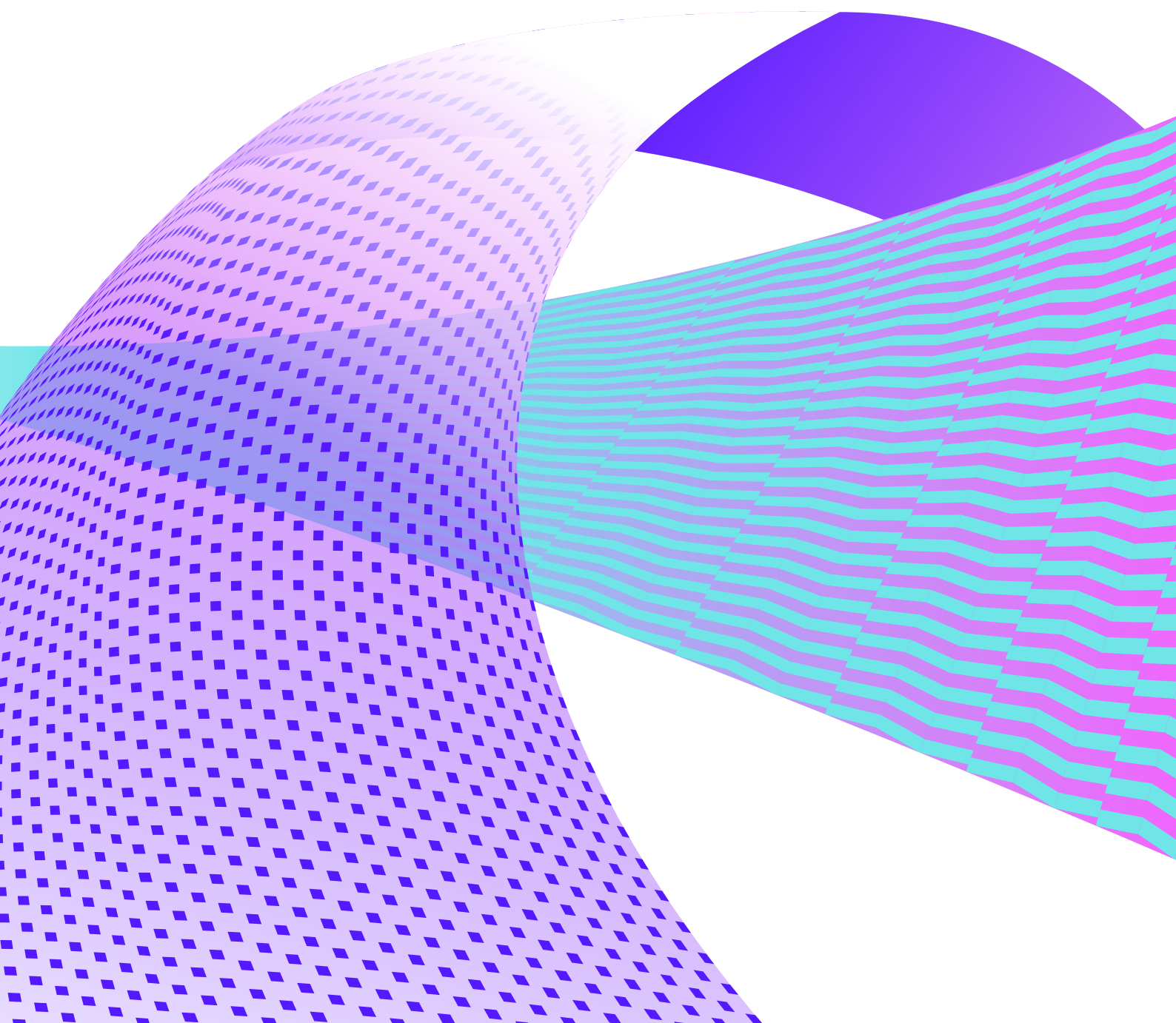ABBYY

New Solutions for New Challenges in Trade Finance
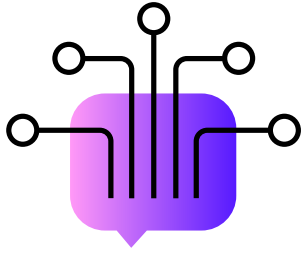
New Solutions for New Challenges in Trade Finance

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The "new normal" in trade finance

The unprecedented events of 2020–2021 have brought about sweeping changes in nearly every industry, and trade finance is no exception. In particular, the COVID-19 pandemic and its ripple effects—lockdowns, travel restrictions, and a global recession—caused long-standing vulnerabilities in the industry to bubble to the surface, and turning a blind eye is no longer an option. The extent of these vulnerabilities is only just becoming apparent, and banks are looking for solutions.

