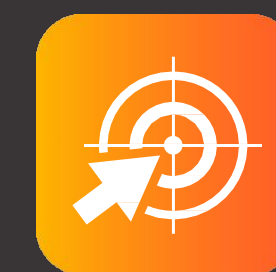


Recalibrating Trade Finance for the Post COVID-19 World

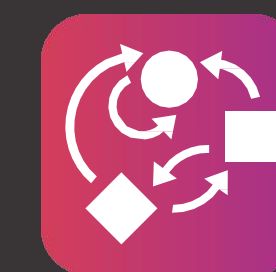
Banking, Financial Services and Insurance



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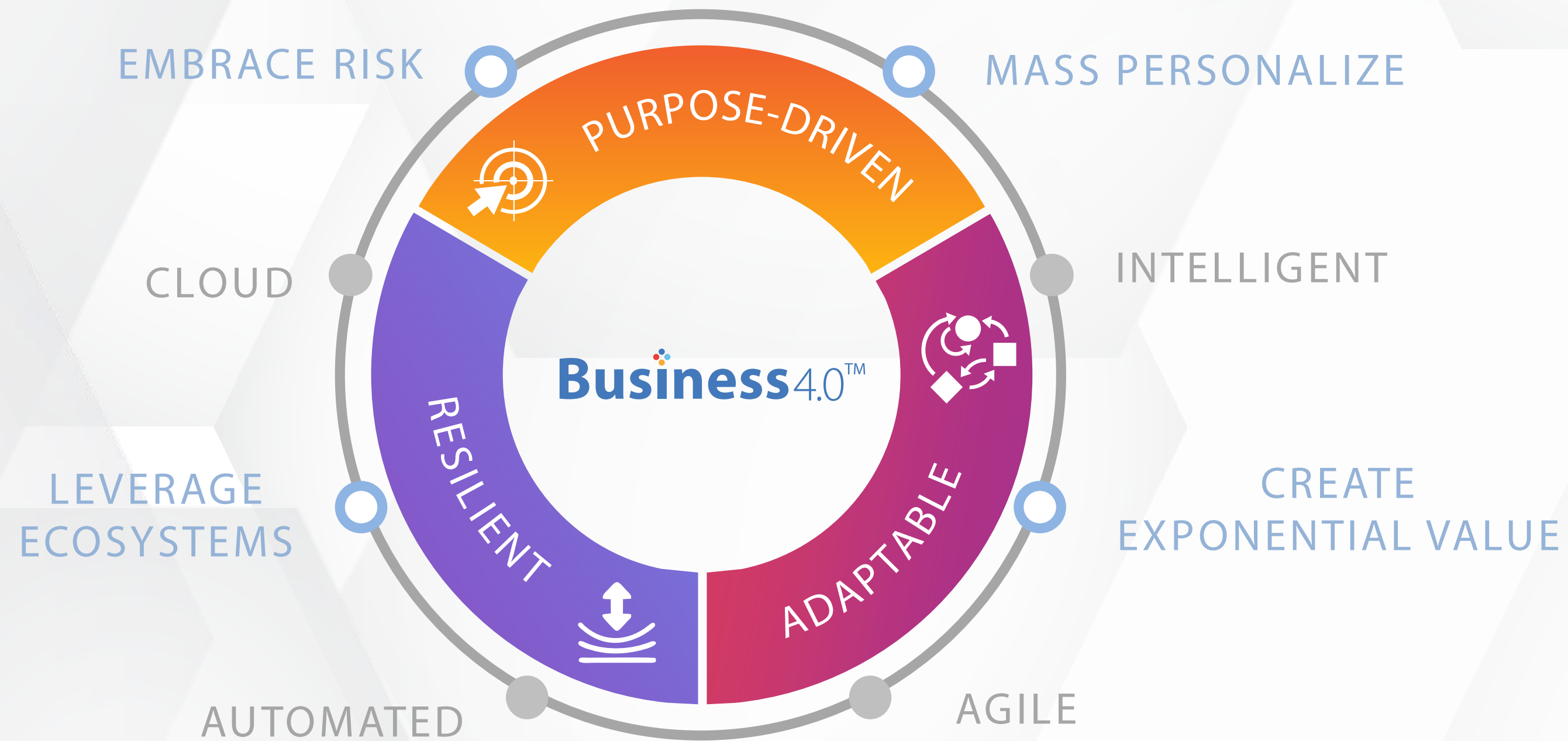


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About the Authors

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Ayan Chakraborty is a principal consultant and leads the Business Operations Transformation group at TCS' Banking, Financial Services and Insurance (BFSI) business unit. He has 25 years of experience in banking, IT, and business process service (BPS). Ayan has donned multiple hats across sales, solutions, large scale implementations, account management, and project management. Ayan holds a Bachelor's degree in Electrical Engineering from Delhi University, Delhi, India, and a Post Graduate Diploma in Management from the Indian Institute of Management, Lucknow, India.

