Tradetech in Asia: seeing through the noise

Singapore has proven to be Asia's premier hub for developments in fintech for trade – or tradetech. GTR gathered some of the most interesting players in the sector to discuss market trends and major challenges.

GTR: According to a recent Accenture report, venture capital investment in fintech reached a record US$27bn in 2017, a rise of 18% on the previous year. The number of fintech deals rose from 1,800 in 2016 to almost 2,700 last year, with almost US$100bn invested since 2010.

Trade finance is to the fore of this. We're seeing a huge rise in fintech for trade, or trade-tech. Companies and banks alike are developing and spending and it feels like this could be a game-changer for the industry. Which of the issues in the trade finance sector will be the first to change?

Choo: One interesting space is around documents and data. When you prepare the trade documents, what happens to them thereafter? A lot of that data can be reused. It goes back to the concept of trust. A lot of times, whether it's a trade finance transaction, the reason we have so many documents, when it is just one 20-foot container or one box, is a lack of trust.

It is a case of: 'I don't trust you enough, please show me the document which somebody else issued.' It could be a bill of lading, issued by the carrier, and somebody has to validate that.

The customer comes to the bank, and the bank says: 'I need this, this, and that, because underlying it, I don't trust you enough to just take your document and your word for it, and therefore I need corroborating pieces of evidence.' That's not just a trade finance problem; it's an issue across the entire trade ecosystem. If we can get around that with data, trusted data and visibility, then I think it doesn't matter which part of the elephant we're touching, that problem could potentially be resolved.

GTR: Ginnie, as a former banker who now works in digital marketplace lending, to what extent is that area of trust and documentation a big issue for you as well?

Chin: It's really interesting, because we raise funds from accredited institutional investors, and a lot of times, they want to vet the deals that we bring on the table.

In one incident, one of the institutional investors literally told me that in this sector, people are not innocent until proven guilty, it is guilty until proven innocent. So, whatever information that's flowing

ROUNDTABLE PARTICIPANTS

Deutsche Bank

From left to right:

- **Ginnie Chin**, managing director, Culum Capital, a digital marketplace for trade and supply chain finance assets
- **Atul Jain**, head of trade finance and trade flow, Asia Pacific, Deutsche Bank
- **Finbarr Bermingham**, Asia editor, **GTR** *(chair)*
- **Amanda Northey**, regional head, APAC financial markets, Pole Star PurpleTrac, a vessel screening and tracking solution for banks
- **Choo Wai Yee**, deputy director, Singapore National Trade Platform Project Office
- **John Khaw**, co-founder, CEO, Lucidity, a trade document automation company

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>
> **Atul Jain,** Deutsche Bank

through us, especially in the trade space, is still very paper-based, and there is this lack of trust. I can understand where they're coming from, because there are instances where there are fraudulent information or fictitious documents.

Because everything is so paper-based, it is very difficult for us to authenticate this information. It's unlike banks where most of the communication is done via Swift, which is a secure network. We have our proprietary technology, but we still operate in a very siloed manner. When a client comes to us to request funding, they'll give us the bank statements and all the due diligence documents, in hard copy manner. And there's no way I can validate how accurate this information is. I have no direct access to do an independent check.

I believe that with the ecosystem and with the advancement of technology, we can bridge the gap. I've seen cases of people coming to me with bank statements, and when we look deeper, they are fabricated. With the naked eye, it's really hard to tell and we really need to build on this.

We thought the bill of lading was a relatively secure proof of goods delivery, but I have seen an instance where after checks have been carried out, and while the shipment does exist, and there's this vessel and this container, what's inside the container is not what's stated in the documents. It's a fraudulent document. And it has been funded, and it's defaulted. It's a challenge.

GTR: Technology can go some way, but there will always be people who are looking to find a way around this, and there will always be fraud.

Northey: As you go forwards and you develop these new applications, there's always going to be the smarter cookie on the street that is going to try to break that barrier and take it on. I think technology is just fantastic, and we need to embrace it. We need to be very open with it. Industry needs to engage with organisations that are developing these effective technologies, and we need to collaborate closer to make these technologies smart and useful for industry going forward.

GTR: John, with a solution like yours, everybody wants to see fewer documents. What's the sort of reaction you're getting when you're talking to people in the market?

Khaw: The initial impression is positive, but there's this adoption inertia whereby businesses are already so used to doing things the old way, and suddenly you are handing the reins over to a computer. Some people might not feel very comfortable with that, so I think that's the barrier that we are going up against right now.

