



**Asia-Pacific
Economic Cooperation**

2019/SOM1/FDM/018
Agenda Item: 7.3

A Strategy for the Digitalization of Trade and Supply Chain Finance

Purpose: Consideration
Submitted by: ABAC



**Finance and Central Bank Deputies' Meeting
Santiago, Chile
7-8 March 2019**



A Strategy for the Digitalization of **Trade and Supply Chain Finance**



FINANCING ASIA-PACIFIC INTEGRATION IN THE DIGITAL AGE

2018 PROGRESS REPORT
ON THE WORK OF THE
ASIA-PACIFIC FINANCIAL FORUM (APFF)
ASIA-PACIFIC FINANCIAL INCLUSION FORUM (APFIF)
ASIA-PACIFIC INFRASTRUCTURE PARTNERSHIP (APIP)

ATTACHMENT B
A Strategy for the Digitalization of Trade and
Supply Chain Finance

An Undertaking of the
Asia-Pacific Financial Forum (APFF)

TO IMPLEMENT THE **CEBU ACTION PLAN'S** INITIATIVE 1A

DELIVERABLES

DEVELOP REGIONALLY CONSISTENT LEGAL, INSTITUTIONAL AND OPERATIONAL STRUCTURES TO FACILITATE THE
FINANCING AND EXPANSION OF CROSS-BORDER TRADE AND SUPPLY CHAIN FINANCE.
EXPAND THE USE OF ELECTRONIC SUPPLY CHAIN MANAGEMENT PLATFORMS.
FACILITATE DIGITAL, MOBILE AND INNOVATIVE WORKING CAPITAL MANAGEMENT TECHNIQUES

In 2018, ABAC submitted the draft of *A Strategy for the Digitalization of Trade and Supply Chain Finance* to the APEC Finance Ministers (as an attachment to its 2018 Report)

Timeline of Development

- **October 2017, Bangkok**: APFF Seminar on Trade and Supply Chain Finance
- **May 2018, Hangzhou**: APFF-IFC-Cainiao-MyBank Forum on Logistics and Supply Chain Finance
- **June 2018, Fukuoka**: Session on Fintech and Trade and Supply Chain Finance
- **June 2018, Singapore**: APFF Workshop “Tapping into Digital Technologies to Facilitate Trade and Supply Chain Finance”

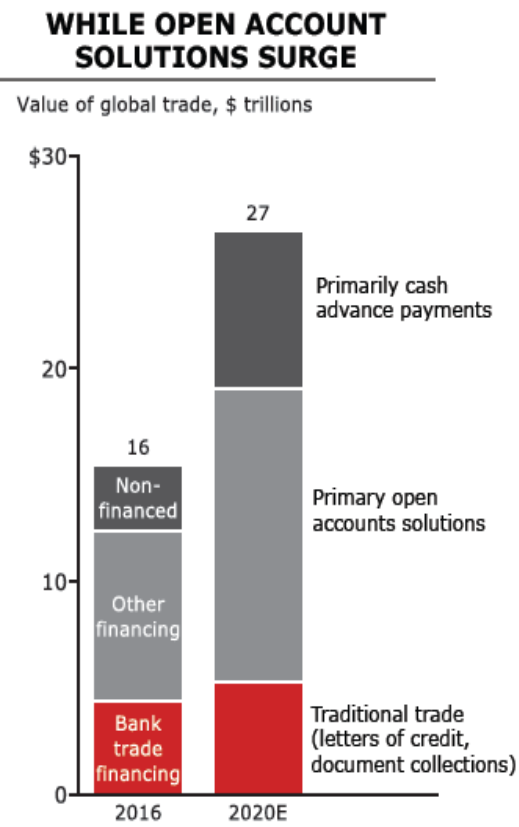
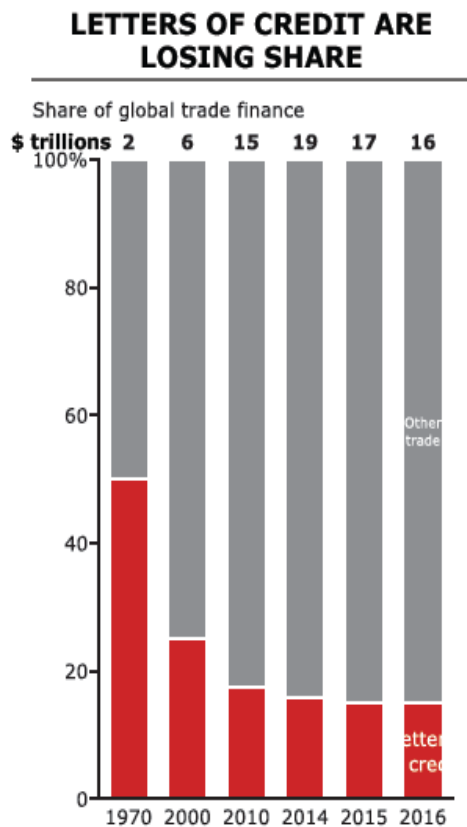
In their Joint Ministerial Statement, the APEC Finance Ministers also called for advancing this work in 2019.





