



World Trade Webinar

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From Surviving to Thriving: Access to Trade Finance for SMEs in the digital era

Summary Report

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The state of global trade innovation

The pandemic has proved to be a cataclysmic force in global trade innovation – in response to the disruption wrought over the last year and a half, a proliferation of digital solutions and tools have emerged. However, a more holistic approach to digitalisation is required, especially when considering the complexities faced by small and medium enterprises (SMEs).

Reuters Events & Finastra gathered together a panel of experts to discuss how the industry can tackle this crucial issue at the World Trade Webinar 2021, part of the World Trade Symposium.

Panel Chair Frances Coppola, an independent financial economist and author, was joined by John Carroll, Head of International Business at Santander and Chair of the International Chambers of Commerce's new UK Trade and Investment Policy Committee; Dr Rebecca Harding, CEO of Coriolis Technologies; Matt Gamser, CEO of the SME Finance Forum; and Raja Al Mazrouei, Executive Vice President of the Fintech Hive at the Dubai International Financial Centre.

A patchy post-pandemic recovery

The discussion began with Dr Rebecca Harding setting the scene and outlining some of the key challenges facing international trade in the current climate. Summarising the patchy global trade recovery scenarios we are seeing, she said:

“China, Germany, Italy, the US and Canada are all above their pre-pandemic levels in terms of trade, while the UK and France are still lagging behind. Africa has shown its first recession in 25 years, according to the World Bank. It has been very seriously damaged by the COVID pandemic, not just in terms of economic issues, but also in terms of social issues, and there are big fears that it won't meet its sustainable development goals as a result... So there's a big set of issues around how we help SMEs in emerging markets to engage with trade, for economic development and welfare purposes.”

Dr Harding went on to discuss how other issues such as supply chain shortages, geopolitical pressures and increasing regulation around sustainability requirements are “putting a huge amount of pressure on the SME at the bottom of the food chain.” While these issues may have been exacerbated over the last 20 months, they certainly existed prior to the pandemic she said, concluding “there is actually a systemic gap in trade finance.”

Time to prioritise digitisation

Coppola then asked John Carroll to shed some light from a banking perspective. He explained that there are some key challenges he consistently sees when working with SMEs. These are time consuming and complex access requirements for funding; banking processes which have traditionally been built for mid- to large-sized corporates; and a heavy reliance on paper transactions – “there are 4 billion paper transactions a year in trade finance, which is shocking, and that basically makes it very difficult to marry a trade finance system to a business environment, which is increasingly electronic.”

Highlighting that this paper-based system does not lend itself to efficiencies, increasing the segment's cost to serve and therefore making it less attractive to banks, Carroll went on to state “We must prioritize digitization... that is the absolute liquid gold, which enables everything else to be transformed.”

He also explained that banks should be utilising big data and machine learning to provide more tailored offerings to SMEs. "This enables a much more efficient, needs focused decision making," he said. "Certain SMEs want to take on different types of risks rather than one size fits all. And that is why optionality must be there."

The cost of compliance

Next, the panel explored the outlook for the SME. Matt Gamser said that a key problem lies in the increased burden of compliance due to outdated processes still used by the handful of large financial institutions which dominate international trade.

"Those banks are not using the most advanced procedures. They're using very old-school, human centric procedures to verify who they're dealing with... and they're holding up the progress of the whole rest of the system."

The resulting high cost creates an insurmountable barrier for smaller banks and those in emerging markets, which typically service SMEs, he said.

Gamser added that the restrictions on movement due to the pandemic may have constricted trade in the short-term, but longer-term he sees a positive impact in accelerating adoption of digital processes and recognition of the need for more electronic alternatives.

"We need to get to the 21st century, because the SMEs are there and in emerging markets, I would argue many of the financial institutions are there. We need the West to catch up."

The role of the digital ecosystem

The discussion then moved onto the role of the digital ecosystem and the FinTechs themselves in solving this problem. Raja Al Mazrouei agreed that there is a huge opportunity in the digitalisation of trade finance, but pointed to the lack of common standards and regulatory frameworks as key challenges to achieving this – "there are multiple parties involved in this transaction," she said, "and each individual party has a complex process to enable this flow of information and integration. The industry lacks standardization for these processes."

There was broad consensus among the panel that blockchain could play a hugely important role in supporting this standardisation, providing an accessible global protocol for all the ecosystem players, and improving transparency and efficiency. However, fundamentally enabling legal and policy environments remain crucial and we must continue to push for this.

"Instead of competing in areas of payments and peer to peer lending, I think if FinTech starts to focus on the opportunity of creating this organized structure of solutions, to enable the multiple players within trade finance to plug into it, and if the industry and associations representatives start to look at the standardization across the different players, that would create an opportunity to bridge that trade finance gap and also enable smoother and faster movement of these transactions" said Al Mazrouei.