



## REWIRING TRADE FINANCE: A TRANSITION TOWARD COLLATERALIZING THE TRADE ITSELF, May 2025

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Trade finance, [one of the oldest forms of banking](#) and bedrock of global commerce, is facing an identity crisis. For decades, it has operated in a relatively unchanged structure; dominated by large financial institutions, governed by stacks of paperwork and hampered by a lack of visibility into the underlying trade.

Now, the global economy is changing faster than the system meant to support it.

With international trade becoming more complex and fragmented, traditional trade finance is proving unable to keep up, particularly for businesses in emerging markets.

### The Trade Finance Gap

The most glaring symptom of this mismatch is the widening trade finance gap. The Asian Development Bank [estimated this gap to be around \\$2.5 trillion in 2022](#), a significant increase from the \$1.5 trillion it stood at less than a decade ago. That number reflects missed opportunities: goods that were never shipped, contracts that went unfunded and businesses that couldn't grow. This results in a significant loss to the global economy at a time it can ill afford it.

Banks, traditionally the backbone of trade finance, are increasingly reluctant to fund deals they perceive as being 'risky', often due to limited documentation or unclear cargo movement. This hesitation is not without reason. Regulatory requirements and guidelines have further tightened the leash. The requirement to hold more capital against certain trade exposures has an impact, despite the fact that trade finance has [historically shown low default rates](#), often below 1%.

Much of this aversion stems from how traditional trade finance is underwritten. Lenders rely heavily on static documentation, including audited financial statements, historical balance sheets or third-party guarantees. Security is often sought through hard collateral like fixed deposits or corporate guarantees. The process is inherently backward-looking and paper-bound, requiring multiple layers of verification and human discretion. This not only slows down the financing process but also makes it inaccessible to many businesses, including firms in emerging markets that lack long-standing banking relationships or collateral. Documents such as letters of credit, bills of lading and invoices are still passed around in physical form across borders, making them vulnerable to fraud and delay. In an era when digital payments move in seconds, the reliance on couriers and paperwork for goods worth tens of millions of dollars seems archaic.

### A New Approach to Trade Finance

Contrast this with the emerging model of underwriting, where cargo control and alternate data serve as real-time credit mitigants. Instead of requiring balance sheet strength, lenders can now secure their financing with visibility into the actual goods being shipped. GPS tracking and digitised supply chain data provide continuous confirmation of the existence, location and integrity of cargo. These data points - combined with behavioural analytics on trade patterns, shipment reliability and payment histories - enable a more dynamic, forward-looking approach to risk. Underwriting shifts from "Can they pay?" based on past performance, to "Will this transaction perform?" based on real-time operational data. The security here is not an afterthought or add-on; it is



embedded in the flow of goods and the digital trail they leave behind. It reduces uncertainty, shortens decision cycles and allows financiers to lend confidently even where traditional securities are lacking.

This is where a transformation is beginning to take shape; grounded in the physical movement of goods. Cargo control, or the ability to track, verify and manage shipments in real time, is proving to be a game-changer. Real-time container visibility and digital bills of lading are giving financiers something they have long lacked: visibility. When lenders can see where goods are, in what condition they're being transported and who has custody at any given point, a new level of trust is established. This visibility transforms the goods themselves into dynamic, trackable collateral.

Take, for instance, a recent trade finance project involving a manufacturer of engineering goods that has been [recognised by the United Nations](#) for this innovative approach. The business, based in India, was considered 'unbankable' because it did not have a strong enough balance sheet. When a major order was placed by a buyer in the UAE, it could not source the working capital to fulfil the order. Yet through the provision of visibility of its trade data and control over the cargo, the manufacturer was connected to a financial institution which was given enough security to finance the export. The end result? No international trade was lost and the 'unbankable' became bankable.

This kind of visibility also opens the door to a more inclusive financial system. Data is becoming the new credit profile. Emerging fintech platforms are tapping into this opportunity by combining shipping data, invoice histories and payment records to create dynamic credit assessments. Rather than judging a business solely on audited statements or past loans, they assess performance in the real economy.

### **An Ecosystem Built for the Future**

This model requires an integrated ecosystem built on collaboration. Logistics providers share real-time data, banks adapt risk models, fintechs create user-friendly platforms and regulators set transparency-driven standards. Together, they create the infrastructure needed for this model to succeed.

Looking ahead, this approach will only evolve. By feeding machine learning models with granular data points such as route deviations, order frequency, and even environmental factors affecting shipments, financiers can develop predictive credit models that evolve in real-time. These algorithms can detect early warning signs of distress or fraud, dynamically adjust credit exposure, and even identify new lending opportunities before traditional indicators emerge. Over time, systems can learn the nuanced patterns of specific industries and geographies to become even more accurate and responsive.

The transformation we are seeing is not just technological; it's structural. Trade finance is evolving from a document-centric to a data-centric model. This shift could soon also reshape regulatory approaches. If data-backed trade finance consistently shows lower risk, capital requirements may get recalibrated and eased, making it more attractive for banks to re-enter the market. Such a move would be catalytic, potentially narrowing the trade finance gap at a scale fintechs alone cannot achieve.

Ultimately, the future of trade finance lies in breaking down silos. The supply chain and the financial chain have long operated in parallel, each with blind spots and inefficiencies. Now, cargo control is allowing them to converge. By creating shared visibility, faster and smarter decisions can be made. But to make this work on a global scale, collaboration is essential.

Getting there requires collective commitment - from banks willing to rethink risk, to tech firms building the digital rails, to regulators updating the rules for a digital-first era.



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Only together can we bridge the gap, and in doing so, unlock a new era of global commerce: faster, fairer, and more resilient than ever before.