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Priya Agrawal is a senior business consultant in the Business Operations Transformation group at TCS' Banking, Financial Services and Insurance (BFSI) business unit. She is a credit specialist with over 17 years of experience in trade finance, cash management, KYC and on-boarding, supply chain and structured deals, She has played various roles in trade finance across areas like risk, regulatory compliance, client management, product, policy, and business development. Priya participated in the UN Global Compact Leaders Summit 2016 on Sustainable Development Goals held at the UN headquarters in New York. She holds a Master's degree in Commerce with Specialization in Management from Mumbai University, Mumbai, India, and is an IFS London certified Documentary Credit Specialist.



Abstract

As the world comes to terms with the impact of the COVID-19 pandemic, one can expect enormous shifts in the way people, societies, businesses, and economies operate. One of the most global of all human networks since time immemorial is business, and more specifically trade.

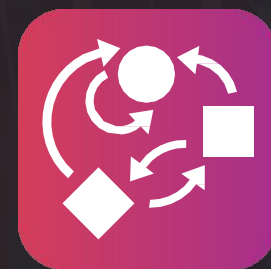
This paper describes how the COVID-19 pandemic will impact trade as well as the financing of trade by banks and financial institutions. The paper also presents strategies financial institutions can adopt to address the impact and not only survive the crisis but also flourish in the post COVID-19 world.



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The Impact on Trade and Trade Finance



With the COVID-19 pandemic sweeping across the world, the banking and financial services industry has experienced a level of disruption that will change everything that has hitherto been the norm. There has been a paradigm shift in the way financial institutions conduct business, employees perform their roles, and consumers manage their finances. In response, banks will need to reinvent themselves from within to stay relevant in a rapidly changing environment.

Most businesses are reporting disruptions in supply chains, and these disruptions are expected to continue into the long term. The initial economic and operational challenges will be exacerbated by the threat of a global recession. With interest rates at historical lows even prior to the COVID-19 crisis, central banks across the globe are considering unconventional monetary loosening policies to provide financial support to businesses as well as consumers. Though the focus is currently on scaling up healthcare services, bolstering the economy and protecting livelihoods will soon emerge as top priorities in the medium- and long-term horizon of governmental and societal action given consumers and businesses are the bedrock of any economy. Governments, irrespective of their fiscal situations, as well as regulators are likely to take both conventional and unconventional steps such as lowering interest rates further, offering loan moratoriums and waivers, enhancing the quantum and scope of unemployment benefits, and providing additional liquidity and credit support to businesses.





How Businesses are Likely to Respond to the Crisis

Businesses will need to respond appropriately to the situation and ensure business-as-usual. In our view, businesses will take steps across different dimensions to address the COVID-19 impact. The pandemic will push businesses to:

