Trade's digital transformation: From ambitious vision to real-world success

Digital transformation in trade is more than simply swapping paper for pixels — it's a holistic reimagining aimed at addressing inefficiencies, reducing transactional friction and better serving the needs of corporates. But if the abstract promise of digitization is to become a concrete reality, the focus must be on solving real pain points to bring forth a more flexible, inclusive and resilient ecosystem.

This article was recently published in Global Trade Review.

From technological advances such as artificial intelligence, blockchain and machine learning to the advent of electronic invoices, bills of lading and warehouse receipts, a flurry of innovation is opening up new opportunities to make trade — and the finance that underpins it — more efficient.

Momentum is building across the industry, with banks undertaking bold transformation strategies to move away from burdensome manual operations. Once fully achieved, the potential benefits of digitization will be enormous, adding trillions of dollars to the flow of international trade and slashing costs by over 80% across the G7 economies alone, according to research by the International Chamber of Commerce.

But to translate the high-level digital business case of the future into tangible gains for corporates today, financiers must take a client-centric approach that addresses real needs.

"Making digital transformation real is about using technology to solve existing problems in trade finance rather than coming up with cool new products," says Geoff Brady, head of Global Trade and Supply Chain Finance, Global Transaction Services at Bank of America. "The key is to identify areas where we can make a positive, impactful difference."

Centering the value proposition

Despite the emergence of numerous digitization initiatives in recent years, many transactions still involve a significant amount of paper moving back and forth among multiple stakeholders in various locations. In this complex ecosystem, trade is only ever going to be as digital as the most analog part of the process, so a successful approach means starting at the real-world level.

"Our aim is to facilitate our clients' trade transactions in a low-friction environment," says Brady. "Trade finance involves many document exchanges that traditionally have been slow and manual, involving the postal service, logistics providers, and shipping departments. When we consider a digital path, we introduce concepts like API and digital connectivity to seamlessly transfer these documents."

As corporates grapple with a litany of macro challenges, digital improvements that can accelerate the cash conversion cycle and free up working capital become even more crucial for resilience and growth — and banks are increasingly being called upon to help them achieve this. But with a range of business needs competing for dollars, the investment required to overhaul entire systems is often prohibitive.

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> Bank of America

"One of the simplest and most efficient ways for a corporate entity to transact against payables and receivables would be within their own ERP system," says Brady. "So, instead of building something entirely new, we look for ways to incorporate this into their existing environment. We can handle the connectivity and data pathways behind the scenes with software and ERP providers, allowing clients to stay within their comfort zone and not have to adjust to new systems or practices."

While the bank has created a complete suite of digital trade finance tools to meet each client's unique needs, it is also conscious of the need to keep change management to a minimum.

"Our approach is based on the understanding that every transaction we facilitate is someone's receivable or payable," says Brady. "We can then layer in elements like risk mitigation, insurance, discounting or financing, but all these elements are a component of the receivable or payable, instead of a new trade finance product with its own rules and complexities."

With this mindset, Bank of America is seeking to target some of the most challenging and paper-intensive corners of the trade finance world — without overlooking the need to create scalable solutions that everyone can adopt.

"We are advocating an ecumenical solution to level the playing field and create a better way of digitizing trade," says Brady, adding that the bank aims to create an inclusive and universally applicable model rather than its own proprietary system.

"A discounting or risk mitigation option integrated within your ERP doesn't always have to be a Bank of America option," he says. "We are confident that our clients will benefit from a new ecosystem of trade transactions that isn't proprietary to any single entity, as that could potentially crowd out others. The more companies that adopt this system, the better it's going to function."

Fit for the future

The critical importance of ensuring digital solutions can be adopted at scale has gained further prominence with the increased frequency of geopolitical and macroeconomic shocks. As the trade finance industry looks ahead to fulfilling the promise of digitization, its success hinges on ensuring everyone can get on board — and this means taking a more pragmatic approach to partnerships.

"We're part of consortia and partnerships with other banks, and what we realized relatively early in the journey is that we need to maintain flexibility," says Brady. "This might influence how we contract with our counterparties, or it might result in the creation of contingency plans for different stages of the transformation journey. The key is to be flexible enough not to panic when we have to pivot, recognizing that the world changes."

As the relationship between banks and fintechs shifts further away from competition and closer to collaboration, creating solutions that can transform trade long into the future means recognizing that different parts of the ecosystem excel in different areas, and that each needs to be enabled to leverage its own strengths.

"Fintechs have always had a focus on innovation; it's their mainstay, but they may not have the same opportunity or time to build extensive relationships with corporates. As banks, that's our forte," says Brady.

"However, this a constantly changing environment, and what is becoming apparent is that fintechs, by their nature, are fluid organizations," he adds. "Some appear, some dissolve, some undergo acquisition and subsequent changes in capital ownership structure. Here's where flexibility is important again: when embarking on a five-year transformation journey, you should expect some partners to evolve into something different from when they started."

Putting corporates at the center

While the digital transformation of the entire trade ecosystem remains a vast undertaking, solutions that are practical and applicable can steadily crystallize it into reality. As the landscape continues to evolve, corporates need their banking partners to transform alongside them, connecting them to the wider ecosystem to digitize end-to-end processes across their supply chains.

"For us, the transformation is clear," says Brady. "We're moving from a proprietary mechanical process to a more open, inclusive process, where banks are allowed to excel in what they do best, and corporates benefit from a faster, more efficient way of doing business."

Taking the digital future of trade from an abstract vision to a tangible reality that fosters growth and resilience calls for a deep, strategic shift in how the industry approaches innovation — and only by embracing a client-first mentality can banks ensure that digitization serves, rather than complicates, trade finance.

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