

Trade Finance: A Strategic Transformation

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The nature of the traditional trade business has changed very little in the last several hundred years. Trade finance has basically been the business of financing international trade, predominantly through the use of letters of credit. The first recorded usage of a letter of credit is dated back to King John of England, importing Italian marble in 1210. Interestingly, the letter of credit has not changed much since. Ever since, trade has consisted of various parties working together to build, buy/sell and eventually move goods around the globe. Banks have always been one of the key parties in this process, primarily providing risk mitigation and credit/settlement services most often related to the traditional letter of credit and documentary collection products. However, after centuries of little change, a transformation in the trade industry is occurring. The once simple process of trading goods has grown more complex due to the globalisation of the market. Supply chains have become stretched and more challenging to manage – companies now must oversee a complex matrix of third parties to make, store and distribute their products. Banks must transform their business into one that aligns with, and plugs into, their customers' quickly evolving supply chain strategies.

Globalisation triggers change

In this increasingly global marketplace, it is more challenging than ever for corporations to keep their competitive edge. Driven by a range of pressures, organisations must increasingly source and sell globally; yet the transition from regional to global sourcing has had a negative effect on the organisations' working capital and supply chain performance.

Organisations demand a broadened set of solutions from their banks, including bank-assisted open account instruments, supply chain finance (SCF), and new payables and receivables financing, to help them manage the sophisticated financial and processing challenges created by global supply chains.

Transform the way you think

As the business changes, banks must transform the way they think about,



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and organise around, trade. Technology obviously plays an important role in enabling banks to fully support their corporate customers in the buying and selling of goods; however, technology alone is not the answer. Yet technology must align with the business issues, including business strategy and corresponding processes and services, in order to achieve the desired results. Transforming trade finance requires thought leadership, rapid technical evolution, and readiness for organisational change from the top down. This fundamental change to an organisation's culture, processes, and technology transforms the bank from a provider that meets only a fraction of their customers' trade needs to a full

partner providing solutions across their customers' entire supply chain.

A holistic approach

Supply chain finance presents a unique opportunity for banks to transform their business to provide end-to-end supply chain solutions for their customers. CGI created Proponix®, our hosted trade platform, to support the traditional trade needs prevalent at that time. Given the globalisation of trade and the fundamental change in business over the last several years, it became clear that a broader, more comprehensive and more complete version of the platform was required.

A *tactical* approach to this problem is to look for a short term solution, such as tacking on a new open account or supply chain finance module, creating a standalone or partial solution. This may feel like the safer decision, but in the long run banks who take this approach will be left behind by bank and non-bank competitors, who are quickly redefining the way they operate in the trade services arena.

Unfortunately many banks fall into the tactical thinkers' category, not by choice, but by default. Many banks are faced with a challenging economic situation—invest more capital in a high fixed-cost business or not invest and lose clients to competitors with better SCF services. At this crossroad, banks need to develop a compelling business case to get buy in from executive leadership, facilitating organisational change from the top down. A strategic transformation results in one end-to-end platform supporting all the components of trade. Trade is now different, redefined. It is no longer just international, no longer just about risk-mitigation, but about providing the full set of services to corporate customers. And an integrated and complete global trade solution is a necessity to enable banks to compete and provide value-added services for their corporate customers.

To reflect this strategic business need, CGI's new trade platform, Proponix360™, provides end-to-end capabilities going well beyond trade, to include SCF and working capital management functions in a complete, integrated platform.

Making a business case

From a business perspective, it might not be immediately clear that a single end-to-end platform supporting trade is needed. Traditional trade and elements of supply chain finance might indeed reside in two different lines of business. But to truly support trade bank customers' supply chain needs, an organisational change may be required. For example, some forward thinking organisations are merging trade finance and cash management areas to create a more integrated business, perhaps centred on working capital. This is a customer-centric approach that leverages the similar business underpinnings and provides more effective solutions to support corporate customers' trade and SCF activities. Platform integration and organisational change to manage trade as a single entity can sound daunting. Strategic, holistic changes may feel too big, the risk too great, particularly during challenging economic times.

We have found that transformation can actually reduce complexity. An initiative of this nature requires executive leadership that can see beyond the next fiscal quarter. Utilizing one platform creates a lower cost, more financially stable end-to-end supply chain, resulting in a strategic advantage for leading SCF providers. A compelling business case will point to the opportunity gain.

Consider the delivery model

Even in the midst of great market transition, the underlying goal for the bank is to increase revenue and growth while controlling costs. Often, when implementing technology, the goalposts move, and the implementation becomes out of date, or irrelevant to current market conditions.

For trade, consider a hosted or Software as a Service (SaaS) model. It provides predictable operating costs, significant processing efficiencies, always-current

features, and faster time to market for new capabilities.

With the SaaS model, banks can rest assured that continual development work will guarantee the platform is always up to date and relevant to current business needs. This is especially important during such a time when changes occur rapidly, and transformation is necessary, when market conditions and customer expectations are continuously evolving.

Look to the Future

Technology providers will continue to focus on the development of capabilities for supply chain finance and related functions. Any IT provider in trade must be focused there. But how this is

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achieved will be interesting to watch. In many cases, IT providers create alternate solutions that provide only supply chain capabilities.

CGI sees the trade business transforming and believes the underlying technology needs to be transformed too, creating a complete solution that provides the full capabilities to support trade.

Over the next 12 months, CGI is focusing on expanding its Proponix360™ offering with additional supply chain solutions and areas of working capital management that begin to bridge the gap between trade and cash management. As a result of interactive client dialogue, CGI is focusing our efforts on strategic enhancements that will positively impact the clients' business. These areas of focus include seamless integration with buyer/seller collaboration platforms and

accounts receivable management and accounts payable management solutions, among others.

This solution is the next natural progression for supply chain service offerings to address both the processing inefficiencies of accounts receivable matching and short term financing needs for sellers.

For example, typically sellers can automatically match no more than 30-40% of payments received to their invoices, with the rest matched manually and often from paper. By providing the tools that can leverage protected buyer data to increase automatic matching to 80-90%, plus automated tools to assist with the remaining manual matching, the bank can deliver large resource savings to the seller.

Leading the strategic transformation

During times of market transition, strategic thinkers will transform their business. They will see a great opportunity in supply chain finance and will build partnerships with technology and service providers who understand the industry and the technology, and who can help them define a winning business strategy.

Strategic thinkers understand that as the world becomes more integrated and there is more interoperability between all players in the industry—banks, suppliers, carriers—software must be integrated to connect all the points. The process will become more transparent, so all players can easily access information at any time during the trade cycle.

During this time of market transition, banks have an opportunity, to address industry trends caused by globalisation. As the business transforms, the leaders who see the holistic picture will make the changes to be successful, and will reap the benefits.



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