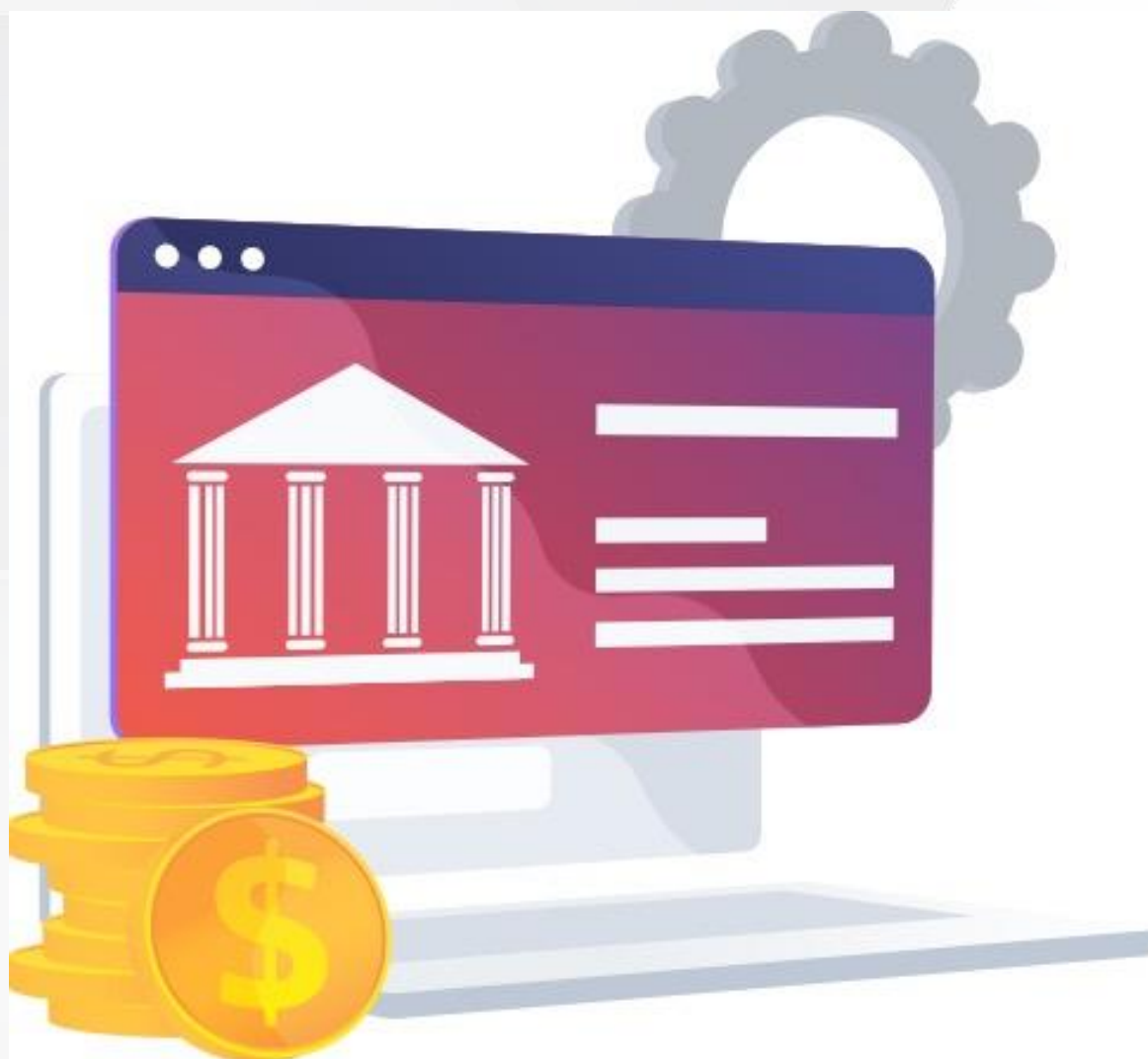
- Relook at their supply chains to eliminate points of failure and recreate supply chains with greater redundancies, even if it implies a higher cost.
- Identify local or near local suppliers in order to reduce dependence on a single supplier and prevent bottlenecks; businesses may also opt for transactional relationships with suppliers (as opposed to long-term engagements) to infuse agility and ensure real-time supply chain management.
- Build stock of raw material to provide for contingencies instead of traditional just-in-time inventory management.
- Optimize costs to counter the impact of increased working capital requirements and rising overheads of complex and dynamic supply chains.
- Adopt digital technologies such as additive or 3D printing, internet of things (IoT) and drones to ensure effective supply chain management and real-time management of production and logistics.
- Refrain from hiring new workers in the short term and optimally leverage the existing workforce in order not to lay off current employees; use of technology to exponentially improve productivity will take on heightened focus.
- Prioritize cash conservation programs, reassess paybacks considering short- and medium-term objectives, and reevaluate capital expenditure programs.
- Accelerate digital transformation programs by removing bottlenecks to implementation throughout the supply chain ecosystem.