If banks focused on trade finance are to address and overcome the challenges of the environment in which they find themselves, the first step will be taking a hard look at their operations. Only then will they be able to identify opportunities for reducing costs, improving productivity, avoiding costly compliance violations, and reducing the risk of damaging errors.

Fortunately, there is a solution to help them along the way: Intelligent Process Automation.

Intelligent Process Automation can enable banks to move with confidence into a post-pandemic world by delivering a combination of two game-changing capabilities:

- Automating the document intake and management process, and
- Uncovering opportunities to repair broken, inefficient processes.

A time of change and challenge

The COVID-19 pandemic and related developments have caused a series of unprecedented disruptions in trade finance. Due to the interrelated factors of lockdowns, travel restrictions, supply chain disruptions, and economic contraction, the World Trade Organization estimated a 9.2 percent drop in world merchant trade volumes in 2020 and is forecasting a decrease of 13 to 32 percent in 2021.

In addition to decreased volumes, lockdowns and travel restrictions also had a dramatic negative impact on commodities markets (e.g., petroleum), putting pressure on margins. Adding to the industry's woes is an escalation of fraud and loan impairments. Research from a leading UK bank revealed a 66 percent increase in scams over the first six months of 2020 compared to the last six months of 2019, and the European Banking Authority is expecting non-performing loans to "increase to a significant amount" in the near future. While a rebound appears to be imminent—by 2022 analysts are expecting a return to pre-COVID business levels—profit margins are likely to remain slim due to increasing costs.

Pandemic aside, banks are also facing the increased capital requirements of Basel IV and the high costs of complying with ever more stringent KYC and AML measures. So even as revenues recover from the COVID disruption, financial institutions are still under pressure to find ways to boost shaky profits in their trade finance divisions.

Why Intelligent Process Automation?

According to the International Chamber of Commerce, up to 4 billion documents are circulating in the trade finance system at any given time. Manually processing these documents—which either originate in paper form or require some other form of human intervention (such as emailed PDFs whose data must be transcribed by hand)—increases the likelihood of shipments being delayed, margins decreasing due to low productivity, and human error leading to costly disruptions.

Intelligent Process Automation brings together two classes of technologies to help banks understand and optimize their processes and the content that fuels them. Process Intelligence technology provides end-to-end visibility into processes and how they are performing to identify challenges and improve efficiencies, while Intelligent Document Processing capabilities enable digital workers to turn unstructured content into structured, actionable information, deriving greater value from content-centric processes.

By leveraging Intelligent Process Automation, trade finance organizations can increase productivity, bolster their compliance efforts, and even improve the safety of their shipments and the people who handle them.

Three ways Intelligent Process Automation benefits trade finance
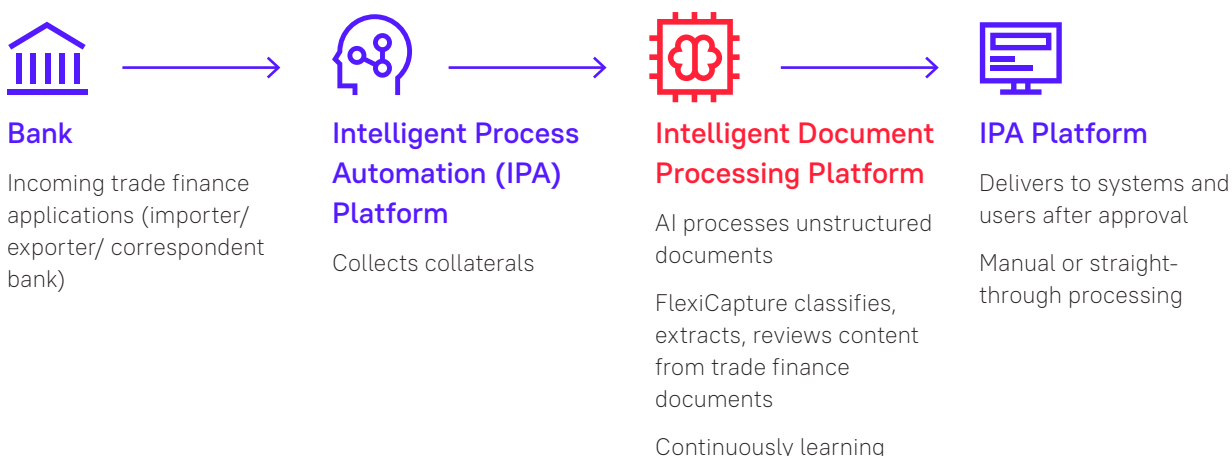
1 Increased productivity

Trade finance processes encompass over 100 different types of documents, including letters of credit, guarantees, commercial invoices, bills of lading, and certifications of origin, just to name a few. Information must often be manually extracted from these documents and entered into the appropriate systems, which is not only time consuming but also carries a high risk of human error.

