FINTECH COMMITTEE SETS 2024 PRIORITY TO ENCOURAGE MORE TRADETECH EARLY ADOPTERS

*Written by **Rebecca Spong**, Editorial Consultant, February 2024*

ITFA's Fintech Committee intends to drive more digital innovation in trade finance in 2024 by encouraging more new entrants and greater collaboration among existing players.

The committee's goals were outlined in last month's webinar entitled 'Creating New Leaders in Digital Trade', and fall under two existing projects – the Digital Negotiable Instruments (DNI) Initiative and the Trade Finance Distribution (TFD) Initiative.

"The aim is to help you, whether you are a fintech, financial institution, corporate or asset manager, to look at ways to work with early adopters and embrace new tradetech market practices. It is all about developing new ways of working – to create a better global trade system," said Andre Casterman, ITFA Board member and chair of the fintech committee, in his opening remarks.

The discussions revolved around the next steps for the industry following a number of major industry breakthroughs achieved in 2023. These included the passing of the UK Electronic Trade Documents Act (ETDA) in September, which gave electronic trade documents such as promissory notes and bills of exchange the same legal recognition as paper-based versions.

This act is the UK interpretation of the UN's Model Law on Electronic Transferable Records (MLETR). Similar legislation has been introduced in Singapore, Bahrain and Abu Dhabi, while France and Germany are expected to introduce their own versions very soon.

"More early adopters are what we are looking to achieve, encouraging them to work with the original adopters and to engage in more pilot and live transactions. It is not about selling more technology to you, it is really about demonstrating to the market, even governments and corporates, that the new options offered by the UK's ETD Act are being embraced by the market," Casterman explained to webinar attendees.

"It is important to show those beyond the banking space – our clients and even policymakers – that our efforts over the past few years are starting to bear fruit and helping bring more funding to the industry," he concluded.

The following summaries outline some of the committee's key goals for coming year. To watch the webinar in full, click here.

Top 3 priorities for 2024

1. **Scaling up DNI transactions by moving to a "two-bank" model**

It is important for early adopter banks to move towards using a "two-bank" model when putting live transactions together in order to scale up the use of DNIs, said Jon Boran, webinar participant and director of trade innovation and solution development at Lloyds Bank.

Lloyds Bank is one of the early adopter institutions that completed its first DNI transaction in August 2022, using contract law.

The transaction was supported by ITFA guidance and involved the sale and purchase of land between several UK businesses and the creation of a digital promissory note using software firm Enigio's solution trace:original.

The bank then completed its first digital promissory note transaction under common law on the day the ETD Act came into force in the UK last September. The transaction was completed for the bank's client Matalan Retail and also used trace: original.

"All the transactions we have done to-date have been three-corner model where we are the only bank in the transaction facing off directly to the buyer and seller," Boran explained.

"We have been able to see drastic reductions in end-to-end time for transactions and removal of bureaucracy for clients, but we think there is even greater potential – particularly in terms of scaling – if we can move to a four-corner model as most trade is international and traditionally that will involve two banks facing off to their client," he explained.

"There is an opportunity to design something – using DNIs – that can reduce time and bureaucracy and really help grow origination of trade deals."

Lloyds is developing some ideas for how to structure potential two-bank DNI deals and is looking to collaborate with other financial institutions, said Boran.

2. Driving digital adoption by providing interoperable corporate-centric solutions

Ensuring wider adoption of DNIs is a key priority for the fintech committee, given that various digital trade finance solutions have floundered over the past decade.

Webinar participant Marjon Wohlen who is chief product officer at tech firm Mitigram, said solutions need to be "corporate-centric".

"Corporates need to be the driver of their own digitalisation journey," she said. "We need to offer them solutions that create value from day one – without the need for all the counterparties to join. It needs to be a solution that adapts to the digitisation stage the corporate is in."

"We need to be realistic – only by working together will we create valuable solutions. I don't think perfection should be the starting point," she added.

Casterman echoed Wohlen's views, saying: "Interoperability is a key requirement of MLETR – we can't expect all banks and corporates to join a common platform."

Similarly, Boran spoke of the need for interoperability, explaining that the Enigio trade:original solution that Lloyds uses to create promissory notes is an "open system" that does not require all parties to be on the platform to access the instruments.

"You don't need a contract with Enigio to receive the document or transfer the document," he explained, "which is important for the commercialisation of DNIs".

3. Pushing forward with a multi-seller approach to widen trade asset distribution

Working towards increased automation in the distribution of trade finance assets will continue to be a priority in 2024.

Webinar participant and head of international markets at Tradeteq, Matthia Tomba, explained that the solution to more efficient distribution lies in the use of multi-seller platforms that could package up trade asset portfolios from different financial institutions and sell to investors.

This, in turn, would help widen the range of investors that might consider investing in trade finance assets as well as encourage more financial institutions to securitise their assets to free up space on their balance sheets.

Indeed, this is how Tradeteq has positioned itself as a conduit between originators and capital market investors, using their technology to make trade finance and other private debt more “investable”.

“The problem on the capital markets distribution side is that when an investor wants to buy a pool of assets, each originator might come with a different set of documents or way of showing their information,” he explained, saying that accessing private debt instruments via something like a Tradeteq dashboard helps simplify the life of an investor.

Tomba added that with the slight reversal in the recent upward trajectory in interest rates, there may be a return in investor interest in trade finance assets. “There might be lot more cash and liquidity sitting with money markets that is looking for a new place to go.

“Investors are looking for steady predictable returns that can also be leveraged in terms of interest rates going down. There may be an opportunity for private debt and credit to attract more cash and liquidity,” he said.

Following the webinar, the DNI Initiative working group held their first call in early February with the aim of pushing forward with efforts to pilot two-bank DNI transactions.