How Financial Institutions Will Respond

The initial focus will be on immediate priorities such as providing liquidity to businesses to prevent production shutdown, ensuring smooth functioning of supply chains and distribution networks, and securing adequate capital. However, once the COVID-19 dust settles, the post crisis environment will offer opportunities to build upon the success of solutions that have mitigated and/or enabled the creation of new business opportunities. A post COVID-19 world will give rise to new growth opportunities and banks' ability to quickly capitalize on them will be determined by their response to the crisis in the near- and medium-term.

New offerings

A low interest regime is likely to persist across the globe as governments seek to stave off or mitigate a recession. The impact of low interest rates coupled with falling demand and consequent reduced trade flows as well as localization will impact income from trade finance products. To mitigate the impact, banks must introduce new commercial mechanisms as well as new service-centric offerings aimed at increasing non-interest income. This will require banks to expand their role beyond mere financiers and become a part of the entire trade finance value chain.





Digitalization

Trade finance, though an essential lubricant of the supply chain, runs independently of the physical supply chain and intersects at a few defined junctions. To prepare for the post-COVID-19 world, banks must rapidly leverage digital technologies like analytics, IoT, and drones to ensure real-time optimization and de-risking of supply chains. In addition, banks must leverage digital technologies to offer micro products in real time. Examples of such products include automated insurance as goods leave a warehouse or automated material finance as soon as purchase orders are generated and so on.

This will enable banks to integrate invisibly into the supply chain and identify opportunities that can be tapped to unlock value in turn enhancing customer loyalty. Banks must also prioritize front-to-back digitization efforts to optimize costs and efficiencies, enhance profitability, and minimize operational risk. Adequate governance of such programs is key to ensuring clarity on the intended benefits and success criteria, efficient tracking during implementation, and continuous monitoring thereafter.

Value creation through ecosystems

As they come out of the crisis, trade firms will seek cutting-edge technology solutions to help them adapt to the challenges in the post-COVID-19 era. Banks must grab this opportunity to cement relationships with customers by moving beyond their traditional role of financier to evolve into business partners to their trade finance customers. Achieving this will require banks to leverage their partner ecosystems to introduce customized, need-based, and contextually relevant offerings throughout the customer

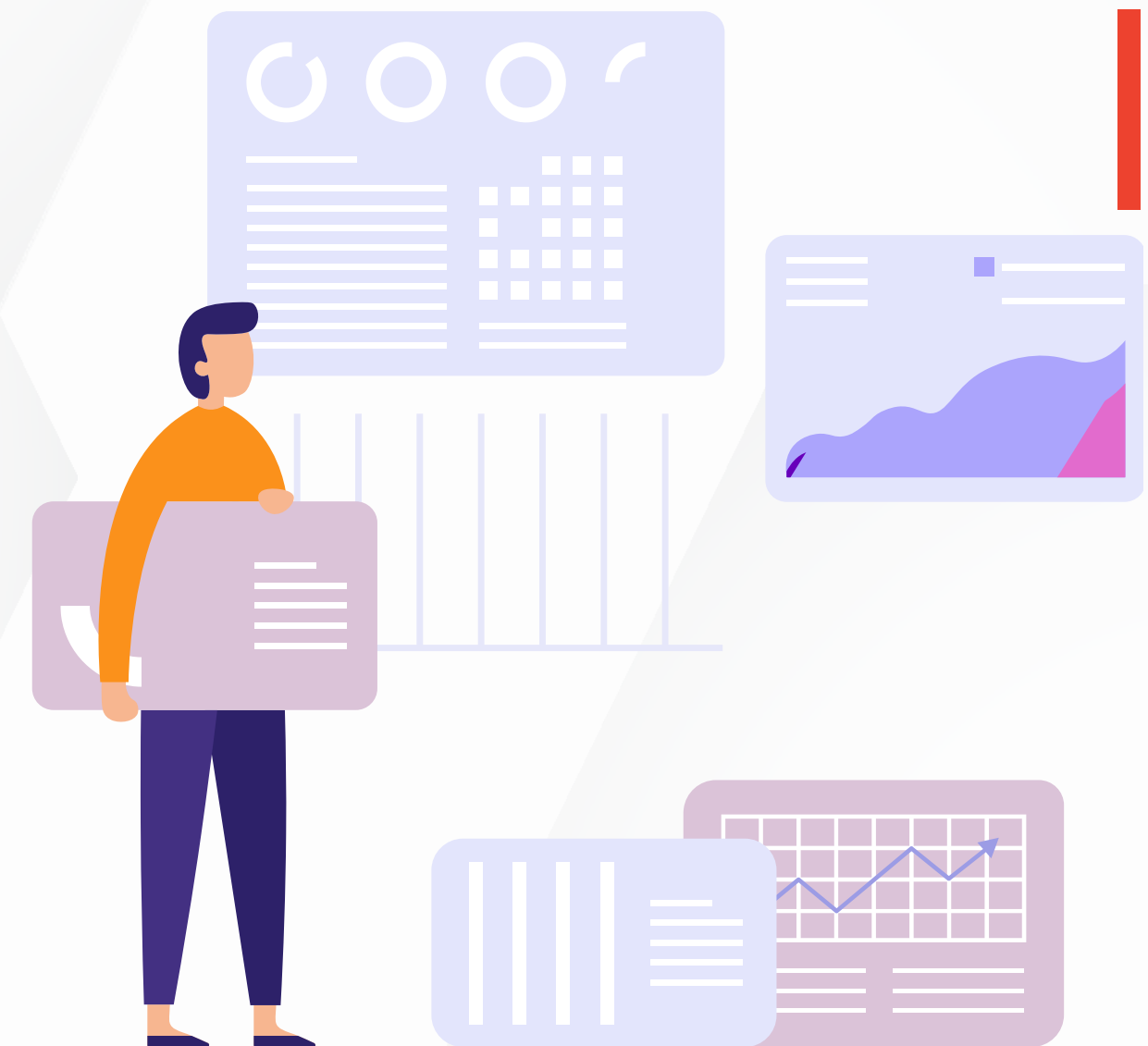
lifecycle. Implementing initiatives like integrating solutions across the supply chain ecosystem or providing a friction-free platform to conduct trade can help banks to position themselves as business partners.