Intelligent Process Automation can automate the intake process for both structured and unstructured documents according to established best practices in trade finance. Insights from event monitoring and predictive analytics enable continuous process improvement, which can reduce both labor costs and average handling time (AHT) for document-centric processes.

"Sprechen Sie trade finance?"

The global nature of trade finance requires processing a continuous flow of documents in multiple languages. ABBYY's Intelligent Automation solution supports over 200 recognition languages in all combinations and 13 user interface languages, making it an ideal solution for trade finance operations.

Intelligent Process Automation eliminates friction in the document intake process, allowing documents to proceed swiftly between the arrival stage and delivery to the appropriate systems and/or reviewers:

Bank

Incoming trade finance applications (importer/ exporter/ correspondent bank)

Intelligent Process Automation (IPA) Platform

Collects collaterals

Intelligent Document Processing Platform

AI processes unstructured documents

FlexiCapture classifies, extracts, reviews content from trade finance documents

Continuously learning

IPA Platform

Delivers to systems and users after approval

Manual or straight-through processing

② Improved compliance

To exclude any potentially illegal activity under AML and KYC regulations, the information extracted from original trade finance documents must be compared with other data in the bank's systems. When approached manually, this process is slow, tedious, and prone to errors that could result in unintentional compliance violations.

After automatically extracting data from incoming documents, Digital Intelligence can turn unstructured content into structured, actionable information. AI-based digital workers can then compare document contents to AML/KYC rules and flag cases that require closer attention by human compliance experts.

Intelligent Process Automation with AI and ML allows banks to streamline compliance processes while also freeing human workers from tedious reviews and allowing them to focus their efforts on more challenging, interesting work.

> " With ABBYY, we are able to process many heterogeneous and complex documents like bank guarantees, etc. AI-based self-learning allows continuous improvements of the output. ABBYY's solution integrates seamlessly in the ecosystem of the bank. As a result, the project was implemented very quickly, achieving high results regarding processing quality and time of trade finance collaterals.
>
> ↳ Marijan Djapic, Digitalization and Sales, Erste Bank Group

3 Improved safety

Delays in document processing can result in postponed shipments, which can lead to unsafe situations such as perishable or flammable cargo sitting in docks or warehouses for an extended period of time.

Intelligent Process Automation helps banks eliminate process blocks and reduce errors in trade document processing, enabling shipments to go forward to their destinations without danger of spoilage or excessive fire hazards.

Intelligent Process Automation and sustainability

Global paper usage has increased by 400 percent over the last four decades, and about 50 percent of the world's industrial logging goes into making paper. In addition to being a leading cause of deforestation, paper consumption generates a tremendous amount of trash, making up 26 percent of municipal solid waste in U.S. landfills. ([Source](#))

Trade finance traditionally relies heavily on paper documents, contributing to global paper consumption and waste. By reducing the amount of paper in circulation, Digital Intelligence can help banks around the world to reduce their carbon footprints and do their part to reduce deforestation and waste.

Looking ahead: An opportunity for blockchain

Intelligent Process Automation can do more than help trade finance organizations address present challenges—it can also be a key to preparing for the future. For example, banks are beginning to explore blockchain and DLT (distributed ledger technology) in developing a more efficient, more secure approach to conducting trade finance operations. To be successfully implemented, blockchain requires the digitally managed documents and streamlined processes around which Intelligent Process Automation is built.

" [Blockchain] facilitates a single, golden source of information with an immutable audit trail, where consensual decision making can be achieved in parallel and real time. This technology has the potential to eliminate paper from processing, to make transactions perfectly transparent, and to automate actions by using smart contracts.