Background

Trade Finance: Documentary trade, open account and the needs of SMEs



- ▶ **Documentary trade processing** (e.g., LCs): largely **paper-based** and **manual** – costly and time consuming – unattractive for banks to offer to lower value transactions and SMEs
- ▶ Banks shifting to **open account**
 - ▶ Open account **requires established trust** between buyer and seller
- ▶ But... **newly regionalizing SMEs still need to build trust** with their new overseas counterparties, thus continue to rely on **documentary trade**
- ▶ **Need to digitalize documentary trade finance**

Digitalizing Trade Finance: Challenges

- ▶ Success depends on cooperation of many market participants
 - ▶ Banks, corporate buyers, sellers, shippers, ports, customs, logistics, insurers
- ▶ Different jurisdictions: inconsistent and unclear legal treatment of digital documents - performance and enforcement uncertainties
- ▶ In banking industry: organizational spaghetti bowls of manual and digital processes – digital islands of non-standardized processes
- ▶ **As a result, heightened legal, regulatory and performance risks of using digital cross-border trade title documents can outweigh economic and efficiency benefits**
- ▶ **Participants find it less costly and more prudent to continue using paper.**

Key Areas to Address

Coordinating the trade ecosystem



- ▶ Huge size
- ▶ Broad diversity of participants
 - ▶ Corporate buyers, suppliers, banks, logistics companies, warehouses, ports, shippers etc.
 - ▶ Public sector policymakers and regulators (trade and commerce, technology, justice/law, finance)
- ▶ Multiple jurisdictions