The view differs depending on where people are. Where we might see some inertia coming from the users themselves, the beneficiaries themselves, guys like bankers, might see a lot more of a use case for this solution, where we are talking about a lower transaction turnaround. They understand that they don't need to vet these documents so many times, and they can actually finance this a lot quicker, and can reduce their operational costs just by using this system.

GTR: Atul, as a senior trade finance banker with a tech background, do you find that there is that sort of obstructionism within the trade business or within the industry as a whole?

Jain: I think the inertia is less so in the banking industry, because clients, shareholders, and regulators want us to be more efficient. And doing nothing means languishing at single-digit returns-on-equity, which isn't going to work.

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My personal view is that while the industry will drive change, because there is a sense of urgency to do it, it would help if regulators told us: 'You have no choice,' for two reasons. Firstly, not everyone is on the same wavelength, so even within the industry we have multiple parties today solving for differing objectives.

Secondly, and more importantly in trade, we need to ensure we have a consistent set of standards and rules around which these various parties can operate. That doesn't exist today. In traditional doc trade, it does, and the ICC plays a large role in that with Incoterms that are there and allow parties to govern one another. You don't have a digital equivalent to that, which makes it very hard to take this concept of data-based trade or digital-based trade cross-border.

GTR: Wai Yee, this is an interesting point because you come from that side of the ecosystem. Atul said that this will have to be led with the regulators. Singapore is an example of regulators leading.

Choo: I get asked that a lot, and it's interesting that that's coming from a bank. Banks work in a sector that is already highly regulated, but there are parts of this ecosystem that are highly unregulated. The logistics space is highly unregulated. Where John's business is, in terms of document preparation, that's highly unregulated.

When we look at government-led versus an enforcement of the standards, I think we have been tossing around the idea of, yes, government has to lead, in terms of that kick to try and get over that inertia to adoption.

We can do that in several ways: we are trying to build that national infrastructure for smaller firms in Singapore, who are exporting or importing. We have in place certain sorts of financial assistance for them.

We are also looking at the key beneficiaries in the ecosystem, and there are different levels of readiness. The banks recognise that. Some of the companies in the space recognise that. More often than not, I think it's about going from the willing minority – I think today it's still a willing minority – to the reluctant majority. That's a challenge.

The question remains as to whether regulatory compulsion is going to be required, or would that real push come from standards, because with standards comes interoperability, and from interoperability will come scalability.

Jain: I personally believe it needs to be a top-down push, in particular to define a common set of standards. I believe, if this exists, within the private sector there is enough willingness to test, partner, and innovate. At the moment though, it's very hard to understand what the value of that is going to be without a framework around which to operate.

There is a need to overcome the inertia and to get all the players at the table: financial regulators, customs authorities, logistics providers, and banks, and all of them need to feel collective ownership for this. And all of them need to feel as if we're doing this because it's the right thing to do, not because there's an immediate P&L benefit.

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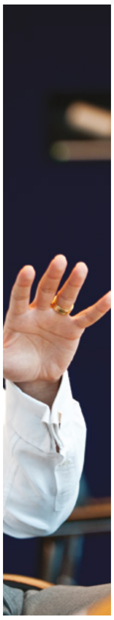
> **Amanda Northey,** Pole Star

It is bizarre because the trade industry is so ripe for disintermediation and disruption and it just hasn't happened yet. That is why that inertia point to me is a bit scary, because you can look in any other direction at any other industry and see that the game has changed and it has changed very quickly.

GTR: Amanda, Pole Star works in the regulatory space, but you pre-date the term regtech. How you have seen attitudes change in recent years?

Northey: Probably three years ago, fintech and regtech were not really heard of or placed appropriately within our day to day operational scope. In effect, we didn't really know where we were placing our own technology at that time. And we categorised ourselves as a fintech startup company. However through the revolution of fintech and regtech, we've most definitely finetuned the reality of our place firmly in regtech, and we know where we're going with it

GTR: Since there has been that shift towards technology, do you find that people are more willing to hear you out?



Northey: I think so. However you are never going to take away a certain level of manual intervention in certain areas. Areas that require human focus and specifically in our field, assessing escalated levels of risk that our technology has identified. And you are always going to have to have face-to-face engagement; people still doing that manual assessment, but there's a real and significant place for technology now to make a difference for business, and I think industry is realising and adapting to change.