↳ Cécile André Leruste, Deloitte

The 2017 United Nations Commission on International Trade Law (UNCITRAL) Model Law on Electronic Transferable Records (MLETR), adopted by the General Assembly in 2017, provides the clarity necessary for widespread adoption of digitalized trade and trade finance instruments. Distributed ledger technology/blockchain makes it possible to have reliable, fully digitized records.
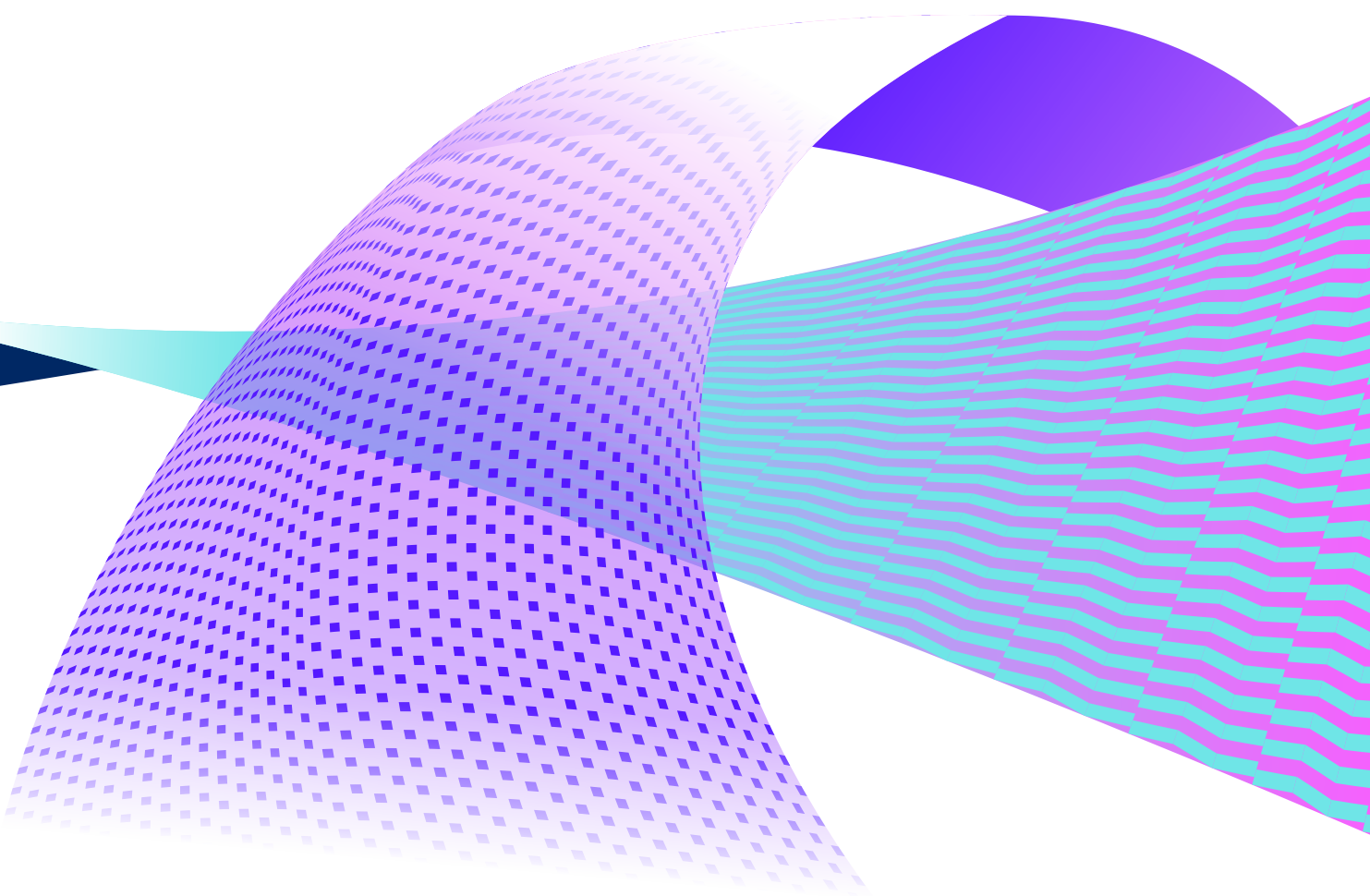
In Asia, a consortium of 14 banks announced in October 2020 that they are cooperating to create a digital trade finance registry to reduce the fraudulent practice of financing goods twice from different banks. These solutions are costly and proprietary. We assume that, if multiple consortia develop, the emergence of a standard, "winner-take-all" platform will require the majority of banks to pariticipate, which could take decades.

If blockchain is indeed shaping the next era of trade finance—and many signs point to this being the case—banks that invest in Intelligent Process Automation will be well positioned to move quickly in reaping its benefits and gaining a competitive edge.

The future of trade finance is digital … and intelligent

While the most detrimental effects of recent crises appear to be subsiding (or at least normalizing), banks must remain flexible and prepare to respond to future disruptions, such as Brexit, the growing use of blockchain technology, and any number of unforeseeable events. Intelligent Process Automation enables banks to streamline document-based processes, resulting in higher profit margins, reduced compliance risk, and the ability to adapt to the challenges of the future.

For more information, visit www.ABBYY.com/finserv.

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