The secret sauce: Maximising bank-fintech collaboration opportunities in trade finance

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During my lifetime, much has been said about the idea of "fintech disruption".

About five years ago, for example, emerging technology companies identified as "fintechs" were said to represent a competitive threat to transaction banks.

They were feared by the latter for allegedly attempting to create the next wave of "digital banking" players.

Some of those fears turned out to be justified, as fintechs active in the payments space have been trying – and some successfully – to grab market share from incumbent high-street banks.

However, those that have succeeded have been highly focused on specific segments or geographies, and on keeping their cost base as low as possible.

In contrast, fintechs active in trade finance have demonstrated a very different attitude.
Partnering with banks has been their #1 priority, at least for most.

In the niche trade finance segment, the last two years have indeed shown that major banks have benefitted from new technology propositions. But why is that?
Here are what I believe to be the key ingredients for fintech success:

- **Laser focus** – Fintechs are laser-focused on delivering specific value propositions; they often become the best at it; and their highly specialised value propositions become attractive to incumbents, including the top players.

- **Extremely agile** – Fintechs are very agile and adapt to market trends; they consider their early adopter banks as strategic partners in their product development roadmap; co-design becomes the norm.

- **Latest technologies** – Fintechs don't suffer from legacy business models and technologies. They develop and assemble the latest technologies while making them compatible with existing technologies.

This includes delivery of advanced automated processes, DLT, AI, APIs, cloud, etc.

- **Standardised software solutions** – Fintechs provide banks with off-the-shelf software solutions which can be configured to match specific needs. This industrial approach not only accelerates time-to-market for banks, and also drastically decreases performance risks for banks.
- **Pay as you go** – Fintechs want to prove themselves by facilitating gradual adoption, i.e. without the need for their clients to take a CapEx decision (e.g. no software license acquisition). This drastically reduces risks for early adopters.
- **No legacy bias** – Fintechs are not biased by legacy revenues (e.g. software license fees) and technology models (e.g. messaging revenue). They want to demonstrate their value-add in the fastest and most cost-efficient way, with no defensive approach.

Fintech plus points

Recent bank-fintech partnerships have highlighted that the fintech proposition presents strategic opportunities for financial institutions (FIs).

Delivering enhanced value propositions to their own clients, for example, or automating critical processes, or embracing legal developments in the market (e.g. the Model Law on Electronic Transferable Records).

If any disruption is to be expected, it is now generally accepted that it won't be driven by those highly specialised technologists.

As a consequence of recent developments, partnering with fintechs is now accepted as bringing many benefits to transaction banks, their clients, and funding partners. For example:

- **Short time to market** thanks to use of cloud-based platforms
- **Non-intrusive technologies** ensuring seamless integration with existing systems
- **Low set-up cost** and usage-based running cost
- **Optimal** user experience
- **Continuously** and fast-evolving products
- **Strategic enablers** for banks to innovate as a community (multi-bank infrastructure)
- **Best** at combining legal and business expertise with latest technologies.

New horizons for fintechs

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Going forward, fintechs present some strategic opportunities for financial institutions. Two examples come to mind:

1) Following the impact of Basel regulations, new technology-based trade distribution market practices have been adopted by a growing community of banks and institutional investors.
This offers industry stakeholders the opportunity to establish a new financial market infrastructure in the trade distribution space.

As trade volumes grow rapidly, banks have an opportunity to strengthen this new many-to-many space by establishing a bank-owned and bank-governed market infrastructure.

The challenge, however, is to combine proven technology propositions with a new multi-bank governance structure.

2) On another front, the alignment of national laws with the MLETR is introducing an initial concrete implementation of “digital asset” technologies to banks (e.g. DLT).
This will be a catalyst to digitise trade documents flows and to move away from closed ecosystems.

It promises to help banks adopt a 21st century model whereby trust lies in interoperable digital assets (e.g. a freely transferrable electronic bill of exchange) vs. relying on trusted channels (e.g. SWIFT).
Assuming both tracks develop positively in the 2022-2024 period, the initially feared fintech wave will have demonstrated its strategic importance to both global and local banks.