One of the great things we have seen over the last few years is the way the Monetary Authority of Singapore (MAS) has moved this wave in terms of more prescriptive guidance, their openness around the fintech space and collaboration with other regulators. In the financial sector with exposures to maritime trade and shipping for example, they're now starting to adopt an escalated compliance approach, guided by the MAS guidance. Now we're talking about logistics, we're talking about ports that trying to align themselves with what the financial sector is doing.

GTR: The trade finance gap for SMEs is estimated to be US$1.6tn by the Asian Development Bank (ADB), with a lot of it in emerging Asia. People say fintech should be bridging that gap. How are you fitting in there?

Chin: I left banking because I saw the gap when I was structuring all these supply chain programmes for multinationals. The biggest challenge I faced was the approval rate for the smaller suppliers or buyers of the multinationals. I see an opportunity outside of the banking world to fill in a gap in the SME lending space and the demand is great.

Amid today's tightening of capital control and regulations, the segment of the undeserved is growing and the demand is there. I also see the challenge on the buy side in the lender space, where people are getting more sceptical. Investors in particular think: 'If the banks are not touching this space, that means there is high risk. Should I go into it?' It is our duty as a platform to strike the balance on how to minimise the risk to match the demand and the supply.

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This brings us back to the discussions around the ecosystem and the technology and how we plug the gap. We operate outside the banking regime but we behave like a bank. That starts from KYC, due diligence, transactional and operational procedures, to repayment. Along every step of the process, we do see the gap and we want to see the transformation of all the players in the value chain: how do we come together?

I always think that in a trade chain, you have payment flow, documents flow, information flow. And in each of these, there's a gap. The demand is there but there's a gap where sometimes we see an SME which has a very good business, but we have doubt because there's a lack of information. They could have a legitimate business. It is not so much of who do we deal with, the counterparty, but it's the ownership and the management. Because of the lack of transparency and data, we're not doing our part to fill in the SME lending gap.

GTR: Does anyone have a solution for this?

Jain: Surprisingly, it has been the regulators. In India, for example, we are now participating in a receivables exchange, of which three are being tested in the market.

As Ginnie has mentioned, there are two main concerns banks have had around SME lending. The first is credit risk, and the ability to assess that fully. The second is client risk, and that's the more relevant of the two, with all of the challenges that banks have faced over the past few years around know your client (KYC).

In India, what they have been able to do is to nationalise and electronify the identification of individuals and of entities, which means that KYC can be done within as little as 30 minutes. And it can be done on a set of data that's visible to all participants in the marketplace.

What they've also done recently is to electronify import and export payment flows, and as a consequence, create a direct linkage from the customs authority to the financial regulator, allowing for an end-to-end digitisation of payment processes – on the back of which we created TradePay.

Hopefully the one quote that comes out of this isn't 'banker calls for more regulation'. But I've seen SME lenders and even banks like ours who are not traditionally SME lenders support SMEs on the back of regulator-led reform because now, with receivables platforms available, we have greater visibility on an electronic, secure basis to the anchor that would be our end client. So we can start to look at post-shipment, pre-acceptance financing and even pre-shipment, pre-acceptance financing, on names we never would have been able to get comfortable around before.

GTR: Moving to the issue of collaboration. Atul, in what way are you engaging with the startups? Are you investing, are you partnering?

Jain: Both of the above, to be honest, and I think it has to be both, because it's too early to know what's going to work for us. It's not because we're distracted or lack of focus: it's because we know that we're not smart enough to know what's going to work, and we also know that there are going to be different ways to solve for different problems.

A colleague gave me a quote yesterday around collaboration, which I liked a lot, which is: 'It's useful to date before talking marriage.' What I've seen around collaboration is that people are jumping into these frameworks with a marriage mindset, but without first dating to understand if both sides are equally committed, invested, and actually solving for similar outcomes.

For me, more than the model choice, that has really been the biggest challenge of finding success in the collaboration model: different parties solving for different objectives.

Chin: I think the space is big enough, and there are a lot of things that no one single company can fill. We play to our own strengths and we try to fill in the gap of the entire value chain. We operate in the space where the banks have been for decades, and we are always saying that we are not there to compete; we are there to fill in the gaps. We are complementary. But at the same time, we need the banks as well, for information, for basic infrastructure like bank accounts.

An example of where there's space for banks and non-banks: when we started non-bank operations of trade finance, some of the clients coming to us actually qualified for bank financing but they still came to us, and the common reason was that the bank was taking too long. Fintechs can turn it around in a week or two and we can provide them funding.