Legal reforms to recognize data in digital forms

New technologies have emerged to enable digitalization of Trade

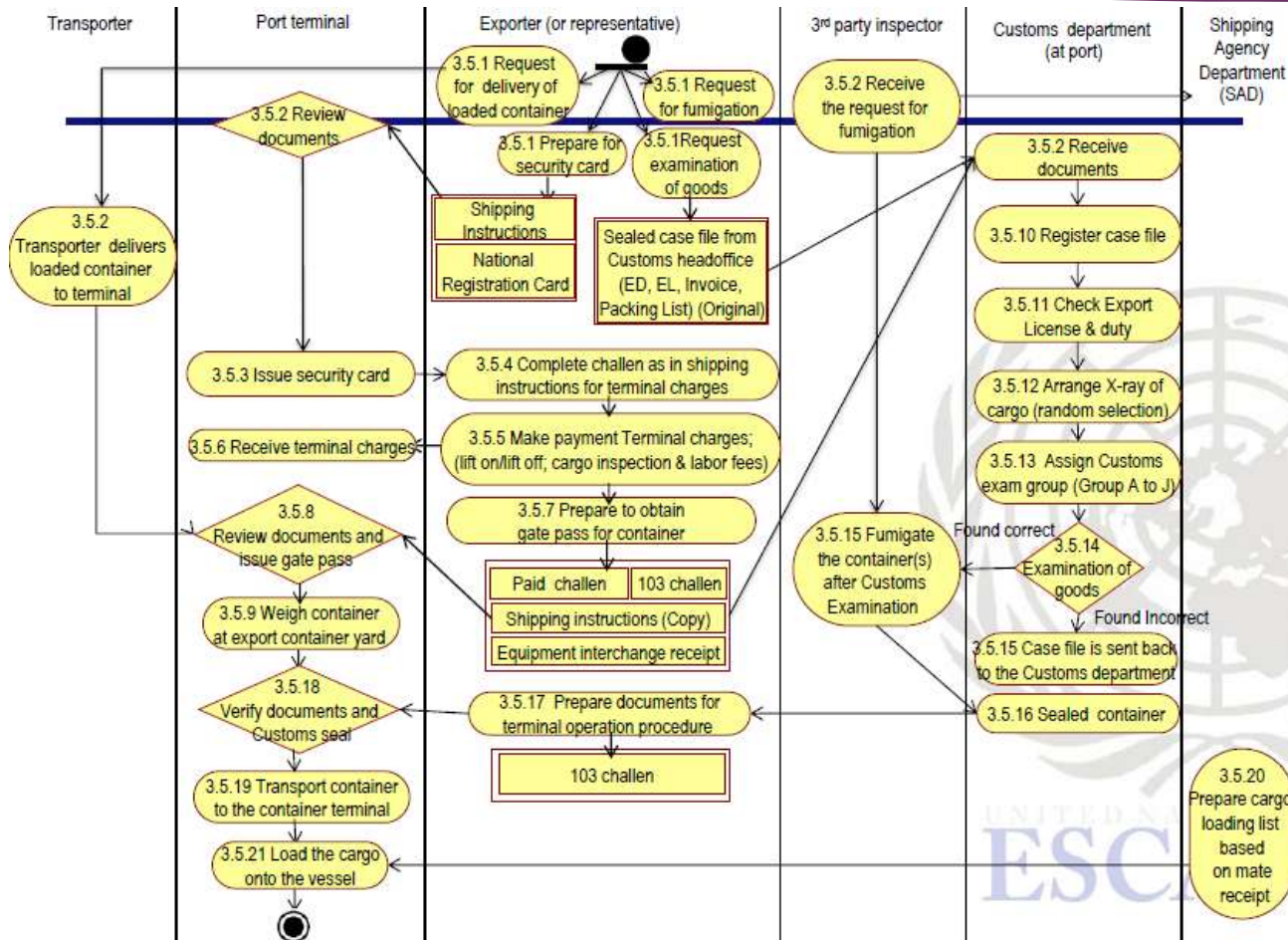
New technologies	Pre-transaction		Transaction processing		After transaction		
	Product selection	Data entry	Workflow management	Document check	Compliance check	Problem resolution	Info & client MI
Optical character recognition (OCR)		Text Recognition from trade docs to minimize data entry		Check for completeness of documents based on transaction/product type	Scrape docs for AML keyword hit		
Artificial Intelligence (AI)	Intelligent & personalized marketing: Offer new product sales or client promotions based on insights on clients' needs and behaviors	Populate fields with text extracted from documents (integrate OCR with txn process)		Validate/remediate data with cross-references, machine learning	Contextual filtering: Identify suspicious or unusual activity and block suspicious transactions based on predictive indicators	Intel'nt problem resolution: Track indiv. error rates & flag users in need of remediation	
Advanced analytics (AA)		Enhanced KYC (e.g. web scrape)	Efficient process & productivity monitoring & predictive analytics to detect patterns				Reports enable enhanced operations & strategic decisions
Robotic Process Automation (RPA)			Bridge data flow and communication: Integrate data from different systems into single interface				
Internet of Things (IoT)			Ease of tracking goods and documents; dynamic pricing & financing triggered by shipment events; automated payments release based on "Smart Contracts"			Track document locations: Track goods (location, volume, quality)	
Distributed Ledger Technology (DLT)		Replace document-ation, checks, data entry, validation, with single digital record	Real time verification & reconciliation; workflow executed as per smart contract conditions; Replace payment & funds transfer with cryptocurrency				

Legal reforms to recognize data in digital forms

Building blocks

- ▶ Laws on e-commerce, recognition of data in digital form, electronic signatures, electronic title transfer documents, etc.
- ▶ UNCITRAL Model Law on Electronic Transferable Records (ETRs)
- ▶ Associated laws and regulations on cybersecurity and data privacy

Common international standards and inter-operability of market practices



- ▶ Technology protocols (e.g., message formats)
- ▶ Market conventions and protocols
 - ▶ E.g., industry standard on acceptance protocols establishing validity of documents
- ▶ Corporate identifiers
- ▶ Process flows
 - ▶ Digitalization/automation is not simply translating paper-based procedures to paperless. It needs comprehensive analysis of trade process and procedures and identifying ways to harmonize data and simplify procedures.



Trade-Based Anti-Money Laundering (TBML) Compliance



- ▶ Non-documentary and non-bank intermediated trades: Larger potential areas of illicit fund flows
 - ▶ Dearth of documents to check
 - ▶ Data sharing and pooling needed
 - ▶ TBML practices can be more precise with digitalized data in trade and payments

Strategy

Strategy to Digitalize Trade and Supply Chain Finance

- ▶ Legal and regulatory reforms
- ▶ Market standards and inter-operability guidance
- ▶ APFF Digital Trade Finance Lab – platform focused on documentary trade process for collaboration among policy makers, regulators and the private sector
 - ▶ Current participants:
 - ▶ ICC Banking Commission
 - ▶ R3
 - ▶ IFC/World Bank
 - ▶ Bankers' Association for Finance and Trade
 - ▶ Digital Standards for Trade
 - ▶ UNESCAP
 - ▶ Individual banking sector market participants

Need more information?

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