We expect financial institutions to witness build-up of credit stress given the adverse economic impact of the pandemic is likely to continue into the foreseeable future. To proactively manage credit risk, financial institutions must deeply embed themselves into their customer ecosystems and gain an in depth understanding of their customers, customers' customers, as well as customers' suppliers. This underscores the need for holistic credit surveillance programs with wider scope both in terms of scale and stakeholders covered.

Agility to adapt to volatile shifts

While new risks will emerge from the COVID-19 crisis, so will opportunities. Business agility will emerge as a market differentiator post the pandemic. Adopting agile models for the digital delivery of trade finance products as well as to rapidly realign with changed customer priorities in response to volatile supply chain shifts will emerge as a key imperative.

Banks will need to reexamine their business as well as their customers' businesses to explore, identify, and seize new opportunities besides ramping up their risk frameworks to proactively manage traditional and new risks. Outcome-focused digitalization initiatives coupled with agile models with the ability to swiftly adapt to volatile market shifts will help build business models with the resilience to survive paradigm shocks like the COVID-19 crisis.





Role of Technology Service Providers

In the post COVID-19 era, financial institutions must seek to become an integral part of the supply chain. Achieving successful outcomes, however, may require trade finance institutions to partner with a technology service provider with some key capabilities:

- Wide ranging cross-domain experience and expertise
- Ability to envision and execute ecosystem opportunities
- Ability to develop innovative customer-centric solutions
- Proven track record of successful execution
- Skilled talent coupled with contextual and domain knowledge



In a Nutshell

Trade finance has traditionally been a slow adopter of technology-led disruptive business models and has tended to play a wait, watch, and test game. The pandemic will uncover the flaws in this approach. Going forward, financial institutions engaged in trade finance will have to take the digital leap to survive this crisis and stay ahead of the curve. Institutions can no longer afford to sit at the sidelines but will need to take charge of the wider trade ecosystem to drive growth and unlock value for all the stakeholders. The good news is that the technologies exist, talent is available, and examples of innovation abound. The COVID-19 pandemic, like any other crisis, will be a catalyst for transformation and financial institutions that grab this opportunity will surge ahead of their peers.

Contact

For more information on TCS' Banking & Financial Services, please visit <https://www.tcs.com/banking-financial-services>

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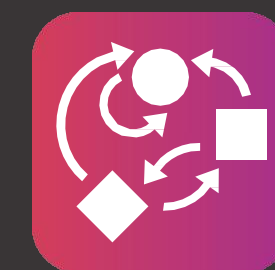
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