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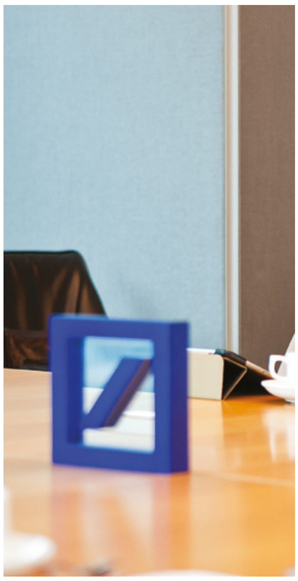
Northey: Industry collaboration is so important for us as well, because in order to deliver smart technology to industry, we have to bring that knowledge together. We're still doing that with new modules to our existing regtech platform, such as bill of lading verification and container tracking. We are also taking this technology to the innovation hubs of banks as well as their frontline teams, to governments, to trade platforms and other industry areas. There are little hubs of innovation going on all the time, and I think it's critical to engage in all of these areas where possible.

GTR: We talk a lot about how the banks and fintech companies can work together and how they can collaborate, but I could see a situation where all three of your companies would feasibly be working together. Is that an active consideration for you? Are you looking to the community and saying, where can we partner with fintech companies?

Khaw: Definitely. Let me just go back to the origins of fintech, when someone first coined the



term 'disruption'. At that time, it frightened a lot of companies, it frightened a lot of incumbents. I think that presently a lot of fintech companies have realised that collaboration is the best way forward. For us,

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regulatory finance is interlinked with everyone else, we cannot afford to stand on our own islands. Therefore, collaboration is the best way forward and if we can add value to each other along the way that would be all the better.

GTR: What are all of your predictions for 10 years' time in terms of the work your company does?

Jain: It's not going to look the same, I can tell you that much. Already two years forward, it's not. The amount of time that we're putting into altering the way that we do things to be safer, smarter, cheaper, and faster is immense. It is our number one management priority and I can't imagine we're unique in saying that as a bank. All the money we have right now is being put to work on innovation, automation, and finding ways to use technology to solve customer problems in a smarter way. And all of these programmes are fully funded, with a timeframe of 2019 for delivery. So already for me, 2020 looks a lot different than today.

Northey: I can see something amazing. I can see significant trade digitisation and autonomous shipping. We're already going through the automation of shipping and ports. Transactions will be booming. And I would love to think that these small businesses are coming to the table and there's so much more opportunity with trade expansion. I'm actually very excited to see what's going to happen in the next 10 years and I just think we need to keep moving forward.

Jain: The scary part is that it may not be ships, given the advent of 3D printing. This is not a 10-year phenomenon, it is already starting to disrupt the way we do things.

Khaw: Ten years is a bit of a magical period. Roughly about 10 years ago, the iPhone was launched. Right now we can't imagine any other way to use our phones. If you were to ask me what will happen in the next 10 years, I would say that data will be at the forefront of every technology, and how we use and reuse this information more efficiently will be key.

Chin: I cannot predict but I do have a wishlist that I would like to see of paperless trade, efficiency, cutting down turnaround times and real borderless trade. I would also add to my wishlist a unified currency.

Choo: I see two worlds in 10 years. One version is probably the utopian version that we all are struggling to pin down. We will not even be talking about paperless trade. There won't be documents the way we see it today. You may not get a letter of credit, you may not need a bill of lading, what you really need is information and data to make decisions. In the space of trade, I think we will move away from what we call documents. We'll be talking about data, not bills of lading, because that's a document that came from the old paper world. We won't be talking about an invoice.

That's the way I see it, the data part, if we harness the technology and we collaborate and we can build on it.

But I fear that there is the other extreme, that the trust breaks down. And if the trust breaks down, we go back into our siloes. We will have the data, because we can't push back the technology. We will have DLT, blockchain and every other technology that comes out between now and 2028, but we won't have that trust and there won't be borderless trade. There will be cross-border trade but it's not going to be borderless. We will go into more and more individualised siloes. And that is the risk, because the technology is there, and the technology will make our new siloes even more secure and even more fortress-like than what we can do with paper today.

We need to have a more altruistic attitude to progress, knowing it's the right thing to do. However, if the people who believe in doing the right thing don't come together fast enough, there is enough of a divergent force in terms of the fear of disruption and a need to protect and get defensive, and that force is very real and in every space that we operate in. If the positive forces don't come together fast enough, my fear is we will become more and more siloed as technology advances.