represents only a small slice of the overall trade cycle. But any implementation of a digital solution is meaningless unless the transaction itself is digital, and corporates need to act quickly in order to be ready when the time comes.

PILOTS & DOCS

J.P. Morgan is partnering with multiple fintech and banking consortiums that are in active development of various pilots and POCs. In the first half of 2018, two POCs have been completed. In the first, J.P. Morgan participated in processing export LCs using DLT with a partner bank in India. In the second, the bank developed a DLT asset distribution model to facilitate the sale of supply chain finance and other trade assets to outside investors.

- 1 <https://iccwbo.org/media-wall/news-speeches/new-icc-survey-shows-pace-trade-finance-digitalisation/>
- 2 <https://iccwbo.org/media-wall/news-speeches/new-icc-survey-shows-pace-trade-finance-digitalisation/>
- 3 <https://www.euromoney.com/article/b161c10578gm98/trade-finance-clients-prove-slow-to-embrace-digital>

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