

# ENABLING TRADE FINANCE GLOBALLY

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I'm not an economist, I'm a banker.

And I'm speaking to you today on behalf of a couple of million global corporate clients who trade.

That is a privileged position. A unique vantage point to see first-hand how trade is undergoing exponential disruption.

What they are telling us is that for trade to thrive, multilateral institutions and the global trade architecture need to keep pace with this disruption.

The existing rules and frameworks quite simply are outdated. And unless we collectively chart a different course, we are going to put global peace, prosperity and stability at risk.

So let me begin by sharing how those businesses are responding to this challenging and changing environment. Before turning to how the international system could and should adapt.

First, in terms of disruption. Global forces are at work to reshape and revolutionise what, where and how stuff is traded.

What. We've discussed dematerialisation and the fastest area of growth being services and data.

I, for one, will be streaming the next series of Game of Thrones, not waiting for a ship to bring a DVD to my house.

Equally, I'm a drone fan. And the most valuable part is not the physical good, but the coding lines in the flight module. So the lines are blurred.

Where trade is happening. This is a really significant pivot as 3 billion people join the middle income consumer ranks, the majority living in Asia. A huge shift from West to East.

And the 'how' is changing too through the internet, e-commerce, and digitisation.

At the same time, we're seeing innovation on a scale and pace we have never experienced before. It is touching every thread of our societies.

From the iPhone completely re-shaping an industry, to rethinking economic & capital models, whether you're thinking of Bitcoin or Uber.

I summarise this as a shift - from arcane analogue anonymity, to manipulable digital, data and disruption.

How are our customers responding to this?

We have supported them for 154 years doing trade internationally. We have followed our clients growing out. We have reshaped their supply chains.

They've moved through phases. First focusing on unit costs; then speed to market; then to risk management.

What we're now seeing, given this VUCA environment, is how to be resilient and agile. And I'll come on to discuss the strain and stresses we're seeing these corporates hold.

Take the apparel, textiles and garments sector. First firms specialised and moved production offshore, chasing the advantage of cheap labour as China leapt onto the world stage.

Then their attention moved as that economy evolved, to stay on top of costs, into Bangladesh and Vietnam. But also managing risks.

Today, they are facing the next curve jump. It's not about labour costs, but 3D printing and sew-bots. So it's not human labour now, but machine.

Trade has never been higher on our customers' agenda. These conversations are at a CEO and board level.

It's all about sustainability of supply chains. In the green sense and also about viability. With working capital front and centre.

We understand how critical the flow of Trade Finance is to the customers, communities, and countries we serve.

But I really want to point out that the accessibility to trade finance is at risk.

We facilitate just under three quarters of a trillion dollars of trade every year. It is a highly complex manual judgemental process; we review over 100 million pieces of unstructured paper; and we must analyse every bit of data for financial crime, not only the commercial aspects.

This is simply not a sustainable model from a manpower, cost or risk perspective.

As the regulatory pendulum swung from the fallout of the global financial crisis and other measures put in place to protect the integrity of the financial system. We have seen banks retreat.

Resulting in them withdrawing from sectors, segments, and even whole countries. Limiting the access they have to the essential service of trade finance. And it's created a trade finance gap of 1.5 trillion dollars.

We are transforming and facilitating trade. It's why we exist. We are passionate about overcoming these challenges. We need to enable businesses to thrive, and economies to prosper.

So we are leading and investing significantly in innovation. This is required to meet our customers' expectations and their needs.

We are doing this through 'ESAD' which means... Eliminating inefficient processes. Standardising where possible. Automating and digitising through optical character recognition and AI.

The idea is we make trade faster, safer, and more efficient. To give you an example, to issue and reissue a guarantee, on our old process - and this is the industry standard - was 600 manual repeatable steps. Using technology, we've taken it down to 2. That is a material improvement in the customer experience.

Automating key vessel checks is saving 19,000 staff hours. And we'll be the first in the industry to

automate money laundering checks, saving about 200,000 staff hours.

Therefore we have to completely reskill and retool our people and business.

Getting match fit, because at the end of ESAD, that journey is onto blockchain. Slashing transaction times, from 10 days to under 24 hours. Think of the improvement that makes for working capital, as a way to offset the strain our customers are experiencing at the moment.

In this highly innovative industry of trade, the last significant innovation was the standardisation of 'the box' in the 1950s.

As trade costs were slashed, trade volumes climbed. Ships, ports and people adapted to that standardisation. But it took decades, and yet in hindsight it is so simple.

Blockchain holds similar promise today. With the potential to boost trade by over 1 trillion dollars. But you can't do it on your own. It is crucial to avoid digital islands.

With this evolution and innovation, we are helping map the route by which others will navigate this course into the future.

We know there are hidden dangers beyond the horizon. So it is essential that we work closely with industry bodies, regulators, and forums. To redefine the regulatory landscape.

It's about collaboration. We need institutions, not only the private sector, to keep pace.

Earlier we discussed rebooting the rulebook through updating analogue rules for our digital world.

The global governance of e-commerce is a case in point. Existing rules are two decades old. When Amazon sold only books... and Facebook didn't even exist...

So we welcome an initiative by 76 countries to update e-commerce rules for the 21<sup>st</sup> Century in digital trade.

As an age of disruption exerts ever greater demands on business. International institutions must engage and show real leadership.

Fostering collaboration to do two things. To slam the door shut on bad actors. The more

protectionism, the more separate people become, the more opportunities there are for bad actors to infiltrate.

And to have a voice for the business community at the table – to work in consultation – to bring real-time, first-hand experience of trading conditions.

Our customers are demanding the certainty provided by: relevant rules and regulations; a level playing field; and effective, just, and timely dispute resolution.

This is why wider reform of institutions like the WTO matters.

At the heart of it lies a choice between two competing systems: on the one hand rules-based; and on the other power-based.

Rules-based trade, and a functioning multilateral process, has created value and lifted 1 billion people out of poverty.

I think all of us in this room would acknowledge there is much to have been done and more to do to ensure the benefits are shared more fairly and widely.

But the alternative could drive further social polarisation and perpetuate inefficiencies.

I'll conclude by sharing concerns from companies at the cutting edge of change.

If you only take one thing away from today – this is a moment of great urgency to reform the international framework.

Geopolitical uncertainties are causing real strain and stresses on corporates today. And while they are resilient and can adapt, there is a limit. We're beginning to see warning signs.

A fundamentally different approach is required.

The international system must adapt. Ready to meet exponential disruption. And unseen challenges.

Trade is on the cusp of an exponential curve jump.

We must unlock the power of partnerships and frameworks. And build a responsive international system to drive meaningful change at a global level.

This is a crucial moment in the history of trade. And we are simply not moving fast enough.

Failure to act will put much at risk.

Limiting trade's contribution to society.

Making it harder to achieve a sustainable future for all.

Ultimately, limiting human progress.