How collaboration is driving the digitization of trade

The rate of technological change in trade has never been quicker, but in an industry still reliant on paper documents and processes, as well as complex supply chains, there remain significant challenges. Senior management executives from Bank of America, IBM and Marco Polo Network discuss the opportunities digitization can bring to trade, and how partnerships are becoming key to integrating next-generation technology into the innovation cycle.

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Global supply chains remain in a state of flux. The complications and costs around trade, shipping and logistics stemming from the Covid-19 pandemic have encouraged many corporates to reconfigure supply chains, often by onshoring or nearshoring certain components in order to reduce reliance on suppliers in distant markets. At the same time, political pressures — such as the war in Ukraine and the subsequent imposition of sanctions by governments in the U.S. and Europe — have forced many firms to seek alternative sourcing markets for key commodities and inputs.

In international trade, there has long been widespread understanding that such efforts would be far simpler if companies are less reliant on physical documentation and manual processes. However, prior to the pandemic, digitization often moved at different speeds across different institutions and markets. Following the disruption caused by Covid-19, that appears to be changing.

"Our clients are now going through a significant digital transformation," says Madhav Goparaju, managing director, global head of digital transformation, trade and supply chain finance at Bank of America. "They are looking to make a paper-intensive business, or components of their supply chains that rely on paper-based processes, much more digital in nature. The question then is: how are their banking partners keeping up with the innovation, helping them transform supply chain cycles end to end?"

The role of banks

The range of technologies being deployed in trade is broad, spanning from artificial intelligence (AI) and machine learning to distributed ledger technology and blockchain, and to cloud computing. One consistent feature, however, is that the pace of technological change itself is accelerating. As a result, solutions that are implemented today by a corporate's banking partners are likely to have shorter life spans.

"That means banks' approach to introducing new technology has to change," says Goparaju. "The historical mindset from a bank perspective has been to look at individual product components, individual process components and individual technology components, doing one project at a time."

That linear way of operating is ill-suited to a world where digital transformation is picking up speed. If it takes too long for a bank to build and implement a new technologically driven system, there is a risk that by the time it is put into use, the underlying technology has already matured or moved on, and some components would have to be revisited immediately.

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> Bank of America

"At Bank of America, we now take more of a journey-based approach, rather than looking only at individual projects," Goparaju says. "That means examining supply chains end to end and stitching together different components at the same time, effectively like an integrated solution vertical. It's about taking all the individual pieces — taking a receivable all the way from origination to payment — and connecting them."

Bridging the gap

For a large international bank involved in trade, adopting a wholly new approach to digitization is far from straightforward. Developing expertise and products internally is not only time-consuming, but also resource- and capital-intensive, as it requires staff to bridge the gap between knowledge of trade and trade finance, and technological know-how.

Bank of America is not taking on that challenge alone. The lender is looking outward by opening its doors to other industry players, including New York-headquartered technology giant IBM and Marco Polo Network, the blockchain-based digital trade and payments network.

The rationale behind these partnerships is clear. Marco Polo Network, for example, is "not only a technology company but a product company," explains Goparaju. "They have the expertise in this space, they are talking to the clients we want to service, and they are using the technologies they have to look at broader supply chains and solve some of those problems."

The partnership is mutually beneficial for Marco Polo Network, too, adds its CEO, Rob Barnes. "We're now able to sit with Bank of America and some of the largest customers in the world, to talk through the problem areas that they have. We can then look at redefining some of their processes, and in some cases, digital transformations become catalysts for much wider improvements to processes." Such improvements have included enabling private information-sharing between a corporate and its supply chain, or facilitating real-time reconciliation, Barnes says.

At the same time, by working with IBM, Bank of America is able to leverage AI and hybrid cloud technologies to process client documentation more efficiently. Even if a client is sending paper-based trade documents, these technologies can intelligently read and interpret those documents, then extract and store the relevant data digitally. "Trade finance is unique in needing everyone's participation to affect real change. The digital innovations we're helping bring to market is going to accelerate that reality," Goparaju says.

The engagement also provides benefits to IBM, giving it greater reach into the world of trade and trade finance. "First, there are the client relationships that Bank of America brings," says Hillery Hunter, general manager for the IBM Cloud for Financial Services platform. "But there's also data, there are historical contacts, and there is a deep understanding of trends that a financial services institution brings."

Beyond documentation

Despite the benefits that arise from banks partnering with technology companies, there is a separate challenge: ensuring their clients are also on the same digitization journey. In part, that can be tackled by involving clients earlier in the innovation cycle. However, there is a need to recognize that some companies will be moving toward digitization at a quicker rate than others.

According to Marco Polo Network's Barnes, that means some transactions that banks handle will remain paper-based while others are already fully digital. "As a result, technological solutions tend either to address further digital penetration, or digitizing paper processes, but not both," he says. "The problem with that is you never really get significant scale."

To address that issue, Barnes says Marco Polo Network, IBM and Bank of America are pioneering a "hybrid approach" that encompasses digital and paper at the same time. If clients are not ready or able to digitize all their processes and documentation, the Network can accept some paper and some digital information, all of which feeds into the same solution. "I think we have a unique proposition there," he says.

Digitization also goes beyond replacing paper-based documents and processes with technology-driven equivalents. IBM's Hunter points out that cloud technology "can deliver those capabilities in a way that has elasticity, but that does so without compromising anything on security and compliance."

While sharing information using cloud technology can be hugely beneficial in the trade process, giving real-time visibility across the entire supply chain, Hunter says customers will only adopt such solutions if they can be trusted to remain secure, so that vital information is accessible only to the right parties.

"There is some very sensitive information that is being digitized, and placed into cloud environments," she says. "We see our role as being able to provide a high level of security and compliance from a technology perspective."

Looking to the future

Ultimately, for Goparaju, this technology-driven, hybrid approach to digitizing trade will place the bank and its customers in a highly advantageous position. Even as segregated trade ecosystems continue to emerge around the globe, he expects Bank of America will be "nimble enough to be able to connect to all of these different ecosystems at the same time. That's an evolved way of thinking, but that's where we see the market going."

Goparaju acknowledges the bank's vision is ambitious, broad and complex, but predicts that the effects will become increasingly visible in the next two years. "We're only in year one of a three-year journey," he explains. "However, we've already laid the foundations for digital transformation in some of the older products and solutions our clients are dealing with. Now, we are ready to build on that."

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